Expanding HORIZONS

BREEDON

Breedon Group
Annual Report 2018
www.breedongroup.com

2018

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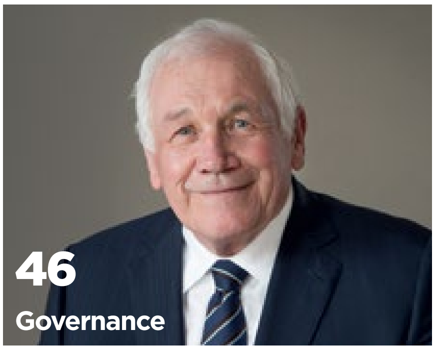


Cover:
Paul Heduan (left) and Philip Holloway, from the Environmental Department at Kinnegad Cement Works in RoI. In the foreground is the on-site asphalt plant, with the cement works in the distance

Welcome to the Breedon Group Annual Report 2018

We are a leading construction materials group in Great Britain and Ireland. Our operations are fully integrated, supplying cement, aggregates, asphalt, ready-mixed concrete and mortar, concrete and clay products and slate. We also provide contract surfacing and highway maintenance services. The Group employs nearly 3,000 people and has nearly 900 million tonnes of mineral reserves and resources. Our strategy is to continue growing through organic improvement and acquisition of businesses in the heavyside construction materials market.

Q

How are we positioned for the future?

Our broad spread of operations, excellent management team and exposure to sectors with above-average growth projections give us confidence that we will continue to make solid progress in 2019.

For more information visit

www.breedongroup.com

2018 highlights

Revenue **£862.7m** 2017: £652.4m +32%	Underlying EBIT* **£103.5m** 2017: £80.4m +29%
Underlying EBIT margin* **12.0%** 2017: 12.3%	Profit before tax **£79.9m** 2017: £71.2m +12%
Underlying basic earnings per share* **4.70p** 2017: 4.14p +14%	Basic earnings per share **4.01p** 2017: 3.98p +1%
Net debt **£310.7m** 2017: £109.8m	

* Underlying results are stated before acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items. References to an underlying profit measure throughout this Annual Report are defined on this basis.

- We delivered a strong performance in the face of difficult trading conditions
- Our improved revenue and earnings were underpinned by contributions from recent acquisitions
- Strong cash flow resulted in closing Leverage of 2.0

- The transformative acquisition of Lagan took us into new markets with significant growth potential
- Our asset swap with Tarmac streamlined our concrete network, strengthened our asset base and improved the quality of our earnings

- We invested a further £50 million in operational improvements, increased capacity and extensions to reserves
- Our new operating segments reflect the change in the Group's structure following the acquisition of Lagan

Breedon is the only major quoted company offering a focused investment opportunity in the GB and Irish heavyside construction materials industry.

1

Favourable markets

- Construction output in GB has steadily recovered from the downturn in 2008 and, despite current economic uncertainties, is still forecast to grow by nearly two per cent in 2019-20.
- The most buoyant sectors in GB construction are predicted to be infrastructure, industrial and housing. Together these account for the majority of Breedon's end-use sales.
- GB aggregates volumes are forecast to grow by 2.5 per cent over the next two years, whilst asphalt and ready-mixed concrete are forecast to grow by three per cent in 2019-21.
- The construction sector in NI is expected to grow by an average 0.8 per cent per annum over the period 2019-23, with housing and commercial predicted to be the most buoyant sectors.
- The medium-term prospects for the construction industry in RoI are positive following the government's introduction of a longer-term capital investment plan, with construction output forecast to grow by 5-10 per cent over the period 2019-20.

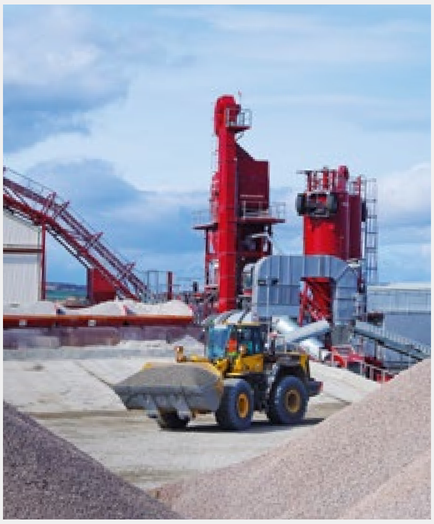
Read about our markets on pages 18 and 19.

2

Scale and reach

- Breedon has a business of significant scale and reach, with around 280 locations stretching from the Hebrides to Hampshire and Galway to Great Yarmouth, including two cement plants (one of which is the UK's largest), around 80 quarries, 170 ready-mixed concrete and mortar plants, 40 asphalt plants, nine concrete and clay products plants, four contract surfacing businesses, six import/export terminals and two slate production facilities.
- With some exceptions, these are essentially local businesses, equipped to serve a very diverse range of customers, in a large number of local markets.
- We benefit from significant economies of scale and the advantages of vertical integration.

Read about the performance of our businesses on pages 33 to 37.



Sources: CPA; MPA; NISRA; CITB; Euroconstruct.

3

Strong asset backing

Nearly
900mt
reserves and resources

- Our industry has significant barriers to entry, with consents for new rock quarries granted very rarely.
- Breedon has nearly 900 million tonnes of mineral reserves and resources, enough to last around 39 years at current rates of production.
- We have consistently demonstrated our ability to enhance our reserves through planning extensions, efficiency improvements and reduction of waste.
- We also own two cement plants which have a high imputed replacement cost.

Read about our natural resources on pages 42 and 43.

4

Consolidation opportunities

- We have repeatedly proven our ability to acquire businesses, large and small, at the right price and extract significant value from them for our shareholders.
- The industry remains very fragmented: there are still around 150-200 independent construction materials businesses in the UK, and RoI remains substantially unconsolidated with a large number of independent operators.
- Acquisition opportunities continue to arise from non-core divestments by the major global construction materials groups.

Read about the performance of our businesses on pages 33 to 37.

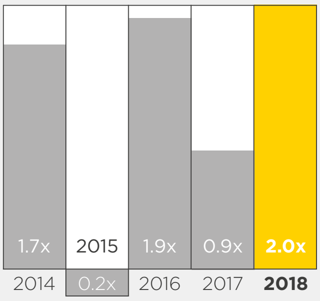
5

Financially conservative with strong cash flow

- We have a strong asset-backed balance sheet, with plenty of financial flexibility.
- We are strongly cash generative, providing more than adequate resources for organic investment and bolt-on acquisitions.

Read about our financial performance on pages 28 to 32.

Leverage
times

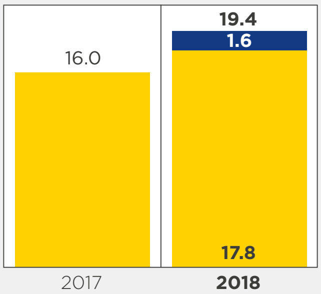


Our business at a glance

We are a leading construction materials group in GB and Ireland.

