

REMUNERATION REPORT

I am pleased to present the Directors' Remuneration Report for 2014.

This report is divided into two sections, the Policy Report and the Annual Report, the latter being subject to an advisory vote at the 2015 AGM.

Link to strategy

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

Impact of Board changes

This year, the Committee has dealt with a number of key issues, notably the departure of Andrew McNaughton as Chief Executive in May 2014 and the recruitment of his replacement, Leo Quinn, who joined Balfour Beatty in January 2015. Shareholder response to the appointment of Leo Quinn has been favourable and his remuneration has previously been communicated.



Steve Marshall announced in September 2014 his intent to step down from the Board on appointment of his successor. He will be replaced by Philip Aiken, joining the Board as non-executive Chairman on 26 March 2015. Following the announcement in November 2014 that Duncan Magrath will be leaving the Company and the subsequent appointment of his successor, Phil Harrison, Duncan's leaving date has now been confirmed as 8 May 2015.

Reward for 2014

Following the departure of Andrew McNaughton, the Committee approved temporary adjustments to the packages of Steve Marshall and Duncan Magrath to ensure continuity of business leadership. Steve Marshall became Executive Chairman with immediate effect and his annual fees were increased to £531,500 pa to reflect his additional responsibilities and time commitment. Duncan Magrath received an interim responsibility allowance of 20% of salary paid monthly up to 31 March 2015. The Committee considers that both adjustments were entirely appropriate in the absence of a Chief Executive during a period of significant corporate activity.

Incentives in respect of 2014 have reflected the disappointing performance of the Group during the year. The profit warnings, attributed to the UK construction business, resulted in failure to reach the performance threshold for payment on the profit before tax (PBT) element of the Annual Incentive Plan (AIP) for 2014 (70% of the incentive). However, whilst the strategic objectives (30% of the incentive) were partially met, notably attributed to the successful disposal of Parsons Brinckerhoff to WSP, it was agreed that the executive Directors would waive any entitlement under the AIP for 2014.

The EPS and TSR performance conditions relating to the 2012 PSP which measured performance over the three years ended 31 December 2014 were not achieved and so those awards will lapse in full in April 2015. However, 94% of the special 50% of salary PSP award granted to Duncan Magrath in April 2013 vested on 31 December 2014.

Remuneration policy for 2015

We remain committed to the principles of our existing remuneration policy and its strong alignment to performance and shareholder value. Details of how the Committee intends to operate the policy for 2015 are set out below:

- Reflecting Leo Quinn's inaugural year as Group Chief Executive and the challenges faced by the business, the AIP for 2015 will be measured using profit and cash targets together with business objectives
- The Committee intends to adopt a combination of cash, TSR and EPS performance measures for the 2015 PSP awards. Cash generation has been introduced as a performance metric to drive this significant Group strategic focus.

Conclusion

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

I hope you will be supportive of the resolution to approve the Annual Report on Remuneration at the 2015 AGM.

Iain Ferguson

Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION POLICY REPORT

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

Policy overview

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

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

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

- ➔ [Consideration of shareholders' views p65](#)
- ➔ [Consideration of employment conditions elsewhere in the Group p65](#)
- ➔ [Summary of executive Directors' remuneration policy p66](#)
- ➔ [Remuneration scenarios for executive Directors p68](#)
- ➔ [Recruitment and promotion policy for executive Directors p68](#)
- ➔ [Service agreements and payments for loss of office for executive Directors p69](#)
- ➔ [External appointments of executive Directors p69](#)
- ➔ [Appointment of non-executive Directors p69](#)

Consideration of shareholders' views

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

Consideration of employment conditions elsewhere in the Group

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

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

REMUNERATION REPORT CONTINUED

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	<p>To attract and retain high-calibre individuals.</p> <p>To provide a competitive salary relative to comparable companies in terms of size and complexity.</p>	<p>Salaries are reviewed and set annually in July. The Committee considers remuneration levels in companies of comparable market capitalisation, revenue and industry sector.</p> <p>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).</p> <p>Salaries are paid monthly in cash.</p>
Benefits	To aid retention and to remain competitive in the marketplace. In addition, medical benefits are provided to minimise disruption due to absence.	<p>Private medical and life assurance may be provided.</p> <p>A car and fuel card or car allowance are offered.</p> <p>Other benefits may be provided as appropriate.</p>
Pension	To remain competitive in the marketplace.	<p>Executive Directors can elect either to:</p> <ul style="list-style-type: none"> 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)	<p>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.</p> <p>To facilitate share ownership and provide further alignment with shareholders.</p>	<p>50% of any payment is normally deferred into shares for three years.</p> <p>Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results.</p> <p>Participants may also receive an award of cash or shares in lieu of the value of dividends on vested shares.</p>
Performance Share Plan (PSP)	<p>To incentivise and reward delivery of long-term performance linked to the business strategy.</p> <p>To facilitate share ownership and provide further alignment with shareholders.</p> <p>To aid retention.</p>	<p>PSP awards are granted annually so that no undue emphasis is placed on performance in any one particular financial year.</p> <p>Awards normally vest on the third anniversary subject to performance.</p> <p>Participants also receive an award of cash or shares in lieu of the value of dividends on vested shares.</p> <p>Clawback may apply in the event of material misconduct and/or material misstatement or error of financial results.</p>
Shareholding guidelines	To align the interests of executive Directors with those of shareholders.	Executive Directors are expected to accumulate a shareholding in the Company's shares to the value of 100% of their base salary. Executive Directors are expected to retain at least 50% of shares (net of tax) which vest from awards made under the PSP and DBP until the target shareholding is attained.

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

Maximum opportunity

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 71.

Performance metrics

A number of factors are considered, notably market competitiveness, business and personal performance.

The maximum opportunity for medical benefits is cover for the executive Director and his or her family. Life assurance cover and any car or car allowance are based on market norms.

None

Executive Directors who participate in the Group's pension fund benefit from a pension contribution of 20% of base salary up to the earnings cap and a salary supplement of 20% of base salary in excess of the cap.

If a salary supplement is taken in lieu of a pension contribution, this is equivalent to 20% of base salary.

