Chairman's introduction

"A new executive team and a refreshed Board have the privilege of taking Balfour Beatty forward to its next chapter."

As described in my predecessor's report last year there has been a significant change in the composition of the Company's leadership both at Board and executive level during 2015. Details of the changes at Board level are set out on page 54. The arrival of Leo Quinn, as Group Chief Executive, at the start of the year signalled the start of a period of detailed self-analysis and self-help built around our Build to Last programme. The appointment of Philip Harrison as Chief Financial Officer has, as predicted, brought a wealth of relevant experience.

Leadership

Following my own appointment, I have sought to re-balance the background experience of the non-executive members of the Board, by increasing relevant construction/contracting sector skills and experience through the appointments of Stuart Doughty and Stephen Billingham. Each of the Directors brings skills and experiences which enhance the quality of debate in the boardroom and in the case of the non-executive Directors provides additionally, guidance and challenge to the executive Directors. The Directors believe that the Board provides effective leadership.

Diversity

In seeking to recruit new Directors with relevant experience, we specifically ask search firms to identify suitable female candidates. We do not however believe in gender quotas, preferring to appoint individuals based on merit. Details of our diversity and inclusion policy can be found on the website balfourbeatty.com.

Accountability

We believe that Balfour Beatty's processes and procedures have been strengthened during the year as the gated approval process has been embedded into the organisation, enabling the Board to present a fair, balanced and understandable assessment of the Group's trading position and its prospects. We continue to keep under review the matters reserved to the Board and the terms of reference of the Board and its Committees. Copies can be found on the website.

Remuneration

The remuneration policy was approved by shareholders at the 2014 AGM and can be found on the website. We do not currently intend to revert to shareholders with any proposed changes until our AGM in 2017. Details of how we will operate that policy in 2016 can be found in the Remuneration report on pages 68 to 84.

Relations with shareholders

Our investor relations programme is of critical importance to the Board, particularly as we progress through this period of change. The Board routinely receives, at each meeting, a comprehensive report from our investor relations team as well as periodic reports from analysts and feedback from any meetings which the Directors have with institutional investors. We recognise the AGM as an important opportunity for private investors to engage with the Board. All resolutions will, however, be put to a poll rather than a show of hands. This reflects best practice and will ensure that shareholders who are not able to attend the meeting have their votes fully taken into account.

Philip Aiken AM
Chairman

Compliance with the Code

The UK Corporate Governance Code 2014 (the Code) is the standard applying to good corporate governance practice in the UK and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code (www.frc.org.uk).

The Company has complied with the requirements of the Code from 10 August 2015 to the end of the accounting period. From 1 January 2015 to 10 August 2015, the effectiveness of the Group's whistleblowing procedure was kept under review by the Business Practices Committee, but otherwise the Company complied with the requirements of the Code.

Board of Directors

Philip Aiken AM (67)
Non-executive Chairman
(from 26 March 2015)

Joined the Board as non-executive Chairman in March 2015. He is non-executive chairman of Aveva Group plc and a non-executive director of Newcrest Mining Limited. He was a non-executive director of National Grid plc, chairman of Robert Walters plc and a non-executive (and senior independent) director of Kazakhmys plc and Essar Energy plc, and a senior adviser at Macquarie Bank Ltd. Prior to that, he was group president Energy BHP Billiton and president BHP Petroleum, chief executive of BTR Nylex, and held senior roles in BOC Group.

2 3 4

Leo Quinn (58)
Group Chief Executive
(from 1 January 2015)

Appointed as Group Chief Executive in January 2015, after five years as group chief executive of QinetiQ Group plc and before that five years as CEO of De La Rue plc. Prior to these senior roles, he spent almost four years as COO of Invensys plc's production management business, headquartered in the US, and 16 years with Honeywell Inc in senior management roles across the UK, Europe, the Middle East and Africa, including global president of H&BC Enterprise Solutions. He was formerly a non-executive director of Betfair Group plc and Tomkins plc. He is a civil engineer, and began his career at Balfour Beatty. He is the founder of The 5% Club which encourages industry to increase graduate training and apprenticeships.

3 5 6

Philip Harrison (55)
Chief Financial Officer
(from 1 June 2015)

Appointed as Chief Financial Officer in June 2015. He was previously group finance director at Hogg Robinson Group plc, and before that he was group finance director at VT Group plc. Prior to that, he served as VP Finance at Hewlett-Packard Europe, Middle East and Africa region and was a member of the EMEA board. His earlier career included senior international finance roles at Compaq, Rank Xerox and Texas Instruments. He is a Fellow of the Chartered Institute of Management Accountants.

5 6

Board Committees code:

1 Audit and Risk
2 Safety and Sustainability
3 Nomination
4 Remuneration
5 Group Tender and Investment
6 Finance and General Purposes
Chair

Other Directors who held office during the year were:

Robert Amen
Non-executive Director until 31 December 2015

Duncan Magrath
Chief Financial Officer until 8 May 2015

Steve Marshall
Chairman until 26 March 2015

Peter Zinkin
Planning and Development Director until 26 March 2015

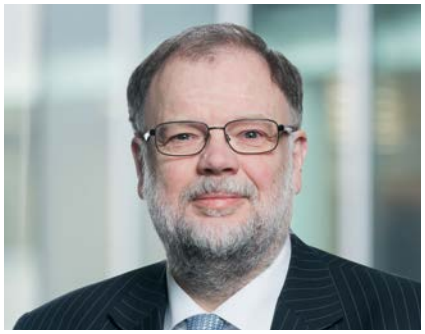
From 14 January 2016, as part of an agreed review of Committee memberships:

Iain Ferguson rejoined the Audit and Risk Committee

Leo Quinn joined the Safety and Sustainability Committee

Maureen Kempston Darkes left the Nomination Committee

Stuart Doughty left the Remuneration Committee



Iain Ferguson CBE (60)
Senior Independent Director
Appointed a Director in 2010. Until 2009, he was chief executive of Tate & Lyle. Prior to joining Tate & Lyle in 2003, he spent 26 years at Unilever in a succession of roles culminating in his appointment as senior vice-president, corporate development. He is non-executive chairman of Berendsen plc and Stobart Group Limited. He is also chairman of Wilton Park, an independent and non-profit making Executive Agency of the British Foreign and Commonwealth Office and lead independent director at the Department for Environment, Food and Rural Affairs. He was formerly a non-executive director of Sygen International and of Greggs plc.

2 3 4

Maureen Kempston Darkes (67)
Non-executive Director
Appointed a Director in 2012. She joined General Motors Corporation in 1975 and held a number of progressively senior roles during her time with the business, culminating in her appointment as group vice-president for General Motors' Latin America, Africa and Middle East operations. She retired from General Motors in 2009. She has a portfolio of non-executive directorships including Brookfield Asset Management, Canadian National Railways, Enbridge Inc, Irving Oil Company and Schlumberger. She is a member of the Canadian Government's Science, Technology and Innovation Council.

2 3 4

Graham Roberts (57)
Non-executive Director
Appointed a Director in 2009. He is chief executive of Assura plc, a UK primary healthcare property company and was formerly finance director of The British Land Company between 2002 and 2011. Prior to that, he spent eight years at Andersen, latterly as a partner specialising in the real estate and government services sectors. He is a Fellow of the Institute of Chartered Accountants.

1 3 4

Dr Stephen Billingham (57)
Non-executive Director
(from 1 June 2015)

Appointed a Director in June 2015. He is chairman of Anglian Water Group Ltd, chairman of Punch Taverns plc and chairman of Urenco Ltd. He has over three decades of business and management experience, including 11 years with the Company under its former name, BICC plc. He was group finance director (CFO) of British Energy Group plc and of WS Atkins plc.

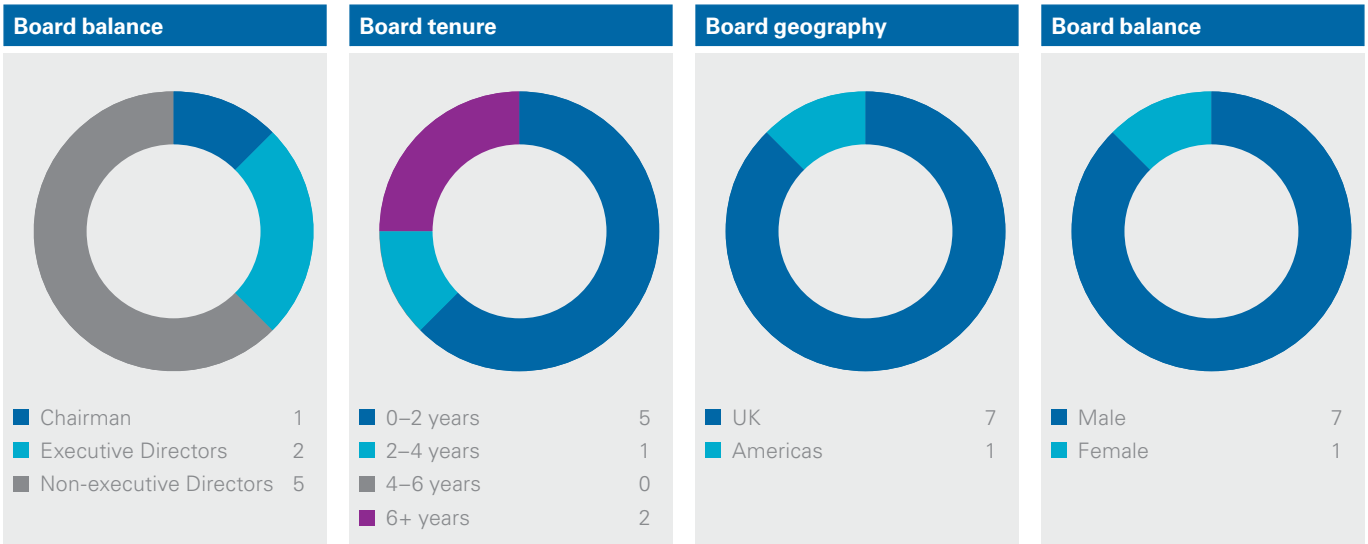
1

Stuart Doughty CMG (72)
Non-executive Director
(from 8 April 2015)

Appointed a Director in April 2015. He has over 45 years' experience in the civil engineering, construction and infrastructure sectors, and was chief executive of Costain Group PLC between 2001 and 2005. This followed executive positions in Welsh multi-utility Hyder plc, Alfred McAlpine plc and Tarmac Construction, where he represented the company on the Channel Tunnel board, following 20 years with John Laing Construction. He has also served as a senior non-executive director of Scott Wilson Group plc, and as chairman of Silverdell Plc, Somero Plc and Beck and Pollitzer Limited.

1 2 4

Governance report



Non-executive Directors – significant strengths

	Strategic development	Operating performance and delivery	Mergers and acquisitions	Business integration	Financial management and planning	Sector-specific	Experience of international markets	Health and safety	Risk management and assurance	HR management	Stakeholder engagement	Ethics, values and culture
Philip Aiken	●	●	●	●			●	●			●	●
Stephen Billingham	●	●	●	●	●	●		●	●		●	●
Stuart Doughty	●	●	●	●	●	●		●	●		●	●
Iain Ferguson	●	●					●	●		●	●	●
Philip Harrison	●	●	●		●		●		●		●	●
Maureen Kempston Darkes	●	●		●	●		●	●	●	●		●
Leo Quinn	●	●	●	●	●	●	●	●	●	●	●	●
Graham Roberts	●		●		●				●		●	●

Directors' independence

At its meeting on 10 March 2016, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent.

The Board and its composition

The Board comprises eight Directors, of whom six, including the Chairman, are non-executive. The names of the Directors serving throughout the year and at the year end are shown on pages 52 and 53.

As previously reported, Leo Quinn was appointed Group Chief Executive with effect from 1 January 2015. Steve Marshall stepped down from the role of Chairman on 26 March 2015 to be succeeded by Philip Aiken. Peter Zinkin ceased to be a Director on 26 March 2015. Stuart Doughty and Stephen Billingham were appointed non-executive Directors on 8 April 2015 and 1 June 2015 respectively. Duncan Magrath ceased to be a Director with effect from 8 May 2015. Philip Harrison was appointed Chief Financial Officer with effect from 1 June 2015. Robert Amen retired as a non-executive Director on 31 December 2015.

All of the Directors in office on 14 March 2016 will seek election or re-election at the AGM in accordance with the Code. Brief biographical details are shown on pages 52 and 53 and a non-exhaustive list of the key strengths of the Directors is set out in the table above. Details of their service agreements, emoluments and share incentives are shown in the Remuneration report starting on page 68.