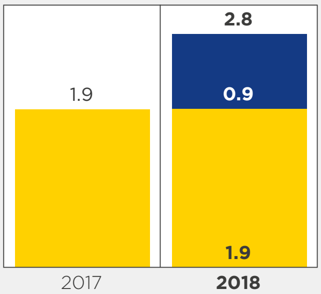
Product volumes

Aggregates
million tonnes



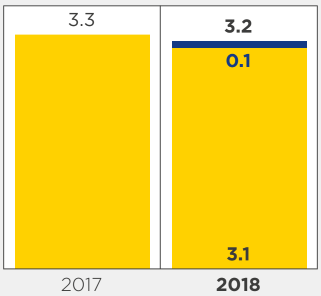
+22%

Asphalt
million tonnes



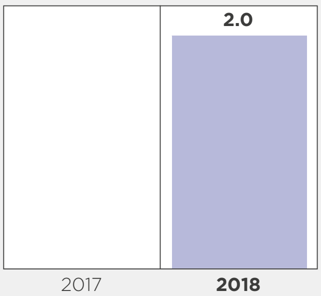
+50%

Concrete
million m³



-3%

Cement
million tonnes



Great Britain Ireland Cement

NOTE: In accordance with the CMDO, prior-year cement volumes are not disclosed, as they relate exclusively to the UK market.

Great Britain

Breedon is the largest independent construction materials business in GB. We operate a nationwide network of quarries and downstream operations extending from Stornoway in the Hebrides to Hampshire in the south of England. Our contract surfacing and maintenance business undertakes minor road surfacing projects as well as major infrastructure contracts.

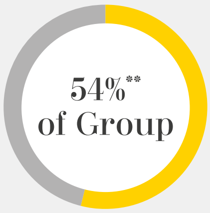
This business comprises the trade previously reported in Breedon Northern and Breedon Southern, along with the building products businesses acquired with Lagan.

Revenue*

£609.8m

Underlying EBIT

£61.4m



Key Assets

- Substantial permitted mineral reserves and resources
- Extensive network of quarries, rail-linked aggregates depots, asphalt plants, ready-mixed concrete plants and concrete products manufacturing facilities throughout England, Scotland and Wales
- Nationwide fleet of delivery vehicles for all products

Strategic Advantages

- Strong reserve base in industry with high barriers to entry
- Fully vertically-integrated operations, yielding economies of scale
- Highly localised service with diverse range of customers
- Well positioned to secure acquisitions in fragmented market

* Excludes eliminations.

** Excludes central administration and share of profit of associate and joint ventures.

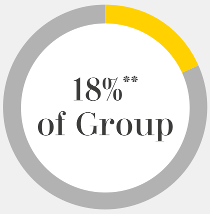
Ireland

Breedon trades under the Whitemountain brand in NI and as Lagan in RoI. Both operate a nationwide network of quarries, downstream operations, contract surfacing and highway maintenance services throughout the Island of Ireland.

This business comprises the construction materials and contracting services businesses on the Island of Ireland which were acquired with Lagan.

£156.3m

£20.9m



- Growing network of quarries, asphalt plants, ready-mixed concrete plants and concrete and clay products manufacturing facilities throughout NI and RoI
- Bitumen importation and distribution business, including production of bitumen emulsions and polymer modified bitumen and binders
- Port terminal for export of high-margin high PSV aggregates to GB
- Highly regarded contract surfacing and highway maintenance business operating across GB and RoI

- Established position in RoI market with strong growth prospects
- Excellent contract surfacing track record, including specialist expertise in airport runway surfacing
- Enhanced platform for further organic growth and bolt-on acquisition opportunities in fragmented markets

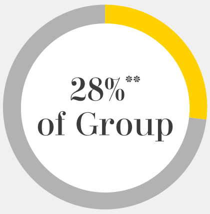
Cement

Breedon's Cement business operates two cement plants, in GB and Ireland, including the UK's largest cement plant by capacity, together with three import/export terminals and a rail-linked distribution network.

This business comprises the trade previously reported in Breedon Cement, along with the cementitious operations acquired with Lagan.

£176.5m

£31.4m



- Two cement plants in GB and RoI, including the UK's largest plant by capacity, together capable of producing more than two million tonnes of cement each year
- Import and export capability through three terminals in Ireland and GB
- Rail-linked distribution network in GB, servicing four regional cement depots with more than a million tonnes of throughput capacity
- Major cement bagging plant at Dagenham just outside London

- Flexibility of supply due to production capability in GB and Ireland, coupled with cementitious import capacity
- Bulk supply complemented by higher-margin bagged products distributed to builders merchants market in GB and Ireland
- Reduced distribution costs due to rail links from Hope Works to regional depots

> Against a challenging market backdrop, we can be justifiably proud of our results."

Expanding horizons

FINANCIAL RESULTS

2018 was not the easiest of years. It began with severe winter weather conditions and, despite some recovery in the second half of the year, ended with confirmation that over the full 12 months there was little growth in construction output in GB.

Against this challenging backdrop, we can be justifiably proud of our results. We outperformed the GB market in sales volumes of all our key products, grew our revenues and Underlying EBIT, and once again generated strong cash flow, enabling us to pay down a material proportion of our post-Lagan debt by the year-end.

More detail on our performance can be found in the Group Chief Executive's review on pages 10 to 13 and in the Financial and Operating Review on pages 28 to 37.

EXPANDING OUR HORIZONS

The acquisition of Lagan in April was transformative. It took us into an attractive new market with significant growth potential, also helping to offset a muted GB performance in the year under review. In addition, the Tarmac asset swap was important as it enabled us to streamline our concrete network by relinquishing 23 peripheral plants in exchange for 25 million tonnes of reserves in four quarries, together with an asphalt plant, thereby further strengthening our asset base and improving the quality of our earnings.

MAKING BREEDON SAFER

As our Group Chief Executive reports in his review, we were disappointed by our safety performance in 2018. Too many of our colleagues were hurt, almost always avoidably. It is the measure of a successful heavyside construction materials company that we are not only profitable, but safe, and we have an obligation to ensure that our colleagues are not put at risk and that they take care of themselves and one another. We will be focusing our efforts this year on ensuring that Breedon is a safer place to work and that we make better progress towards our ultimate target of Zero Harm.

BOARD CHANGES

As we signalled at the half-year, Peter Cornell joined us as a non-executive director on 1 October. Peter brings a wealth of corporate experience to Breedon and we are delighted to have him on our Board. We are making good progress towards the appointment of a further new non-executive director.

At the end of the year, David Warr retired from the Board. David had been a non-executive director of Breedon since the company's shares were admitted to AIM in 2008 and served the Group with great dedication and professionalism. Once again, I would like to thank him for his considerable contribution and wish him well for the future.

ENGAGING WITH OUR STAKEHOLDERS

We welcome the amendment to the AIM Rules, which requires all member companies to adopt a recognised corporate governance code. We have always sought to comply as far as appropriate with the QCA's guidance on governance and to align with best practice, and we acknowledge that one of the QCA's key requirements in light of the changes is for us to improve communication with our stakeholders, especially in terms of broadening understanding of our purpose and culture.

LOOKING AHEAD

Our company is in excellent shape and well placed to benefit from the medium-term growth predicted for our markets. We have a strong asset base, a highly cash-generative business and a talented management team, all of which give us a significant competitive advantage whatever the market conditions.

Clearly we face continued uncertainty pending the final outcome of the Brexit negotiations. However, the majority of our businesses are essentially local, with local customer bases and supply chains, and they therefore rarely cross national borders.

Whatever the outcome, we will adapt our business to ensure that any impact on our service to our customers is kept to a minimum.

As we have consistently stated, we keep our dividend policy under review and continue to believe that, by reinvesting our resources in the organic development of our business and in earnings-enhancing acquisitions, and by maintaining our focus on debt reduction, we can continue to reward our shareholders by delivering capital growth. Similarly, we feel no pressing need to transfer to the main market whilst AIM provides us with an appropriate platform from which to pursue our growth ambitions.

