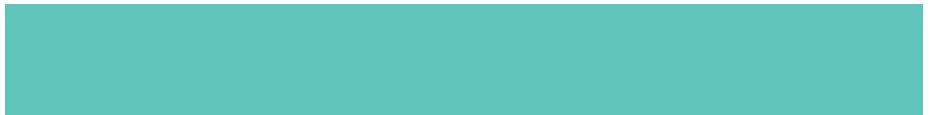


Safety, Environment and Social Report 2005



Creation and Care of Essential Assets

Balfour Beatty is a world-class engineering, construction and services group, which serves customers for whom infrastructure quality, efficiency and reliability are critical. We seek to operate safely and sustainably.

Safety and Health page 8

- Overall safety performance has improved by 23% since 2004
45% since 2002
- Safety performance for wholly owned businesses improved by 12% in 2005
- 11 businesses out of a total of 22 achieved their 10% reduction targets in AFR in 2005
- 4,172 UK employees received occupational health screening
- Focus on Hand Arm Vibration 2004-05: partnerships with suppliers, robust surveillance programmes, designing out the risk

Environment page 14

- 94% of UK operations have ISO 14001 certified environment management systems
- Fifth year of improved score in Business and Environment Index to 88%
- 64% of UK timber, by value, procured from certified sources (2004: 46%)
- Contribution to global warming in the UK decreased by 28% since 2002, relative to NSV

Social page 24

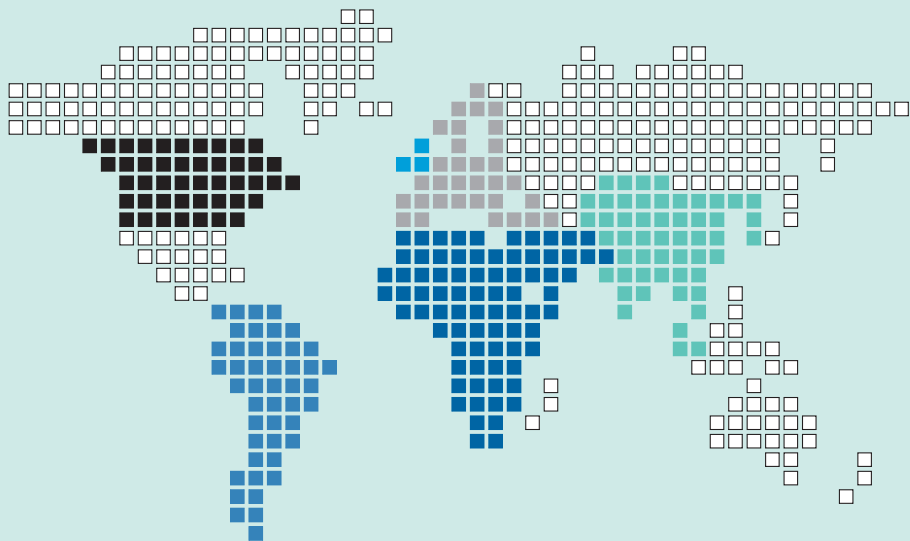
- £80,000 raised for Charity of the Year, Marie Curie Cancer Care
- Over 100 graduates recruited of which 23% were female (2004: 20%)
- Corporate principles and commitments reviewed and relaunched
- Conduct guidelines for employees published



Key financial information

	2005	2004*
Revenue	£4.9bn	£4.2bn
Pre-tax profit	£134m	£107m
Earnings per share	24.1p	22.1p
Dividends per share	8.1p	6.6p
Net cash	£315m	£311m
Order book	£7.6bn	£6.8bn

* Pro forma including the impact of IAS 32 and IAS 39 on 2004 numbers



Safety, Environment and Social Report 2005

What this report covers

We operate in four business sectors:

- Building, Building Management and Services
- Civil and Specialist Engineering and Services
- Rail Engineering and Services
- Investments and Developments

Safety

- Approach and management systems cover our global activities.
- Incidents and penalties for our global activities.
- Safety performance data is reported for all wholly owned activities world wide and joint ventures where we have management control.
- Subcontractor safety performance is included for all activities except the US. In the US, reporting of sub-contractors is not common practice.
- Case studies are drawn from our global activities.

Occupational Health

- Approach and management systems cover our global activities.
- Absence data is reported for our UK businesses.
- Case studies are drawn from our global activities.

Environment

- Approach and management systems cover our global activities.
- Incidents and penalties for our global activities.
- Performance data is reported for all wholly owned UK and European businesses.
- Other overseas businesses are progressing towards reporting environmental performance.
- Case studies are drawn from our global wide activities.

Social

- Approach covers our global activities.
- Employee data is reported for all wholly owned businesses world wide.
- Case studies are drawn from our global activities.

We describe our social responsibility programmes in terms of both stakeholder engagement routines and social outreach where we have a major presence.

Organisational changes

There has been a number of changes to the structure of Balfour Beatty since we produced our last report, and these are reflected in this report. We have included Gammon Construction, in which we have a 50% interest, in Hong Kong, and a number of minor acquisitions that have been integrated into our existing operating companies. Our former rail maintenance activities were taken back in-house by Network Rail and are not included in this report.



[www.balfourbeatty.co.uk/
bbeatty/responsibility](http://www.balfourbeatty.co.uk/bbeatty/responsibility)

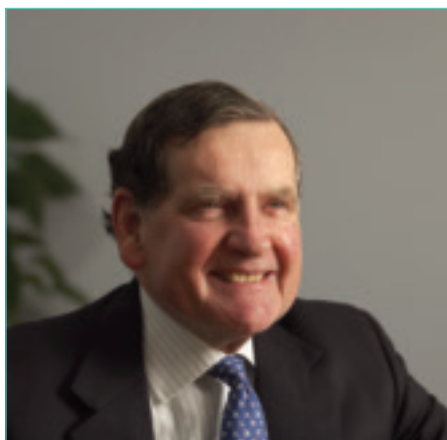
Further information and additional case studies can be found on our web site.

Contents

02 Chairman's introduction	14 Environment
03 Chief Executive's review	20 Social
04 Sustainable development	24 Validation Statement
07 Governance and Management Systems	24 Feedback
08 Safety and Health	25 Our Businesses

Chairman's introduction

The Group has a firm and explicit commitment to fulfilling its responsibilities to all of its stakeholders. The Board and senior management of Balfour Beatty are determined to go on seeking continuous improvement in the standards which apply across all of our businesses.



This is Balfour Beatty's fifth Safety, Environment and Social Report. It demonstrates the significant progress we have made during the period since we began reporting on these subjects in 2001.

Over this period, we have substantially reduced our accident frequency rate, greatly improved the management of our impact on the environment and made significant strides in all aspects of corporate citizenship.

The progress we have made has been recognised in a number of ways. For example, we were voted the 'most admired' construction sector company in the Management Today survey last year and were rated 20th in the overall publicly quoted company league table. We also won the top award for Corporate Social Responsibility Achievement in this year's 'Quality in Construction' Awards. It was gratifying, also, to see our score in the Business in the Environment index improve to almost 90%.

During 2005, we have established a comprehensive set of ethical and behavioural guidelines for all the companies and individuals in the Group. As well as clearly restating our overall principles and commitments, we have made it clear what is expected of everyone when they are acting in the company's name and how we require our operating companies to interact with their stakeholders.

Our new charities policy, which has both increased our corporate donations and focussed them more clearly on a small number of causes where we can make most difference, has been successfully introduced and bedded down.

Our positive impact on the localities in which we operate was further enhanced by a number of new community programmes. For example, we have extended and increased our funding of football coaching programmes for disadvantaged schoolchildren in Stoke, where we have a long-term PFI education concession.

Our governance system and the management and control systems which facilitate its practical implementation continue to be reviewed and developed as necessary. The company has been compliant with the Combined Code since its inception.

The Business Practices Committee, which I chair, continues to monitor and direct our efforts in managing our corporate social responsibilities.

The Group has a firm and explicit commitment to fulfilling its responsibilities to all of its stakeholders. The Board and senior management of Balfour Beatty are determined to go on seeking continuous improvement in the standards which apply across all of our businesses.

A handwritten signature in black ink, which appears to read 'David John'. The signature is written in a cursive style and is positioned above a horizontal line.

Sir David John KCMG, Chairman

Chief Executive's review

Increasingly, our major customers demand not just the highest technical skills and disciplines from their key partners and suppliers, but also demonstrable commitment and achievement in wider social responsibilities.



Safety

In my review in last year's Safety, Environment and Social Report, I began by stating that it is our fundamental priority to keep our employees and the public safe. The commitment that the Group has to meeting this objective is illustrated by our achievement of a 45% reduction in accident frequency since 2002. This has been done despite very significant growth in activity levels and the number of people whom we employ both directly and indirectly.

Our stated aim is to have a Group which has zero fatalities, zero permanent disabling injuries and is accident-free overall. In 2005, we set clear objectives for all our businesses to 2010 and each operating company was required to submit its strategy for achieving a ceiling rate of 0.2 accidents per 100,000 man hours worked by that date.

The key strategic themes we will pursue to achieve this include designing safety hazards out of the construction process and sharpening our focus on individual and group behaviour. We will put increased focus on occupational health. We have also developed a clear plan to increase further the attention we pay to matters of public safety.

Environment

We have now been measuring our key environmental impacts for four years. This year, for the first time, our continental European businesses were subject to these measurements. During this period, we have achieved substantial decreases in the fuel consumption of our vehicle fleet, have significantly reduced our generation of waste and increased the proportion of our materials which are recycled.

94% of our UK operations are working under ISO 14001 (2004: 57%) and in continental Europe 45%. While our US subsidiaries are implementing the equivalent US management systems. The principles of sustainability are being embedded into our operations with increasing success. The case study in this report on our project to widen the M25 adjacent to Heathrow Airport illustrates our approach.

Our progress can be measured by the fact that we now lie third in our sector in the Business in the Environment evaluation process.