Following the performance evaluations of each of the non-executive Directors, it is confirmed that the performance of each continues to be effective and demonstrates commitment to the role.

Roles

Summaries of the roles of the Chairman, the Group Chief Executive and the Senior Independent Director are as follows:

Chairman – Philip Aiken

- Ensuring effective strategic planning is undertaken by the executive Directors
- Ensuring corporate governance is properly maintained
- Formally appraising the performance of the Group Chief Executive and reviewing with the Group Chief Executive his views on the performance of the other executive Directors
- Providing leadership to the Board
- Acting as senior ambassador for the Company
- Considering Board balance, composition and succession
- Ensuring the smooth operation of the Board and its Committees
- Providing effective communication between the Board and its shareholders.

Group Chief Executive – Leo Quinn

- Strategy development and the stewardship of physical, financial and human resources
- Group operational and financial performance
- Executive leadership
- Health, safety and environmental performance
- Corporate values and ethics
- Objective setting for the senior management team
- Organisational structure, succession and talent management
- Major capital expenditure prioritisation and allocation of resources
- Consideration of acquisitions, disposals and financing
- Stakeholder management.

Senior Independent Director – Iain Ferguson

- Acting as chairman of the Board if the Chairman is conflicted
- Acting as a conduit to the Board for the communication of shareholders' concerns if other channels are not appropriate
- Ensuring that the Chairman is provided with effective feedback on his performance.

Board and Committee meetings

Procedures for Board meetings remain largely unchanged from previous years. The Company Secretary is responsible for advising the Board on appropriate governance matters and for ensuring a good information flow and that Board procedures are properly followed. He is available to individual Directors for advice on Board procedures.

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors thereat are set out on page 56. Outside the formal schedule of meetings, the non-executive Directors met without the executive Directors present on a number of occasions. Meetings were normally held at the Company's head office.

All non-executive Directors receive papers for every Committee meeting and where not a member, have an open invitation to attend any Committee meeting. A number of the Directors took this opportunity during the year.

Board and Committee meetings typically take place over two consecutive days with the first day allocated to Committee meetings and ending with a 'Focus' presentation by a member of the leadership team. The agenda for the Board meetings will often include a 'deep dive' presentation from one of the business units as well as focusing on key priorities for the Group, including:

- progress with the 'Build to Last' programme
- strategy and budgets
- operating structures, processes and costs
- the Group's financial performance
- legacy contract out-turns
- annual and interim financial statements
- health and safety performance
- significant human resources issues, including succession planning and diversity
- consideration of issues relating to major disputes, proceedings or other matters of potentially adverse affect on the Group's reputation.

Responsibility and delegation

The Board is responsible for the success of the Company and has a formal schedule of matters reserved for its decision which includes the matters summarised below:

- determining the Group's strategic direction
- approving annual budgets and financial reporting, including the annual and half-year results and interim management statements
- approving interim, and recommending final, dividends
- approving major acquisitions, disposals and capital expenditure
- ensuring the necessary financial and human resources are in place to achieve objectives and review management performance
- setting the Company's values and ethical standards
- approving policies and systems for risk management and assurance.

The Board reviewed its list of reserved matters, most recently, at its meeting in January 2016. The full list and the terms of reference of the Board Committees are available on the Company's website:

www.balfourbeatty.com/investors

The day-to-day management of the business is delegated to executive Directors and the Group's senior management.

Governance report continued

Board and Committee meetings attendance

Details of the number of meetings and attendance at the Board meetings and meetings of the Audit and Risk, Safety and Sustainability (formerly Business Practices), Nomination and Remuneration Committees during the year are set out in the table below.

Director	Board (11)	Audit and Risk (6)	Safety and Sustainability (3)	Nomination (4)	Remuneration (4)
Philip Aiken (from 26 March 2015)	8(8)		3(3)	2(2)	2(2)
Robert Amen	7(11)	4(6)	2(3)	4(4)	
Stephen Billingham (from 1 June 2015)	6(6)	2(2)			
Stuart Doughty (from 8 April 2015)	7(7)	3(3)	3(3)		1(1)
Iain Ferguson	10(11)	4(4)	2(3)	4(4)	4(4)
Philip Harrison (from 1 June 2015)	6(6)				
Maureen Kempston Darkes	11(11)		3(3)	4(4)	4(4)
Duncan Magrath (to 8 May 2015)	4(4)				
Steve Marshall (to 26 March 2015)	3(3)			2(2)	2(2)
Leo Quinn	11(11)			3(4)	
Graham Roberts	10(11)	6(6)		3(4)	3(4)
Peter Zinkin (to 26 March 2015)	3(3)				

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships). Non-attendance at meetings was due to compelling business commitments or exceptionally illness. In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chair, as appropriate. Iain Ferguson left the Audit and Risk Committee in July 2015 and rejoined it in January 2016.

Further information about the work of each of the Board's Committees may be found on pages 59 to 63 and pages 68 to 84.

Board development

Induction

Directors undertake a thorough induction programme and receive a range of information about the Company when they join the Board, including access to a portal on which all Board papers are stored, and which includes Balfour Beatty's Code of Conduct and processes for dealing in Balfour Beatty shares and Board procedures. In addition, they take part in a series of one-to-one meetings with other members of the Board, senior executives in the businesses and the Company's external advisers, which include briefings on the Company's business strategy, financial procedures, business development, legal and other key issues.

The Directors' induction programme also provides the foundation for continuing professional development. This takes place throughout the year by way of a series of internal and external updates, including visits to operating companies to meet local management and visits to Balfour Beatty projects, both in the UK and overseas.

Professional development

In discussion with the Directors and Company Secretary, each year the Chairman determines whether there are any specific training needs identified by the Directors, which can be addressed either by the topic being included at a future Board meeting or on a one-to-one basis. Directors are also enrolled in the Deloitte Academy, a seminar-led programme for directors of UK listed companies, which provides regular updates throughout the year on the principal governance and other matters of which directors of a listed company should be fully aware.

Board evaluation

Introduction

In keeping with the Code, the Board undertakes external evaluations, typically every three years, with internal evaluations in the intervening two years. The most recent external evaluation was carried out in early 2016, and considered the performance of the Board and its Committees, as well as the Chairman and individual Directors, during 2015.

2015 evaluation

All Board members were requested to complete an online survey, which was prepared by Lintstock, an external facilitator. Lintstock also facilitated Balfour Beatty's 2014 evaluation and has no other connection with the Company.

The survey was tailored to the specific circumstances of Balfour Beatty and covered the composition, expertise and dynamics of the Board, the Board's management of time, the support afforded to the Board, the Board's oversight of strategy, risk and human resources, and priorities for change. The anonymity of responses was guaranteed to ensure open and honest input.

Lintstock subsequently delivered a report to the Board, which formed the basis for one-to-one interviews between the Chairman and each Director, the outcomes of which were discussed by the Board at the March 2016 meeting. The Committee reviews were discussed individually at each Committee meeting.

Key conclusions from the evaluation

Given that over 60% of the current Board, including the Chairman, joined during 2015, comparisons to the 2014 review are of limited value; however, overall ratings across most areas showed an improvement year-on-year. The importance of the new non-executive Directors continuing to enhance their understanding of the business was seen to be a key priority for the coming year.

Following the review, among other things the Board agreed to spend more time discussing the Company's future strategy, including the implementation of 'Build to Last'; increase its exposure to, and engagement with, management; and continue its focus on overseeing risk management, including Health and Safety.

Risk management and internal control

Risk management

Effective risk management underpins the delivery of the Group's objectives. It is essential to protecting its reputation and generating sustainable shareholder value. Balfour Beatty identifies key risks and applies controls at an early stage and develops action plans to eliminate them or mitigate their impact and likelihood to an acceptable level. For more information, refer to pages 42 to 50.

The Board has applied principle C2 of the UK Corporate Governance Code by embedding continuous risk management processes throughout the Group at all levels which form an integral part of day-to-day business activity. They are designed to help management to identify and understand the risks they face in delivering business objectives and the status of the key controls in place for managing those risks.

Roles and responsibilities

The Board is responsible for Balfour Beatty's system of risk management and internal control. It sets the Group's appetite for risk in pursuit of its strategic objectives, and the level of risk that can be taken by Group, divisional and business unit management without specific Board approval. Group policies, procedures and delegated authority levels set by the Board provide the means by which risks are reviewed and escalated to the appropriate level within the Group, up to and including the Board, for consideration and approval.

The roles and responsibilities of the Board, its Committees, and divisional and business unit management during the year are set out below.

	Responsibilities	Actions undertaken
1. Board	– Responsible for the Group's systems of risk management and internal control – Determines Group appetite for risk in achieving its strategic objectives.	– Issues and reviews Group risk management policy – Annually reviews effectiveness of Group risk management and internal control systems – Reviews the Group's key risks and risk responses.
Audit and Risk Committee	– Regularly reviews the effectiveness of Group internal controls, including systems to identify, assess, manage and monitor risks.	– Receives regular reports on internal and external audit and other assurance activities – Annually assesses Group risk management and internal control systems – Reviews effectiveness of the Group's helpline and other channels for raising concerns about Code of Conduct breaches.
Group Tender and Investment Committee	– Reviews and approves tenders and investments, triggered by certain financial thresholds or other risk factors.	– Critically appraises significant tender proposals and investment/divestment opportunities, with a specific focus on risk.
Safety and Sustainability Committee	– Reviews Group management of non-financial risks such as health and safety, and sustainability.	– Receives regular reports on implementation of Group policies and procedures on non-financial risks.
2. Group management	– Strategic leadership – Responsible for ensuring that the Group's risk management policy is implemented and embedded – Ensures appropriate actions are taken to manage strategic risks and other key risks.	– Strategic plan and annual budget process – Reviews risk management and assurance activities and processes – Monthly/quarterly finance and performance reviews.
3. Divisional management	– Responsible for risk management and internal control systems within its division – Ensures that business units' responsibilities are discharged.	– Reviews key risks and mitigation plans monthly – Reviews and challenges business unit assurance plans – Reviews results of assurance activities – Escalates key risks to Group management and the Board.
4. Business unit management	– Maintains an effective system of risk management and internal control within its business unit and projects.	– Maintains and regularly reviews project, functional and strategic risk registers – Reviews mitigation plans – Plans, executes and reports on assurance activities.

Risk management and internal control continued

Risk management process

Balfour Beatty's risk management policy requires that all divisions and those business units within them identify and assess the risks to which they are exposed and which could impact on the ability to deliver their, and the Group's, objectives.

Identified risk events, their causes and possible consequences are recorded in risk registers, with details of the likelihood and potential business impact and the control systems in place to manage them analysed and, if required, additional actions developed and put in place to mitigate or eliminate unwanted exposures; and individuals allocated responsibility for evaluating and managing these risks to an agreed timescale.

The Group sets delegated authorities which are the trigger for matters requiring Group senior management or Board approval. In relation to bidding, this means that projects above a certain value, with certain features that import certain risks or involve a move into new markets or work types, require approval by the Group Tender and Investment Committee, with divisions having a delegated level of authority as well as their own approval and risk management committees and triggers.

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level to business unit management to divisional and Group senior management.

A range of procedures is used to monitor the effectiveness of internal controls, including management assurance, risk management processes and independent assurance provided by internal audit and other specialist third parties.

Improvements to the risk management framework were made throughout 2015 as outlined on pages 42 and 43. Continuing co-ordination of commercial and more general business risk and assurance reporting is ongoing with financial and general business risk being subject to regular review. Further strengthening of the risk management and review framework is to be deployed in 2016 to increase risk oversight and scrutiny. These processes are detailed further at pages 44 to 50 but in principle will improve the approach taken to risk management using a transparent and common approach.

Internal control

The Board has ultimate responsibility for the Group's risk management systems and internal control, and regularly reviews their effectiveness.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is managed properly, but the Board recognises that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In addition, not all the material joint ventures in which the Group is involved are treated, for these purposes, as part of the Group. Where they are not, systems of internal control and risk management are applied as agreed between the partners to the joint venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These align with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and were in place throughout 2015 and up to the date of signing this report.

