



Remuneration report

Chairman of Remuneration Committee's introduction



Our remuneration policy's primary objective is 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.

Iain Ferguson

Chairman of the Remuneration Committee



Dear fellow shareholders,

As chairman of the Board's Remuneration Committee, I am pleased to present the Directors' Remuneration report for 2017, which will be subject to an advisory vote at the 2018 AGM.

At the 2017 AGM, shareholders approved the Remuneration Policy. The policy is not presented here, but can be found in full at https://balfourbeatty.com/remuneration_policy. The decisions set out in this report are in line with that policy.

Our remuneration policy's primary objective is 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.

Context

As our Chairman, Philip Aiken, explained in his introduction, the Group has continued to demonstrate further progress in restoring Balfour Beatty to profitability and enhancing its financial and operational resilience.

This transformation has happened as a result of strong, confident leadership over the last three years and the team has delivered considerable value for shareholders over the period.

Whilst, of course, this has been achieved through the commitment and dedication of our employees, substantial credit should be given to Group Chief Executive, Leo Quinn, and Chief Financial Officer, Philip Harrison.

Since joining the Company in 2015, Leo and Philip have led the Build to Last transformation programme and made significant progress towards achieving our goals.

As you will see within the report, the decisions recognise the scale of change that Leo and Philip have brought and I hope that you will support these by voting in favour of this report at the 2018 AGM.

Reward for 2017

In respect of 2017, the annual bonus payments for the executive Directors reflect the strong performance of the Group – profit and cash targets were met in full and the personal performance of both executive Directors was strong. The Group Chief Executive and the Chief Financial Officer received annual bonus payments of 97% and 96% of the maximum available respectively. 50% of this will be deferred in shares for three years.

The TSR performance conditions relating to the 2015 PSP measured performance over the three years ended 31 December 2017 for all participants except Leo Quinn whose award had a measurement period for the TSR part of the three years ended

14 October 2017. TSR performance conditions were met in part, EPS almost met its maximum target and the maximum cash target was met. As a result, 89% and 86% of these awards will vest for Leo Quinn and Philip Harrison respectively on 26 June 2018. Again this reflects the strong performance over the three years of our Build to Last transformation.

Salaries are normally reviewed on 1 July, and it was agreed that the executive Directors would not receive a salary increase for 2017, with salaries remaining at the level agreed upon their appointment in 2015. The next salary review date is 1 July 2018.

Areas of focus in 2018

The current remuneration policy was approved by shareholders at the 2017 AGM. The Committee believes that the current approach remains effective and aligned to the Company's strategic objectives. The Committee will continue to monitor external corporate governance developments and best practice developments over the forthcoming year.

Remuneration policy for 2018

The Committee will continue to operate within the remuneration policy approved by shareholders in 2017. The key highlights of how we intend to apply this for 2018 are:

- the annual bonus will be based on profit before tax 40%, cash 35% and strategic business and personal objectives 25%
- the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary and
- consistent with awards made previously, PSP awards will continue to be based on the achievement of three performance metrics split equally between relative TSR, EPS and cash.

Conclusion

The Committee will continue to engage with major shareholders to ensure that executive remuneration remains appropriate as the Board takes its responsibility to engage with investors seriously. We believe that our policy continues to deliver a robust link between reward and performance, that it is implemented rigorously in line with its stated objectives, and is aligned with the Group's strategic goals. We hope you will support our remuneration report at this year's AGM.

Iain Ferguson

Chairman of the Remuneration Committee

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 2018 and how it was implemented over the year ended 31 December 2017. Details of the remuneration earned by Directors and the outcomes of incentive schemes, including details of relevant links to Company performance, are also provided in this part.

The detailed information about the Directors' remuneration, set out on pages 78 to 87 (excluding the performance graph on page 85), has been audited by the Company's independent auditor, KPMG LLP.

The areas covered in this Annual Report on Remuneration comprise:

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Annual report on remuneration continued

Implementation of the remuneration policy for the year ending 31 December 2018

Base salaries

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

	1 July 2016 £	1 July 2017 £	% increase
Leo Quinn	800,000	800,000	0.0%
Philip Harrison	400,000	400,000	0.0%

The normal review date for executive Directors' base salaries is 1 July, but it was agreed that neither would receive an increase in 2017. The next salary review date is 1 July 2018.