Social Issues

Our corporate social responsibilities are many and diverse and reporting on our progress and achievement lends itself less to quantification than is the case for safety and the environment. A key programme in 2005 was the completion of our formal ethical framework wherein we have clearly specified our corporate principles and commitments and issued detailed guidance on both individual and operating company business conduct.

We have continued to engage actively with our stakeholders, to play a full part in addressing big issues such as poverty and corruption and to be instrumental in improving the communities in which we work beyond our contractual boundaries.

The Future

My principal role as Chief Executive is to deliver long-term growth in shareholder value. Increasingly, our major customers demand not just the highest technical skills and disciplines from their key partners and suppliers, but also demonstrable commitment and achievement in their wider responsibilities for society. It is, thus, not just our duty but a key business necessity to perform well in these areas.

You may rest assured that we will be working hard to maintain our momentum.

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

Ian Tyler, Chief Executive



If you have comments on any aspect of our Safety, Health, Environmental or Social performance, please e-mail me at ityler@balfourbeatty.com

Sustainable development

Wider expectations



The two year M25 widening programme demonstrates all the elements of our approach to sustainable development working together.



The M25 orbital route around London is one of Europe's busiest motorways and the section between the M3 and M4 junctions had become one of the most congested.

A widening programme was essential to ease the traffic flow and provide easy access to the new Terminal 5 at Heathrow – but different stakeholders had differing concerns. Drivers did not want delays to their journeys. Local residents did not want the associated road works, night time closures of side roads, or any further increase in traffic. Environmentalists were concerned about the impact of the project on the local habitat. Local businesses wanted reassurance that their livelihoods would not be adversely affected and the customer, the Highways Agency, wanted to know that the job would be finished as planned.

The project started on site at the beginning of January 2004 with only 100 weeks to completion in December 2005. 200,000 public vehicles drove through the construction site every day. Balfour Beatty fully appreciated the crucial importance of the M25 to many people and groups and committed itself to addressing stakeholder concerns. The objective was to ensure the project was completed on time and on budget on a fully sustainable basis.

Safety and Health

Safety on the project was paramount. One million man hours were worked without a single major injury. Road accidents on the M3–M4 section were down by 25% during the construction period.

These results were achieved through the application of Balfour Beatty's systematic approach to safety management. Everyone on site undertook an induction course and field control sheet briefings were issued when they moved on to a new task. On site training or 'tool box talks' further emphasised the safety message, along with sessions for the entire workforce to discuss all live issues – ranging from basic welfare to methods of working and any concerns about permits on site. A monthly safety newsletter was also produced to reinforce these messages and a climate survey midway through the project allowed staff on site to rate everything to do with safety.

A donation was given to St John's Ambulance on reaching 500,000 hours worked without a single reportable accident. A further donation was made to the local hospital when a million hours were reached. The total Accident Frequency Rate for the project was 0.32 during a total of 2.5 million hours worked.

Environment

Demonstrating environmental responsibility was also an important task. The team ensured that over 90% of aggregates and fills used in the project were from recycled sources. These recycling measures resulted in a National Award for the project from Highways Magazine.

Other achievements included setting up the first dedicated off site recycling facility for the supply of aggregates to a major motorway contract, and reducing waste disposal by recycling and maximising re-use on site.

In addition, all the widening works were completed within the existing highway boundary, with no additional land take necessary, using a combination of steepened earthwork slopes and piled reinforced concrete retaining walls.

Community

Engagement with the local community was a priority. Before any work began, local residents were invited to exhibitions and events to see and discuss the plans. Full information was given on the noise mitigation measures proposed and the access roads that would be used.

A 24 hour helpline was also set up to handle queries from residents and road users.

At the opening of the new section, the Secretary of State for Transport, Rt Hon Alistair Darling MP recognised the achievement of delivering the project. He said: "The widening of the M25 is essential to the well being of the whole country. This is a good day for transport and I hope the shape of things to come."

Our biggest contribution to sustainable development is in the infrastructure we create, but we fully recognise our responsibility to ensure that, during the construction process, we don't compromise the quality of life for future generations.

Sustainable Construction

Sustainable construction is the many processes through which a profitable and competitive industry delivers built assets to enhance quality of life and stakeholder satisfaction.

In 2002, we explored the key role that the construction industry has to play in the quest for a sustainable future. The industry has an opportunity to transform the way that infrastructure is created, by rethinking the way it designs and uses resources to create and maintain assets that meet the needs of society.

Key concepts are partnership and innovation. By engaging with customers, end-users and local communities, a shared understanding of the needs and impacts of schemes can be created, together with a perspective of what is technically possible and affordable. Translating this understanding into reality requires designers, contractors and suppliers working together to embrace new ideas and new technologies to generate innovative solutions.

Our Aims

One phrase summarises our basic approach – doing business with integrity. This means that we aim to:

- create shareholder value through meeting clients' expectations;
- ensure the safety and health of our workforce and others;
- engage with communities and those affected by our activities; and
- protect the environment.

Our Progress

From 2002 to 2004 we took positive steps to engage in the debate on sustainable development, to develop an understanding of what it means to our business, and to develop an approach to delivering sustainable development in our projects.

During 2005 we continued to embed sustainable development into our activities and supply chain:

- we continued our support of the third phase of Forum for the Future's 'Engineers for the 21st Century' project in 2005-6;
- Balfour Beatty Capital worked on a system to measure their progress and effectiveness against the Government's top 20 sustainable development indicators;
- they also established a regular forum with other UK operating companies, to promote sustainable technologies in our PFI projects;

- those operating companies which are working on Building Schools for the Future projects and PFI school schemes have jointly developed sustainability principles and standard design specifications; and
- we continue to review progress and share ideas at our regular Task Group.

Our projects continue to embody the principles of sustainable construction wherever possible, so making many numerous positive contributions to a more sustainable future.

During 2006 we will continue to encourage greater understanding and awareness of sustainable construction among our workforce, our customers and suppliers. This will sow the seeds for further progress in future years.

The 3P2R Sustainability Model

Partnerships – whom we work with

- Customers and suppliers
- Contractors and workforce
- Community
- Regulators and government
- Construction industry

Planning – how we design things

- Design discussions and pre-qualifying
- Life Cycle Assessment
- Selection of partners
- Methods and materials
- Value calculations for long term cost benefit

Resources – what we buy/use

- Responsible sourcing
- Re-use and recycle
- Ethical trading and supplier vetting

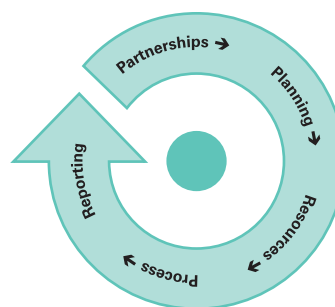
Process – how we operate

- Construction methods and working practices
- Health, safety and quality management
- Environmental management ISO 14001
- Energy and water usage
- Waste management
- Biodiversity plans

Reporting – how we communicate results

- Defining measurement criteria and standards
- Reporting to all stakeholders
- Honest and open disclosure
- Regular performance monitoring against standards

We have developed our approach to integrate sustainable development into all our projects. It has five elements that flow through the lifecycle of a project.



Governance and Management Systems

Governance

The Board sets policy and takes responsibility for Balfour Beatty's performance in safety, health, the environment, business ethics, risk management, human rights and other social issues. In early 2001, a Business Practices Committee was established to review the Group's policy and performance in these areas. It meets four times a year and comprises five of the Group's six non-executive Directors under the chairmanship of Sir David John, our Group Chairman.

The Chief Executive has line management responsibility for these matters and reports on them to the Board and the Business Practices Committee. The Director of Safety, Health and Environment reports to the Chief Executive and also provides regular reports to the Committee.

Principles

Balfour Beatty's 'Company Principles', first produced in 1986 were designed to provide an overall framework for the management of the Group's corporate responsibilities. Our core principles and commitments were reviewed in 2005 and reissued at the beginning of 2006. Additionally we have issued group wide 'Stakeholder Codes of Practice' which set out how we aim to do business with all our stakeholders, and detailed 'Business Conduct Guidelines' to ensure all our employees understand what is expected of them as individuals.

Policies

Balfour Beatty has clearly stated policies for a number of important non-financial issues which set out how we expect our people to act. These cover risk management, health and safety, the environment, human rights, drugs and alcohol, equal opportunities and whistleblowing. Within this overall framework, operating companies are required to develop specific policies and practices relevant to their particular circumstances.

Management Systems

The Group-wide risk management framework provides a common management system for identifying risks of all types, including reputational, and for determining control measures. Each operating company, division and project is subject to rigorous risk analysis, evaluation of possible controls and an agreed risk management programme. The major risks are regularly reviewed at the most senior management levels.

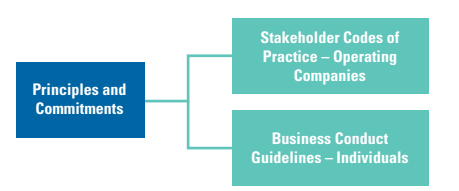
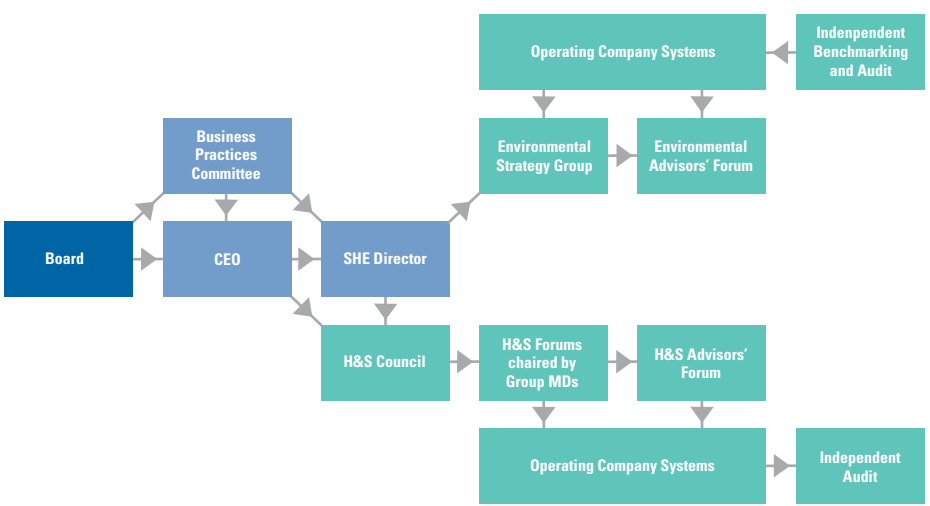
Safety and health issues are monitored and reviewed by the Group Health and Safety Council. Each main segment of the business has its own Health and Safety Forum, chaired by a Group Managing Director. Each operating company nominates a director to champion Health and Safety and has its own Health and Safety advisors and management arrangements.