The Group's systems of internal control operate through a number of different processes, some of which are interlinked. These include:

- a clear system of delegated authorities from the Board to management with certain matters reserved by the Board
- the annual review of the strategy and plans of each division and of the Group as a whole in order to identify the risks to the Group's achievement of its overall objectives and, where appropriate, any relevant mitigating actions
- monthly financial reporting against budgets and the review of results and forecasts by executive Directors and management, including particular areas of business or project risk. This is used to update management's understanding of the environment in which the Group operates and the methods used to mitigate and control the risks identified
- gateway reviews requiring risk, uncertainty and control assessment at all stages of project development and at all levels of the business from business unit level to Board Committee if value, or perceived exposure, exceeds certain thresholds
- regular reporting, monitoring and review of the effectiveness of health, safety and environmental processes. These processes are subject to independent audit and certification to internationally recognised standards
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself
- specific policies set out in the Group Finance Manual covering the financial management of the Group, including arrangements with the Group's bankers and bond providers, controls on foreign exchange dealings and management of currency and interest rate exposures, insurance, capital expenditure procedures, application of accounting policies and financial controls
- legal compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- Group-wide risk management standards which are embedded throughout the Group
- reviews and tests by the internal audit function of critical business financial processes and controls and specific reviews in areas of perceived high business risk
- the Group's ethics helpline and other channels by which staff are encouraged to raise concerns, in confidence, about possible breaches of the Code of Conduct, improprieties on matters of financial reporting and other issues.

These systems are extended, as soon as possible and as appropriate, to all businesses joining the Group.

The divisional CEOs are responsible for ensuring that a comprehensive framework of assurance (including internal audit) exists within their division and business units which is in accordance with Group requirements.

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2015 and to the date of this report. Such assessment is based on reports made to the Board, the Audit and Risk Committee and the Safety and Sustainability Committee, including:

- the results of internal audit's reviews of internal financial controls
- a Group-wide certification that effective internal controls had been maintained or, where any significant non-compliance or breakdown had occurred with or without loss, that appropriate remedial action has been or is being taken
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

Principal risks

The principal risks that could adversely impact on the Group's profitability and ability to achieve its strategic objectives are set out on pages 44 to 50.

Audit and Risk Committee

Graham Roberts

Chairman of the Audit and Risk Committee

"The Audit and Risk Committee plays a key role in overseeing the Group's financial reporting and risk management processes. We are committed to ensuring that the Group's financial reporting is accurate, high-quality and clear, to allow shareholders to properly understand the Group's performance and financial position."

Main responsibilities

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council. The main responsibilities of the Audit and Risk Committee are summarised below:

- review the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance
- review the Group's internal controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems it has established and the conclusions of any testing carried out by the internal audit function and external auditor
- monitor and review the effectiveness of the internal audit function including its work programme
- make recommendations to the Board in relation to the appointment of the external auditor and approve the remuneration and terms of engagement of the external auditor
- assess the independence, objectivity and effectiveness of the external auditor and develop and implement policy on the engagement of the external auditor to supply non-audit services
- review the integrity of the statement in the Annual Report on being fair, balanced and understandable, as required under the Companies Act 2006
- review the procedures for the Group's helplines and other mechanisms used by employees to raise concerns confidentially (including any whistleblowing facilities) and their effectiveness.

Graham Roberts, a Fellow of the Institute of Chartered Accountants, a former partner at Andersen and former finance director of The British Land Company, has been identified by the Board as having recent and relevant financial experience.

Partners from the external auditor, the Group Risk and Audit director, the Group Chief Executive and the Chief Financial Officer regularly attend meetings. The Committee also invites divisional leaders and specialists relevant to the Committee's agenda.

Summary of activities in 2015

In 2015, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 60. The Committee's standing agenda items comprised reports on:

- accounting, financial and regulatory issues
- review of non-audit work carried out by the external auditors, and their fees
- risk management activities and compliance
- implementation of and progress against the Group assurance plan.

The Committee is able to question management at both Group and divisional levels to gain any further insight into the issues addressed in these reports.

As reported more fully on page 61, the Committee led the process of retendering the external audit, resulting in the recommendation to approve KPMG's appointment for the year ended 31 December 2016. It also oversaw the recruitment of the Group Risk and Audit director and the subsequent reorganisation of the activities reporting to him.

Risk management and assurance

The Committee oversaw the development of more robust processes to embed operational risk in core reporting processes. This work is ongoing with the intention of developing a unified and common approach to risk management and assurance across the Group.

Fair, balanced and understandable

Following the introduction of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Board has been mindful of the continuing need to provide a balanced and comprehensive analysis of the Company's development and performance during the year and the position at the year end. The Audit and Risk Committee has assisted in achieving this objective by reviewing proposals for the internal procedures to be applied in preparing the Annual Report.

Viability statement

Following the revision to the UK Corporate Governance Code published in September 2014, the Audit and Risk Committee has assisted in reviewing the viability of the Group over the longer term as part of its assessment of the Group's risks.

See page 50 for further details

Areas of focus in 2016

In 2016, the Committee will continue to address the topics on its standing agenda as well as continuing to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive any necessary training in order to broaden and refresh the skills and knowledge of its members.

Audit and Risk Committee continued

Significant issues and other accounting judgements	
Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports and met with management, the Committee considered contract and commercial issues with exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the impairment model and the assumptions used; in addition, the external auditor provided detailed written reports in this area.
Accounting for acquisitions and disposals	The Committee judges whether a business should be treated as held for sale and classified as a discontinued operation. In doing so, it reviews management's position and Group strategy and evaluates the likelihood that the business will be disposed of within a 12-month period and if it constitutes a separate major line of business.
Going concern and viability statement	In order to satisfy itself that the Company has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's viability statement, cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement and the viability statement for inclusion in the Annual Report. More details on going concern and the viability statement are contained on pages 21 and 50.
Non-underlying items	The key judgement is whether items relate to underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted a review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of the Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rates applied. It also critically appraised the output of the Directors' valuation exercise.

Risk management and internal control

The risk management and internal control framework was reviewed and strengthened in February 2015 and now comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion. These processes are underpinned by common minimum standards in project and commercial management and are under constant review to ensure their effectiveness and compliance.

Internal auditor effectiveness

The Committee reviews the effectiveness of internal audit on an ongoing basis. This is achieved, in part, by reviewing and discussing the reports presented to it at each meeting, setting out the department's work and findings, but also through a formal annual assessment. An independent periodic review of internal audit, as well as a thorough self-assessment scorecard drawn up in accordance with best practice guidelines, also helps contribute to the Committee's evaluation.

External auditor independence and effectiveness

The Committee carries out a formal review each year to assess the independence and effectiveness of the external auditor, Deloitte LLP. The Committee has satisfied itself as to Deloitte's independence. In reaching its conclusion, the Committee took into consideration the following matters:

Non-audit work

The objective set out in the Company's policy is to ensure that the external auditor is not placed in a position where its independence is, or might be seen to be, compromised. Under no circumstances will any assignment be given to the external auditor, when the result is that:

- as part of the statutory audit, it is required to report directly on non-audit work
- it makes management decisions on behalf of the Group
- it acts as advocate for the Group
- the level of non-audit fees is such, relative to audit fees, as to raise concerns about its ability to form objective judgements.

The Company's policy identifies the various types of non-audit services and determines the analysis to be undertaken and level of authority required before the external auditor can be considered to undertake such services.

There is no inconsistency between the Financial Reporting Council's ethical standards and the Company's policy.

In 2015, the external auditor was appointed to carry out various non-audit related work, including corporate finance services for reasons of commercial confidentiality and efficiency as well as tax advisory services in Germany and the UK.

The Committee considers that the Company receives particular benefits, including those relating to cost, quality and consistency, from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. There can also be savings in management time and accelerated delivery of work in situations where rapid turnaround is required.

The majority of non-audit related work provided by all the major international accounting firms (85% by value) was carried out by firms other than Deloitte.

Annual assessment of the audit process

In addition to receiving written reports from the auditors (both internal and external) and management, the Committee also conducted separate private meetings with the external auditors and with management. These provide the opportunity for open dialogue and feedback on the audit process, the responsiveness of management and the effectiveness of individual internal and external audit teams.

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year. Each division and operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year. This assessment has taken into account the issues which have been raised during 2015.

The external auditor's annual transparency report for the year ended 31 May 2015 was reviewed. This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board of the Financial Reporting Council.

External auditor rotation

As indicated last year, in light of the requirements of the UK Corporate Governance Code and other recent changes to the EU regulatory framework, the Committee undertook a competitive tender for the external audit, Deloitte having been the Company's auditor since August 2002. This process involved:

- presentations to the Committee by four firms, including Deloitte, addressing key business risks and their proposed audit approach
- individual meetings of the tendering firms with all of the divisional management teams, executive management and members of the Committee
- the presentation of formal tender submissions
- a final presentation to a selection committee chaired by the chairman of the Audit and Risk Committee and comprising executive and non-executive Directors of the Group.

The result of the comprehensive tender process was that on the recommendation of the committee, the Board selected KPMG as auditor for the year ending 31 December 2016. Accordingly, shareholder approval will be sought to confirm the appointment of KPMG as auditor of the Company at the AGM to be held on 19 May 2016.

The disclosures provided above constitute the Company's statement of compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Nomination Committee

Philip Aiken

Chairman of the Nomination Committee

"The role of the Committee is to monitor the structure and composition of the Board, including responsibility for recommending Board appointments, and to consider the strategy, processes and plans for senior executive recruitment, the Group's succession planning and talent management."

Summary of activities in 2015

In 2015, the Committee's work programme entailed the selection of and recommendations to the Board for the appointment of two new non-executive Directors.

All appointments to the Board are based on merit, against objective criteria, having due regard for diversity, including gender.

In seeking suitable candidates for the positions, The Zygos Partnership, an external executive search agency was engaged. The Committee identified the competencies sought and the required experience, and the agency prepared shortlists of potential candidates who were interviewed by members of the Committee and by the executive Directors.

Key determinants in the selection of the non-executive Directors were a background in organisations that share key dynamics with Balfour Beatty, including contracting, customer service, major capital projects, infrastructure and B2B services.

The search agency appointed was reminded to approach a diverse talent pool of candidates, and has no other connections with Balfour Beatty.

Areas of focus in 2016

In January 2016, the Committee received a comprehensive presentation on the succession and development plans for the Group's senior leadership team and discussed successions plans for the Board. It will continue to monitor the appropriateness of the composition of the Board and if appropriate, make recommendations to the Board concerning the need for the introduction of new non-executive Directors. The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will consider during the year.

Safety and Sustainability Committee

Maureen Kempston Darkes

Chairman of the Safety and Sustainability Committee

"The principal role of the Committee is to drive greater focus on the development of the safety culture within the business through the Zero Harm programme and to review the environmental performance of the Group."

Summary of activities in 2015

The Committee met for the first time in July 2015, having assumed the safety and environmental responsibilities of the former Business Practices Committee, with the objective of providing greater emphasis on these areas. Oversight of the whistleblowing policies and procedures is now provided by the Audit and Risk Committee, whilst ethics and compliance reports are reviewed by the Board.

The principal role of the Committee is to drive greater focus on the development of the safety culture within the business through the Zero Harm programme and to review the environmental performance of the Group.

In addition to the standard agenda items designed to provide the Committee with objective reporting of absolute and relative performance against agreed KPIs, during the year the Committee has overseen the simplification of the UK health and safety function by creating a UK-wide centre of expertise under one leadership team. This has facilitated the development of a more proactive, risk-based approach focused on end-to-end risk elimination, improved learning and communication. The UK function also performs a Group-wide data collection and reporting role.

In the US, safety issues will be dealt with separately because of different statistical measurement of performance, although every opportunity will be taken to share and promote best practice across the Group.

The Committee considered certain significant health and safety-related incidents, including fatalities, discussing in detail the themes around supervision, communications and remote working.

Areas of focus in 2016

In 2016, the Committee will continue to focus on the key reputational risk areas of health and safety and sustainability and will monitor progress against the various action plans.

Group Tender and Investment Committee

Summary of role

The Committee has been chaired by the Group Chief Executive, or in his absence by the Chief Financial Officer, or in his absence by the Chief Executive of Investments (other than for Infrastructure Investments tenders). In November 2015, three more members of the Committee were approved by the Board to chair meetings. Similar restrictions apply to each of them in relation to review of proposals from those areas of the business for which each has executive responsibility.

The main purpose of the Committee is to review all major proposed tenders with projected values above specified levels, with a specific focus on risk. The Committee also has authority to approve capital expenditure applications and any proposed acquisitions or disposals up to certain specified limits determined by the Board. For example, currently the Committee's terms of reference require contracts for construction or services in the UK of a value exceeding £100 million to be submitted for review, whilst other limits vary according to geography and nature of the contract.

Any member may convene a meeting of the Committee to discuss any of the tender reviews in more detail. In addition to those members of the Committee most relevant for the consideration of each proposed tender, meetings are attended by key members of the bid team concerned and their divisional, operational and financial leaders. Minutes of all meetings are made available to all Directors.

Finance and General Purposes Committee

Summary of role

The Committee is chaired by the Group Chief Executive or, in his absence, by the Chief Financial Officer.