Performance targets for the AIP in 2018

For 2018, the AIP for the executive Directors will be a maximum bonus of 150% of base salary, based on the achievement of three performance measures:

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

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

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

Performance targets for PSP awards granted in 2018

For 2018, the Group Chief Executive will be granted a PSP award over shares worth 200% of base salary and the Chief Financial Officer 175% of base salary. Consistent with the approach adopted in 2015, 2016 and 2017, the PSP awards to be granted in 2018 will be based on the achievement of three performance measures:

- relative TSR (33.3%) – the Company's TSR measured against a comparator group of UK listed companies ranked 51–200 by market capitalisation in the FTSE All Share Index (excluding investment trusts) as at 1 January 2018, the start of the performance period. There is no vesting for ranking below median, with 25% of this part of an award vesting at median ranking, rising to 100% vesting of this part of an award at upper quartile or higher
- EPS (33.3%) – the Group's EPS over the three-year performance period
- cash (33.3%) – cash remains critical as a long-term performance measure during the Group's transformation.

As at the date of publication of this Remuneration report, the Committee had not finalised the EPS and cash performance targets for the PSP awards to be granted in 2018. These EPS and cash targets will be set at an appropriate level of stretch and will be fully disclosed in the RNS announcement issued immediately following the grant of the PSP award and in the Remuneration report for 2018.

Non-executive Directors

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. At the annual review of fees for the non-executive Directors on 1 July 2017, the annual base fee was increased from £56,000 to £60,000 and the annual fee for chairing a Board Committee was increased from £10,000 to £12,500. Those fees had not been increased since the review on 1 July 2012. A summary of current fees is as follows:

	1 July 2016 £	1 July 2017 £	% increase
Chairman	270,000	270,000	0%
Base fee	56,000	60,000	7%
Senior Independent Director fee	10,000	10,000	0%
Committee chair fee	10,000	12,500	25%

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 is also the chair of a Committee, he or she receives no committee chair fee. The Senior Independent Director fee is only payable if he or she is not the chair of a Committee.

Remuneration received by Directors for the year ended 31 December 2017

The table below sets out the Directors' remuneration for the year ended 31 December 2017 (or for performance periods ended in that year in respect of long-term incentives) together with comparative figures for the year ending 31 December 2016.

	Year	Base salary and fees ^{1,2} £	Taxable benefits ^{3,4} £	Pension cash allowance £	Annual incentive cash ⁵ £	Annual incentive deferred shares ⁵ £	Long-term incentives ⁶ £	Other ⁷ £	Total £
Executive Directors									
Philip Harrison	2017	400,000	14,503	80,000	288,000	288,000	751,897	74,461	1,896,861
	2016	400,000	14,449	80,000	112,992	112,992	–	57,741	778,174
Leo Quinn	2017	800,000	21,006	160,000	582,000	582,000	2,077,004	1,171,881	5,393,891
	2016	800,000	29,250	160,000	228,000	228,000	–	–	1,445,250
Non-executive Directors									
Philip Aiken	2017	270,000	34	–	–	–	–	–	270,034
	2016	270,000	1,688	–	–	–	–	–	271,688
Stephen Billingham	2017	69,250	–	–	–	–	–	–	69,250
	2016	64,333	–	–	–	–	–	–	64,333
Stuart Doughty	2017	64,250	–	–	–	–	–	–	64,250
	2016	56,000	–	–	–	–	–	–	56,000
Iain Ferguson	2017	69,250	–	–	–	–	–	–	69,250
	2016	66,000	–	–	–	–	–	–	66,000
Michael Lucki ⁸	2017	30,000	5,000	–	–	–	–	–	35,000
Barbara Moorhouse ⁹	2017	34,667	–	–	–	–	–	–	34,667
Former non-executive Directors									
Maureen Kempston Darkes ¹⁰	2017	25,554	24,393	–	–	–	–	–	49,947
	2016	66,000	2,573	–	–	–	–	–	68,573
Graham Roberts ¹¹	2017	–	–	–	–	–	–	–	–
	2016	33,000	57	–	–	–	–	–	33,057

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

2 In practice, the base salary paid to Leo Quinn was reduced due to his participation in the Company's Share Incentive Plan. The salary reduction in 2017 was £1,800.

