

## Directors' report

### Business and financial review

The Chairman's statement, the Chief Executive's review, the Operating review and the Corporate responsibility statement, included in the Annual review 2008 and the Financial review from pages 3 to 5, which report on the principal activities of the Group, its operations during 2008 and future developments in its businesses are incorporated by reference into the Directors' report and accounts 2008.

### Results and dividends

The results for the year are shown in the audited financial statements presented on pages 27 to 93 and are explained more fully in the Chief Executive's review, the Operating review and the Financial review. An interim dividend payment of 5.1p (net) per ordinary share was approved by the Board on 12 August 2008 and a final dividend of 7.7p (net) per ordinary share will be recommended at the Annual General Meeting making a total of 12.8p (net) per ordinary share. This compares with a total dividend per ordinary share of 11.5p (net) in 2007. Preference dividends totalling 10.75p (gross) per preference share have been paid for 2008 (2007: 10.75p (gross) per preference share).

The Directors continued to offer the dividend reinvestment plan (DRIP).

### Research and development

The Group continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology and asset management systems. A range of development initiatives is undertaken throughout the businesses which is supported by links with selected universities.

A Group innovation forum has been formed which is one of several fora through which the Company is enhancing the sharing of knowledge and the encouragement of joint working between the various businesses. The forum has representatives from each of the Group's operating companies. Improving the ability to tap into the depth and breadth of expertise and capability which exists within the Group, and sharing it, is seen as a key enabler and catalyst for innovation, as well as serving to identify where the Group can respond better to the needs of its various stakeholders.

Details of the Group's 2008 research and development expenditure are given in Note 4.1 on page 40.

### Share capital and shareholders

Details of the share capital of the Company as at 31 December 2008, including the rights attaching to each class of share, are set out in Note 28 on pages 73 and 74. During the year to 31 December 2008 no ordinary shares were repurchased for cancellation and 300,017 preference shares (representing 0.27% of the preference share capital) were repurchased for cancellation for a total consideration of £407,337 at an average price of 135.8p. 1,286,053 ordinary shares were issued following the exercise of options held under the Company's savings-related share option scheme and 334,927 ordinary shares were issued following the exercise of options held under the Company's executive share option schemes.

On 15 May 2008, a total of 43,320,411 new ordinary shares in the Company were placed with institutions at a price of 430p per ordinary share raising £182m after issue costs. This placing represented an increase of approximately (but less than) 10% of the issued ordinary share capital. These placing shares were issued fully paid and ranked pari passu in all respects with the existing ordinary shares.

At 31 December 2008, the Directors had authority, under the shareholders' resolutions approved at the AGM and separate Class meeting held in May 2008, to purchase through the market 43,314,839 ordinary shares and 16,775,968 preference shares at prices set out in those resolutions. This authority expires at the conclusion of the separate Class meeting which will follow the 2009 AGM.

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.

Details of employee share schemes are set out in Note 31 on pages 79 and 80. Shares held by the Balfour Beatty Employee Share Ownership Trust are not voted.

There is no person who has special rights of control over the Company's share capital and all issued shares are fully paid. A number of the Company's significant banking, joint venture and contract bond agreements include provisions which become exercisable by a counterparty upon a change of control of the Company. These include the right of a counterparty to request additional security and to terminate an agreement.

As at 4 March 2009, the Company had been notified in accordance with the Disclosure and Transparency Rules of the Financial Services Authority of the following interests in its ordinary share capital:

	Number of ordinary shares held	Percentage of ordinary shares held
Standard Life Investments Limited	42,849,463	8.96%
Lloyds Banking Group plc	33,370,340	6.98%
Legal & General Group plc	32,807,704	6.86%
Prudential plc	25,285,102	5.28%
Schroder Investment Management Limited	22,057,637	4.61%

### Directors

The names of the Directors at the year-end are shown on pages 52 and 53 of the Annual review 2008 together with brief biographical details. Full details of Directors' service agreements, emoluments and share interests, can be found in the Remuneration report on pages 18 to 25.

Sir David John and Hans Christoph von Rohr retired from the Board on 15 May 2008 and 9 September 2008 respectively and Hubertus Krossa was appointed as a non-executive Director on 9 September 2008.

Duncan Magrath and Andrew McNaughton were appointed as executive Directors on 31 March 2008 and 1 January 2009 respectively, and Graham Roberts was appointed as a non-executive Director with effect from 1 January 2009.

Steve Marshall, Ian Tyler and Peter Zinkin are due to retire by rotation as Directors at the forthcoming AGM and, being eligible, offer themselves for re-election. Hubertus Krossa, Andrew McNaughton and Graham Roberts, who have been appointed by the Board since the date of the last AGM, will offer themselves for election in accordance with the Company's Articles of Association.

Non-executive Directors are appointed for specific three-year terms and it is part of the terms of reference of the Nomination Committee to review all appointments of non-executive Directors at three year intervals, or as near to that as is practicable and make recommendations to the Board accordingly.

The Board considers that all the non-executive Directors continue to be independent.

## Directors' report

Details of the number of meetings of, and attendances at, the Board meetings and meetings of the Audit, Business Practices, Nomination and Remuneration Committees during the year are set out in the table following.

Name of Director	Board	Audit	Business Practices	Nomination	Remuneration
M J Donovan	10(10)	3(4)	3(3)	3(4)	–
S L Howard	9(10)	2(3)	2(2)	4(4)	3(3)
Sir David John <sup>(2)</sup>	5(5)	–	–	1(1)	–
G E H Krossa <sup>(3)</sup>	4(4)	0(1)	1(1)	–	–
D J Magrath <sup>(4)</sup>	7(7)	–	–	–	–
S Marshall	10(10)	4(4)	2(2)	4(4)	2(3)
A L P Rabin	9(10)	–	–	–	–
H C von Rohr <sup>(5)</sup>	5(7)	3(3)	2(2)	–	3(3)
G H Sage	10(10)	2(4)	–	3(4)	3(3)
I P Tyler	10(10)	–	–	4(4)	–
R J W Walvis	10(10)	1(1)	2(2)	3(4)	3(3)
P J L Zinkin	9(10)	–	–	–	–

Notes:

- (1) The number shown in brackets is the total number of meetings the Directors could attend either following their appointment during the year, or as a result of changes to Committee memberships.
- (2) Retired on 15 May 2008.
- (3) Appointed on 9 September 2008.
- (4) Appointed on 31 March 2008.
- (5) Retired on 9 September 2008.

Owing to the changes in the composition of the Board, the membership of each of the Company's Board Committees has been reassessed. As at 4 March 2009, the membership of the Committees is as follows:

Audit	Business Practices	Nomination	Remuneration
Steve Marshall (Chairman) <sup>(1)</sup>	Stephen Howard (Chairman)	Steve Marshall (Chairman)	Robert Walvis (Chairman)
Mike Donovan	Mike Donovan	Mike Donovan	Stephen Howard
Hubertus Krossa	Hubertus Krossa	Stephen Howard	Hubertus Krossa
Graham Roberts <sup>(2)</sup>	Steve Marshall	Gordon Sage	Steve Marshall
Gordon Sage	Graham Roberts	Ian Tyler	Gordon Sage
Robert Walvis		Robert Walvis	

Notes:

- (1) Steve Marshall continues as chairman of the Audit Committee until 5 March 2009.
- (2) On 5 March 2009, Graham Roberts will assume the role as chairman of the Audit Committee and has been designated the member with recent and relevant financial experience.

### 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 introduced on 1 October 2008 under the Companies Act 2006. The interests of Directors in the share capital of the Company and its subsidiary undertakings and their interests under the long-term incentive schemes (the Performance Share Plans 2001 and 2006), the deferred bonus plan and in respect of share options, are set out in the tables in the Remuneration report commencing on page 18.

### Directors' indemnities

The Company grants an indemnity to all of its Directors to the extent permitted by law. These indemnity amounts are uncapped in relation to certain 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.

