# Chairman's introduction

"Sound governance is central to achieving our objectives. The Group is on course to deliver on our specific targets for this year.

**Philip Aiken AM**
Chairman

## Leadership

We ensure a collective responsibility to challenge strategy, performance and accountability to ensure every decision is in the best interests of the Company's shareholders.

Read more about the Board's leadership p68

## Effectiveness

We continually evaluate the balance of skills and experience of the Board to ensure we have the right people in place with the right induction programme to enable effective leadership.

Read more about the Board's effectiveness p71

## Accountability

All decisions are discussed in the context of the risks involved, with a robust and dynamic process in place.

Read more about the Board's accountability p75

## Remuneration

Our remuneration policy aims to attract, retain and motivate the right calibre of people to drive the performance of the business. We aim to operate this policy in a transparent manner.

Read more about the Board's remuneration policy p84

**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 fully with the requirements of the Code throughout the accounting period and to the date of this report.

### Leadership

The Board is collectively responsible for setting and upholding high standards of corporate governance including the way the Group conducts its business, its approach to ethical matters, and the definition of acceptable risk in delivering the Group's strategy and value creation for its shareholders. It is committed to providing effective leadership by ensuring that those governance principles are adhered to throughout the Group, supported by an effective framework of systems and controls which define clearly delegations of authority and accountabilities.

In my report last year I referred to the appointment of a new leadership team at both Board and executive level. The process of upgrading the executive leadership has continued through 2016. It is however with great sadness that I have to mention the untimely death on 1 July 2016 of Graham Roberts who for many years chaired the Audit and Risk Committee. The breadth of skills represented on the Board however facilitated a smooth transition of responsibility for that important role to Stephen Billingham.

As Chairman, it is my role to ensure that the executive leadership and the Board are able to discharge their responsibilities effectively and, within that, I have responsibility to ensure that a robust succession plan is in place to cover all eventualities.

Maureen Kempston Darkes, who has served as a Director since July 2012 and chair of the Safety and Sustainability Committee, will not be seeking re-election at the AGM this year. We are actively engaged in recruiting three Directors, two of whom will replace Maureen and Graham.

Each of the Directors brings skills and experiences which enhance the quality of debate in the boardroom and in the case of the Directors provides additionally, guidance and challenge to the executive Directors. The Directors believe that the Board provides effective leadership. Details of the Directors are set out on pages 68 and 69.

### Diversity

In seeking to recruit new Directors with relevant experience, we ask search firms to identify suitable female candidates. We do not however believe in gender quotas, preferring to appoint individuals based on merit. Diversity and inclusion are key components of our talent management and development programmes, details of which can be found on the website balfourbeatty.com.

### Accountability

We believe that Balfour Beatty's processes and procedures have been further strengthened during the year with the development of a single reference library for all aspects of UK business practice and ever greater harmonisation of HR systems and of financial reporting platforms, 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 its Committees. Copies can be found on the website.

### Remuneration

The remuneration policy was last approved by shareholders at the 2014 AGM. At the AGM in May 2017, we will revert to shareholders with proposed changes. Details of the revised remuneration policy and how we intend to operate that policy in 2017 can be found in the Remuneration report on pages 84 to 99.

### Relations with shareholders

Our investor relations programme is of critical importance to the Board through this period of transformation for Balfour Beatty. The Board routinely receives reports from the investor relations team and analysts, together with feedback from any meetings which the Directors have with institutional investors. As Chairman, I seek to meet, at least annually, with representatives of the UK Shareholders Association. 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 to ensure that shareholders who are not able to attend the meeting have their votes fully taken into account.

**Philip Aiken AM**
Chairman

> "Present a fair, balanced and understandable assessment of the Group.

# Leadership
## Board of Directors

The Board comprises seven Directors. The names of the Directors serving throughout the year and at the year end are shown here.

Other than Maureen Kempston Darkes, all of the Directors in office on 15 March 2017 will seek re-election at the AGM in accordance with the Code.

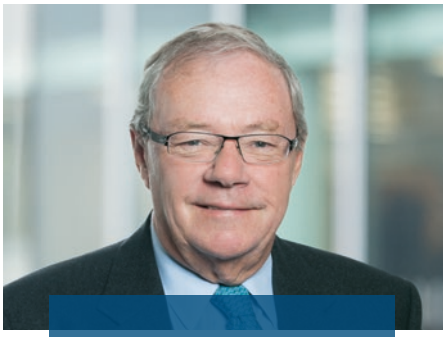
Other Directors who held office during the year were:

Graham Roberts who was a non-executive Director until 1 July 2016.

From 13 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 and joined the Nomination Committee.

From March 2016, Stephen Billingham was appointed acting chairman of the Audit and Risk Committee while Graham Roberts stepped back for reasons of health. Stephen's appointment was made permanent with effect from 1 July 2016.



**Philip Aiken AM (68)**
Chairman

Joined the Board as 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 (60)**
Group Chief Executive

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 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.

2 3 5 6

**Maureen Kempston Darkes (68)**
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 4

**Dr Stephen Billingham (58)**
Non-executive Director

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

**Philip Harrison (56)**
Chief Financial Officer

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

**Iain Ferguson CBE (61)**
Non-executive 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. He was formerly a non-executive director of Sygen International and of Greggs plc.

1 2 3 4

**Stuart Doughty CMG (73)**
Non-executive Director

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 3

**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

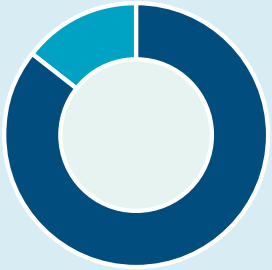
## Board balance

| | |
|---|---|
| Chairman | 1 |
| Executive Directors | 2 |
| Non-executive Directors | 4 |

## Board tenure

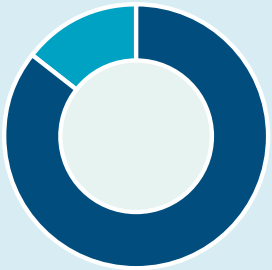
| | |
|---|---|
| 0–2 years | 4 |
| 2–4 years | 1 |
| 4–6 years | 1 |
| 6+ years | 1 |

## Board balance



| | |
|---|---|
| Male | 6 |
| Female | 1 |

## Board geography



| | |
|---|---|
| UK | 6 |
| Americas | 1 |

# Leadership continued

## BOARD

### Audit and Risk Committee

Monitors and reviews the integrity of the financial statements, the relationship with the external auditor, and the Group's internal operational procedures and risk management process.

Read more p75

### Nomination Committee

Reviews the composition and balance of the Board to ensure the right structure and skills are in place to deliver the strategy.

Read more p78

### Safety and Sustainability Committee

Monitors health and safety practices across the organisation to mitigate against harm to employees, and ensures other key sustainability issues such as integrity are reviewed at Board level.

Read more p78

### Group Tender and Investment Committee

Assesses the viability and pricing of major tenders, and monitors and approves key capital expenditure to ensure adequate returns.

Read more p79

### Remuneration Committee

Determines the pay of the executive Directors, and oversees overall remuneration policy, strategy and implementation.

Read more p84

## GROUP CHIEF EXECUTIVE

Leads the business and is responsible for its day-to-day management.