3 Taxable benefits are calculated in terms of UK taxable values. Leo Quinn received private medical insurance for himself and his spouse and received a car allowance of £20,000 per annum. Philip Harrison received private medical insurance for himself only and received a car allowance of £14,000 per annum.

4 Philip Aiken, Michael Lucki, Maureen Kempston Darkes and Graham Roberts received taxable travel expenses and/or travel allowances which are shown in the taxable benefits column.

5 AIP 2017: further details of these awards are set out on pages 80 and 81.

6 This relates to the 2015 PSP award for which the performance period ended in 2017 with the valuation of vesting shares calculated on the closing share price of 297p on 31 December 2017. Under the rules of the PSP scheme, the participants may also receive an award of cash or shares in lieu of the value of dividends paid over the vesting period on vested shares. Further details of these awards are set out on pages 81 and 82.

7 Other payments relate to the conditional share awards granted to Philip Harrison and Leo Quinn to compensate them for share awards which were forfeited upon leaving their respective former employers. For 2017, Philip Harrison's award is the second tranche for which the performance period ended 31 December 2017 with the valuation of the 25,071 shares vesting calculated on the closing share price of 297p at 31 December 2017. For 2017, Leo Quinn's award is the first tranche for which the performance period ended 2 January 2017 with the valuation of the 423,704 shares vesting calculated on the share price of 276.58p at the vesting date on 16 March 2017. For 2016, Philip Harrison's award is the first tranche for which the performance period ended 31 December 2016 with the valuation of the 21,529 vesting shares calculated on the closing share price of 268.2p at 31 December 2016. Further details of these awards are set out on pages 83 and 84.

8 Michael Lucki joined the Board effective 1 July 2017.

9 Barbara Moorhouse joined the Board effective 1 June 2017.

10 Maureen Kempston Darkes stepped down from the Board effective 18 May 2017.

11 Graham Roberts died on 1 July 2016.

Annual report on remuneration continued

AIP awards for the year ended 31 December 2017

For 2017, the AIP for the executive Directors was a maximum bonus of 150% of base salary based on the achievement of three performance measures:

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

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

AIP objective			Actual	Maximum (% of salary)	Actual (% of salary)	Payable in cash (% of salary)	Payable in shares (% of salary)
Profit before tax and non-underlying items	Threshold	£63.7m	£165m	60.0	60.0	30.0	30.0
	Target	£79.6m					
	Maximum	£87.6m					
Group Total Cash Flow	Threshold	£(146.6)m	£162m	52.5	52.5	26.25	26.25
	Target	£(122.2)m					
	Maximum	£(110.0)m					
Strategic business and personal objectives as agreed by the Remuneration Committee (details below)	Remuneration Committee assessment of achievement		Group Chief Executive	37.5	33.0	16.5	16.5
			Chief Financial Officer	37.5	31.5	15.75	15.75
Total – Group Chief Executive				150.0	145.5	72.75	72.75
Total – Chief Financial Officer				150.0	144.0	72.0	72.0

Performance against the 2017 AIP strategic business and personal objectives as it relates to the executive Directors was:

Summary of key strategic objectives	Examples of actual achievement	Group Chief Executive	
		Weight %	Out-turn %
Lean:	Met in full:	32.0	32.0
– Established detailed plans for Phase 2 of Build to Last transformation programme	– Further overhead cost reduction of £30m – Strong cash performance moving to average net cash excluding non-recourse debt – Simplification of the business model–exit Middle East and Indonesia, sale of Heery International Inc		
Expert:	Met in part:	24.0	20.0
– Build a high-calibre sustainable senior leadership team and establish effective processes to develop a sustainable talent pipeline – Improve UK employee voluntary retention rates and employee engagement survey results – Launch management development programme for future leaders	– Improvement of employee engagement index results from 58% to 60% – Voluntary turnover in the UK improved by 4.6% – Management development programme launched across UK – 5.3% of UK workforce in 'earn and learn' positions – meeting The 5% Club target		
Trusted:	Met in full:	24.0	24.0
– Continue improvement in managing risk and reputation through embedded governance and controls – Over 90% in measured customer satisfaction	– Governance and controls in place providing a transparent and disciplined contracting framework – 94% customer satisfaction achieved		
Safe:	Met in part:	20.0	12.0
– Ongoing leadership and drive in improved safety culture and performance – Continue improvement in UK and US leading and lagging indicators	– Displayed strong leadership and high visibility with regard to promoting Zero Harm objectives – nevertheless three fatalities occurred during the year, two in US and one in Far East – Strong performance in leading indicators: observations increased by 24% – Good performance in lagging indicators (LTIR, AFR, HiPo)		
Total		100.0	88.0