We require formal safety management systems that are subject to external audit and increasingly are certified to OHSAS 18001.

Environmental issues are monitored and reviewed at the Environmental Strategy Group, made up of representatives of the operating companies under the chairmanship of the Director Safety, Health and Environment. Each operating company has a nominated board director with environmental responsibility and has its own environmental management arrangements. We aim to achieve ISO 14001 or its equivalent in all of our operations and to audit and benchmark performance regularly.

Environmental, safety and health issues are routinely reviewed at the Business Practices Committee.

Governance structure for safety, health and environment Ethical framework



Safety and Health

 www.balfourbeatty.co.uk/bbeatty/responsibility/safety

Design on Safety

The accident frequency rate continued to fall in 2005, demonstrating once again, the Group's absolute commitment to keeping its employees safe.

Our progress over recent years has been based on good systems, management leadership, training and improvements in behavioural safety.

In order to maintain our forward momentum, our operating companies are now taking a step further and looking at how to design hazards out of our processes to reduce the potential for accidents.

For instance, Balfour Beatty Civil Engineering has implemented an innovative piling solution for signage foundations on motorways. By reducing the time required to construct foundations they have significantly minimised worker exposure to the hazardous roadside working environment.

Off site modular construction has several benefits. Quality and cost are improved by prefabrication in a factory environment and fewer people are exposed to site hazards. A good example is provided by Mansell where much of the airport volume work such as the pre-assembly sub-stations, control posts and other facilities service structures for Terminal 5 at Heathrow is carried out off-site. Balfour Beatty Construction now routinely uses prefabricated bathroom pods in hospitals and accommodation modules for student/armed forces accommodation.

Haden Young is also a pioneer, for example at Stoke Mandeville Hospital where working in joint venture with the building structure contractor has afforded input into early stages of design and installation hazards off-site.

An example is the development of off-site manufactured services modules. These include 112 modules carrying heating, medical gas and domestic services pipework and also ductwork and cable containment. Use of these modules reduced the man hours working at height by up to 90%. It also vastly lessened site welding requirements, thus minimising fire safety and health risk.

At a construction project in Scotland, a one man fall restraint system was redesigned for two man use to avoid single working and to allow rescues if necessary.

A National Designers' Forum was held in 2005 by Balfour Beatty Construction and the Health and Safety Executive (HSE) for all design managers and main design consultant partners to explore the practical applications of Construction Design Management (CDM) to produce beneficial results with the minimum of bureaucracy.



Caring for the safety, health and well-being of our employees and everyone affected by our activities is of critical importance to our business success.

Our Approach

We take a structured, risk-based approach to managing health and safety across the Group. Our long term safety strategy centres around:

Behavioural safety – like many companies we find that achieving continuous improvement in safety performance requires more than robust safety management systems. We continue to encourage a positive safety culture by demonstrating leadership and engaging all employees.

Public safety – many of our businesses have an increasingly close interface with the general public. We are committed to ensuring their safety. A 2005 public safety review has increased awareness of public risk throughout the organisation and operating companies have appointed public risk champions.

Safety by design – our aim is to design both permanent and temporary works so that health and safety risks are eliminated or reduced. For example, pre-fabrication off site in a factory environment can lead to better quality, faster construction, reduced costs and much safer work activity on site.

In 2005 we strengthened further our company-wide requirements 'Balfour Beatty Expectations for Managing Health and Safety', issued in 2004, by setting long term objectives for our operating companies and requiring them to develop and implement strategies to achieve these by 2010. Our safety performance and safety management processes are continually improving.

45%

improvement in overall safety performance since 2002

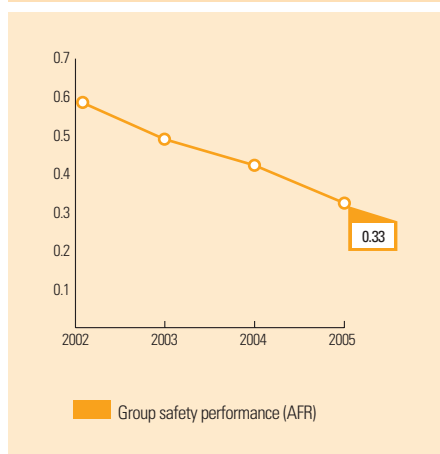
Our Performance

Our three prime indicators of safety performance are; the number of fatalities; the Accident Frequency Rate (AFR), (ie the number of reportable major and over three-day accidents per 100,000 hours worked); and the number of permanently

Performance and Targets

Safety performance targets for 2005	Status for 2005	Target 2006
Zero fatalities	One fatality in Europe, one in US, and four in joint venture business in Hong Kong	Zero fatalities
Zero permanently disabling injuries	Zero Target achieved in all regions	Zero permanently disabling injuries
Each operating company targets to achieve sustained AFR reduction in 2005, and to achieve AFR ≤ 0.2 by end 2010	AFR improved 23% from 0.43 in 2004 to 0.33	Each operating company to achieve sustained AFR reduction in 2006, and to achieve AFR ≤ 0.2 by end 2010

Improvement in Group safety performance (Accident Frequency Rate)



disabling injuries. To achieve our aim of operating with no harm to our workers or the public we set annual objectives for our operating companies. These are: no fatalities; a ceiling on AFR of 0.2 in all businesses by the end of 2010; and zero permanently disabling injuries.

Fatalities

We were deeply saddened by the loss of two colleagues in wholly-owned operating companies and four in our Hong Kong based joint venture business in 2005.

All fatalities, significant accidents and those with potentially serious consequences are subject to in-depth investigation including formal root cause analysis. To ensure this process is consistent and robust we trained 275 principal investigators in the UK, Europe, Hong Kong and the US during the year.

Additionally, all fatalities and serious accidents are subject to corporate review by the Chief Executive and any lessons learnt are transferred across the Group. During 2005 eight such reviews took place (the same as in 2004).

Accident Frequency Rate (AFR)

Significant progress has been made in reducing Accident Frequency Rates (AFR) across the Group and in joint ventures, despite continuing increases in employee numbers. Since last year, our overall AFR for wholly owned operating companies and significant joint ventures improved by 23%. This is an overall performance improvement of 45% from 2002 – which is well ahead of the Health and Safety Executive's UK Revitalising Health and Safety targets of 5% year on year.

In the US, safety performance has improved markedly with AFR down 61% since 2002, despite an 11% increase in employee numbers. Strong improvements have also been seen in the UK where AFR has reduced by 31% since 2002, whilst the number of employees has increased by 12%.

>1 million

reportable accident-free man-hours worked on seven separate projects in 2005

Safety

Comparison of UK Injuries and Fatalities

Rates per 100,000 employees (direct and indirect)	HSE's construction industry norm (2004-5)	2005	2004	2003	2002
		All reported injuries	897.4*	819	883
Non-fatal major injuries	299.4*	239	205	224	255
Fatalities	4.5	0	0	6.7	8.3

* not adjusted for under-reporting of non-fatal injuries. (HSE's reported figures are estimated by the National Statistics Office to represent some 40% of the true figure.)

Comparison of UK Convictions and Enforcement Notices

Rates per 100,000 employees (direct & indirect)	HSE's construction norm	2005	2004	2003	2002
		Convictions	31.5	5	6
Enforcement notices	197.6	5	6	25	28

Disabling Injuries

There were no permanently disabling injuries in 2005.

Major Injuries and Dangerous Occurrences

Operating companies reported 128 major injuries in 2005 (2004: 115), a slight increase on last year's figure.

UK operating companies recorded 23 notified dangerous occurrences during 2005, compared with 21 in 2004. In the US, one dangerous occurrence was reported compared with eight in 2004. Eight dangerous occurrences were reported by significant joint ventures in 2005.

Safety Management

Our Group wide framework for managing health and safety is now well established and each operating company has its own formal safety management system, which deals with the hazards relevant to its business.

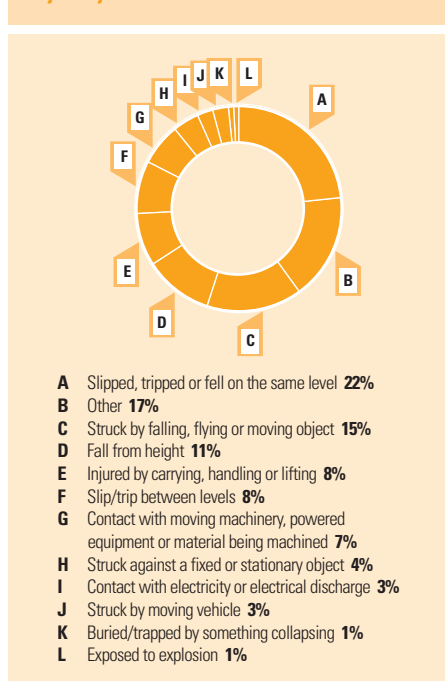
Health and Safety Council and Forums

The Health and Safety Council, chaired by the Chief Executive, and a series of Health and Safety Forums encompassing all operating company managing directors are now well established. During 2005, these bodies each met twice and confirmed the Group's long term safety strategy.