### 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 71. Outside the formal schedule of meetings, the non-executive Directors met without the executive Directors present on a number of occasions. Meetings are normally held at one of the Company's London offices.

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 usually 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 transformation 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
- reports from the head of business integrity
- consideration of issues relating to major disputes, proceedings or other matters of potentially adverse effect on the Group's reputation
- reports by non-executive Directors on site visits and project reviews.

# Effectiveness

### Directors' independence

At its meeting in January 2017, 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.

A non-exhaustive list of the key strengths of the Directors is set out in the table below. Details of their service agreements, emoluments and share incentives are shown in the Remuneration report starting on page 84.

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.

### 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 2017. 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.

### Directors – significant strengths

| Director | 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 | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |

### 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, Nomination and Remuneration Committees during the year are set out in the table below.

| Director | Board (8) | Audit and Risk (4) | Nomination (3) | Safety and Sustainability (3) | Remuneration (5) |
|---|---|---|---|---|---|
| Philip Aiken | 8 | | 3 | 3 | 5 |
| Stephen Billingham | 8 | 4 | | | |
| Stuart Doughty | 8 | 4 | 3 | 3 | |
| Iain Ferguson | 8 | 4 | 3 | 3 | 5 |
| Philip Harrison | 8 | | | | |
| Maureen Kempston Darkes | 8 | | | 3 | 5 |
| Leo Quinn | 8 | | 3 | 3 | |
| Graham Roberts | 1 | 0 | 1 | | 1 |

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 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.

# **Effectiveness** continued

Further information about the work of each of the Board's Committees may be found on pages 75 to 79 and pages 84 to 99.

## 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, Balfour Beatty's Code of Conduct and processes for dealing in Balfour Beatty shares. 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, in respect of 2015, by Lintstock, an external facilitator. For 2016, the evaluation has been conducted using internal resources and considered the performance of the Board and its Committees, as well as the Chairman and individual Directors.

### 2016 evaluation

All Board members were requested to complete a questionnaire, the responses to which were reviewed and summarised by the Company Secretary and the Chairman. The emerging key themes were discussed with each Director individually, and presented to the Board for discussion in November 2016.

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 responses to the survey were unattributed.

### Key conclusions from the evaluation

Overall ratings across most of the areas on which views were canvassed, showed an improvement year on year. The non-executive Directors continue to enhance their understanding of the business, including by making regular visits to project sites throughout the UK and overseas and are individually and collectively involved in project reviews. An additional item has been added to the Board agenda to provide the non-executive Directors with an opportunity to give timely, verbal reports on their site visits and project reviews. The Board also committed to undertake at least one visit to the US each year, combining a series of presentations by the US leadership team with site visits.


Code of Conduct
For a copy see
www.balfourbeattycodeofconduct.com/

National Museum of the Marine Corps

## Risk management and internal control

### Risk management

Effective risk management underpins the delivery of the Group's objectives and is an essential element of meeting the requirements of the UK Corporate Governance Code. By identifying and managing risk, the business is better able to protect its reputation, ensure long-term viability and generate sustainable shareholder value. Balfour Beatty identifies key risks at an early stage and applies mitigations within a strong internal control environment to eliminate them or mitigate their impact and likelihood to an acceptable level. For more information, refer to pages 53 to 65.

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.

### Roles and responsibilities

The Board is responsible for the implementation and oversight of Balfour Beatty's system of risk management and internal control. It sets the Group's appetite for and attitude to risk in pursuit of its strategic objectives and therefore the level of risk that can be taken by Group, strategic business unit and individual 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, strategic business unit and individual business unit management are set out below.

| | Responsibilities | Actions undertaken |
|---|---|---|
| **1. Board** | – Responsible for the Group's systems of risk management and internal control<br>– Determines Group appetite for and attitude to risk in pursuit of its strategic objectives. | – Issues and reviews the Group risk management policy<br>– Annually reviews effectiveness of Group risk management and internal control systems<br>– Reviews the Group's risk landscape, principal 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<br>– Agrees the Group Internal Audit Plan. | – Receives regular reports on internal and external audit and other assurance activities<br>– Annually assesses Group risk management and internal control systems<br>– 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<br>– Responsible for reviewing and implementing the Group risk management policy<br>– Ensures appropriate actions are taken to manage strategic risks and other key risks. | – Strategic plan and annual budget process<br>– Produces and tracks Group risk register<br>– Reviews risk management and assurance activities and processes<br>– Monthly/quarterly finance and performance reviews. |
| **3. Strategic business unit management** | – Responsible for risk management and internal control systems within its business<br>– Ensures that business units' responsibilities are discharged. | – Reviews key risks and mitigation plans<br>– Reviews and challenges business units' internal control environment<br>– Reviews results of internal control testing<br>– 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<br>– Reviews mitigation plans<br>– Plans, executes and reports on internal control testing. |

# Effectiveness continued

## Risk management process

Balfour Beatty's risk management policy requires that all business units ensure that effective controls are established and implemented for the management of risk.

Identified risk events, their causes and possible consequences are recorded in risk registers, together with assessments of their likelihood and potential business impact. The controls in place to manage each risk event are assessed for effectiveness and, if required, additional actions are developed to bring exposure within the Group's risk appetite. Each risk is allocated to a specific risk owner who is given the responsibility to manage the risk and its controls within an agreed timeframe.

For new projects, an assessment of risk forms a key part of the work winning Gates (1–4) within the Gated Lifecycle process (page 53) and risks are continuously assessed as projects evolve and progress.

Additionally the Board sets and regularly reviews delegated authority levels which act as triggers for matters requiring senior management or Board approval. In relation to work winning, this means that projects above a certain value, or those that import particular uncertainties such as a move into new markets, require approval by the Group Tender and Investment Committee.

Reporting structures ensure that risks are monitored continually, mitigation plans are reviewed and significant exposures are escalated – from project level through the appropriate business unit review stages and, as appropriate, to Group senior management.

Further improvements to the risk management framework have been made throughout 2016 including significant strengthening to the process of assessing, managing and reporting risk. This progress is detailed on pages 53 to 55. Increased rigour within risk management will continue in 2017 with renewed focus on risk impact quantification and escalation. These enhancements alongside the ongoing co-ordination between project, contract and business level risk analysis continue to drive risk awareness and culture.

## 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 appropriately. 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 2016 and up to the date of signing this report.

Guidance and policies have been issued and are continuously monitored to provide an interlinked and comprehensive internal control environment. Such topics include but are not limited to:

- 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 business 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
- 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, application of accounting policies and financial controls
- Group-wide risk management standards which are embedded throughout the Group
- 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
- 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
- reviews and authorises proposed investment, divestment and capital expenditure through the Board's Committees and the Board
- regular reporting, monitoring and review of the effectiveness of health, safety, environment and sustainability processes. These processes are subject to independent audit and certification to internationally recognised standards as appropriate
- legal compliance risks which are addressed through specific policies and training on such matters as ethics, competition and data protection laws
- promotion of a culture of compliance with ethics and integrity responsibilities to help manage legal and reputational risks across the Group. An ethics helpline has been established to encourage staff to raise concerns, in confidence, about possible breaches of the Code of Conduct.