### Directors' training

Directors receive a significant induction programme and a range of information about the Company when they join the Board. This includes considerable background information on Balfour Beatty, its codes of business conduct and ethics, 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 and senior executives which include briefings on the Company's business strategy, financial procedures and business development. The training programme is supplemented throughout the year by 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. Normally, day-long meetings take place for each non-executive Director four times each year. Presentations on ad-hoc topics are then arranged as appropriate, for example, on new material laws or regulations as they affect the Group or the Directors. In addition, each Director has been enrolled in an external facility which provides a wide-ranging programme of technical briefing, education and training.

### Auditors

Deloitte LLP (previously Deloitte & Touche LLP, the firm having changed its name on 1 December 2008) have indicated their willingness to continue as auditors to the Company and a resolution for their appointment will be proposed at the AGM.

### Corporate governance and the Combined Code

#### Overview

The Company is committed to high standards of corporate governance. The UK Listing Authority requires listed companies to disclose, in relation to Section 1 of the Combined Code issued by the Financial Reporting Council which is appended to the UK Listing Rules, how they have applied its principles and whether they have complied with its provisions through the accounting period. The Company has complied with the requirements of the UK Listing Authority relating to the provisions of the Combined Code throughout the accounting period other than in two respects:

- (i) Code provision C.3.1 – The chairman of the Audit Committee: following Steve Marshall's appointment as Chairman of the Company, the Board decided that he should continue as chairman of the Audit Committee temporarily pending the appointment of a successor. Graham Roberts was appointed non-executive Director on 1 January 2009 and he will assume the chairmanship of the Audit Committee on 5 March 2009.
- (ii) Code provision C.3.4 – Whistleblowing arrangements: the effectiveness of the Group's whistleblowing procedures is kept under review by the Business Practices Committee (BPC) and not by the Audit Committee. The principal reason for this is that the BPC, in particular, focuses on the Company's business conduct, its ethics and values and whistleblowing is an integral element within this overall remit. In addition, from the Company's experience, whistleblowing-type complaints often relate to non-financial matters and, in particular, employment issues.

### Honorary President

Viscount Weir is Honorary President of the Company, having been appointed to this position in May 2003, following his retirement as Chairman.

### Chairman

Steve Marshall became Chairman in May 2008, having joined the Board in November 2005. Steve Marshall spends an average of two days per week on the business of the Company. He has other commitments as non-executive chairman of Delta plc and as a non-executive director of Southern Water. The Board considers that these other commitments are not of such a nature as to hinder his activities as Chairman of the Company or Committees.

### The Board

The Board currently comprises 12 Directors, of whom seven, including the Chairman, are non-executive. Details of the changes during the year can be found under the heading "Directors" on page 11. The Directors believe that the Board continues to include an appropriate balance of skills and retains the ability to provide effective leadership to the Group.

Sir David John retired as Chairman following the AGM on 15 May 2008 whereupon Steve Marshall became Chairman. Throughout 2008, Ian Tyler has been Chief Executive and the Senior Independent Director has been Robert Walvis.

The Board is collectively responsible for the success of the Company and has a formal schedule of matters reserved for its decision. Its role is to determine the strategic direction of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed; to approve annual budgets, financial reporting, major acquisitions and disposals and significant capital expenditure, to ensure that the necessary financial and human resources are in place for the Company to achieve its objectives and to review management performance. In addition, the Board sets the Company's values and ethical standards, including matters relating to corporate social responsibility and ensures that its obligations to its shareholders and others are understood and met. The Board reviews its list of reserved matters from time to time, most recently in October 2008. The terms of reference of the Board and the Board Committees are available on request from the Company Secretary and are also displayed on Balfour Beatty's website [www.balfourbeatty.com](http://www.balfourbeatty.com). Descriptions of the specific responsibilities which have been delegated to the principal Board committees are also provided on pages 13 to 15.

Most meetings of the Board during 2008 were held in London, with two meetings held elsewhere. On the evening preceding a Board meeting, the Directors will meet and focus their discussion on a pre-determined developmental theme, led by one of the executive Directors, other senior management or a specialist external speaker.

In addition, the Board dedicates particular meetings to certain key business themes, for example health and safety, strategy, or succession planning. In September, a meeting was held on the site of the new A3 Hindhead tunnel, which is in the course of construction by the Group. In November, the Board held its meeting outside London and focused on the Group's "Zero Harm" safety programme.

Procedures for Board meetings remain unchanged from previous years. Papers are generally sent out at least three business days in advance of the meeting. The papers include a written report from each of the Chief Executive, the Finance Director, the director of Safety, Health and the Environment, and the Group managing directors. At the meetings, oral reports are made on issues arising from the written reports and both those and other matters of immediate interest or concern are discussed by the Board, for example mergers and acquisitions activity. Apart from the meetings that approve the interim and final results respectively, and the meeting prior to the AGM, a separate presentation on a topic of interest or concern, such as the operations of a particular business, is normally made to the Board. Each meeting lasts three to four hours, but can be longer.

The Company Secretary is responsible for advising the Board on appropriate governance matters, ensuring good information flow and for ensuring that Board procedures are followed. He is also available to individual Directors for advice on these procedures.

### Evaluation

Formal evaluation of the performance of the Board and of the principal Board Committees, as well as individual assessments of the Directors themselves, are normally carried out by an external consultant tri-annually, with internal assessments carried out in the intervening two years. The last external evaluation was completed in October 2007.

In the intervening years, an evaluation process is carried out by the Company Secretary, at the request of the Chairman. This comprises an assessment questionnaire covering the effectiveness of the Board and its Committees including composition, arrangements for and content of meetings, access to information, and administrative procedures.

The findings are then reported back to the Board by the Chairman and an action plan addressing any areas of concern is established.

Following Steve Marshall's appointment as Chairman on 15 May 2008, an internal evaluation process commenced in January 2009. As a result of the feedback, the Board has concluded that both it and the Directors operate effectively.

### Board Committees

The Board has established several Committees, each with defined terms of reference, procedures, responsibilities and powers. In accordance with the requirements of the Combined Code, the Board reviewed the terms of reference of each Committee during the year and these were adopted by the Board in October 2008. The principal Committees' terms of reference are displayed on the website [www.balfourbeatty.com](http://www.balfourbeatty.com). The minutes of the Committee meetings are sent to all Directors and oral updates are given at Board meetings. Committee membership is shown on page 12.

#### Board Committees

Audit Committee	Remuneration Committee	Nomination Committee	Business Practices Committee	Group Tender and Investment Committee	Finance and General Purposes Committee
<ul style="list-style-type: none"> <li>• Financial statements</li> <li>• Financial controls</li> <li>• External auditor</li> <li>• Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• Remuneration strategy and policies</li> <li>• Remuneration packages</li> <li>• Incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>• Structure and composition of Board</li> <li>• Appointment of non-executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Ethics and Codes of Conduct</li> <li>• Health &amp; Safety</li> <li>• Sustainability</li> <li>• Whistleblowing</li> </ul>	<ul style="list-style-type: none"> <li>• Major contract approvals</li> <li>• Investments and divestments</li> </ul>	<ul style="list-style-type: none"> <li>• Borrowings</li> <li>• Banking arrangements</li> <li>• Share options</li> <li>• Share buy-backs</li> </ul>

#### – Audit Committee

The terms of reference for the Committee are based on the Guidance on Audit Committees issued by the Financial Reporting Council (formerly "Smith Guidance") which was updated in October 2008. The terms of reference were approved by the Board in October 2003 and updated most recently in October 2008. The main responsibilities of the Audit Committee remain as stated in previous reports. In summary they are:

- (1) to monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- (2) to review the Group's internal financial controls established to identify, assess, manage and monitor risks, and receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by the internal and external auditors;
- (3) to monitor and review the effectiveness of the internal audit function including its work programme;
- (4) to make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- (5) to assess the independence, objectivity and effectiveness of the external auditor and to develop and implement policy on the engagement of the external auditor to supply non-audit services; and
- (6) to review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting.