Summary of key strategic objectives	Examples of actual achievement	Group Financial Officer	
		Weight %	Out-turn %
Lean: <ul style="list-style-type: none"> – Achieve a minimum £25m annual overhead cost reduction – Deliver 2017 budget targets for cost of the finance function and establish clear strategy and plan to achieve the 2018 targets – Improve financial systems and processes; minimum 70% electronic invoicing 	Met in full: <ul style="list-style-type: none"> – Exceeded annual overhead cost reduction target, achieved £30m overhead improvement – Standardised management reporting process across Group – 84% electronic invoicing usage achieved – Launched single ERP in the US Construction businesses on time (1 January 2018) 	28.0	28.0
Expert: <ul style="list-style-type: none"> – Improve quality of financial information for UK central functions – Progress in building a high-calibre sustainable finance function in the UK and US with appropriate short and long-term succession options for key positions 	Met in part: <ul style="list-style-type: none"> – Improved cash forecasting and monthly reporting – Created integrated finance team in the US Construction businesses 	24.0	18.0
Trusted: <ul style="list-style-type: none"> – Develop and implement agreed capital structure for the Group 	Met in full: <ul style="list-style-type: none"> – Full programme developed and agreed by the Board – Average net cash excluding non-recourse debt for the year 	28.0	28.0
Safe: <ul style="list-style-type: none"> – Support and role model improvement in safety culture and performance 	Met in part: <ul style="list-style-type: none"> – Displayed strong, visible leadership with regard to promoting Zero Harm objectives – nevertheless three fatalities occurred during the year, two in US and one in Far East – Improvements in leading and lagging indicators 	20.0	10.0
Total		100.0	84.0

The Committee considered carefully the AIP performance out-turn for the executive Directors against the background of the profit performance and determined that the above payments are appropriate given the Group's strong financial performance and the personal performance of the executive Directors. The executive Directors have, in the opinion of the Committee, continued to make significant improvements to the business through Build to Last to deliver our goals.

Vesting of PSP awards for the year under review

The PSP awards granted on 26 June 2015 were based on a performance period for the three years ended 31 December 2017, except for Leo Quinn's award which has a measurement period for the TSR part of the three years to 14 October 2017. The performance conditions applying to one-third of each award were comparative Total Shareholder Return measured versus the FTSE 51-150 (excluding investment trust) 'live' companies, cash performance measured as Total Net Debt and Earnings Per Share. 25% of each part of the award would vest for threshold performance increasing to 100% of each part of the award vesting for maximum performance or above.

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

Metric	Performance condition	Measure	Threshold target	Maximum target	Actual	Vesting %
Total Shareholder Return – Leo Quinn	TSR against the 89 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	45.0 or above	22.75 or above	32.54	67.00
Total Shareholder Return – Philip Harrison	TSR against the 90 remaining companies ranked 51–150 in the FTSE All Share Index (excluding investment trusts)	TSR ranking	45.5 or above	23.0 or above	35.67	57.77
Cash		Total Net Cash/(Debt)	£(150)m	£0m	£335m	100
Earnings Per Share		Earnings Per Share	14p	21p	20.9p	98.93
	Total vesting – Leo Quinn					88.64%
	Total vesting – Philip Harrison					85.57%

Annual report on remuneration continued

Vesting of PSP awards for the year under review continued

Name of Director	Type of award	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of vesting shares ¹
Leo Quinn	2015 conditional	26 June 2018	788,954	699,328	89,626	£2,077,004
Philip Harrison	2015 conditional	26 June 2018	295,857	253,164	42,693	£751,897