We owe our colleagues a special debt of gratitude for their commitment and hard work in a very demanding year. Our strong performance in difficult trading conditions was entirely down to them and I thank them all on behalf of the Board and our shareholders.

We are confident of making further progress in the current year.

Peter Tom CBE

Executive Chairman

6 March 2019

Future focused

"We have good reason to be pleased with our results for 2018. We delivered a better-than-expected performance in the face of strong headwinds, with volumes and revenues well ahead of the prior year."

TRADING PERFORMANCE

We have good reason to be pleased with our results for 2018. We delivered a better-than-expected performance in the face of strong headwinds, with volumes and revenues well ahead of the prior year, underpinned by just over eight months' contribution from Lagan. This resulted in Underlying EBIT exceeding £100 million for the first time in the Group's history.

Trading conditions were difficult. Following a slow start due to severe winter weather in the first quarter, our markets remained challenging throughout the year against the backdrop of continuing Brexit-related economic uncertainty and rising input costs.

Despite these challenges, the Group performed strongly. Revenues rose by 32 per cent to £862.7 million, generating a 29 per cent increase in Underlying EBIT of £103.5 million and an Underlying EBIT margin of 12 per cent. Although we were unable to enhance the Group margin in 2018, we remain committed to our medium-term Underlying EBIT margin target of 15 per cent.

The Group continued to generate healthy cash flow, enabling us to reduce our post-Lagan net debt to £310.7 million at 31 December 2018, equivalent to 2.0 times Underlying EBITDA.

With the integration of Lagan into the Group now well underway, we have simplified our reporting structure into three segments – Great Britain, Ireland and Cement – each representing a sound platform for future growth. All three businesses made solid progress in 2018, despite the softness in some areas of their markets and the rising input costs with which they had to contend throughout the year. A detailed review of their performances is contained in the Financial and Operating Review on pages 28 to 37.

THE MARKET

Construction output in GB was broadly flat over the year as a whole and modestly ahead in NI, whilst in RoI output is estimated to have grown by over six per cent. As always, conditions varied widely from region to region, which serves to underline the benefit of our broadening geographical base. Growth was led by the residential and industrial sectors, with modest growth in infrastructure as some larger projects were once again deferred.

A more detailed assessment of our markets can be found on pages 18 and 19.

ORGANIC DEVELOPMENT

We continued to commit substantial investment to the business, with capital expenditure of nearly £50 million directed to operational improvements, increased capacity, broadening geographical coverage and extending our mineral reserves and resources.

In line with our strategy for strengthening our position in the asphalt market, towards the end of the year we completed the installation of a new plant at Dowlow in Derbyshire which, together with the addition of our new plant at Minffordd – acquired as part of our asset swap with Tarmac – and a further 14 plants acquired with Lagan, give us a 40-strong network of asphalt plants in GB and Ireland.

Significant mineral reserves were released for extraction following successful planning applications for extensions at four of our quarries in England, and our new quarry at North Drumboy near Glasgow also came into full production.

One of the benefits of our acquisition of Lagan was the access we gained to the network of ports in GB which are licensed to receive high PSV stone deliveries from Whitemountain's quarries in NI. This has greatly enhanced our ability to service our markets in England, Scotland and Wales with this high-value aggregate material.

ACQUISITIONS

We completed a major strategic acquisition, an important asset-swap and two bolt-on acquisitions during the year.

In April we completed the acquisition of Lagan for £455 million, our largest purchase to date. Lagan gave us immediate scale in a growing market outside GB, with a new modern cement plant and complementary downstream businesses with strong development potential. We moved quickly to integrate the business into the Group, delivering savings of £2 million in 2018, which puts us well on track to deliver our commitment of £5 million of synergies within three years.

On 1 July we completed the acquisition of four quarries and an asphalt plant from Tarmac, in exchange for 23 of our ready-mixed concrete plants and £6.1 million in cash. The asset swap enabled us to further strengthen our asset base, whilst streamlining our concrete network – an excellent, margin-enhancing transaction.

Staffs Concrete, acquired in April, extended our mini-mix concrete network in the West Midlands north of Birmingham. Finally, Blinkbonny quarry near Kelso, a high-quality quarry and concrete plant, gave us our first foothold in aggregates in the south-east of Scotland in June.

SENIOR MANAGEMENT CHANGES

Another significant benefit of the Lagan acquisition was the exceptional senior management team that came with it. Aidan Mullan heads our business in NI; Terry Lagan heads our business in RoI; and Jude Lagan has assumed control of our enlarged cement business. They strengthened an already highly experienced senior management team which has consistently delivered value for our shareholders.

SAFETY

After making further progress in reducing the frequency of lost-time injuries in the first half of the year, I am disappointed to report a poorer performance in the second half, with the result that we ended the year some distance from our target reduction for 2018.

It was particularly disappointing that the accidents involved – all of which resulted in a colleague being absent from work for at least a day – were easily avoidable: typically slips, trips or falls. However, we have made great strides in embedding our Safety Commitments, engagement with our colleagues is steadily improving and with the commitment of everyone in the business we are confident of delivering marked improvements in our safety performance.

OUTLOOK

Breedon was 10 years old in 2018. During that eventful decade, from our first acquisition in 2010 to our recent £455 million purchase of Lagan, we have demonstrated our ability to deliver strong earnings growth, through a combination of organic development and value-enhancing acquisitions.

We have built a Group which is underpinned by nearly 900 million tonnes of valuable, scarce mineral reserves and resources and two highly-invested cement plants, which together provide us with solid asset backing in an industry with high barriers to entry.

Breedon is and always has been highly cash-generative. This has enabled us over the years to use our balance sheet efficiently to fund our growth and pay down debt rapidly.

We have assembled a management team which I believe we can justifiably claim to be among the most talented and experienced in our industry – highly motivated, entrepreneurial colleagues who think on their feet and stay close to their markets, delivering exceptional results in often very challenging trading environments. We now employ close to 3,000 people to whom we continue to provide rewarding careers and opportunities.

These qualities give us great confidence in the future of our business. We are equipped to outperform, irrespective of market conditions, through an efficient, flexible business model which enables us to seize opportunities and deliver continuous organic growth whilst minimising risk. With the acquisition of Lagan, which diversifies our geographical and product exposure, we have further de-risked our business whilst creating significant potential for expansion in a new, growing market with healthy opportunities for consolidation.

We fully expect 2019 to continue to be challenging in GB. However, our broad spread of operations, excellent management team and our exposure to sectors like infrastructure and housing with above-average growth projections, give us confidence that we will continue to make solid progress in 2019.