## Directors' report

The Committee has been chaired by Steve Marshall pending the appointment of Graham Roberts as Audit Committee chairman following publication of the 2008 preliminary results on 5 March 2009. Members' attendance at Committee meetings is shown on page 12. The Committee is supported by the Company Secretariat. All members of the Committee have extensive experience of management in large international organisations. The incoming chairman, Graham Roberts, is a chartered accountant and is finance director of The British Land Company PLC. Graham Roberts has been identified by the Board as having recent and relevant financial experience.

Appointments to the Committee are made by the Board for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent. At the Board meeting following each meeting of the Committee, the Committee chairman provides an oral report on the work of the Committee and any significant issues that may have arisen. The minutes of Committee meetings are circulated to all members of the Board.

Four meetings of the Committee were held in 2008. At the invitation of the Committee, partners from the external auditor, the Head of Group Risk Management and Assurance, the Deputy Chief Executive and the Finance Director regularly attend each meeting. In addition, any independent non-executive Director who is not a Committee member has an open invitation to attend meetings.

In 2008, as in previous years, the main purpose of the February and August meetings of the Committee was to consider the final and interim results respectively, a process which is well established. At each of these meetings, the Committee reviewed significant accounting policies, financial reporting issues and judgements and reports from internal financial management and internal and external auditors.

The May and November meetings of the Committee are not driven by financial results and at these meetings the Committee was able to review a wider range of matters in addition to its usual business. For example, in May, the Committee carried out an assessment of the audit process followed in the preceding financial year whilst also considering the proposals for the 2008 audit plan and in November, the Committee reviewed the draft internal audit plan for 2009 and considered proposals on internal control and assurance.

Throughout 2008, the Committee has continued to review the Group's risk management processes. This review has included reports from the Head of Group Risk Management and Assurance on the Group's internal controls and on the work of the internal auditors, a consideration of the effectiveness both of the internal audit function and of the external audit process, a review of the resources of the external and internal auditor, and a consideration of the external auditor's management letter in respect of accounting procedures and internal financial controls. As a result, the Committee felt able to recommend to the Board that it might properly conclude that the Company continued to maintain a sound system of internal financial control and that a proper review of the effectiveness of the Company's systems of internal financial controls had been completed.

The Committee has also considered the independence of the external auditor and received confirmation that, in its view, it remained independent of the Company. Consideration of the independence of the external auditor included the non-audit work carried out by the external auditor during the year, which continues to be covered by the policy approved by the Board in June 2003 (an analysis of non-audit fees incurred is set out in Note 4.2 on page 40). All requests to engage the external auditor for non-audit work are subject to the approval of the Finance Director and reviewed at each Committee meeting. The external auditor also complies with the Accounting Practices Board (APB) Ethical Standards applying to non-audit services. There is no inconsistency between these APB standards and the Company's policy. The Committee has carried out a review of the proposal made by the external auditor in respect of the audit fees and terms of engagement for the 2008 audit and has recommended that the Board proposes to shareholders that Deloitte LLP continue as the Company's external auditor.

The administrative procedures of the Committee were unchanged through the year. The Head of Group Risk Management and Assurance continues to have direct access to the chairman of the Committee. Separate meetings between the Committee, and the Finance Director, the Head of Group Risk Management and Assurance and the external auditor respectively, took place after the February and August meetings.

### – Nomination Committee

The Committee is chaired by Steve Marshall and members' attendance at the meetings of the Committee is given on page 12. The Committee is supported by the Company Secretariat. The Committee, which meets as and when required (2008: four meetings), keeps under review the composition and balance of the Board and makes recommendations to the Board on all new appointments and re-appointments of non-executive Directors. During the 2008 financial year, external search consultancies were engaged to seek candidates to join the Board as non-executive Directors, one with financial experience and one with business experience gained predominantly in Europe and internationally. The Committee reviewed candidates as presented by the consultancies and Committee members were involved in the interview process before making their recommendations to the Board. All members of the Board were given the opportunity to meet Graham Roberts and Hubertus Krossa prior to their appointments.

### – Remuneration Committee

The Committee is chaired by the Senior Independent Director, Robert Walvis and members' attendance at the meetings of the Committee is given on page 12. The Committee met three times during 2008. The Committee is supported by the Company Secretariat. Information about the workings of this Committee during the financial year is set out in the Remuneration report commencing on page 18.

### – Business Practices Committee

The Committee is chaired by Stephen Howard and members' attendance at the meetings of the Committee is given on page 12. The Committee is supported by the Company Secretariat.

The Committee met three times in 2008. The main topics considered by the Committee during the year related to health, safety and sustainability, and ethics, values and business conduct. In light of the settlement with the Serious Fraud Office in October 2008, this Committee will focus significant attention on values, the Group's Codes of Conduct (which are being revised) and on the training which will ensure that the Group's business principles are properly embedded throughout the business. The Committee discussed the delivery of health and safety in the long term. Recognising the ambitious aims of the Group's Zero Harm campaign, it reviewed the leadership, resources and actions required for delivery. A particular challenge was to ensure that the Zero Harm initiative could be adopted and implemented in multiple jurisdictions and cultures around the world. The Committee noted early indications that Zero Harm was eagerly embraced by businesses both inside and outside the UK. Regular reports were received by the Committee on the Group's charitable activities, on its whistleblowing procedure and practice and on specific whistleblowing incidents.

### – Group Tender and Investment Committee

This Committee comprises the executive Directors and the Group managing directors and is chaired by the Chief Executive, or in his absence, one of the other executive Directors. Its main purpose is to review all major proposed contracts with projected contract values above a specified level delegated to it. The Committee also has authority to approve capital expenditure applications and any proposed investments or divestments up to certain specified limits determined by the Board. The Committee met on numerous occasions throughout the year and minutes of its meetings are circulated to all the Directors. The Committee is supported by the Company Secretariat.

#### – Finance and General Purposes Committee

The Committee comprises the executive Directors and the deputy finance director and is chaired by the Chief Executive, or in his absence, one of the executive Directors and is supported by the Company Secretariat. Its main purpose is to approve various routine banking and treasury matters, share option grants under the Company's incentive schemes and other matters relating to share capital (eg allotments). The Committee met several times throughout the year and a summary of the business conducted at the meetings is provided to all the Directors.

#### 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 has therefore continued its long-established programme of communication with institutional investors and brokers throughout 2008. Presentations of the half-year and full-year results were made in accordance with the practice of previous years. Approximately 100 meetings have been held at regular intervals through the year with institutional shareholders, brokers and analysts. This programme will continue and be expanded where appropriate, subject to the constraints of regulation and practice.

Whilst the Chairman attends as many meetings with institutional shareholders as possible, senior executives, led by the Chief Executive and Finance Director, hold meetings with the Company's principal institutional shareholders to discuss the Company's strategy, financial performance and specific major investments. The Chairman has also met with a number of these institutional shareholders and the other non-executive Directors are invited to do so whenever they wish. 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.

Reports to the Board on meetings or other contact with shareholders or their representatives are made by executive Directors on a regular basis. The non-executive Directors continue to believe that, through their direct and ready access to, and contact with, the Chairman, and Robert Walvis (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 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 chairmen of the Board Committees attend the AGM each year as well as the other Directors and are available to answer questions from shareholders.

The website [www.balfourbeatty.com](http://www.balfourbeatty.com) is a primary source of information on the Group, including financial press releases, shareholder documentation, annual and interim results presentations and the terms of reference of the principal Board Committees.

#### Risk management

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and reviews their effectiveness. The Group's principal risks and how they are mitigated are summarised on pages 9 and 10. As for previous years, the Board has continued to assess the effectiveness of the risk management processes and internal controls during 2008 and to the date of this report. Such assessment is based on reports made to the Board, the Audit 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, the status of corrective action; and
- a paper prepared by management on the nature, extent and mitigation of significant risks and on the systems of internal controls.

The Group's systems and controls are designed to ensure that the Group's exposure to significant risk is properly managed, 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 are applied as agreed between the parties to the venture.

