

To our customers, employees, partners, suppliers, and friends

Bechtel customers tell us that the most important attribute we can bring to a new project is talent. We couldn't agree more. That's why we have the best people in the business—nearly 40,000 employees with expertise, experience, innovative thinking, and commitment to customers.

In 2006, our people again set us apart from the competition as we completed several major projects, made substantial progress on others, and won a number of challenging new jobs. The result was the best overall financial performance in our 109-year history.

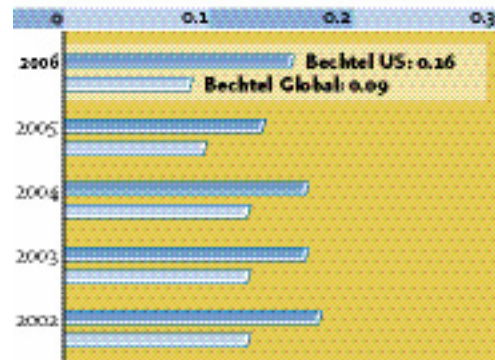
Our portfolio in 2006 encompassed a broad range of industries and spanned the world, from Iceland to Australia. We continued to play an important role in helping meet demand for clean, efficient energy, with liquefied natural gas projects and work on both fossil and nuclear power plants. We also had major projects in mining and metals, global infrastructure, and communications, and we reinforced our position as a leading provider of services to the U.S. government.

Safety is always the top priority at Bechtel, and we are gratified that our on-the-job safety performance ranks us as one of the safest companies in our industry. Once again in 2006, some 90 percent of our projects completed the year without a lost-time incident, and 56 projects each achieved at least 1 million consecutive safe work hours.

During the year, we re-emphasized our focus on core strengths, while continuing to improve the quality and efficiency of our work through Six Sigma, a time- and money-saving methodology now in its seventh year

Safety First

Number of lost-workday accidents per 100 workers per year*



* Industry average:
3.4 lost-workday accidents per 100 workers per year

at Bechtel. We also launched a companywide initiative to better attract and retain talented individuals in one of the world's toughest job markets.

Commitment to customers remained paramount in 2006. We performed quality work on time and within budget on a broad range of projects, and we helped customers meet their goals for sustainability—an increasingly important component of new construction work.

Looking ahead, we believe we are very well situated to succeed in what author Thomas Friedman calls the "flat world" of the 21st century, where borders disappear, and technology and competition drive the global economy. Our people are agile, disciplined, and world-class. Our customers can—and do—count on us.

Riley P. Bechtel
CHAIRMAN & CHIEF EXECUTIVE OFFICER

Adrian Zaccaria
PRESIDENT & CHIEF OPERATING OFFICER

Business Review

Strong execution combined with a diverse, international business portfolio drove Bechtel to new heights in 2006, underscoring our position as the world's engineering and construction company of choice.

Led by our Oil, Gas & Chemicals business unit and Bechtel National, our government services unit, we posted record results for revenue and the value of new work that we booked. Revenue rose 13 percent from 2005 to \$20.5 billion—a record for the fourth straight year—while new work surged 34 percent to \$24.7 billion. About half of our revenue came from outside North America, reflecting Bechtel's global reach.

Oil, Gas & Chemicals again set the pace by helping customers meet the fast-growing demand for energy worldwide. Projects in Australia, Equatorial Guinea, and Trinidad and Tobago showcased Bechtel's leadership in designing and building production plants for liquefied natural gas, while a receiving terminal under construction in Louisiana promises to boost our ability to serve the U.S. market for LNG. In Canada, Bechtel's Bantrel subsidiary is among the leaders in extracting energy from that country's vast oil sands. In India, we began an expansion project on what will be the world's largest refinery.

Bechtel National, a top services provider to the U.S. government, turned in another solid performance in 2006. One of the year's highlights came in June, when a team headed by Bechtel and the University of California began management and operation of Los Alamos National Laboratory in New Mexico, the nation's premier institution for defense and scientific research. The Bechtel team was awarded the project at the end of 2005.