1 Valuation of vesting shares calculated on the closing price share price of 297p at 31 December 2017.

Outstanding share awards

Name of Director	Share award	Date granted	Maximum number of shares subject to award				At 31 December 2017	Exercisable and/or vesting from
			At 1 January 2017	Awarded during the year	Vested during the year	Lapsed during the year		
Philip Harrison	PSP ^{1,2,5,6}	26 June 2015	295,857	–	–	–	295,857	26 June 2018
	PSP ^{3,5,6}	13 April 2016	254,885	–	–	–	254,885	13 April 2019
	PSP ^{4,5,6,7}	7 June 2017	–	253,347	–	–	253,347	7 June 2020
	DBP ^{8,9,11,13}	31 March 2016	26,143	285	–	–	26,428	31 March 2019
	DBP ^{8,9,11,12,13}	31 March 2017	–	42,880	–	–	42,880	31 March 2020
	Share buyout ¹⁴	11 June 2015	30,831	–	21,529	9,302	–	31 December 2016
	Share buyout ¹⁴	11 June 2015	61,662	–	–	–	61,662	31 December 2017
Leo Quinn	PSP ^{1,2,5,6}	26 June 2015	788,954	–	–	–	788,954	26 June 2018
	PSP ^{3,5,6}	13 April 2016	679,694	–	–	–	679,694	13 April 2019
	PSP ^{4,5,6,7}	7 June 2017	–	579,080	–	–	579,080	7 June 2020
	DBP ^{8,9,11,13}	26 June 2015	193,907	2,120	–	–	196,027	26 June 2018
	DBP ^{8,9,11,13}	31 March 2016	89,636	980	–	–	90,616	31 March 2019
	DBP ^{8,9,11,12,13}	31 March 2017	–	86,527	–	–	86,527	31 March 2020
	Share buyout ¹⁴	2 January 2015	604,256	–	423,704	180,552	–	2 January 2017
	Share buyout ¹⁴	2 January 2015	1,208,511	–	–	–	1,208,511	2 January 2018

1 2015 PSP award: Further details of this award are set out on pages 81 and 82.

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

3 The 2016 PSP award is subject to three performance targets over a three-year performance period commencing 1 January 2016. TSR part (33.3% weighting), measured against a comparator group of companies ranked 51–150 by market capitalisation in the FTSE All Share Index (excluding investment trusts), no vesting below median ranking, 25% vesting of this part at median, rising to 100% vesting at upper quartile performance or better. Net Debt part (33.3% weighting), no vesting unless 2018 year end Net Debt is less than £(75) million, 25% to 50% for Net Debt between £(75) million and £(0) million, rising to full vesting for net cash of £50 million. EPS part (33.3% weighting), no vesting unless 2018 EPS is 20p, 25% vesting of this part at 20p, rising to full vesting at 27p.

4 2017 PSP award: Details are set out on page 83.

5 The average middle market price of ordinary shares in the Company for the three dealing dates before the PSP award dates, which was used for calculating the number of shares granted, was 301.9p for the 2014 award, 235.4p for the 2016 award and 276.3p for the 2017 award. The closing middle market price of ordinary shares on the date of the awards was 299.6p, 238.3p and 271.0p respectively.

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

7 On 7 June 2017, for all participants in the PSP, a maximum of 3,087,443 conditional shares were awarded which are exercisable on 7 June 2020.

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 March 2015, June 2015, March 2016 and March 2017 will vest on 31 March 2018, 26 June 2018, 31 March 2019 and 31 March 2020 respectively, providing the participant is still employed by the Group at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).

10 The initial DBP awards made in 2014 vested on 31 March 2017. The closing middle market price of ordinary shares in the Company on the vesting date was 269.40p.

11 The shares subject to the DBP awards made on 31 March 2014, 31 March 2015, 26 June 2015, 31 March 2016 and 31 March 2017 were purchased at average prices of 301.9p, 241.0p, 245.0p, 252.5p and 266.4p respectively.

12 On 31 March 2017, for all participants in the DBP, a maximum of 632,308 conditional shares were awarded which will normally be released on 31 March 2020.

13 On 20 April 2017 and 5 October 2017, a further 11,289 conditional shares and 7,765 conditional shares were awarded in lieu of entitlements to the final 2016 dividend and interim 2017 dividend respectively. These shares were allocated at average prices of 280.4p and 267.2p respectively.