Its principal purpose is to approve various routine banking and treasury matters, grants and exercises of employee share options and other matters relating to share capital.

A summary of the business conducted at the meetings is provided to all Directors.

Directors' report – other disclosures

Business and financial review

The Chairman's introduction on pages 2 and 3, the Group Chief Executive's review on pages 4 and 5, the market and strategic reviews on pages 10 to 17, the Chief Financial Officer's review on pages 18 to 21, the performance review on pages 22 to 33 and the section titled Building a sustainable business on pages 34 to 41 are incorporated by reference into the Directors' report.

Results and dividends

The results for the year are shown in the audited financial statements presented on pages 90 to 177 and are explained more fully in the Chairman's introduction, the Chief Financial Officer's review and the performance review. No ordinary dividends were paid in 2015 (2014: 5.6p (net) per ordinary share). Preference dividends totalling 10.75p (gross) per preference share were paid in 2015 (2014: 10.75p (gross)).

The Directors continued to offer the dividend reinvestment plan, which allows holders of ordinary shares to reinvest their cash dividends in the Company's shares through a specially arranged share dealing service.

Innovation, research and development

Information concerning innovation, research and development is set out on pages 34 to 36 and forms part of the Directors' report disclosures.

Branches

As the Group is a global business, there are activities operated through branches in certain jurisdictions.

Share capital and shareholders

Details of the share capital of the Company as at 31 December 2015, including the rights attaching to each class of share, are set out in Note 29 on pages 145 and 146. During the year ended 31 December 2015, no ordinary or preference shares were repurchased for cancellation. 210,214 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme.

At 31 December 2015, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2015 to purchase through the market 68,950,577 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2016 AGM or on 1 July 2016.

Throughout the year, all the Company's issued share capital was publicly listed on the London Stock Exchange and it remains so as at the date of this report. There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the Articles of Association and the prevailing law. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

No person has special rights of control over the Company's share capital and all issued shares are fully paid.

As at 31 December 2015, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital.

	Number of ordinary shares held	Percentage of ordinary shares held
Causeway Capital Management LLC	55,778,133	8.08
Prudential plc	40,072,886	5.81
Norges Bank	34,534,864	5.01
Newton Investment Management Limited	31,347,697	4.55
Invesco Limited	29,102,945	4.21

Auditor

As explained on page 61, during 2015, the Board completed a competitive tender process for the appointment of the external auditor, as a result of which KPMG LLP was selected as the Company's auditor for the year ending 31 December 2016. A resolution for their appointment will be proposed at the 2016 AGM.

Articles of Association

The Company has not adopted any special rules regarding the appointment and replacement of Directors or the amendment of the Articles of Association, other than as provided under UK company law.

Relations with shareholders

The Board attaches great importance to maintaining good relationships with all shareholders and ensures that shareholders are kept informed of significant Company developments.

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2015. Presentations of the half-year and full-year results were made in accordance with the practice of previous years, and teleconferences have been held for Interim Management Statements.

Through the year, approximately 102 one-on-one and group meetings were held at regular intervals with institutional shareholders (2014: approximately 207). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during hosted roadshows in London, Scotland and North America.

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice. The 2016 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that international institutions continue to be given the opportunity to meet with management.

Care is exercised to ensure that any price sensitive information is released to all shareholders at the same time in accordance with UK Listing Authority requirements.

Executive Directors report regularly to the Board on meetings or other contact with shareholders or their representatives. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman and the Senior Independent Director and through the regular reports to the Board, they are kept fully aware of the views of the larger shareholders in the Company and the investment community generally.

The Board continues to retain the services of independent external corporate and investor relations consultants who provide advice on the relationship between the Company and its institutional investors.

Further information on our investor relations programme can be found at:

www.balfourbeatty.com/investors

The Board regards the Company's general meetings as an opportunity to communicate directly with private investors and actively encourages participative dialogue with all the Company's shareholders. The chairs of the Board Committees attend the AGM each year along with the other Directors and are available to answer questions from shareholders. The circular setting out the Notice of the 2016 AGM provides a detailed explanation of the business to be transacted and includes contact details which shareholders can use to make any comments or ask any questions concerning the AGM.

The website is regarded by the Company as an important source of information on the Group, including financial press releases, shareholder documentation, annual and half-year results presentations and the terms of reference of the principal Board Committees. The Company's website continues to be developed to ensure it remains a principal source of information on the Group and its activities.

Political donations

At the AGM held in May 2015, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2016 AGM.

In the US and Canada, corporate political contributions totalling £35,000 were made by business units during 2015 (2014: £282,000). Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

Corporate responsibility

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 34 to 41.

The Group's published policies on health and safety, the environment, business conduct and ethics remain in place and are subject to regular reviews.

Greenhouse gas emissions

Details of emissions during the year and the actions which the Group is taking to reduce them are set out on pages 39 and 40 and form part of the Directors' report disclosures.

Employment

The Balfour Beatty Group operates across multiple territories and end markets. However, there are key principles in the design and practice of employment policy that are applicable across the Group. These are to:

- provide a safe, open, inclusive and challenging environment that attracts and retains the best people
- enable all employees to perform at their best and realise their full potential, assisted by appropriate training and career development
- communicate the strategy of the Group, the objectives of each respective business and the role and objectives of each employee within that business
- actively consult with all employees and engage in a participating environment that fosters the exchange of best practice and collaboration
- provide market competitive pay and benefits that reward both individual and collective performance
- ensure that all job applicants receive fair treatment, regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief
- ensure that all employees similarly receive fair treatment throughout their career
- provide a working environment of respect and free from harassment.

Information concerning employee diversity is set out on page 38 and forms part of the Directors' report disclosures.

Balfour Beatty strives to provide employment, training and development opportunities for disabled people wherever possible. The Group is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential, consistent with all other employees.

Directors' report – other disclosures continued

Employment continued

The Company also operates an all employee Share Incentive Plan (SIP) which enables UK-based employees to acquire the Company's ordinary shares on a potentially tax-favourable basis, in order to encourage employee share ownership and provide additional alignment between the interests of employees and shareholders. Participants in the SIP are the beneficial owners of shares but not the registered owners, and the voting rights to such shares are exercised by the trustee of the SIP at the discretion of the participants.

Information concerning the performance of the Group and the Company's share price is provided to all employees via the Group intranet, 360, and through the Company's website.

Events after the reporting date

As at 14 March 2016, there were no material events after the reporting date.

Change of control provisions

The Group's bank facility agreements contain provisions that, on 30 days' notice being given to the Group, the lender may exercise its discretion to require prepayment of the loans on a change of control of the Company and cancel all commitments under the agreement concerned.

A number of significant joint venture and contract bond agreements include provisions which become exercisable by a counterparty on a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

The Group's US private placement arrangements require the Company, promptly upon becoming aware that a change of control of the Company has occurred (and in any event within 10 business days), to give written notice of such fact to all holders of the notes and make an offer to prepay the entire unpaid principal amount of the notes, together with accrued interest.

The Group's convertible bond arrangements provide that the holder of bonds can require the Company to redeem its bonds following a change of control of the Company at their principal amount, together with accrued interest. The Company is required to notify the bond holder within 14 days of a change of control.

Some other commercial agreements, entered into in the normal course of business, include change of control provisions.

The Group's share and incentive plans include usual provisions relating to change of control, as do the terms of the Company's cumulative convertible redeemable preference shares.

There are no agreements providing for compensation for the Directors or employees on a change of control.

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 38 on pages 155 to 162.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and they have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for preventing and detecting fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 59 to 61 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Andrew Astin
Company Secretary
14 March 2016

Registered Office:
5 Churchill Place, Canary Wharf
London E14 5HU

Registered in England Number 395826

Remuneration report
Chairman of Remuneration Committee introduction

Iain Ferguson

Chairman of the Remuneration Committee

"2015 was a year of strong cash performance where the recently appointed executive Directors had a positive impact on Company performance despite having to deal with significant legacy issues. It was a busy year for the Committee which will continue through 2016 as we undertake a full review of our reward tools and practices, to ensure that they fully support the next stage of the Company's transformation,. We intend to present a new Remuneration Policy for approval by shareholders at the 2017 AGM.

The Committee is responsible for remuneration strategy and policies, incentive plans and individual remuneration packages."

I am pleased to present the Directors' Remuneration report for 2015.

This report is divided into two sections, the Policy Report and the Annual Report, the latter being subject to an advisory vote at the 2016 AGM.

Link to strategy

The primary objectives of our remuneration policy are to ensure we are able to attract, retain and motivate key executives to deliver strong sustainable business performance aligned to the strategic plan and to the interests of shareholders. Balfour Beatty executive remuneration comprises base salary, benefits and incentive plans that are designed to reward both short-term and long-term performance. The incentive plans are subject to clawback provisions.

Summary of activities in 2015

Impact of Board changes

This year, the Committee has dealt with a number of Board changes, including the departure of Duncan Magrath as Chief Financial Officer in May 2015 and the recruitment of his replacement, Philip Harrison, who joined Balfour Beatty in June 2015. Peter Zinkin, the Planning and Development Director, retired in August 2015 after a 34-year career with the Company.

Steve Marshall stepped down from the Board as Chairman in March 2015 on the appointment of his successor, Philip Aiken.

Leo Quinn joined the Board in January 2015 as Group Chief Executive and his appointment terms were detailed in the 2014 Remuneration report.

Reward for 2015

In respect of 2015, the annual bonus payments for the executive Directors reflect the mixed performance of the Company – cash performance was strong, as was the personal performance of both executive Directors; however, profit performance continued to disappoint as the Company dealt with legacy issues.

The TSR performance conditions relating to the 2013 PSP which measured performance over the three years ended 31 December 2015 were not achieved and so those awards lapsed in full in March 2016.

While a below Board initiative, an innovative approach approved by the Committee in 2015 was the introduction of the CEO Share Awards under the Restricted Share Plan as a clear commitment to building a talent pipeline to secure the future of the Company. In 2015, modest awards of three-year restricted stock were made to 344 colleagues identified as key future talent. Each individual award was sponsored by the Group Chief Executive and provides a clear retention and reward tool as we look to deliver further performance improvements.

Areas of focus in 2016

In 2016, the Committee will undertake a formal review of the remuneration policy and the appropriateness of the short-term and long-term incentive arrangements to meet the current and future needs of the Company, as it implements the next phase of its business strategy. If changes are considered necessary, the Committee will consult with shareholders at the appropriate time, prior to proposing any resolution at the 2017 AGM.

Remuneration policy for 2016

We remain committed to the principles of our existing remuneration policy and its strong alignment to performance and shareholder value. A summary of how the Committee intends to operate the policy for 2016 is set out below:

- Reflecting the ongoing transformation of the Group through Build to Last, the AIP for 2016 will be measured using stretching profit and cash targets and strategic objectives. Cash generation remains critical as the Group looks to build on progress made in 2015 and return to profitability.
- The Committee will adopt a combination of TSR, EPS and cash performance measures for the 2016 PSP awards. This provides consistency with the measures used for the 2015 PSP award and reflects the continued strategic priorities of the Company.

Conclusion

The Committee will continue to engage with the Company's major shareholders to ensure that its executive remuneration remains appropriate and that, if changes are proposed, they remain true to the Committee's principles of rewarding strong performance and enhanced value to shareholders.

The Committee noted the significant number of votes cast against the advisory vote on the Directors' Remuneration report at the 2015 AGM (68% 'For' and 32% 'Against'). As shareholders are aware, 2014 was a challenging period for the Company and the Committee had to deal with a number of critical issues, including the recruitment terms of the Group Chief Executive, which resulted in many of the votes against the Directors' Remuneration Report at the 2015 AGM.

The Board takes its responsibility to engage with investors seriously and the Committee believes that the remuneration actions taken in 2014, including those related to the appointment of the Group Chief Executive, and those taken in 2015, were necessary and in the best interest of the Company and its shareholders.

I hope you will be supportive of the resolution to approve the Annual Report on Remuneration at the 2016 AGM.

Iain Ferguson
Chairman of the Remuneration Committee

Directors' remuneration policy report

The policy was approved by shareholders at the AGM on 15 May 2014. Although there is no requirement to include the Policy Report this year, it has been included for ease of reference.

Policy overview

The Committee, on behalf of the Board, determines the Company's remuneration policy and the remuneration packages of the executive Directors of the Company and the Chairman. In setting the remuneration policy, the Committee takes into account a number of factors, including:

- general trends in pay and conditions throughout the Group
- the positioning of remuneration levels against the external market
- the balance between fixed and variable pay – more specifically, variable pay should form a significant but not disproportionately high level of potential remuneration
- the strategy of the business.