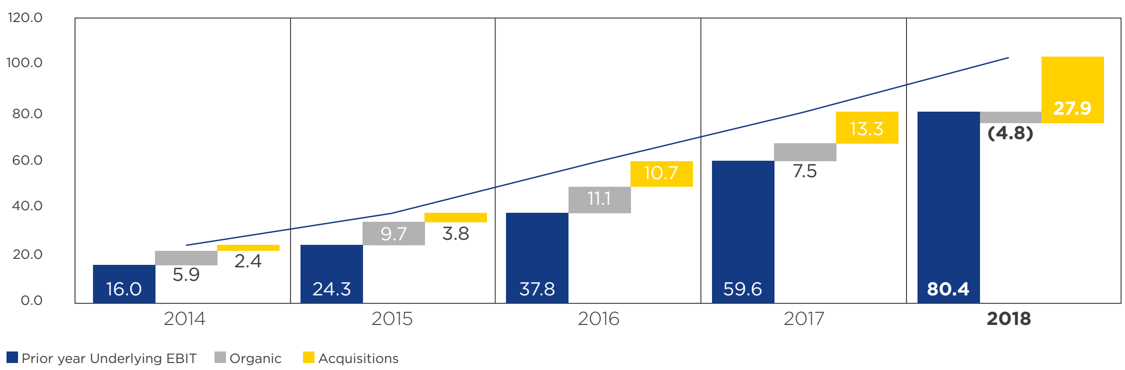
Patrick R Ward

Pat Ward

Group Chief Executive

6 March 2019

TRACK RECORD (£m)



Q&A
Group Chief Executive answers key questions on 2018

Q: What were the highlights of 2018?

A: The acquisition of Lagan was obviously transformative for us, taking us into a new growing market and providing a fresh platform on which to build for the future. But we're particularly proud of our resilient underlying performance, delivered despite the impact of the 'Beast from the East' and the economic uncertainty which plagued our industry throughout the year. We've also been greatly encouraged by the early results from our management development programme, which is already significantly enhancing the performance of our supervisory teams across the Group.

Q: As Breedon grows, how do you maintain its distinctive culture?

A: This year we're embarking on a formal review of our own culture and values to ensure they're fit for purpose in the future. One thing I can say for sure is that our strong belief in teamwork and our focus on performance are at the heart of Breedon's ethos and have been key factors in our success to date. That will not change. However we choose to articulate our values, they need to be real for us – lived and breathed across the business, with all our colleagues solidly behind them. That's how we'll continue to differentiate ourselves from our competitors.

Q: How important is health & safety to Breedon?

A: It's our absolute priority and the first item on every Board and Executive Committee meeting agenda. It's true that 2018 wasn't a vintage year for us, with a disappointing increase in our LTIFR, but we have learnt some valuable lessons and are focusing our efforts on reversing this trend. We have a simple belief that every accident is avoidable and we remain committed to Zero Harm in our business. We're also placing a much greater emphasis on the general health and wellbeing of our colleagues, with several new initiatives launched last year. You can read about these on pages 38 to 41.

Q: What are your priorities for 2019?

A: Top of the list is making Breedon a safer and healthier place to work, whilst continuing to deliver the performance our shareholders expect of us.

Further deleveraging our balance sheet is another major priority this year. We proved in the wake of the Hope acquisition that we can pay down debt very quickly, thanks to our strong cash generation. In 2018 we again exceeded the market's debt reduction expectations in the eight months following the Lagan acquisition. We expect to make further progress on this in the months ahead.

We have a fully vertically-integrated business model which gives us significant economies of scale, a high level of self-sufficiency and tight control over our costs.

CORE ASSETS

nearly
900mt
reserves and resources

2
cement plants

CORE OUTPUTS

Aggregates

Cement

The long-term success of our business model is supported by our key resources and relationships:

Colleagues

Natural resources

UNDERPINNED BY EIGHT 'GOLDEN RULES'
We operate our business with an uncompromising commitment to the safety of our colleagues and according to eight simple 'Golden Rules', which we believe give us a powerful competitive advantage.

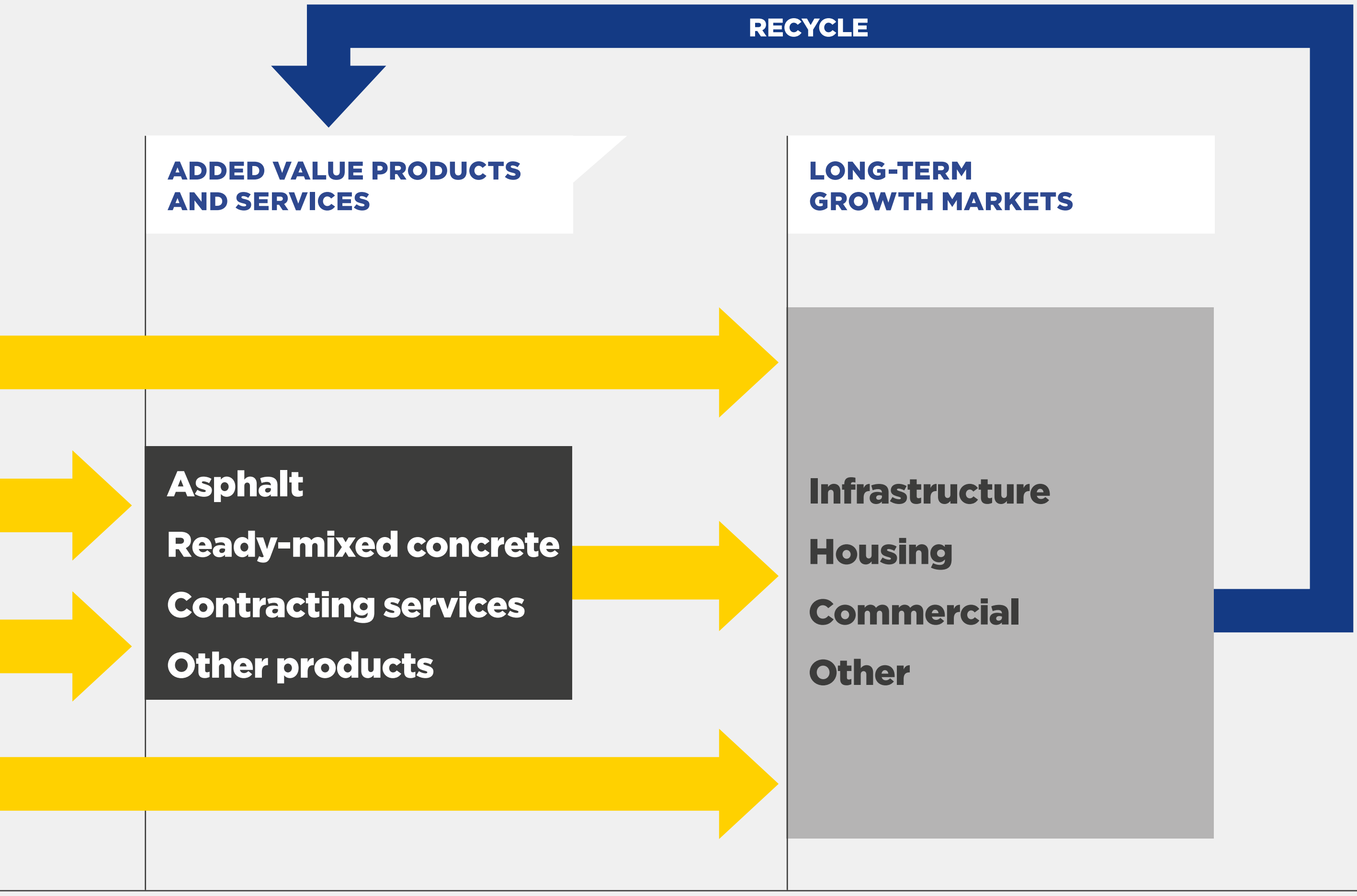
1 **Stay local**
Easy to do business with at every site

2 **Stay nimble**
Maximise opportunities in our markets and develop new ones

3 **Devolve responsibility**
Allow decision-making by regional teams

4 **Squeeze our assets**
Maximise return from every tonne of material

The objective of our business model is to extract maximum value from every tonne of aggregates we quarry and every tonne of cement we produce, through the efficient manufacture and sale of a wide range of downstream products and associated services.



