

Balfour Beatty

News Release

7 March 2007

BALFOUR BEATTY PLC

PRELIMINARY RESULTS FOR THE YEAR TO 31 DECEMBER 2006

ANOTHER YEAR OF PROGRESS IN BUILDING SHAREHOLDER VALUE

Financial Summary

	2006	2005
Revenue including joint ventures and associates	£5,852m	£4,938m
Pre-tax profit		
- before exceptional items and amortisation	£152m	£134m
- after exceptional items and amortisation	£125m	£141m
Earnings per share		
- adjusted*	27.3p	24.1p
- basic	21.2p	24.9p
Financing		
- net cash before PFI/PPP subsidiaries (non-recourse)	£305m	£315m
- net borrowings of PFI/PPP subsidiaries (non-recourse)	£(21)m	£(14)m

* before exceptional items and amortisation of intangible assets

Highlights

- Pre-tax profit* up by 13% to £152 million
- Adjusted earnings per share* up by 13% to 27.3p
- Cash generated from operations up 30% at £217 million
- Order book increased by 20% to £9.1 billion
- Good progress in strategic acquisition and investment programme
- Agreement to acquire Centex Construction in the US
- Final dividend of 5.2p, full-year dividend up 12% at 9.1p

“We have record order books, 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, Chairman

Ian Tyler, Chief Executive

BALFOUR BEATTY PLC

PRELIMINARY RESULTS FOR THE YEAR TO 31 DECEMBER 2006

RESULTS

Balfour Beatty, the international engineering, construction, services and investment group, today announced pre-tax profits before exceptional items and amortisation of intangible assets for the 12 months to 31 December 2006 up 13% at £152 million (2005: £134 million). 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).

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%.

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 £25 million (2005: £4m profit).

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

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

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

OVERVIEW

It is pleasing to report another year of strong profit and earnings growth and of good progress in pursuing the strategic priorities which we set out last year, while maintaining the strength of our cash position.

We remain committed to the delivery of the reliable, responsible growth which our shareholders have enjoyed over recent years. We are very clear about what is needed to continue growing the business for the long term and have the proven management capability to deliver.

BUSINESS SECTOR PERFORMANCE

Building, Building Management and Services

Profit from operations before exceptional items and amortisation of intangible assets in the building sector improved by 23% to £43 million (2005: £35 million). This represented a good all round performance in strong markets. There was particularly good progress achieved in UK building construction and a first contribution from Charter in the US, offset by the impact of some issues related to the delivery programme under the London Underground PPP, which also had an effect in the engineering sector.

The sector order book increased by 50% to £3.6 billion. Major hospital schemes in Birmingham and Glasgow commenced, as did work on the Birmingham Schools contract. Haden Building Management secured over £750 million of facilities management work, including major long-term contracts for the Department for Work and Pensions and the Metropolitan Police Authority. The social housing market continued to grow strongly. The acquisition of Centex Construction, a leading US builder, was agreed in February 2007.

With order books continuing to grow, we expect very good progress in this sector in 2007, accelerated by the additional benefit of the acquisition of Centex.

Civil and Specialist Engineering and Services

Profit from operations before exceptional items and amortisation of intangible assets in the engineering sector increased by 12% to £55 million (2005: £49 million). This reflected a good all round UK performance, with strong growth from Balfour Beatty Utilities and Balfour Beatty Management. Outside the UK, there were improved performances from our businesses in Hong Kong and Dubai. In the US, although underlying performance improved, there were some further losses in the central division, which is in the process of closure.

The sector order book increased by 12% to £4.5 billion. This reflected a major long-term contract win in utilities contracting for Northern Gas Networks, four new contract awards in road management and maintenance, the award of the Northern Ticket Hall contract at King's Cross St Pancras Underground Station, and the acquisition of Birse in July. Early in 2007, we signed the £550 million Eastern overhead line and cable alliance with National Grid.

Our engineering markets, particularly in the UK, Dubai and Singapore, remain strong and, with further recovery in the US, we expect to make substantial progress in this sector in 2007.

Rail Engineering and Services

Profit from operations before exceptional items in the rail sector rose by 19% to £38 million (2005: £32 million). This reflected an excellent recovery in the second half of the year, with good settlements on projects in the UK, Europe and Asia and steady progress on major works, including those for Metronet and BAA.

The sector order book declined by 17% to £1.0 billion during the year as a number of major projects were completed. The £363 million contract for the upgrade and extension of the East London Line was secured late in the year. Notable on-time, on-budget completions included the complex Waterloo and City Line project on the London Underground, the technical works in the Berlin Tunnel, the new

Malpensa to Turin line in Italy, and the multi-disciplinary Ingolstadt to Nuremberg project in Germany.

We do not expect an upturn in overall spending in our major markets in the short term. However, steady growth in the world rail infrastructure market is predicted for the longer term.

Investments and Developments

Profit from operations before exceptional items in the investments sector improved by 60% to £32 million (2005: £20 million). This reflected significantly better profits in Barking Power, good performance in mature concessions, a reclassification of Connect Roads from subsidiary to joint venture and an increased shareholding in Consort Edinburgh. Performance of the Metronet concessions was less satisfactory as a result of the complexity of the delivery issues, which are the subject of close attention.

During the year, two projects were converted from preferred bidder to contract. These were the £553 million Birmingham Hospital scheme and the £89 million Birmingham Schools scheme. Preferred bidder status was achieved for the Knowsley Building Schools for the Future scheme, the Derby street lighting scheme and, in January 2007, for the Fife Hospital scheme in Scotland.

