DIRECTORS' REPORT

Our governance framework

CHAIRMAN'S INTRODUCTION

Balfour Beatty is committed to applying the very highest standards of corporate governance wherever it operates.

Areas of focus in 2014

- Recruitment of a new Group Chief Executive and search for a new Chairman and Chief Financial Officer
- Operational delivery – focus on Construction Services UK
- Implementation of business strategy – disposal of Parsons Brinckerhoff.

Areas of focus in 2015

- Programme of business transformation under the new leadership team
- Financial performance, including cash generation and cost reduction plan
- Greater assurance of risk analysis, controls and reporting
- Rebalance the skills and experience on the Board.

We have continued to apply the UK Corporate Governance Code and, with respect to its main principles, I would like to draw your attention to the following:

Leadership

Our areas of focus for the Board in 2014 and 2015 are summarised in the adjacent column. In the pages which follow, I have set out how we have been addressing these items as a Board; whether through the Directors collectively, or via the Board Committee structure.

Losing Andrew McNaughton as Chief Executive early in the year meant I had to combine executive responsibility with my role as Chairman, until the business's future was assured and a successor could be recruited (as referred to in my Chairman's Review on pages 4 and 5). This, and the especially difficult year that 2014 proved to be, imposed additional burdens particularly on our non-executive Directors, both in the commercial decisions we were having to make and in governance matters.

The appointments of Leo Quinn as Group Chief Executive, Philip Aiken as Chairman and Philip Harrison as Chief Financial Officer will bring a wealth of relevant experience. The Company is actively recruiting a further non-executive Director to ensure the right balance of skills and experience, following the departure late last year of Belinda Richards and Bill Thomas. In addition, in 2015 Duncan Magrath, Peter Zinkin and myself will leave the Board.

Diversity

Though we again find ourselves with only one female Director on the Board, we specifically ask search firms to identify suitable women candidates as we endeavour to increase the female composition of our Board. Although, as a policy, we strongly support greater diversity in all its forms, not least gender diversity, as an important objective for the Group, we do not believe in the concept of gender quotas, our preferred approach being much more directed at merit, experience and skills. We are in the third year of our diversity and inclusion programme, which includes the development of women for future management positions in the Group. More information on the various aspects of our diversity programme across the organisation is set out on page 37.

Accountability

Despite the issues we have faced, we continue to believe that the Company's policies and procedures enable the Board to present a fair, balanced and understandable assessment of the Group's trading position and its prospects. We continue to keep under review the matters reserved for the Board and the terms of reference of its Committees and will make adjustments as considered necessary and publish any changes on our corporate website. During 2014, the Audit, Risk & Assurance Committee made significant revisions to the identification and assessment of risk at divisional level to achieve more reliable and responsible reporting. Increased interrogation and risk reporting, and integrated analysis of commercial and business risks and their controls and the assurance that can be placed on them, will be a focus for 2015. More information can be found on pages 58 and 59.

Remuneration

The remuneration policy, subject to a binding vote for the first time in 2014, was approved by shareholders at the Annual General Meeting in May. We remain committed to the policy's principles and alignment to performance and shareholder value, and do not propose any changes for 2015. Details of how it will operate in 2015 can be found in the Remuneration Report on page 71.

Relations with shareholders

Our investor relations programme remains of critical importance to the Board and this is why, at each of our meetings, we receive a comprehensive report from our investor relations team, as well as receiving, at regular intervals, updates from analysts and the feedback from any meetings which the Directors, including myself, may have held with institutional shareholders. The Annual General Meeting is recognised as an opportunity for private shareholders to engage with the Board. Further information on our investor relations programme is set out on page 61.

Read more online in our Investors section
balfourbeatty.com/investors

Steve Marshall
Chairman

Balfour Beatty Governance Framework

The Board
- Group strategy
- Annual budgets and financial reporting
- Interim and final dividends
- Major acquisitions, disposals and capital expenditure
- Financial and human resources
- Values and ethical standards
- Risk management and assurance.

Read more on p48

Audit, Risk & Assurance Committee
- Financial statements
- Financial controls
- External audit
- Internal audit
- Risk management and assurance.

Read more on p51

Nomination Committee
- Structure and composition of Board
- Appointment of non-executive Directors
- Succession planning and talent management.

Read more on p54

Remuneration Committee
- Remuneration strategy and policies
- Remuneration packages
- Incentive plans.

Read more on p55

Business Practices Committee
- Corporate values, ethics and Code of Conduct
- Health and safety
- Stakeholder management
- Sustainability
- Whistleblowing
- Community engagement.

Read more on p56

Group Tender and Investment Committee
- Major contract approvals
- Acquisitions and disposals
- Capital expenditure.

Read more on p57

Finance and General Purposes Committee
- Banking facilities and other treasury matters
- Share options.

Read more on p57

Compliance with the Code

The UK Corporate Governance Code 2012 (the Code) is the standard applying to good corporate governance practice in the UK, and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year. (For information on the Code, visit www.frc.org.uk.)

The Company has complied with the requirements of the Code throughout the accounting period, other than in respect of the effectiveness of the Group's whistleblowing procedures which is kept under review by the Business Practices Committee and not by the Audit, Risk & Assurance Committee. The principal reason for this is that the Business Practices Committee, in particular, focuses on the Company's business conduct, its ethics and values, ensuring that procedures exist for employees to raise concerns in confidence and this is an integral element of its overall remit. However, the Audit, Risk & Assurance Committee is kept informed of any allegations of fraud or poor financial controls and internal audit participates in investigations into such claims and reports to that Committee on the outcome.

Directors' independence

At its Board meeting in March 2015, as part of its annual audit of corporate governance, the Board considered the independence of the non-executive Directors against the criteria specified in the Code and determined that each of them continues to be independent.

The Board

Effective from 26 March 2015, the Board will comprise seven Directors, of whom five, including the Chairman, are non-executive. Details of the changes during the year can be found under the heading "Board composition" below.

Board composition

The names of the Directors serving through the year and at the year end are shown on page 42. All of the Directors in office on 26 March 2015, with the exception of Duncan Magrath, will seek election or re-election at the Annual General Meeting in accordance with the Code. Brief biographical details are shown on pages 42 and 43. Full details of Directors' service agreements, emoluments and share interests are shown in the Remuneration Report starting on page 64.

Andrew McNaughton stepped down as Chief Executive and from the Board on 3 May 2014, and Steve Marshall was appointed to the role of Executive Chairman. Belinda Richards and Bill Thomas resigned as non-executive Directors effective 21 November 2014. Since the year end, we have made a number of changes to the Board and announced some which have yet to take effect. Leo Quinn took office as Group Chief Executive and as a Director on the Board on 1 January 2015; Philip Aiken joins the Board as non-executive Chairman on 26 March 2015, succeeding Steve Marshall who, with Peter Zinkin, will cease to be Directors at that time; while Duncan Magrath will cease to hold office on 8 May 2015.

