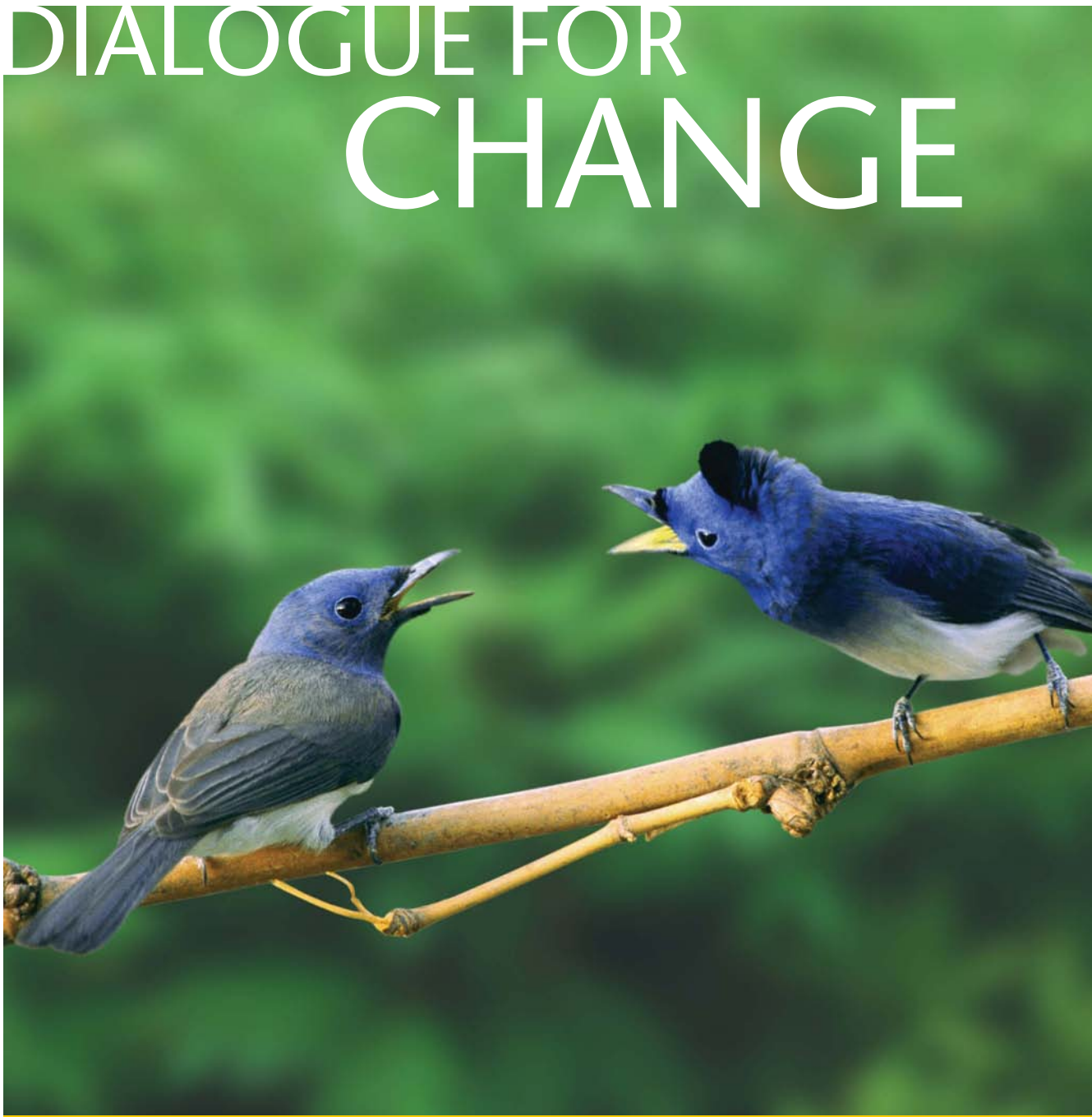
Gammon

Sustainability Report 2006

DIALOGUE FOR CHANGE



Contents

About this Report

We have used the Global Reporting Initiative (GRI) Guidelines 2002 only as a broad framework for certain sections and performance indicators. In parallel, we have also prepared this Report giving due consideration to BS8900: Guidance for Managing Sustainable Development (2006).

VERIFICATION STATEMENT

The Business Environment Council (BEC) was commissioned by Gammon Construction Limited (Gammon) to provide a verification statement for its 2006 Sustainability Report, "Dialogue for Change" (the Report). BEC conducted sample checks of the data, claims and case studies in the Report through document and data review and interviews with responsible personnel. Our findings are set out as below.

Completeness of the Report Scope

"Dialogue for Change" provides a comprehensive account of Gammon's sustainability commitments and performance in relation to its core business activities and locations for the reporting period. The Report covers Gammon's "Quadruple Bottom Line" approach to sustainability in working with business partners and the wider community to address health and safety, social, environmental and economic considerations. The Report also highlights Gammon's leadership in promoting change within the construction industry to move towards a more sustainable future.

Adequacy of Data

The relevance and clarity of the Report's presentation of economic and business, social, health and safety, and environmental performance are considered adequate for a broad audience of readers. The selected case studies provide a representative overview of Gammon's sustainability challenges across different business operations and locations, and the responses that the Company has made to these. BEC considers the indicators in the Report a sound basis for performance benchmarking in the construction industry that can continue to evolve as industry benchmarking becomes more widespread.

Accuracy of Data

BEC is satisfied that the content presented in this Report is consistent with the documents and data reviewed and interviews conducted during the verification process. Nothing has come to our attention that causes us to believe the Report contains or communicates any significant errors or interpretations that cannot be supported by existing strategies, documentation or procedures at Gammon. Recommendations to clarify minor ambiguities identified during verification have been incorporated into this Report to BEC's satisfaction. Existing data and information management systems are considered both effective and reliable.

Opinion

BEC considers this Report an accurate and reliable presentation of Gammon's initiatives and achievements towards corporate sustainability in 2006.

Kevin Edmunds
Chief Operating Officer
Business Environment Council

BUSINESS ENVIRONMENT COUNCIL 商界環保協會

CHIEF EXECUTIVE'S STATEMENT

As the industry responsible for the design and construction of our society's built environment, we are increasingly accountable for both what and how we deliver. At Gammon, we see this as an opportunity for industry to change.

The 2006 year marks our fourth successive year of sustainability reporting. We report as part of our leadership and corporate social responsibility commitment and to demonstrate that sustainability makes good business sense both to us, as an individual company, and to the wider industry. In addition to informing stakeholders on our progress for the year, this Report aids us in reviewing our internal management processes and serves as an internal benchmark and peer driver for targeted improvement.

With this Report, we are deviating from our previous reporting structure and taking a bold step forward to invite dialogue amongst our colleagues and broader industry stakeholders to examine current practices with the view to encourage change at the macro-industry level. We start this Report with our Executive Committee discussing our industry's progress in critical areas of reform and the need for action. The departure point for this dialogue refers to published industry reform papers such as the **Construct for Excellence** report in Hong Kong and **Construct 21** in Singapore. Our objective is to foster leadership where it is lacking and to engender the will to move forward together to champion rather than impede our industry's and, by extension, our society's sustainability.

As I mentioned in our 2005 report, the construction industry is increasingly answerable to society for its contribution to our collective sustainable future. As well as aspiring to act as a catalyst for change and offer a platform for dialogue to encourage reform, our 2006 Report demonstrates how we link business performance objectives under a balanced scorecard approach to our Quadruple Bottom Line in sustainability (economics, social, environment and, health and safety). This provides the background understanding in how key drivers to our business such as safety, risk, innovation and supply chain galvanise corporate strategy into action. Each is addressed in detail within this Report, supported by performance indicators and, where applicable, illustrated through relevant Gammon projects. With our performance presentation, we also revisit key themes raised by the Executive Committee through commentaries on sustainable best practices. These are indicated as "***Dialogue***" within the text.

Of significant interest for the year has been our improved safety performance. Through our Step Change in Safety programme we have achieved our lowest ever accident incident rate and no fatalities on sites. Other initiatives, building on previously established systems for risk management and environmental performance, now allow us to assess our footprint and take timely action to prevent or mitigate potential problem areas. The added outcome is the ability to act on value opportunity for customers and projects. Various programmes and pilot studies undertaken with our supply chain are advancing our ability to control our direct and indirect impacts and again, leverage value into our work.

Our purpose is to demonstrate that sustainable best practice drives value and offers viable alternatives to the traditional market practices that increasingly counter sustainable development.