Central to the Group's systems of internal control are its processes and framework for risk management. These accord with the Turnbull Guidance on internal controls and were in place throughout the year 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:

- the annual review of the strategy and plans of each operating company and of the Group as a whole in order to identify, inter alia, 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 line management, including particular areas of business or project risk. This is used to update both 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 commencing at operating company level and progressing to Board Committee level if value, or perceived exposure, breaches certain thresholds;
- regular reporting, monitoring and review of health, safety and environmental matters;
- the review and authorisation of proposed investment, divestment and capital expenditure through the Board's Committees and the Board itself;
- the review of specific material areas of Group-wide risk and the formulation and monitoring of risk mitigating actions;
- the formulation and review of properly documented policies and procedures, updated through the free and regular flow of information to address the changing risks of the business;
- 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;
- a Group-wide risk management framework which is applied to all functions in the Group, whether operational, financial or support. Under it, the key risks facing each part of the Group are regularly reviewed and assessed, together with the steps taken to avoid or mitigate those risks. The results of those reviews are placed on risk registers and, where necessary, specific action plans are developed;
- reviews and tests by the internal audit team of critical business financial processes and controls and spot checks in areas of perceived high business risk; and
- the Group's whistleblowing policy.

## Directors' report

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

Following an internal reorganisation at the end of 2008, the separate roles of Group Risk Management and Internal Audit were amalgamated under a Head of Group Risk Management and Assurance, who is responsible for developing a comprehensive framework of assurance (including internal audit) and co-ordinating the risk management activities across the Group.

No significant failings or weaknesses have been identified by the Board in carrying out its review of the effectiveness of the risk management and internal control systems.

### Political donations

At the AGM held on 15 May 2008, 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. 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 2009 AGM.

### Corporate responsibility

A full description of our approach to corporate responsibility appears in the Annual review 2008. This includes more information about the Group's charitable activities, which are described briefly below.

#### Written report

For the eighth year, the Company is publishing a separate corporate responsibility report including safety, social and environmental issues. A copy will be available to shareholders attending the AGM and to preference shareholders attending the separate Class meeting. The report will also be displayed on the Company's website [www.balfourbeatty.com](http://www.balfourbeatty.com)

#### Group policies

The Group's published policies on health and safety, the environment, business conduct and ethics and human rights remain in place and are subject to regular reviews. Most recently, the business conduct and ethics policy is in the process of being reviewed and updated. Progress in these areas is described in the separate corporate responsibility report.

#### Employment

As the Group operates across a number of business sectors in different environments, it has evolved a decentralised management structure, with employment policies designed to suit the needs of individual businesses. However, each employing company is expected to comply with certain key principles in its design and practice of employment policy.

These are:

- to provide an open, challenging and participative environment;
- to enable all employees to utilise their talents and skills to the full, through appropriate encouragement, training and development;
- to communicate a full understanding of the objectives and performance of the Group and the opportunities and challenges facing it;
- to provide pay and other benefits which reflect good local practices and reward individual and collective performance;
- to ensure that all applicants receive equal treatment regardless of age, origin, gender, disability, sexual orientation, marital status, religion or belief; and
- to ensure that all employees similarly receive equal treatment and specifically in relation to training, development, and career progression.

Individual businesses use a variety of methods to communicate key business goals and issues to employees and also consult and involve their employees through local publications, briefing groups, consultative meetings, training programmes and working groups to assist the process of continuous improvement in the way they operate and do business. Regular publications inform employees of major business and technical achievements. Most of the UK-based businesses have either attained or have committed to attain the UK Investors in People standard.

Regular communication is maintained with the in-service and pensioner members of the Group's pension funds.

### Charitable activities

During 2008, the Group has continued to help raise funds for charity and has also continued to provide donations in cash and kind to charitable organisations. The total amount of funds both raised by employees and donated by the Company and its UK subsidiaries during the year was £415,000.

As in previous years, the Group's main efforts have been directed to a small number of charities. The Company's charities committee decided that support should be provided to a child-based charity and Action for Children was duly selected as the main focus for the Group's UK charitable fundraising efforts for 2008 and 2009. During the year, through a wide variety of fundraising events and efforts, employees raised a total of over £150,000 for Action for Children, a sum which was increased by a further £28,000 donated directly by the Company under a matched funding agreement.

The Company's other main charity, The Prince's Trust – Building Better Lives, received a donation of £10,000 during the year. At the beginning of 2009, the Company established The Balfour Beatty Charitable Trust. Through this, the Company will be working in partnership with Action for Children and The Prince's Trust to deliver a series of programmes aimed at helping disadvantaged young people.

Support for other charities including Engineers Against Poverty, RedR which provides emergency engineering help particularly in remote locations, and Marie Curie Cancer Care has continued. The Company is also a patron of CRASH, the construction charity and has continued its membership of the charities Business in the Community and the Institute of Business Ethics.

In addition, the Group's UK subsidiaries have paid a further aggregate sum of £190,000 to a very wide variety of other UK charitable causes in 2008.

As in previous years, the Group continues to enable UK employees to donate to charities of their choice through the Give As You Earn scheme.

The Company has decided to continue its sponsorship of the annual London Youth Games, Europe's largest youth sports programme. In 2008, the Company donated £250,000 for the 2008 Games. As title sponsor, the Company has committed a further £1.45m to the Games in the period to 2013.

Further information on the Group's activities is given in the Corporate responsibility section of the Annual review 2008 on pages 50 and 51.

### Post balance sheet events

Details of post balance sheet events are set out in Note 35 on page 82.

### Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities. The disclosure in this report of information about any of those third parties is not considered necessary for the understanding of the development, performance or position of the Group's businesses.

### Change of control provisions

The Group's bank facility agreements contain provisions that, upon 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 and cancel all commitments under the agreement concerned. There are no agreements providing for compensation for the Directors or employees on a change of control.

### Payment of creditors

In the UK, the Company's policy is to settle the terms of payment with suppliers when agreeing the terms for each transaction or series of transactions; to seek to ensure that suppliers are aware of the terms of payment; and to abide by these terms of payment as and when satisfied that the supplier has provided the goods or services in accordance with the agreed terms. At 31 December 2008, the year-end creditors' days of the Company were 24 (2007: 19).

### 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 described in the Financial review on pages 4 and 5 and detailed in Note 21 on pages 54 to 60.

### Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' report on page 26, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the International Accounting Standard (IAS) regulation.

IAS 1 requires that financial statements present the Company's and the Group's financial position, financial performance and cash flows fairly (i.e. give a true and fair view for each financial year). This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the preparation and presentation of Financial Statements". In nearly all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- (1) properly select and apply accounting policies;
- (2) present information, including accounting policies, in a manner which provides relevant, reliable, comparable and comprehensible information; and
- (3) provide additional disclosures when compliance with the specific requirements in IFRS is 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.

The Directors consider that they have met these requirements in preparing these financial statements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and are reasonably directed at safeguarding the assets and detecting and preventing fraud and other irregularities. The Directors are also responsible for the preparation of a Directors' report and a Remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom 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:

- (i) the financial statements, prepared in accordance with IFRS as adopted by the EU, 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; and
- (ii) the Business and financial review, which is incorporated into the Directors' 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.

### 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; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself 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 234ZA of the Companies Act 1985.

### Directors' report

By order of the Board

**C D Vaughan** General Counsel and Company Secretary  
4 March 2009

Registered Office:  
130 Wilton Road  
London SW1V 1LQ

## Remuneration report

### Introduction

This report has been prepared in accordance with schedule 7A to the Companies Act 1985. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the AGM of the Company at which the financial statements will be approved.

### Remuneration Committee

The Remuneration Committee of the Board ("RemCo") is primarily responsible for determining the remuneration policy and conditions of service for executive Directors and the Chairman of the Company. It also reviews and monitors the level and structure of remuneration for certain senior managers immediately below the level of the Board. The terms of reference of the RemCo, which were reviewed in October 2008, can be found on the Company's website [www.balfourbeatty.com](http://www.balfourbeatty.com).