Also in January, as a first step in its diversification into non PPP investments, Balfour Beatty Capital acquired Exeter International Airport for £60 million. During the year, Balfour Beatty Capital offices were established in the US, Germany and Singapore. Preliminary bids have been submitted in each of these markets.

Balfour Beatty Capital now has 27 concessions, including six at preferred bidder stage, involving £341 million of committed equity.

In 2007, profits will be impacted both by significantly increased bid costs and overheads as we grow the business overseas and the performance of Metronet where further action is being taken to secure the long-term success of the concessions.

We anticipate that the financial performance of our healthcare, education, road and general infrastructure concessions will continue to meet or exceed expectations and that our preferred bidder projects and a strong bid pipeline will see our portfolio continue to grow. We will also continue to increase our presence in overseas PPP markets.

EXCEPTIONAL ITEMS

There was a net exceptional charge of £25 million post tax. In the first half of the year, a £16 million goodwill write-down was taken on the carrying value of the central division of our US civil engineering business, which arose from the acquisition in 2001 of National Engineering and Contracting, with some consequent restructuring costs. There were also exceptional integration costs arising from the acquisition of the Birse Group in July.

As in previous years, there was a premium paid on the buy-back of preference shares, amounting to £7 million in 2006. These items were partly offset by a credit arising from a reduction in the fine levied in respect of the Hatfield rail accident in 2000.

STRATEGIC PROGRESS

The Group's growth over the next two to three years is implicit in its existing business mix and is underpinned by the order books and market positions of its operating companies. In order to continue our long-term record of double-digit profit and earnings growth, we have identified four areas for expansion and investment.

UK Infrastructure

The majority of the businesses in which we make our best and most reliable margins are in UK infrastructure markets, many of which have strong positive growth momentum, including major public building, social housing, utilities contracting and regional civil engineering. Last year, we announced our intention to add to our presence in these markets.

In July, we completed the acquisition of Birse Group plc, a leading UK regional civil engineering business, for a cash consideration of £32 million. Birse has annual revenues of over £300 million and a strong presence in regional markets which is complementary to that of Balfour Beatty Civil Engineering. It also adds new disciplinary capabilities in the coastal and rail sectors and process expertise in water, power and the nuclear sector. Other opportunities are under review.

Professional and Technical Services

There is a clear trend amongst our key customers to demand a broader and more proactive role from us in addition to that represented by our long-established construction and maintenance services.

During 2006, we have made good progress in the further development of our professional and technical services capability through the growth of Balfour Beatty Management which was formed in 2003. This group, which now employs approximately 350 professionals, has played a key role in securing major long-term contracts for National Grid and United Utilities and, most recently, has led a major bid to become partner for complex building integration for BAA's 10-year airport investment plan.

Balfour Beatty Management's work on the King's Cross St Pancras Underground Station development has reduced overall project costs by over £170 million. The business will continue to grow, including, possibly, through acquisition.

Private Finance

Our UK PPP business, Balfour Beatty Capital, has substantial skills and in-built growth momentum. The experience and expertise represented in its team of over 200 professional staff put the business in a strong position to expand. During 2006, in addition to continuing the development of its UK PPP business, the company has turned its attention to non-PPP asset investment in the UK and emerging PPP markets in the US, continental Europe and Singapore.

In January 2007, through our specialist subsidiary, Regional and City Airports, we acquired one of the UK's fastest growing regional airports, Exeter International, for £60 million. We have significant expertise in the design and construction of airport assets and are currently developing a master plan for a phased development of the airport to match passenger demand growth.

Overseas, Balfour Beatty Capital has, during the year, established offices in the US, Germany and Singapore and preliminary bids have been submitted for projects in each of these territories. We have been shortlisted for the Oakland Airport Connector project in California.

Overseas Markets

In the longer term, maintaining our growth targets will require the development of broadly-based domestic businesses outside the UK.

Our key target markets are the United States, Western Europe and South-East Asia. In February 2007, we announced that we had reached agreement to acquire Centex Construction, a leading US building company, from Centex Corporation for a consideration of \$362 million. It is anticipated that, upon completion, Centex Construction will have significant net cash in its balance sheet.

Centex Construction is a high-quality building company, with sales expected to exceed \$2 billion in 2007. It gives Balfour Beatty critical mass in the US in a core Group business and brings substantial new business development opportunities, including in PPP. It is also expected to make a strong immediate contribution to growth and generate significant value for shareholders.

It operates through four divisions based in Florida, Texas, Washington DC and North Carolina and is among the market leaders in each of its territories of operation. It is also a leading player in the US military housing market and has announced that it has been awarded the \$525 million Navy South-East contract in conjunction with its partner, GMH.

OTHER ACQUISITIONS

In March 2006, Balfour Beatty completed the acquisitions of Charter in the US and Edgar Allen in the UK. Charter, based in Texas, provides construction management, design and build and construction services to a range of customers, particularly in the education sector. The business, which was acquired for a cash consideration of £17 million, has annual sales of approximately £100 million and has become part of Heery International.

Edgar Allen is a UK manufacturer of switches, crossings and other rail track products, with annual sales of approximately £25 million. Its acquisition, for an initial consideration of £21 million, strengthens Balfour Beatty's leading position in the UK and international track products markets.

THE BOARD

Two new non-executive Directors were appointed to the Board in July 2006, Mike Donovan, who was most recently Chief Operating Officer of Marconi plc, and Stephen Howard, who was most recently Group Chief Executive of Novar plc. Chalmers Carr retired as a non-executive Director in August 2006. Jim Cohen, an executive Director since 2000, retired from the Board on 18 February 2007.