Yours sincerely,

Thomas Ho
Chief Executive
Gammon Construction Limited
March 2007

DIALOGUE
WITH THE EXECUTIVE COMMITTEE

The traditional practices of the construction industry worldwide have consistently resulted in poor quality and performance, allied to a confrontational culture. In the markets where we operate, this position on the whole has been no different. In response to the state of the industry, the **Construct for Excellence** report (more commonly known as the **Tang Report**) was released in 2001 as a way forward for the construction industry of Hong Kong. In Singapore, a similar report, **Construct 21**, was released in 1999. Both reports strike at the heart of an industry in crisis, addressing the shortcomings and practices that are leading the construction industry towards failure rather than being a champion of the sustainable development movement. These reports put forward suggested changes within industry and a timetable for implementation. To date there has been a significant groundswell of opinion within the industry that considers progress to have been limited.

The following dialogue addresses selected issues discussed in these reports that our Executive Committee views as necessary for review and offers viable recommendations for industry reform based on current developments around the world.

Q: *"The **Tang Report** cites recommendations to engender a quality culture, professionalism, the pursuit of value in procurement, excellence in safety and environmental performance, and, an overall innovative and productive industry. A similar message is portrayed in **Construct 21**. These are issues familiar to Gammon's business culture. What is your experience in practising these recommendations and what changes are necessary to make them mainstream?"*

To reverse accepted practices and bring these recommendations into the mainstream, change involves all levels of industry. We test our sustainable business culture on a daily basis and find that these very recommendations can and do make us non-competitive in today's market. Government as both customer and regulator needs to act more decisively and consistently. Regulate, but more importantly, create the incentives for best practice. And, when electing punishment, it must be immediate and punitive enough to deter future repetition. Customers, both private and public sector, must develop awareness of a project's lifecycle process and be accountable for the long-term negative industry impacts they are creating through the lowest price mentality which gives rise to the current adversarial atmosphere.

Q: *"Is legislation the answer to implement these changes?"*

Whilst legislation and enforcement have their place in our industry, we are not necessarily seeking enforced change. We are promoting change as a win-win scenario due to the benefits and value it can generate. We would encourage the creation of an industry environment which drives quality and opportunity by looking at the longer-term value, and not price alone. Incentivising and rewarding best practice will help drive forward continuous improvement and ultimately a more sustainable and responsible industry.

We cannot expect high quality whilst demanding lowest cost nor can we achieve world-class safety standards under the contractual obligations of compressed work programmes. Partnerships are at best difficult on projects experiencing the often drawn out mediation and arbitration procedures. Customers and project proponents must therefore bear a share of the responsibility for change.

Q: *"Better procurement practices are put forward in the reports as one of the key drivers to reforming the industry. What is Gammon's view on this?"*

Change to the procurement process is perhaps the most viable of the suggested reforms that can be implemented immediately with minimal effort. We say this as it was proven to be effective in changing the UK industry following the release of similar themed reports (the Egan and Latham Reports). Today in the UK, it is an accepted practice to have early inclusion of project participants in the procurement process.

Executed properly, creative procurement in the form of design and build, PPP or other similar contract types, delivers value while minimising risks, induces the quality culture, engenders project lifecycle management and promotes environmental best practice. Examples of these can be seen in the PPP contracts used internationally and now evolving in Singapore and mainland China. We have hopes that Hong Kong will follow suit in this respect.

Procurement also requires partnering within a project. Experience has taught us that partnering enhances the delivery process, decreases the all-too-common adversarial attitudes and, of major importance to the financial strategy, helps to reduce disputes and costly claims management. As an example, partnering is embedded in our preferred subcontractors and suppliers system, through which we are beginning to see positive and encouraging results.

Q: *"The **Tang Report** maintains that safety is a shared responsibility amongst regulator, employers and employees. It adds that while a sufficient statutory environment exists for site safety, the fault lies with enforcement by appropriate authorities. It also suggests that major public and private sector clients need to drive improvements in safety performance. Do you agree with these as the way forward?"*

Safety starts with the individual, not the regulation. First and foremost, management at levels and then workers need to have an ingrained safety culture across the industry. This is about a formalised on-site hierarchy of safety management that involves the main contractors and all subcontractors on site. Last year Gammon established the Step Change in Safety programme to tackle this very problem. We find that where there is awareness there is better behaviour.

Rather than using the regulatory stick as the primary motivator, we tend to look at prevention as the way forward. Training is strategic to the safety strategy and leads to a more professional staff and workforce. Gammon's Workers Registration Centres have helped, but more needs to be done in terms of public courses and industry associations' participation in training. There must be also a quality control element for effectiveness.

As a business incentive, a scheme akin to the UK's Five Star Health & Safety Audit, which rewards good performance through insurance savings, would be a welcome influence to promote better practices. We also advocate that the procurement process lends itself as a powerful tool in how safety is managed on site and brings the customer into the picture, as suggested by the **Tang Report**.

As a company, we acknowledge we have a long way to go in our pursuit of the safe workplace. Regrettably, the safety record within the wider regional industry, whilst showing improvement, still does not make good reading. For example, Hong Kong's average industry incident rate is approximately six times higher than comparable statistics for the UK and Singapore. As much as we do as an individual contractor on sites, our influence is limited, and it will take more effort on the part of project owners and the Government to spur this complacency into action.

Q: "The Tang and Construct 21 reports heavily emphasise the need for a professional workforce. How might this come about?"

Gammon holds by its sustainability tenet that employees are productive and perform when they are treated well and know there is a pay cheque on time. This brings to the fore the issue of minimum wage and non-payment of wages. Managing these serves to lower project risks and reduce the risks to our own business viability. Gammon works across the region and holds to compliance with the minimum wage guidelines set out by the relevant regulatory bodies. A component of our KPIs for preferred subcontractors involves this issue.

Ensuring prompt payments down the supply chain to suppliers and subcontractors is also an important issue. Regrettably, it is frequently the main contractors who receive the bad press when non-payments occur, despite having fulfilled obligations, whilst the culprit time and again restarts business under a new name elsewhere. Main contractors frequently get treated as bankers of last resort even after having paid the supply chain. Unfortunately, we often see little regulatory action to pursue the defaulting payers. Such practices need to change if we are going to attract talent and survive as an industry.

Q: "So where does industry go from here to bring about the reforms you support?"

Rather than be reactive, we should be proactive in fostering change. The key is engagement and leadership from all who claim leadership positions. With this, there should no longer be the fear of change but the will to embrace practices that are already demonstrating the benefits that industrial reforms can bring. However, this requires a leap in collective leadership from governments, industry stakeholders and individual companies. In Singapore, we should build on the recent promotion of PPP contracts and price-quality tender-scoring mechanisms to demonstrate the value these generate to customers and the wider industry stakeholders. In Hong Kong, the ideal opportunity now exists through the newly formed Construction Industry Council (CIC) to respond to the challenges in need of industry action.

Leading through quality for 50 years, we remain committed to growing with and serving the region through a constant search for excellence in all we do.

Gammon's Services and Operations

Gammon Construction Limited is a leading construction and engineering services group operating in South East Asia. We are equally owned by Jardine Matheson and Balfour Beatty, both of which actively contribute their expertise and experience to support our vision of being the industry's leading services provider and partner of choice. We have established and grown our reputation through our in-depth knowledge of the local markets leveraged by the application of international best practice to the projects and activities we undertake.

In 2007, Gammon celebrates 50 years of business in Hong Kong. From our beginnings in building a new runway for Hong Kong's former Kai Tak Airport through to our regional presence today, we approach each project with the same principles of integrity and quality.

Map of business locations

Gammon Group Operations

Gammon

During 2006, Gammon operated through registered companies and joint ventures in Hong Kong, Singapore, Macau and mainland China. Under the Gammon brand, our internal Construction Services Division operates in Hong Kong, Macau and mainland China.

Business Nature: civil, foundations, building and maintenance services, and support services covering plant & equipment, concrete technology and steel fabrication

LAMBETH

Lambeth operates from offices in Hong Kong, Singapore and Shenzhen in mainland China.

Business Nature: engineering design services and material technology

Balfour Beatty
Balfour Beatty E&M Limited

Provision of services during 2006 in Hong Kong and Macau

Business Nature: electrical & mechanical contracting services

ENTASIS

Provision of services during 2006 in Hong Kong and Macau

Business Nature: interior specialists providing contracting and project management services, along with selected quality interior construction products

Gammon Capital

Established in 2006 in Singapore and Hong Kong

Business Nature: specialist Public-Private Partnership business

Our services cover design, management and construction services in building, civil engineering, foundations, electrical and mechanical, infrastructure maintenance and operation and, interiors refurbishments and fit out. To support our services, we own and maintain a comprehensive range of heavy construction plant and equipment in Hong Kong, a concrete batching business (operating from batching plants in Hong Kong and Macau) and a steel fabrication business provided from the Gammon Technology Park in Hong Kong and our Pristine Works factory in Dongguan in mainland China.