The RemCo has been chaired by Robert Walvis since November 2003. Its other members during the year were Stephen Howard, Steve Marshall, Gordon Sage, Christoph von Rohr until September 2008 and, from September 2008, Hubertus Krossa. Sir David John, the former Company Chairman, attended meetings by invitation. No member of the RemCo has conflicts of interest arising from cross-directorships and no member is involved in the day-to-day executive management of the Group.

During 2008 the Chief Executive, Ian Tyler, was invited to join meetings of the RemCo, when appropriate. Paul Raby, the human resources director, acted as secretary of the RemCo until September 2008 at which point this role transferred to the Company Secretariat. No Director has any involvement in discussions relating to his own remuneration.

The RemCo is responsible for appointing external independent consultants to advise on executive remuneration matters. This advice and assistance has been provided throughout the year by Hewitt New Bridge Street LLP ("HNBS") and PricewaterhouseCoopers LLP ("PwC"). The human resources director has also provided advice to the RemCo. During the year, PwC also provided other tax and consultancy services to the Company. The RemCo is satisfied that no conflict of interest arises from the provision of this advice.

### Executive Directors' remuneration

#### General policy

It is the policy of the RemCo to establish an overall remuneration package that is competitive and which facilitates the recruitment and retention of high calibre management. The annual and long-term incentive plans make up an important part of each executive Director's remuneration and are structured so as to motivate senior managers to deliver high standards of performance, without encouraging excessive risk taking. It is intended that the share-based elements of the package will not only drive performance over the long-term but will also assist in aligning the interests of senior management with those of shareholders.

The structure of executive Directors' remuneration was similar in 2008 to that in 2007 and no significant changes to the existing policy are currently envisaged for 2009. Under the current arrangements, if target performance is achieved, basic salary will represent around one-half of total earnings. If maximum is achieved, which would involve a superior level of performance substantially in excess of business plan, basic salary will represent around one-third of total earnings.

The executive Directors are eligible to be members of the Balfour Beatty Pension Fund and the general pensions policy is described below.

#### Basic salaries

It is the policy of the RemCo to set basic salaries at levels which it believes are competitive given the size and complexity of the Company, as well as the broad business sectors in which it operates. To assist in this, HNBS and

PwC provide data and independent advice on remuneration levels in companies considered to be comparable in terms of annual sales, market capitalisation and industry sector. The RemCo sets basic salaries around mid-market levels, but also takes into account its own judgement of the performance of the Group's businesses and the performance of individual Directors. The RemCo intends to continue to use this approach in the foreseeable future.

The basic salaries for the executive Directors are reviewed annually at 1 July. The salary for Duncan Magrath was set at £340,000 effective from his appointment as Finance Director on 31 March 2008 and was not reviewed again during the year. The basic salaries of the other three executive Directors, following the review at 1 July 2008, are shown in the table below. The average increase was 9.0% based on a review of personal performance, market position and recognition of new responsibilities for Anthony Rabin.

Name of Director	Salary at 1 July 2008
A L P Rabin	£425,000
I P Tyler	£630,000
P J L Zinkin	£405,000

#### Annual incentive plan

Each executive Director participates in an annual incentive plan, under which pre-determined financial targets must be achieved before any payment is earned. The maximum potential bonus which could have been earned by executive Directors for 2008 was 80% of basic salary and the performance indicator chosen was profit before tax, exceptional items and amortisation of intangible assets ("profit"). A bonus of 40% of basic salary would have been earned for the achievement of performance in line with target. Two-thirds of any bonus achieved is payable in cash, whilst the remaining one-third is deferred in the form of ordinary shares in the Company under the Deferred Bonus Plan (the "DBP"). These shares, along with shares awarded in lieu of dividends paid during the deferral period, will be released to the Directors after three years, providing they are still employed by the Company at that time (unless specified leaver conditions are met, in which case early vesting may be permitted under the rules of the DBP). Bonuses are non-pensionable. The actual profit for the year ended 31 December 2008 resulted in a maximum bonus of 80% of basic salary for each executive Director. Details are shown in the table on page 21.

It is currently intended that the annual incentive plan for 2009 will operate in the same way and at the same level as for 2008 and the RemCo will continue to review the competitiveness and structure of the annual incentive plan in future years.

#### Long-term incentive scheme

The RemCo believes that performance related long-term incentives which align executives with both business strategy and shareholders' interests are an important component of overall executive remuneration arrangements.

The Company operates a Performance Share Plan (the "PSP") under which conditional awards of shares in the Company are made to executive Directors and other selected operational and functional senior managers. The maximum market value of any award, at the award date, will be 150% of basic salary, other than in exceptional circumstances, where the limit is 200% of basic salary. It is currently the intention of the RemCo that an award of 150% of salary will only be made to the Chief Executive, with the other executive Directors and selected senior managers receiving conditional awards over shares with a market value of 125% of basic salary.

The awards will vest, subject to the achievement of performance conditions, three years after the date of grant, together with shares in lieu of dividends payable. There is no provision for the re-testing of these performance conditions. For the 2008 award, there are two performance conditions, each applying to separate parts of the award.

50% of an award is linked to an adjusted earnings per share ("EPS") growth target, and will vest as shown in the table below.

EPS growth over three years	Proportion of award vesting
Less than RPI + 15%	Zero
RPI + 15%	25%
RPI + 45%	100%
Between RPI + 15% and RPI + 45%	Between 25% and 100% pro-rata

Growth in EPS will be determined following independent verification of the calculations made internally.

The performance condition attached to the other 50% of an award is linked to total shareholder return ("TSR") performance, measured against a group of UK listed companies operating in comparable markets to the Company. The companies used for the 2008 award were as follows: Aggreko, Atkins (WS), Babcock International, Capita, Carillion, Costain, Interserve, Keller, Kier, MITIE, Morgan Sindall, Serco, SIG, Travis Perkins and Wolseley.

The TSR performance of all companies will be measured over the three year performance period, with the TSR of Balfour Beatty compared to the TSR of the other companies. This part of an award will vest in part if Balfour Beatty's TSR is equivalent to the company whose TSR performance is at the median, with full vesting if Balfour Beatty's TSR is equivalent to, or above, that of the company whose TSR performance is at the upper quartile. The precise scale of vesting is shown in the table below:

Total shareholder return	Proportion of award vesting
Below median	Zero
Median	25%
Upper quartile	100%
Between median and upper quartile	Between 25% and 100% pro-rata

TSR will be independently calculated and approved by the RemCo.

The RemCo considers that the EPS and TSR performance conditions provide a good blend of performance metrics, with EPS growth rewarding strong financial performance and TSR rewarding stock market performance, which aligns with investors' interests.

It is the intention of the RemCo to make awards under the PSP in 2009. For the TSR element of the award, it is currently anticipated that a similar peer group of companies will be used. The RemCo is currently reviewing the EPS targets and individual levels of award, to ensure these continue to remain stretching and appropriate given current market conditions and business outlook.

The PSP and other share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

### Pensions

The Company provides pension benefits to UK employees principally through the Balfour Beatty Pension Fund (the "Fund"), which has both defined benefit ("DB") and defined contribution ("DC") sections. The DB section provides for the build up of pension benefits based on different accrual rates (as determined by job position) and has life cover, disability and spouse/dependants pension arrangements.

Following the changes to the taxation of pensions which were introduced in April 2006, a Fund-specific earnings cap has been maintained for those members who were previously subject to the HMRC earnings cap. This cap also applies to members of the DC section of the Fund. A discretionary cash supplement is paid in lieu of pension provision above the earnings cap. The Company is not compensating any member of the Fund (or any other pension scheme operated by the Company) for any additional tax which is payable as a result of the April 2006 legislation. If members choose to opt out of the Fund as a result of their benefits reaching or exceeding the lifetime allowance, a cash supplement will be paid to them.

The specific pension arrangements for executive Directors are outlined in more detail in the Directors' pensions section on pages 24 and 25.