Safety Audit

Safety audit is a key element of safety management. We subject our safety management systems to both internal and external audit scrutiny. To provide additional assurance and an independent view on our safety management, we require each UK operating company to undergo a regular independent audit. During 2005 our operating companies have increasingly adopted OHSAS 18001, certified by Det Norske Veritas (DNV).

Major injuries



Tr@ction

From January 2005, the recording and monitoring of operating company safety performance has been carried out using Balfour Beatty's Tr@ction system. Tr@ction offers web-based, online reporting of accidents and incidents of all types (safety, health, environment, quality, security, complaints etc). Further advantages include a common underlying causal analysis system and a facility to track actions from investigations, audit and risk assessment. The use of a consistent process and the ability to analyse trends has already provided greater insight which in turn is used to improve safety performance.

Accident Investigation

During 2004, we developed and rolled out a training programme in accident investigation that incorporates a powerful system of causal analysis. Root causes are recorded in Tr@ction enabling common issues to be identified across the business.

The system is applied to all fatalities and to high potential accidents and near misses. This offers good insight into systemic causes and provides the opportunity to remedy these before injuries occur. During 2005, 215 principal investigators and 229 senior managers had been trained in the process.

Key Safety Challenges and our Actions

Each business identifies its key safety risks and controls, and agrees a plan to achieve its safety goals. Common risks include:

- working at height
- lifting operations
- road traffic safety
- utility service strikes
- managing sub-contractors
- behavioural safety

Measures to address these and other issues in 2005 include:

- Temporary Traffic Management: a new policy and guidance for temporary traffic management operations has been published and enhanced training courses are being piloted
- a group has been established to review working with Mobile Elevated Work Platforms, focusing on procurement standards, training and emergency operation

All UK businesses achieved OHSAS 18001

- the Audit Protocol development team have worked closely with DNV and the new audit protocol is now in use across the UK
- a Tr@ction User Group meets quarterly
- a working group has been formed to develop policy, guidance and training to manage the risk from service strikes

12%

improvement in AFR for wholly owned businesses in 2005

Safety Training

Leadership and management are vital for good safety and so a key focus during 2005 has again been appropriate safety training for managers at all levels. Fifty-four senior managers attended a 'Safety for Senior Executives' course, examined by IOSH during 2005, bringing the total number of managers who have taken part to 183. Accident investigation training has been given to 275 senior managers in the UK, US and Hong Kong, bringing the total to 461. The new Group Audit Protocol was introduced to 85 senior managers and auditors in preparation for the initial benchmarking of Health, Safety, Environment and Quality Management across the Group. Other management safety courses include safety auditing and safety leadership. During 2005 we continued to provide a high level of safety training across all areas of the Group to ensure the competence of each jobholder. In 2005 we tightened the definition of training to exclude inductions and workplace briefings. This improves the consistency of our training data which now measures training for new and improved skills only.

Our safety training also extended beyond our workers and into the community. In 2005 our Safety Advisors visited UK schools in the vicinity of our projects to take the safety message to almost 4,000 school children.

Training Days, 2001–2005

Year	UK Total Days	Rest of World	Group Total Days
2001	29,444	5,683	35,127
2002	31,680	8,292	39,972
2003	35,369	7,389	42,758
2004	44,611	6,259	50,870
2005*	30,938*	6,219*	37,157*

*data not comparable with previous years due to changed definition.

Safety Benchmarking

We benchmark our safety performance against industry norms in the construction and rail sectors. In the UK, Germany, US and Hong Kong our performance compares favourably with these external norms. Benchmarking data is not readily available in other countries.

In the UK we benchmark our safety performance against the published industry statistics from the Health and Safety Executive (HSE). We compare favourably with the UK industry norms for fatal, major and all reportable injuries. Our reported injury rate fell to 819.3 per 100,000 employees (direct and indirect), from 883 in 2004 and 1,050 in 2003. This compares very favourably with the reported HSE rate for the construction sector of 897.4 (this HSE figure has not been adjusted for widespread under-reporting). Our UK fatal injury rate is again recorded as zero in 2005, as it was in 2004. The HSE norm for the construction sector is 4.5 for 2004-5. Our non-fatal major injury rate has risen slightly to 238.7 per 100,000 employees. However, this is still below the construction sector rate of 299.4 and has improved by 6% since 2002.

At Balfour Beatty Rail Power Systems in Germany our rate of reportable accidents per 1,000 employees recorded a 79% improvement on the industry rate of 95 for 2004. (2005 rate not yet available).

In the US, Balfour Beatty Construction Inc achieved a recordable injury rate per 100 employees of 2.1, which is 68% better than the industry average of 6.5. Also in the US, Heery International Inc achieved an AFR of zero, and a recordable injury rate per 100 employees of 0.89, which was 86% better than the industry average of 6.5.

In Hong Kong, Gammon reported a recordable incident rate per 1,000 workers of 11.5, which was 32% better than the industry average for Hong Kong Public Works Contracts of 16.8 for 2004.

Regulatory Activity

HSE inspectors carried out 159 visits to our UK workplaces during 2005, significantly fewer than in 2004 (238). No prosecutions were served on UK operating companies during 2005. At the beginning of 2005 there were two outstanding cases from earlier years, which resulted in convictions. Our US operations received two citations and fines of \$5,000 during 2005 compared with five in 2004.

Balfour Beatty Rail Infrastructure Services was fined £10,000,000 in relation to the Hatfield train derailment which took place in October 2000. The systems and procedures examined in the case were reviewed and revised, appropriately, in the immediate aftermath of the accident. The level of the fine is the subject of an appeal.

Safety Awards

We continue to receive many awards that recognise good safety performance worldwide. In 2005, 26 RoSPA awards were received for occupational safety and seven awards were received from the British Safety Council. For a full list of awards go to www.balfourbeatty.co.uk/bbeatty/csr/safety/awards

Regulatory Activity

UK Regulatory Action	2005	2004
Prosecutions	2	2
Prohibition Notices	2	1
Improvement Notices	0	2
Visits by HSE Inspectors	159	238
Convictions	2	3
Fines	£10,060,000	£320,000

US Regulatory Action	2005	2004
US citations	2	5
US Fines	\$5,000	\$14,000

Other Overseas Regulatory Action	2005	2004
Prosecutions	0	0
Notice of Violation	2-Germany	1-Dubai
Fines	0	0

Beating HAVS at Haden Young

Risks from vibration are a health issue for many construction companies. At Balfour Beatty we continue to look for ways to combat the problem and reduce the associated ill-health.

Haden Young, has built up a strong health and safety record. As part of its continuous improvement culture a series of initiatives to beat Hand Arm Vibration Syndrome (HAVS) has been taken over the last two years. Working closely with power tool and fixing manufacturer Hilti, extensive field tests have been held and assessments made of potential exposure to vibration risk. Each common task was measured and guidelines developed for the maximum length of exposure recommended.

A product selector card was then published detailing tools and tasks with usage guidelines. These cards were issued to all power tool users during a programme of 'tool-box talk' training sessions. Follow up posters were also issued to help maintain awareness and additional HAVS awareness training in the form of presentations by Hilti specialists was also provided for over 200 senior managers, project managers and supervisors. In addition, a system for detecting any adverse symptoms of exposure to vibration was implemented.

The programme has been very successful and has supported Haden Young's decision to use the Hilti range of low vibration power tools. Feedback from operatives has been positive – they felt the selector cards were easy to understand and resulted in the right tool being used for the right job.

Haden Young's initiatives in this area provide employees with the confidence that they can continue working safely in the knowledge that this issue is being well managed.

This, along with other initiatives such as the design and introduction of a new style of podium step, resulted in Haden Young winning the Major Health and Safety Initiative of the Year category in the Building Services Awards 2005, as well as receiving a RoSPA Order of Distinction.



We continue to improve our safety record and are now applying the same rigorous standards to improve the occupational health of our workforce.

Our Approach

As a business, our aim is to ensure that no harm to our employees' health occurs as a result of our activities and to improve the monitoring and control of activities that have the potential to impact on workers health.

Cases of occupational ill-health are often the result of prolonged exposure to a condition or substance, or prolonged or repeated undertaking of an activity. In the construction industry, causes of occupational health conditions include asbestos, manual handling, exposure to harmful substances, noise exposure, vibration risks and stress.

During 2002 we reviewed our approach to occupational health and, in 2004 and 2005, increased the focus on managing occupational health systematically and effectively in our operating companies.

Our Performance

In 2005 we continued to collect UK data on sickness absence. We are able to measure data on total absence relatively robustly. However, it is less easy to measure absence due to work-related ill health because of difficulties in defining whether illness is work-related or has more general causes. This should be taken into account as 2005 data is reviewed and we will continue to develop processes for recording and reporting occupational ill-health in 2006. We also aim to establish supportive return to work processes for absent employees and to extend our approach to overseas businesses.

Absence

From a UK workforce of nearly 22,500, comprising 65% staff and 35% operatives, average absence was reported to have decreased slightly to 6.4 days in 2005; 1% of absence was due to work-related injury, down from 4% in 2004; and 2% of absence was due to work-related ill health.

Nature of Occupational Ill-Health

- zero early retirements or fatalities due to work-related ill-health were reported by operating companies
- 37 cases of non-reportable occupational ill-health were recorded (34 in 2004, 42 in 2003), principally stress and musculo-skeletal disorders, as in previous years
- 86 cases of Hand Arm Vibration Syndrome (HAVS) were diagnosed in 2005 (59 in 2004, 14 in 2003). These are recently diagnosed long-standing cases. We expect the figure to drop in future.

Managing Occupational Health

Thirteen UK operating companies and one US operating company (Balfour Beatty Construction Inc) recorded occupational health screening during 2005. In total, 4,172 UK employees received occupational health screening.

We also pay particular attention to specific occupational health risks relevant to our industry. These include:

Hand Arm Vibration Syndrome (HAVS)

In 2005 HAVS questionnaires were completed by 3,770 employees in six operating companies. As a result, 86 cases of HAVS were identified in 2005, compared with 59 in 2004 and 14 in 2003. This increase represents identification of legacy cases and we expect new HAVS cases to decrease significantly in future years.