None

Maximum annual incentive opportunity is 120% of base salary.

A majority of the bonus will be based on profit and a minority of the bonus may be based on other performance metrics linked to the business strategy, measured over a one-year performance period.

Measures are reviewed each year and varied as appropriate to reflect the strategy.

The limit in the rules of the PSP is 200% of base salary. Other than in exceptional circumstances, the normal limit will be 175% of base salary.

Performance measures will normally be based on relative total shareholder return (TSR) and/or earnings per share metrics, although strategic measures may be used in exceptional circumstances. Targets will normally be measured over a three-year performance period.

There is 25% vesting for threshold performance, rising to 100% vesting for maximum performance.

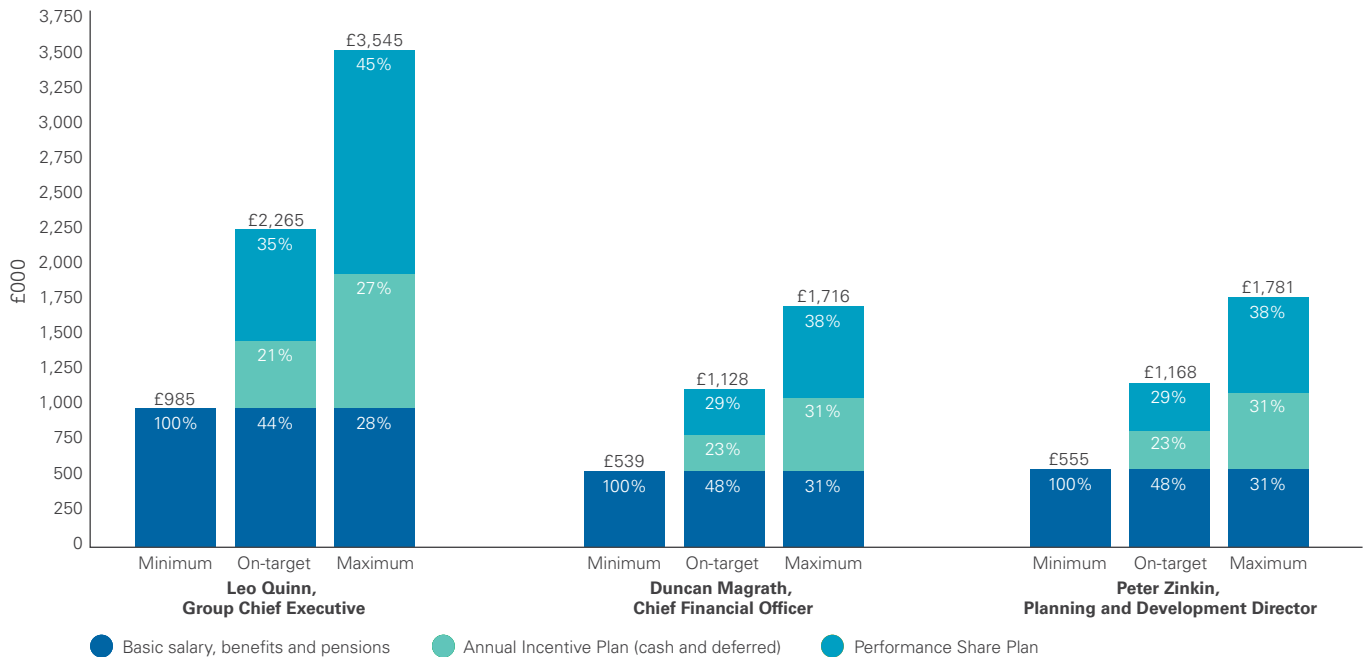
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None

REMUNERATION REPORT CONTINUED

Remuneration scenarios for executive Directors

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



Notes:

- Salary levels are based on those applying from 1 July 2014 for Duncan Magrath and Peter Zinkin and 1 January 2015 for Leo Quinn. The salary for Duncan Magrath does not include his 20% of salary responsibility allowance as this is not part of the ongoing remuneration policy and will cease on 31 March 2015.
- The value of benefits receivable for 2015 has been estimated.
- The on-target level of AIP is taken to be 50% of the maximum AIP opportunity (120% of salary for all executive Directors), of which 50% is paid in cash and 50% is deferred in shares under the DBP.
- 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 150% of salary for the other executive Directors). The Group Chief Executive's buyout awards, as agreed as part of his joining arrangements, are not reflected in the above chart as these are not part of the ongoing remuneration policy.
- 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.
- No share price appreciation or dividend awards have been assumed for the DBP shares and PSP awards.

Recruitment and promotion policy for executive Directors

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

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

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

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

Service agreements and payments for loss of office for executive Directors

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

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

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

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

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

External appointments of executive Directors

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

Appointment of non-executive Directors

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

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

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

REMUNERATION REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION

This part of the Remuneration Report sets out how the remuneration policy will be applied over the year ending 31 December 2015 and how it was implemented over the year ended 31 December 2014. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The areas covered in this Annual Report on Remuneration comprise:

- ➔ Implementation of the remuneration policy for the year ending 31 December 2015 p71
- ➔ Remuneration received by Directors for the year ended 31 December 2014 p72
- ➔ AIP awards for the year ended 31 December 2014 p73
- ➔ Vesting of PSP awards for the year under review p73
- ➔ Outstanding share awards p74
- ➔ Long-term incentive awards granted during the year p75
- ➔ Group Chief Executive changes and payments for loss of office p76
- ➔ Payments to past Directors p77
- ➔ Statement of Directors' shareholdings and share interests p77
- ➔ Performance graph p77
- ➔ Group Chief Executive's remuneration table p78
- ➔ Percentage change in Group Chief Executive's remuneration compared with all UK employees p78
- ➔ Relative importance of spend on pay, dividends and underlying pre-tax profit p78
- ➔ Directors' pensions and pension allowances p78
- ➔ External appointments of executive Directors p79
- ➔ Consideration by the Directors of matters relating to Directors' remuneration p79
- ➔ Statement of shareholder voting at AGM p80

Implementation of the remuneration policy for the year ending 31 December 2015

The detailed information about the Directors' remuneration, set out on pages 71 to 80 (excluding the performance graph on page 77), has been audited by the Company's independent auditor, Deloitte LLP.