During 2008 the Company announced new measures to limit the growth of liabilities in the DB section of the Fund. These will, in effect, limit future increases in basic salary which will count for DB purposes to a level set by the Company each year. This figure will ordinarily be RPI up to a cap

of 5%. Any increase in basic salary above that limit will be eligible for DC benefits from the Fund.

### Share ownership guidelines

To further align the interests of senior management with those of shareholders, executive Directors and certain other senior managers are subject to share ownership guidelines. Executive Directors are required to accumulate a holding of ordinary shares in the Company to the value of 100% of their basic salary at a reference date. In order to achieve this, they will be expected to retain at least half of the shares (after payment of any taxes due) which vest from awards made under the PSP and the DBP.

### Share options

No grants of options have been made under the Executive Share Option Scheme 2001 since 31 December 2004 and it remains the intention of the RemCo that no further grants will be made under this scheme to any level of management, other than in exceptional circumstances.

Executive Directors are eligible to participate in a HMRC approved savings-related share option scheme.

### Service contracts

It remains the Company's policy and practice to include in executive Directors' contracts a 12 months' rolling notice period from the Company and six months' notice on the part of the Director. This policy will continue.

Details of the service contracts of the executive Directors are shown in the table below.

Name of Director	Date of contract	Notice period from Company (months)
D J Magrath	31 March 2008	12
A L P Rabin	28 August 2002	12
I P Tyler	22 December 2004	12
P J L Zinkin	10 December 1991	12

Service contracts of executive Directors do not include provision for specific payment in the event of early termination, nor do they provide for extended notice periods or compensation in the event of a change of control. It is not the RemCo's intention to introduce such provisions. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period. The RemCo would seek to ensure that the Director fulfils his obligation to mitigate his losses and would also give consideration to phased payments where appropriate.

Andrew McNaughton was appointed to the Board as Chief Operating Officer on 1 January 2009, with the same notice and termination provisions as the other executive Directors.

### External appointments

The RemCo recognises that benefits can arise from allowing executive Directors to take a non-executive directorship elsewhere. With approval of the Board in each case, executive Directors may therefore accept one external appointment and retain any related fees. Ian Tyler was appointed as a non-executive director of VT Group plc on 12 May 2008. The fees received for this role are set out in the notes to the Directors' remuneration table on page 21.

### Non-executive Directors

Non-executive Directors are appointed by the full Board following recommendations from the Nomination Committee. The Chairman's remuneration falls within the remit of the RemCo operating within the broad policy recommended by the RemCo and approved by the Board. The Board determines the terms on which the services of other non-executive Directors are provided. All non-executive Directors are elected for a term of three years and must retire and, if eligible, seek re-election at the AGM in the third calendar year following the year in which they were elected (or last re-elected). They are not eligible to join any pension scheme operated by the Company and cannot participate in any of the Company's share option, annual incentive or long-term incentive schemes. None of the appointment letters for non-executive Directors contain provision for specific payment in the event of termination for whatever cause.

## Remuneration report

The dates of the letters of appointment or last election (or last re-election) of the non-executive Directors are shown in the table below.

Name of Director	Date of appointment or last election	Unexpired period at 31 December 2008 (months)
M J Donovan	10 May 2007	17
S L Howard	10 May 2007	17
Sir David John <sup>(i)</sup>	10 May 2007	—
G E H Krossa <sup>(ii)</sup>	9 September 2008	33
S Marshall <sup>(iii)</sup>	11 May 2006	5
G H Sage	10 May 2007	17
Dr H C von Rohr <sup>(iv)</sup>	10 May 2007	—
R J W Walvis	10 May 2007	17

### Notes

- (i) retired on 15 May 2008
- (ii) appointed on 9 September 2008
- (iii) appointed as Chairman on 15 May 2008
- (iv) retired on 9 September 2008

The fees of the non-executive Directors are reviewed from time to time with the last review having taken effect from 1 July 2008, when the Board agreed an increase in the annual fees (excluding the Chairman) from £42,000 to £48,000 and for Steve Marshall as Chairman to £240,000 per annum. The annual fee for chairing Board Committees was increased from £7,000 to £8,000 with effect from 1 July 2008. During the year, the RemCo was chaired by Robert Walvis, the Audit Committee by Steve Marshall, and the Business Practices Committee by Sir David John up to May 2008 and Stephen Howard for the remainder of the year.

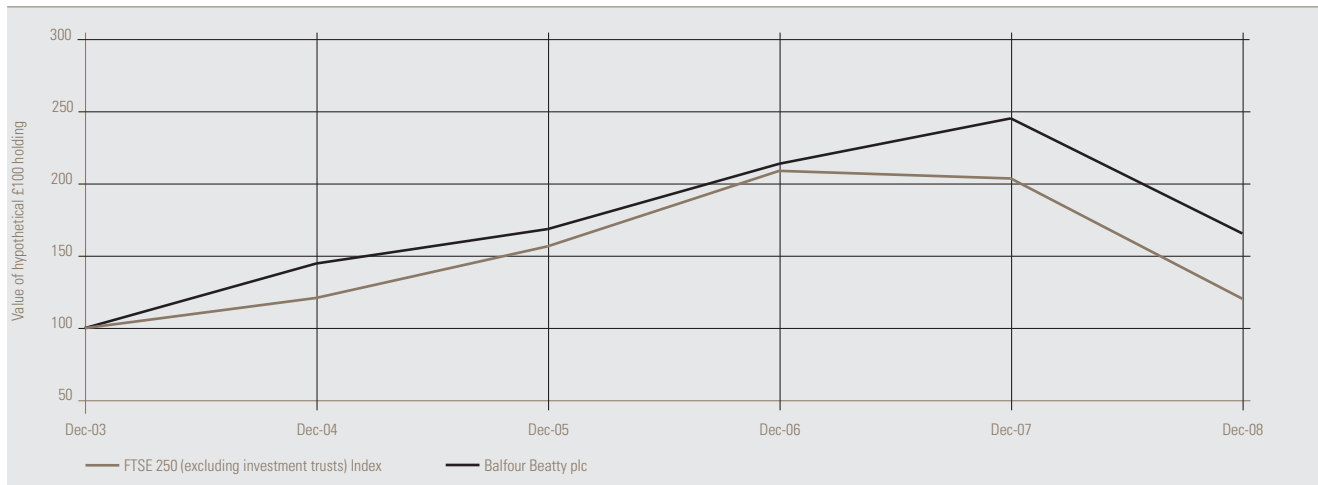
A fee of €30,000 was paid to Christoph von Rohr for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH until 31 December 2008. Hubertus Krossa joined the supervisory board of Balfour Beatty Rail GmbH on 1 December 2008 and was appointed chairman on 1 January 2009. He received fees of €2,000 for his services to the supervisory board in 2008.

### Performance graph

The graph below shows Balfour Beatty's TSR performance compared to the FTSE 250 Index (excluding investment trusts) TSR over the five financial years ended 31 December 2008.

As in previous reports, the RemCo has elected 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 was a constituent member during the year.

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, at the start of the period and have been calculated using 30 trading day average values.



The detailed information about the Directors' remuneration, set out on pages 21 to 25 has been audited by the Company's independent auditors, Deloitte LLP.