In setting the overall remuneration policy, general trends and average increases throughout the Group are taken into account when setting executive Directors' reward packages. A key feature for the executive Directors is that a higher proportion of their remuneration package is delivered through performance-related pay, which has a greater linkage to the results of the Group. The areas covered in this Policy Report comprise:

Consideration of shareholders' views

The Committee considers feedback from shareholders received at each AGM, and any feedback from additional meetings, as part of any review of executive remuneration. In addition, the Committee engages proactively with shareholders and will ensure that shareholders are consulted in advance, where any material changes to the remuneration policy are proposed.

Consideration of employment conditions elsewhere in the Group

In determining the remuneration of the Company's Directors, the Committee takes into account the general trends in pay and conditions across the Group as a whole. Whilst employees have not been consulted formally on executive pay, due in part to the diverse geographic disposition of the Group, the Committee seeks to ensure that the underlying principles which form the basis for decisions on Directors' pay are consistent with those on which pay decisions for the rest of the workforce are taken. These are focused for the most part on market competitiveness, business performance and personal performance.

In practice, the remuneration policy for executive Directors is more heavily weighted towards variable pay than for other employees, so that a significant proportion of their remuneration is dependent on Company performance. For employees below Board level, variable pay represents a lower proportion of their total remuneration, which is driven by market comparators and general performance.

Remuneration report continued
Directors' remuneration policy report continued

Summary of executive Directors' remuneration policy

The following table sets out a summary of each element of the executive Directors' remuneration packages, their link to the Company's strategy, the policy for how these are operated, the maximum opportunity and a description of any relevant performance metrics.

Element of pay	Purpose and link to Company's strategy	How operated in practice
Base salary	To attract and retain high-calibre individuals. To provide a competitive salary relative to comparable companies in terms of size and complexity.	Salaries are reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector. In addition, a key reference point for salary increases is the average increase across the general workforce (with the exception of promotions or significant changes in responsibility). Salaries are paid monthly in cash.
Benefits	To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence.	Private medical and life assurance may be provided. A car and fuel card or car allowance are offered. Other benefits may be provided as appropriate.
Pension	To remain competitive in the marketplace.	Executive Directors can elect either to: – participate in the defined contribution (DC) section of the Group's pension fund. Executive Directors must make contributions of 5% of base salary (up to an earnings cap), with the Company contributing 20% of base salary (up to the cap). On earnings above the cap, executive Directors receive a salary supplement; or – receive a salary supplement in lieu of a pension.
Annual Incentive Plan (AIP) and Deferred Bonus Plan (DBP)	To motivate executive Directors and incentivise the achievement of key business performance targets over the financial year without encouraging excessive risk taking. Managing risk is critical, particularly given the nature of the Company's business. To facilitate share ownership and provide further alignment with shareholders.	50% of any payment is normally deferred into shares for three years. Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results. Participants may also receive an award of cash or shares in lieu of the value of dividends on vested shares.
Performance Share Plan (PSP)	To incentivise and reward delivery of long-term performance linked to the business strategy. To facilitate share ownership and provide further alignment with shareholders. To aid retention.	PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards normally vest on the third anniversary, subject to performance. Participants also receive an award of cash or shares in lieu of the value of dividends on vested shares. Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results.
Shareholding guidelines	To align the interests of executive Directors with those of shareholders.	Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 100% of their base salary. Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained.

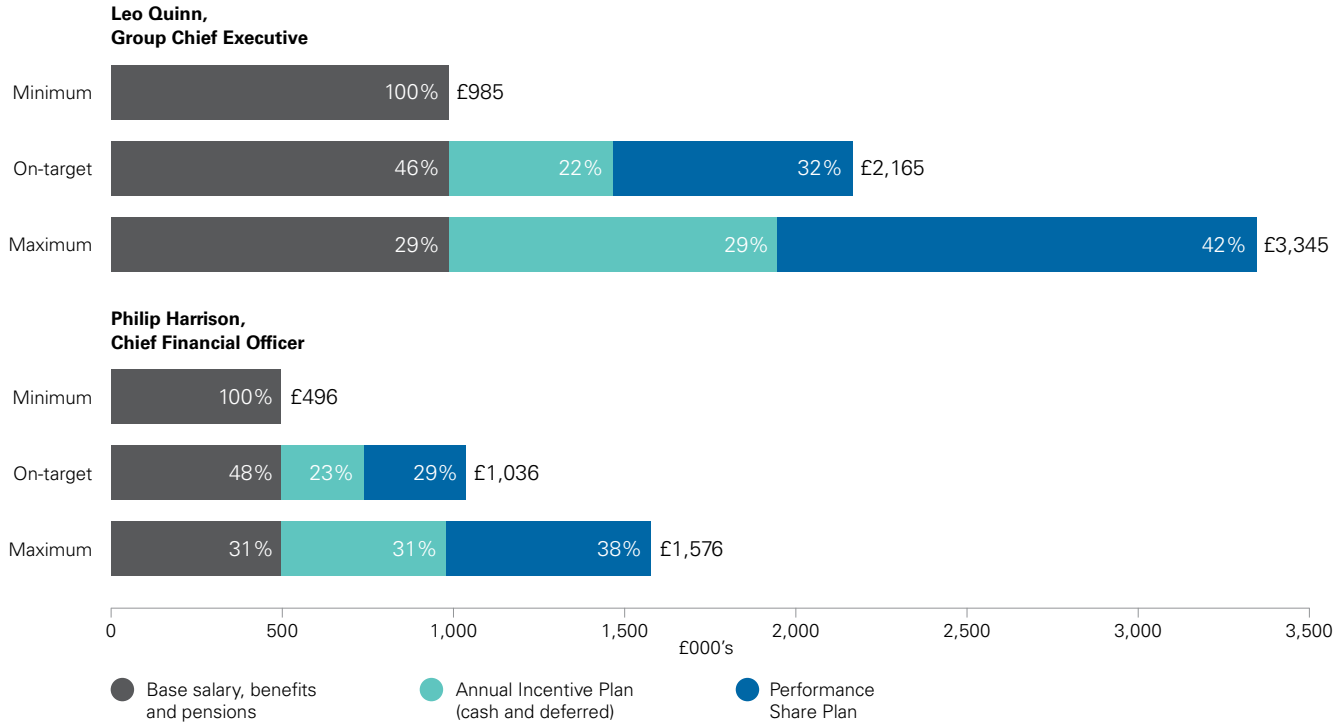
Executive Directors may also participate in the all-employee share schemes up to prevailing HMRC limits.

Maximum opportunity	Performance metrics
There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current salary levels are disclosed on page 75.	A number of factors are considered, notably market competitiveness, business and personal performance.
The maximum opportunity for medical benefits is cover for the executive Director and his or her family. Life assurance cover and any car or car allowance are based on market norms.	None
Executive Directors who participate in the Group's pension fund benefit from a pension contribution of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap. If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary.	None
Maximum annual incentive opportunity is 120% of base salary.	A majority of the bonus will be based on profit and a minority of the bonus may be based on other performance metrics linked to the business strategy, measured over a one-year performance period. Measures are reviewed each year and varied as appropriate to reflect the strategy.
The limit in the rules of the PSP is 200% of base salary. Other than in exceptional circumstances, the normal limit will be 175% of base salary.	Performance measures will normally be based on relative total shareholder return (TSR) and/or earnings per share (EPS) metrics, although strategic measures may be used in exceptional circumstances. Targets will normally be measured over a three-year performance period. There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.
–	None

Remuneration report continued
Directors' remuneration policy report continued

Remuneration scenarios for executive Directors

The charts below provide estimates for the potential future remuneration based on the current remuneration policy for the two executive Directors. Potential outcomes are based on three performance scenarios: minimum, on-target and maximum.



Notes

[1] Salary levels are based on those applying from 1 January 2016. These salaries will be reviewed in July 2016.

[2] The value of benefits receivable for 2016 has been estimated.

[3] The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (120% of salary for executive Directors), of which 50% is paid in cash and 50% is deferred in shares under the DBP.

[4] The on-target level of vesting under the PSP is taken to be 50% of the face value of the award at grant (175% of salary for the Group Chief Executive and 150% of salary for the Chief Financial Officer). The executive Directors' buyout awards, as agreed as part of their joining arrangements, are not reflected in the above charts as these are not part of the ongoing remuneration policy.

[5] The maximum level of AIP and vesting under the PSP is taken to be 100% of the AIP opportunity and 100% of the face value of the PSP awards at grant.

[6] No share price appreciation or dividend awards have been assumed for the DBP shares and PSP awards.

Recruitment and promotion policy for executive Directors

To ensure the ongoing leadership continuity of the Group, the appointment of high-calibre executives may be necessary, either by external appointment or internal promotion. The remuneration package for a new executive Director would be set in accordance with the terms of the Company's remuneration policy at the time of appointment and take into account the scope and complexity of the role, the experience of the individual, the prevailing market rate for that experience and the importance and immediacy of securing that candidate.

The salary would be provided at such a level as required to attract the most appropriate candidate. The AIP potential would be limited to 120% of salary, and grants under the PSP may be up to the plan maximum of 200% of salary. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards were consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal executive Director appointment, any remuneration awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

Service agreements and payments for loss of office for executive Directors

It is the Company's policy that executive Directors should have contracts with an indefinite term, which are subject to one year's notice by the Company and six months' notice by the executive Director. In accordance with the UK Corporate Governance Code, all executive Directors submit themselves for re-election at the AGM. In the event of early termination, the executive Directors' contracts provide for compensation in line with their contractual notice period. In summary, the contractual provisions are to provide the following:

Provision	Detailed terms
Notice period	12 months by the Company, six months by the executive Director.

There are no contractual compensation provisions for termination of employment. However, other non-contractual considerations are as follows:

Notice payments	If any existing contract was breached by the Company, it would be liable to pay an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases, performance targets would apply.
Change of control	No executive Director's contract contains additional provisions in respect of change of control.

Any share-based entitlements granted to an executive Director under the Company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, retirement or other circumstances at the discretion of the Committee, good leaver status may be applied. For good leavers, awards will not be forfeited on cessation of employment and, subject to the satisfaction of the relevant performance conditions, will vest under the normal vesting schedule, being reduced pro-rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that PSP awards vest at cessation and/or to amend time pro rating. Outstanding DBP awards will lapse on cessation of employment. However, in certain good leaver circumstances, DBP awards will vest in full on the date of cessation.

External appointments of executive Directors

The Committee recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. Executive Directors are permitted to have one external appointment, from which fees may be retained with the approval of the Board.

Appointment of non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. All non-executive Directors are appointed for a term of three years. In accordance with the UK Corporate Governance Code, all non-executive Directors submit themselves for re-election at the AGM.

Element of pay	Purpose and link to Company's strategy	How operated in practice	Maximum opportunity
Non-executive Director fees	To attract and retain high-quality and experienced non-executive Directors.	The Chairman is paid an annual fee and the non-executive Directors are paid an annual base fee and additional responsibility fees for the role of Senior Independent Director or for chairing a Board Committee. Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK, or to any other country (excluding their home country). Fee levels are normally reviewed annually in July. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes.	As per executive Directors, there is no prescribed maximum annual increase. The Committee is guided by the general increase in the non-executive director market and for the broader employee population, but on occasions may need to recognise, for example, an increase in the scale, scope or responsibility of the role.

None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause and may be terminated at will by either party.

Remuneration report continued
Annual report on remuneration

This part of the Remuneration report sets out how the remuneration policy will be applied over the year ending 31 December 2016 and how it was implemented over the year ended 31 December 2015. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The areas covered in this annual report on Remuneration comprise:

Implementation of the remuneration policy for the year ending 31 December 2016

The detailed information about the Directors' remuneration, set out on pages 75 to 84 (excluding the performance graph on page 82), has been audited by the Company's independent auditor, Deloitte LLP.

Base salaries

The annual base salary review date is 1 July for executive Directors. Current base salaries for the executive Directors are as follows:

Base salary	On appointment £	**1 July 2015 £**	% increase
Leo Quinn	800,000	**800,000**	0.0%
Philip Harrison	400,000	**400,000**	0.0%

The annual base salary for Leo Quinn was set at £800,000 from appointment to the Board on 1 January 2015. Philip Harrison joined the Board as Chief Financial Officer on 1 June 2015 on an annual base salary of £400,000. The normal review date for executive Directors' base salaries is 1 July, but it was agreed on appointment that neither would receive an increase in 2015. The next salary review date is 1 July 2016.

Performance targets for the AIP in 2016

For 2016, the AIP for the executive Directors will be a maximum bonus of 120% of base salary subject to three performance measures:

- profit before tax (51%)
- cash (25%)
- strategic business and personal objectives (24%).

The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in the form of Balfour Beatty shares.