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

The Group also has an independent internal audit function that executes a risk-based programme of audit throughout the entire Group. All audit reports are shared with relevant business leaders in addition to being scrutinised by the Audit and Risk Committee (see pages 75 to 77).

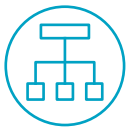
It is the expectation and requirement of the Board that business leaders ensure that this comprehensive internal control environment (including internal audit) is embedded within their business units.

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2016 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 the internal audit function'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 56 to 65.



# Accountability

"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.

**Stephen Billingham**
Chairman of the Audit and Risk Committee

## Audit and Risk Committee

### 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.

Dr Stephen Billingham, formerly group finance director (CFO) of British Energy Group plc and of WS Atkins plc, 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 2016

In 2016, 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 76. 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 Internal Audit Plan.

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

### 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, including the use of alternative performance measures. 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 65 for further details

# Accountability 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. |
| **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 52 and 65. |
| **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. |

### Areas of focus in 2017

In 2017, 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. The Committee will also focus on the Group's progress on the implementation of IFRS 15 Revenue from Contracts with Customers and the impact of this new standard to the Group's results.

### Risk management and internal control

The risk management and internal control framework 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 the internal audit function on an ongoing basis. This is achieved, in part, by reviewing and discussing the reports presented to it at each meeting, setting out the function's work and findings, but also through a formal annual assessment. An independent periodic review of the internal audit function, 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, KPMG. The Committee has satisfied itself as to KPMG'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:

- it audits its own work
- it makes management decisions on behalf of the Group
- it acts as advocate for the Group
- a mutuality of interest is created.

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. For any non-audit services (which are not excluded under the policy), the policy provides for approval by the Chief Financial Officer of expenditure below £250,000, and approval by the chairman of the Audit and Risk Committee of expenditure above £250,000. A report is also submitted to the Committee of any non-audit services carried out by the external auditor, irrespective of value. The aggregated spend on non-audit services with the external auditor will not exceed 60% of the Group audit fee, unless exceptional circumstances exist, with a three-year rolling average not exceeding 70% of the Group audit fee.

During 2016, there were fees of £0.5 million (2015: £0.7 million) paid to the external auditor for non-audit services. 2016 non-audit services primarily related to the half-year review. Audit fees for 2016 were £2m. Further details of the 2016 amounts are included in Note 6.2 of the accounts.

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

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.

45% by value of non-audit related work provided by international accounting firms in 2016 was carried out by firms other than KPMG.

### 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 strategic business unit 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 2016.

The external auditor's annual transparency report for the year ended 31 May 2016 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 reported last year, KPMG were selected as the Company's auditor for the year ending 31 December 2016, following a competitive tender process, and were duly appointed at the AGM on 19 May 2016. The external auditors are required to rotate the lead partner every five years. Such changes are carefully planned to ensure business continuity without undue risk or inefficiency. KPMG's lead partner will complete his first year in May 2017.

The EU Audit Directive on audit tendering took effect from June 2016 and its key aspects include:

- audit firms will have a maximum tenure of 10 years, although the UK Government proposes to allow an extension of (i) up to an additional 10 years where a public tender is carried out after 10 years; or (ii) by an additional 14 years where more than one audit firm is appointed to carry out the audit
- audit firms are to be prohibited from providing certain non-audit services and where non-audit services are provided they will be subject to a fees cap
- a restriction in any contract limiting a company's choice of auditor will be prohibited.

The Group has therefore adopted a policy that no external auditor appointed after June 2016 can remain in post for longer than 20 years and there will be a tendering process every 10 years, and that KPMG, as the currently appointed external auditor, may remain so until the completion of the 2025 annual audit. However, the Committee will continue to consider annually the need to tender the audit for audit quality or independence reasons. There are no contractual obligations in place that restrict the Company's choice of statutory auditor.

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.

# **Accountability** continued

"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.

**Philip Aiken**
Chairman of the Nomination Committee

## Nomination Committee

### Summary of activities in 2016

During 2016 and into 2017, the Committee's programme of work included the commencement of recruitment processes for the appointment of three 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, Heidrick and Struggles US and Ridgeway, external executive search agencies, were separately engaged. The Committee identified the competencies and experience sought.

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

The search agencies appointed were reminded to approach a diverse talent pool of candidates, and neither has other connections with Balfour Beatty.

### Areas of focus in 2017

In January 2017, the Committee received a comprehensive presentation on the succession and development plans for the Group's senior leadership team and discussed succession plans for the Board. 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. It will continue to monitor the appropriateness of the composition of the Board.

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

**Maureen Kempston Darkes**
Chairman of the Safety and Sustainability Committee

## Safety and Sustainability Committee

### Summary of activities in 2016

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 establishment of leading Group-wide safety indicators and the update of the Group's sustainability strategy, Our Blueprint.

www.balfourbeatty.com/media/195840/sustainability-blueprint-2017.pdf

The Committee has also overseen the merger of the UK Health and Safety function with the UK Environment and Sustainability function. This has facilitated the development of a more effective and collaborative way of working throughout the Group's UK operations. This has been supported by additional training of health, safety, environment and sustainability practitioners as part of an ongoing development programme to build expertise and flexibility.

The new UK Health, Safety, Environment and Sustainability function also performs a Group-wide data collection and reporting role for Balfour Beatty's international operations.

The Committee considered certain significant health and safety related incidents, including fatalities, discussing in detail the themes around supervision, communications and safety by design. It also reviewed the Group's sustainability performance.

The Committee also engaged with key customers to identify opportunities for greater collaboration and joint working.

### Areas of focus in 2017

In 2017, the Committee will continue to focus on the key areas of health and safety by design, supervision and treating health like safety as well as measuring performance against Our Blueprint and the Zero Harm action plan.

**Leo Quinn**
Group Chief Executive

## 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 any one of four senior business unit leaders. Those business unit leaders are not permitted to chair any meeting which reviews proposals from those areas of the business for which he/she 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 strategic business unit 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 and 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 8 to 17, the performance review on pages 18 to 29, the section entitled Building a sustainable business on pages 33 to 43 and the Chief Financial Officer's review on pages 49 to 52, are incorporated by reference into the Directors' report.

## Corporate governance

The Governance section on pages 66 to 99, including the Compliance with the Code statement on page 66, forms part of the Directors' report.

## Results and dividends

The results for the year are shown in the audited financial statements presented on pages 104 to 184 and are explained more fully in the Chairman's introduction, the performance review and the Chief Financial Officer's review.

An interim dividend of 0.9p per ordinary share was approved by the Board on 16 August 2016 and a final dividend of 1.8p per ordinary share will be recommended at the Annual General Meeting, giving a total dividend per ordinary share of 2.7p for 2016 (2015: nil). Preference dividends totalling 10.75p per preference share were paid in 2016 (2015: 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 33 to 35 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 2016, including the rights attaching to each class of share, are set out in Note 29 on page 156. During the year ended 31 December 2016, no ordinary or preference shares were repurchased for cancellation. 23,628 ordinary shares were issued in 2016 following the exercise of options held under the Company's savings-related share option scheme.

At 31 December 2016, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2016 to purchase through the market 68,973,961 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 2017 AGM or on 1 July 2017.