Each of the Directors brings skills and experience which enhance the quality of debate in the boardroom and provides guidance. The Directors believe that the Board retains the ability to provide effective leadership and that appointments being made will achieve an appropriate balance of skills. Having said this, there is a need to make further appointments to the Board to give it the appropriate balance. A search for a non-executive Director has been commissioned, and Philip Aiken, as Chairman, will be further considering the composition of the Board to ensure it has the right balance of skill and experience. There are, however, areas where the non-executive Directors, in particular, bring with them a wealth of insight and, although not exhaustive, some of their most significant strengths are highlighted on page 46.

DIRECTORS' REPORT CONTINUED

Board balance	
Chairman	1
Executive Directors	3
Non-executive Directors	4

Board tenure	
0–2 years	1
2–4 years	1
4–6 years	2
6+ years	4

Board geography	
UK	6
Americas	2

Board diversity	
Male	7
Female	1

Non-executive Directors – significant strengths

	Strategic development	Operating performance and delivery	Mergers and acquisitions	Business integration	Financial management and planning	Sector-specific
Philip Aiken	●	●	●	●		
Robert Amen	●	●	●		●	
Iain Ferguson	●	●				
Maureen Kempston Darkes	●		●	●		
Graham Roberts	●		●		●	

	Experience of international markets	Health and safety	Risk management and assurance	HR management	Stakeholder engagement	Ethics, values and culture
Philip Aiken	●	●	●		●	●
Robert Amen	●	●		●	●	●
Iain Ferguson	●	●		●	●	●
Maureen Kempston Darkes	●	●		●		●
Graham Roberts			●		●	

After evaluation, your Board is satisfied that each of the Directors continues to be effective and demonstrates commitment to the role; and that their election or re-election is in the Company's best interests.

Matters reserved for the Board

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

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

The Board reviewed its list of reserved matters, most recently, at its meeting in March 2015. The full list and the terms of reference of the Board Committees are available on request from the Company Secretary and are also displayed on the Company's website. Descriptions of the specific responsibilities which have been delegated to the Group Chief Executive and to the principal Board Committees are also provided on page 47 and pages 51 to 57.

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

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balfourbeatty.com/investors

Chairman and Group Chief Executive

The two roles are complementary and the Company usually keeps them separate. The Chairman is responsible for managing the business of the Board, whilst the Group Chief Executive actually runs the business. As the senior executive officer of the Company, the Group Chief Executive is responsible to the Chairman and Board for directing and prioritising the profitable operation and development of the Group. The Chairman and Group Chief Executive keep each other appropriately informed on the other's current activities.

Specifically, their roles comprise the principal responsibilities in the sections following:

Chairman's responsibilities

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

Group Chief Executive's responsibilities

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

Until 3 May 2014, Steve Marshall carried out the role of non-executive Chairman. He spent an average of two days a week on Company business, the Board being satisfied that his role as non-executive chairman of two other companies, and his other business and charitable commitments, could be accommodated without hindering his ability to carry out his duties as Chairman. Assuming executive responsibility on 3 May, he relinquished one of his other company non-executive positions and devoted substantial additional time to the Company's needs until a new Group Chief Executive could be appointed. From 1 January 2015, he reverted to non-executive capacity.

Senior Independent Director

As Senior Independent Director, Iain Ferguson's principal responsibilities are to ensure that the views of the other non-executive Directors are properly considered and to provide an additional communication channel between the non-executive Directors and the shareholders and other stakeholders, as required. Mr Ferguson meets with the other non-executive Directors without the Chairman or executive Directors being present at least once a year. He has led the search for a new Chairman, on behalf of the Board.

Directors' interests

No Director had any material interest in any contract of significance with the Group during the period under review. The Directors have put in place procedures to ensure the Board collectively, and the Directors individually, comply with the disclosure requirements on conflicts of interest set out in the Companies Act 2006. At its meeting each January, a formal declaration of interests is reviewed by the Board.

The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive scheme (the Performance Share Plan), the Deferred Bonus Plan, the Share Incentive Plan and share options are set out in the tables in the Remuneration Report commencing on page 64.

Directors' indemnities

The Company grants an indemnity to all of its Directors to the extent permitted by law. These indemnities are uncapped in relation to losses and liabilities which Directors may incur to third parties in the course of acting as a Director of the Company, or in any office where such duties are performed at the request of the Board, or as a result of their appointment as Directors.

Board meetings

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

2014 meeting programme

In 2014, confronted by an exceptional series of events, the Board met on 26 occasions and held numerous update discussions. The vast majority of these were held at the Company's head office in London, or by telephone. In addition to the scheduled eight meetings, many called at short notice were accommodated as conference calls. Contrary to the Company's usual practice, given the overwhelming workload that had to be accommodated, none of the scheduled meetings during 2014 were held at business units or overseas.

Each scheduled Board meeting normally lasts four to five hours but can be longer.

On the evening preceding those Board meetings, the Directors generally meet for dinner and sometimes take the opportunity to discuss predetermined developmental themes, led by one of the executive Directors, other senior managers or a specialist external speaker. One of the dinners each year is attended by the Chairman and the non-executive Directors only, whilst a second includes the Group Chief Executive, but none of the other executive Directors.

Each scheduled Board meeting addresses key strategic topics for the Group which enable the Directors to engage in detailed reviews. The Board also considers at each of these meetings monthly updates from the Group Chief Executive and the Chief Financial Officer. Regular reports are also provided on health, safety and environment, operational performance, corporate communications, risk management and assurance, investor relations and any legal issues. At each such meeting, the chairs of the various Board Committees provide a summary of the discussions held at the preceding Committee meeting and the key actions arising; minutes of the Committee meetings are then made available for inspection on the electronic portal used for disseminating papers for meetings and on which other key data and documents are kept.

DIRECTORS' REPORT CONTINUED

2014 Board topics

As mentioned on page 47, the Board met an unprecedented 26 times during 2014 driven by:

- Group strategy leading to the disposal of Parsons Brinckerhoff
- the operational delivery and financial performance issues which emerged throughout the year, particularly within the UK construction business, and the proposed remedial actions
- the potential merger discussions with Carillion plc
- the proposal from John Laing Infrastructure Fund Limited to acquire the Group's PPP portfolio.

The following topics were also addressed by the Board during 2014 under each of the themes shown. For clarity, a synopsis of certain of the topics has been included as well.

Finance

- Budgets 2014 and 2015
- Annual and half-year results including pre-close statements
- Dividend strategy – including return of capital to shareholders
- Financing capacity and options – future cash needs of the Group and compliance with covenants
- Trading updates.