While the Committee has chosen not to disclose in advance the performance targets for the forthcoming year as these include items which the Committee considers commercially sensitive, retrospective disclosure of the targets and performance against them will be presented in next year's Annual Report on Remuneration.

Performance targets for PSP awards granted in 2016

Consistent with the approach adopted in 2015, the PSP awards to be granted in 2016 will be subject to the following targets:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2016, the start of the performance period. There is no vesting below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the growth in the Company's EPS over the three-year performance period
- Cash (33.3%) – cash remains critical as a long-term performance measure during the Company's transformation.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP award to be granted in 2016. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the PSP award and in the Remuneration report for 2016.

Non-executive Directors

As detailed in the Policy Report, the Company's approach to setting non-executive Directors' fees is by reference to fees paid at similar companies and reflects the time commitment and responsibilities of each role. A summary of current fees is as follows:

	1 July 2014 £	**1 July 2015 £**	% increase
Chairman[1]	265,750	**270,000**	1.6%
Base fee	56,000	**56,000**	0%
Senior Independent Director fee	10,000	**10,000**	0%
Committee chair fee	10,000	**10,000**	0%

[1] The Chairman's fees shown at 1 July 2014 are those paid to Steve Marshall who stepped down from the Board on 26 March 2015, and was replaced by Philip Aiken whose fees are shown at 1 July 2015. As disclosed last year, Steve Marshall received a temporary increase in his annual fee from £265,750 to £531,500 from 3 May 2014 to 31 December 2014 to reflect his additional responsibilities and time commitment as Executive Chairman.

For non-executive Directors based outside Europe, the travel allowance for each overseas visit made on Company business remains at £2,500.

Where the Chairman or Senior Independent Director is also the chair of a Committee, he or she receives no committee chair fee.

Remuneration report continued
Annual report on remuneration continued

Remuneration received by Directors for the year ended 31 December 2015

The table below sets out the Directors' remuneration for the year ended 31 December 2015 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2014.

	Year	Base salary and fees[1,2] £	Taxable benefits[3,4] £	Pension[5] £	Annual incentive cash £	Annual incentive deferred shares £	Long-term incentives £	Other £	Total £
Executive Directors									
Philip Harrison	**2015**	**233,333**	**8,506**	**46,667**	**65,800**	**65,800**	**–**	**–**	**420,106**
	2014	–	–	–	–	–	–	–	–
Leo Quinn[6]	**2015**	**800,000**	**30,870**	**160,000**	**225,600**	**225,600**	**–**	**2,052,902**	**3,494,972**
	2014	–	–	–	–	–	–	–	–
Former executive Directors									
Duncan Magrath[7]	**2015**	**177,195**	**5,513**	**31,079**	**43,600**	**–**	**–**	**373,351**	**630,738**
	2014	487,395	15,568	86,100	–	–	166,803	4.128	759,994
Andrew McNaughton[8]	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**265,852**	**265,852**
	2014	224,167	6,041	44,833	–	–	–	–	275,041
Peter Zinkin[9]	**2015**	**106,179**	**2,697**	**21,236**	**34,050**	**–**	**–**	**–**	**164,162**
	2014	448,500	10,385	89,700	–	–	–	–	548,585
Non-executive Directors									
Philip Aiken	**2015**	**206,654**	**–**	**–**	**–**	**–**	**–**	**–**	**206,654**
	2014	–	–	–	–	–	–	–	–
Stephen Billingham[10]	**2015**	**37,333**	**–**	**–**	**–**	**–**	**–**	**–**	**37,333**
	2014	–	–	–	–	–	–	–	–
Stuart Doughty	**2015**	**42,000**	**–**	**–**	**–**	**–**	**–**	**–**	**42,000**
	2014	–	–	–	–	–	–	–	–
Iain Ferguson	**2015**	**66,000**	**774**	**–**	**–**	**–**	**–**	**–**	**66,774**
	2014	66,000	1,877	–	–	–	–	–	67,877
Maureen Kempston Darkes[11]	**2015**	**76,000**	**3,309**	**–**	**–**	**–**	**–**	**–**	**79,309**
	2014	86,000	5,496	–	–	–	–	–	91,496
Graham Roberts	**2015**	**66,000**	**–**	**–**	**–**	**–**	**–**	**–**	**66,000**
	2014	66,000	–	–	–	–	–	–	66,000
Former non-executive Directors									
Robert Amen[12]	**2015**	**68,500**	**3,839**	**–**	**–**	**–**	**–**	**–**	**72,339**
	2014	76,000	7,311	–	–	–	–	–	83,311
Steve Marshall[13]	**2015**	**62,690**	**1,706**	**–**	**–**	**–**	**–**	**–**	**64,396**
	2014	441,488	5,878	–	–	–	–	–	447,366
Belinda Richards	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2014	49,397	–	–	–	–	–	–	49,397
Bill Thomas	**2015**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2014	49,397	2,168	–	–	–	–	–	51,565

1 Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors.

2 In practice, the base salaries paid to Leo Quinn and Peter Zinkin were reduced due to their participation in the Company's Share Incentive Plan. These salary reductions in 2015 were £3,150 for Leo Quinn and £375 for Peter Zinkin. The base salary for Peter Zinkin has also been reduced by £24,000 per annum in 2015 (2014: £24,000) to meet additional travelling costs incurred by him in order to fulfil his role. The base salary paid to Peter Zinkin in 2014 was reduced by £588 which corresponds to his contributions to the Balfour Beatty Pension Fund for the month of January 2014 which were met directly by the Company due to his participation in the Group's SMART Pensions salary sacrifice arrangement.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn and Duncan Magrath received private medical insurance for the Director and his immediate family. Peter Zinkin received private medical insurance for the Director and his spouse. Philip Harrison received private medical insurance for the Director only. Leo Quinn received a car allowance of £20,000 per annum, Philip Harrison received a car allowance of £14,000 per annum and Duncan Magrath received a car allowance of £14,000 per annum. Peter Zinkin received a fully expensed car with taxable benefit value of £9,624 per annum.

4 Robert Amen, Iain Ferguson, Maureen Kempston Darkes and Steve Marshall received taxable travel expenses which are shown in the taxable benefits column.

5 For periods of membership of the DC section of the Group's pension fund, this comprises the amount of employer contributions plus any salary supplements in lieu of pension on earnings that are above the earnings cap. For any periods of non-membership of the Group's pension fund, this comprises any salary supplements in lieu of pension contributions. Further details are set out in the section on Directors' pensions on page 83.

6 For Leo Quinn, other payments relate to recruitment arrangements to compensate him for loss of earnings with his former employer. The payments were delivered part in shares and part in cash. Further details of these awards are set out on page 79.

7 Duncan Magrath ceased to be a Director on 8 May 2015. Other payments in 2015 were contractual in relation to loss of office as detailed on page 80.

8 Andrew McNaughton ceased to be a Director on 3 May 2014. Payments in 2015 were contractual in relation to loss of office as detailed in the Remuneration report 2014.

9 Peter Zinkin ceased to be a Director on 26 March 2015. In addition to the amount disclosed above, Peter Zinkin earned £235,785 in base salary and pension allowance in the period he was an employee but not an executive Director (26 March 2015 to 31 August 2015).

10 Due to an administrative error by the Company, Stephen Billingham was overpaid in 2015 by £4,666. He should have received £32,667. The overpayment has been repaid.

11 Maureen Kempston Darkes' fees shown for 2015 include £10,000 in respect of travel allowances for meetings attended in 2015 (2014: £20,000).

12 Robert Amen stepped down from the Board effective 31 December 2015. His fees shown for 2015 include £12,500 in respect of travel allowances for meetings attended in 2015 (2014: £20,000).

13 Steve Marshall's fees shown for 2014 include the additional annual fee agreed when he became Executive Chairman, pro rated for the period 3 May 2014 to 31 December 2014.

AIP awards for the year ended 31 December 2015

For 2015, the AIP for the current executive Directors was a maximum bonus of 120% of base salary subject to three performance measures:

- profit before tax (51%)
- cash (25%)
- strategic business and personal objectives (24%).

The three elements are measured and calculated independently of each other and 50% of the bonus earned is deferred for three years in the form of Balfour Beatty shares.

AIP objective			Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold Target Maximum	£45m £65m £75m	£(123)m	61.2%	0%	0%	0%
Improvement in operating cash flow (Q4 average 2015 on 2014)	Threshold Target Maximum	£150m £175m £200m	£221m	30.0%	30.0%	15.0%	15.0%
Strategic business and personal objectives as agreed by the Remuneration Committee	Remuneration Committee assessment of achievement		91.7% achieved	28.8%	26.4%	13.2%	13.2%
			Total	120%	56.4%	28.2%	28.2%

Performance against the 2015 AIP targets as it relates to the current executive Directors was:

- the threshold level of performance against the profit before tax target was not achieved and no bonus is payable against this element
- strong cash performance by the Company resulted in the maximum level of performance being achieved against this element. Therefore a full payment of the 25.0% weighting for this element is payable, ie 30.0% of salary as the AIP maximum payment is 120.0%
- following detailed consideration by the Committee of performance against strategic business and personal objectives, the executive Directors were both awarded a payment of 22.0% of the 24.0% weighting payable for this element, ie 26.4% of salary as the AIP maximum payment is 120.0%. The factors the Committee considered in agreeing this assessment included the success of the Build to Last transformation programme and the delivery of other key strategic objectives including the review of the Investments portfolio and the refinancing.

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of disappointing profit performance and determined that the above payments are appropriate. The performance issues relate to legacy contracts and the recently appointed executive Directors have, in the opinion of the Committee, dealt with these challenges to create the foundations for a sustainable business.

Vesting of PSP awards for the year under review

The PSP awards granted on 16 April 2013 were based on a performance period for the three years ended 31 December 2015. As disclosed in previous Remuneration reports, the performance conditions were comparative Total Shareholder Return against two different comparator groups. 25% of each part of the award would vest for median performance increasing to 100% of the award vesting for upper quartile performance or above.

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting
Total Shareholder Return (50% of the award)	TSR against a group of construction and professional services companies – AECOM, Atkins, Bilfinger and Berger, Carillion, Costain, Hochtief, Morgan Sindall, Tutor Perini, Skanska and URS.	TSR ranking	5 or above	2.5 or above	9	0%
Total Shareholder Return (50% of the award)	TSR against the 89 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts) as at the start of the performance period and still listed at the end of the performance period.	TSR ranking	45 or above	22.5 or above	61	0%
					Total vesting	0%

Details of the PSP awards vesting for the year under review for the executive Directors who received the April 2013 award and served during 2015 are therefore as follows:

Executive	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares £
Duncan Magrath	2013 conditional	255,818	–	255,818	–
Peter Zinkin	2013 conditional	266,653	–	266,653	–

Remuneration report continued
Annual report on remuneration continued

The 2013 PSP awards for Duncan Magrath and Peter Zinkin were scheduled to formally lapse on 16 April 2016. However, as the performance conditions were measured to 31 December 2015, the Committee was able to consider performance and lapse the awards effective 10 March 2016. The number of shares shown as to lapse represents the original shares awarded. Had the 2013 PSP award vested based on the achievement of the performance conditions, the number of shares available to both of them would have been reduced pro-rata to reflect the time served with the Company to cessation of their employment.

Outstanding share awards

			Maximum number of shares subject to award					
Name of Director	Share award	Date granted	At 1 January 2015	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2015**	Exercisable and/or vesting from
Philip Harrison	PSP[4,5,7,8]	26 June 2015	–	295,857	–	–	**295,857**	26 June 2018
	Share buyout[14]	11 June 2015	–	30,831	–	–	**30,831**	31 December 2016
	Share buyout[14]	11 June 2015	–	61,662	–	–	**61,662**	31 December 2017
Duncan Magrath[18]	PSP[1,5,6]	16 April 2012	219,076	–	–	219,076	**–**	16 April 2015
	PSP[2,5,6]	16 April 2013	255,818	–	–	56,848	**198,970**	16 April 2016
	PSP[3,5,6]	31 March 2014	211,162	–	–	117,312	**93,850**	31 March 2017
	DBP[9,11,12]	30 March 2012	65,954	–	65,954	–	**–**	30 March 2015
	DBP[9,10,12]	31 March 2013	49,133	–	49,133	–	**–**	31 March 2016
	DBP[9,10,12]	31 March 2014	37,823	–	37,823	–	**–**	31 March 2017
	SRSOS[15,16,17]	11 May 2010	1,291	–	–	1,291	**–**	1 July 2015
Leo Quinn	PSP[4,5,7,8,]	26 June 2015	–	788,954	–	–	**788,954**	26 June 2018
	DBP[9,10,12,13]	26 June 2015	–	193,280	–	–	**193,280**	26 June 2018
	Share buyout[14]	2 January 2015	–	141,791	141,791	–	**–**	26 May 2015
	Share buyout[14]	2 January 2015	–	308,010	–	308,010	**–**	29 June 2015
	Share buyout[14]	2 January 2015	–	504,151	267,365	236,786	**–**	9 August 2015
	Share buyout[14]	2 January 2015	–	604,256	–	–	**604,256**	2 January 2017
	Share buyout[14]	2 January 2015	–	1,208,511	–	–	**1,208,511**	2 January 2018
Peter Zinkin[18]	PSP[1,5,6]	16 April 2012	232,600	–	–	232,600	**–**	16 April 2015
	PSP[2,5,6]	16 April 2013	266,653	–	–	29,628	**237,025**	16 April 2016
	PSP[3,5,6]	31 March 2014	220,105	–	–	97,824	**122,281**	31 March 2017
	DBP[9,11,12]	30 March 2012	70,025	–	70,025	–	**–**	30 March 2015
	DBP[9,10,12]	31 March 2013	51,215	–	51,215	–	**–**	31 March 2016
	DBP[9,10,12]	31 March 2014	39,424	–	39,424	–	**–**	31 March 2017

1 2012 PSP award: The award formally lapsed on 16 April 2015. Details of the Company's performance against the performance conditions were set out in the 2014 Remuneration report.