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 2016, 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 | 62,408,448 | 9.05 |
| Prudential plc | 42,969,270 | 6.22 |
| Schroder Investment Management Limited | 34,711,704 | 5.03 |
| Norges Bank | 34,459,262 | 4.99 |
| Newton Investment Management Limited | 31,347,697 | 4.54 |
| Invesco Limited | 29,102,945 | 4.21 |
| Kames Capital Plc | 26,433,207 | 3.83 |

Since 1 January 2017, the Company has received further notifications that Kames Capital Plc's interest has fallen below 3% and has therefore ceased to be notifiable and that Norges Bank's interest has reduced to 3.87%.

## Auditor

KPMG LLP has indicated its willingness to continue as auditor to the Company and a resolution for their re-appointment will be proposed at the 2017 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 2016. Presentations of the half-year and annual results were made in accordance with the practice of previous years.

Through the year, approximately 75 one-on-one and group meetings were held at regular intervals with institutional shareholders (2015: approximately 102). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during road shows 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 2017 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that 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 the Company's 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 2017 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 2016, 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 2017 AGM.

In the US and Canada, corporate political contributions totalling £195,290 were made by business units during 2016 (2015: £35,000). 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 33 to 43.

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 40 and 41 and form part of the Directors' report disclosures.

# Directors' report – other disclosures continued

## Employment

The Balfour Beatty Group operates across a number of geographies 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 and 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.

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 Company's website.

## Events after the reporting date

On 26 January 2017, the Group reached agreement to sell its 49% interests in Dutco Balfour Beatty LLC and BK Gulf LLC to its joint venture partner. The sale subsequently completed on 1 March 2017.

## 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 167 to 171.

## Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and Company 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 applicable law and have elected to prepare the Company financial statements in accordance with UK Accounting Standards and applicable law.

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 Group and Company and of their profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in its financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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 the applicable set of accounting standards, 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 that they face.

In light of the work undertaken by the Audit and Risk Committee reported in greater detail on pages 75 to 77 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

**David Mercer**
General Counsel and Company Secretary

15 March 2017

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Registered in England Number 395826

# Remuneration report

## Chairman of Remuneration Committee introduction

> 2016 was another year of strong cash performance when overall the Group made significant progress as the Board continued to deal with legacy issues, as reflected in executive Directors' remuneration out-turns.
>
> **Iain Ferguson**
> Chairman of the Remuneration Committee

2016 was a busy year for the Committee as we undertook a full review of our executive Director reward strategy, tools and practices, to ensure that they support fully the next stage of the Group's transformation. The resultant revised Remuneration Policy will be presented for approval by shareholders at the 2017 AGM.

I am pleased to present the Directors' Remuneration report for 2016, which is divided into two sections, the Policy Report and the Annual Report, the former being subject to the triennial binding vote, and the latter being subject to an advisory vote, at the 2017 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.

### Summary of activities in 2016

#### Reward for 2016

In respect of 2016, the annual bonus payments for the executive Directors reflect the performance of the Group – cash performance was strong, as was the personal performance of both executive Directors; however, profit performance, whilst showing a marked improvement, did not achieve the threshold payment level. The Group Chief Executive and the Chief Financial Officer received annual bonus payments of 47.5% and 47.1% of the maximum available respectively.

The TSR performance conditions relating to the 2014 PSP which measured performance over the three years ended 31 December 2016 were not achieved and so those awards lapsed in full for the former executive Directors in March 2017.

### Areas of focus in 2017

Subject to shareholder support at the 2017 AGM, the Committee will focus on the implementation of the revised Remuneration Policy as the Group enters the next stage of its transformation and seeks to return to delivering industry-level margins.

#### Remuneration policy for 2017

The Committee's review of the remuneration policy concluded that the current policy remains broadly appropriate, subject to minor changes to the incentive arrangements and to provide some flexibility for the Committee to select performance metrics in line with the evolving Company strategy. In considering the proposed increases in annual bonus maximum, the Committee has taken into account the importance, during the current stage of the Group's transformation, of ensuring there is sufficient focus and reward for delivering the shorter-term 'recovery' based objectives. Then, as the Group moves to more of a 'steady-state' operating model, we will need to provide a focus on achieving annual results which deliver sector-leading performance. In considering the revised remuneration packages of the executive Directors, the Committee has taken into account the significant milestones that have been achieved in the Group's transformation as a result of the performance of the individual Directors.

In summary, the key changes to support the next stage of the Group's transformation are:

- the annual bonus maximum opportunity for both executive Directors will increase from 120% to 150% of salary; 50% of any bonus will continue to be paid in Company shares which are deferred for three years
- the Chief Financial Officer's long-term incentive award, currently 150% of salary, will increase to 175%. The Group Chief Executive's long-term incentive award will remain at the current level of 200% of salary
- to increase the minimum share ownership guideline for the Group Chief Executive and the Chief Financial Officer from 100% of salary to 200% and 150% of salary respectively
- providing flexibility to enable the Committee to select performance measures for the annual bonus and long-term incentive award that remain aligned with the evolving strategy of the Company, with at least 70% of the annual bonus to be based on financial metrics.

I am pleased to report that our discussions with major investors in relation to the revised Remuneration Policy have been positive and we hope that we can count on the support of shareholders for these important changes.

### Conclusion

The Committee will continue to engage with major shareholders to ensure that executive remuneration remains appropriate as the Board takes its responsibility to engage with investors seriously. The Committee believes that the remuneration actions taken in 2016, and those proposed for 2017, are in the best interest of the Company and its shareholders.

**Iain Ferguson**
Chairman of the Remuneration Committee

# Directors' remuneration policy report

The policy will be presented to shareholders at the AGM on 18 May 2017 for approval by binding vote.

## 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
- the views of investors and their representative bodies.

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 or from published investor guidelines, 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 and implementation of that policy are proposed. Indeed, major investors were consulted in advance of the publication of the revised Remuneration Policy.

## 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.

# 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.<br>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.<br>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).<br>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:<br>– 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<br>– 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.<br>To facilitate share ownership and provide further alignment with shareholders. | 50% of any payment is normally deferred into shares for three years.<br>Clawback and malus may apply in the event of material misconduct and/or material misstatement or error of financial results.<br>Participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares. |
| **Performance Share Plan (PSP)** | To incentivise and reward delivery of long-term performance linked to the business strategy.<br>To facilitate share ownership and provide further alignment with shareholders.<br>To aid retention. | PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year.<br>Awards normally vest on the third anniversary of grant, subject to performance.<br>Clawback and malus may apply in the event of material misconduct and/or material misstatement or error of financial results.<br>Participants also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares. |
| **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 200% and 150% of base salary for the Group Chief Executive and the Chief Financial Officer respectively. 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. |