Service & innovation

Stakeholders

5 **Eliminate underperformance**
If a unit is not performing, fix it

6 **Keep central overhead to a minimum**
Maintain a flat structure

7 **Don't pay rent**
Locate our offices in our quarries wherever practicable

8 **Deliver value from acquisitions**
Always enhance our earnings

Breedon's value chain in detail

How we ensure we have a sustainable business.

CORE ASSETS

Breedon's business is underpinned by nearly 900 million tonnes of mineral reserves and resources, together with two cement plants in GB and Ireland with a combined capacity of more than 2 million tonnes. We seek continually to extend our mineral reserves organically and by acquisition, aiming to replenish as much as possible of what we use and ensure that we always have a ready supply of raw material for our downstream operations.

Success factors

Our business is dependent upon securing planning consents for new reserves and extensions, which are granted sparingly. To achieve this we must maintain good relationships with local authorities, landowners and local communities and identify suitable opportunities to acquire new quarries and reserves where possible. We must also take advantage of opportunities to expand our cementitious business.

During the year

The acquisitions of Lagan and Blinkbonny quarry, alongside the asset swap with Tarmac and a number of successful applications for quarry extensions, gave us an additional 150 million tonnes of reserves and resources in 2018 which significantly strengthened our asset base. We also substantially increased our cement capacity with the acquisition of Lagan's Kinnegad cement plant in RoI and the addition of a third cement import/export terminal at the Port of Belfast.

CORE OUTPUTS

Whether we are extracting and processing aggregates, or producing cement, we focus on doing it as efficiently and as cost-effectively as possible.

Success factors

The logistics of extracting, processing and transporting aggregates are complex and require great technical proficiency. We rely on well-invested plant and smart utilisation, coupled with rigorous quality and environmental controls, to ensure that every tonne of material we produce is fit for purpose, whether its destiny is as a raw material for ready-mixed concrete, asphalt, concrete products or a host of other applications. More important still is the safety of our colleagues, on whom we rely for the efficiency of our production. It is a demonstrable fact that the safest quarries and manufacturing units tend also to be the most profitable.

During the year

We continued to invest heavily in plant, machinery and equipment across the Group in 2018, both to expand capacity and improve operational and environmental efficiency. Major investments included the addition of new processing capacity at several of our quarries, the opening of a new quarry at North Drumboy in Scotland and the next stages in a four-year control systems replacement programme at our Hope cement works.

ADDED-VALUE PRODUCTS AND SERVICES

We say often that the essence of our strategy is to maximise the return on every tonne of material we produce, whether it is rock, sand or gravel from our quarries, or cementitious products from our cement works and import terminals. Our vertically-integrated business model provides valuable, margin-enhancing routes to market for our core mineral and cement outputs.

Success factors

As with our core mineral processing operations, it is imperative that the efficiency of our product manufacturing plants – whether concrete, asphalt, bricks, slates or tiles – is optimised at every stage, and we invest a significant amount to ensure that this is the case. We are also constantly innovating to produce higher-margin specialist performance mixes of both concrete and asphalt. The success of our contract surfacing and highway maintenance gangs is down to judicious management of their contracts, coupled with service delivery beyond their customers' expectations. In fact, our uncompromising commitment to attentive, localised customer service lies at the heart of our competitive advantage.

During the year

We continued to increase sales volumes of performance products as a proportion of our overall ready-mixed concrete output, yielding higher margins and helping to ameliorate the impact of a softer concrete market in GB. We strengthened our specialist products portfolio with the addition of Welsh Slate, clay bricks and concrete tiles, all acquired as part of Lagan, the arrival of which also significantly enhanced our contract surfacing and highway maintenance operations in Ireland and GB. Towards the end of the year we further expanded our asphalt capacity with the installation of a new plant at our Dowlow quarry in Derbyshire.

EFFICIENT DISTRIBUTION

We move large quantities of cement, minerals, ready-mixed concrete, asphalt and bitumen around the UK and Ireland at a competitive cost, via road, rail and sea and through a network of import/export terminals and distribution depots. We utilise a road fleet of more than 1,500 delivery vehicles and a mix of owned and third-party rail wagons, supplying material to customers' sites across GB and Ireland.

Success factors

We pride ourselves on staying local and being easy to do business with. This means we have no national call centres or centralised shipping for our downstream products, but instead devolve sales and distribution to a network of local businesses with a high degree of autonomy and accountability, all committed to giving their customers the best possible local service. Because we produce time-limited materials, our reputation depends on delivering them promptly, to a consistent high quality, and with the courtesy our customers have come to take for granted from us.

During the year

With the acquisition of Lagan came arrangements with a network of GB ports, now 14-strong, into which high-value high PSV stone and other aggregates are shipped from our business in Ireland, significantly improving our ability to service specialist surfacing contracts in England, Scotland and Wales. We also made a major investment in the expansion of the transport fleet in our cement business.

LONG-TERM GROWTH MARKETS

Whilst 2018 was a very challenging year for the UK construction industry, the medium- to long-term prospects remain positive, with high levels of pent-up demand for our products. In Ireland, the outlook is more positive, with strong growth forecast in RoI over the next three years.

Success factors

We have successfully positioned our business to take advantage of this growth opportunity. For example, most of the pent-up demand in our markets is in areas where Government has signalled its commitment to invest for the future, particularly in infrastructure – including road maintenance – housing and industrial. These together account for the majority of our end-use markets.

During the year

The GB construction market was broadly flat in 2018, with NI expected to have been modestly ahead, whilst output in RoI is estimated to have grown by at least six per cent. Against this backdrop, we continued to outperform: our sales volumes were generally ahead of the market in GB, suggesting an increase in our share of key construction materials in our core market.

Read about our markets in more detail on pages 18 and 19.

RETURNING LAND TO COMMUNITIES

We consider ourselves to be stewards of the land we quarry, with an obligation to return it to our communities in the best possible condition when we have finished working it.

Success factors

Environmental and safety compliance are essential components of our licence to operate, but we always try to go further. We return fields to agriculture or wildlife habitats, we create lakes for leisure pursuits, we plant trees and hedgerows and create many acres of grassland for grazing. We also work hard to maintain close relationships with our local communities throughout the lives of our quarries, to ensure that we have a clear understanding of what they would like the land eventually to be used for once we have vacated it.

During the year

Craighead quarry, designated as a Site of Special Scientific Interest (SSSI) is a great example of our restoration activities in action. The quarry bowl has been returned to woodland, redundant buildings removed and lime kilns dating back to the 18th century have been preserved, together with the quarry faces within the SSSI which are of keen interest to geologists.

Key markets

As a leading construction materials group in GB and Ireland, Breedon is well placed to benefit from projected growth in our key markets.

BROADLY FLAT IN GB

2018 in GB was a story of four quarters for our industry. It began slowly, impacted in the first three months by the 'Beast from the East', followed by a strong catch-up in the Spring, a subsequent slowdown in the third quarter and a relatively strong final three months. For the year as a whole, construction output rose by 0.7 per cent (compared with growth of 7.1 per cent in 2017), against a backdrop of persistent uncertainty around the timing and nature of Brexit, coupled with delays to major infrastructure projects and a sharp slowdown in commercial development activity.