Manual Handling

Musculo-skeletal disorder due to poor manual handling is a common hazard on site. This is being addressed by increasing automation, use of mechanical aids and restricting items for manual handling.

Performance and objectives

Health objectives	Status 2005
To improve processes for recording and reporting absence, and the nature and duration of occupational ill-health	Absence data reported for fourth year. Data quality improved slightly.
To maintain supportive return to work processes for absent employees.	Formal processes established in a number of operating companies. Occupational health services embedded as part of the process.

Alcohol and Drugs

In 2005, 4,934 alcohol and drugs tests were carried out in the UK and US and, of those tested, 4% returned positive results. We encourage our operating companies to take a supportive stance for those who acknowledge a problem in advance.

4,172

UK employees received occupational health screening in 2005

Substances Harmful to Health

All operating companies continue to address the risks from handling and exposure to harmful substances such as cement, solvents and other chemicals.

Stress

Several of our businesses have introduced stress management arrangements including counselling and stress awareness training.

Asbestos

Our focus in 2005 has been on establishing asbestos management plans and the continuation of training programmes to recognise asbestos. We operate a strict policy of bringing in accredited experts if asbestos is encountered.

Environment

 www.balfourbeatty.co.uk/bbeatty/responsibility/environment

Driving environmental improvements

With over 7,000 vehicles in operation throughout the UK and nearly 20 million litres of diesel used per annum, fuel consumption control offers an important opportunity to improve our environmental performance.

In 2005, four operating companies representing the largest users of vehicles within the Group – Balfour Beatty Power Networks, Balfour Beatty Rail, Balfour Beatty Utilities and RCS, the road management and maintenance company – worked together to explore three key areas: technology, mileage reduction and culture change.

The Group takes every practical opportunity to adopt technology improvements developed by the motor industry and our fleet list has been expanded to include environmentally friendly options. As a result, the overall average emission level per car on the choice list has fallen from 184gms/km in 2004 to 175gms/km in 2006.

Trials are currently taking place in London where RCS, has reduced energy consumption by using G-wiz electric cars in a joint venture with Westminster Transerv. These low energy, zero pollution cars are ideal for visiting and inspecting sites. Our fleet services division has also agreed to work with suppliers and customers to introduce heavy goods vehicles fitted with Euro 4 diesel engines as and when they are released for sale in the UK (expected June 2006).

Various options have also been explored with the aim of reducing the overall level of mileage. Satellite navigation and tracking systems have been found to have a major beneficial effect, enabling better planning and reducing the number of wasted journeys. Recycling facilities on site also means less waste needs to be transported elsewhere. For example, at RCS, two transfer stations in Hampshire have significantly reduced long trips to distant tips. In 2005, 488 fewer trips to landfill equated to a saving of nearly 15,000 miles and an estimated 15 tonne reduction of CO₂ emissions for the business.

Perhaps the greatest opportunity for improvement is in the achievement of culture change. Driver effectiveness training and incentive schemes to encourage car-share have been promoted widely. The use of crew vans have been trialled alongside a poster and advertising campaign promoting the benefits of lower fuel usage.

The next step is for individual operating companies to set relevant targets to reduce CO₂ emissions and ensure increasing improvements to 2010.



We work to prevent environmental harm in all our activities and are committed to acting responsibly and to improving environmental performance at every stage of our work.

Our Approach

Our approach to managing our environmental responsibilities is structured and risk based. Each operating company has established environmental management systems that address the specific environmental issues relevant to that business.

Our Performance

While the range and nature of environmental risks varies widely in each operating company, we review our overall progress by monitoring trends in five specific areas for which we now have four years of data: resource usage; waste and recycling; energy and global warming contribution; water consumption; and our impact on environmentally sensitive areas.

We also measure the robustness of environmental management systems and environmental incidents and prosecutions.

Resource Usage

Goals

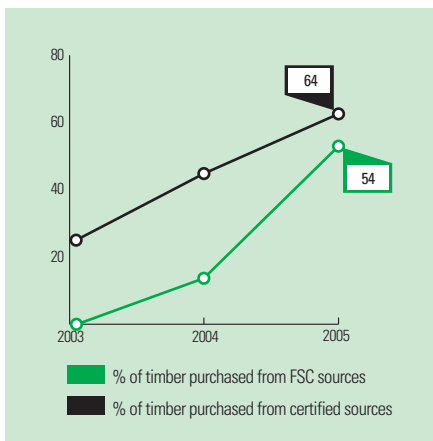
We increasingly focus on the sourcing of materials, usage of non-renewable resources and our supply chain. We set the following goals for resource usage for the first time in 2005 and continue to work towards them in 2006:

- to develop further our approach to sustainable construction, including usage of resources;
- to encourage environmental engagement amongst our suppliers;
- to reduce the use of non renewable resources through design and specification of materials;
- to source timber increasingly from certified sources; and
- to encourage the sourcing of local materials.

Performance

As an overall indicator of environmental engagement in our supply chain, we measure in each operating company the number of top twenty suppliers by spend that are certified to ISO 14001. In 2005 in the UK, at least 26% of our spend was with this group. In other parts of Europe the figure is 28%.

UK timber spend % from sustainable sources



In 2005 we succeeded once again in increasing our sourcing of certified timber (FSC or PEFC) to 64% (46% in 2004 and 26% in 2003) of UK timber spend. 54% was purchased from a purely Forest Stewardship Council managed source.

Our civil engineering road construction projects generate large quantities of inert material and require aggregates of various types. We continue to adopt creative approaches to sourcing of aggregates and disposing of surplus materials. For example on the M25 project (see page 5) and during the A120 project where a quarry was opened.

Waste and Recycling

Goals

Our overall goals for waste are:

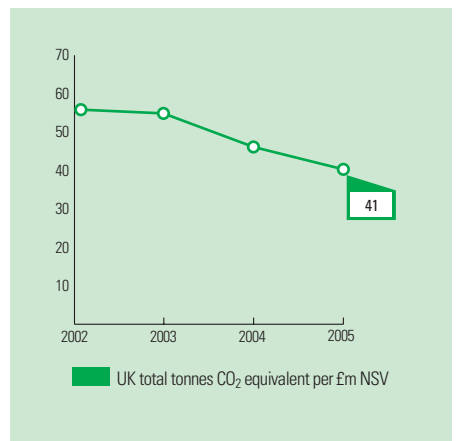
- to reduce progressively waste generation;
- to encourage opportunities for recycling waste and utilising recycled products; and
- to reduce progressively disposal of waste directly to landfill.

Waste Performance

We measure waste in three categories.

- General waste, eg:
 - offcuts and packaging
- Hazardous waste, eg:
 - waste COSHH (substances hazardous to health) materials and their packaging
 - contaminated land removed
 - materials such as redundant oils

Contribution to global warming



- Inert material, eg:
 - excess sub-soils, generated by our construction and civil engineering businesses

Collection of data on waste is a challenge for the construction industry. On larger projects, we are able to segregate waste and weigh skips. Smaller projects may have only one skip on site, which will be used by our own employees and subcontractors. Where smaller contracts hire skips at a fixed rate without being weighed, waste is estimated, using conversions developed through sampling or in accordance with published data on weight per skip. However, we are increasingly using national waste contractors who are able to supply data to us.

30%

less total waste generated in the UK than in 2004 relative to £m NSV

Waste Type	Region	2005 (tonnes/£m NSV)	2004 (tonnes/£m NSV)	2003 (tonnes/£m NSV)	2002 (tonnes/£m NSV)
General (non-hazardous) waste	UK	47	44.1	37.93	60.8
	Europe	5			
Hazardous (special) waste	UK	11.5	2.4	1.01	3.45
	Europe	0.1			
Inert material sent off-site	UK	140.3	239	229.5	N/A
	Europe	4.1			
Totals	UK	199.1	285.5	268.4	64.3
	Europe	8.7			

In 2005, in the UK we generated 30% less total waste than in 2004 relative to £m NSV. However, hazardous waste did increase significantly. This is accounted for by one UK rail business that closed down two major project sites which had historic ground contamination.

General waste per £m NSV produced in the UK has increased by 7% on 2004 but a significant reduction in inert materials sent directly to landfill has seen an improvement of 41% on 2004 totals. This is largely due to our utility businesses improving their re-use of suitable excavated materials within the public highway as opposed to sending it directly to landfill.

Recycling Performance

We measure tonnes of material sent for reuse or recycling, including metals, packaging, plastics and paper.

In 2005 in the UK we have again significantly increased the quantity of waste sent for recycling. We recycled 27% more metals than in 2004 and improved the recycling of packaging ten-fold. Plastic recycling increased by 44%. Paper recycling was slightly down by 17% on 2004.

Since 2004 in the UK we more than doubled the level of inert materials sent directly to recycling stations.

27%

more metals recycled than in 2004 in the UK

In 2005 we also started to collect data on other materials sent for recycling including batteries, lighting tubes and switches. In 2005 in the UK we sent 31,467 tonnes of such materials for recycling.

Energy Usage

Goals

Our overall goals for energy are:

- to reduce progressively our global warming impact;
- to work with customers and suppliers to create and manage energy efficient infrastructure; and
- to choose appropriate and efficient energy sources, prioritising renewable sources where appropriate.

Performance

We measure separately our energy consumption in buildings, energy used by plant, and energy used by our vehicle fleet. Energy data does not include the CO₂ contribution from SF6 purchased by Balfour Beatty on behalf of clients.

Our total UK contribution to global warming is down 28% over three years relative to the volume of business transacted (as measured by Net Sales Value, NSV). In 2005 our total

contribution to global warming for our UK and European businesses combined was 148,562 tonnes CO₂ equivalent.