SAFETY

The Group's accident frequency rate 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.

OUTLOOK

We have record order books, 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.

ENDS

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Balfour Beatty is a world-class engineering, construction, services and investment business, well positioned in infrastructure markets which offer significant long-term growth. We work in partnership with sophisticated customers who value the highest levels of quality, safety and technical expertise. Our skills are applied in appropriate combinations to meet individual customer need. Its financial position, with significant net cash and with strong operating cash flows, offers continuing flexibility to add additional capacity and expertise to the business mix and to make appropriate investments in PPP and other long-term growth opportunities.

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High resolution photographs are available to the media free of charge at www.newscast.co.uk (tel +44 (0)20 7608 1000).

A presentation to analysts and investors will be made at ABN AMRO, 250 Bishopsgate, London, EC2 at 10.30 am.

There will be a live webcast of this presentation on www.balfourbeatty.com and the slides presented will be available on the website from 10.30 am.

Group income statement

For the year ended 31 December 2006

	Notes	2006			2005		
		Before exceptional items* £m	Exceptional items* (Note 5) £m	Total £m	Before exceptional items £m	Exceptional items (Note 5) £m	Total £m
Revenue including share of joint ventures and associates		5,852	-	5,852	4,938	-	4,938
Share of revenue of joint ventures and associates	12	(1,365)	-	(1,365)	(1,101)	-	(1,101)
Group revenue		4,487	-	4,487	3,837	-	3,837
Cost of sales		(4,121)	-	(4,121)	(3,528)	(14)	(3,542)
Gross profit		366	-	366	309	(14)	295
Net operating expenses							
- amortisation of intangible assets		-	(1)	(1)	-	-	-
- other		(285)	(19)	(304)	(237)	-	(237)
Group operating profit		81	(20)	61	72	(14)	58
Share of results of joint ventures and associates	12	63	-	63	43	30	73
Profit from operations		144	(20)	124	115	16	131
Investment income	3	26	-	26	56	-	56
Finance costs	4	(18)	(7)	(25)	(37)	(9)	(46)
Profit before taxation		152	(27)	125	134	7	141
Taxation	6	(35)	1	(34)	(32)	(3)	(35)
Profit for the year attributable to equity shareholders		117	(26)	91	102	4	106

* and amortisation of intangible assets (Note 11)

		2006 pence	2005 pence
Basic earnings per ordinary share	7	21.2	24.9
Diluted earnings per ordinary share	7	21.0	24.7
Dividends per ordinary share proposed for the year	8	9.1	8.1

Group statement of recognised income and expense

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Actuarial gains/(losses) on retirement benefit obligations		36	(14)
PFI/PPP cash flow hedges - net fair value gains/(losses)		32	(17)
- reclassified and reported in net profit		-	1
PFI/PPP financial assets - fair value revaluation		(2)	10
- reclassified and reported in net profit		-	(4)
Changes in fair value of net investment hedges		14	(6)
Currency translation differences		(17)	8
Tax on items taken directly to equity		(26)	9
Net income/(expense) recognised directly in equity		37	(13)
Profit for the year		91	106
Total recognised income for the year attributable to equity shareholders	16	128	93

Group balance sheet
At 31 December 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Intangible assets - goodwill	10	427	284
- other	11	9	-
Property, plant and equipment		183	167
Investments in joint ventures and associates	12	458	375
Investments		46	38
PFI/PPP financial assets		22	14
Deferred tax assets		102	83
Derivative financial instruments		2	2
Trade and other receivables		50	35
		1,299	998
Current assets			
Inventories		75	61
Due from customers for contract work		252	217
Derivative financial instruments		3	-
Trade and other receivables		626	619
Cash and cash equivalents		323	345
		1,279	1,242
Total assets		2,578	2,240
Current liabilities			
Trade and other payables		(1,289)	(1,038)
Due to customers for contract work		(265)	(274)
Derivative financial instruments		(1)	(4)
Current tax liabilities		(28)	(30)
Borrowings		(17)	(30)
		(1,600)	(1,376)
Non-current liabilities			
Trade and other payables		(77)	(66)
Derivative financial instruments		-	(2)
Borrowings - PFI/PPP non-recourse term loans		(21)	(14)
- other		(1)	-
Deferred tax liabilities		(5)	(3)
Liability component of preference shares		(90)	(98)
Retirement benefit obligations	15	(288)	(280)
Provisions		(109)	(109)
		(591)	(572)
Total liabilities		(2,191)	(1,948)
Net assets		387	292
Equity			
Called-up share capital	14	215	214
Share premium account	16	43	26
Equity component of preference shares	16	16	18
Special reserve	16	169	175
Share of joint ventures' and associates' reserves	16	243	182
Other reserves	16	5	5
Accumulated losses	16	(304)	(328)
Total equity	16	387	292

Group cash flow statement

For the year ended 31 December 2006

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operations	17(a)	217	167
Income taxes paid		(24)	(28)
Net cash from operating activities		193	139
Cash flows from investing activities			
Dividends received from joint ventures and associates		24	12
Interest received		29	64
Acquisition of businesses, net of cash and cash equivalents acquired		(80)	(56)
Purchase of property, plant and equipment		(57)	(57)
Purchase of investments		(8)	-
Investment in and loans made to joint ventures and associates		(22)	(12)
Investment in financial assets		(12)	(21)
Disposal of businesses, net of cash and cash equivalents disposed		-	(15)
Disposal of property, plant and equipment		9	8
Disposal of investments		-	6
Net cash used in investing activities		(117)	(71)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		6	6
Purchase of ordinary shares		(3)	(3)
Proceeds from new loans		35	6
Repayment of loans		(27)	(80)
Finance lease principal repayments		(1)	(2)
Buy-back of preference shares		(19)	(11)
Ordinary dividends paid		(52)	(28)
Interest paid		(5)	(27)
Premium paid on repayment of US Dollar term loan		-	(9)
Preference dividends paid		(12)	(13)
Net cash used in financing activities		(78)	(161)
Net decrease in cash and cash equivalents		(2)	(93)
Effects of exchange rate changes		(6)	3
Cash and cash equivalents at beginning of year		316	406
Cash and cash equivalents at end of year	17(b)	308	316