Operational performance

- Health and safety – performance across the Group and the status of the Zero Harm programme
- Efficiency programme – reviews of the principal cost reduction and efficiency programmes and monitoring their progress against predetermined measures and milestones
- Business reviews – operating performance against budget and strategic plan, risks and opportunities, and matters such as health and safety, people development and sustainability, including:
  - International (Middle East, Far East, Australia)
  - Construction Services UK – performance and plan of action
  - Construction Services US
  - Professional Services
  - Rail
  - Infrastructure Investments.
- Infrastructure fund – the infrastructure fund enables the Group to utilise a combination of infrastructure asset knowledge, skills and experience to earn a superior return on capital, as well as advisory fees. The Board received progress updates on how this part of the Group was progressing, including information on investments made in the year and the fund's valuation.

HR

- Recruitment of a new Group Chief Executive, and the search for a new Chairman and other non-executive Directors
- People planning, talent and succession management – key people moves, review of succession plans, the encouragement of cross-divisional and cross-geographical moves, and diversity and inclusion policies and practices across the Group
- Organisational structure
- Pensions.

Strategy

- Group strategy development and structuring options – monitoring progress against plan and divestments.

Mergers, acquisitions and divestments

- Evaluation of a number of merger or disposal opportunities
- Disposal of parts of the German rail business
- Disposal of Parsons Brinckerhoff
- Approval of Infrastructure Investments asset disposals in 2014:
  - Durham Teaching Hospital
  - Knowsley Schools project
  - Pinderfields and Pontefract General Hospitals.

Risk

- Risk management review.

For 2015, the Board is scheduled to meet eight times. At least one meeting will focus on the development of the strategic plan. At least one meeting will be held outside London at one of the Group's business units.

2014 Board and Board Committee meetings

All non-executive Directors receive papers for all Committees. Any Director who is not a Committee member has an open invitation to attend any Committee meeting and a number of the Directors took this opportunity during the year. For example, Steve Marshall and Duncan Magrath each attended all the Audit, Risk & Assurance Committee meetings in 2014; and Andrew McNaughton attended meetings of that Committee and the Business Practices Committee while he was a Director.

Details of the number of meetings and attendance at the Board meetings and meetings of the Audit, Risk & Assurance, Business Practices, Nomination and Remuneration Committees during the year are set out in the table below.

Name of Director	Board	Audit, Risk & Assurance	Business Practices	Nomination	Remuneration
Robert Amen	23(26)	4(4)	2(2)	4(4)	
Iain Ferguson	23(26)	0(0)	2(2)	4(4)	7(7)
Maureen Kempston Darkes	23(26)		2(2)	4(4)	6(7)
Duncan Magrath	24(26)				
Steve Marshall	26(26)		1(2)	4(4)	7(7)
Andrew McNaughton (to 3 May 2014)	5(5)			0(0)	
Belinda Richards (to 21 November 2014)	21(26)	1(4)	0(2)	2(4)	
Graham Roberts	24(26)	4(4)		4(4)	6(7)
Bill Thomas (to 21 November 2014)	23(26)	4(4)	2(2)	3(4)	
Peter Zinkin	22(26)				

The number shown in brackets is the total number of meetings the Director could attend during the year (including as a result of changes to Committee memberships). Non-attendance at meetings was due to prior business commitments and in particular during 2014 to the very short notice at which a meeting may have had to be convened. In each case, where the Directors have not been able to attend a Board or Committee meeting, they have reviewed the papers circulated for that meeting and provided their comments directly to the Chairman, or the Committee chair, as appropriate.

Further information about the work of each of the Board's Committees may be found on pages 51 to 57.

Board development

Induction

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

Philip Aiken has already commenced this process which will be substantially completed shortly.

Professional development

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

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

Owing to the increased Board meeting commitment during 2014, as well as additional meetings of the Nomination and Remuneration Committees, the programme of visits organised for the non-executive Directors was curtailed.

Board evaluation

Introduction

In keeping with the Code, the Board receives external evaluations, normally every three years, with internal evaluations in the intervening two years. The most recent external evaluation was carried out for 2012, so for 2014 the evaluation has been conducted using internal resources.

2014 evaluation

This was conducted between January and February 2015 using an online structured questionnaire covering the operation of the Board and each of its principal Committees, issued to the Directors and, in the case of the Committees, to those other participants who regularly attend these meetings. The emerging key themes were summarised and presented to the Board in March 2015 and the scope of the evaluation is shown below.

DIRECTORS' REPORT CONTINUED

The work of the Board
Strategy and operations
- Understanding of the Board's role
- Quality of strategic process
- Knowledge of operations and the external landscape
- Consideration of stakeholder views, including shareholders.

Risk and control
- Quality of financial information
- Efficacy of internal and external audit functions
- Effectiveness of the Audit, Risk & Assurance Committee
- Effectiveness of the Business Practices Committee
- Interaction with advisers.

Performance management
- Knowledge of corporate culture and context
- Assessment of executive motivation, performance and remuneration
- Quality of executive succession planning and leadership development
- Effectiveness of the Remuneration Committee.

Board environment
Culture
- Board culture, dynamics, values and conduct
- Quality of debate and decision making
- Opportunity and ability to contribute, individually and collectively
- Balance of constructive challenge and support.

Composition
- Board size, composition, skills and experience
- Effectiveness of the Nomination Committee.

The Board's use of time
Planning
- Quality of information and the timeliness of papers
- Schedule of Board and Committee meetings
- Quality of secretariat support.

Allocation
- Balance of formal and informal time
- Provision of time for priorities
- Balance of presentation and debate
- Availability of induction and training programmes.

Conclusions reached were more qualitative than quantitative and based on a careful analysis of the Board and its Committees' approach to their work, contribution to the success of the Company and preparation for the future.

The principal themes ensuing from the evaluation of 2014 are set out below:

Strengths
- Strong chairmanship and performance of the Board in handling a series of crises, served well by the hard work of the leadership team
- Improved understanding of the views of major investors and stakeholders
- Well-managed process for the selection of a new Chairman, Group Chief Executive and Chief Financial Officer
- Information flow facilitating discussion and decision making
- Culture and quality of relationships.

Weaknesses
- Need to appoint a Director with relevant construction sector experience
- More attention required in relation to operational oversight and visibility of operational performance
- Review and testing of risk management programmes.

The following key areas of focus were identified for 2015	
Restructuring and turnaround of CSUK	Management actions to transform the Construction Services UK (CSUK) business and monitoring their progress to re-establish confidence in that business.
Improving strategic oversight and management of risk	The Board needs greater transparency from management in being kept fully appraised of financial and operating issues in the business.
Increasing exposure of the Board to the business	More time spent in the businesses in order to improve the Board's understanding of the pressures and issues.
Managing changes at Board level	With significant change at Board level, it will be essential that the new Board gels quickly and achieves a common understanding of how to function together.
Succession planning and talent management	The Group is in need of adding to the management team and planning for executive succession.