Base salaries

The annual base salary review date is 1 July for executive Directors. Current base salaries for the executive Directors who served in 2014 are as follows:

Base salary	1 July 2013 £	1 July 2014 £	% increase
Duncan Magrath ¹	425,000	436,000	2.6%
Peter Zinkin	443,000	454,000	2.5%

¹ In addition to the above, Duncan Magrath received a temporary responsibility allowance of 20% of base salary in respect of additional duties and responsibilities taken on in the absence of a Chief Executive. This was payable from 3 May 2014 (the date Andrew McNaughton stepped down) up to 31 March 2015.

The annual base salary for Leo Quinn was set at £800,000 from appointment to the Board on 1 January 2015. Further details are provided on page 76. As per the announcement of 20 January 2015, Phil Harrison will join the Board as Chief Financial Officer. His annual base salary will be £400,000 with all other terms in line with the approved policy. Full details will be provided in next year's Annual Report on Remuneration.

Performance targets for the AIP in 2015

For 2015, the AIP will continue to be based on a combination of Group-based financial targets and objectives linked to the business strategy. Reflecting Leo Quinn's inaugural year as Group Chief Executive and the challenges faced by the business, 76% of the AIP will be based on financial targets, and 24% will be based on business objectives. 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.

The maximum AIP potential will continue to be 120% of base salary for executive Directors, with 50% of any payment deferred in shares for three years.

Performance targets for PSP awards granted in 2015

The PSP awards to be granted in 2015 will be subject to the following targets:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51-150 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2015, the start of the performance period. There is no vesting below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the growth in the Company's EPS over the performance period
- Cash (33.3%) – a cash measure is deemed appropriate given the Group's particular circumstances in 2015.

As at the date of publication of this Remuneration Report, the Committee had not finalised the EPS and cash performance targets for the PSP award to be granted in 2015. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement following the PSP award and in the Remuneration Report for 2015.

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 2013 £	1 July 2014 £	% increase
Chairman ¹	265,750	265,750	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%

¹ Following Andrew McNaughton's departure, Steve Marshall became Executive Chairman with effect from 3 May 2014. He received a temporary increase in his annual fee from £265,750 to £531,500 from this date to reflect his additional responsibilities and time commitment. His annual fee reverted to £265,750 from 1 January 2015 upon Leo Quinn's appointment as Group Chief Executive.

Philip Aiken will join the Board as non-executive Chairman on 26 March 2015. His annual fee will be £270,000.

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

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

REMUNERATION REPORT CONTINUED

Remuneration received by Directors for the year ended 31 December 2014

The table below sets out the Directors' remuneration for the year ended 31 December 2014 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ended 31 December 2013.

	Year	Base salary and fees ^{1,2} £	Taxable benefits ^{3,4} £	Pension ⁵ £	Annual incentive cash £	Annual incentive deferred shares £	Long term incentives ⁶ £	Other ⁷ £	Total £
Executive Directors									
Duncan Magrath ⁸	2014	487,395	15,568	86,100	–	–	166,803	4,128	759,994
	2013	425,000	15,550	88,789	–	107,100	–	–	636,439
Andrew McNaughton ⁹	2014	224,167	6,041	44,833	–	–	–	–	275,041
	2013	603,021	17,055	125,250	–	163,800	–	–	909,126
Peter Zinkin ¹⁰	2014	448,500	10,385	89,700	–	–	–	–	548,585
	2013	443,000	9,970	88,600	–	111,636	–	–	653,206
Non-executive Directors									
Robert Amen ¹¹	2014	76,000	7,311	–	–	–	–	–	83,311
	2013	91,000	4,154	–	–	–	–	–	95,154
Iain Ferguson	2014	66,000	1,877	–	–	–	–	–	67,877
	2013	66,000	3,229	–	–	–	–	–	69,229
Maureen Kempston Darkes ¹²	2014	86,000	5,496	–	–	–	–	–	91,496
	2013	76,000	1,539	–	–	–	–	–	77,539
Steve Marshall ¹³	2014	441,488	5,878	–	–	–	–	–	447,366
	2013	265,750	5,811	–	–	–	–	–	271,561
Belinda Richards ¹⁴	2014	49,397	–	–	–	–	–	–	49,397
	2013	14,000	–	–	–	–	–	–	14,000
Graham Roberts	2014	66,000	–	–	–	–	–	–	66,000
	2013	66,000	–	–	–	–	–	–	66,000
Bill Thomas ^{14,15}	2014	49,397	2,168	–	–	–	–	–	51,565
	2013	14,000	1,449	–	–	–	–	–	15,449

¹ Base salary and fees were those paid in respect of the period of the year during which the individuals were Directors. Duncan Magrath's base salary includes a temporary responsibility allowance as described on page 71.

² In practice, the base salaries paid to Duncan Magrath, Andrew McNaughton and Peter Zinkin have been reduced due to their participation in the Company's Share Incentive Plan. These salary reductions in 2014 were £1,500 for Duncan Magrath and Peter Zinkin and £500 for Andrew McNaughton. In practice, the base salary paid to Peter Zinkin has been further reduced due to his participation in the Group's SMART Pensions salary sacrifice arrangement for the period to 31 January 2014. This salary reduction in 2014 was £588, which corresponds to his contributions to the Balfour Beatty Pension Fund for the month of January 2014, met directly by his employer as part of this arrangement. The base salary for Peter Zinkin has also been reduced by £24,000 in 2014 (2013: £24,000) to meet additional travelling costs incurred by him in order to fulfil his role.

³ Taxable benefits are calculated in terms of UK taxable values. Duncan Magrath and Andrew McNaughton received private medical insurance for the Director and his immediate family. Peter Zinkin received private medical insurance for the Director and his spouse. Duncan Magrath received a car allowance of £14,000 pa. Andrew McNaughton received a car allowance of £16,000 pa. Peter Zinkin received a fully expensed car with taxable benefit value of £9,223 pa.