Sales of key construction materials reflected this trend, with crushed rock sales ahead by 2.5 per cent, sand & gravel up 1.3 per cent and asphalt up 0.7 per cent. The weakest segment of the market was ready-mixed concrete, with sales down 1.6 per cent.

GB VOLUME TRENDS

Aggregates – GB market size

133.3mt

2017: 130.6mt

+2.1%

Asphalt – GB market size

22.9mt

2017: 22.7mt

+0.7%

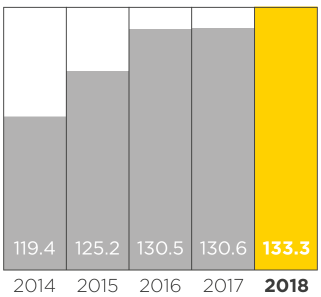
Ready-mixed concrete – GB market size

17.1m cu metres

2017: 17.4m cu metres

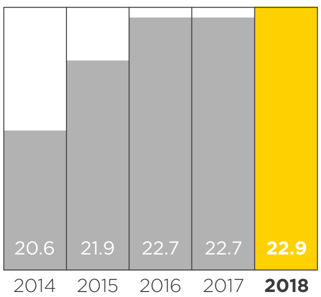
-1.6%

GB Aggregates market growth
m tonnes



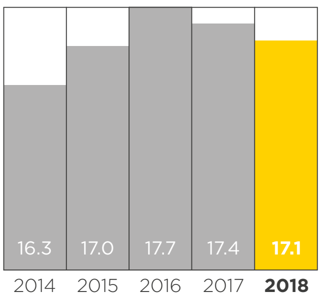
+11.6% over 5 years

GB Asphalt market growth
m tonnes



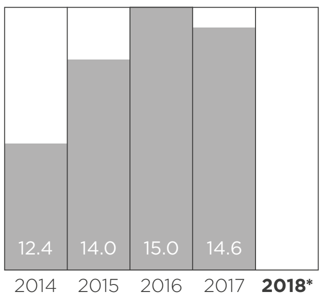
+11.3% over 5 years

GB Ready-mixed concrete market growth
m cubic metres



+4.9% over 5 years

GB Cementitious market growth
m tonnes



* Cementitious market volumes for 2018 will be published in late 2019.

STRONG PERFORMANCE IN IRELAND

RoI, by contrast, performed very strongly. Construction output is estimated to have grown by at least six per cent, with the residential, non-residential and civil engineering sectors all showing healthy growth. And in NI, following a sharp slowdown in the first quarter due to the severe weather, output subsequently recovered.

POSITIVE OUTLOOK IN ALL OUR MARKETS

As we reported in 2017, there remains significant pent-up demand for construction materials to feed the UK construction industry over the next few years, especially in areas where the Government has signalled its intention to invest for the future. A year ago commentators anticipated that this work would start to flow in earnest in 2018, but delays to major projects and general economic uncertainty have clearly resulted in delays to many projects. However, forecasters still expect GB construction output to grow by just under two per cent in 2019-20, a trend which is reflected in the MPA's sales volume projections over the same period.

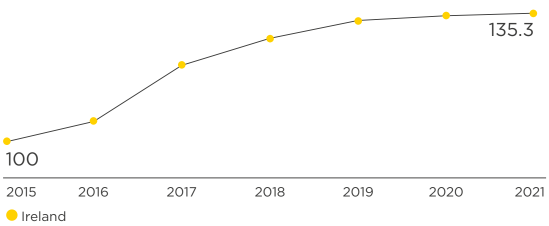
Significantly, infrastructure, private housing and industrial in GB are expected to grow strongly over the next two years and, given that these account for the majority of our end-use markets, we are strongly positioned to take advantage of them.

In Ireland, the outlook is even more encouraging. Construction output in RoI is expected to continue growing, by 5-10 per cent in the period 2019-20, and NI is forecast to deliver an average annual increase in output of around 0.8 per cent in 2019-23, sustaining a level close to £3 billion per annum over the period, supported by strong growth in public housing.

PROJECT IRELAND 2040

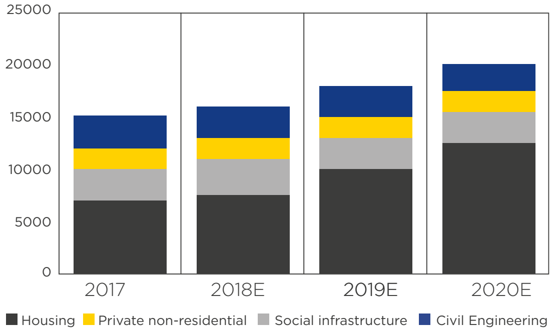
is the RoI Government's overarching policy initiative designed to deliver on the country's aspirations. It comprises the National Planning Framework 2040 and the National Development Plan 2018-2027. The latter points to an estimated €116 billion of investment over 10 years, with civil and social infrastructure featuring heavily as part of the Government's strategic investment priorities, which include: housing and sustainable urban development, the national road network, rural development, water infrastructure, airports and ports, and education and health. This major planned investment programme underpins construction activity in Ireland for the foreseeable future.

TOTAL CONSTRUCTION OUTPUT IN REPUBLIC OF IRELAND (% growth)



Source: EUROCONSTRUCT (86th conference).

IRELAND CONSTRUCTION OUTPUT BY SUB SECTOR, 2017-2018 (€m. constant 2015 prices)



Source: DKM, CIF 'Demand for skills in Construction to 2020'.

Sources: CPA; MPA (members); NISRA; CITB.

Our strategy underpins our business objective:

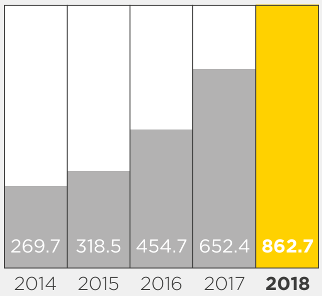
to be the safest and most profitable construction materials company in GB and Ireland.

	Strive for best customer service	Deliver continuous organic improvement
Why this is important	Our products are essentially commodities and we operate in highly localised markets Our competitive advantage lies in our ability to provide a better service than our competitors • high-quality, reliable products • delivered on time and to cost • with excellent aftercare	Ensures we remain a low cost producer in a highly competitive industry Means we maximise profit from every tonne of rock we quarry and every tonne of cement we produce Enables us continually to invest in improved efficiency Maintains our focus on enhancing our aggregates resources and downstream capacity
KPI	Revenue Underlying EBIT margin Underlying basic EPS Employee LTIFR	Revenue Underlying EBIT margin Underlying basic EPS Leverage Reserves and resources life
Progress in 2018	Increased proportion of higher value-added products and services sold, notably performance concretes Growing emphasis on collaboration with partners, e.g. on major airport projects, on Highways England Framework Contracts and Scottish highway maintenance with BEAR Scotland Significant expansion of 1stMix mini-mix business	Installation of new asphalt plant at Dowlow quarry and replacement plant at Furnace quarry Planning extensions secured for four quarries in England New quarry opened at North Drumboy near Glasgow Bagged cement now supplied to north of England via imports from Kinnegad
Priorities for 2019	Further develop value-added products and services Optimise market segmentation and pricing and distribution models Continue to strengthen collaboration with our commercial partners	Maximise price growth Continue investing in new plant and equipment to enhance performance Bring recently-acquired Daviot and Low Plains quarries up to full strength Secure further haulage efficiencies and cost-savings Continue to extend reserves & resources
Risk factors	Competition & margins Health, safety & environment IT & cyber security People	Acquisitions Competition & margins Financing, liquidity & currency Legal & regulatory Market conditions People