Governance

Although privately owned, Gammon works within a structure of corporate governance that reflects organisational transparency, integrity and accountability. Governance is vested in the Board of Directors and chaired by a Non-executive Director (a shareholder representative). The Board sets the strategies and policies that govern corporate management, financial performance and risk management. The Executive Committee (ExCo), comprising six Executive Directors, is responsible for the implementation of these strategies and policies, and the day-to-day management of the Group's businesses. The Committee reports directly to the Board and is accountable to the shareholders for performance. All members of the Committee are full-time employees of the Group or are exclusively seconded on a full-time basis. Each Executive Director holds specific responsibilities within the Group's operations with clear delineation of portfolio.

Gammon's Quadruple Bottom Line

Gammon has an established Risk and Compliance Committee to strengthen management structure. Chaired by a shareholders' representative, the Committee reviews in greater detail the Group's financial controls (including receiving reports from external and internal auditors), legal compliance, health, safety and environmental compliance, insurance status, risk management, business continuity planning, information management systems and human resources matters.

Code of Conduct

Gammon's updated Code of Conduct has been approved by our shareholders and is due for release in 2007. It has been developed from the business principles and frameworks of our two shareholders' own codes, the Hong Kong Independent Commission Against Corruption sample Code of Conduct and the United Nations Global Compact's ten principles covering human rights, labour standards, the environment and anti-corruption.

Sustainability at Gammon

We define sustainability as the pursuit of our long-term economic and business goals in an environmentally and socially responsible manner. This definition aligns to the guidelines set out under the universally recognised 1987 World Commission of Environment and Development (WCED).

In pursuit of our sustainability journey and with respect to the nature of the construction industry, we operate under the accepted triple bottom line captured in the WCED guidelines, with the addition of health and safety, thus forming our unique Quadruple Bottom Line. Risk to life and livelihood is an inherent factor within the construction industry and therefore necessitates and justifies health and safety becoming this fourth component in our sustainability framework.

In an industry that traditionally fails to embrace best practices in sustainability and often, in the short-term, can penalise best practice to the point of non-competitiveness, we choose to adhere to the driving principles of integrity, inclusivity, stewardship and transparency underlining our sustainable development journey.
In doing so, we build the long-term strategy of Gammon's identity and reputation as the partner of choice. Translating this to our Quadruple Bottom Line is about fostering a quality culture and professional workforce, taking responsibility for building and managing our supply chain and, implementing operating processes that are risk aware, efficient, innovative and productive whilst operating in accordance with the best in safety and environmental performance standards. These principles directly reflect our established core values. In practice, this concerns the application of value engineering for risk control, innovation for differentiation and quality of workmanship, in order to deliver beyond customer expectations. As discussed in the introduction to this Report, we see our sustainability commitment as a leadership position to lobby for and advocate industry reform. Whilst as a company we can endeavour to positively change our own ways, it is only through collective action by all stakeholders including governments, customers and subcontract partners that our industry and the wider community will reap the benefits of a sustainable future.

Gammon's Core Values

The business strategy of managing risk and working with opportunity through our balanced scorecard approach consistently delivers on Gammon's business model to promote long-term value for our customers.

Balanced Scorecard

Gammon uses the balanced scorecard approach to guide corporate strategy and set the annual targets for the Group's performance. Whilst the scorecard incorporates financial performance and cost leadership, it also serves to promote the core principles of sustainability reflecting our commitment to the Gammon Quadruple Bottom Line.

In developing, guiding and communicating corporate strategy, the balanced scorecard ensures that our core drivers, which for 2006 included safety, risk, innovation and supply chain management, become key performance areas for all business units. Business, function-specific and project manager scorecards incorporate and cascade down these key drivers through operations intentionally bringing accountability to the front lines. Employee remuneration and bonuses are by design linked to balance scorecard performance.

ECONOMIC AND BUSINESS

Gammon's Balance Scorecard for 2006

Financial
- ✓ Achieve net profit
- ✓ Control corporate overheads to meet budget
- ✓ Achieve claims

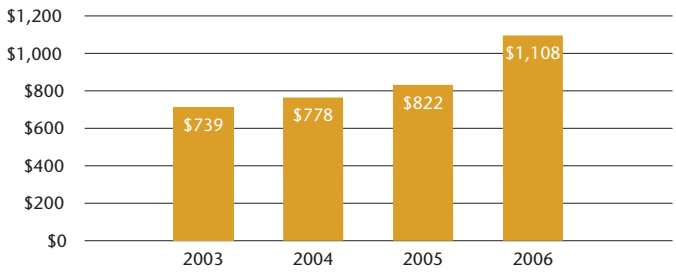
Customers and Markets
- ✓́ Increase customer satisfaction in private sector
- ✓ Issue Sustainability Report
- ✓ Build capabilities for recurring and life-cycle earnings opportunities

Internal Business Processes
- ✓ Meet HSE objectives and targets
- ✓ Implement standard risk management in all projects
- ✓ Implement supply chain management preferred and strategic partners
- ✓ Optimise material procurement through China sourcing

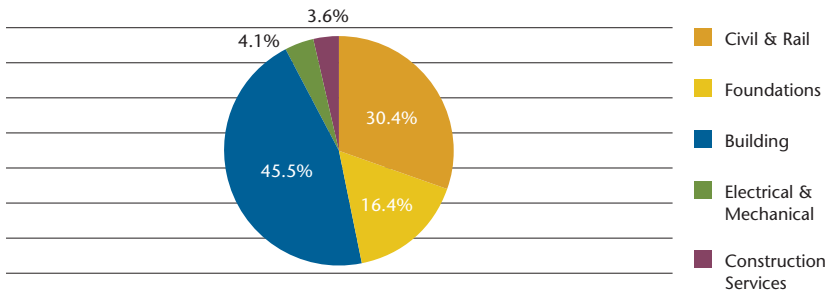
People and Future Growth
- ✓́ Improve internal staff morale and engagement
- ✓ Structured succession planning for senior management
- ✓́ Demonstrate through staff survey an increase in innovative culture
- ✗ Firmly establish rail unit

✓ = achieved ✓́ = substantially achieved ✗ = not achieved

Group Turnover for 2006 (US$ millions)



Group Turnover by Discipline for 2006



Financial Performance

The strong performance from across the Group's businesses during 2006 delivered above our financial targets, ensuring a good return to our shareholders and providing an excellent springboard for our various business plans for 2007. Performance was achieved through a substantial order book secured across our disciplines during the year and the successful conclusion to outstanding claims and older contracts.

Disputes Resolution

"Due to the complex nature of construction, the resolution of disputes can be prohibitively expensive and time consuming for the parties involved. Disputes can and do impact the financial bottom line through cash flow and budget uncertainties, and can ultimately harm business viability for all companies across the procurement process. Disputes, and the poor handling thereof, invariably cost society and end-users more money.

Gammon advocates reform in the management of disputes, such as through resolution mechanisms for use during the contract period, as opposed to arbitration, which comes only at contract completion. The absence of more progressive forms of resolution, we believe, is contributing to the confrontational nature of the industry and therefore stifling partnering, innovation and corporate profitability. Despite proven successes gained through the use of mechanisms such as contract dispute resolution advisors and interim mediation clauses in the UK, Singapore and elsewhere, little progress has been made in Hong Kong in this direction."

Risk and Opportunities Management

We see our commitment to sustainability being naturally aligned with our approach to implementing a comprehensive and robust risk management framework. The year 2006 marked the first full year of operation for the Group's formalised risk management system, which forms part of our long-term business sustainability strategy.

Selected Corporate Risks

Identified Risks	Mitigation and Response
• Over-reliance on Hong Kong market	• Develop new territories and products
• Loss of competitiveness due to high overhead	• Simplify business structure, improve process efficiency, exit low value activities
• Failure of specialist subcontractors	• Tighten up subcontractor selection and develop partnerships
• Disastrous construction accidents	• Implement Step Change in Safety programme
• Major environmental or public health incident	• Each project to have environmental plans and audit schedule

Risk awareness has improved under this system with significant steps taken in establishing a clear governance structure and accountability within projects. An important objective of these measures is to create an effective risk management process that directly involves the project site workers.

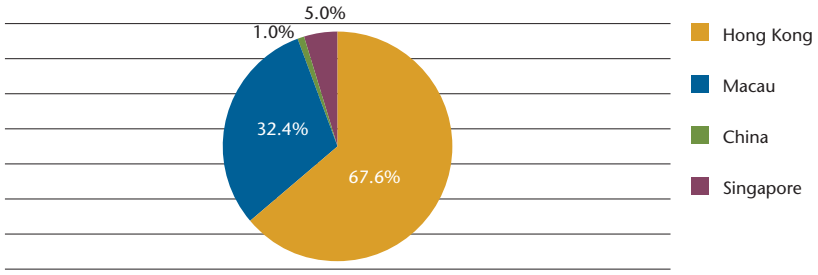
An outcome of this process is the opportunity to identify potential areas within a project that leverage value. By working smarter with risk, we can re-engineer processes or enhance safety designs and incorporate a range of opportunities such as better procurement practices, higher levels of quality and lowering costs by containing adverse social and environmental impacts.