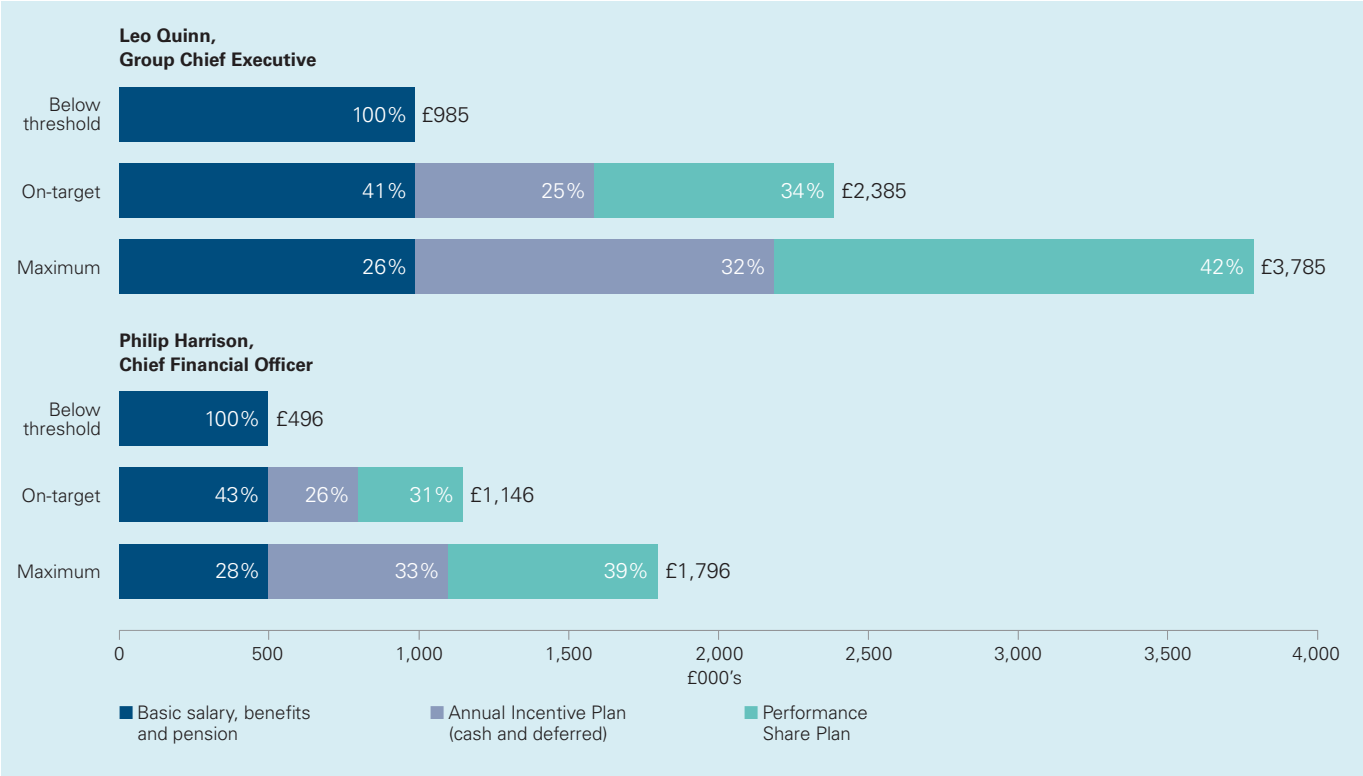
Executive Directors may also participate in all-employee share schemes up to prevailing HMRC limits.

| 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.<br>Current salary levels are disclosed on page 92. | 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, car or car allowance and any other benefits 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.<br>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 150% of base salary. | The Committee will select performance measures for the annual bonus that are aligned with the evolving strategy of the Company. A minimum 70% weighting is based on financial metrics.<br>Measures are reviewed each year and may be varied as appropriate to reflect the Company's strategy. |
| The limit in the rules of the PSP is 200% of base salary which will be applied to the Group Chief Executive. Other than in exceptional circumstances, the normal limit for other executive Directors will be 175% of base salary. | Performance measures will be set on an annual basis to reflect the Company's strategy. A minimum of 30% of any award will be based on relative total shareholder return (TSR), with the balance being based on other financial targets. Targets will normally be measured over a three-year performance period.<br>There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance. |
| – | None |

# Directors' remuneration policy report continued

## Remuneration scenarios for executive Directors

The charts below provide estimates for the potential future remuneration based on the proposed 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 2017. These salaries will be reviewed in July 2017.

2 The value of benefits receivable for 2017 has been estimated. Cash allowance in lieu of pension is 20% of base salary.

3 The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (150% 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 (200% of salary for the Group Chief Executive and 175% 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 the PSP awards.

## Recruitment and promotion policy for executive Directors

To ensure the ongoing leadership continuity of the Group, the Company will seek the appointment of high-calibre executives, 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 set at a level, based on the principles above, to secure the most appropriate candidate but paying no more than is necessary and in the best interests of the Company and its shareholders. The AIP potential would be limited to 150% 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 can be terminated on 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 termination, the following principles will apply:

| Provision | Detailed terms |
|---|---|
| **Notice period** | 12 months by the Company, six months by the executive Director.<br>In the event of termination by the Company 'for cause' the executive Director would not be entitled to notice of termination under his or her contract of employment or to any payment in lieu of notice. |
| **Notice payments** | If any existing contract was terminated by the Company (other than for cause), 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 including any period of garden leave. The Company may elect to make payment in lieu of any unexpired period of notice comprising salary and a cash sum in lieu of benefits. The Company reserves the right to apply mitigation to any notice payment (or payment in lieu of notice) for example, by making phased payments where appropriate for the balance of any notice period, against which earnings from new employment are offset. |
| **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).<br>In all cases, performance targets would apply. |
| **Change of control** | There are no provisions for enhanced termination payments in the event of change of control of the Company. |
| **Incidental expenses and other payments** | The Company may meet relocation and other incidental expenses on termination of employment, for example relocation expenses, the fees of legal or other professional advisers, and accrued but untaken holiday. It may also elect to continue to provide certain benefits rather than making payment in lieu of the benefit in question. |

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, 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, except in certain good leaver circumstances prescribed by the plan rules when 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.

# Directors' remuneration policy report continued

### 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.<br><br>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).<br><br>Fee levels are normally reviewed annually in July.<br><br>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.<br><br>The Company will pay any reasonable business-related expenses (including tax thereon where determined as a taxable benefit). | 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. |

The appointment letters for non-executive Directors may be terminated with three months' notice (six months' notice for the Chairman) by either party and contain no provision for payment in the event of termination.

# 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 2017 and how it was implemented over the year ended 31 December 2016. 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 detailed information about the Directors' remuneration, set out on pages 92 to 99 (excluding the performance graph on page 98), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

# Annual report on remuneration continued

## Implementation of the remuneration policy for the year ending 31 December 2017

### Base salaries

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

| | 1 July 2015 £ | **1 July 2016 £** | % increase |
|---|---|---|---|
| Leo Quinn | 800,000 | **800,000** | 0.0% |
| Philip Harrison | 400,000 | **400,000** | 0.0% |

The normal review date for executive Directors' base salaries is 1 July, but it was agreed that neither would receive an increase in 2016. The next salary review date is 1 July 2017.

### Performance targets for the AIP in 2017

For 2017, the AIP for the executive Directors will be a maximum bonus of 150% of base salary (subject to shareholder approval of the revised Remuneration Policy) based on the achievement of three performance measures:

- profit before tax (40%)
- cash (35%)
- strategic business and personal objectives (25%).