AUDIT, RISK & ASSURANCE COMMITTEE

Meetings in 2014: 4

Members
- Graham Roberts – chair
- Robert Amen
- Iain Ferguson – since November 2014.

Former members (retired in the year)
- Belinda Richards
- Bill Thomas.

Responsibilities
- Financial statements
- Financial controls
- External audit
- Internal audit
- Risk management and assurance.

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

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

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

Partners from the external auditor, the Heads of Group Risk Management and Assurance and Internal Audit, and the Chief Financial Officer regularly attend each meeting. In addition, any non-executive Director who is not a Committee member has an open invitation to attend meetings. The Committee regularly also invites other executive Directors, divisional leaders and specialists relevant to the Committee's agenda. Minutes of Committee meetings are circulated to all Board members.

Summary of activities in 2014

In 2014, the Committee's work programme focused on a number of significant issues and other accounting judgements where the Committee believed the highest level of judgement was required and with the highest potential impact on the Group's financial statements. Further information is set out on page 52. The Committee's standing agenda items comprised reports on:

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

The Committee is able to question management at both Group and divisional levels to gain any further insight into the issues addressed in these reports. As well as the standing agenda items, the Committee also reviewed comprehensive papers on material litigation and tax.

In view of the significance of the UK construction business's operational delivery issues, its performance was subject to scrutiny at the Board meetings, attended by CSUK leadership. This approach succeeded the sub-Committee established in 2013.

The results of the review by KPMG of the UK construction business is of considerable interest to the Committee. The results and recommendations of the KPMG report are described in detail on page 19 of this document, and so will not be repeated here. The Committee has received presentations addressing the actions being taken to implement the recommendations, and this will be an area of continued focus for 2015.

Risk management and assurance

The Committee oversaw the development of more robust processes to embed operational risk and opportunity reporting in core reporting lines and processes in addition to existing reporting via revised framework and review procedures. This work is ongoing with the intention of developing a unified and common approach to risk management and assurance across the Group.

Internal audit – co-sourcing

The internal audit function entered into a co-sourcing arrangement with KPMG in the summer of 2014. This provides the Head of Internal Audit with access to additional resources and specialist audit techniques. The initial focus of the increased resource was in contract review controls in the UK construction business and IT governance.

Fair, balanced and understandable

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

DIRECTORS' REPORT CONTINUED

Significant issues and other accounting judgements	
Revenue and margin recognition	Given the nature of the Group's operations, these elements are central to how it values its work. Having reviewed detailed reports (including the KPMG review) and met with management, the Committee considered contract and commercial issues where there was exposure to both revenue and margin recognition risks. As a key area of audit focus, the Committee also received a detailed written report from the external auditor setting out the results of its work in relation to key contract judgements. The Committee considered management's assessment of additional contract risk provisions, as discussed in the Chairman's Review on page 4. The Committee also reviewed the work carried out to identify whether prior periods required restatement, explained fully on page 14.
Carrying value of goodwill and other intangibles	The judgement largely relates to the assumptions underlying the value in use of the cash-generating units, primarily the achievement of the three-year strategic plan and the macroeconomic assumptions (such as discount rates) underpinning the valuation process. The Committee received reports from management outlining the basis of the assumptions used; in addition, the external auditor provided detailed written reports in this area. During the year, the Committee reviewed management's impairment assessment of the Mainland European rail businesses and concluded that an impairment charge of £24 million should be recorded in relation to Rail Italy. The Committee also agreed with the decision to partially impair the Oracle R12 intangible asset as a result of the decision to focus its roll-out on Construction Services UK only.
Accounting for acquisitions and disposals	The Committee judges whether a business should be treated as held for sale and classified as a discontinued operation. In doing so, it reviews management's position and Group strategy and evaluates the likelihood that the business will be disposed of within a 12-month period and if it constitutes a separate major line of business. In 2014, Parsons Brinckerhoff and Rail Italy were classified as discontinued operations and Rail Germany was declassified from discontinued operations. There were no acquisitions in 2014.
Going concern	In order to satisfy itself that the Company has adequate resources to continue in operation for the foreseeable future and that there are no material uncertainties that could lead to significant doubt as to the Group's ability to continue as a going concern, the Committee considered the Group's cash position (both existing and projected), bank facilities and covenants (including bonding lines) and the borrowing powers allowed under the Company's Articles of Association. The Committee subsequently recommended to the Board the adoption of the going concern statement for inclusion in the Annual Report. Further details are provided in the Chief Financial Officer's Review on page 17.
Non-underlying items	The key judgement is whether items relate to the underlying trading or not and whether they have been presented in accordance with the Group's accounting policy. The Committee conducted an in-depth review of each of the non-underlying items, receiving written reports from management and the external auditor as to their quantum and nature. The Committee reviewed the appropriateness of presenting the results of Rail Germany and the performance of certain legacy Engineering Services contracts in non-underlying items.
Control environment	The Committee discussed whether, given the difficult trading performance in parts of the UK construction business during 2014, the overall control environment in these parts of the business was not working effectively. In particular, controls around forecast costs to complete on projects need to be strengthened to ensure the facts on site are reported in a timely manner.
Provisions	The Committee reviewed the significant judgements relating to provisions, including litigation and other risks. The Committee received detailed reports, including relevant legal advice.
Retirement benefits	The key judgement relates to the assumptions underlying the valuation of the retirement benefit obligations. The Committee received reports from management outlining the assumptions used, including input from the Group's actuaries, in particular in relation to discount rates, inflation and mortality which were evaluated against external benchmarks and, in relation to which, the external auditor also provided reports.
Deferred tax assets	The Committee reviewed the Group's considerations on future profitability to evaluate the judgement that it is probable the deferred tax assets are recoverable.
Directors' valuation of Investments portfolio	The Committee assessed the methodology used to value the assets in terms of the discount rate applied. It also critically appraised the output of the Directors' valuation exercise.

Areas of focus in 2015

In 2015, the Committee will continue to address the topics on its standing agenda and will also continue to undertake reviews of the risk management and assurance practices across the Group on a rolling programme. The Committee will also continue to receive training in order to broaden and refresh the skills and knowledge of its members.

Implementation of KPMG recommendations

As mentioned above, the Committee has already received information relating to the implementation of the recommendations in the KPMG report, focusing in particular on the actions that have been taken and that need to be taken across the UK construction business. The ongoing monitoring and assurance of this activity will continue to be an area of focus in 2015. Read more on page 19.