In 2006, we closed out work on the second of two contracts with the U.S. government for reconstruction of infrastructure

in Iraq. We completed nearly all of the work assigned to us, but, tragically, violence gripping the country claimed the lives of 52 of our subcontractor employees associated with the project, including 47 Iraqis.

All of our business units contributed solidly to revenue in 2006. Our global infrastructure work featured three ongoing rail projects in the UK, the new Tacoma Narrows Bridge in the United States, and the New Doha International Airport in Qatar.

Bechtel Power completed a coal-fired plant expansion in Arizona and a natural gas-fired plant in California, both ahead of schedule, and made good progress at a big coal-fired power plant in Wisconsin. We also replaced aging components at several U.S. nuclear plants and are nearing completion on a project to restart the Browns Ferry nuclear plant in Alabama.

Our Mining & Metals unit, a global leader in the aluminum industry, worked on major aluminum smelters in Oman and Iceland, as well as a carbon anode plant in Norway.

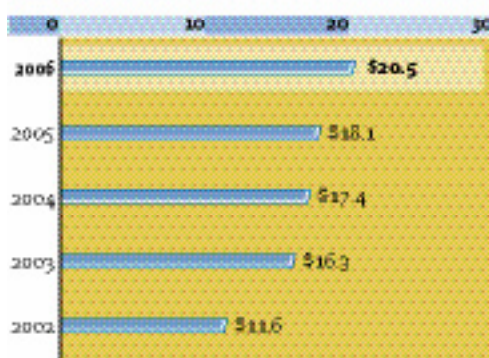
Bechtel Communications helped Cingular upgrade its U.S. wireless network to provide high-speed services, and worked on a range of telecommunications projects for carriers in the UK, Europe, the Middle East, and Australia.

Partnerships and alliances continue to play a major role in our business. We are collaborating with the University of California and two companies at Los Alamos. We are teaming with GE on the design of new power plants based on "cleaner coal" technology. We continue to support utilities pursuing the next generation of nuclear power plants. Finally, our LNG alliance with ConocoPhillips continues to be a leader in that market.

In the following pages you'll learn about many of the projects around the world that helped make 2006 our best year yet.

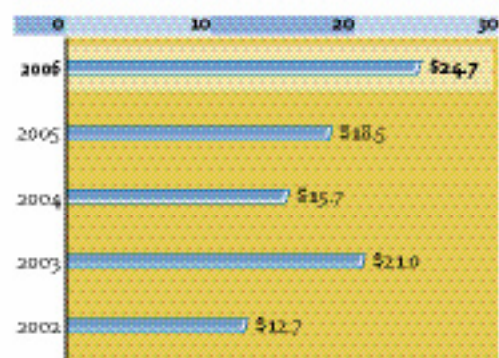
Revenue

in billions of dollars



New Work Booked

in billions of dollars



▶ Mining & Metals

FERROUS, NONFERROUS, PRECIOUS, AND LIGHT METALS,
AS WELL AS INDUSTRIAL MATERIALS

In 2006, Bechtel strengthened its position as a leader in the design and construction of production facilities for the mining and metals industry, with work at some of the world's most challenging locations.

In the aluminum sector, construction continued on the Fjarðaál smelter in eastern Iceland, one of several projects we are executing for Alcoa. Despite its remote location and harsh winters, the project is expected to achieve the "first hot metal" date in the second quarter of 2007. To supply the new smelter, we also are constructing a carbon anode manufacturing plant in central Norway, just south of the Arctic Circle.

Another aluminum smelter—featuring the world's largest potline—is under construction in Oman. We have teamed with Sohar Aluminium Company and the government of Oman to train hundreds of local workers for jobs on the project.

In 2006, Alcoa asked Bechtel to conduct a prefeasibility study for a possible new smelter on the Island of Trinidad.