Notes

1 Basis of presentation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee relevant to its operations and effective for accounting periods beginning on 1 January 2006. IFRS 7 Financial Instruments: Disclosures, IFRS 8 Operating Segments and IFRIC 12 Service Concession Arrangements were in issue at the date of authorisation of the financial statements but not yet effective. IFRS 7 and IFRS 8 affect only disclosures and therefore have no material impact on the financial statements of the Group. The impact of IFRIC 12, which defines the accounting for the Group's PFI/PPP concessions, is currently under review.

The financial statements have been prepared using accounting policies which have been applied consistently throughout the year and the preceding year.

2 Segment analysis – continuing operations

For the year ended 31 December 2006

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	2,030	1,677	766	14	-	4,487
Group operating profit	42	47	35	(19)	(24)	81
Share of results of joint ventures and associates	1	8	3	51	-	63
Profit from operations before exceptional items and amortisation	43	55	38	32	(24)	144
Exceptional items	-	(21)	2	-	-	(19)
Amortisation of intangible assets	-	(1)	-	-	-	(1)
Profit from operations	43	33	40	32	(24)	124
Investment income						26
Finance costs						(25)
Profit before taxation						125

Performance by geographic origin:	Europe £m	North America £m	Other* £m	Total £m
Group revenue	3,893	572	22	4,487
Profit from operations before exceptional items and amortisation	141	(12)	15	144
Exceptional items	(1)	(18)	-	(19)
Amortisation of intangible assets	(1)	-	-	(1)
Profit from operations	139	(30)	15	124

For the year ended 31 December 2005

Performance by activity:	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments £m	Corporate costs £m	Total £m
Group revenue	1,674	1,366	763	34	-	3,837
Group operating profit	32	39	32	(10)	(21)	72
Share of results of joint ventures and associates	3	10	-	30	-	43
Profit from operations before exceptional items	35	49	32	20	(21)	115
Exceptional items	(8)	-	(12)	36	-	16
Profit from operations	27	49	20	56	(21)	131
Investment income						56
Finance costs						(46)
Profit before taxation						141

Performance by geographic origin:	Europe £m	North America £m	Other* £m	Total £m
Group revenue	3,332	483	22	3,837
Profit from operations before exceptional items	134	(20)	1	115
Exceptional items	28	(12)	-	16
Profit from operations	162	(32)	1	131

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

3 Investment income

	2006 £m	2005 £m
PFI/PPP non-recourse - interest on financial assets	1	36
PFI/PPP subordinated debt interest receivable	8	5
Other interest receivable and similar income	17	15
	<u>26</u>	<u>56</u>

4 Finance costs

	2006 £m	2005 £m
PFI/PPP non-recourse - other interest payable	1	19
Other interest payable - bank loans and overdrafts	3	1
- other loans	2	4
Preference shares - finance cost	12	13
	<u>18</u>	<u>37</u>
Exceptional items - premium on buy-back of preference shares	7	3
- net premium on repayment of US Dollar term loan	-	6
	<u>25</u>	<u>46</u>

A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share of 1p was paid in respect of the six months ended 30 June 2006 on 1 July 2006 to holders of these shares on the register on 26 May 2006. A preference dividend of 5.375p gross (4.8375p net) per cumulative convertible redeemable preference share was paid in respect of the six months ended 31 December 2006 on 1 January 2007 to holders of these shares on the register on 24 November 2006.

5 Exceptional items

	2006 £m	2005 £m
(a) Credited to/(charged against) profit from operations		
Group operating profit - litigation settlements and fines	2	(8)
- National Engineering and Contracting Company:		
- impairment of goodwill	(16)	-
- reorganisation costs	(2)	-
	<u>(18)</u>	<u>-</u>
- Birse Group integration costs	(3)	-
- profit on sale of interest in Connect Roads	-	6
- impairment of investment in Romec Ltd	-	(8)
- impairment of goodwill in Balfour Beatty Rail Inc	-	(4)
	<u>(19)</u>	<u>(14)</u>
Share of results of joint ventures and associates		
- TXU distributions to Barking Power Ltd	-	30
	<u>(19)</u>	<u>16</u>
(b) Charged to finance costs		
- premium on buy-back of preference shares	(7)	(3)
- net premium on repayment of US Dollar term loan	-	(6)
(Charged against)/credited to profit before taxation	<u>(26)</u>	<u>7</u>
(c) Taxation thereon	<u>1</u>	<u>(3)</u>
(Charged against)/credited to profit for the year	<u>(25)</u>	<u>4</u>

- (a) The exceptional item credited to Group operating profit in 2006 arose from the reduction in the fine (less associated costs) imposed on Balfour Beatty Rail Infrastructure Services Ltd in respect of the Hatfield derailment in October 2000. As a result of unsatisfactory performance in the central division of Balfour Beatty Construction Inc, the goodwill arising on the acquisition of National Engineering and Contracting Company has been written off and charged against Group operating profit, together with costs of reorganisation of the division. Costs incurred in the reorganisation and integration of Birse Group acquired in 2006 have been charged against Group operating profit.