Risk management and internal control

A thorough review of all aspects of the Group's risk and opportunity management activities was undertaken following the continued operational delivery issues within the UK construction business. The review centred on the business lifecycle from initial enquiry, tender submission and contract award, through to ongoing monitoring and control, and project completion. The review concluded that existing internal controls which were in place across a number of different processes needed to be simplified and consolidated under a unified common approach across the Group. The revised framework comprises a number of approval and review gates that cover the business lifecycle from initial project pursuit through to delivery and completion. The new process replaces and expands on previous monitoring and control processes. These new processes have been strengthened by the reinforcement of common minimum standards in project and commercial management, and will be reviewed for effectiveness and compliance in 2015 (more details on pages 30 and 59).

Internal auditor effectiveness

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

External auditor independence and effectiveness

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

Non-audit work

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

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

The Company's policy identifies the various types of non-audit services and determines the analysis to be undertaken and level of authority required before the external auditor can be considered to undertake such services. Included within such analysis is consideration of the cost and efficiency benefits as well as the real or perceived threats to auditor independence.

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

In 2014, the external auditor was appointed to carry out various non-audit related work, including corporate finance services for reasons of commercial confidentiality and efficiency as well as tax advice and compliance services in Australia, Europe, South Africa and the US. The main component of non-audit work related to corporate finance support for the disposal of Parsons Brinckerhoff including reporting responsibilities relating to the Class 1 circular sent to shareholders in order to seek their approval for the disposal.

The Committee considers that the Company receives particular benefits, including those relating to cost, quality and consistency, from the advice provided by its external auditor, given its wide and detailed knowledge of the Group and its international operations. There can also be savings in management time and accelerated delivery of work in situations where rapid turnaround is required. The majority of non-audit related work provided by all the major international accounting firms (76% by value) was carried out by firms other than Deloitte.

Annual assessment of the audit processes

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

A detailed assessment of the external audit process and the effectiveness of the external auditor, together with any identified improvement recommendations, is prepared each year. Each division and operating company within the Group is required to evaluate the performance of the assigned external audit team and to compare that performance against the previous year. This assessment has taken into account the issues which have been raised during 2014. The auditors have revised their audit approach in certain areas and applied additional focus on the UK construction business which was discussed with the Audit Committee and incorporated into the external auditor's audit plan for 2014.

The external auditor's annual transparency report for the year ended 31 May 2014 was reviewed. This was prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 made by the Professional Oversight Board of the Financial Reporting Council.

DIRECTORS' REPORT CONTINUED

External auditor rotation

Audit partners have been rotated every five years. The advisory partner changed in 2010 and the audit engagement partner changed in 2011. Deloitte's first audit report for the Company was completed in 2003 and there has not been a tender for external audit services in the intervening period.

A number of circumstances would lead to consideration being given to carrying out an audit tender review. For example:

- in circumstances where the external auditor's performance had been called into question, or where, through the audit partner rotation process, no suitable replacement had been identified
- where value for money considerations had arisen
- where there was a real or perceived threat to independence
- where conflict of interests had been identified
- where issues had been raised about audit quality by a regulator.

The final order from the UK Competition & Markets Authority amending the UK Corporate Governance Code requirement for FTSE 350 companies to put statutory audit out to tender not less frequently than every 10 years aligns the transitional arrangements with those for EC Audit Regulation, and this means we are now required to undertake a tender by 2023. The Committee's current intention is still to tender the audit earlier than formally required so as to coincide with the rotation of the current audit partner's engagement. The tender process itself will take place during 2015 effective for the year ending 31 December 2016.

NOMINATION COMMITTEE

Meetings in 2014: 4

Members

- Steve Marshall – chair
- Robert Amen
- Iain Ferguson
- Maureen Kempston Darkes
- Graham Roberts.

Former members (retired in the year)

- Andrew McNaughton
- Belinda Richards
- Bill Thomas.

Responsibilities

- Structure and composition of Board
- Appointment of non-executive Directors
- Succession planning and talent management.

Summary of activities in 2014

In 2014, the Committee's work programme entailed the selection of and recommendations to the Board for the appointment of a new Group Chief Executive, non-executive Chairman and Chief Financial Officer and considering further changes in Board composition.

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

In seeking suitable candidates for the Group Chief Executive, Chief Financial Officer and Chairman vacancies, external executive search agencies were engaged. The Committee identified for each of the roles the competencies sought and the required experience, and the agencies prepared shortlists of potential candidates who were interviewed by members of the Committee and by the executive Directors.

Key determinants in the selection of the Chairman were, as well as stature to lead a top 150 company in this highly competitive market, a background in organisations that share key dynamics with Balfour Beatty including contracting, customer service, major capital projects, infrastructure and B2B services. For the Group Chief Executive: leadership, strategic and commercial skills, significant experience of long-term contracts delivered through a devolved supply chain and a track record of enhancing shareholder value. For the Chief Financial Officer: driving major operational and structural change in a similar contract-based business, major system implementation and with the required control and project accounting discipline.

The search agencies appointed were reminded to approach a diverse talent pool of candidates, and have no other connections with Balfour Beatty.

Philip Aiken will replace Steve Marshall on this Committee in March 2015.

Areas of focus in 2015

In 2015, the Committee will continue to monitor the appropriateness of the composition of the Board and make recommendations to the Board concerning the need for the introduction of new non-executive Directors and to refresh the Board and enhance the sector-specific experience of the non-executive Directors. The implications of the business strategy for senior executive recruitment and the impact on the Group's succession planning are also areas which the Committee will keep under review during the year.

REMUNERATION COMMITTEE

Meetings in 2014: 7

Members

- Iain Ferguson – chair
- Maureen Kempston Darkes
- Steve Marshall
- Graham Roberts.

Responsibilities

- Remuneration strategy and policies
- Remuneration packages
- Incentive plans.

Summary of activities in 2014

The Committee has an annual calendar of activities; that and its four scheduled meetings are added to as may be necessary according to developments. In 2014, the Committee's work programme comprised the following principal topics:

2013 annual bonus

The Committee approved the deferral by the executive Directors of the 2013 cash bonus into shares under the Deferred Bonus Plan.

2012 PSP performance conditions

EPS growth and the TSR measure were both below their respective threshold target which meant there would be no vesting of the 2012 Performance Share Plan (PSP) awards.

2013 special PSP performance conditions

In relation to the special award granted in 2013 to the Chief Financial Officer under the PSP, the Committee assessed a significant partial achievement of the personal tailored objectives.

2014 annual bonus targets

The Committee approved changes to the strategic objectives metrics following the trading statement issued on 6 May 2014 and the departure of the Chief Executive.

Executive Directors' salary review

The Committee approved a 2.5% salary increase in 2014 for the executive Directors, in line with that afforded to other employees.