2 2013 PSP award: The award formally lapsed on 10 March 2016 as detailed on page 77 and above.

3 2014 PSP award: The award is subject to two TSR performance targets over a three-year performance period commencing 1 January 2014. Relative TSR (50% weighting) – measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index. Relative TSR (50% weighting) – measured against a comparator group of construction and professional services companies. No vesting below median ranking, 25% at median rising to 100% vesting at upper quartile performance or better.

4 2015 PSP award: Details of this award are set out on page 79.

5 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

6 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of awards granted, was 277.3p for the 2012 award, 249.2p for the 2013 award and 301.9p for the 2014 awards. The closing middle market price of ordinary shares on the date of the awards was 271.9p, 244.9p and 299.6p respectively.

7 The 2015 PSP award used a share price of 202.8p to calculate the number of shares awarded, being the average middle market price of ordinary shares in the Company for the 10 dealing dates before Leo Quinn joined the Company on 2 January 2015. The closing middle market price of ordinary shares on the date of the award was 243.0p.

8 On 26 June 2015, for all participants in the PSP, a maximum of 3,969,923 conditional shares were awarded which are exercisable on 26 June 2018.

9 All DBP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.

10 The initial DBP awards made in 2013, 2014, March 2015 and June 2015 will vest on 31 March 2016, 31 March 2017, 31 March 2018 and 26 June 2018 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).

11 The initial DBP awards made in 2012 vested on 30 March 2015. The closing middle market price of ordinary shares in the Company on the vesting date was 241.6p.

12 The DBP awards made on 30 March 2012, 31 March 2013, 31 March 2014, 31 March 2015 and 26 June 2015 were purchased at average prices of 286.99p, 234.85p, 301.9p, 241.0p and 245.0p respectively.

13 On 31 March 2015, for all participants in the DBP, a maximum of 506,807 conditional shares were awarded which will normally be released on 31 March 2018. On 26 June 2015, 193,280 conditional shares were awarded to Leo Quinn in relation to the annual bonus payable by his previous employer and these will normally be released on 26 June 2018.

14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate each of Leo Quinn and Philip Harrison for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on pages 79 and 81. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

15 All savings-related share option scheme (SRSOS) options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.

16 The closing market price of the Company's ordinary shares on 31 December 2015 was 270.2p. During the year, the highest and lowest closing market prices were 272.5p and 198.8p respectively.

17 The SRSOS options granted to Duncan Magrath in May 2010, exercisable at 236.0p, lapsed unexercised on 8 May 2015.

18 Duncan Magrath stepped down from the Board on 8 May 2015 and Peter Zinkin retired from employment on 31 August 2015. At these dates, a proportion of their 2013 and 2014 PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of leaving. The remainder of their 2013 PSP and 2014 PSP awards were preserved to be tested as per the original performance tests at the time of grant. The DBP awards made to Duncan Magrath and Peter Zinkin made in 2013 and 2014 vested on 8 May 2015 and 31 August 2015 respectively.

PSP awards granted during the year

On 26 June 2015, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Leo Quinn	Conditional	200% of salary of £800,000	202.8p	788,954	£1,599,999	25%	14 October 2017	26 June 2018
Philip Harrison	Conditional	150% of salary of £400,000	202.8p	295,857	£599,998	25%	31 December 2017	26 June 2018

The performance condition for 33% of the award (the TSR Part) will measure the Company's Total Shareholder Return performance over a three-year period relative to the TSR performance of a comparator group of companies comprising the constituents of the FTSE 51–150 (excluding investment trusts) as at the start of the measurement period. The measurement period for the TSR Part is the three financial years to 31 December 2017, except for Leo Quinn's award for which the measurement period is the three years to 14 October 2017.

No portion of the TSR Part will vest unless the Company's TSR performance ranks at least equal to median TSR performance of the comparator group, at which point 25% of the TSR Part will vest, rising on a straight-line basis to full vesting for the Company's TSR performance ranking at upper quartile or better.

The performance condition applying to a separate 33% of the award (the Net Debt Part) will measure improvement in the Company's net debt over a measurement period comprising the three financial years to 31 December 2017.

No portion of the Net Debt Part will vest unless the Company's net debt at the 2017 financial year end is less than £(150)m. Were net debt to be £(150)m or less but more than £(50m), 25% to 50% of the Net Debt Part would vest on a straight-line between such levels. Were net debt to be £(50)m or less, between 50% and 100% of the Net Debt Part would vest on a straight-line basis for net debt between £(50)m and £nil.

The performance condition applying to a separate 33% of each award (the "EPS Part") will measure the Company's underlying earnings per share (EPS) performance over a measurement period comprising the three financial years to 31 December 2017.

No portion of the EPS Part will vest unless the Company's EPS for the 2017 financial year is 14p, at which point 25% of the EPS Part will vest, rising on a straight-line basis to full vesting for the Company's EPS being 21p or more.

Leo Quinn recruitment terms

As part of his recruitment arrangements and as fully disclosed in the 2014 Remuneration report, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer. During 2015 the following awards have been made in relation to these recruitment terms:

- compensation for loss of annual bonus payable by the previous employer, based on actual performance achieved in respect of its financial year ending 31 March 2015, resulting in a cash payment of £473,537 in July 2015 and £473,537 invested in 193,280 Balfour Beatty plc shares (at a share price of 245p), deferred for three years with vesting subject to continued employment
- a cash payment of £360,801 in July 2015 in respect of a conditional share award over 141,791 Balfour Beatty plc shares released in May 2015 which were not performance based as vesting was solely based on continued employment with the previous employer. A cash payment of £15,537 was also made in relation to dividend shares on this award
- in relation to a conditional award of 308,010 Balfour Beatty plc shares which were available to vest in June 2015, this award lapsed in full as it mirrored the performance-based treatment of a share award at Leo Quinn's previous employer
- in relation to a conditional award of 504,151 Balfour Beatty plc shares which were available to vest in August 2015, 267,365 of these shares vested on 12 August 2015 based on the treatment of a performance-based share award at Leo Quinn's previous employer. After statutory withholdings, 141,451 shares have been retained by Leo Quinn at a cost of 263.75p per share. A cash payment of £24,314 was also made in relation to dividend shares on this award.

Outstanding at year end is a conditional share award over 1,812,767 Balfour Beatty plc shares granted on 2 January 2015 which will vest in two tranches:

- 604,256 shares (one-third of the award) will vest on the second anniversary of grant subject to share price targets tested at the end of the two-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
- 1,208,511 shares (two-thirds of the award) will vest on the third anniversary of grant subject to share price targets tested at the end of the three-year period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
- in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The above share-based buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro rating at the time of cessation.

Remuneration report continued
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Executive Director changes and payments for loss of office

Departure of Duncan Magrath

Duncan Magrath stepped down from the Board on 8 May 2015. In line with his contractual entitlements, it was agreed that he should receive:

- an amount of £414,606 in lieu of nine months' unworked contractual notice period (since notice was served on 13 February 2015), comprising £336,497 for salary, £67,300 for pension allowance and £10,809 for car allowance. Half of the payment in lieu of notice was paid as a lump sum at cessation (£207,303) with the balance payable in monthly instalments and subject to mitigation until the expiry of the notice period on 12 February 2016. The monthly instalments would have been reduced, on a pound for pound basis, had Duncan Magrath secured alternative employment before the expiry of the notice period, which was not the case. Of the £414,606 payment in lieu of unworked contractual notice period, £348,197 was paid in the year to 31 December 2015
- a payment of £25,154 in lieu of accrued but not taken holiday entitlement.

In respect of Duncan Magrath's incentives, it was determined that:

- there would be an entitlement under the 2015 AIP for the four months of the year during which he served on the Board. A payment of £43,600 will be made in March 2016
- the 2013 and 2014 PSP awards should vest on their original vesting date, subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served. As a result of the performance conditions not being met in respect of the 2013 award, this PSP award lapsed
- awards held under the DBP (86,956 shares in respect of annual bonuses earned in the financial years ended 31 December 2012 and 2013) should vest at cessation. These shares were released on cessation of his employment at a value of £210,781, subject to tax and national insurance deductions.

Departure of Andrew McNaughton

Andrew McNaughton stepped down from the Board on 3 May 2014. As fully disclosed in the 2014 Remuneration report, in line with his contractual entitlements, it was agreed that he should continue to receive his base salary, car allowance, pension allowance and medical benefits, paid monthly, in respect of his 12-month notice period (he therefore received monthly payments of £66,463 for each of the four months from January 2015 to April 2015. The agreement with Andrew McNaughton included a duty to mitigate by reducing payments to him in the event of his finding new employment which was not invoked.

Retirement of Peter Zinkin

Peter Zinkin stepped down from the Board on 26 March 2015 and retired from the Company on 31 August 2015. In respect of Peter Zinkin's incentives, it was determined that:

- there would be an entitlement under the 2015 AIP for the three months of the year during which he served on the Board. A payment of £34,050 will be made in March 2016
- the 2013 and 2014 PSP awards should vest on their original vesting date, subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served. As a result of the performance conditions not being met in respect of the 2013 award, this PSP award lapsed
- awards held under the DBP (90,639 shares in respect of annual bonuses earned in the financial years ended 31 December 2012 and 2013) should vest at retirement. These shares were released on his retirement at a value of £234,528, subject to tax and national insurance deductions.

With effect from 1 September 2015, Peter Zinkin entered a consultancy agreement with the Company whereby he provides specialist advice to the Company, initially for a period of six months, which was subsequently extended to 14 July 2016. The fee payable under this agreement is anticipated to be £3,750 per month, although this can vary up or down based on actual time spent. £15,000 was paid to Peter Zinkin during the period from 1 September 2015 to 31 December 2015.

Appointment of Philip Harrison

Philip Harrison joined the Board as Chief Financial Officer on 1 June 2015. The key elements of his remuneration package, which are consistent with the Company's approved remuneration policy, are as follows:

- a base salary of £400,000 and a salary supplement at 20% of base salary in lieu of pension contributions
- a maximum annual bonus of 120% of base salary, with 50% of any payment in Balfour Beatty shares deferred for three years
- an annual PSP award of 150% of base salary.

As part of his recruitment arrangements, the Company agreed to compensate Philip Harrison for share awards which were forfeited upon leaving his previous employer. The performance targets are consistent with the awards granted to Leo Quinn at the start of 2015.

The Company granted a conditional share award over 92,493 Balfour Beatty plc shares on 11 June 2015 which will vest in two tranches:

- 30,831 shares (one-third of the award) will vest on 31 December 2016 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 222p increasing pro-rata for full vesting of this part of the award for an end average share price of 309p. No vesting for this part of the award will take place for an average share price of less than 222p
- 61,662 shares (two-thirds of the award) will vest on 31 December 2017 subject to share price targets tested at the end of the period based on a 60-day average and as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p
- in addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

The share buyout award lapses in the event of voluntary resignation or termination for cause prior to the respective vesting dates. In the event of good leaver departure, the awards will vest at employment cessation, subject to performance conditions and pro rating at the time of cessation.

Payments to past Directors

There were no payments to past executive Directors other than the payments disclosed on pages 76 and 80 in respect of Duncan Magrath, Andrew McNaughton and Peter Zinkin.