The exceptional items charged against Group operating profit in 2005 arose from litigation and settlement costs of £8m which include a payment to the US Government by Balfour Beatty Construction Inc, for its share of a settlement payment to resolve allegations arising from investigations into a joint venture contract awarded in 1995 and completed in 2000 and the costs awarded against Balfour Beatty Rail Infrastructure Services Ltd for admitted breaches of the Health and Safety at Work Act following the Hatfield derailment in October 2000, provision for the associated fine having been made in prior years; a profit of £6m on the disposal of a 15% interest in Connect Roads Ltd and Connect M77/GSO Holdings Ltd; an impairment charge of £8m in respect of the Group's investment in Romec Ltd; and a goodwill impairment charge of £4m in respect of Balfour Beatty Rail Inc. The exceptional item credited to profit from operations in share of results of joint ventures and associates in 2005 arises in Barking Power Ltd in which the Group holds a 25.5% interest. The £30m gain represents the Group's share, after charging taxation of £12m, of the first three distributions received by Barking Power Ltd from the administrator of TXU Europe following the damages agreement reached in December 2004 of £179m.

- (b) The exceptional items charged against finance costs are the premium of £7m (2005: £3m) arising on the repurchase for cancellation of 12.0m (2005: 6.8m) preference shares at a cost of £19m (2005: £11m), and, in 2005, the net premium of £6m arising from the repayment of the US Dollar term loan.
- (c) The exceptional items in 2006 have given rise to a net tax credit of £1m (2005: £3m net charge).

6 Taxation

	2006 £m	2005 £m
UK current tax		
- corporation tax for the year at 30% (2005: 30%)	19	34
- double tax relief	(4)	(6)
- adjustments in respect of previous periods	-	(9)
	<u>15</u>	<u>19</u>
Foreign current tax		
- foreign tax on profits for the year	7	5
- adjustments in respect of previous periods	-	1
	<u>7</u>	<u>6</u>
Total current tax	<u>22</u>	<u>25</u>
Deferred tax		
- UK	11	3
- foreign tax	1	2
- adjustments in respect of previous periods	-	5
Total deferred tax	<u>12</u>	<u>10</u>
Total tax charge	<u>34</u>	<u>35</u>

The Group tax charge above does not include any amounts for joint ventures and associates, whose results are disclosed in the income statement net of tax (see Note 12).

In addition to the Group tax charge above are amounts charged directly to equity for current tax of £8m (2005: £4m credit) and deferred tax of £7m (2005: £10m credit), which with a charge in respect of joint ventures and associates of £11m (2005: £5m) totals £26m (2005: £9m credit).

The weighted average applicable tax rate is 32% (2005: 35%) based on profit before taxation, exceptional items and amortisation of intangible assets, excluding the results of joint ventures and associates.

7 Earnings per ordinary share

	2006		2005	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings	91	91	106	106
Exceptional items	25		(4)	
Amortisation of intangible assets	1		-	
Adjusted earnings	<u>117</u>		<u>102</u>	
Weighted average number of ordinary shares	m	m	m	m
	<u>427.1</u>	<u>431.0</u>	424.2	428.7
	pence	pence	pence	pence
Earnings per ordinary share	21.2	21.0	24.9	24.7
Exceptional items	5.9		(0.8)	
Amortisation of intangible assets	0.2		-	
Adjusted earnings per ordinary share	<u>27.3</u>		<u>24.1</u>	

The calculation of basic earnings is based on profit for the year attributable to equity shareholders. The weighted average number of ordinary shares used to calculate diluted earnings per ordinary share has been adjusted for the conversion of share options. No adjustment has been made in respect of the potential conversion of the cumulative convertible redeemable preference shares, the effect of which would have been antidilutive throughout each year. Adjusted earnings per ordinary share, before exceptional items and amortisation of intangible assets, has been disclosed to give a clearer understanding of the Group's underlying trading performance.

8 Dividends on ordinary shares

	2006		2005	
	Per share pence	Amount £m	Per share pence	Amount £m
Proposed dividends for the year:				
Interim – current year	3.9	17	3.5	15
Final – current year	5.2	22	4.6	20
	9.1	39	8.1	35
Recognised dividends for the year:				
Final – prior year		20		16
Interim – current year		17		15
		37		31

An interim dividend of 3.9p (2005: 3.5p) per ordinary share was paid on 13 December 2006. Subject to approval at the Annual General Meeting on 10 May 2007, the final 2006 dividend will be paid on 2 July 2007 to holders of ordinary shares on the register on 27 April 2007 by direct credit or, where no mandate has been given, by cheque posted on 28 June 2007 payable on 2 July 2007. These shares will be quoted ex-dividend on 25 April 2007.

9 Acquisitions

On 30 March 2006, the Group acquired 100% of the issued share capital of Edgar Allen Ltd, the UK rail track products manufacturer, for an initial consideration of £21.0m, before adjustment to reflect the value of the net assets acquired estimated at £7.3m, and costs of £0.7m. The provisional fair value of net assets acquired was £7.5m and goodwill arising was £6.9m, pending finalisation of the post-acquisition review of the fair value of the net assets. The goodwill recognised is attributable to the acquisition strengthening the Group's position in the design, manufacture and supply of track products.

On 31 March 2006, the Group acquired 100% of the issued share capital of Charter Builders Ltd, the US construction management company, for a consideration of £17.3m and costs of £0.8m. The provisional fair value of net assets acquired was £3.8m and goodwill arising was £14.3m, pending finalisation of the post-acquisition review of the fair value of the net assets. The goodwill recognised is attributable to the acquisition complementing the Group's US project and programme management business, with a particular strength in the education sector.