Corporate Risk Management

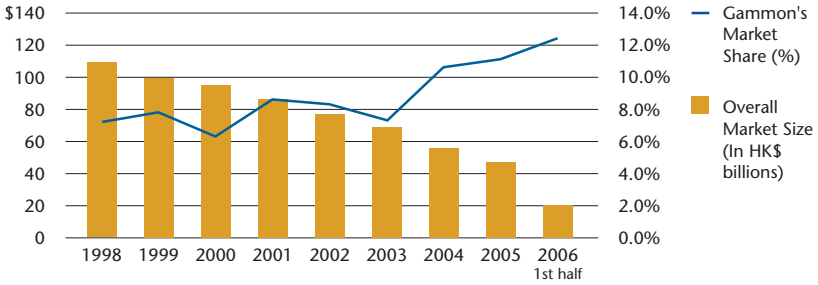
In addition to systematically addressing project-level risks, during the year we progressed with the establishment of a live corporate risk register. This register captures the risk exposure at the strategic level of our goals and operations and those which exert significant influence on our business viability. Seventeen primary risks have been consolidated through company consultation and consensus. The above table gives examples of these risks and the mitigations we have put in place. These continue as focus areas of management attention and are discussed further in subsequent chapters.

Gammon's market position and competitiveness have been identified as strategic business risks. In our traditional and principal market of Hong Kong, we have seen a substantial and continuous decrease in the market size, which whilst increasing our actual percentage in market share, may actually present an unsustainable business position in the longer-term. During 2006, we took measures to re-position ourselves to pursue wider regional opportunities in the Singapore and Macau markets as well as new business opportunities such as Private-Public Partnership (PPP) projects. The contract format and long-term nature of these types of projects offer a significant chance to promote and implement sustainable best practice into construction and property management. Gammon Capital was established in 2006 as the vehicle for participation in PPP projects in the Asia region.

Turnover by Location for 2006



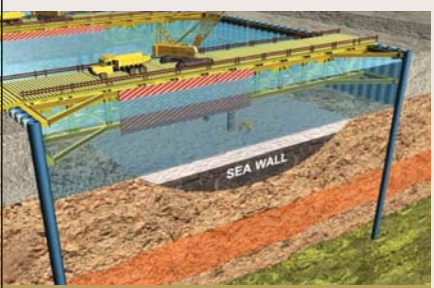
Hong Kong Construction Market



Note: Information from Report on the Quarterly Survey of Construction Output issued by Census and Statistics Department, HKSAR Government

Innovative Solutions

To house the extensive ventilation fan systems at the Eagle's Nest Tunnel project in Hong Kong, approximately 15,000 m^2 of mild steel ductwork is required. The original project requirements demanded continuous welding and full painting of the steelwork, despite the cramped and confined tunnel environment. The BBE&M team, who are subcontracted for the electrical and mechanical items on the project, proposed an innovative engineering solution that modularises the steel ductwork so that it can be folded into shape, thus eliminating the need for on-site welding. Pre-galvanising of the steel modules was also proposed to eliminate the need for painting. This innovative approach generated real value to the project through programme, cost and safety improvements.



Differentiation through Innovation

In late 2006, Gammon and Lambeth won the contract for the removal of a tract of buried seawall at Marina Bay in Singapore based upon an innovative construction proposal that clearly demonstrated value to both the project and customer. Our previous experience of the Marina Bay area, including an understanding of the complex soil behaviour, enabled us to offer an alternative engineering solution. This featured prefabricated modular trusses and underwater working, utilising specialist machinery from our Hong Kong operations. This robust design and construct solution ensured we were able to win the project through our technical proposals as opposed to cost alone.

In mainland China, we still encounter resistance, licensing issues and unsustainable pricing strategies, which restrict contracting opportunities. In order to break down these barriers to entry to the mainland China construction market, further support is needed from the Hong Kong Government to support a level playing field. Whilst we still see a longer term future in this market, at present our strengths lie in developing materials and supply resources, supported by a strong supply chain programme that assures quality and integrity of supply.

Platform for Innovation

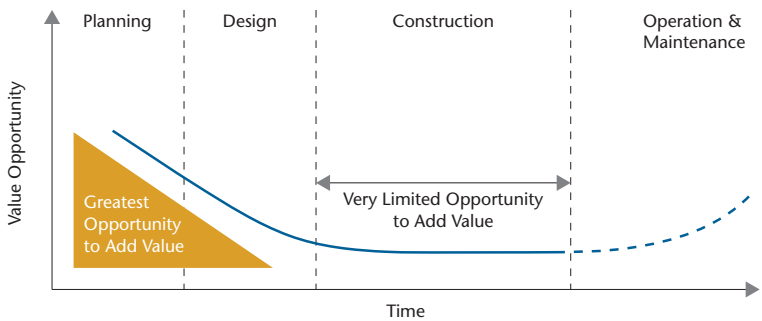
Proactive innovation is a cornerstone of our business. Aided by our global reach through Balfour Beatty, we stay well informed of new product development and the potential applications to our regional operations. With external collaboration and through our own Centres for Innovation and Technical Excellence (CITE), which are embedded in each of our business disciplines, we foster the pursuit of innovation, whether refinement and improvement of existing practices or the development of new products and processes.

Front line management is where innovation proves its worth. Gammon nurtures a culture of thinking creatively with technologies and processes, thus enhancing the means and methods to work smarter and more efficiently. In addition to the work fostered under the CITE, we reward staff through our biannual innovation competition and include innovation targets within the balanced scorecard. Our annual staff survey on innovation shows the understanding of and supports the need for innovation; however, the survey results indicate that we are not proving as successful in the development and application of ideas. We have therefore prioritised a programme in 2007 to encourage innovation to flourish by establishing innovation champions within middle management.

Encouraging Innovation

"Involving contractors and suppliers at earlier stages of a project significantly contributes to the design and planning process so as to better control costs and risks, and ultimately, to provide a platform for innovation. Current forms of tender often discourage alternative proposals, thereby stifling innovation and ultimately the pursuit of a more sustainable solution. We therefore encourage a tendering process that allows time to develop and explore opportunities, promotes appropriate alternatives and ultimately, rewards innovation."

Procurement and Value



The engagement of our main stakeholders – customers, community, employees and supply chain partners provides the springboard of opportunity from which to integrate the principles of sustainability.

Stakeholders

Our success as a business and our commitment to sustainable development are directly related to our ability to meet and respond to stakeholder expectations.
Our customers (and in many cases our customers' customers), employees, supply chain and the wider community represent the key stakeholders to our business. Continuously engaging with these groups and actively working with their interests in mind are essential management approaches used to develop our strategy as a preferred partner and employer of choice.

Customers

In our strategic vision for 2010, we position ourselves to be customer focused with a strong sales and business development culture and to be the preferred service provider in all our business areas.
This requires an ongoing programme that actively engages customer interests when developing services. Efforts are in place to be more adept at services by means of enhanced internal business processes and by working with customer interests to creatively

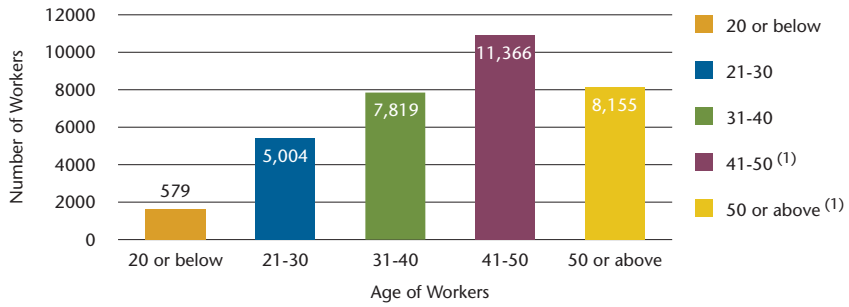
SOCIAL RESPONSIBILITY

structure project delivery in a manner that minimises risk, offers opportunity and adds value. We believe these operational changes in work culture will align us more closely with sustainable best practice.

Partnering

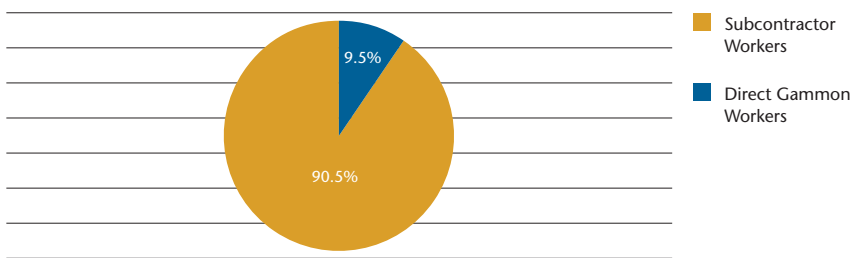
> *"Partnering with customers is a key component of delivering on our strategic vision. It involves a long-term commitment based on trust that promotes a shared culture, common goals, respect and the objective to maximise effectiveness of joint resources. Alternative contract models such as the New Engineering Contract (NEC) and the Guaranteed Maximum Price (GMP) offer the potential of such benefits and through proven examples have effectively lowered overall costs, improved programme certainties, increased productivity and reduced disputes. Despite such evident success, the local industry has been slow to engage in these practices and continues to fail in capturing the opportunity it preaches as best practice."*

Demographics of Workers Passing through Gammon's Worker Registration Centres (based on 32,923 workers)



(1) Combined age groups represent 59.3% of workers.