14 The share buyout awards were granted for nil consideration and are in respect of 50p ordinary shares in Balfour Beatty plc. The awards compensate each of Leo Quinn and Philip Harrison for incentive awards which were forfeited on leaving their previous employers. Further details of these awards are set out on pages 83 and 84. The closing middle market price of ordinary shares in the Company on the date of the awards was 212.4p and 253.1p respectively.

15 The closing market price of the Company's ordinary shares on 31 December 2017 was 297.0p. During the year, the highest and lowest closing market prices were 298.4p and 253.5p respectively.

PSP awards granted during the year

On 7 June 2017, the following PSP awards were granted to executive Directors:

Executive	Type of award	Basis of award granted	Share price applied at date of grant	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over three years to	Vesting date
Leo Quinn	Conditional	200% of salary of £800,000	276.3p	579,080	£1,600,000	25%	31 December 2019	7 June 2020
Philip Harrison	Conditional	175% of salary of £400,000	276.3p	253,347	£700,000	25%	31 December 2019	7 June 2020

The performance condition applying to one third of each award (the TSR Part) will measure the Company's total shareholder return performance (TSR) relative to the TSR performance over the same period of a comparator group of companies comprising the constituents of the FTSE 51-200 (excluding investment trusts) as at the start of the measurement period. The measurement period for the TSR Part is the three financial years to 31 December 2019.

No portion of the TSR Part will vest unless the Company's TSR performance ranks at least equal to median TSR performance of the comparator group, at which point 25% of the TSR Part will vest, rising on a straight-line basis to 100% vesting for the Company's TSR performance ranking at upper quartile or better relative to the TSR performance of the comparator group companies.

The performance condition applying to a separate one third of each award (the Cash Part) will measure improvement in the Group's Operating Cash Flow (OCF) from continuing operations.

No portion of the Cash Part will vest unless the Group's OCF for the financial year ending 31 December 2019 is greater than £132 million. Were OCF for 2019 to be greater than £132 million but not more than £164 million, 25% to 50% of the Cash Part would vest on a straight-line basis. Were OCF for 2019 to be £164 million to £200 million or more, between 50% of and 100% of the Cash Part would vest on a straight-line basis.

The performance condition applying to a separate one-third of each award (the EPS Part) will measure the Group's earnings per share performance.

No portion of the EPS Part will vest unless the Group's EPS for the financial year ending 31 December 2019 is 19p, at which point 25% of the EPS Part will vest, rising on a straight-line basis to 100% vesting for the Group's EPS for 2019 being 29p or more.

Executive Directors' recruitment terms

Leo Quinn

As part of his recruitment arrangements and as fully disclosed in the 2014, 2015 and 2016 Remuneration reports, the Company agreed to compensate Leo Quinn for incentive awards which were forfeited upon leaving his previous employer. The Company granted a conditional share award over 1,812,767 Balfour Beatty plc shares on 2 January 2015 to vest in two tranches:

- After application of the performance criteria, the first tranche vested on 16 March 2017 with 423,704 shares vesting and 180,552 shares lapsing. Vesting was subject to share price targets tested at the second anniversary of grant based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting 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 with no vesting for this part of the award for an average share price of less than 222p.
- Outstanding at year end is the second tranche, a conditional share award over 1,208,511 Balfour Beatty plc shares granted on 2 January 2015 which 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 share price as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p.
- In addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

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

In relation to the second tranche of 1,208,511 shares, on 12 March 2018 the Remuneration Committee reviewed the end average share price of 277.31p at 2 January 2018 against the target range, indicating vesting at 40.76% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 40.76% of the award (492,589 shares) will be permitted to vest on 14 March 2018 when the Company enters an open period.

Annual report on remuneration continued

Executive Directors' recruitment terms continued

Philip Harrison

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

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

- After application of the performance criteria, the first tranche vested on 16 March 2017 with 21,529 shares vesting and 9,302 shares lapsing. Vesting was subject to share price targets tested at 31 December 2016 based on a 60-day average share price as adjusted for dividends. The targets were 25% of this part of the award vesting 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 with no vesting for this part of the award for an average share price of less than 222p.
- Outstanding at year end is the second tranche, a conditional share award over 61,662 Balfour Beatty plc shares which will vest on 31 December 2017 subject to share price targets based on a 60-day average share price as adjusted for dividends. 25% of this part of the award will vest for an end average share price of 250p increasing pro-rata for full vesting of this part of the award for an end average share price of 380p. No vesting for this part of the award will take place for an average share price of less than 250p.
- In addition to the dividend adjusted share price targets, an underpin will apply to the vesting whereby the Committee must be satisfied with the underlying performance of the business for this award to vest.