On 21 July 2006, the Group acquired 100% of the issued share capital of Birse Group plc, the UK regional civil engineering company, for a consideration of £32.1m and costs of £2.2m. The provisional fair value of net liabilities acquired was £110.9m (including intangible assets recognised of £9.2m) and provisional goodwill arising was £145.2m, pending finalisation of the post-acquisition review of the fair value of the net liabilities. The goodwill recognised is attributable to the acquisition strengthening the Group's regional presence in the UK civil engineering sector.

The provisional fair value of the net assets acquired, consideration paid and provisional goodwill arising on these transactions were:

	Book value of assets acquired £m	Fair value adjustments £m	Fair value of assets acquired £m
Net assets acquired:			
Intangible assets – other	-	10	10
Property, plant and equipment	13	-	13
Working capital	(17)	(87)	(104)
Retirement benefit obligations	2	(37)	(35)
Provisions	(1)	(12)	(13)
Current tax liabilities	(1)	-	(1)
Deferred taxation	3	33	36
Cash and cash equivalents	(4)	-	(4)
Borrowings	(2)	-	(2)
	(7)	(93)	(100)
Goodwill			167
			67
Satisfied by:			
Cash consideration			70
Costs incurred			4
			74
Deferred consideration			(7)
			67

In 2006, £2m deferred consideration was paid in respect of acquisitions completed in earlier years.

Birse Group plc earned revenues of £154m and a loss from continuing operations of £3m (after charging exceptional items of £3m and amortisation of intangible assets of £1m) in the period since acquisition. Other acquired businesses earned revenues of £97m and profits from continuing operations of £4m in the periods since acquisition.

10 Intangible assets - goodwill

	Cost £m	Accumulated impairment losses £m	Carrying amount £m
At 1 January 2006	308	(24)	284
Exchange adjustments	(11)	3	(8)
Businesses acquired (see Note 9)	167	-	167
Impairment losses for the year	-	(16)	(16)
At 31 December 2006	<u>464</u>	<u>(37)</u>	<u>427</u>

11 Intangible assets – other

	Cost £m	Accumulated amortisation £m	Carrying amount £m
At 1 January 2006	-	-	-
Businesses acquired (see Note 9)	10	-	10
Amortisation charge for the year	-	(1)	(1)
At 31 December 2006	<u>10</u>	<u>(1)</u>	<u>9</u>

Other intangible assets comprise customer contracts, customer relationships and brand names.

12 Joint ventures and associates

Share of results and net assets of joint ventures and associates

	2006					
	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments		Total £m
				PFI/PPP £m	Barking Power £m	
Revenue	115	705	4	458	83	1,365
Operating profit before exceptional items	2	10	3	15	23	53
Investment income	-	3	-	122	2	127
Finance costs	-	(1)	-	(84)	(4)	(89)
Profit before taxation and exceptional items	2	12	3	53	21	91
Taxation	(1)	(4)	-	(17)	(6)	(28)
Profit after taxation	<u>1</u>	<u>8</u>	<u>3</u>	<u>36</u>	<u>15</u>	<u>63</u>
Intangible assets - goodwill	-	22	2	-	-	24
- other	-	-	-	2	-	2
Property, plant and equipment	2	61	-	29	105	197
PFI/PPP financial assets	-	-	-	1,541	-	1,541
Net (borrowings)/cash	(2)	93	6	(1,260)	(9)	(1,172)
Other net assets/(liabilities)	4	(108)	(6)	2	(26)	(134)
Net assets	<u>4</u>	<u>68</u>	<u>2</u>	<u>314</u>	<u>70</u>	<u>458</u>
	2005					
	Building, building management and services £m	Civil and specialist engineering and services £m	Rail engineering and services £m	Investments and developments		Total £m
				PFI/PPP £m	Barking Power £m	
Revenue	113	554	3	368	63	1,101
Operating profit before exceptional items	4	16	-	15	15	50
Investment income	-	1	-	69	-	70
Finance costs	-	(1)	-	(52)	(3)	(56)
Profit before taxation and exceptional items	4	16	-	32	12	64
Taxation	(1)	(6)	-	(10)	(4)	(21)
Exceptional items	-	-	-	-	30	30
Profit after taxation	<u>3</u>	<u>10</u>	<u>-</u>	<u>22</u>	<u>38</u>	<u>73</u>
Intangible assets - goodwill	-	25	2	-	-	27
- other	-	-	-	2	-	2
Property, plant and equipment	1	66	1	29	109	206
PFI/PPP financial assets	-	-	-	1,255	-	1,255
Net (borrowings)/cash	(3)	55	6	(914)	(32)	(888)
Other net assets/(liabilities)	6	(79)	(9)	(123)	(22)	(227)
Net assets	<u>4</u>	<u>67</u>	<u>-</u>	<u>249</u>	<u>55</u>	<u>375</u>

13 PFI/PPP subsidiaries

As at 31 December 2006, the Group had a 100% interest in two PFI/PPP concessions through its shareholdings in Connect Roads Sunderland Holdings Ltd and Connect Roads South Tyneside Holdings Ltd. The Group also had a 100% interest in three PFI/PPP concessions through its shareholdings in Connect Roads Ltd and Connect M77/GSO Holdings Ltd until 20 December 2005, when the Group disposed of a 15% interest in those concessions and they became joint ventures. The performance of the wholly-owned PFI/PPP concessions (until ceasing to be subsidiaries as appropriate) and their balance sheets are summarised below:

	2006 £m	2005 £m
Income statement		
Group revenue	14	32
Profit from operations	-	-
Investment income	1	36
Finance costs	(1)	(19)
Profit before taxation	-	17
Taxation	-	(5)
Profit for the year	-	12
Cash flow		
Profit from operations	-	-
Decrease in working capital	1	-
Income taxes paid	-	(3)
Net cash inflow/(outflow) from operating activities	1	(3)
Net cash outflow from investing activities	(7)	(20)
Net cash (outflow)/inflow from financing activities	(1)	29
Net cash (outflow)/inflow	(7)	6
Net borrowings at beginning of year	(14)	(244)
Net borrowings at date of disposal	-	224
Net borrowings at end of year	(21)	(14)
Balance sheet		
PFI/PPP financial assets	22	14
Other net current assets	(1)	-
Non-recourse term loans	(21)	(14)
Net assets	-	-

14 Share capital

During the year ended 31 December 2006, 1,375,582 ordinary shares were issued following the exercise of savings-related share options and 1,999,231 ordinary shares were issued following the exercise of executive share options for an aggregate cash consideration of £6m.

During the year ended 31 December 2006, 12,012,640 preference shares were repurchased for cancellation by the Company for a total consideration of £18,836,111 at an average price of 156.8p.

15 Retirement benefit obligations

The Group's actuaries have updated to 31 December 2006 on the basis of IAS 19 "Employee Benefits" the latest actuarial funding valuations of the Group's principal defined benefit schemes, namely the Balfour Beatty Pension Fund, the Balfour Beatty Shared Cost section of the Railways Pension Scheme, the two Mansell pension schemes and the Birse scheme. Details of these valuations and the disclosures prescribed by IAS 19 are set out in the Report and Accounts along with the funding valuation reviews.

The principal assumptions used by the actuaries, the scheme details and IAS 19 disclosures for the Group's principal defined benefit schemes are summarised below:

	2006				2005		
	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %	Birse scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %
Inflation rate	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Discount rate	5.15	5.15	5.15	5.15	4.75	4.75	4.75
Future salary increases	4.6	4.6	4.6	4.6	4.3	4.3	4.3
Future pension increases	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Expected return on plan assets	6.35	7.30	6.79	7.36	5.98	7.00	6.60
Total number of members	Number 33,943	Number 3,322	Number 3,361	Number 2,086	Number 35,057	Number 3,342	Number 3,397
	£m	£m	£m	£m	£m	£m	£m
IAS 19 DEFICIT							
Present value of funded obligations	(1,876)	(158)	(210)	(94)	(1,806)	(159)	(212)
Fair value of plan assets	1,688	150	177	62	1,629	136	160
Liability in the balance sheet	(188)	(8)	(33)	(32)	(177)	(23)	(52)

In addition, the Group has funded and unfunded post-retirement defined benefit obligations in Europe and North America amounting to £27m (2005: £28m), the majority of which arrangements are closed to new entrants.

The movement in retirement benefit obligations of the Group's defined benefit schemes for the year ended 31 December 2006 was as follows:

	£m
At 1 January 2006	(280)
Exchange adjustments	2
Service cost	(52)
Interest cost	(104)
Expected return on plan assets	117
Contributions from employer	36
Benefits paid	2
Actuarial gains and losses	21
- assets	5
- liabilities	(35)
Businesses acquired	(35)
At 31 December 2006	(288)

The Balfour Beatty Pension Fund includes a defined contribution section with 4,119 members as at 31 December 2006 (2005: 2,776 members). Including £7m (2005: £4m) contributions paid and charged in the income statement in respect of this section and £6m (2005: £5m) pension costs in respect of other defined contribution schemes, the total net pension cost recognised in the income statement in the year was £52m (2005: £49m), with contributions paid of £49m (2005: £42m).

The principal assumptions used by the actuaries and the funding valuations for the Group's principal defined benefit schemes are summarised below:

	2006				2005		
	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %	Birse scheme %	Balfour Beatty Pension Fund %	Railways Pension Scheme %	Mansell schemes %
Inflation assumption	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Rate of increase in salaries	4.6	4.6	4.6	4.6	4.3	4.3	4.3
Rate of increase in pensions in payment (or such other fixed rate as is guaranteed)	3.1	3.1	3.1	3.1	2.8	2.8	2.8
Return on existing investments:							
- actives and deferred members							
- pre-retirement	7.75	7.75	7.75	7.75	7.7	7.7	7.7
- post-retirement	5.4	5.4	5.4	5.4	5.0	5.0	5.0
- pensioners, widows and dependants	4.9	4.9	4.9	4.9	4.5	4.5	4.5
	£m	£m	£m	£m	£m	£m	£m
SCHEME SURPLUS/(DEFICIT)							
Market value of assets	1,689	150	177	63	1,630	136	160
Present value of scheme liabilities	(1,671)	(140)	(171)	(64)	(1,583)	(137)	(169)
Surplus/(deficit) in scheme	18	10	6	(1)	47	(1)	(9)