### Directors' remuneration earned in 2008

Name of Director	Basic salary £	Fees £	Pension supplement £	Benefits in kind £	Annual cash bonus £	Total remuneration 2008 £	Total remuneration 2007 £
M J Donovan	–	45,000	–	–	–	45,000	42,000
S L Howard	–	49,000	–	–	–	49,000	42,000
Sir David John	–	71,372	–	–	–	71,372	190,000
G E H Krossa	–	16,540	–	–	–	16,540	–
D J Magrath	256,308	–	33,531	12,008	181,333	483,180	–
S Marshall	–	162,273	–	–	–	162,273	49,000
A L P Rabin	402,500	–	70,236	20,852	226,667	720,255	653,951
G H Sage	–	45,000	–	–	–	45,000	42,000
I P Tyler	605,000	–	71,934	27,187	336,000	1,040,121	949,428
Dr H C von Rohr	–	54,092	–	–	–	54,092	62,548
R J W Walvis	–	52,500	–	–	–	52,500	49,000
P J L Zinkin	392,500	–	–	17,890	216,000	626,390	587,290
Former Directors	–	–	–	–	–	–	50,208
<b>Total</b>	<b>1,656,308</b>	<b>495,777</b>	<b>175,701</b>	<b>77,937</b>	<b>960,000</b>	<b>3,365,723</b>	2,717,425

#### Notes:

- (i) Basic salary and fees were those paid in respect of the period of the year during which individuals were Directors.
- (ii) Ian Tyler, Anthony Rabin and Duncan Magrath received taxable cash supplements in lieu of pension provision on their salary above the Balfour Beatty Pension Fund specific earnings cap.
- (iii) The performance target for annual bonus was profit before tax, exceptional items and amortisation of intangible assets ("profit"). The profit for the year ended 31 December 2008 resulted in a maximum bonus of 80% of basic salary for each executive Director. Two-thirds of this bonus is payable in cash and these are the amounts shown in the table above. The remaining one-third is deferred in the form of ordinary shares in the Company which will be released to the Director on 31 March 2012, providing he is still employed by the Company at that time. The number of shares comprising the deferred element will be determined based on the share price at the award date of 31 March 2009.
- (iv) Christoph von Rohr received an additional fee of €30,000 for his chairmanship of the supervisory board of Balfour Beatty Rail GmbH.
- (v) Hubertus Krossa received an additional fee of €2,000 related to his membership of the supervisory board of Balfour Beatty Rail GmbH.
- (vi) In addition, Ian Tyler received a fee of £24,577 for his services as a non-executive director of VT Group plc.
- (vii) Benefits in kind are calculated in terms of UK taxable values. All executive Directors receive private medical insurance for the Director and his immediate family. Ian Tyler, Anthony Rabin and Peter Zinkin receive a fully expensed car and a fuel card. Duncan Magrath receives a car allowance of £14,000 p.a.
- (viii) No Director receives any expense allowance.
- (ix) Awards made under the Performance Share Plan in 2005 to Ian Tyler, Anthony Rabin, and Peter Zinkin vested during the year. At the date of vesting on 18 April 2008 the closing market price was 463p and the total values of the shares which vested were £546,354, £378,720, and £403,555 respectively.
- (x) Ian Tyler, Anthony Rabin, and Peter Zinkin exercised savings-related share options during the year. The closing market prices on the dates of exercise ranged between 411.25p and 400.0p and the values realisable on exercise were £4,184, £1,826, and £3,450 respectively.

## Remuneration report

The interests of the Directors and their immediate families in the ordinary share capital of Balfour Beatty plc and its subsidiary undertakings during the year are set out below.

**Directors' interests**

Name of Director	Number of ordinary shares	
	At 1 January 2008*	At 31 December 2008
M J Donovan	5,000	<b>5,000</b>
S L Howard	5,045	<b>5,045</b>
G E H Krossa	—	<b>5,000</b>
D J Magrath	6,000	<b>16,000</b>
S Marshall	5,000	<b>5,000</b>
A L P Rabin	101,728	<b>142,172</b>
G H Sage	5,000	<b>5,000</b>
I P Tyler	133,005	<b>154,051</b>
R J W Walvis	10,000	<b>10,000</b>
P J L Zinkin	122,171	<b>148,686</b>

\*or date of appointment, if later.

Notes:

- (i) All interests at the dates shown are beneficial and are in respect of 50p ordinary shares in Balfour Beatty plc. There were no changes between 31 December 2008 and 4 March 2009.
- (ii) Peter Zinkin was also interested at 1 January 2008 and 31 December 2008 in 325 cumulative convertible redeemable preference shares of 1p each in Balfour Beatty plc.

**Directors' long-term incentives: the Performance Share Plan**

Name of Director	Date awarded	Maximum number of shares subject to award				At 31 December 2008	Exercisable from
		At 1 January 2008*	Awarded during the year	Lapsed during the year	Vested during the year		
D J Magrath	13 June 2006	64,847	—	—	—	<b>64,847</b>	June 2009
	17 April 2007	43,125	—	—	—	<b>43,125</b>	April 2010
	15 April 2008	—	94,618	—	—	<b>94,618</b>	April 2011
A L P Rabin	18 April 2005	99,863	—	18,066	81,797	—	
	13 June 2006	131,721	—	—	—	<b>131,721</b>	June 2009
	17 April 2007	90,269	—	—	—	<b>90,269</b>	April 2010
	15 April 2008	—	105,750	—	—	<b>105,750</b>	April 2011
I P Tyler	18 April 2005	144,065	—	26,062	118,003	—	
	13 June 2006	228,586	—	—	—	<b>228,586</b>	June 2009
	17 April 2007	157,755	—	—	—	<b>157,755</b>	April 2010
	15 April 2008	—	193,690	—	—	<b>193,690</b>	April 2011
P J L Zinkin	18 April 2005	106,411	—	19,250	87,161	—	
	13 June 2006	136,989	—	—	—	<b>136,989</b>	June 2009
	17 April 2007	90,269	—	—	—	<b>90,269</b>	April 2010
	15 April 2008	—	105,750	—	—	<b>105,750</b>	April 2011

\*or date of appointment, if later.

## Notes:

- (i) All 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.
- (ii) For the awards made in June 2006, April 2007 and April 2008, the performance periods are the three years ending 31 December 2008, 31 December 2009 and 31 December 2010 respectively. 50% of each award is subject to an EPS growth target. The maximum number of shares subject to this performance condition will only vest if EPS growth exceeds the retail prices index ("RPI") by 45% over the performance period. If EPS growth exceeds RPI by 15% then 25% of this part of the award will vest. For growth in EPS between these points, vesting will be on a pro-rata basis. No shares will vest from this part of the award if EPS growth exceeds RPI by less than 15%. The other 50% of each award is subject to a total shareholder return ("TSR") target under which the TSR of the Company is compared to that of a comparator group of similar companies listed in the UK at the start of the performance period. The maximum number of shares subject to this performance condition will only vest if the Company's TSR is at the upper quartile of the comparator group. If the Company's TSR is equal to that of the median of the comparator group then 25% of this part of the award will vest. No shares from this part of the award will vest if the Company's TSR is below that of the median of the comparator group. For TSR performance between median and upper quartile, vesting will be on a pro-rata basis. There is no provision for re-testing of either of the performance conditions.
- (iii) The average middle market price of ordinary shares in the Company for the three dealing dates before the award dates, which was used for calculating the number of awards granted, was 305.417p for the 2005 award, 308.417p for the 2006 award, 491.583p for the 2007 award and 449.17p for the 2008 award. The closing middle market price of ordinary shares on the date of the awards was 290p, 301.25p, 490.75p and 450p respectively.
- (iv) The performance period for the awards made in June 2006 was completed on 31 December 2008. The growth in EPS for this period exceeded RPI by more than 45%. The Company's TSR for this period ranked between sixth and seventh of the 14 remaining companies in the comparator group. The combined effect of these performance measures is that 69.6% of each participant's conditional award will vest on 13 June 2009. Each participant will also receive shares equal in value to the dividends, which would have been payable on the shares which vest.
- (v) The performance period for the awards made in April 2005 was completed on 31 December 2007. The growth in EPS for this period was 58.37% and as a result, 81.91% of each participant's conditional award vested on 18 April 2008. The closing middle market price of ordinary shares on the vesting date was 463p.