We have seen greatest improvements through our vehicle fleet, where the market is constantly reviewed to identify new and emerging environmentally sound vehicle technology. We currently operate several fleet vehicles powered by alternative fuels, but we expect the biggest improvements to come from the use of satellite tracking and GPS technology which enable more efficient vehicle routing and usage. A number of businesses are also looking at alternative sources of energy. For example, Mansell is using hydro power in Aberdeen, wind power at Swaffham, alternative heat power in Slough and biomass energy in Croydon.

We are also working with our customers to reduce requirements for CFCs and SF6 Purchases, either through replacement with alternatives or improved maintenance to reduce leaks. In 2005 we purchased zero CFCs on behalf of customers, a considerable reduction since 2002. Purchases of SF6 for clients increased significantly in 2005. The bulk of these purchases were for electrical insulation of circuit breakers supplied to customers in our mainland European rail and UK power generation sectors.

28%

reduction in our total UK contribution to global warming

In 2005 we have again significantly increased the quantity of waste sent for recycling in the UK.

Water Consumption

Goals

Our overall goals for water are:

- to improve progressively the efficiency of water consumption;
- to prevent pollution of water as a result of our activities.

Performance

Water consumption is split into office usage, industrial usage, site usage and non-potable water used on sites (eg for dust suppression). Our total consumption of water in the UK was:

- 800,051 m³, a 95% increase from 2004; and
- water from licensed abstraction points: zero.

The principal consumption area was industrial activities, including temporary site offices.

This accounted for 69% of all potable water consumption. The increase in potable water in 2005 in some cases is due to more accurately reporting from meter readings. Additionally our UK rail plant division acquired a number of plant depots which use water to wash powered plant and our roads maintenance business was awarded three new contracts which involve extensive water use.

Operating in Environmentally Sensitive Areas

Goals

We are increasingly aware of the impact that our operations can have on local ecology and biodiversity. Maintaining a rich diversity of species and habitats is increasingly important to local communities and to our customers. This is illustrated by the growth in the reporting of sites working adjacent to environmentally sensitive areas (eg SSSI), from 10 in 2002, to more than 1,000 in 2005.

Our overall goals for biodiversity are:

- to support our clients in developing Biodiversity Action Plans; and
- to measure incidents of unauthorised damage to species and habitats.

UK and Europe Recycling

Material Type	Region	2005 (tonnes)	2004 (tonnes)	2003 (tonnes)	2002 (tonnes)
Metals	UK	17,374	13,673	8,221	4,607
	Europe	141	–	–	–
Paper	UK	408	489	338	158
	Europe	43	–	–	–
Packaging	UK	11,221	984.4	740.1	–
	Europe	37	–	–	–
Plastics	UK	5,586	3,873	2,172	2,604
	Europe	0	–	–	–
Inert material including concrete, hardcore, planings	UK	285,109	152,756	294,209	–
	Europe	1,322	–	–	–
Other materials sent for recycling (Batteries, lighting strips)	UK	31,467	–	–	–
	Europe	7	–	–	–
Totals	UK	351,166	171,775	305,680	7,369
	Europe	1,550	n/a	n/a	n/a

Performance

Biodiversity cannot be measured by a single KPI. While to date we have monitored the number of environmentally sensitive (eg SSSI) sites in proximity to our work sites, this does not capture the essence of biodiversity. As ecological issues vary from project to project, we have found that each project must plan its own relevant measures for biodiversity.

We have extended our range of indicators to include positive and negative effects on protected sites or protected species.

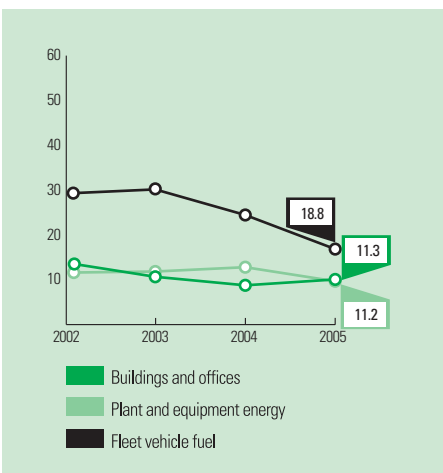
In 2005 we obtained three licenses to temporarily remove or provide protection of habitat for a protected species and have been involved in habitat enhancement works. For example, Balfour Beatty Construction has enhanced natural habitats for nesting birds and has installed bat boxes at their schools projects.

All of our operating companies have reviewed their responsibilities for contaminated land and plans are developed and executed where necessary to manage the issue. We have not included in this report details of contaminated land remediated on behalf of customers. We also ensure that items of archaeological interest are thoroughly explored before we develop sites.

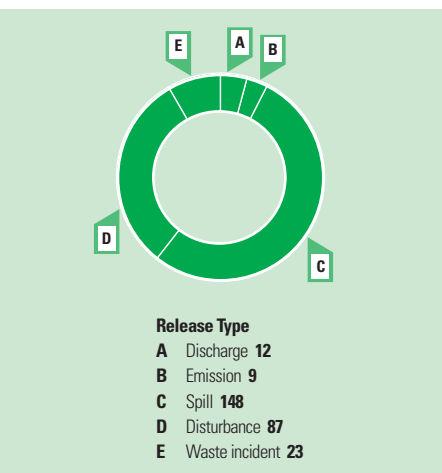
64%

of UK timber spend from certified sources

Energy usage CO₂ equivalent units per £m NSV



Environmental incidents



Environmental Incidents and Regulatory Activity

Goals

Our objective is to have zero significant environmental incidents each year, and zero prosecutions. In 2005 we also set the following goal for our operating companies: to systematically record, investigate and learn from environmental incidents by reporting all incidents through Tr@ction and embedding the investigation process. Good progress has been made in both areas, and we will continue with these actions during 2006.

Performance

In 2005, 279 UK environmental incidents were recorded, a 17% reduction on 2002. Of these, none were considered to have an irreversible impact on the environment. One was judged to be significant: whilst installing a ducted electrical cable system a sewer pipe was damaged and discharged into a nearby river. Eight incidents were of moderate environmental impact and the remainder were minor in nature, resulting in either no or little environmental damage beyond our site boundaries.

In other parts of Europe three environmental incidents, minor in nature, were recorded.

Our other overseas operations reported zero environmental incidents.

In the UK 734 complaints relating to statutory nuisance were received. As in 2004 the majority arose from those businesses working with a high public interface, for example when excavating the public highway for utilities maintenance.

Regulatory Activity

Two environmental prosecutions were received by our UK businesses in 2005. One related to watercourse pollution and loss of fish stock. The second related to discharge from a site. Fines totalling £23,000 were imposed. In order to assist in the remediation of the area affected by the first incident we voluntarily contributed

Environmental Management Systems

Goals

Our aim is to continue to increase environmental engagement and to embed environmental management systems into our business. The management system for each operating company identifies and addresses specific environmental issues relevant to its operations.

In 2005 we set the following goals for our operating companies:

- UK operating companies to maintain ISO 14001 certification;
- overseas operating companies to work towards ISO 14001;
- simplify and improve UK reporting of environmental performance; and
- overseas operating companies to establish processes to record environmental performance.

Performance

- 94% of UK operating companies have achieved ISO 14001 certification (87% in 2004, 79% in 2003, and 76% in 2002).
- While the majority of UK operations are now certified, each year our structure changes through acquisition, disposal and reorganisation. Newly acquired businesses are required to achieve ISO 14001 as soon as practicable.
- Our US businesses have developed formal environmental management systems which are being implemented across all projects. Arrangements for independent auditing are to be reviewed during 2006.
- ISO 14001 is in place in 45% of our continental European operations.
- All our Hong Kong operations maintain certification to ISO 14001.

94%

of our UK operations have ISO 14001 certified management systems

UK environmental incidents reduced by 4% on 2004 and 17% on 2002.

a total of £40,000 towards restoring the loss of habitat. UK sites received 217 visits by enforcement authorities during 2005 (226 in 2004, 263 in 2003, and 309 in 2002). Three statutory enforcement notices were received in 2005 in the UK (zero in 2004). All three were issued for noise levels above permitted allowances.

Overseas sites reported 26 visits by enforcement authorities during 2005 (38 in 2004, 18 in 2003 and 28 in 2002).

There were two overseas prosecutions in 2005 (zero in 2004, two in 2003). Gammon Construction in Hong Kong was prosecuted for an illegal water discharge due to a pump being accidentally turned off. The volume of discharge and level of impact was low. In Singapore Gammon was prosecuted for a noise offence.

Monitoring Progress

We work to ensure that environmental responsibility is embedded throughout the organisation.

Audit

Audit is a key element of managing environmental risk, providing information for managers as well as assurance for the Board. To improve the accuracy of our audit data and to see exactly how many resources we allocate to this essential requirement, for 2005 we recorded days spent auditing rather than the direct number of audits carried out.

62%

reduction in statutory nuisance complaints

Internal audit: During 2005, in the UK we spent a total of 1,204 days conducting internal environmental audits and inspections.

External audit: In 2005 a total of 344 days were spent by external parties conducting audits on our UK businesses. These external parties include clients and certification bodies.

External Benchmarking

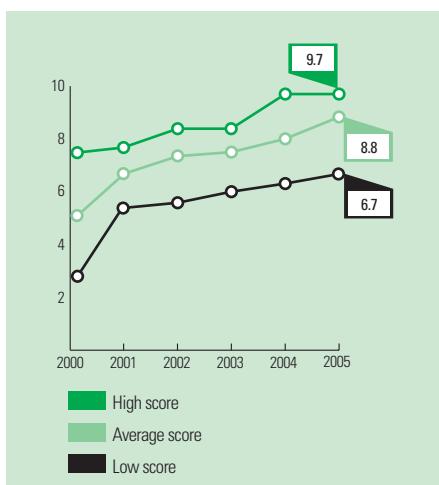
Since 2000, we have asked independent consultants, csr-network, to assess annually the status of environmental management in our operating companies. This annual assessment demonstrates our overall progress and allows us to benchmark progress in the various operating companies.

All UK operating companies were included in 2005, and formal assessments conducted in two European businesses (Germany and Italy).