The Committee will ensure that the targets continue to be set at a stretching level particularly given the higher incentive opportunity proposed for 2017 as part of the revised Remuneration Policy. The three elements are measured and calculated independently of each other and 50% of any bonus earned will be deferred for three years in 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 2017

Subject to shareholder approval of the revised Remuneration Policy, the Group Chief Executive will be granted a PSP award over shares worth 200% of salary and the Chief Financial Officer 175% of salary. Consistent with the approach adopted in 2015 and 2016, the PSP awards to be granted in 2017 will be based on the achievement of three performance measures:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2017, the start of the performance period. There is no vesting for ranking 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 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 awards to be granted in 2017. 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 grant of the PSP award and in the Remuneration report for 2017.

### 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 2015 £ | **1 July 2016 £** | % increase |
|---|---|---|---|
| Chairman | 270,000 | **270,000** | 0% |
| Base fee | 56,000 | **56,000** | 0% |
| Senior Independent Director fee | 10,000 | **10,000** | 0% |
| Committee chair fee | 10,000 | **10,000** | 0% |

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 received by Directors for the year ended 31 December 2016

The table below sets out the Directors' remuneration for the year ended 31 December 2016 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2015.

| | Year | Base salary and fees[1,2] £ | Taxable benefits[3,4] £ | Pension cash allowance £ | Annual incentive cash £ | Annual incentive deferred shares £ | Long-term incentives £ | Other £ | Total £ |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Philip Harrison | **2016** | **400,000** | **14,449** | **80,000** | **112,992** | **112,992** | **–** | **–** | **720,433** |
| | 2015 | 233,333 | 8,506 | 46,667 | 65,800 | 65,800 | – | – | 420,106 |
| Leo Quinn | **2016** | **800,000** | **29,250** | **160,000** | **228,000** | **228,000** | **–** | **–** | **1,445,250** |
| | 2015 | 800,000 | 30,870 | 160,000 | 225,600 | 225,600 | – | 2,052,902 | 3,494,972 |
| **Former executive Directors** | | | | | | | | | |
| Duncan Magrath[5] | **2016** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2015 | 177,195 | 5,513 | 31,079 | 43,600 | – | – | 373,351 | 630,738 |
| Andrew McNaughton[6] | **2016** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2015 | – | – | – | – | – | – | 265,852 | 265,852 |
| Peter Zinkin[7] | **2016** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2015 | 106,179 | 2,697 | 21,236 | 34,050 | – | – | – | 164,162 |
| **Non-executive Directors** | | | | | | | | | |
| Philip Aiken | **2016** | **270,000** | **1,688** | **–** | **–** | **–** | **–** | **–** | **271,688** |
| | 2015 | 206,654 | – | – | – | – | – | – | 206,654 |
| Stephen Billingham | **2016** | **64,333** | **–** | **–** | **–** | **–** | **–** | **–** | **64,333** |
| | 2015 | 37,333 | – | – | – | – | – | – | 37,333 |
| Stuart Doughty | **2016** | **56,000** | **–** | **–** | **–** | **–** | **–** | **–** | **56,000** |
| | 2015 | 42,000 | – | – | – | – | – | – | 42,000 |
| Iain Ferguson | **2016** | **66,000** | **–** | **–** | **–** | **–** | **–** | **–** | **66,000** |
| | 2015 | 66,000 | 774 | – | – | – | – | – | 66,774 |
| Maureen Kempston Darkes[8] | **2016** | **66,000** | **2,573** | **–** | **–** | **–** | **–** | **–** | **68,573** |
| | 2015 | 76,000 | 3,309 | – | – | – | – | – | 79,309 |
| **Former non-executive Directors** | | | | | | | | | |
| Robert Amen[9] | **2016** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2015 | 68,500 | 3,839 | – | – | – | – | – | 72,339 |
| Steve Marshall[10] | **2016** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2015 | 62,690 | 1,706 | – | – | – | – | – | 64,396 |
| Graham Roberts[11] | **2016** | **33,000** | **57** | **–** | **–** | **–** | **–** | **–** | **33,057** |
| | 2015 | 66,000 | – | – | – | – | – | – | 66,000 |

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 salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2016 was £1,800.
3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for the Director and his immediate family and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for the Director only and received a car allowance of £14,000 per annum.
4 Philip Aiken, Maureen Kempston Darkes and Graham Roberts received taxable travel expenses which are shown in the taxable benefits column.
5 Duncan Magrath ceased to be a Director on 8 May 2015.
6 Andrew McNaughton ceased to be a Director on 3 May 2014.
7 Peter Zinkin ceased to be a Director on 26 March 2015.
8 Maureen Kempston Darkes' fees shown for 2015 include £10,000 in respect of travel allowances for meetings attended in 2015. None were paid in 2016.
9 Robert Amen stepped down from the Board effective 31 December 2015.
10 Steve Marshall stepped down from the Board effective 26 March 2015.
11 Graham Roberts died on 1 July 2016. Fees were paid to 30 June 2016 including a payment as chairman of the Audit Committee.

# Annual report on remuneration continued

### AIP awards for the year ended 31 December 2016

For 2016, the AIP for the executive Directors was a maximum bonus of 120% of base salary based on the achievement of 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<br>Target<br>Maximum | £81.0m<br>£101.3m<br>£111.4m | £60m | 61.2 | 0 | 0 | 0 |
| Group Total Cash Flow | Threshold<br>Target<br>Maximum | £(144)m<br>£(120)m<br>£(108)m | £10m[1] | 30.0 | 30.0 | 15.0 | 15.0 |
| Strategic business and personal objectives as agreed by the Remuneration Committee (details below) | Remuneration Committee assessment of achievement | | Group Chief Executive 93.75% | 28.8 | 27.0 | 13.5 | 13.5 |
| | | | Chief Financial Officer 92.0% | 28.8 | 26.5 | 13.25 | 13.25 |
| | | Total – Group Chief Executive | | 120.0 | 57.0 | 28.5 | 28.5 |
| | | Total – Chief Financial Officer | | 120.0 | 56.5 | 28.25 | 28.25 |

1 Although the Group total cash flow was impacted positively by foreign exchange and disposals, the Committee has verified that the out-turn would have been at maximum even without these impacts and is satisfied that the achievement is a result of strong underlying performance.

Performance against the 2016 AIP strategic business and personal objectives as it relates to the executive Directors was:

| | Group Chief Executive | | Chief Financial Officer | |
|---|---|---|---|---|
| **Examples of achievement against key strategic objectives** | **Weight %** | **Out-turn %** | **Weight %** | **Out-turn %** |
| **Lean:** exceeded targets of £200m cash in and £100m cost out | 25.0 | 25.0 | 20.0 | 20.0 |
| **Expert:** strengthened leadership cadre; improved retention and talent pipeline | 25.0 | 25.0 | 20.0 | 16.0 |
| **Trusted:** improved control environment; implemented clearer, consistent project reporting | 25.0 | 25.0 | 20.0 | 18.0 |
| **Safe:** improved performance against a range of leading and lagging safety performance indicators | 25.0 | 18.75 | 10.0 | 8.0 |
| **Build to Last:** successful triennial pension valuation agreement with trustees; agreed strategy for interest/dividend levels | – | – | 30.0 | 30.0 |
| **Total** | 100.0 | 93.75 | 100.0 | 92.0 |

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group's strong cash performance and the personal performance of the executive Directors. The profit performance issues largely relate to legacy contracts. The executive Directors have, in the opinion of the Committee, made significant progress to close out the legacy contracts and to create the foundations for a sustainable business.