Secure value-enhancing acquisitions	Do all these things safely
Industry is still consolidating: we aim to lead this process Accelerated route to growth through increased scale, new products and expanded footprint Significant value can be extracted by improving performance of under-invested businesses Profitability can be further enhanced through operational and commercial synergies	Crucial element of our licence to operate Our primary obligation to our colleagues and others The safest sites tend to be the most profitable Healthy colleagues are productive colleagues
Revenue Underlying EBIT margin Underlying basic EPS Leverage Reserves and resources life	Revenue Underlying EBIT margin Underlying basic EPS Leverage Reserves and resources life Employee LTIFR
Immediate scale secured in growing market outside GB, with acquisition of Lagan Entry into south-east Scotland aggregates market with acquisition of Blinkbonny quarry Mini-mix operations expanded with acquisition of Staffs Concrete Four quarries and asphalt plant acquired via asset swap with Tarmac	A disappointing performance, with an increase in our LTIFR for employees from 1.41 in 2017 to 1.81, against a target of 1.0 Specialist occupational health partner appointed Increased focus on mental health in the workplace
Complete further bolt-on acquisitions Continue to review larger strategic opportunities	Focus efforts on reducing LTIFR and progressing towards Zero Harm Further improve site standards and housekeeping, contractor, vehicle and driver safety Sharpen focus on health & wellbeing
Acquisitions Financing, liquidity & currency IT & cyber security Legal & regulatory Market conditions People	Acquisitions Competition & margins Health, safety & environment Legal & regulatory People

Key Performance Indicators

1 Revenue
£m



+220%
Five-year performance

Why we've chosen this measure:

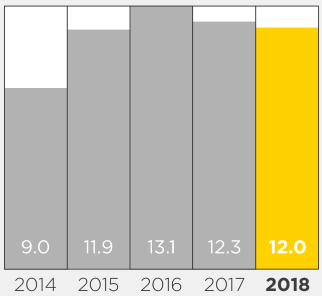
This metric tracks the Group's top-line growth. We also use it as a risk monitor.

See risks 1 – 8 inc.

How we've performed:

Good progress through a combination of organic growth and acquisitions.

2 Underlying EBIT margin
%



+3.0ppt
Five-year performance

Why we've chosen this measure:

This metric tracks improvements in the relative profitability of the Group and enables us to monitor progress against our stated objective of achieving a 15 per cent Underlying EBIT margin in the medium term. We also use it as a risk monitor.

See risks 1 – 8 inc.

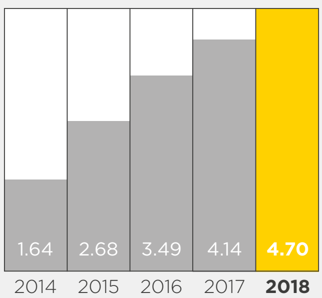
How we've performed:

Our Underlying EBIT margin was broadly maintained, despite the difficult trading conditions in GB in 2018.

Remuneration link:

A component of this measure is used to determine award levels of our annual cash bonus.

3 Underlying basic EPS
pence



+187%
Five-year performance

Why we've chosen this measure:

This metric tracks improvements in the Underlying basic EPS for our shareholders. We also use it as a risk monitor.

See risks 1 – 8 inc.

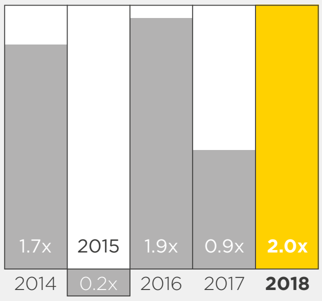
How we've performed:

The 14 per cent increase in our Underlying basic EPS in 2018 reflects the improved performance of the business.

Remuneration link:

This measure is also used to determine award levels in our performance share plans.

4 Leverage times



Why we've chosen this measure:

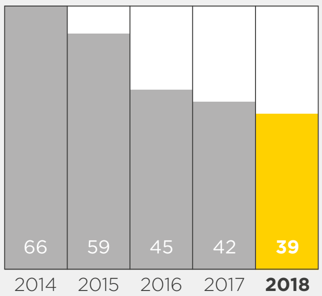
This metric tracks the ability of the Group to generate sufficient cash flows to service the needs of the business and to pursue its acquisition strategy, whilst covering its contractual debt-servicing obligations. We also use it as a risk monitor.

See risks 1 & 3.

How we've performed:

The Group continued to generate healthy cash flow, enabling us to reduce our post-Lagan net debt to £310.7 million at 31 December 2018, equivalent to 2.0x Underlying EBITDA.

5 Reserves and resources life years



Why we've chosen this measure:

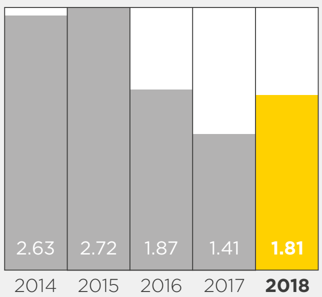
This metric tracks the ability of the Group to replenish its reserves and resources. We also use it as a risk monitor.

See risks 1 & 6.

How we've performed:

We continued to preserve our asset base in 2018 and ended the year with reserves and resources of nearly 900 million tonnes.

6 Employee LTIFR per 1 million hours worked



-31%

Five-year performance

Why we've chosen this measure:

This metric tracks our health & safety performance and enables us to maintain a strong health & safety culture. We also use it as a risk monitor.

See risk 4.

How we've performed:

Disappointingly, we missed our target of 1.0 for 2018 and will be focusing our efforts in 2019 on delivering a significant improvement.

Remuneration link:

This measure is also used to determine the level of annual cash bonus.

By identifying & managing

our existing and emerging risks effectively we can focus on our long-term business opportunities.

Our strategy informs the setting of the Group's priorities. Opportunities, and the risk accepted, in pursuit of these are guided by the risk appetite set by the Board and governed by the Group's risk management framework.

The Group's principal risks and uncertainties do not comprise all the risks associated with the Group. Additional risks not presently known or currently deemed to be less material may also have an adverse effect on the Group's business in the future.

Risk is an inherent and accepted element of doing business and effective risk management is fundamental to how we run our business. The Group's approach to risk management is to identify material existing and emerging risks and then to develop actions or processes within the business to eliminate or mitigate those risks to an acceptable level.

The Group's principal risks, in alphabetical order, are:

1. **Acquisitions**
2. **Competition and margins**
3. **Financing, liquidity and currency**
4. **Health, safety & environment**
5. **IT and cyber security**
6. **Legal and regulatory**
7. **Market conditions**
8. **People**

During the year three of our risks increased and five of our risks remained the same.

INCREASED RISKS

The three risks that increased related to acquisitions; competition and margins; and financing, liquidity and currency. Acquisitions risk has increased from a medium to a high risk to reflect the challenges that lie ahead to successfully integrate the Lagan businesses into the Group and deliver the expected returns, particularly given the entry into a new market.

Competition and margins risk, although increased to a high risk during the prior year, has increased again to reflect the potentially higher impact that the challenging GB market conditions could have on the Group in the short term. Lastly, financing, liquidity and currency risk has increased from a low to a medium risk to reflect the increased leverage and increased foreign currency exposure following our acquisition of Lagan.