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

In relation to the second tranche of 61,662 shares, on 12 March 2018 the Remuneration Committee reviewed the end average share price of 277.14p at 31 December 2017 against the target range, indicating vesting at 40.66% of this part of the award, and also considered the underlying performance of the Company over the performance period. The Committee determined that 40.66% of the award (25,071 shares) will be permitted to vest on 14 March 2018 when the Company enters an open period.

Payments to past Directors

There were no payments to past executive Directors during 2017.

Statement of Directors' shareholdings and share interests

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

Directors	Beneficially owned at 1 January 2017 ^{1,2}	Beneficially owned at 31 December 2017 ^{2,3,4}	Outstanding PSP awards	Outstanding DBP awards	Outstanding share buyout awards	Beneficially owned at 31 December 2017 as a % of base salary at 31 December 2017 ⁵	Guideline met ⁶
Philip Harrison	6,349	17,744	804,089	69,308	61,662	13%	No
Leo Quinn	486,127	798,663	2,047,728	373,170	1,208,511	297%	Yes
Philip Aiken	15,000	15,000					
Stephen Billingham ⁷	23,580	23,757					
Stuart Doughty	–	4,550					
Iain Ferguson	55,000	55,000					
Maureen Kempston Darkes	7,000	7,000					
Michael Lucki	–	–					
Barbara Moorhouse	–	4,000					

1 Or date of appointment, if later.

2 Includes any shares held in the Company's all-employee Share Incentive Plan.

3 Or date of stepping down from the Board, if earlier.

4 As at 13 March 2018, there have been no changes to the above other than an increase in respect of ordinary shares held in the Share Incentive Plan for Leo Quinn by 106 shares.

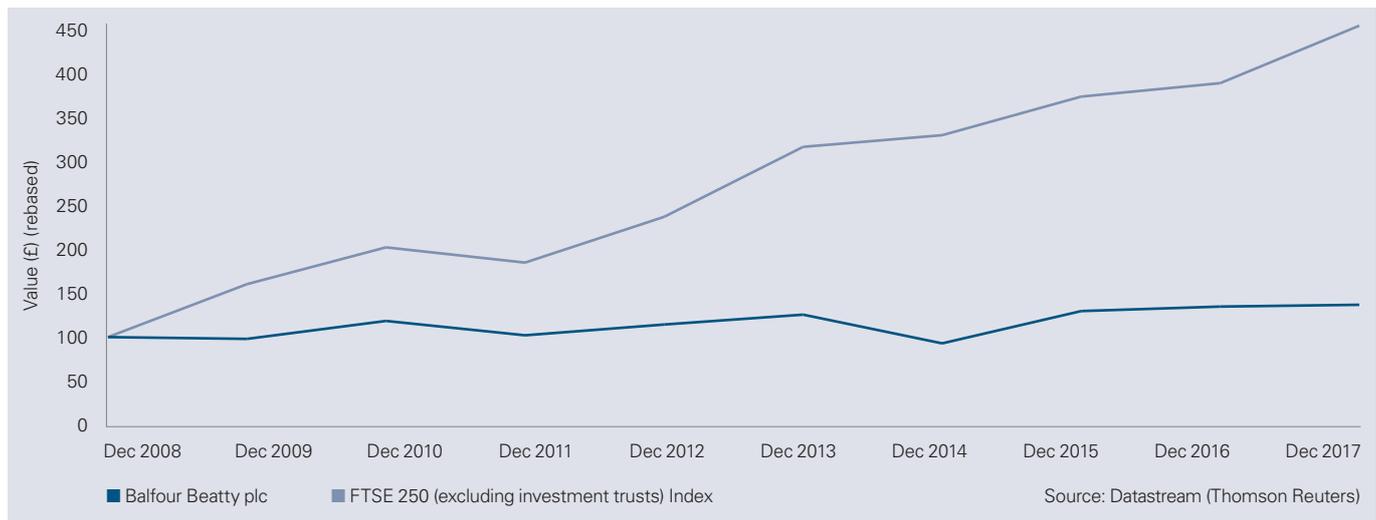
5 The closing market price of the Company's ordinary shares as at 31 December 2017 (297.0p) was used to calculate the value of shares beneficially owned.