Remuneration policy and long-term incentive plan review

The Committee decided not to embark on a review of remuneration policy and long-term incentives in 2014, and maintained two TSR measures for the PSP in 2014. The remuneration policy was approved by 97.2% of shareholders at the AGM.

Disposal and merger implications

The Committee considered and approved incentive and deployment packages in connection with the Parsons Brinckerhoff disposal and for a small number of senior management. It also reviewed change of control implications for the various share plans.

Terms for new appointments and leavers

The Committee approved settlement terms for the outgoing Group Chief Executive. The Committee also approved remuneration and incentive buyout terms for the incoming Group Chief Executive and Chief Financial Officer and temporary increases in the Chairman's and the Chief Financial Officer's remuneration to ensure continuity of business leadership.

Further information about the work of the Committee during the financial year is set out in the Remuneration Report starting on page 64.

Philip Aiken will replace Steve Marshall on this Committee in March 2015.

Areas of focus in 2015

In 2015, the Remuneration Committee will undertake a formal review of the existing remuneration policy and the appropriateness of the short and long term incentive arrangements to properly meet the needs of the Company, as it implements the next phase of its business strategy. If changes are considered necessary, the Committee will consult with shareholders at the appropriate time.

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DIRECTORS' REPORT CONTINUED

BUSINESS PRACTICES COMMITTEE

Meetings in 2014: 2

Members
- Maureen Kempston Darkes – chair
- Robert Amen
- Iain Ferguson
- Steve Marshall.

Former members (retired in the year)
- Belinda Richards
- Bill Thomas.

Responsibilities
- Corporate values, ethics and Code of Conduct
- Health and safety
- Stakeholder management
- Sustainability
- Whistleblowing
- Community engagement.

Summary of activities in 2014

The Committee focuses significant attention on health and safety, values, ethics and compliance, and sustainability. The Committee also addresses the Group's Code of Conduct and the training which ensures that the Group's business principles are properly embedded throughout the business.

In addition to the standing agenda items, the following principal topics were considered at Committee meetings during the year.

Health and safety

The Committee reviewed the annual independent audit regime comparing Balfour Beatty against its industry peers. This focuses on health and safety performance by sector and by geography and provides a truer comparator of performance than a broad benchmarking index.

On the Zero Harm programme, the emphasis continued to be on prevention, with the focus on driving cultural change throughout the organisation. The Committee acknowledges that difficulties arise because of the temporary nature of many of the work sites with contractors on site for short periods and with high turnover rates. The Committee will continue to monitor progress against the programme and consider how the Zero Harm brand and concept may be refreshed in 2015.

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

The Global Safety Principles were reviewed by the Committee in conjunction with management. Action plans will continue to be reviewed by the Committee.

Ethics, values and compliance

Although the Code of Conduct and the accompanying ethics and compliance programme was well designed and the Group had a strong reputation in this area, the Committee emphasised that there was opportunity to further embed and communicate the Code's values and processes in parts of the businesses. Progress would be monitored through 2015.

The outcome of whistleblowing claims through 2014 was reviewed by the Committee. The Committee will keep progress under observation.

The self-assessment ethics and compliance dashboard, which forms an integral element of the year end compliance reports, was reviewed.

People

The Committee will continue to monitor progress in 2015 against the Group's diversity strategy.

Philip Aiken will replace Steve Marshall on this Committee in March 2015.

Areas of focus in 2015

In 2015, the Committee will continue to focus on the key reputational risk areas of health and safety, ethics and compliance, and sustainability and will monitor progress against the various action plans under each category referenced above. The Committee will also work with management on other business practice areas which have a meaningful impact on the future success of the Group, including supply chain management and customer relationship management.

GROUP TENDER AND INVESTMENT COMMITTEE

Meetings in 2014: in excess of 100

Members
- Ian Rylatt – chair since May 2014
- Duncan Magrath
- Steve Marshall – since May 2014
- Peter Zinkin
- Mathew Duncan – since August 2014
- Nick Flew
- Mark Layman
- Sandip Mahajan
- John Moore
- Brian Osborne
- Nick Pollard
- Steve Tarr
- Chris Vaughan.

Former members (retired in the year)
- Kevin Craven
- Andrew McNaughton
- George Pierson.

Responsibilities
- Major contract approvals
- Acquisitions and disposals
- Capital expenditure.

The Committee has been chaired by the Group Chief Executive, or in his absence by the Chief Financial Officer. However, in May 2014, the Board appointed Ian Rylatt to chair meetings (other than for Infrastructure Investments tenders) with Duncan Magrath, Steve Marshall and Peter Zinkin as alternate chairmen. Leo Quinn replaced Ian Rylatt as chair of this Committee in March 2015.

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

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

FINANCE AND GENERAL PURPOSES COMMITTEE

Meetings in 2014: Numerous

Members
- Steve Marshall – chair since May 2014
- Duncan Magrath
- Peter Zinkin.

Former member (retired in the year)
- Andrew McNaughton.

Responsibilities
- Banking facilities and other treasury matters
- Share options.

The Committee is chaired by the Group Chief Executive or, in his absence, by one of the other executive Directors. Leo Quinn replaced Steve Marshall on this Committee in January 2015.

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

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

DIRECTORS' REPORT CONTINUED

Risk management and internal control

Risk management

Effective risk management underpins the delivery of the Group's objectives. It is essential to protecting its reputation and generating sustainable shareholder value. Balfour Beatty aims to identify key risks at an early stage and develop actions to eliminate them or mitigate their impact and likelihood to an acceptable level. For more information, refer to pages 30 to 35.

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

Roles and responsibilities

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

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

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

Risk management process

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

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

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

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

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

In May 2014, significant revisions were made to divisional risk reporting, including the Group Commercial and Risk function playing a more proactive role to encourage responsible reporting and ownership of risk. Other revisions include greater coordination of commercial and more general business risk and assurance reporting, attendance on divisional risk committees, greater frequency and breadth of site visits to specific projects and robust, structured and intrusive meetings being held with divisional assurance and commercial leads to interrogate their risk reports.

Increased interrogation and coordination of risk reporting will continue throughout 2015 with the Group Commercial and Risk functions seeking to further integrate the analysis of commercial and general business risk and their controls.

Internal control

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

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

Central to the Group's systems of internal control are its processes and framework for risk management. These align with the Internal Controls: Guidance to Directors (previously known as the Turnbull Guidance) on internal controls and were in place throughout 2014 and up to the date of signing this report.

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

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

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

Each of the divisional CEOs is responsible for ensuring that a comprehensive framework of assurance (including internal audit) exists within his or her division and business units which is in accordance with Group requirements.