In Australia, we neared completion of a successful expansion of Rio Tinto's Port Waratah Coal Services terminal in New South Wales.

We also completed a feasibility study for a major expansion of the Comalco alumina refinery in Queensland.

On the other side of the world, high in the Chilean Andes, we are in the final phase of expanding the capacity of the copper concentrator at the Los Pelambres mine.

Oil, Gas & Chemicals

OIL, GAS, PETROCHEMICAL, LNG, PIPELINES, AND INDUSTRIAL FACILITIES

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ith projects in Africa, Asia, India, the Middle East, North America, and South America, Bechtel's Oil, Gas & Chemicals unit exemplified the company's global reach in 2006, while turning in another stellar performance.

We continue to pace the market for liquefied natural gas, helping customers meet growing demand for energy worldwide. Last year, we completed a new LNG production plant in northern Australia and finished the latest expansion of the massive Atlantic LNG facility in Trinidad. Both plants were delivered more than three months ahead of schedule. Construction of an LNG plant in Equatorial Guinea is well under way.

In Louisiana, we are building and simultaneously expanding an LNG receiving terminal that will have the largest send-out capacity in the world.

Last year featured work on a number of major gas projects, including two big gas development plants in Abu Dhabi, a new \$4 billion gas processing facility in Saudi Arabia, and a gas development project on Sakhalin Island in eastern Russia. We are working on a gas production/pipeline project in Algeria, and are completing a major offshore-and-onshore natural gas pipeline system in the Gulf of Thailand. We also were awarded a new deepwater offshore-and-onshore gas project in India.

The oil and petrochemicals business also remains a strong one for Bechtel. In the United States, we are expanding oil refineries in Mississippi and Texas. In Alberta, Canada, our Bantrel subsidiary is expanding a large oil processing facility. In India, we began work on the expansion of the massive Jamnagar refinery. In China we completed the large Nanhai Petrochemicals Complex.

► Communications

WIRELESS AND OTHER TELECOMMUNICATIONS INFRASTRUCTURE

As the wireless revolution gains momentum around the world, Bechtel is helping telecommunications customers expand their networks, build new infrastructure, and move into emerging markets.

In 2006, Bechtel's Communications unit worked on a variety of projects in Europe, the Middle East, Australia, and the United States. We continued to provide program management, engineering, and construction services to Cingular Wireless for its cell site build-out and its Universal Mobile Telecommunications System program, which is bringing high-speed wireless data services to customers in more than 150 U.S. metropolitan areas.

Also in the United States, we are helping Modeo launch a network for broadcasting digital television to mobile phones, and we continue to support our customers with laboratory services. The Bechtel Communications lab in Maryland recently hosted the first-ever Mobile WiMAX Interoperability Plugfest for the Global WiMAX Forum. Major vendors including Samsung, Motorola, Alcatel, and Siemens brought equipment into the labs for eight days of rigorous testing in support of one of the industry's newest wireless broadband technologies.

In the UK, we provided consulting services to Arqiva for a nationwide switch from analog to digital television. In Bulgaria, we are managing site deployment for a national wireless network build-out, and in Qatar, we helped the government upgrade its telecommunications systems for the 2006 Asian Games.

Last year, Bechtel completed a project in support of Vodafone's 3G network upgrade in Australia, and we currently are providing RF engineering analysis.

Civil

RAIL SYSTEMS, ROADS, BRIDGES, AVIATION FACILITIES, AND PORTS

Bechtel's infrastructure business turned in another solid performance in 2006, highlighted by work on some of the world's largest construction projects.

In the UK, we made good progress on three major jobs. The modernization of the busy West Coast Main Line was highlighted by a new time record for passenger service between London and Glasgow. Tube Lines (our joint venture with Ferrovial) successfully upgraded and refurbished 20 stations on the London Underground's Jubilee, Northern, and Piccadilly lines while delivering extensive modifications to the Piccadilly line's signaling system. The UK's first high-speed rail project, the Channel Tunnel Rail Link, changed its name to High Speed 1 and confirmed plans to begin Eurostar service from London's historic St. Pancras station in November 2007.