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

⁵ For periods of membership of the DC section of the Group's pension fund, this comprises the amount of employer contributions plus any salary supplements in lieu of pension on earnings that are above the earnings cap. For any periods of non-membership of the Group's pension fund, this comprises any salary supplements in lieu of pension contributions. For periods of deferred membership of the DB section of the Group's pension fund, there may also be included the value of any increase in DB benefits. Further details are set out in the section on Directors' pensions on page 78 and 79.

⁶ This relates to: (i) the value of the 2012 PSP award (which will lapse in full based on a performance period ended on 31 December 2014); and (ii) for Duncan Magrath, his additional 50% of salary special PSP award which was granted in 2013 and which vested on 31 December 2014. Further details of these awards are set out on page 73 and 74.

⁷ Duncan Magrath received an expenses payment of £4,128 representing the reimbursement of the cost of a holiday which he was required to cancel as a result of corporate activity.

⁸ Duncan Magrath will cease to be a Director on 8 May 2015.

⁹ Andrew McNaughton stepped down from the Board on 3 May 2014. His pay for loss of office is described on page 76.

¹⁰ Peter Zinkin will cease to be a Director on 25 March 2015.

¹¹ Robert Amen's fees shown for 2014 include £20,000 in respect of travel allowances for meetings attended in 2014 (2013: £25,000).

¹² Maureen Kempston Darkes' fees shown for 2014 include £20,000 in respect of travel allowances for meetings attended in 2014 (2013: £17,500). Her fees for 2013 have been restated for an underpayment in 2013 of £2,500 which was corrected in 2014.

¹³ Steve Marshall's fees shown for 2014 include the additional annual fee agreed when he became Executive Chairman, pro rated for the period 3 May 2014 to 31 December 2014. His taxable travel expenses for 2013 have been restated for an underpayment of £5,811 in 2013 which was corrected in 2014.

¹⁴ Belinda Richards and Bill Thomas joined the Board on 1 September 2013 and stepped down from the Board on 21 November 2014.

¹⁵ Bill Thomas' taxable travel expenses for 2013 have been restated for an underpayment of £1,449 in 2013 which was corrected in 2014.

AIP awards for the year ended 31 December 2014

The AIP awards for the year under review were based on performance against profit before tax and non-underlying items and Group-based performance metrics linked to the business strategy. As a result of the trading statement issued on 6 May 2014, the departure of Andrew McNaughton, with Steve Marshall stepping in as Executive Chairman and a significant revision of the Group's strategic objectives, the three Group-based strategic metrics were amended and, to reflect the in-period changes, the Committee considered it appropriate to scale back the maximum payout by 25% (ie, rather than reflecting 30% of the bonus potential, this was reduced to 22.5%). The profit before tax and non-underlying items target was not amended. The revised Group-based strategic metrics were as set out in the table below. The Committee concluded that Andrew McNaughton's departure from the Board in May 2014 should preclude him from receiving any award under the AIP in respect of 2014.

The Committee's assessment was that the AIP business strategy objectives had been partially achieved. Notwithstanding this, Duncan Magrath and Peter Zinkin agreed with the Committee that they would waive any entitlement under the AIP in respect of 2014 given overall business performance.

AIP objective	Target	Actual	Maximum (% of salary) ¹	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold	£175.5m				
	Budget	£195.0m	£(80)m	84%	0%	0%
	Maximum	£224.25m				
Negotiate and close a Parsons Brinckerhoff disposal transaction at a value acceptable to the Board and to shareholders	Remuneration Committee assessment of achievement	100% achieved	12%	9%	4.5%	4.5%
Optimise the value of that disposal through, for example, the restructuring of the Group balance sheet and the allocation of proceeds in a manner broadly acceptable to all stakeholders	Remuneration Committee assessment of achievement	50% achieved	12%	4.5%	2.25%	2.25%
Simplify and focus Group activities, promoting a strong emphasis on operational delivery across the Group, strong continuing oversight of safety, values, ethics and sustainability, improved oversight of risk management and assurance at all levels	Remuneration Committee assessment of achievement	0% achieved	12%	0%	0%	0%
Total			120%	13.5%	6.75%	6.75%

¹ The maximum for each of the Group-based strategic performance metrics was reduced from 12% to 9% when the Group's strategic objectives were amended following the trading statement issued on 6 May 2014.

Vesting of PSP awards for the year under review

The PSP awards granted on 16 April 2012 were based on a performance period for the three years ended 31 December 2014.

As disclosed in previous Remuneration Reports, the performance conditions were as follows:

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Earnings per share ¹ (50% of the award)	EPS growth 15% (25% vesting of this part of the award) to 45% (100% vesting of this part of the award).	EPS at 31 December 2014	40.83p	51.48p	(11.5)p	0%
Total Shareholder Return (50% of the award)	TSR against the 90 remaining companies ranked 51-150 in the FTSE All Share Index (excluding investment trusts) as at the start of the performance period and still listed at the end of the performance period. 25% of this part of the award vesting for median performance increasing to 100% of this part of the award vesting for upper quartile performance or above.	TSR ranking	45 or above	23 or above	74	0%
Total vesting						0%

¹ Earnings per share is defined as underlying earnings per share from continuing operations.

REMUNERATION REPORT CONTINUED

Vesting of PSP awards for the year under review continued

The special PSP award granted to Duncan Magrath of up to 50% of his £425,000 salary on 16 April 2013 was based on a performance period from 1 April 2013 to 30 June 2014. The performance conditions were based on his contribution to the improvement of the Group's capital structure and leadership as follows:

Metric	Performance condition	Measure	Maximum (% of award)	Actual proportion achieved	Vesting ¹ %
Improvement of Group's capital structure (60% of the award)	Implementation of private placement in US, improved diversity of debt funding sources and liquidity through issue of convertible bond, sale of Balfour Beatty WorkPlace, focus on cash management	Remuneration Committee assessment of achievement	60%	100% achieved	60%
Lead and improve the strategic planning process (40% of the award)	Improvements in strategic planning process	Remuneration Committee assessment of achievement	40%	85% achieved	34%
				Total vesting	94%

¹ The special PSP award vested on 31 December 2014.