Each year, we have seen progressive improvement in the average score (out of a maximum of 10) from 5.1 in 2000 (all UK companies) to 8.8 in 2005 (all UK operating companies, plus continental European operations). All operating companies now operate in the 'Leadership Zone'.

As a company, our environmental record is improving year on year. Once again we participated in the Business in the Environment Survey. The result was another increase in score to 88% (82% 2004). This places us third overall out of 11 construction sector participants (last year we were sixth out of 15). In 2005 our UK business won 17 awards (13 in 2004), including three Green Apple Awards, and our overseas businesses won three awards.

Independent benchmarking of environmental engagement



Training

During 2005 we continued to provide environmental training to ensure that our employees are aware of the environmental consequences of their activities and know how to protect the environment. After the initial surge of training required to introduce and prepare workers for ISO 14001, we find that environmental awareness can be maintained with fewer days of refresher training. We have also clarified the definition of training, so invalidating strict comparison between 2003 and 2004 figures.

1,298

days environmental training were undertaken by UK and continental European businesses in 2005

Social

 [www.balfourbeatty.co.uk/
bbeatty/responsibility/social](http://www.balfourbeatty.co.uk/bbeatty/responsibility/social)

Responsible recruitment

For many employers, one of the toughest challenges they face is recruiting and retaining the right people. Working with groups outside the mainstream offers significantly increased opportunity.

At Balfour Beatty, we encourage young people from difficult backgrounds to consider construction and engineering as a profession. In addition to the new 'Building Better Lives' initiative explained on page 22, three of our operating companies are currently working with specific local community groups to help meet the future skills requirements of the industry.

At Balfour Beatty Utilities, employment is offered to young offenders on their release from prison. The National Grid Young Offender Programme has been in operation since 1999 and is unique in that it works with prisoners in the latter stages of their sentence and guarantees a job on completion of an industry recognised gas network operatives course (NVQ level one). If they pass the course they start on a job placement before they are released so that on their release from prison they can return to a job they have already started. Through National Grid, Balfour Beatty Utilities provided training for 25 former offenders in 2005, building up a relationship with two local prisons. The overall programme is so successful that it has helped to reduce the re-offending rate to less than 10% from a national average of 70% amongst 18 to 21 year olds.

When Hampshire Social Services asked RCS, the road management and maintenance arm of the Balfour Beatty Group, to contribute towards driving lessons for young care leavers, the company went one better by offering a group of teenagers a three-day taster course and the potential to train as apprentices. All of the youngsters attending were on the point of leaving foster parents or care homes. Over three days a group of seven young people in their mid and late teens followed an induction programme of presentations, teambuilding activities and site visits aimed at promoting civil engineering as a worthwhile and interesting profession. All the young people involved felt they had benefited from the experience and the Hampshire RCS contract is continuing the initiative.

Meanwhile, Mansell has been working with Necta (the construction training organisation for disadvantaged groups) to offer opportunities for apprentices and trainees to gain 'hands on' experience on projects. The group worked on projects at Leicester Royal Infirmary and a new build project in Nottingham where they delivered a groundwork and brickwork contract respectively. All five of the trainees who worked on the Leicester scheme gained permanent jobs in the construction industry as a result.



Balfour Beatty is committed to fulfilling its responsibilities not only to shareholders, employees, customers and suppliers, but also to the wider community.

Stakeholders

During 2005, the Group's core principles and commitments were reviewed and a comprehensive guide to the behaviour expected of all our employees was also published and distributed.

A series of codes of practice covering expected business behaviour in our dealings with employees, customers, suppliers and the wider community was finalised and a comprehensive operating company performance self-assessment exercise is now under way across the Group.

Employees

Employment

As at 31 December 2005, the Group employed over 27,300 people, with an average number employed during the year of 27,592. Some 22,000 are employed in the UK, with approximately 3,000 in the US, 1,700 in Europe and the remainder elsewhere, principally in Dubai and Hong Kong.

Equal Opportunities

The number of women employed in the UK businesses, at 17%, was similar to that of 2004, having been first measured at 13% in 1999. The proportion of ethnic minorities fell from 7.7% in 2004 to a little over 6% in 2005, having been first measured at 4.5% in 1999.

One hundred and seven graduates were recruited during the course of 2005 (2004: 85). The proportion of these graduates who are female was 23%, compared to 20% in 2004. The proportion of our graduate intake coming from ethnic minorities was 7% (2004: 13%).

Turnover and Absence

During 2005, voluntary employee turnover for UK businesses stood at 18% (2004: 19.5%). The absence rate was unchanged at 2.6%.

Whistleblowing

During the course of 2005, 14 cases were raised through the Group's whistleblowing process (2004: 6). The policy and process were reviewed and some improvements made. All the cases raised in 2005 have been dealt with.

Employee Surveys

Surveys of employee attitudes and opinions are now undertaken in many of our operating companies.

Investors in People

Twelve Balfour Beatty companies have achieved Investors in People status. All the remaining companies in the UK have programmes in place to secure IIP accreditation.

Communications

All employees receive a six-monthly magazine which covers in detail the latest financial results, news and trends from around the business including safety, health and environment topics and matters of general employee interest.

Each operating company operates comprehensive communication and consultation programmes with its own employees.

Pensioners

The main Balfour Beatty Pension Fund is funded at the 102% level under the most recent formal actuarial valuation in March 2004.

The extensive programme of meetings conducted by the company and the trustees of the Balfour Beatty Pension Fund following this valuation is a regular part of our pensioner communications programme, as is a twice-yearly magazine.

Shareholders

We run an active shareholder engagement programme involving regular roadshows and one-to-one meetings. During 2005, senior executives held 94 meetings with shareholders (2004: 105) holding, in aggregate, approximately two-thirds of the issued share capital.

Customers

A substantial and increasing proportion of the Group's business is carried out for customers with whom we have established, long-term relationships.

In addition to the code of practice and minimum standards for managing our relationships with customers across the Group, launched in 2005, many of our operating companies carry out regular customer attitude and opinion surveys.

Suppliers

Balfour Beatty operating companies are increasingly working principally through key relationship suppliers for their main materials and service sub-contracts. In so doing, the Group promotes good practice and ensures that there is alignment between its own behaviour and values and those of its key supplier base.

The Group has developed and implemented a 'Supply Chain Environmental Risk and Impact Grading Tool' which is being increasingly used to ensure that supplier environmental policy aligns with our own.

Government and Regulators

Over half of Balfour Beatty's work is undertaken for governments. We seek active and positive relationships with both our public sector customers and those departments and organisations which regulate the activities of our sector to ensure that our own policies and practices meet all their key requirements.

Stakeholder Communication

We continue to seek open dialogue with all of our key stakeholder groups.

The volume and scope of the enquiries and observations which we receive through the Group's website is increasing. Some 3,500 enquiries were received through this medium in 2005, an increase of about 40% on the previous year. All enquiries and observations receive a timely response.

A core principle of Balfour Beatty is “to contribute positively to the physical and social environments in which we operate”.

Helping to Tackle the Big Issues



Poverty

One in five of the world's population lives on less than one dollar per day. The engineering industry, when working in areas of extreme poverty, can change the way projects are designed and implemented to ensure the lives of poor people are permanently improved. **Engineers Against Poverty (EAP)** is a UK-based international development NGO which produces practical policies and innovative solutions to support the alleviation of world poverty. Since 2002, Balfour Beatty has been a principal supporter of EAP, donating £100,000 in cash and kind and providing

a trustee director to help shape and deliver its strategy, policy and programmes.

Balfour Beatty's work in Indonesia on a new 500kV, 300 kilometre electricity transmission line has been the inspiration for a social risk and opportunity evaluation model. EAP looked in detail at all aspects of the project and has produced a risk and opportunities toolkit to help companies maximise the positive social impact of their projects.

Corruption

Corruption damages the developed and developing world, creating projects which are potentially unnecessary, unreliable, dangerous and over-priced.

The **Anti-Corruption Forum** is an informal association working to eradicate corruption through all sectors of the construction industry, both domestically and internationally. Balfour Beatty is an active member of the Forum and a corporate supporter of **Transparency International (UK)**, the not-for-profit private company set up in 1993 to fight corruption.

Balfour Beatty has played a key role in helping Transparency International and the Anti-Corruption

Forum work with government to prepare the UK for the regulations which will implement the recently-launched EU Procurement Directive which is designed to eliminate bribery by enterprises in the European Union.

Disaster Relief

When the tsunami devastated large areas of Asian and African coastline and destroyed lives and communities, the public and private sectors in the Western economies gave generously to aid the relief and regeneration process.

Through its subsidiaries on the ground in Indonesia and Sri Lanka, Balfour Beatty was in a position to make a more proactive and focused response than most other organisations. Cash donations of over £100,000 were made directly and immediately to local aid organisations and Balfour Beatty management, technical skills and equipment were made available for deployment in the worst affected areas, most notably Banda Aceh in Indonesia.

Two young Balfour Beatty graduate engineers were seconded to work for the **Buddhist Foundation** in Banda Aceh, where they supervised the building of temporary accommodation and schools.

Supporting Good Causes

Marie Curie Cancer Care

In 2005, **Marie Curie Cancer Care** was chosen as Balfour Beatty's Charity of the Year.

During the year, the Group raised over £80,000 through a combination of employees' efforts and matched funding from the company. This equates to the funding of over 4,000 hours of nursing care.

Staff from all over the UK used their imagination and their enthusiasm to demonstrate their firm commitment to the cause. Activities included marathon running, a trek, a golf day, participation in the charity's Great Daffodil Appeal, taking part in the Fastnet sailing race and a zipwire challenge in Manchester.

A Field of Hope charity initiative to plant daffodil bulbs was also taken up in North Durham. The bulbs were sold at the hospital in November and planted in memory of a loved one affected by cancer. A new Woodland Walk has been created alongside the field, which will be opened when the bulbs begin flowering.

Building Better Lives

About two million people are employed in the UK construction sector, but strong underlying growth creates ever higher demand for qualified new entrants.