### Vesting of PSP awards for the year under review

The PSP awards granted on 31 March 2014 were based on a performance period for the three years ended 31 December 2016. 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 each part 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 award) | TSR against a group of construction and professional services companies | TSR ranking | 5.5 or above | 3.0 or above | 6.6 | 0 |
| Total Shareholder Return (50% of award) | TSR against the 94 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts) | TSR ranking | 47.5 or above | 24.0 or above | 59.2 | 0 |
| | | | | | Total vesting | 0 |

As disclosed in the 2015 Remuneration Report, two former executive Directors at the time of the grant of the 2014 PSP award had a pro-rated number of shares preserved at cessation of employment, subject to the achievement of the original performance criteria (Duncan Magrath and Peter Zinkin, who left employment with the Company on 8 May 2015 and 31 August 2015 respectively). Details of vesting of the PSP awards with performance periods ending in the year under review for the former executive Directors are therefore as follows:

| Executive | Type of award | Number of shares at grant | Pro-rata shares preserved on leaving | Number of shares to vest | Number of shares to lapse | Value of vesting shares |
|---|---|---|---|---|---|---|
| Duncan Magrath | 2014 conditional | 211,162 | 93,850 | – | 93,850 | – |
| Peter Zinkin | 2014 conditional | 220,105 | 122,281 | – | 122,281 | – |

The 2014 PSP awards for Duncan Magrath and Peter Zinkin were scheduled to formally lapse on 31 March 2017. However, as the performance conditions were measured to 31 December 2016, the Committee was able to consider performance and lapse the awards effective 11 January 2017.

## Outstanding share awards

| | | | | Maximum number of shares subject to award | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | Share award | Date granted | At 1 January 2016 | Awarded during the year | Vested during the year | Lapsed during the year | At 31 December 2016 | Exercisable and/ or vesting from |
| Philip Harrison | PSP[1,2,5] | 26 June 2015 | 295,857 | – | – | – | **295,857** | 26 June 2018 |
| | PSP [3,4,5,6] | 13 April 2016 | – | 254,885 | – | – | **254,885** | 13 April 2019 |
| | DBP[7,8,10,11,12] | 31 March 2016 | – | 26,143 | – | – | **26,143** | 31 March 2019 |
| | Share buyout[13] | 11 June 2015 | 30,831 | – | – | – | **30,831** | 31 December 2016 |
| | Share buyout[13] | 11 June 2015 | 61,662 | – | – | – | **61,662** | 31 December 2017 |
| Leo Quinn | PSP[1,2,5] | 26 June 2015 | 788,954 | – | – | – | **788,954** | 26 June 2018 |
| | PSP [3,4,5,6] | 13 April 2016 | – | 679,694 | – | – | **679,694** | 13 April 2019 |
| | DBP[7,8,10,11,12] | 26 June 2015 | 193,280 | 627 | – | – | **193,907** | 26 June 2018 |
| | DBP[7,8,10,11,12] | 31 March 2016 | – | 89,636 | – | – | **89,636** | 31 March 2019 |
| | Share buyout[13] | 2 January 2015 | 604,256 | – | – | – | **604,256** | 2 January 2017 |
| | Share buyout[13] | 2 January 2015 | 1,208,511 | – | – | – | **1,208,511** | 2 January 2018 |

1 2015 PSP award: The award is subject to three performance targets over a three-year performance period commencing 1 January 2015, except for Leo Quinn's award which has a measurement period for the TSR part of the three years to 14 October 2017. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index, no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. Net Debt part (33.3% weighting), no vesting unless 2017 year-end Net Debt is less than £(150)million, 25% vesting of this part at £(150)million, rising to full vesting at £nil. EPS part (33.3% weighting), no vesting unless 2017 EPS is 14p, 25% vesting of this part at 14p, rising to full vesting at 21p.

2 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.

3 2016 PSP award: Details of this award are set out on page 96.

4 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 shares granted, was 249.2p for the 2013 award, 301.9p for the 2014 and 235.4p for the 2016 award. The closing middle market price of ordinary shares on the date of the awards was 244.9p, 299.6p and 238.3p respectively.

5 All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc.

6 On 13 April 2016, for all participants in the PSP, a maximum of 3,768,644 conditional shares were awarded which are exercisable on 13 April 2019.

7 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.

8 The initial DBP awards made in 2014, March 2015, June 2015 and 2016 will vest on 31 March 2017, 31 March 2018, 26 June 2018 and 31 March 2019 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).

9 The initial DBP awards made in 2013 vested on 31 March 2016. The closing middle market price of ordinary shares in the Company on the vesting dates was 254.6p.

10 The shares subject to the DBP awards made on 31 March 2013, 31 March 2014, 31 March 2015, 26 June 2015 and 31 March 2016 were purchased at average prices of 234.85p, 301.9p, 241.0p, 245.0p and 252.5p respectively.

11 On 31 March 2016, for all participants in the DBP, a maximum of 651,306 conditional shares were awarded which will normally be released on 31 March 2019. On 6 October 2016, a further 4,676 conditional shares were awarded in lieu of entitlements to the interim 2016 dividend.

12 For the initial DBP awards made in 2014, 2015 and 2016, the shares awarded on 6 October 2016 (in lieu of the interim 2016 dividend) were allocated at the average price of 277p.

13 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 96 and 97. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

14 The closing market price of the Company's ordinary shares on 31 December 2016 was 268.2p. During the year, the highest and lowest closing market prices were 295.1p and 190.8p respectively.

# Annual report on remuneration continued

### PSP awards granted during the year

On 13 April 2016, 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 | 235.4p | 679,694 | £1,600,000 | 25% | 31 December 2018 | 13 April 2019 |
| Philip Harrison | Conditional | 150% of salary of £400,000 | 235.4p | 254,885 | £599,999 | 25% | 31 December 2018 | 13 April 2019 |

The performance condition for 33.3% of the award (the TSR Part) will measure the Company's Total Shareholder Return performance 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 2018.

No portion of the TSR Part will vest unless the Company's TSR performance at 31 December 2018 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 33.3% of the award (the Net Debt Part) will measure the Company's net debt at the end of the measurement period comprising the three financial years to 31 December 2018.

No portion of the Net Debt Part will vest unless the Company's net debt at the 2018 financial year end is less than £(75) million. Were net debt to be £(75) million or less but more than £0 million, 25% to 50% of the Net Debt Part would vest on a straight-line between such levels. Were net debt to be £0 million or less, between 50% and 100% of the Net Debt Part would vest on a straight-line basis for net cash between £nil and £50 million.

The performance condition applying to a separate 33.3% of each award (the EPS Part) will measure the Company's underlying earnings per share (EPS) performance at the end of the measurement period comprising the three financial years to 31 December 2018.

No portion of the EPS Part will vest unless the Company's EPS for the 2018 financial year is 20p, 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 27p or more.

### Executive Directors' recruitment terms

#### Leo Quinn

As part of his recruitment arrangements and as fully disclosed in the 2014 and 2015 Remuneration reports, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer.

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.