Details of the PSP awards vesting for the year under review for the executive Directors are therefore as follows:

Executive	Type of award	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vested shares £
Duncan Magrath	2012 conditional	219,076	–	219,076 ¹	–
Duncan Magrath	2013 special conditional	85,272	80,155	5,117	166,803
Andrew McNaughton	2012 conditional	232,600	–	232,600 ²	–
Peter Zinkin	2012 conditional	232,600	–	232,600 ¹	–

¹ The 2012 PSP awards for Duncan Magrath and Peter Zinkin will formally lapse on 16 April 2015.

² The 2012 PSP award for Andrew McNaughton lapsed on 3 May 2014. Further details are on page 76.

Outstanding share awards

Name of Director	Share award	Date granted	Maximum number of shares subject to award				At 31 December 2014	Exercisable and/or vesting from	Exercise price
			At 1 January 2014	Awarded during the year	Vested during the year	Lapsed during the year			
Duncan Magrath ¹⁷	PSP ^{1,5,6}	1 June 2011	181,729	–	–	181,729	–	1 June 2014	–
	PSP ^{2,5,6}	16 April 2012	219,076	–	–	–	219,076	16 April 2015	–
	PSP ^{3,5,6}	16 April 2013	255,818	–	–	–	255,818	16 April 2016	–
	Special PSP ^{5,6,17}	16 April 2013	85,272	–	80,155	5,117	–	31 December 2014	–
	PSP ^{4,5,6,7}	31 March 2014	–	211,162	–	–	211,162	31 March 2017	–
	DBP ^{8,9,10,11}	31 March 2011	24,172	–	24,172	–	–	31 March 2014	–
	DBP ^{8,9,11,12}	30 March 2012	61,859	4,095	–	–	65,954	30 March 2015	–
	DBP ^{8,9,11,12}	31 March 2013	46,083	3,050	–	–	49,133	31 March 2016	–
	DBP ^{8,9,11,12,13}	31 March 2014	–	37,823	–	–	37,823	31 March 2017	–
Andrew McNaughton ¹⁸	SRSOS ^{14,15,16}	18 May 2009	628	–	–	628	–	1 July 2014	249.0p
	SRSOS ^{14,15,16}	11 May 2010	1,291	–	–	–	1,291	1 July 2015	236.0p
	PSP ^{1,5,6}	1 June 2011	193,530	–	–	193,530	–	1 June 2014	–
	PSP ^{2,5,6}	16 April 2012	232,600	–	–	232,600	–	16 April 2015	–
	PSP ^{3,5,6}	16 April 2013	456,460	–	–	456,460	–	16 April 2016	–
	PSP ^{4,5,6,7}	31 March 2014	–	376,780	–	376,780	–	31 March 2017	–
	DBP ^{8,9,10,11}	31 March 2011	25,742	–	25,742	–	–	31 March 2014	–
	DBP ^{8,9,11,12}	30 March 2012	65,677	1,921	67,598	–	–	30 March 2015	–
	DBP ^{8,9,11,12}	31 March 2013	49,879	1,458	51,337	–	–	31 March 2016	–
Peter Zinkin	DBP ^{8,9,11,12,13}	31 March 2014	–	51,806	51,806	–	–	31 March 2017	–
	PSP ^{1,5,6}	1 June 2011	196,834	–	–	196,834	–	1 June 2014	–
	PSP ^{2,5,6}	16 April 2012	232,600	–	–	–	232,600	16 April 2015	–
	PSP ^{3,5,6}	16 April 2013	266,653	–	–	–	266,653	16 April 2016	–
	PSP ^{4,5,6,7}	31 March 2014	–	220,105	–	–	220,105	31 March 2017	–
	DBP ^{8,9,10,11}	31 March 2011	26,180	–	26,180	–	–	31 March 2014	–
	DBP ^{8,9,11,12}	30 March 2012	65,677	4,348	–	–	70,025	30 March 2015	–
	DBP ^{8,9,11,12}	31 March 2013	48,035	3,180	–	–	51,215	31 March 2016	–
	DBP ^{8,9,11,12,13}	31 March 2014	–	39,424	–	–	39,424	31 March 2017	–