16 Movements in equity

For the year ended 31 December 2006

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Accumulated losses £m	Total £m
At 1 January 2006	214	26	18	175	182	5	(328)	292
Net profit for the year	-	-	-	-	63	-	28	91
Actuarial gains on retirement benefit obligations	-	-	-	-	10	-	26	36
PFI/PPP cash flow hedges	-	-	-	-	32	-	-	32
- net fair value gains	-	-	-	-	(2)	-	-	(2)
PFI/PPP financial assets	-	-	-	-	-	-	-	-
- fair value revaluation	-	-	-	-	-	-	-	-
Changes in fair value of net investment hedges	-	-	-	-	-	14	-	14
Currency translation differences	-	-	-	-	(7)	(10)	-	(17)
Tax on items taken directly to equity	-	-	1	-	(11)	(8)	(8)	(26)
Total recognised income for the year	-	-	1	-	85	(4)	46	128
Ordinary dividends	-	-	-	-	-	-	(37)	(37)
Joint ventures' and associates' dividends	-	-	-	-	(24)	-	24	-
Issue of ordinary shares	1	5	-	-	-	-	-	6
Buy-back of preference shares	-	12	(3)	-	-	-	(12)	(3)
Movements relating to share-based payments	-	-	-	-	-	2	(1)	1
Transfers	-	-	-	(6)	-	2	4	-
At 31 December 2006	215	43	16	169	243	5	(304)	387

For the year ended 31 December 2005

	Called-up share capital £m	Share premium account £m	Equity component of preference shares £m	Special reserve £m	Share of joint ventures' and associates' reserves £m	Other reserves £m	Accumulated losses £m	Total £m
At 1 January 2005	212	15	19	181	86	29	(315)	227
Net profit for the year	-	-	-	-	73	-	33	106
Actuarial gains/(losses) on retirement benefit obligations	-	-	-	-	7	-	(21)	(14)
PFI/PPP cash flow hedges	-	-	-	-	(20)	3	-	(17)
- net fair value gains/(losses)	-	-	-	-	-	1	-	1
- reclassified and reported in net profit	-	-	-	-	-	-	-	-
PFI/PPP financial assets	-	-	-	-	29	(19)	-	10
- fair value revaluation	-	-	-	-	-	(4)	-	(4)
- reclassified and reported in net profit	-	-	-	-	-	-	-	-
Changes in fair value of net investment hedges	-	-	-	-	-	(6)	-	(6)
Currency translation differences	-	-	-	-	5	3	-	8
Tax on items taken directly to equity	-	-	1	-	(6)	6	8	9
Total recognised income for the year	-	-	1	-	88	(16)	20	93
Ordinary dividends	-	-	-	-	-	-	(31)	(31)
Joint ventures' and associates' dividends	-	-	-	-	(12)	-	12	-
Issue of ordinary shares	2	4	-	-	-	-	-	6
Buy-back of preference shares	-	7	(2)	-	-	-	(8)	(3)
Movements relating to share-based payments	-	-	-	-	-	(2)	2	-
Transfers	-	-	-	(6)	20	(6)	(8)	-
At 31 December 2005	214	26	18	175	182	5	(328)	292

17 Notes to the cash flow statement

	2006 £m	2005 £m
(a) Cash generated from operations comprises:		
Profit from operations	124	131
Share of results of joint ventures and associates	(63)	(73)
Depreciation of property, plant and equipment	43	41
Amortisation of other intangible assets	1	-
Impairment charges	16	12
Movements relating to share-based payments	4	3
Profit on disposal of property, plant and equipment	(1)	(2)
Profit on disposal of businesses	-	(6)
Operating cash flows before movements in working capital	<u>124</u>	<u>106</u>
Decrease in working capital	<u>93</u>	<u>61</u>
Cash generated from operations	<u>217</u>	<u>167</u>
(b) Cash and cash equivalents comprise:		
Cash and deposits	142	146
Term deposits	181	199
Bank overdrafts	(15)	(29)
	<u>308</u>	<u>316</u>
(c) Analysis of net cash:		
Bank overdrafts	(15)	(29)
Other short-term unsecured loans	(1)	-
Finance leases	(1)	(1)
Other secured loans	(1)	-
Cash and deposits	142	146
Term deposits	181	199
	<u>305</u>	<u>315</u>
PFI/PPP non-recourse term loans	(17)	(13)
- Sterling floating rate term loan (2008-2027)	(4)	(1)
- Sterling floating rate term loan (2011-2030)	<u>(4)</u>	<u>(1)</u>
Net cash	<u>284</u>	<u>301</u>

A significant part of the PFI/PPP non-recourse project finance floating rate term loans has been swapped into fixed rate debt by the use of interest rate swaps.

(d) Analysis of movement in net cash:		
Opening net cash	301	67
Net decrease in cash and cash equivalents	(2)	(93)
Acquisitions – borrowings at date of acquisition	(2)	(1)
Businesses sold – borrowings at date of disposal	-	253
New loans	(35)	(6)
Repayment of loans	27	80
Finance lease principal repayments	1	2
Exchange adjustments	(6)	(1)
Closing net cash	<u>284</u>	<u>301</u>

18 Post balance sheet events

On 5 January 2007 the Group acquired Exeter and Devon Airport Ltd for a cash consideration of £60m.

On 1 February 2007 the Group agreed to acquire Centex Construction, a leading US building company, from Centex Corporation for a cash consideration of approximately US \$362m.

The financial information set out above (which was approved by the Board on 6 March 2007) has been compiled in accordance with IFRS, but does not contain sufficient information to comply with IFRS. That financial information does not constitute the Company's statutory accounts for the year ended 31 December 2006 for the purpose of Section 240 of the Companies Act 1985 which comply with IFRS, but is extracted from those accounts. The Company's statutory accounts for the year ended 31 December 2006 will be filed with the Registrar of Companies following the Annual General Meeting. The independent auditors' report on those accounts was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985. The Company's statutory accounts for the year ended 31 December 2005 have been filed with the Registrar of Companies. The independent auditors' report on those accounts was unqualified and did not contain any statement under Section 237(2) or (3) of the Companies Act 1985.