Attendees at Gammon's Worker Registration Centres



Note: Based on 36,800 workers passing through centres (as of 31 Dec 2006)

Workforce

In an industry notorious for its employment volatility and its often poor image, attracting and maintaining key staff is an important corporate goal and risk mitigation strategy. Several years ago we acknowledged the need to encourage and develop new talent for the industry. We now provide annual Gammon University Fellowships (awarding 28 in Hong Kong and five in mainland China during 2006), industrial attachments in Singapore (similar to the Fellowships, with two given in 2006) and scholarships at several leading Chinese universities (84 in 2006). We back this up by ensuring that continuous development and training opportunities exist for all staff levels including apprenticeships (20 technical and seven craft apprentices underwent training in 2006), graduate training (57 in 2006) and senior management training, which is facilitated by our shareholder, Jardine Matheson.

Industry Succession

> *"Whilst taking steps as a company, there is also a need for the wider industry to respond to human resources risks. Data from Hong Kong's tertiary education system suggests that approximately 30% of engineering students seek careers in other industries upon graduation whilst the demographic statistics from approximately 33,000 workers who have passed through our own Worker Registration Centres show that nearly 60% are over the age of 40.*
>
> *The current price-driven and confrontational culture that abounds in the industry is a deterrent to entry. This culture lowers the financial and intellectual rewards on offer, and creates a stressful and unattractive career option for young people. We need to collectively redress this imbalance. Only through broad reform in addressing the problems and image of construction will the industry be assured of the professional leadership and workforce required for future growth."*

Our continuous training agenda for professionals increasingly includes our sub-contractors. Mentoring and skills improvement programmes on site, and management training through the Gammon Academy, help foster the ethos for best practice. In core risk areas of operations

such as safety, all staff, including sub-contracted site workers, undergo mandatory training at Gammon's Workers Registration Centres. Through education and training, we create a uniform work culture and effectively develop as a sustainable business and ultimately, as an industry.

During 2006, we further responded to current workforce challenges through the development of comprehensive succession planning. By moving employees out of the comfort zone of work, we seek to encourage multi-tasking, broader project responsibilities and regional mobility, both recharging workforce competencies and enhancing productivity. The plan is designed to be an avenue for individual career advancement throughout Gammon and an incentive for high performers to advance within the management hierarchy.

Community

At Gammon, we consider society as our ultimate customer and beneficiary of our services. However, how we manage and engage the community reflects on the specifics and evolution of our business practices. In the first instance, we must ensure we minimise impacts and nuisance from our activities, as we describe in later chapters of this Report. As we seek earlier stage project involvement where we take on greater design and engineering responsibility, we must consider the needs of the customer's customer, that is, the end users of a given project. And then, as we progress to long-term asset management and maintenance projects, we are not just considering end needs but are also directly responsible for managing the public as they use facilities. For example, on our PPP High Speed Roads Maintenance contract in Hong Kong, road users are our ultimate customer and all our works must be balanced, planned and executed according to their interests and needs.

Gammon takes social responsibility to the personal level through community involvement, including the support of charities such as Mindset, the Community Chest and the Lighthouse Club, and through voluntary participation in community events by our staff.

Supply Chain

Focusing on customers' expectations in the quality of end products prompts us to continuously rethink how we can effectively move across the corporate value chains to deliver beyond expectations. Central to this is supply chain management, a key driver to our sustainability strategy.

In 2006, Gammon made headway in formalising the strategy to establish a group of preferred subcontractors and suppliers. Behind this is the long-term objective to meet or exceed customer expectations and to lower the risks to our business. As selected businesses sign up to our Supply Chain Management Charter, to be formally established by mid-2007, each company becomes a partner to Gammon and, as with our own internal processes, commits to stringent key performance indicators that are monitored for continuous improvement and the ability to meet partnering expectations. Our preferred subcontractors, by their commitment, become an extension of the Gammon brand and culture. As of the end of 2006, we had 43 preferred subcontractor and suppliers covering 23 trades and services.

Another area deemed critical to the supply chain process is wage protection and payment issues when subcontracting. Gammon is a supporter of the voluntary wage protection measures for cleaners and security guards introduced in Hong Kong in 2006. We directly employ cleaners, and will be establishing service agreements with our selected security partner firms to address the wage protection issue at the subcontracted level.

Wage Protection

"Ensuring that wages are paid to subcontracted site workers on time is a non-negotiable responsibility of employers. Good and consistent industry employment practices not only benefit workers but mitigate the critical workplace risks and consequences to project delivery. As guardians to the welfare of their society and people, governments must act more decisively on these issues to enforce prompt payment and prosecute the defaulting payers within the procurement chain."

Partnering in Singapore

The design and construction contract for the Giant hypermarket and distribution centre in Singapore gave us full control of the design and ensured proactive engagement and partnering with the customer. This provided the Gammon team with the time and opportunity to explore alternatives and value engineer the project, which ultimately offered savings back to the customer and enabled Gammon to carry out additional fitting-out works for the customer whilst still achieving completion on programme.

Prefabrication in Macau

The prefabrication of the bathroom units for the Venetian Hotel project in Macau initiated a powerful supply chain opportunity for Gammon. In addressing the buildability of the project and responding to local skilled labour shortages, we proposed prefabrication as the optimal solution for the supply and installation of the bathroom fittings. From material sourcing, mock-up construction and customer approval through to establishing assembly lines in mainland China, we were able to create value for the project and customer through improved installation rates, reduced wastage, consistent quality and improved safety.

By fostering safety leadership and bringing accountability to all staff, employees and workers are more attuned to the personal behaviour and safety culture expected in Gammon's safety vision.

Promoting a Safety Culture

In response to the tragic and unacceptable loss of life we suffered in 2005, we undertook an intensive corporate-wide review and brainstorming of existing processes. Subsequently, we have restructured how we approach and manage safety through the Step Change in Safety programme launched across all operations in early 2006.
Its purpose is to put safety as the first priority on everyone's agenda, as well as introducing safety-focused changes across a broad spectrum of management processes and controls.

Leadership and Behaviour

A principal component of our Step Change programme is to address and create a change in human behaviour and to reinforce and develop leadership in safety management. In support of the agenda, 92 of our most senior managers, from the Chief Executive to Project Manager levels, underwent executive-level safety leadership training during 2006.

HEALTH AND SAFETY

To augment this pioneering effort, we significantly revised our health, safety and environmental management systems to ensure we have a series of checks and balances in leadership that is closely aligned with international best practice. A further separate leadership review process is now underway, due to be completed in early 2007, in which an individual manager's performance is benchmarked against a series of master key performance indicators and monitored directly by the Chief Executive.

By adopting such a systematic approach and governance structure to leadership, we put into place a consistent set of safety standards and the processes to apply them uniformly across the organisation. As we progress on our Step Change programme in 2007, middle management and supervisory staff are targeted for leadership training.

In tandem to implementing safety leadership, the Step Change programme addresses safety accountability at the front line through revision of both our reward and disciplinary procedures. Bonus schemes and league tables encourage performance and accountability, and where accidents and incidents do occur, panels of enquiry are held to ensure a systematic, consistent and fair approach is taken to understanding the root causes and lessons to be learnt. Clear disciplinary rules are now in place where negligence or bad practice has been established. We have further empowered our Safety Advisors, who now directly report to a project's most senior full-time manager on site. By bringing the appropriate accountability levels to all staff, employees and workers are more attuned to the personal behaviour expected in Gammon's safety vision.

Safety Leadership

"Improvement of the construction industry's safety record requires decisive moral leadership and its monitoring from both the regulatory and commercial sectors combined with an increased focus on site-based management.

Corporate management needs to consider accountability and awareness in safety through financial incentives that focus on safety and not just profitability and progress. Change is needed in rethinking safety as a project lifecycle issue, enabling the safety risk strategy to commence early in the design process (construction design management), move through the construction phase and then into the life of the asset.

Regulators need to set workable standards that monitor leadership and hold employers across the supply chain punitively responsible for failure and even neglect in safety practice.

Good safety is also good business. With commitment and leadership, we believe the zero accident vision is achievable."

Standards and Procedures

To augment the behavioural side of safety, we have instigated a comprehensive revision of our processes and standards for safety risk management and control for the physical environments in which we operate. This includes all sites, plant and equipment, and our resources and supply chain.