- ¹ 2011 PSP award: Details of the Company's performance against the performance conditions are set out in the 2013 Remuneration Report. The award lapsed in full on 1 June 2014 based on performance over three financial years to 31 December 2013 as the growth in EPS did not exceed the 15% threshold and the Company's TSR ranked below the median of the comparator group.
- ² 2012 PSP award: The award will formally lapse on 16 April 2015. Further details of this award are set out on page 73.
- ³ 2013 PSP award: Each award is subject to two relative TSR performance conditions measured over three financial years. The Company's TSR is measured against two comparator groups. 50% of each award is measured against a comparator group comprising the FTSE 51–150 (excluding investment trusts). 50% is measured against the following group of construction and professional services companies – AE Com, Atkins, Bilfinger and Berger, Carillion, Costain, Hochtief, Morgan Sindall, Tutor Perini, Skanska and URS. 25% of each part of the award will vest for a median ranking, increasing on a straight-line basis to full vesting for an upper quartile ranking. No shares will vest from a part of the award if the Company's TSR is below that of the median of the comparator group.
- ⁴ 2014 PSP award: details of this award are set out below.
- ⁵ All PSP awards are granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. It is the Company's current intention that awards will be satisfied by shares purchased in the market.
- ⁶ The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of awards granted, was 317.78p for the 2011 award, 277.3p for the 2012 award, 249.2p for the 2013 award and 301.9p for the 2014 awards. The closing middle market price of ordinary shares on the date of the awards was 312.4p, 271.9p, 244.9p and 299.6p respectively.
- ⁷ On 31 March 2014, for all participants in the PSP, a maximum of 2,369,138 conditional shares were awarded which are exercisable on 31 March 2017.
- ⁸ 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.
- ⁹ The initial DBP awards made in 2012, 2013 and 2014 will vest on 30 March 2015, 31 March 2016, and 31 March 2017 respectively, providing the Director is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
- ¹⁰ The initial DBP awards made in 2011 vested on 31 March 2014. The closing middle market price of ordinary shares in the Company on the vesting date was 299.6p.
- ¹¹ The DBP awards made on 31 March 2011, 30 March 2012, 31 March 2013 and 31 March 2014 were purchased at average prices of 343.417p, 286.99p, 234.85p and 301.9p respectively.
- ¹² For the initial DBP awards made in 2012, 2013 and 2014, the shares awarded on 23 April 2014 and 9 October 2014 (in lieu of the final 2013 and interim 2014 dividends respectively) were allocated at average prices of 290.6p and 155.93p respectively.
- ¹³ On 31 March 2014, for all participants in the DBP, a maximum of 490,541 conditional shares were awarded which will normally be released on 31 March 2017. On 23 April 2014, a further 47,421 conditional shares were awarded in lieu of entitlements to the final 2013 dividend and, on 9 October 2014, a further 49,552 conditional shares were awarded in lieu of entitlements to the interim 2014 dividend.
- ¹⁴ All savings-related share option scheme (SRSOS) options are granted for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- ¹⁵ The closing market price of the Company's ordinary shares on 31 December 2014 was 212.0p. During the year, the highest and lowest closing market prices were 321.4p and 148.7p respectively.
- ¹⁶ The SRSOS options granted to Duncan Magrath in May 2009, exercisable at 249.0p, lapsed unexercised in December 2014.
- ¹⁷ The special PSP award vested on 31 December 2014. For the special PSP award, a total of 9,686 shares in lieu of the final 2012, interim 2013, final 2013 and interim 2014 dividends as at 24 April 2013, 9 October 2013, 23 April 2014 and 9 October 2014 respectively were awarded based on average prices of 246.47p, 264.0p, 290.6p and 155.93p respectively. The value of these shares at 31 December 2014 was £20,156.
- ¹⁸ Andrew McNaughton stepped down from the Board on 3 May 2014. At this time, a proportion of his 2012, 2013 and 2014 PSP awards lapsed reflecting the proportion of the performance period for each award which had not been completed at the date of leaving. The remainder of the 2012 PSP, 2013 PSP and 2014 PSP awards were tested on 3 May 2014 and lapsed. The DBP awards made to him in 2012, 2013 and 2014 vested on 3 May 2014.

Long-term incentive awards granted during the year

On 31 March 2014, 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 at granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over	Vesting date
Andrew McNaughton	Conditional	175% of salary of £650,000	301.9p	376,780	£1,137,500	25%	Three financial years to	31 March 2017
Duncan Magrath	Conditional	150% of salary of £425,000	301.9p	211,162	£637,500	25%	31 December 2016	
Peter Zinkin	Conditional	150% of salary of £443,000	301.9p	220,105	£664,500	25%		

50% of each award above is measured against a comparator group comprising the FTSE 51–150 (excluding investment trusts) and 50% is measured against the following group of construction and professional services companies – AECOM, Atkins, Bilfinger and Berger, Carillion, Costain, Hochtief, Kier, Morgan Sindall, Tutor Perini, Skanska and URS. 25% of each part of the award will vest for a median ranking, increasing on a straight-line basis to full vesting for an upper quartile ranking. No shares will vest under each part of the award if the Company's TSR is below that of the median of the relevant comparator group.

REMUNERATION REPORT CONTINUED

Chief Executive changes and payments for loss of office

Departure of Andrew McNaughton

Andrew McNaughton stepped down from the Board on 3 May 2014. In line with his contractual entitlements, it was agreed that he should continue to receive his base salary, car allowance and pension allowance, paid monthly, in respect of his 12-month notice period (he therefore received monthly payments of £66,333 for each of the eight months from May 2014 to December 2014). The agreement with Andrew McNaughton included a duty to mitigate by reducing payments to him in the event of his finding new employment. In addition, he was entitled to £3,250 in pay for unused holiday and private medical insurance for himself and his immediate family to 31 October 2014 and, thereafter, a payment in lieu of private medical insurance of £130 per month for six months. He also received an amount of £10,000 in respect of legal costs and £30,000 for outplacement costs.

In respect of Mr McNaughton's incentives, it was determined that:

- there should be no entitlement under the 2014 AIP
- the 2012, 2013 and 2014 PSP awards should vest at cessation subject to performance conditions being satisfied at that point and pro rated for the proportion of the performance period served. As a result of the performance conditions not being met in respect of any of the awards at 3 May 2014, all of his PSP awards lapsed
- awards held under the DBP (170,741 shares in respect of annual bonuses earned in the financial years ended 31 December 2011, 2012 and 2013) should vest at cessation. These shares were released on termination at a value of £390,314, subject to tax and national insurance deductions.

Appointment of Leo Quinn

As announced on 15 October 2014, Leo Quinn joined the Board as Group Chief Executive on 1 January 2015. The key elements of his remuneration package, which are consistent with the Company's approved remuneration policy, are as follows:

- a base salary of £800,000
- a salary supplement at 20% of base salary in lieu of pension contributions
- a maximum annual bonus of 120% of base salary
- an annual PSP award of 175% of base salary, albeit PSP awards for 2015 and 2016 will be set at 200% of base salary.

In addition to the above and as part of his recruitment arrangements, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer. This compensation was, where possible, consistent with the awards forfeited in terms of currency (ie, cash versus shares), vesting periods and the operation of performance targets and is as follows:

- compensation for any loss of annual bonus payable by the previous employer in respect of its financial year ending 31 March 2015 with any amount payable: (i) based on the actual percentage of the maximum that Leo Quinn would have received; (ii) prorated from 1 April 2014 (the start of his previous employer's 2014/15 bonus period) to 1 January 2015 (ie, the point that Leo Quinn joined the Balfour Beatty AIP); and (iii) 50% in cash in 2015 and 50% in Balfour Beatty plc shares, deferred for three years with vesting subject to continued employment
- 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 (1/3rd 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 (2/3rds 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.
- conditional share awards over 141,791 Balfour Beatty plc shares, 308,010 Balfour Beatty plc shares and 504,151 Balfour Beatty plc shares granted on 2 January 2015 which will vest in May 2015, June 2015 and August 2015 respectively, based on the actual vesting percentages as determined by the original performance targets set and measured by Leo Quinn's previous employer.