DIRECTORS' REPORT CONTINUED

The Board continued to assess the effectiveness of the risk management processes and internal controls during 2014 and to the date of this report. Such assessment is based on reports made to the Board, the Audit, Risk & Assurance Committee and the Business Practices Committee, including:

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

2014 trading updates and KPMG review
During 2014, there was continued worsening in certain parts of the Group's UK construction business and certain weaknesses in controls identified, as set out in the trading updates issued at the time and as explained elsewhere in this Annual Report on pages 18, 19 and 30.

In September 2014, the Group appointed KPMG to undertake a detailed independent review of the contract portfolio within the UK construction business. The outputs of this review are fully described in the review of the UK construction business on page 19, which forms part of the Directors' Report disclosures.

Risk improvements
As explained on page 19, the recommendations and a number of other improvements identified have been or are being implemented to overcome the weaknesses which had been discovered in the risk controls. In addition, on page 30 is a description of the new Risk Framework which is being rolled out in 2015 to provide the rigour necessary to improve communication and accountability throughout the Group.

As part of its review of the effectiveness of the system of risk management and internal control, the Board has considered the findings of the KPMG review as well as the progress that has been made in implementing the wider control enhancements considered necessary in the UK construction business, and confirms that it is satisfied that the necessary actions have been taken or are being taken to rectify any control weaknesses or failures.

Principal risks
The principal risks that could adversely impact the Group's profitability and ability to achieve its strategic objectives are set out on pages 31 to 35.

Other disclosures
Business and financial review
The Chairman's Review on pages 4 and 5 and the Group Chief Executive's Report on pages 6 and 7, the Strategy Review on pages 8 to 11, the Chief Financial Officer's Review on pages 14 to 17, the Performance Review on pages 18 to 26, and the section titled Safe, Innovative and Responsible Business on pages 36 to 41 are incorporated by reference into the Directors' Report.

Results and dividends
The results for the year are shown in the audited financial statements presented on pages 86 to 164 and are explained more fully in the Chairman's Review, the Chief Financial Officer's Review and the Performance Review. An interim dividend payment of 5.6p (net) per ordinary share was approved by the Board on 10 August 2014, giving a total dividend of 5.6p (net) per ordinary share for 2014, which compares with a total dividend per ordinary share of 14.1p (net) for 2013. Preference dividends totalling 10.75p (gross) per preference share were paid in 2014 (2013: 10.75p (gross)).

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

Innovation, research and development
Information concerning innovation, research and development is set out on page 39 and forms part of the Directors' Report disclosures.

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

Share capital and shareholders
Details of the share capital of the Company as at 31 December 2014, including the rights attaching to each class of share, are set out in Note 29 on pages 140 and 141. During the year ended 31 December 2014, no ordinary or preference shares were repurchased for cancellation. 101,540 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 318,840 ordinary shares were issued following the exercise of options held under the Company's executive share option scheme.

At 31 December 2014, the Directors had authority under shareholders' resolutions approved at the AGM and at the Class Meeting of preference shareholders held in May 2014 to purchase through the market 68,920,815 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the earlier of the conclusion of the Class Meeting of preference shareholders which will follow the 2015 AGM or on 1 July 2015.

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

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

As at 31 December 2014, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority of the following interests in its ordinary share capital.

	Number of ordinary shares held	Percentage of ordinary shares held
Newton Investment Management Limited	35,529,044	5.15
Prudential plc	35,103,707	5.09
Invesco Limited	34,608,441	5.02
Causeway Capital Management LLC	33,571,956	4.87
Standard Life Investments Limited	25,202,285	3.66
Norges Bank	22,946,627	3.33

Since 1 January 2015, the Company has received further notifications advising that Newton Investment Management Limited's interest is now 4.55% and that

Causeway Capital Management Limited's interest is now 5.15%.

Auditor

Deloitte LLP has indicated its willingness to continue as auditor to the Company and a resolution for its reappointment will be proposed at the AGM.

Articles of Association

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

Relations with shareholders

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

The Company continued its programme of communication with institutional investors and sell-side analysts throughout 2014. Presentations of the half-year and full-year results were made in accordance with the practice of previous years, and teleconferences have been held for Interim Management Statements.

Through the year, approximately 207 one-on-one and group meetings were held at regular intervals with institutional shareholders (2013: approximately 172). Current and prospective shareholders, brokers and analysts were also given the opportunity to engage with Balfour Beatty during hosted roadshows in London, Scotland and North America.

This communication programme will be maintained and expanded where appropriate, subject to the constraints of regulation and practice. The 2015 investor relations programme will focus on ensuring investors and the analyst community understand the Group, its operations and strategy, and that international institutions continue to be given the opportunity to meet with management.

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

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

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

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

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

Political donations

At the AGM held in May 2014, shareholders gave authority for the Company and its UK subsidiaries to make donations to political organisations up to a maximum aggregate amount of £25,000 in the European Union. This approval is a precautionary measure in view of the broad definition of these terms in the Companies Act. No such expenditure or donations were made during the year and shareholder authority will be sought again at the 2015 AGM.

In the US and Canada, corporate political contributions totalling £282,000 were made by business units during 2014 (2013: £165,692). Most of these donations were made by Parsons Brinckerhoff (now sold); they were small and all were permitted by law. They were non-partisan and many related to support given for local campaigns, public bond or similar referenda to promote investment in infrastructure. Any political contributions or donations are tightly controlled and must be approved in advance in accordance with the Company's internal procedures and must also adhere strictly to the Company's policies on probity set out in its Code of Conduct.

DIRECTORS' REPORT CONTINUED

Corporate responsibility

A full description of the Group's approach to sustainability, including information on its community engagement programme, appears on pages 39 to 41.

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

Greenhouse gas emissions

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

Employment

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

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

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

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

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

Employee diversity

Information concerning employee diversity is set out on page 37 and forms part of the Directors' Report disclosures.

Events after the reporting date

Details of events after the reporting date are set out in Note 37 on page 150.

Change of control provisions

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

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

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

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

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

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

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

Financial instruments

The Group's financial risk management objectives and policies and its exposure to the following risks – foreign exchange, interest rate, price and credit – are detailed in Note 39 on pages 152 to 157.