Project risk registers, a functioning component of our risk management strategy, identify and assess site-specific safety issues and include recommendations on preventative response actions for safety management. The registers follow a series of procedures to ensure that the safety culture stays live for the duration of a project. These include workface briefings and risk assessments, Director-level involvement for significant risks, specified management procedures and regular site team reviews of risk registers.

Safety Standards at the Front Line

The industry's safety performance as a whole confirms that the majority of accidents relate to a few routine construction activities. In a preventative response to minimise such accidents, Gammon has developed a set of physical safety standards that are to be established and observed at the workplace regardless of location or size of project.

Gammon's **Book of Safety Standards** was published for its Hong Kong operations to make the understanding and application of the standards graphically simple and practical for all users. Instructions are based on best practices and describe the statutory requirements, the safety requirements and the safety features for all routine construction activities. It reviews typical plant and equipment used on site and the personal protective equipment to be used by different trades when working. The book serves as a guide for Gammon employees and subcontractors and is now a mandatory tool for all on-site personnel.

Observation Design to Enhance Safety

Gammon pioneers the use of real time monitoring techniques on deep excavation projects to manage risks and enhance safety. Deep excavations require substantial temporary supports and strutting, which can be extensive and frequently create cramped and restricted working areas. Observational monitoring techniques using our internally developed data collection software, GEOMON, enable us to view and analyse live real-time data such as support loadings for deep excavation management. Through this method we have the innovative means to justify reducing the extent of strutting and supports without compromising their safety function, thus creating safer conditions within deep excavations for construction activities. GEOMON has been successfully used on Gammon projects in both Hong Kong and Singapore.

Avoiding Injury through Innovation

Noise, dust and flying debris are potential health hazards and sources of injury to workers operating in the vicinity of rock-breaking machinery.

An innovative design by Gammon's Plant and Foundations teams pioneered at the Tai Hang Road project in Hong Kong incorporates a water spray system onto the rock breaker arm directly above the chisel. This eliminates the need for a worker to manually water down the works area. As well as separating the worker from the workface and hence improving safety, the design also minimises the amount of water required for dust suppression.

Plant and equipment are of specific concern to our safety management due to the nature of their inherent high-risk and severity factors in accidents. In addition to maintaining our fleet and plant in the best working condition, under the Step Change programme we introduced several initiatives to prevent safety mishaps when operating machinery. These include enhanced visual and warning sensors on certain types of equipment, an inspection and audit programme for critical parts, a library of operating manuals, a series of guides for safely operating plant and equipment, and a crane operator centre.

Design for Safety

Consistent with our wider safety commitment, we take a proactive approach to considering designing for safety. This approach takes safety responsibility back to the design stages, where safety and health hazards can be mitigated or eliminated before a project reaches the physical construction site. Designers will therefore not only need to consider the safe end use of the building or asset, but also its safe buildability. Gammon and our in-house engineering company, Lambeth, have established an internal working group to review and advise the wider Group on using the design process to manage safety. In addition, our employees, through professional involvements and institutions, publicly promote the need for greater efforts in design for safety across our industry.

Supply Chain and Subcontractors

Our subcontractors and suppliers are an important part of our Step Change programme. As they work on our sites and supply much of a project's materials and equipment, engendering safety awareness into their workforce and products forms a key element of our management strategy. We have taken substantive steps in extending the safety culture outside Gammon to these project partners by expanding the Workers Registration Centres. We require sub-contractors to attend Gammon-led briefings and workshops on safety thus enhancing our supply chain appraisal process. We also require sub-contractors' site agents to carry out weekly formal safety inspections and, when necessary, we revise sub-contractor agreements to align with our enhanced safety programme.

The Business Case for Safety

Our work culture subscribes to the undeniable moral responsibility to ensure that sites, activities and workplaces are safe for our employees and workers. This responsibility links directly to the business case for safety management. By proactively managing and controlling health and safety, accidents and injuries are reduced, and as a company, we benefit from increased productivity, less absenteeism, reduced insurance and healthcare premiums and ultimately, a better safety record, which places us in good stead for securing future projects.

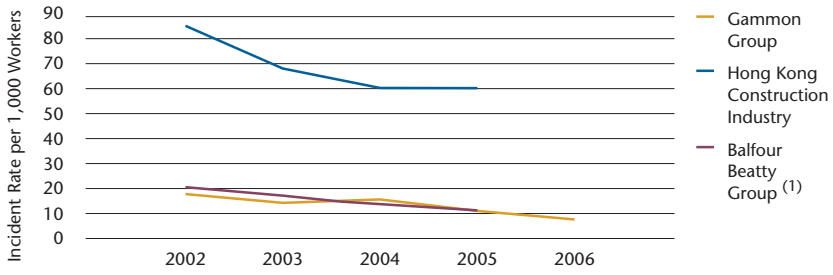
Safety Performance for 2006

After nearly a full year of the Step Change programme in action, our results suggest the beginnings of a new and focused corporate safety culture is taking hold across our operations. During 2006, we recorded consistent monthly reductions in our accident incident rate (AIR), achieving our lowest ever Group level AIR at 7.9 per 1,000 workers and no fatalities. This represents a 31% improvement during 2006.
The severity rate of our accidents, a measure of how serious an incident has been, has also shown a steady and encouraging decrease. Whilst we perform well against available relevant benchmark industry results, such as Hong Kong's construction industry average and Balfour Beatty's group average, we maintain the need to remain vigilant and vigorously pursue the zero accident vision.

We set discipline-specific AIR targets and annually monitor performance to identify areas for improvement. For example, our Macau AIR (11.3 per 1,000 workers) was higher than the 2006 Group average, reflecting the more transient nature of this workforce, which is predominantly imported labour from mainland China. Seeing the necessity for safety education on a continuous basis and to address this workforce characteristic, we opened the Macau Worker Registration Centre in late 2005.

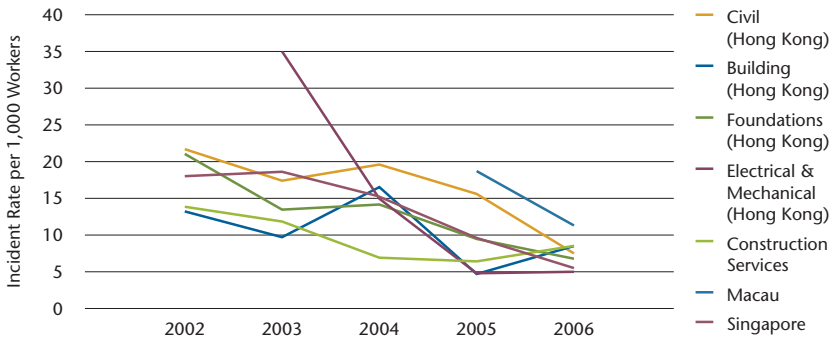
Reflecting our zero accident vision, we also track project performance in terms of consecutive accident-free man-hours worked. At the end of 2006, we had a number of strong performing projects achieving over 500,000 accident-free man-hours, and one project exceeding 1,000,000 accident-free man-hours.

Accident Incident Rate (Comparative Performance)

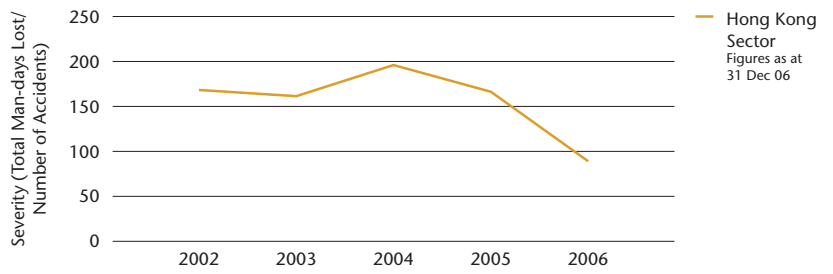


(1) Extrapolated from quoted frequency rate per 100,000 man-hours worked

Accident Incident Rate for Gammon's Operating Units



Severity Rate (Hong Kong)



Safety Performance for 2006

Top Performing Projects	Consecutive Accident-free Man-days (at 31 Dec 2006)
• Drainage Term Contract DC/2003/04, Hong Kong	1,063,920
• Giant Hypermarket, Singapore	918,930
• Three Pacific Place, Hong Kong	808,340
• High Speed Roads Contract, Hong Kong	623,220
• Kowloon Southern Link Contract KDB200, Hong Kong	570,440
• Mandarin Oriental, Hong Kong	505,960

Environmental stewardship is directly promoted through management of our own activities and processes and by the engagement with our customers and supply chain to further extend our footprint of responsibility.

Taking Ownership

When managing our environmental impacts, we acknowledge that the degree of control and ownership varies depending on the actual activities being undertaken and the delivery processes. With respect to our own offices, production facilities and plant and vehicle assets, we have total ownership and therefore the responsibility to optimise lifecycle environmental performance.