All share-based buyout awards lapse 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 the event of change of control, awards will be subject to performance testing being met at that time, but no time pro rating. Except as set out above, the awards are subject to the terms of the PSP. None of the awards are pensionable. Any amendments to the awards which are to the advantage of the participant (other than certain minor amendments) are subject to shareholder approval.

Payments to past Directors

There were no payments to past Directors other than the payments disclosed above in respect of Andrew McNaughton.

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:

Director	Beneficially owned at 1 January 2014 ^{1,2}	Beneficially owned at 31 December 2014 ^{2,3,4}	Outstanding PSP awards	Outstanding DBP awards	Beneficially owned at 31 December 2014 as a % of base salary at 31 December 2014	Guideline met ⁵
Duncan Magrath	130,754	191,890	686,056	152,910	93%	No
Andrew McNaughton	127,311	134,304				
Peter Zinkin ⁶	313,720	315,694	719,358	160,664	147%	Yes
Robert Amen	10,139	10,139				
Iain Ferguson	45,000	55,000				
Maureen Kempston Darkes	7,000	7,000				
Steve Marshall	7,142	17,142				
Belinda Richards	–	–				
Graham Roberts	15,000	15,000				
Bill Thomas	–	9,128				

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 departure, if earlier.

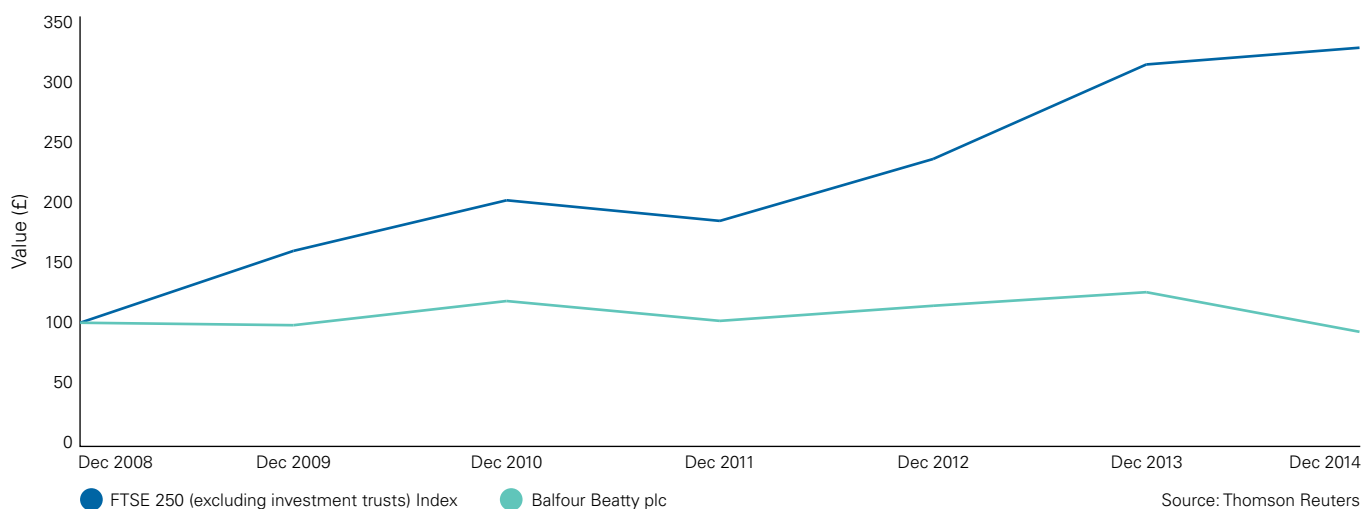
⁴ As at 24 March 2015, there have been no changes to the above other than in respect of shares held under the Share Incentive Plan which increased by 60 shares for Duncan Magrath and 169 shares for Peter Zinkin.

⁵ The executive Directors are required to hold shares in the Company worth 100% of base salary and must retain no fewer than 50% of the shares, net of taxes, vesting under the DBP and PSP until the required shareholding is met.

⁶ Peter Zinkin was also interested at 1 January 2014 and 31 December 2014 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.

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.



This graph shows the value by 31 December 2014 (averaged over 30 dealing days) of £100 invested in Balfour Beatty plc on 31 December 2008 compared with the value of £100 invested in the FTSE 250 (excluding investment trusts) Index. The intermediate points are the 30 dealing day averages ending on the Company's financial year ends.

REMUNERATION REPORT CONTINUED

Group Chief Executive's remuneration table

The total remuneration figures for the Group Chief Executive during each of the last six 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
Total remuneration ¹	£1,617,223	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568
AIP (%) ²	60.4%	69.6%	65.3%	40.2%	21.0%	0%
PSP (%)	50%	18.4%	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.

² Andrew McNaughton did not qualify for any 2014 AIP.

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

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2013 and 31 December 2014, 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.

	2013	2014	% change
Salary for year ended 31 December			
Group Chief Executive (£000) ¹	650	650	–
All UK employees (£m) ²	1,122	832	(26)
Benefits for year ended 31 December			
Group Chief Executive (£000) ¹	148	148	–
All UK employees (£m)	30	31	3
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000) ³	164	–	(100)
All UK employees (£m) ⁴	13	18	38
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	962	798	(17)
All UK employees (£m)	1,165	881	(24)

¹ Salary, benefits, annual bonus and total remuneration received by Andrew McNaughton, annualised to reflect amounts receivable for a full year's service in role.

² Reflects reduction in UK headcount year-on-year following the disposal of Balfour Beatty WorkPlace in December 2013 and Parsons Brinckerhoff in October 2014.

³ Andrew McNaughton did not qualify for any 2014 AIP.

⁴ Reflects good performance in the Investments and Services divisions.