Construction ramped up last year on the New Doha International Airport in Qatar—and Bechtel was awarded additional work to increase the airport's passenger capacity. We also completed the modernization of the international airport on the Caribbean island of Curaçao.

Work continued on a 415-kilometer motorway in Romania, and construction began on a 57-kilometer motorway in Albania. In Abu Dhabi, we signed a contract to help the United Arab Emirates develop a new port and industrial zone.

In Washington state, the new Tacoma Narrows Bridge—the longest suspension span built in the United States in more than four decades—is scheduled to open in 2007. In the Washington, D.C.-Virginia area on the other side of the country, preliminary engineering is complete on a project to extend the Metrorail line toward Dulles International Airport.

▶ Power

ELECTRIC GENERATION USING FOSSIL AND NUCLEAR FUELS, AND SERVICES FOR EXISTING PLANTS

In 2006, Bechtel helped lead the resurgence in coal as an affordable source of electric power.

In July, Bechtel Power completed construction of Springerville 3 in Arizona five months ahead of schedule. It is the first sizable pulverized coal-fired unit built in the United States in the past decade.

We also made good progress on two other coal-fired power projects. At the Elm Road Generating Station, under construction in Wisconsin, work began on a 2.9-kilometer tunnel that will carry water from deep in Lake Michigan to cool the new plant and an adjacent existing facility. In Ohio, we began retrofitting a seven-unit, 2,300-megawatt plant to eliminate nearly all sulfur dioxide emissions.

Good work led to more good work, as we won contracts to build new plants, including a pulverized-coal facility in Kentucky, and a fluidized bed, lignite-fired plant in Texas.

The 1,000-megawatt, natural gas-fired Mountainview power plant in Southern California was completed three and a half months ahead of schedule. In India, we completed the first phase of restarting a major natural gas-fired combined cycle plant.

On the nuclear side, the Beaver Valley Nuclear Generating Station in Pennsylvania became the first U.S. nuclear facility to have its aging steam generators and reactor head replaced at the same time. We also completed steam generator replacement projects at nuclear plants in Nebraska and Tennessee. In Alabama, we began loading fuel three months ahead of schedule to set the stage for the restart of Browns Ferry Unit 1.

▶ Government Services

DEFENSE, SPACE, DEMILITARIZATION, ENERGY MANAGEMENT, AND ENVIRONMENTAL RESTORATION AND REMEDIATION

In 2006, Bechtel remained one of the top service providers to the U.S. government. In June, a coalition led by Bechtel and the University of California took over management and operation of Los Alamos National Laboratory. Under a seven-year contract with the U.S. Department of Energy, the team is working to safeguard the nation's nuclear weapons stockpile, while fostering an environment conducive to breakthroughs in science and medicine.

Other defense projects included ongoing work on the Ground-based Midcourse Defense program in Alaska, Alabama, and California, and operation and management of the U.S. Army's Kwajalein missile test range and defense surveillance facility in the Marshall Islands.

Bechtel is helping eliminate unused chemical weapons at U.S. military sites in Colorado, Kentucky, and Maryland—where the Aberdeen Proving Ground last year became the first U.S.-based site to completely destroy its stockpile.

We also made progress on a number of environmental projects in 2006. In Washington state, we are building a facility at a former nuclear production site for the safe disposal of hazardous waste. At Oak Ridge, Tennessee, we are on a fast track to clean up a birthplace of the nuclear age. And in Nevada, we are helping expedite the licensing process for the proposed national nuclear waste repository at Yucca Mountain.

Last October, we concluded our reconstruction effort in Iraq. Despite violence gripping the country, we successfully completed all but two of the 99 projects the U.S. Agency for International Development had assigned us, repairing power water, and waste-water systems, a port, airports, bridges, roads, schools, and medical facilities.

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