In our project operations, our scope for environmental stewardship is often a function of the procurement process and specific to contract requirements. Nonetheless, we actively seek improvements in site management performance and minimise impacts where we have control. Where procurement solutions offer us design control and influence, and in some cases the subsequent operational responsibility, by using value engineering and sustainable design solutions we can demonstrate more comprehensive management of environmental issues such as energy efficiency, waste management and water and resource consumption.

ENVIRONMENTAL PROTECTION

Performance Monitoring

We treat regulatory compliance as the minimum performance standard expectation in our business. During 2006, we received four legal non-compliances, three in Hong Kong and one in Singapore. All four incidents were of a minor nature in terms of the impact created, and caused no on-going long-term environmental damage. However, as compliance breaches, they remain unacceptable. We responded so as to ensure lessons are learnt and prevent repeat occurrences. We also continued our environmental data gathering, principally covering energy, waste and water, enabling us to quantify our direct annual environmental impacts in a comprehensive and coordinated manner for better management and Group target setting.

The year-on-year absolute totals will vary based on our workload, the nature of the projects we undertake and specific customer needs. Consequently, we standardise our data to enable direct performance comparisons through a set of key performance indicators (KPIs). Our performance and the respective KPIs for our 2006 focus areas of waste management and energy conservation are discussed below.

In monitoring our water consumption, our 2006 KPI performance shows a 16% improvement compared to 2005 for our Hong Kong operations.

Incentivising Environmental Performance

"We use our environmental data to track internal performance; however, we struggle to find comparable local and regional data to scale ourselves against the wider industry. With successful benchmarking initiatives used in the international markets, the regional industry has the models to promote its own benchmarking programmes.

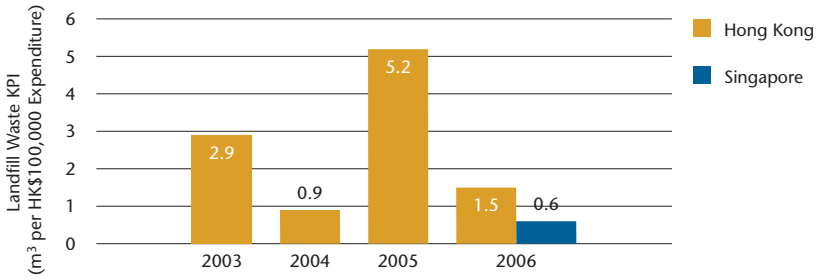
In addition, looking at performance at the local level, industry functions at an apparent disconnect in terms of recognition and reward for environmental performance. For example, in Hong Kong, several of our projects have won prestigious environmental awards, yet these same projects fail to score above average for environment in the Government's Contractor Performance Rating (the formal performance monitoring scheme for Government projects). Such inconsistency does little to promote and encourage environmental improvements."

Waste Management

We improved waste management performance in 2006 compared with previous years, substantially exceeding our 5% reduction target. Whilst the waste charging scheme introduced in Hong Kong may have had some influence, we believe that management awareness and the near completion of our major civil projects are responsible for the observed reductions. The lower value for Singapore reflects a profile of projects more focused on building construction, which typically creates less waste compared to civil projects. Our target of a 5% reduction will continue into 2007.

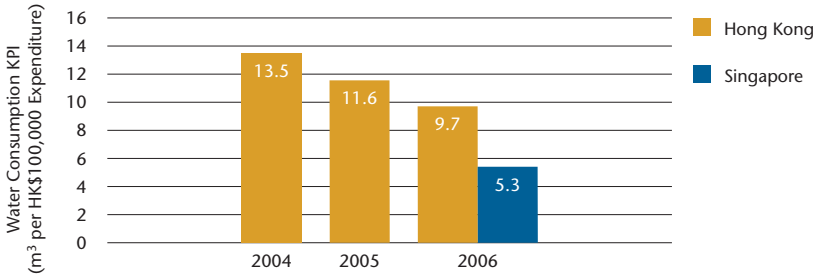
We view waste control and management as a strategic business process, acknowledging the extent of opportunities frequently being the function of project-specific constraints and contractual requirements. If we have the

Landfill Waste Generation KPI



Note: Data presented applies to landfill waste only, as opposed to all wastes reported in previous reports

Water Consumption KPI



Supply Chain Collaboration

Wire and cable drums can represent a significant source of waste on project sites, especially since these drums are typically made of cardboard and plywood, which are easily damaged and cannot be reused. Gammon and BBE&M have jointly engaged with our cable and wire manufacturers to encourage the use of more durable plastic drums, which can be returned to the manufacturers for re-wiring thus offering a more sustainable waste management solution. We have been able to recycle approximately 1,400 drums on the Eagle's Nest and Nam Wan Tunnel projects, where this initiative has been piloted.

opportunity to influence and manage the design, substantial opportunities are presented to minimise waste in the delivery process. As an example, through re-design and value engineering of the road alignment, piling solutions and the sea-wall construction of our design and build contract for Castle Peak Road in Hong Kong, we prevented an estimated 100,000m^3 of waste which may have otherwise been generated during the course of the project under alternative contractual arrangements.

Where the opportunity for re-design is not possible, we focus our efforts on reducing construction stage waste through education of workers, site management processes, and construction methodologies. As working examples, Gammon seeks to employ and promote modular, pre-cast and prefabrication construction processes, and where in-situ work is required, seeks to apply reusable and systemised formwork to minimise the use of timber, which typically ends up as waste.

To seek further opportunities, in 2006 we established an internal waste management working group. Looking at both the upstream and downstream influences on waste management, we are now embarking on a number of initiatives to influence and change our approach to managing waste. One pilot programme is exploring with a key customer the waste reduction possibilities at source through design and procurement strategies, with the zero waste project as the ultimate goal. In addition, we are working with our supply chain to both reduce waste and maximise reuse and recycling opportunities.

Waste Management

"During 2006, we invited expressions of interest for waste management partners in Hong Kong to increase the scope of recycling and reuse of waste materials. We found, however, that opportunities are limited on this front as there appears to be little incentive given to encourage integrated solutions to the construction waste management dilemma both at local and regional levels. To change this, firm commitment from regulators is needed in promoting a responsible waste recycling industry and the actions from customers in terms of how they procure and specify works to encourage genuine waste minimisation and recycling."

Energy Management Initiatives for 2006

Vehicles, Plant and Equipment	• Preventative maintenance programme to ensure efficient operation • Continued collection of fuel consumption data • Working with fuel supplier to provide improved fuel consumption and efficiency rates for individual items • Exploration of alternative fuel types such as biodiesels and ultra-low sulphur diesels • Investigation of high fuel efficiency vehicles and equipment • Use of GPS to manage concrete truck deliveries to optimise travel time and mileage
Site Offices	• Investigation of available green office technologies. During 2006, trials on site offices were conducted and will be formalised into company policy during 2007. • Promotion to customers of green site offices for construction sites
Production Facilities	• Establishment of 12-month rolling average energy consumption data to ensure performance can be managed and tracked
Renewable Energy	• Commenced detailed investigation for the application of renewable energy options at our fixed facilities in Hong Kong and mainland China
Design	• Promotion of energy efficiency in design including building orientation, envelope treatments, building services and building management systems • Exploration of renewable energy options and lifecycle considerations • Support of schemes such as the Hong Kong Building Environmental Assessment Methodology (HK-BEAM) and Singapore's Green Mark

Energy Management and Air Pollution

Energy management and air pollution grew as significant regional issues during 2006. Gammon's response to these issues has been consolidated through our commitment as a signatory of the Clean Air Charter. This Charter, promoted by the Business Coalition on the Environment in Hong Kong, seeks to advance regional cooperation amongst businesses and governments to proactively manage the air pollution problems that the greater Pearl River Delta faces.

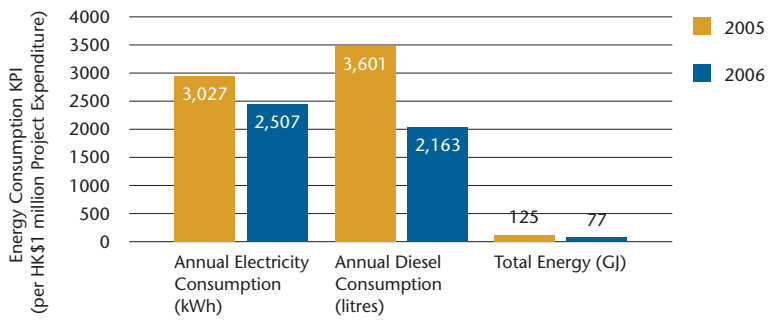
Whilst the focus of the Charter is on the Pearl River Delta, we have elected to track all of our regional activities for transport, plant usage and electricity consumption, which are our identified principal sources of emissions. During 2006, we undertook a series of activities and measures seeking to understand our energy demands and improve efficiency internally and for our customers. The introduction of these systems allows us to comparatively track our energy efficiency and performance through KPIs.