In relation to the first tranche of 604,256 shares, on 13 March 2017 the Remuneration Committee reviewed the end average share price of 274.34p at 2 January 2017 against the target range, indicating vesting at 70.12% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 70.12% of the award (423,704 shares) will be permitted to vest on 16 March 2017 when the Company enters an open period.

### Philip Harrison

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.

In relation to the first tranche of 30,831 shares, on 13 March 2017 the Remuneration Committee reviewed the end average share price of 274.01p at 31 December 2016 against the target range, indicating vesting at 69.83% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 69.83% of the award (21,529 shares) will be permitted to vest on 16 March 2017 when the Company enters an open period.

### Payments to past Directors

There were no payments to past executive Directors during 2016.

### 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:

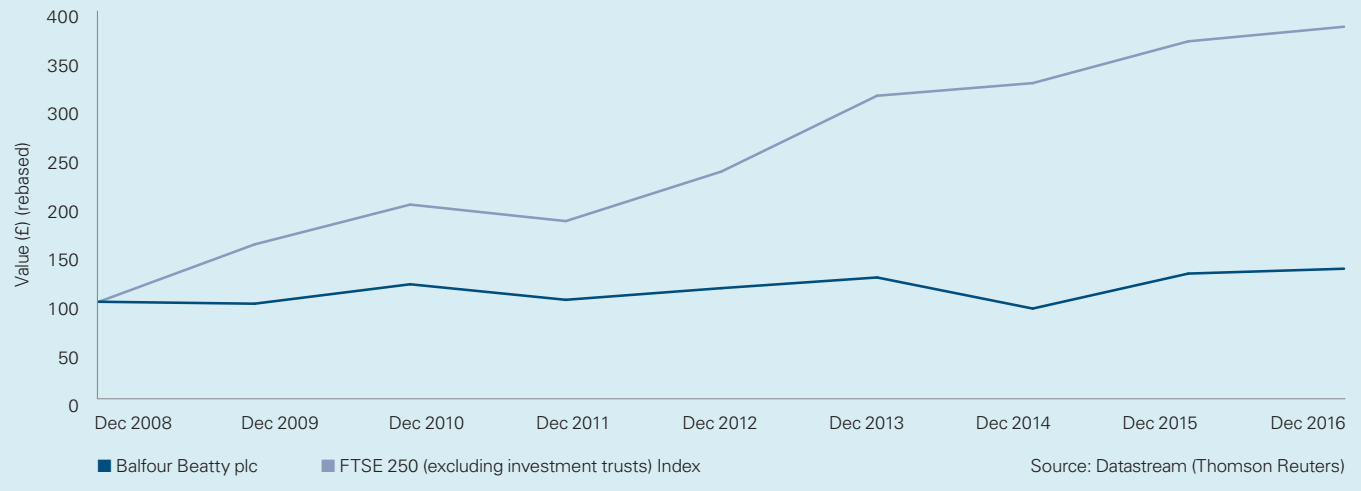
| Directors | Beneficially owned at 1 January 2016[1,2] | Beneficially owned at 31 December 2016[2,3,4] | Outstanding PSP awards | Outstanding DBP awards | Outstanding share buyout awards | Beneficially owned at 31 December 2016 as a % of base salary at 31 December[5] 2016 | Guideline met[6] |
|---|---|---|---|---|---|---|---|
| Philip Harrison | 6,349 | 6,349 | 550,742 | 26,143 | 92,493 | 4.3% | No |
| Leo Quinn | 162,675 | 486,127 | 1,468,648 | 283,543 | 1,812,767 | 163.0% | Yes |
| Philip Aiken | 10,000 | 15,000 | | | | | |
| Stephen Billingham[7] | 11,350 | 23,580 | | | | | |
| Stuart Doughty | – | – | | | | | |
| Iain Ferguson | 55,000 | 55,000 | | | | | |
| Maureen Kempston Darkes | 7,000 | 7,000 | | | | | |
| 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 15 March 2017, there have been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 165 shares and a market purchase by Stuart Doughty of 4,550 ordinary shares at a price of 271.2p on 10 February 2017.
5 The closing market price of the Company's ordinary shares as at 31 December 2016 (268.2p) was used to calculate the value of shares beneficially owned.
6 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. Subject to the approval of shareholders at the 2017 AGM, the revised Remuneration Policy requires that the Group Chief Executive and Chief Financial Officer have share ownership guidelines of 200% and 150% of salary respectively.
7 Stephen Billingham was also interested in 34,612 and 36,070 redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2016 and 31 December 2016, respectively.

# Annual report on remuneration continued

## 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 eight 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 | **2016** |
| Total remuneration[1] | £1,617,233 | £1,451,016 | £1,514,007 | £1,189,287 | £961,350 | £797,568 | £1,442,070 | **1,445,250** |
| AIP (%)[2] | 60.4% | 69.6% | 65.3% | 40.2% | 21.0% | 0% | 47.0% | **47.5%** |
| PSP (%) | 50% | 18.4% | 0% | 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 onwards 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 2015 and 31 December 2016, 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.

| | 2015 | **2016** | % change |
|---|---|---|---|
| **Salary for year ended 31 December** | | | |
| Group Chief Executive (£000) | 800 | **800** | 0% |
| All UK employees (£m) | 683 | **668** | (2)% |
| **Benefits for year ended 31 December** | | | |
| Group Chief Executive (£000) | 191 | **189** | (1)% |
| All UK employees (£m) | 34 | **36** | 6% |
| **Annual bonus earned in year ended 31 December** | | | |
| Group Chief Executive (£000) | 451 | **456** | 1% |
| All UK employees (£m) | 26 | **17** | (34)% |
| **Total remuneration for year ended 31 December** | | | |
| Group Chief Executive (£000) | 1,442 | **1,445** | 0% |
| All UK employees (£m) | 743 | **721** | (3)% |

### 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:

| | 2015 | **2016** | % change |
|---|---|---|---|
| Staff costs (£m)[1] | 1,157 | **1,201** | 4% |
| Dividends (£m) | 0 | **6** | 100% |
| Underlying pre-tax profit/(loss) (£m)[2] | (124) | **60** | 148% |

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' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2016. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' Remuneration table on page 93.

### External appointments of executive Directors

Leo Quinn acted as a non-executive director of Betfair Group plc until 2 February 2016 and received and retained fees of £10,231 during 2016.

### 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
- Graham Roberts.

Stuart Doughty stepped down from the Committee on 13 January 2016 as part of a general review of committee membership by the Board. Graham Roberts was a member of the Committee until his death on 1 July 2016.

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:

- in support of the Remuneration Policy review, NBS provided analysis of market practice and advice on remuneration approaches for consideration by the Committee and in relation to the views of shareholders and their representative bodies
- 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 and the share buyout awards.

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 £62,206 (2015: £45,871).

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 19 May 2016, the resolution to approve the Remuneration report received the following votes from shareholders:

| | **Total number of votes** | **% of votes cast** |
|---|---|---|
| For | 505,921,427 | 96.8% |
| Against | 16,545,062 | 3.2% |
| Total votes cast | 522,466,489 | 100% |
| Abstentions | 136,870 | – |

By order of the Board

**Iain Ferguson**
Chairman of the Remuneration Committee

15 March 2017