Statement of Directors' shareholdings and share interests

The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

Directors	Beneficially owned at 1 January 2015[1,2]	Beneficially owned at 31 December 2015[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2015 as a % of base salary at 31 December 2015	Guideline met[5]
Philip Harrison	1,685	6,349	295,857		92,493	4.3%	No
Duncan Magrath	191,890	226,905					
Leo Quinn	20,000	162,675	788,954	193,280	1,812,767	54.9%	No
Peter Zinkin[6]	315,694	315,863					
Philip Aiken	–	10,000					
Robert Amen	10,139	10,139					
Stephen Billingham[7]	11,291	11,350					
Stuart Doughty	–	–					
Iain Ferguson	55,000	55,000					
Maureen Kempston Darkes	7,000	7,000					
Steve Marshall	17,142	17,142					
Graham Roberts	15,000	15,000					

1 Or date of appointment, if later.
2 Includes any shares held in the Company's all-employee Share Incentive Plan.
3 Or date of stepping down from the Board, if earlier.
4 As at 14 March 2016, there have been no changes to the above other than in respect of ordinary shares held in the Share Incentive Plan which increased the shares for Leo Quinn by 182.
5 The executive Directors are required to hold shares in the Company worth 100% of base salary and must retain no fewer than 50% of the shares, net of taxes, vesting under the DBP and PSP until the required shareholding is met.
6 Peter Zinkin was also interested at 1 January 2015 and 26 March 2015 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.
7 Stephen Billingham was also interested in 33,272 and 34,612 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc on appointment and at 31 December 2015, respectively. As at 14 March 2016, Stephen Billingham had acquired a further 1,458 preference shares as a result of reinvestment of dividends.

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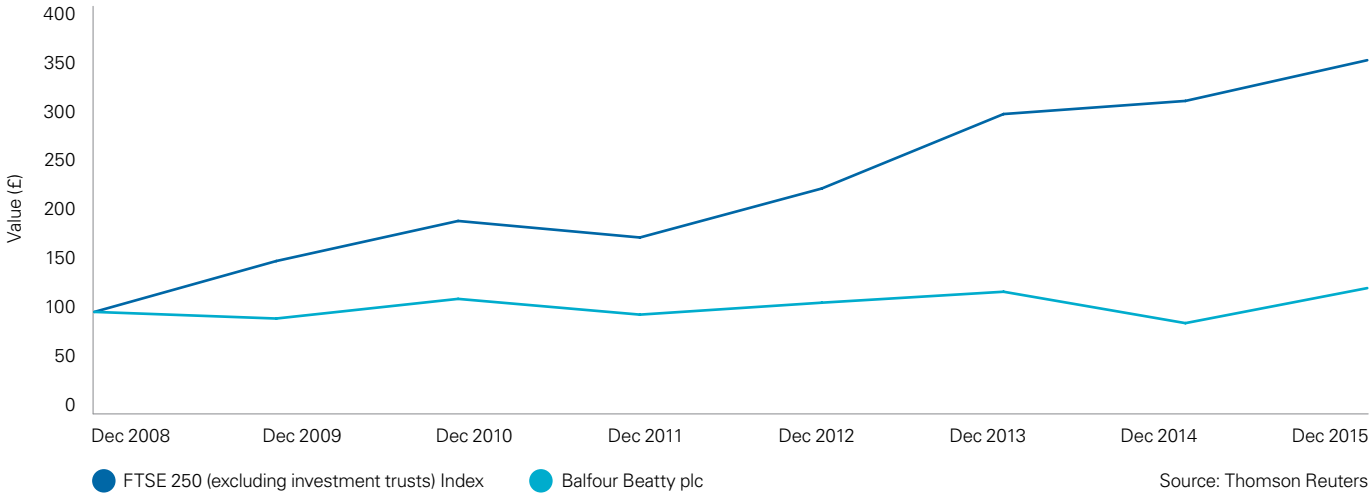
Performance graph

As in previous reports, the Remuneration Committee has chosen to compare the TSR on the Company's ordinary shares against the FTSE 250 Index (excluding investment trusts) principally because this is a broad index of which the Company is a constituent member. The values indicated in the graph show the share price growth plus reinvested dividends from a £100 hypothetical holding of ordinary shares in Balfour Beatty plc and in the index, and have been calculated using 30 trading day average values.



Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last seven financial years are shown in the table below. The total remuneration figure includes the AIP award based on that year's performance and the PSP award based on the three-year performance period ending in the relevant year. The AIP payout and PSP vesting level as a percentage of the maximum opportunity are also shown for each of these years.

							Year ended 31 December
	2009	2010	2011	2012	2013	2014	**2015**
Total remuneration[1]	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	**£1,442,070**
AIP (%)[2]	60.4%	69.6%	65.3%	40.2%	21.0%	0%	**47.0%**
PSP (%)	50%	18.4%	0%	0%	0%	0%	**0%**

[1] The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures for 2015 relate to Leo Quinn.
[2] Andrew McNaughton did not qualify for any 2014 AIP.

Percentage change in Group Chief Executive's remuneration compared with all UK employees

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2014 and 31 December 2015, compared with the percentage increase in the same years for all UK employees of the Group where UK employees have been selected as the most appropriate comparator.

	2014	**2015**	% change
Salary for year ended 31 December			
Group Chief Executive (£000)[1]	650	**800**	29
All UK employees (£m)[2]	832	**650**	(22)
Benefits for year ended 31 December			
Group Chief Executive (£000)[1]	148	**191**	29
All UK employees (£m)	31	**34**	10
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)[3]	–	**451**	100
All UK employees (£m)	18	**26**	44
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	798	**1,442**	81
All UK employees (£m)	881	**710**	(19)

[1] For 2014, salary, benefits, annual bonus and total remuneration received by Andrew McNaughton, annualised to reflect amounts receivable for a full year's service in role.
[2] Reflects reduction in UK headcount year-on-year following the disposal of Parsons Brinckerhoff in October 2014.
[3] Andrew McNaughton did not qualify for a 2014 AIP award.

Relative importance of spend on pay, dividends and underlying pre-tax profit

The following table shows the Company's actual spend on pay for all Group employees relative to dividends and underlying pre-tax profit:

	2014	**2015**	% change
Staff costs (£m)[1]	1,896	**1,124**	(41)%
Dividends (£m)	96	**0**	(100)%
Underlying pre-tax profit/(loss) (£m)[2]	(41)	**(124)**	(202)%

[1] Staff costs include base salary, benefits and bonuses for all Group employees in continuing and discontinued operations (excluding joint ventures and associates).
[2] Underlying pre-tax profit/(loss) is from continuing and discontinued operations.

Directors' pensions and pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2015.

Peter Zinkin was the only Director to participate in the Balfour Beatty Pension Fund (the Fund) as a contributing member during 2014. Peter Zinkin participated in the defined contribution (DC) section up to 31 January 2014. He opted out of the DC section of the Fund on 31 January 2014 and became a deferred pensioner of the DC section of the Fund at this date.

The DC section of the Fund is a money purchase scheme with a normal retirement age of 65. The Fund operates a Fund-specific earnings cap for pension purposes. Peter Zinkin's pensionable earnings were subject to the Fund-specific earnings cap. Peter Zinkin paid an annual contribution equal to 5% of contributory salary for the period to 31 January 2014 via the Group's SMART Pensions salary sacrifice arrangement as outlined in Note 2 in the Directors' remuneration table on page 76. A salary supplement was paid to Peter Zinkin in lieu of pension contributions on earnings above the Fund-specific earnings cap for the period to 31 January 2014 and this is included in the Directors' remuneration table on page 76. A salary supplement was paid to Peter Zinkin in lieu of Fund membership from 1 February 2014 and this is included in the Directors' remuneration table on page 76.

Duncan Magrath and Peter Zinkin both previously participated in the defined benefit (DB) section of the Fund. The DB section of the Fund provides for a pension at a normal retirement age of 62, although the majority of benefits can be taken unreduced from age 60.

Duncan Magrath opted out of the DB section of the Fund on 5 April 2012 and became a deferred pensioner. In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index). He chose not to participate in the DC section of the Fund. Duncan Magrath was paid a salary supplement in lieu of Fund membership which is included in the Directors' remuneration table on page 76.

Peter Zinkin opted out of the DB section of the Fund on 31 December 2010 and has been receiving his DB pension from 1 January 2011. He has not accrued any further DB pension in the Fund since 31 December 2010.

The pension table below sets out the accrued DB deferred pension based on each executive Director's service to his date of becoming a deferred pensioner of the Fund. The pension amount for Duncan Magrath is the value of the increase in his DB deferred pension, in excess of price inflation (measured by the Consumer Prices Index), over the year ended 31 December 2015. The pension amount for Peter Zinkin is the amount of the employer contributions paid to the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts. Figures for 2014 are included for comparative purposes. The pension amounts are included in the Directors' remuneration table on page 76.

Name of Director	**Age at 31 December 2015 Years**	Accrued DB deferred pension at 31 December 2014[1] £ pa	**Accrued DB deferred pension at 31 December 2015[1] £ pa**	Pension amount 2014[2] £	**Pension amount 2015[2] £**
Duncan Magrath[3]	**51**	39,979	**40,399**	–	**–**
Peter Zinkin[4]	**62**	n/a	**n/a**	2,350	**–**

[1] These amounts represent each Director's accrued DB deferred pension at the relevant date. In accordance with the Fund Rules, accrued DB deferred pension in excess of Guaranteed Minimum Pension has been increased in line with the Retail Prices Index between each Director's date of becoming a deferred pensioner of the Fund and the relevant date.
[2] The amounts for Duncan Magrath represent the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the relevant date) of the accrued DB deferred pension over the period. The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20. The figures for Peter Zinkin represent the contributions paid over the period by the Company into the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts.
[3] The accrued DB deferred pension figures shown for Duncan Magrath include his DB benefits in the Fund purchased with Additional Voluntary Contributions (AVCs). In May 2013, the Fund paid an Annual Allowance tax charge of £27,249 to HMRC on Duncan Magrath's behalf in a Scheme Pays arrangement. The value of this tax charge has been recorded as a negative DC contribution in respect of Duncan Magrath and will be rolled up to the Director's retirement date, at which point it will be used to reduce the level of DB pension to which he is entitled from the Fund. The pensions table above makes no allowance for Duncan Magrath's Scheme Pays arrangement. The accrued DB deferred pension figures for Duncan Magrath are at 31 December 2014 and 8 May 2015.
[4] Peter Zinkin has not accrued any DB benefits in the Fund since 31 December 2010. Peter Zinkin participated in the DC section from 1 January 2011 to 31 January 2014, and the Company paid £2,350 into this arrangement during 2014, in addition to his SMART Pensions salary sacrifice of £588.

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External appointments of executive Directors

During 2015, Duncan Magrath acted as a non-executive director of Brammer plc and received and retained fees of £16,786 to 8 May 2015; Peter Zinkin served as a local authority councillor and received and retained fees of £2,649 to 26 March 2015; and Leo Quinn acted as a non-executive director of Betfair Group plc until 2 February 2016 and received and retained fees of £60,000 during 2015.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Remuneration Committee are independent non-executive Directors, as defined under the Corporate Governance Code. No member of the Committee has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group. During the year under review, the members of the Committee were as follows:

- Iain Ferguson (Committee chair)
- Philip Aiken
- Stuart Doughty
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts.

Philip Aiken and Stuart Doughty joined the Committee on appointment to the Board (26 March 2015 and 8 April 2015 respectively). Stuart Doughty stepped down from the Committee on 14 January 2016 as part of a general review of committee membership by the Board. Steve Marshall was a member of the Committee to 26 March 2015.

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the Group HR director, who are invited to attend meetings of the Committee but are not present when matters relating directly to their own remuneration are discussed
- New Bridge Street (a trading name of Aon plc) (NBS).

NBS has been appointed as external independent executive remuneration advisers by the Committee and has provided a range of advice to the Committee during the year, including:

- annual update for the Committee on developments in best practice, market experience and regulatory requirements for all remuneration elements
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards
- advice in connection with certain Board changes during the year.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £45,871 (2014: £85,922).

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee is satisfied that the advice that it receives from NBS is objective and independent.

Statement of shareholder voting at AGM

At the AGM on 14 May 2015, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	326,935,338	68.03%
Against	153,641,260	31.97%
Total votes cast	480,576,598	100%
Abstentions	19,764,175	

The Committee noted the significant number of votes cast against the advisory vote on the Directors' Remuneration report at the 2015 AGM. While 2014 was a challenging period for the Company, requiring some difficult decisions in respect of remuneration, the Committee has noted the feedback received both before and after the AGM.

By order of the Board

Iain Ferguson
Chairman of the Remuneration Committee

14 March 2016