

Chairman's statement

The Company in 2006

I am very pleased to report another year of good progress for Balfour Beatty plc. We have, once again, improved our profits and earnings, grown our forward order book, generated strong cash flows, enhanced the strength of our balance sheet and improved our management of non-financial matters.

We remain highly selective about what we take on. We are proud of our first-class project management, the quality of our engineering judgements and our attention to detail across the range of our activities.

We have continued to pay close attention to the quality of the processes and systems which underpin the Group's work on a day-to-day basis. Our graduate intake has increased. Our risk management processes have been further refined. Our safety and environmental management systems have produced improved performance. And we have further embedded our corporate principles, business conduct guidelines and codes of practice across the Group.

In 2005, we were voted the 20th most admired company in the UK. It was extremely gratifying to discover that, in the 2006 Management Today survey, our position had risen to sixth and we had consolidated our position of leadership in the construction sector. We were also pleased to be awarded the accolade of being the best corporate social responsibility practitioner in the construction sector in the annual Quality in Construction awards.

Performance

In 2006, our pre-tax profits before exceptional items and amortisation of intangible assets were up 13% at £152m (2005: £134m). Adjusted earnings per ordinary share before exceptional items and amortisation were also up 13% at 27.3p (2005: 24.1p). Basic earnings per share stood at 21.2p (2005: 24.9p). There were a number of exceptional items, the largest of which was a non-cash asset write-down taken at the half-year, resulting in a net exceptional charge after tax of £25m (2005: £4m profit).

Pre-tax profit for the year (after exceptional items and amortisation of intangible assets) amounted to £125m (2005: £141m).

The Board recommends a final dividend of 5.2p per ordinary share, making a total dividend for the year of 9.1p (2005: 8.1p), an increase of 12%.

Operating cash flow was, once again, strong and in line with profits. Year-end net cash stood at £305m (2005: £315m), despite acquisition expenditure of £80m, and before taking account of the consolidation of £21m non-recourse net debt held in PPP subsidiaries (2005: £14m).

The year-end order book increased by 20% to £9.1bn (2005: £7.6bn), with over £1.0bn of further work at preferred bidder stage.

Strategy

The Chief Executive and the Board committed much time and attention to a major strategic review in 2005, the output of which was reported in last year's annual report.

In 2006, we have made good progress in pursuing the strategic priorities that we identified in that review. The Board reviewed and where necessary, updated the strategy in December 2006. Ian Tyler covers the actions we have taken in UK infrastructure contracting, upstream professional services, our capital investment business and in developing our business outside the UK in his review over the following pages of this report.



The Board

Two new non-executive Directors were appointed to the Board with effect from 1 July 2006. Mike Donovan was most recently Chief Operating Officer of Marconi plc, with previous senior management experience at British Aerospace, Vickers and the Rover Group. Stephen Howard was most recently Group Chief Executive of Novar plc, having had a long and successful career with Cookson Group plc.

Jim Cohen, who has been an executive Director since 2000, retired from the Board with effect from 18 February 2007. He has played a leading role in developing the Group's capital investment and international rail businesses and left with our sincere gratitude and best wishes, as did Chalmers Carr, who was appointed a non-executive Director in 2003 and retired from the Board on 31 August 2006.

Safety and environment

The Group's accident frequency rate was reduced by a further 24% during 2006, continuing the positive trend of recent years. The safety of our people and those whom our business affects remains our highest priority. We have also made good progress in managing our environmental impacts, including our relative contribution to global warming and managing and recycling our waste.

People

Balfour Beatty is a leader in most of the markets which it serves. Market leadership not only offers the opportunity of superior financial returns, but also helps attract the best people at every level of our organisation. We cannot, however, afford to be complacent and we are constantly seeking new and better ways to recruit and retain the best people and to offer them interesting and rewarding jobs within the Group.

In 2006, we launched a new campaign for the recruitment of graduates and overhauled our general recruitment practices. 2007 will see our first Group-wide employee attitude and opinion survey which will enable us to respond with greater sensitivity to employee needs and preferences.

I am sure shareholders will wish to join me in thanking all Balfour Beatty people for their hard work and achievements in 2006.

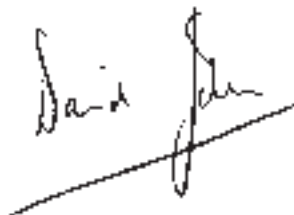
Outlook

We have record order books and a number of preferred bidder positions on major projects, and our markets are generally healthy and continue to offer substantial opportunity.

We have also made good progress in pursuing the strategic priorities which we set out last year and have substantially added to our earning power as a result, which will serve to underpin future growth.

We believe that we will be able to make further good progress in 2007.

Sir David John *KCMG* Chairman



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