6 The Group Chief Executive and Chief Financial Officer are required to hold shares in the Company worth 200% and 150% of base salary respectively 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.

7 Stephen Billingham was also interested in 36,070 redeemable preference shares of 1p each in Balfour Beatty plc at 1 January 2017 and 31 December 2017.

Performance graph

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



Group Chief Executive's remuneration table

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

	Year ended 31 December								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total remuneration ¹	£1,617,233	£1,451,016	£1,514,007	£1,189,287	£961,350	£797,568	£1,442,070	£1,445,250	£4,222,010
AIP (%) ²	60.4%	69.6%	65.3%	40.2%	21.0%	0%	47.0%	47.5%	97.0%
PSP (%)	50.0%	18.4%	0%	0%	0%	0%	0%	0%	88.6%

1 The figures for 2009 to 2012 relate to Ian Tyler who retired from the Board on 31 March 2013. The figures for 2013 and 2014 are annualised figures for Andrew McNaughton who was appointed on 31 March 2013 and stepped down on 3 May 2014. The figures for 2015 onwards relate to Leo Quinn.

2 Andrew McNaughton did not qualify for any 2014 AIP.

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

The table below shows the percentage change in the Group Chief Executive's salary, benefits and annual bonus between the financial years ended 31 December 2016 and 31 December 2017, 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.

	2016	2017	% change
Salary for year ended 31 December			
Group Chief Executive (£000)	800	800	0%
All UK employees (£m)	668	672	1%
Benefits for year ended 31 December			
Group Chief Executive (£000)	189	181	(4)%
All UK employees (£m)	36	47	31%
Annual bonus earned in year ended 31 December			
Group Chief Executive (£000)	456	1,164	155%
All UK employees (£m)	17	12	(29)%
Total remuneration for year ended 31 December			
Group Chief Executive (£000)	1,445	2,145	48%
All UK employees (£m)	721	731	1%

Annual report on remuneration continued

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:

	2016	2017	% change
Staff costs (£m) ¹	1,201	1,193	(1)%
Dividends (£m)	6	20	233%
Underlying pre-tax profit (£m) ²	60	166	177%

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' pension allowances

No Directors were contributing members of the Balfour Beatty Pension Fund during 2017. The executive Directors were in receipt of a cash allowance in lieu of pension equivalent to 20% of base salary as disclosed in the Directors' Remuneration table on page 79.

External appointments of executive Directors

No Director held external appointments in 2017.

Consideration by the Directors of matters relating to Directors' remuneration

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

- Iain Ferguson (Committee chair)
- Philip Aiken
- Maureen Kempston Darkes until 18 May 2017.
- Michael Lucki from 6 July 2017.
- Barbara Moorhouse from 6 July 2017.

The Committee also receives advice from several sources, namely:

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

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

- in support of the Remuneration Policy review, NBS provided analysis of market practice and advice on remuneration approaches for consideration by the Committee and in relation to the views of shareholders and their representative bodies
- assistance with the drafting of the Remuneration report
- valuation of share-based payments for IFRS 2 purposes
- calculation of vesting levels under the TSR element of the PSP awards and the share buyout awards.

Neither NBS nor any part of Aon plc provided any other services to the Company during the year under review. Total fees paid to NBS in respect of its services to the Committee were £38,040 (2016: £62,206).

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 the AGM

At the AGM on 18 May 2017, the resolution to approve the Remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	509,605,262	96.7%
Against	17,155,440	3.3%
Total votes cast	526,760,702	100%
Abstentions	59,119	–

The resolution to approve the Remuneration Policy at the same AGM received the following votes from shareholders:

	Total number of votes	% of votes cast
For	407,216,825	77.2%
Against	120,392,331	22.8%
Total votes cast	527,609,156	100%
Abstentions	81,587	–

By order of the Board

Iain Ferguson

Chairman of the Remuneration Committee

13 March 2018