**Directors' Deferred Bonus Plan awards**

Name of Director	Date of initial award	At 1 January 2006*	Awarded during the year	Awarded during the year in respect of dividends		Lapsed during the year	Vested during the year	Number of shares awarded	
				3 July 2008	10 December 2008			At 31 December 2008	Vesting date
D J Magrath	30 March 2007	7,814	—	133	117	—	—	<b>8,064</b>	30 March 2010
	31 March 2008	—	11,865	202	178	—	—	<b>12,245</b>	31 March 2011
A L P Rabin	31 March 2006	14,168	—	241	213	—	—	<b>14,622</b>	31 March 2009
	30 March 2007	16,775	—	286	252	—	—	<b>17,313</b>	30 March 2010
	31 March 2008	—	21,268	362	320	—	—	<b>21,950</b>	31 March 2011
I P Tyler	31 March 2006	20,491	—	349	308	—	—	<b>21,148</b>	31 March 2009
	30 March 2007	24,430	—	416	368	—	—	<b>25,214</b>	30 March 2010
	31 March 2008	—	32,462	553	489	—	—	<b>33,504</b>	31 March 2011
P J L Zinkin	31 March 2006	14,736	—	251	222	—	—	<b>15,209</b>	31 March 2009
	30 March 2007	16,774	—	288	252	—	—	<b>17,314</b>	30 March 2010
	31 March 2008	—	21,268	362	320	—	—	<b>21,950</b>	31 March 2011

\* or date of appointment, if later.

## Notes:

- (i) All 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.
- (ii) The awards made in 2006, 2007 and 2008 will vest on 31 March 2009, 30 March 2010 and 31 March 2011 respectively, providing the Director is still employed by the Company at the vesting date (unless specified leaver conditions are met, in which case early vesting may be permitted).
- (iii) The shares awarded on 31 March 2006, 30 March 2007 and 31 March 2008 were purchased at average prices of 374.641p, 474.989p and 476.454p respectively.
- (iv) The shares awarded on 3 July 2008 and 10 December 2008 in lieu of dividends payable were allocated at average prices of 404.502p and 344.249p respectively.

## Remuneration report

## Directors' Savings-Related Share Option Scheme grants

Name of Director	Date granted	At 1 January 2008*	Granted during the year	Exercised during the year	Lapsed during the year	Number of options		Exercise price	Exercisable from	Exercisable to
						At 31 December 2008				
D J Magrath	2 May 2007	1,136	—	—	—	<b>1,136</b>		389.0p	July 2010	December 2010
	7 May 2008	—	935	—	—	<b>935</b>		362.0p	July 2013	December 2013
A L P Rabin	7 May 2003	444	—	444	—	—		133.0p	July 2008	December 2008
	5 May 2004	903	—	—	—	<b>903</b>		210.0p	July 2009	December 2009
	4 May 2005	1,031	—	—	—	<b>1,031</b>		250.0p	July 2010	December 2010
	3 May 2006	971	—	—	—	<b>971</b>		305.0p	July 2011	December 2011
	2 May 2007	993	—	—	—	<b>993</b>		389.0p	July 2012	December 2012
	7 May 2008	—	321	—	—	<b>321</b>		362.0p	July 2011	December 2011
I P Tyler	4 May 2005	1,046	—	1,046	—	—		250.0p	July 2008	December 2008
	2 May 2007	825	—	—	—	<b>825</b>		389.0p	July 2010	December 2010
	7 May 2008	—	664	—	—	<b>664</b>		362.0p	July 2011	December 2011
P J L Zinkin	7 May 2003	839	—	839	—	—		133.0p	July 2008	December 2008
	5 May 2004	716	—	—	—	<b>716</b>		210.0p	July 2009	December 2009
	4 May 2005	687	—	—	—	<b>687</b>		250.0p	July 2010	December 2010
	3 May 2006	717	—	—	—	<b>717</b>		305.0p	July 2011	December 2011
	2 May 2007	1,178	—	—	—	<b>1,178</b>		389.0p	July 2012	December 2012
	7 May 2008	—	701	—	—	<b>701</b>		362.0p	July 2013	December 2013

\* or date of appointment, if later.

## Notes:

- (i) All options are granted under the savings-related share option scheme, for nil consideration on grant and are in respect of 50p ordinary shares in Balfour Beatty plc.
- (ii) The closing market price of the Company's ordinary shares on 31 December 2008 was 329.25p. During the year the highest and lowest closing market prices were 497.25p and 224.25p respectively.

## Directors' pensions

The executive Directors participate in the Balfour Beatty Pension Fund (the "Fund"). The Fund provides for a pension at a normal retirement age, for pension purposes, of 62 and each Director pays an annual contribution equal to 5% of pensionable salary. The pension for a Director who can complete 20 or more years' pensionable service at normal retirement age is targeted at two-thirds of final pensionable salary, subject to HMRC limits. With effect from 6 April 2006, HMRC limits were changed, with one of the changes being to no longer use the earnings cap, when determining the maximum permissible benefits. However, the Fund has retained a Fund specific earnings cap for pension purposes. The salaries of Ian Tyler, Anthony Rabin and Duncan Magrath are subject to the Fund-specific earnings cap for pension purposes and details of the Company's contributions to additional arrangements for them are shown in the Directors' remuneration table on page 21.

The table below sets out the accrued deferred pension which would be paid annually from the Fund at normal retirement age based on each executive Director's service to 31 December 2008 as well as the additional pension benefit secured in respect of service during the year.

Name of Director	Age at 31 December 2008 Years	Pensionable service at 31 December 2008 Years	Accrued deferred pension at 31 December 2007* £ pa	Increase in accrued deferred pension during the year		Accrued deferred pension at 31 December 2008 £ pa	Transfer value corresponding to increase in excess of inflation at 31 December 2008 less Director's contributions (Note i) £
				Inflation £ pa	Increase in excess of inflation £ pa		
D J Magrath	<b>44</b>	<b>2</b>	7,788	226	3,059	<b>11,073</b>	<b>20,755</b>
A L P Rabin (Note ii)	<b>53</b>	<b>15</b>	54,194	2,114	3,291	<b>59,599</b>	<b>39,001</b>
I P Tyler	<b>48</b>	<b>12</b>	32,430	1,265	3,976	<b>37,671</b>	<b>35,524</b>
P J L Zinkin	<b>55</b>	<b>27</b>	183,469	7,155	12,987	<b>203,611</b>	<b>176,033</b>

\* or date of appointment, if later.

## Notes:

- (i) The transfer value of the increase in accrued deferred pension is the present value of the increase in excess of inflation in the deferred pension and associated benefits during the period, less the Director's contributions. Transfer values before 1 October 2008 were calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Transfer values with effective dates after 1 October 2008 are calculated using the transfer value basis as determined by the Fund Trustee in accordance with the new transfer value regulations.
- (ii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

The table below sets out the transfer value at 31 December 2008 of each executive Director's accrued deferred pension at that date as well as the movement in that transfer value over the period. The transfer values represent the cash equivalent values that would have been payable from the Fund had the Directors left service on the dates shown, and reflect the age of the Director, his period of Fund membership and his pensionable salary.

Name of Director	Age at 31 December 2008 years	Pensionable service at 31 December 2008 years	Transfer value at 31 December 2007* (Note i) £	Contributions made by Director during the year £	Increase in transfer value during the year less Director's contributions (Note ii) £	Transfer value at 31 December 2008 (Note i) £
D J Magrath	44	2	48,527	4,528	37,208	90,263
A L P Rabin (Note iii)	53	15	677,854	6,037	108,569	792,460
I P Tyler	48	12	311,330	6,037	71,493	388,860
P J L Zinkin	55	27	2,590,284	20,361	415,035	3,025,680

\* or date of appointment, if later.

Notes:

- (i) The transfer value is the present value of the accrued deferred pension and associated benefits at the relevant date, calculated using the transfer basis then in force. Transfer values before 1 October 2008 were calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. Transfer values with effective dates after 1 October 2008 are calculated using the transfer value basis as determined by the Fund Trustee in accordance with the new transfer value regulations.
- (ii) The figure is the difference between the transfer value of the accrued benefits at the start and end of the period, less the Director's contributions during the period.
- (iii) Anthony Rabin's pensionable service includes nine years of transferred-in service from previous pension arrangements.

### Remuneration report

By order of the Board

**R J W Walvis** Senior Independent Director and chairman of the Remuneration Committee  
4 March 2009