Statement of Directors' responsibilities

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

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

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

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

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

The Directors confirm that to the best of their knowledge:

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

In light of the work undertaken by the Audit, Risk & Assurance Committee reported in greater detail on pages 51 to 54 and the internal verification and approval process which has been followed this year, the Directors are able to state that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Statements of Directors as to disclosure of information to auditors

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

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

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

By order of the Board

Chris Vaughan
Chief Corporate Officer
& Company Secretary
24 March 2015

Registered Office:
130 Wilton Road
London SW1V 1LQ
Registered in England Number 395826

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

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

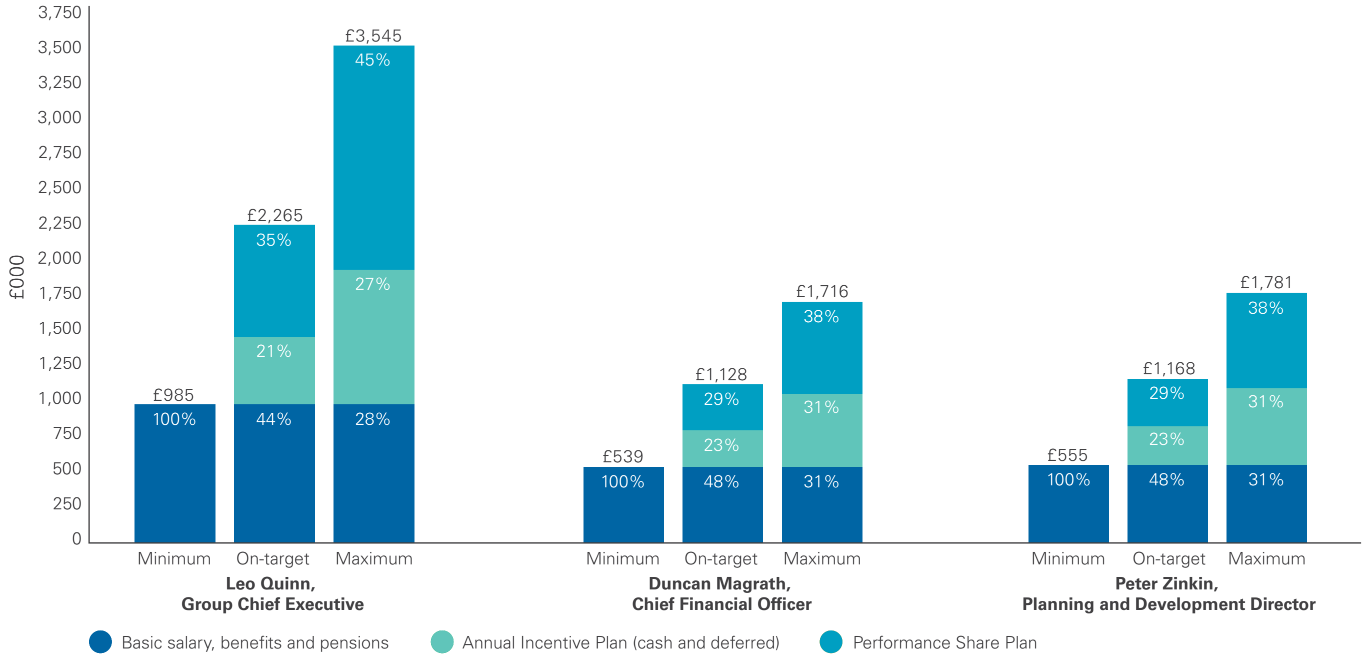
Executive Directors may also participate in the all-employee share schemes up to prevailing HMRC limits.

Maximum opportunity	Performance metrics
There is no prescribed maximum annual increase. The Committee is guided by the general increase for the broader employee population but on occasion may need to recognise, for example, an increase in the scale, scope or responsibility of the role. Current salary levels are disclosed on page 71.	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.
–	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:
1. 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.
2. The value of benefits receivable for 2015 has been estimated.
3. 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.
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 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.
5. The maximum level of AIP and vesting under the PSP is taken to be 100% of the AIP opportunity and 100% of the face value of the PSP awards at grant.
6. No share price appreciation or dividend awards have been assumed for the DBP shares and PSP awards.

Recruitment and promotion policy for executive Directors

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

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

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

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

Service agreements and payments for loss of office for executive Directors

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

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

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

Notice payments	If any existing contract 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

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 Budget Maximum	£175.5m £195.0m £224.25m	£(80)m	84%	0%	0%	0%
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.

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

			Maximum number of shares subject to award						
Name of Director	Share award	Date granted	At 1 January 2014	Awarded during the year	Vested during the year	Lapsed during the year	**At 31 December 2014**	Exercisable and/or vesting from	Exercise price
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	–
	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
Andrew McNaughton[18]	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	–
	DBP[8,9,11,12,13]	31 March 2014	–	51,806	51,806	–	–	31 March 2017	–
Peter Zinkin	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 December 2016	31 March 2017
Duncan Magrath	Conditional	150% of salary of £425,000	301.9p	211,162	£637,500	25%		
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

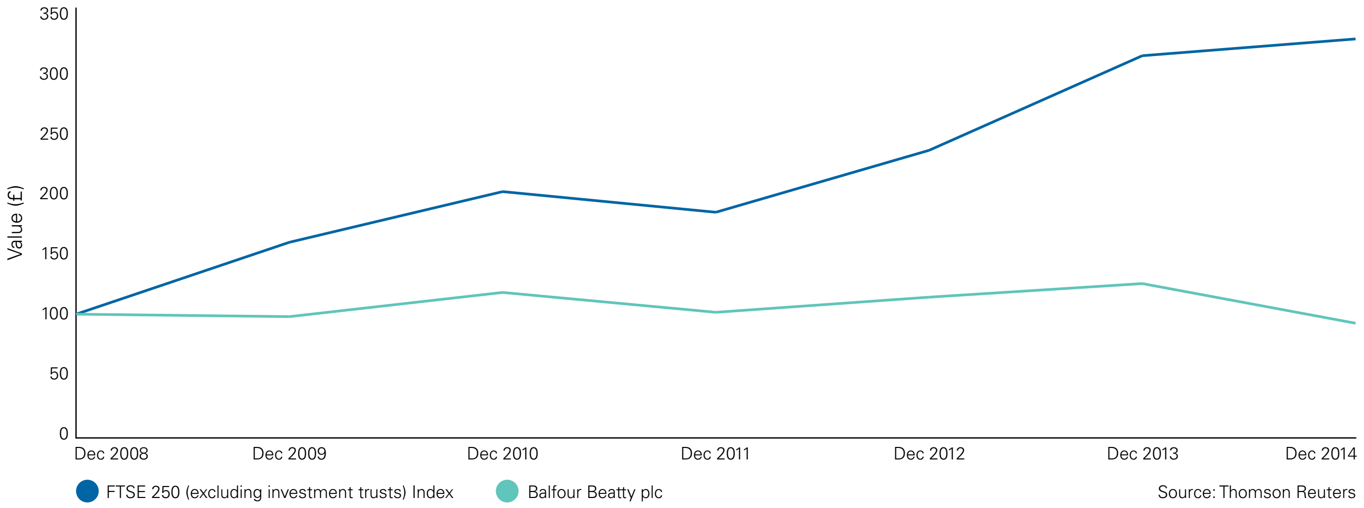
The interests of the Directors and connected persons (including, amongst others, members of the Director's immediate family) in the share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below:

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