Our overall energy management improved during 2006, showing a 38% total reduction in energy consumption from the previous year. Contributing to this overall reduction was an improvement of 17% in electricity consumption and a substantial reduction in diesel fuel usage due principally to the fall in demand for an individual project, Penny's Bay Reclamation Phase 2 in Hong Kong.

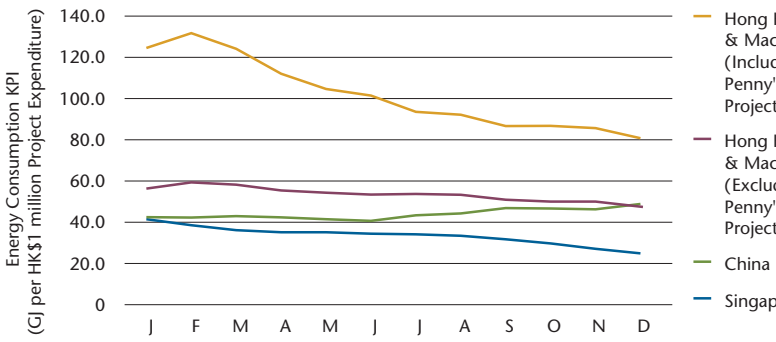
As well as tracking annual performance, we have started to monitor monthly energy trends (based on a 12-month rolling average), which provides us with the opportunity to implement management action on a timely basis. During 2006, our Hong Kong and Macau monthly performance showed a falling trend. Singapore followed suit in this trend, whilst in mainland China we saw a slight increase due to the reduced construction workload and a subsequently greater influence from our Pristine Works steel fabrication activities. With our production facilities for concrete and steel fabrication, we continue to track trends in order to understand where energy can be better managed. For 2007, we have placed a 15% reduction target across all

Understanding the reach of our energy footprint within a project aids us in managing the direct impacts we create. Where we have full ownership, as with our plant, equipment, offices and workshops, we address and manage energy for long-term performance efficiency. With projects, as our footprint increases, we have the opportunity to work with customers to reduce energy consumption of buildings and facilities through energy-efficient designs, looking at factors such as passive ventilation, building envelopes, solar gain

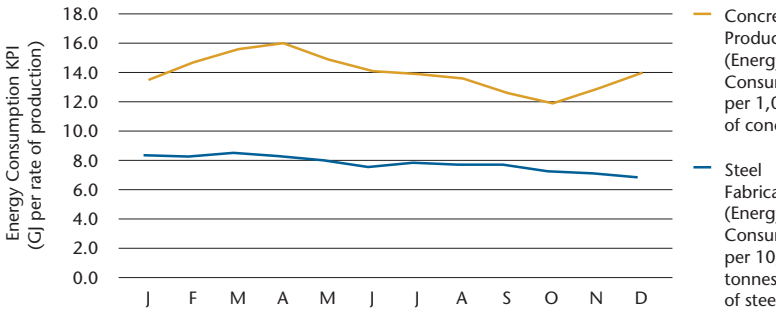
Group Energy Consumption KPIs



Energy Consumption (12-month Rolling Average KPI) for 2006 - Group Operation



Energy Consumption (12-month Rolling Average KPI) for 2006 - Group Operation

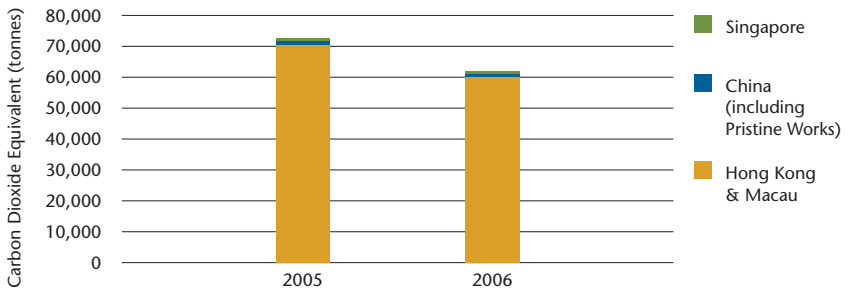


and building services. Longer-term asset management opportunities take our role a step further through the need to consider the importance of lifecycle costs and maintenance, which naturally extends our influence on energy impacts to the whole of the project's life.

Energy Efficiency Leadership

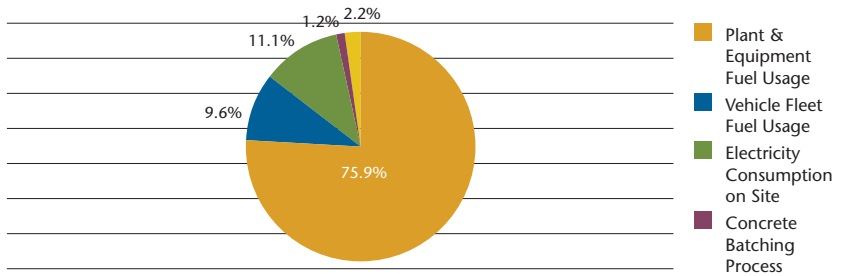
"Promoting effective long-term energy management requires the consideration of energy efficiency throughout a project's lifecycle, from design through construction through to the final end use and occupation. Gammon supports initiatives that seek to promote this approach, such as the Hong Kong Building Environmental Assessment Method (HK-BEAM) and the Singapore Green Mark scheme. In particular, we welcome the proactive stance the Singapore Government is taking in making energy efficiency mandatory and rewarding the achievement of higher Green Mark ratings. Whilst HK-BEAM is successful in its own right, its impact needs to be more widespread, and we would encourage all industry stakeholders to engage in and practise its uptake."

Gammon's Direct Contribution to Global Warming for 2006



- Calculated based on Greenhouse Gas Protocol published by WBCSD/WRI
- Excluding air travel and landfill waste

Carbon Dioxide Equivalent from Hong Kong Operations for 2006



- Data in tonnes of Carbon Dioxide Equivalent
- Calculated based on Greenhouse Gas Protocol published by WBCSD/WRI
- Excluding air travel and landfill waste

Climate Change

As a company, we are committed to reducing our carbon footprint. From our energy consumption data, which represents our principal carbon source, we can estimate our own direct contribution to climate change by calculating the carbon dioxide equivalent.

During the year, we reduced our total carbon footprint by over 11,000 tonnes (a 15% reduction from 2005) through energy efficiency improvements, despite a substantial increase in our workload and activities for the year. In relation to managing our footprint, Gammon has yet to formalise a climate change policy. Further study on our carbon footprint will be undertaken with the intention of establishing a practical climate change policy in future, ideally in conjunction with the wider industry and our customers. In support of our present efficiency drive, we have set a further 5% reduction target in carbon dioxide emissions for 2007.

Materials Management

Under our Procurement Environmental Awareness Programme, in 2006 we continued our focus on fuel management by exploring Ultra-low Sulphur Diesel (ULSD) opportunities with our supplier as well as seeking improvements in Direct Machine Refill (DMR) operations to enhance our fuel consumption data collection.

During the year, we also examined opportunities in using environmentally friendly paints in our steel fabrication process, and will continue these initiatives into 2007. We will also focus on timber, another construction resource that can be better managed through sustainable practices. During 2007, we propose to appraise the usage of, sources for and alternatives to timber consumption, and possible recycling opportunities.

THE DIALOGUE FOR CHANGE

We have demonstrated through this and previous reports that, as a company, we have made a firm commitment to embedding sustainability as a driver to our business practices. For 2006, we have presented our performance and our objectives going forward, acknowledging that whilst we believe we are making good progress, we have only just started on the sustainability journey.

Just as importantly, we have used this Report to reach out to the wider industry and encourage more coordinated and collective action. The commentary we put forward in regards to change and reform, we believe, is necessary to highlight those areas within current practices in need of resolution in order to advance sustainable development within the industry.

Throughout this Report, we have demonstrated that either through our own performance example or through best practices used in international markets, there are sustainable alternatives available and achievable for construction practice. Taking them into the mainstream requires the "dialogue for change", involving an understanding of how and where value and innovation can best benefit stakeholders. As cited throughout this Report, we believe this can best be observed when adopting new and progressive practices within the procurement process.

In addition to utilising progressive practices is the ability to foster and drive innovation. Innovation concerns thinking differently about industry practices and standards that benefit sustainability. This involves consideration of the broader perspective such as contract structures, procurement process and stakeholder partnering. Gammon pointedly advocates putting alternatives that affect the industry on the table, knowing that the drivers of adopting new practices require education, consensus and effective change management.

Through this year's Report, "Dialogue for Change", we look forward to engaging the industry and working with the community to advance sustainable development.

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We value and encourage dialogue on our reporting mechanism. Feedback provides invaluable insight to judge how to best communicate what is important and of interest to our stakeholders so that in future we can establish better platforms for dialogue on relevant issues. We encourage questions or comments by contacting **environment@gammonconstruction.com**. This Report and other corporate information are available on our website at **www.gammonconstruction.com**.

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