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

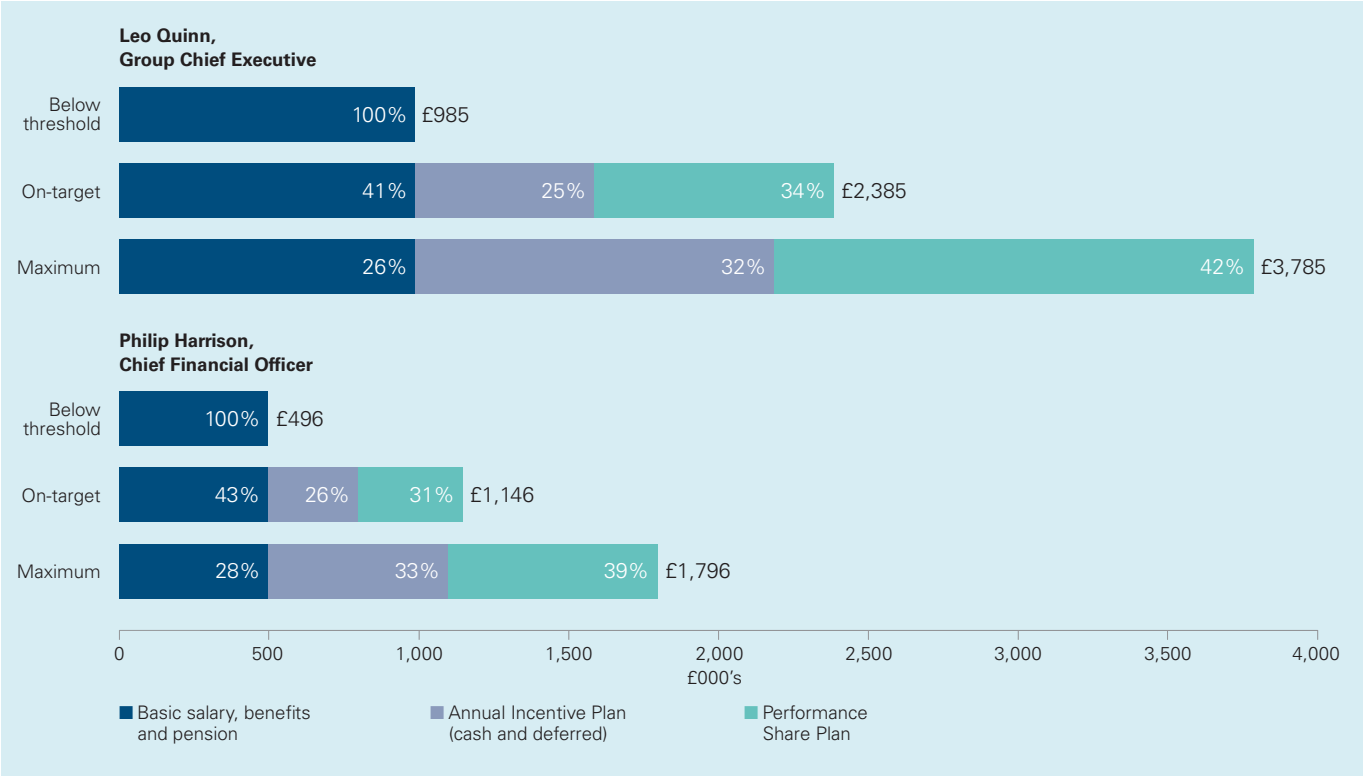
Executive Directors may also participate in all-employee share schemes up to prevailing HMRC limits.

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. 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. 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. 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. 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. 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). 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. Non-executive Directors based outside Europe receive a travel allowance for each visit made on Company business to the UK, or to any other country (excluding their home country). Fee levels are normally reviewed annually in July. The non-executive Directors are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share plans or annual incentive schemes. 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 Target Maximum	£81.0m £101.3m £111.4m	£60m	61.2	0	0	0
Group Total Cash Flow	Threshold Target Maximum	£(144)m £(120)m £(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:

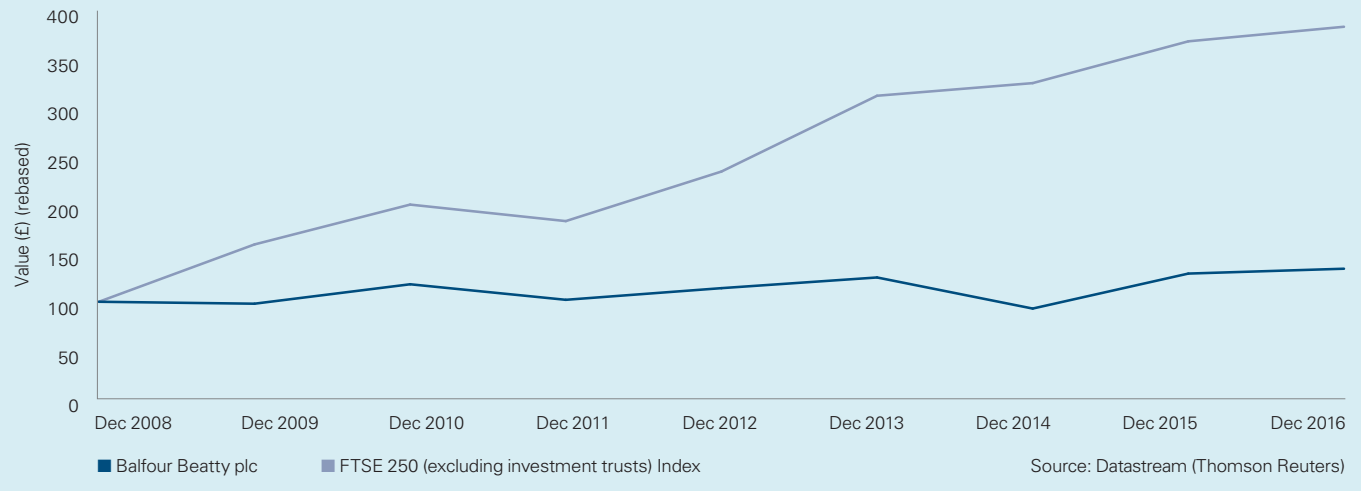
Directors	Beneficially owned at 1 January 2016[1,2]	Beneficially owned at 31 December 2016[2,3,4]	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2016 as a % of base salary at 31 December[5] 2016	Guideline met[6]
Philip Harrison	6,349	6,349	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