

Chairman's statement

We are absolutely committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years.

	2007	2006	Percentage increase
Revenue including joint ventures and associates	£7,488m	£5,506m	+36%
Pre-tax profit from continuing operations			
– before exceptional items and amortisation	£201m	£136m	+48%
– after exceptional items and amortisation	£157m	£109m	+44%
Earnings per share			
– adjusted*	35.0p	27.3p	+28%
– basic	35.1p	21.2p	+66%
Dividends per share	11.5p	9.1p	+26%
Order book	£11.4bn	£9.1bn	+25%
Financing			
– net cash before PPP subsidiaries (non-recourse)	£374m	£305m	
– net borrowings of PPP subsidiaries (non-recourse)	(£61m)	(£21m)	

*Before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations.

The Group in 2007

2007 was a very good year for the Group, both in terms of financial performance and progress made in pursuing our medium and long-term strategic objectives.

We continued to enhance the earnings capacity of the Group. The acquisition of Centex Construction (now Balfour Beatty Construction US) was a very important step in creating a major domestic business in the United States. This process has continued with the agreement to acquire GMH Military Housing, announced in February 2008. The acquisitions of Exeter International Airport, Cowlin and Covion, and a number of smaller acquisitions in rail technology and upstream professional services further strengthened our business core.

We have also continued the process of improving the management of our non-financial responsibilities – the safety of our people, our interaction with the physical environment, and our wider role in the communities in which we serve. We promote innovation in the businesses in a number of ways, not least through the Chairman's Innovation Prize for Graduates, over 150 of whom were recruited during the year.

The clear strategy which the Board developed and agreed in 2005, which is described in detail by Ian Tyler on pages 8 to 14, has accelerated our growth and brought a number of high-quality businesses and new investments into the Group.

Our strong cash position has been maintained despite very significant cash expenditure on acquisitions and we are very well placed to continue to add to the business mix.

Our reputation for reliability, expertise and delivery has never been stronger.

Since 2003, Balfour Beatty has doubled its revenues and earnings. It has been gratifying to see our share price rise from its level of below £2.00 at that time.

We owe our success over this period to the talents, dedication and hard work of Balfour Beatty people at all levels and locations of the organisation. I am sure shareholders will join me in expressing their thanks to them all for their efforts. Our continuing ability to attract, retain and offer exciting opportunity to people of the highest calibre is central to our future ambitions.

Results

In 2007, our pre-tax profits from continuing operations before exceptional items and amortisation of intangible assets for the 12 months to 31 December 2007 were up 48% at £201 million (2006: £136 million). Adjusted earnings per ordinary share before exceptional items and amortisation, and including the pre-exceptional results of discontinued operations were up 28% at 35.0p (2006: 27.3p). Basic earnings per ordinary share stood at 35.1p (2006: 21.2p).

The Board recommends a final dividend of 6.9p per ordinary share, making a total dividend for the year of 11.5p (2006: 9.1p), an increase of 26%.

Operating profits from continuing operations in the building sector increased by 74%, in the engineering sector by 83% and in the rail sector by 16%. Reported results in the investments sector were down on 2006 as our investment in resources in markets outside the UK and our bidding activity increased significantly.

There were a number of exceptional items, resulting in a net exceptional profit of £7 million (2006: £25 million charge).

Operating cash flow was, once again, strong and in line with profits. Year-end net cash stood at £374 million (2006: £305 million), despite net acquisition expenditure of £106 million and before taking account of the consolidation of £61 million of non-recourse net debt held in PPP subsidiaries (2006: £21 million).

The year-end order book increased by 25% to £11.4 billion (2006: £9.1 billion), with almost £2 billion of further work at preferred bidder stage.

Revenue from continuing operations, including the Group's share of joint ventures and associates, at £7,488 million (2006: £5,506 million) was up by 36%.

Safety and environment

The Group's Accident Frequency Rate reduced by a further 16% in 2007, continuing the positive trend of recent years, despite very significant increases in the numbers of people employed by the Group and for whom we are responsible on project sites. We also continued to make good progress in minimising our environmental impacts.

The Board

Jim Cohen retired from the Board on 18 February 2007. He took lead responsibility for the development of both our UK PPP business and our international rail operations and left with the Board's sincere gratitude and best wishes.

On 19 February 2008, it was announced that Anthony Rabin will become Deputy Chief Executive with effect from 31 March 2008, with responsibility for the management and development of our international infrastructure investment business, which is of increasing strategic importance to the Group. Duncan Magrath will become Finance Director and join the Board, having been Deputy Finance Director since he joined the Group in 2006.

As you know, I will be retiring from the Board and from the Group following this year's AGM.

It has been a great privilege to lead Balfour Beatty during a period of exceptional progress for the Group. I have enjoyed working with a most talented and dedicated group of people during that time immensely.

Steve Marshall, who succeeds me after the AGM, will bring comprehensive public company experience and a thorough familiarity with the construction and support services sectors to the task. He will lead a Board with exceptional executive management and non-executives of great experience and a highly independent outlook. I leave the company in excellent hands.

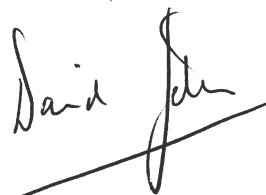
Outlook

Balfour Beatty is a world-class business, well positioned in infrastructure markets which offer significant long-term growth.

We have record order books and an exceptionally strong pipeline of high-quality new work approaching contract. Our acquisitions will add substantially to our earning power.

We are absolutely committed to the continuing delivery of the reliable, responsible growth that our shareholders have enjoyed over recent years. We are clear about our priorities for the further development of the business and have the proven management capability to deliver.

I am confident that we will continue to make further good progress in 2008 and beyond.



Sir David John KCMG Chairman