Balfour Beatty is a leading sponsor of a new initiative, **Building Better Lives**, led by the **Prince's Trust**, which is designed to help young people

from difficult backgrounds to gain confidence and get into the construction industry through the delivery of training and acquisition of skills. The pilot scheme was launched in London in April 2006.

Encouraging Donations

Employees

We have continued our partnership with Giving Together, a professional fundraising organisation, to raise awareness of payroll giving.

Shareholders

We continue to encourage shareholders with shares whose value makes their sale uneconomic to consider donating them to Share Gift, a charity share donation scheme.

Helping to Build Better Communities



Balfour Beatty's major projects are frequently in areas of multiple social deprivation or other locations where the company has a chance to make a positive difference.

Football Programmes in Stoke

Stoke-on-Trent, where Balfour Beatty, through its specialist education PFI company, Transform Schools, is responsible for the upgrade and maintenance of the city's 122 schools, is an area of multiple deprivation.

In 2003, Transform, in conjunction with **Sportsmatch**, introduced a football coaching programme for young people at risk of social exclusion and/or with behavioural issues. The funding has enabled work in up to five secondary schools at any one time, building groups of young people into a skilled, enthusiastic, reliable teams through weekly football coaching sessions. The programme reaches across year-groups and has both boys' and girls' teams.

Between 2006 and 2009 Balfour Beatty will be contributing a further £90,000. This commitment has unlocked £170,000 from the **Football Foundation** and a further £60,000 from **Sportsmatch**, which will enable the existing

programme to be extended into many other secondary schools and down into feeder primary schools.

Stoke Council sees this project as an important contributor to vandalism and truancy reduction, social inclusion and to the general improvement of the quality of life in the city.

Sport in the Orkneys

Balfour Beatty's association with the Orkney Islands goes back to the Second World War when we were commissioned to strengthen the Fleet's harbour defences at Scapa Flow.

In 2005, the 60th anniversary of the opening of the 'Churchill Barriers', Balfour Beatty's substantial donation was the key to allow work to begin on the creation of a sports pitch which will give a new home to a number of football, rugby and hockey clubs on the islands. The project will create a proper playing surface, a hard standing area for cars and changing facilities.

Improving Community Facilities



Balfour Beatty is working with, and funding projects by, **Groundwork** in a number of communities in which the Group has a long-term presence to improve physical amenities.

Groundwork is a federation of trusts which are partnerships between the public, private and voluntary sectors aimed at improving local

environments, the lives of local people and the success of local businesses in areas in need of investment and support.

A number of projects are currently under way – in Birmingham, where we are building the new Birmingham Hospital and schools PFI scheme; in Blackburn, where the new PFI hospital is nearing completion; and in Wakefield, where we are preferred bidder to build the new hospital.

At Weoley Castle, Birmingham, Groundwork is renovating a ruined medieval castle – the oldest building in Birmingham. Once complete, the site will provide a recreational resource for local people, a visitor attraction and a valuable educational resource for schools across the East Midlands.

Audley/Queens Park Green Corridor, Blackburn, is a site where a footpath route had become overgrown on under-used, derelict land, adjacent to the new Blackburn Hospital. Work has been

undertaken to provide a Green Corridor footpath and cycle route to link the Audley/Queens Park area to the new hospital complex. The renovated area will provide a new community/recreational facility including new sporting facilities, lighting, community and play facilities.

In the Queen Elizabeth Park Improvements, in Wakefield, a disused playing area formerly servicing an estate of 1,700 homes, characterised by high unemployment, child poverty, overcrowded households and single-parent families, is being renovated.

The project involves the provision of new play equipment, safety surfacing, fencing and landscaping and will involve local children, young people and their parents.

Once completed, the site will be used by Sure Start and the Neighbourhood Nursery and will be fully open to the public.



Balfour Beatty engaged Sd3 to carry out an independent assurance of the hard-copy version of its Safety, Environment and Social Report 2005, specifically covering the accuracy of data, data collection systems and procedures. The assurance covered UK environment data, global safety, health and social data for the 2005 calendar year. In addition, Sd3 has assured the written and visual interpretation of this data. The assurance did not cover the materiality of the issues reported on, or the appropriateness of the metrics chosen. Case study information was not covered. The assurance was carried out in line with Sd3's Assurance Code of Conduct*.

Information provided in the report was checked through site visits, telephone interviews and e-mail correspondence. Sd3 reviewed data outputs from the Group's web-based data management systems and the processes for checking and manipulating this data. Based on this review, Sd3 selected sample data sets and operating companies for further investigation. For the sample data sets Sd3 checked reported safety, health and environmental data back to the responsible party at the operating company along with the recording processes. Four operating companies were sampled in greater depth for environmental, health and safety data. Social data was checked down to operating company level via a site visit to the Group headquarters.

In our investigations Sd3 found environmental information was fairly reported and assertions made on this basis were sound. Sd3 welcomes Balfour Beatty's investment in Enablon, a web-based environmental data management system as this was found to streamline environmental performance data entry with a resulting

improvement in consistency and centralised data tracking. The introduction of Enablon over a relatively short period of time was not without challenges and staff competency in the system was not always uniform. Further training has been promised in this area which we expect to bring rewards in terms of reporting and environmental management during the coming period. We were pleased to find Balfour Beatty had revisited internal reporting guidelines, however we feel the move to a web-based system emphasises the further need for clear guidance on information handling prior to system input.

In general we found the company's safety reporting processes to be consistent across the Group, with UK accident figures being similar to, or better than, the relevant UK national statistics. The continuing reducing trend for accident frequency rates and other data is also noted. With the full switch for operating companies to the Tr@ction incident reporting system for the 2005 year, improved consistency in accident data reporting and recording has been achieved. There still remain some issues for some operating companies in completing reports in a consistent and timely manner, which should be resolved as employees become fully familiar with the new Tr@ction system. The consistency of accident and incident data reporting and recording by joint venture businesses, which are currently outside of the Tr@ction system, remains a concern.

We commend several initiatives across the Group, such as those addressing public risk, behavioural safety, hand/arm vibrations and lifting operations, which are examples of best practice and which should have a positive effect on the accident statistics. However, we consider that fleet driver safety is an area needing attention. In this regard,

some training initiatives are in place in some companies and we hope the recent formation of a group-wide Driving Safety Working Group will increase emphasis on this issue.

Occupational health data were not recorded to a sufficiently consistent standard across the Group, to allow data assurance to be given. Some occupational health data are recorded consistently as part of the Tr@ction system, whilst other data are recorded less consistently as part of the human resources function. We recommend that increased focus be provided to achieve improved reporting consistency of occupational health data.

We were pleased to see the scope of information reported in the social section has increased and find the data checked to be accurate. As Balfour Beatty moves to disclose more stakeholder related information we would recommend that the links between this section and issues such as governance and occupational health are strengthened to better reflect the company's overall performance.

*see www.sd3.co.uk/assurecode.html

Ian Buckland, Sd3 Ltd 2006

Jason Perks, Sd3 Ltd 2006

Feedback

We are committed to improving our reporting and meeting the needs of all stakeholders. We welcome feedback on all aspects of this printed report and our corporate responsibility website.



To give us feedback, go to www.balfourbeatty.co.uk/bbeatty/csr/feedback



or if you prefer, write to:
Corporate Communications, Balfour Beatty plc
130 Wilton Road, London SW1V 1LQ, UK
Telephone: +44 (0)20 7216 6800
Facsimile: +44 (0)20 7216 6950

We look forward to hearing from you.

Our Businesses

Building, Building Management and Services



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

Companies
Balfour Beatty Construction
Balfour Kilpatrick
Haden Building Management
Haden Young
Heery International
Mansell

Specialist areas
 Design
 Construction
 Construction and Programme Management
 Electrical Engineering
 Mechanical Engineering
 Building and Facilities Management
 Refurbishment and Fit-out
 Social Housing

Civil and Specialist Engineering and Services



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

Companies
Balfour Beatty Civil Engineering
Balfour Beatty Construction Inc
Balfour Beatty Management
Balfour Beatty Power Networks
Balfour Beatty Utilities
RCS
Stent Foundations
Gammon (50%)
Balfour Beatty Sakti (49%)
Dutco Balfour Beatty (49%)
Devonport Management (24.5%)

Specialist areas
 Design
 Construction
 Project Management
 Foundations, Strengthening, Testing
 Civil Engineering
 Transmission Lines
 Road Management and Maintenance
 Utility Upgrade and Maintenance
 Professional Services

Rail Engineering and Services



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

Companies
Balfour Beatty Rail
 – Infrastructure Services
 – Projects
 – Power Systems
 – Track Systems
 – Plant
 – Technologies
Balfour Beatty Rail Inc

Specialist areas
 Design
 Construction
 Project Management
 Maintenance
 Track Renewals
 Specialist Plant, Products and Systems
 Electrification and Power Supplies
 Signalling


Investments and Developments



Balfour Beatty promotes and invests in privately funded infrastructure projects and developments in selected sectors.

Companies
Balfour Beatty Capital
 – Aberdeen Environmental Services
 – Connect Roads
 – Consort Healthcare
 – Health Management (UCLH)
 – Metronet
 – Powerlink
 – Transform Schools
Balfour Beatty Property
Barking Power (25.5%)

Specialist areas
 Roads
 Rail
 Accommodation – Healthcare, Education
 Water
 Integrated Transport
 Power Systems
 Property



This report is printed on uncoated paper, produced from pulp containing a minimum of 75% de-inked post-consumer recycled fibres. The remaining 25% is derived from Totally Chlorine Free and Elemental Chlorine Free pulp from sustainable forests. The mill operates under strict environmental standards and any water used is suitably treated and returned to source in better condition than when removed. The mill has ISO 9002 and ISO 14001 accreditation.



www.balfourbeatty.co.uk/bbeatty/responsibility

Balfour Beatty is a registered trade mark of Balfour Beatty plc.
Designed, written and produced by Fishburn Hedges, London.
Printed in England by Beacon Press.