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:

	2013	2014	% change
Staff costs (£m) ¹	2,299	1,896	(18)
Dividends (£m)	96	96	–
Underlying pre-tax profit/(loss) (£m) ²	200	(41)	(121)

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 is from continuing and discontinued operations.

Directors' pensions and pension allowances

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

The DC section of the Fund is a money purchase scheme with a normal retirement age of 65. The Fund operates a Fund-specific earnings cap for pension purposes. Peter Zinkin's pensionable earnings were subject to the Fund-specific earnings cap. Peter Zinkin paid an annual contribution equal to 5% of contributory salary for the period to 31 January 2014 via the Group's SMART Pensions salary sacrifice arrangement as outlined in Note 2 in the Directors' remuneration table on page 72. A salary supplement was paid to Peter Zinkin in lieu of pension contributions on earnings above the Fund-specific earnings cap for the period to 31 January 2014 and this is included in the Directors' remuneration table on page 72. A salary supplement was paid to Peter Zinkin in lieu of Fund membership from 1 February 2014 and this is included in the Directors' remuneration table on page 72.

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

Duncan Magrath opted out of the DB section of the Fund on 5 April 2012 and became a deferred pensioner. In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index). He chose not to participate in the DC section of the Fund. Duncan Magrath was paid a salary supplement in lieu of Fund membership which is included in the Directors' remuneration table on page 72.

Andrew McNaughton opted out of the DB section of the Fund on 31 December 2012 and became a deferred pensioner. In accordance with the Fund rules, his deferred pension was revalued in the year in line with price inflation (measured by the Retail Prices Index). He chose not to participate in the DC section of the Fund. Andrew McNaughton was paid a salary supplement in lieu of Fund membership for the period from 1 January 2014 to 3 May 2014 which is included in the Directors' remuneration table on page 72.

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

The pension table below sets out the accrued DB deferred pension based on each executive Director's service to his date of becoming a deferred pensioner of the Fund. The pension amount for Duncan Magrath and Andrew McNaughton is the value of the increase in each Director's DB deferred pension, in excess of price inflation (measured by the Consumer Prices Index), over the year ended 31 December 2014. The pension amount for Peter Zinkin is the amount of the employer contributions paid to the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts. Figures for 2013 are included for comparative purposes. The pension amounts are included in the Directors' remuneration table on page 72.

Name of Director	Age at 31 December 2014 Years	Accrued DB deferred pension at 31 December 2013 ¹ £ pa	Accrued DB deferred pension at 31 December 2014 ¹ £ pa	Pension amount 2013 ² £	Pension amount 2014 ² £
Duncan Magrath ³	50	39,201	39,979	3,789	–
Andrew McNaughton ⁴	51	48,071	48,507	4,646	–
Peter Zinkin ⁵	61	n/a	n/a	28,020	2,350

¹ These amounts represent each Director's accrued DB deferred pension at the relevant date. In accordance with the Fund Rules, accrued DB deferred pension in excess of Guaranteed Minimum Pension has been increased in line with the Retail Prices Index between each Director's date of becoming a deferred pensioner of the Fund and the relevant date.

² The amounts for Duncan Magrath and Andrew McNaughton represent the value of the increase in excess of inflation (where inflation is measured as the annual increase in the Consumer Prices Index to the September before the relevant date) of the accrued DB deferred pension over the period. The increase in benefits has been calculated using HMRC methodology and then multiplied by a factor of 20. The figures for Peter Zinkin represent the contributions paid over the period by the Company into the DC section of the Fund excluding any SMART Pensions salary sacrifice amounts.

³ The accrued DB deferred pension figures shown for Duncan Magrath include his DB benefits in the Fund purchased with Additional Voluntary Contributions (AVCs). In May 2013, the Fund paid an Annual Allowance tax charge of £27,249 to HMRC on Duncan Magrath's behalf in a Scheme Pays arrangement. The value of this tax charge has been recorded as a negative DC contribution in respect of Duncan Magrath and will be rolled up to the Director's retirement date, at which point it will be used to reduce the level of DB pension to which he is entitled from the Fund. The pensions table above makes no allowance for Duncan Magrath's Scheme Pays arrangement.

⁴ The accrued DB deferred pension figures for Andrew McNaughton are at 31 December 2013 and 3 May 2014.

⁵ Peter Zinkin has not accrued any DB benefits in the Fund since 31 December 2010. Peter Zinkin participated in the DC section from 1 January 2011 to 31 January 2014, and the Company paid £2,350 into this arrangement during 2014, in addition to his SMART Pensions salary sacrifice of £588.

External appointments of executive Directors

During 2014, Duncan Magrath acted as a non-executive director of Brammer plc and received fees of £43,250 which he retained. During 2014, Peter Zinkin was elected as a local authority councillor and received fees of £6,324 which he retained. Details of Steve Marshall's earnings elsewhere during his eight-month tenure as Executive Chairman have not been disclosed due to the interim nature of the role.

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 (except Steve Marshall) 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)
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts

Steve Marshall stepped down as a Committee member during the period 3 May 2014 to 31 December 2014 when he served as Executive Chairman, although he continued to attend meetings by invitation.

REMUNERATION REPORT CONTINUED

The Committee also receives advice from several sources, namely:

- the Group Chief Executive and the 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:

- provision of pay benchmarking data for the executive Directors and non-executive Directors
- annual update for the Committee on developments in best practice, market experience and regulatory requirements for all remuneration elements
- assistance with the drafting of the Remuneration Report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards
- advice in relation to potential corporate activity
- advice in connection with certain Board changes during the year.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £85,922 (2013: £55,798).

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 15 May 2014, the resolution to approve the Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	402,287,275	92.24%
Against	33,836,389	7.76%
Total votes cast	436,123,664	100%
Abstentions	10,640,145	

At the AGM on 15 May 2014, the resolution to approve the remuneration policy received the following votes from shareholders:

	Total number of votes	% of votes cast
For	428,310,747	97.22%
Against	12,241,834	2.78%
Total votes cast	440,552,581	100%
Abstentions	6,211,232	

By order of the Board

Iain Ferguson

Chairman of the Remuneration Committee
24 March 2015