BREXIT

The Group is managing the potential impacts Brexit could have on it. Brexit has not been presented as an additional principal risk but adds an additional level of uncertainty that increases the overall risk profile of the Group.

With the exception of cement and the importation of bitumen, our businesses are all essentially local ones and our products do not generally cross national borders. In addition the supply chain is generally local.

In the case of cement and bitumen, however, we do import into the UK from the EU.

The major risk to this importation would be if the UK left the EU without a deal on 29 March 2019. In such a scenario WTO rules would prevail and the Group could be exposed to:

- supply chain delays,
- the requirement for additional working capital, and
- tariffs.

In addition, the Group could also be indirectly impacted by reduced confidence, delays in our suppliers' supply chains and labour shortages.

We are in the process of finalising our contingency plans to mitigate the cement and bitumen risks. Contingency planning in respect of the indirect risks is more challenging and to a large extent we are unable to mitigate against it.

The Group will continue to monitor its Brexit risk position and respond as clarity emerges.

RISK MANAGEMENT FRAMEWORK

Board
Responsible for the Groups' systems of risk management and internal controls and for reviewing their effectiveness.

Audit Committee
Reviews the suitability and effectiveness of risk management processes and internal controls on behalf of the Board.

Group Finance Director
Provides a twice-yearly update to the Board on the key risks and controls within the Group, highlighting the roles and responsibilities of key management in managing those risks.

Group Controls Manager
Works with the businesses to identify and assess the key risks and controls and reports them to the Group Finance Director. In addition, facilitates the embedding and monitoring of the Board's agreed risk management process within the business, under the direction of the Group Finance Director.

Risk-owners / Senior Management Team
Directors and senior managers ensure that the risk management framework is implemented effectively within their respective business areas. Their key responsibilities include ensuring an effective risk culture is in place, with risk management embedded in the business.

RISK APPETITE

The Group's risk appetite is reviewed annually and approved by the Board in order to guide management. It defines the level of risk the Group is willing to accept in pursuit of its strategy.

RISK HEAT TABLE

Principal risk	Impact (High, medium or low)	Likelihood (Probable, possible or remote)	Net risk rating ● high ● medium	Movement from prior year
Acquisitions	High	Possible	●	↗
Competition & margins	High	Probable	●	↗
Financing, liquidity & currency	Medium	Possible	●	↗
Health, safety & environment	Medium	Possible	●	→
IT and cyber security	High	Possible	●	→
Legal & regulatory	Medium	Possible	●	→
Market conditions	High	Probable	●	→
People	Medium	Possible	●	→

For our viability statement see page 69.

Managing our risks and opportunities continued

Risk description	How we mitigate them	Fit with strategy

1 Acquisitions

KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS • Reserves and resources life • Leverage

Risk description: We could overpay for, fail successfully to integrate, or fail to deliver the expected returns from, an acquisition. We may also fail to identify potential acquisitions to continue with our growth strategy.

How we mitigate them: The Group has a strong acquisition track record, supported by our specialist advisers and rigorous due diligence processes. All major acquisitions are approved by the Board and all acquisitions are subject to detailed integration plans which are executed by project teams, with progress monitored by the Board.

We have developed a management structure which facilitates our growth strategy and, where appropriate, we make arrangements to retain acquired senior management. The Board holds strategy meetings with our external advisers to review wider acquisition opportunities and our businesses are all tasked with bringing forward potential bolt-on acquisition targets for review at Group level.

2 Competition and margins

KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS

Risk description: Increased competition could reduce our sales volumes and prices and impact the profitability of certain contracts.

We are heavily reliant on energy and hydrocarbons to produce and transport our products and increases in these input costs could impact our margins, as could increases in commodity prices.

Heavy reliance on key suppliers may cause difficulties if they suffer supply issues and there is also a risk to our profitability if haulage supply is disrupted or not aligned with demand.

We could suffer an unplanned production outage at a cement plant which could significantly impact our ability to supply cement both internally and externally.

How we mitigate them: We maintain a diverse customer base and focus on providing a high level of service. All major contracts are approved by the Board and authorisation matrices are in place for the sign-off of all contracts.

We operate a strategic purchasing plan to minimise key supplier risks, notably in energy and hydrocarbons, and we seek to offset rising commodity prices through our product pricing strategy and hedging programmes. We also seek to optimise our internal supply chain. Our experienced Transport Managers optimise truck availability to match demand through a combination of owned trucks, contract hauliers and hired-in trucks. We also actively engage with all our subcontractors.

A preventative maintenance programme, real-time performance monitoring and disciplined inspection regimes are in place at both cement plants. We can mitigate any unforeseen supply interruptions by importing cementitious products through our import terminals and the acquisition of Lagan now enables us to procure bitumen differently via our two new bitumen terminals. We hold Business Interruption Insurance and continue to strengthen business continuity plans across the Group.

3 Financing, liquidity and currency

KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS • Leverage

Risk description: The Group could be placed in a situation where it does not have sufficient financial resources to meet our obligations as they fall due, or to continue to invest organically and in the consolidation of the smaller end of the heavyside construction materials industry.

Given that the Group borrows at floating and fixed interest rates, we are exposed to fluctuations in those rates and the acquisition of Lagan has also exposed us to additional foreign exchange risks.

How we mitigate them: We maintain strong relationships with our key banks and shareholders and the Group's committed credit facility runs to April 2022. We manage our liquidity risk by continuously monitoring forecasts and cash flows to ensure that we maintain significant headroom.

We use interest rate caps to manage our exposure to changes in floating interest rates and our activities are conducted primarily in the local currencies of our respective businesses, resulting in a low level of foreign currency transactional risk. We hedge a proportion of our net investments in foreign businesses with foreign currency borrowings, but do not generally hedge the income statement transactional risks.

4 Health, safety & environment

KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS • Employee LTIFR

Risk description: Failure to manage health, safety or environmental risks could expose the Group to significant potential disruption, liabilities and reputational damage.

How we mitigate them: We safeguard the health & safety of employees, contractors and others working on behalf of the Group, employing experienced health & safety professionals who promote a strong safety culture and provide relevant training. Our health & safety strategy is coordinated throughout our operating businesses to ensure consistency of compliance and we are constantly improving communication and reporting across the Group: in addition to meeting individual targets for Visible Felt Leadership visits, our Executive Committee holds regular, programmed safety days across the business. We have a Driver Risk Group to manage more effectively the specific risk and safety issues associated with driving.

We are in the process of aligning the recently-acquired Lagan businesses with the Group's core health & safety principles, enshrined in our five non-negotiable Safety Commitments, to which every employee is expected to adhere. We maintain Employer's Liability and Public Liability insurance.

Management, training and control systems are in place across the Group to prevent environmental incidents.

Risk description	How we mitigate them	Fit with strategy
5 IT and cyber security	KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS	
Disruption to the IT environment could affect our ability to conduct our ongoing operations and have an adverse effect on our performance, whilst a major breach of system security could lead to reputational damage, regulatory penalties and significant financial loss.	Our dedicated internal IT support teams and external service providers have been expanded to address new and expanding cyber risks and the Group's security and disaster recovery plans and procedures continue to be strengthened. All IT system development projects are carefully planned and managed with defined governance and control procedures, including the current migration of the Lagan businesses onto Breedon's IT infrastructure and applications.	Strive for best customer service; Secure value-enhancing acquisitions
6 Legal and regulatory	KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS • Reserves and resources life	
A legal or regulatory breach could result in disruption to our business and potential reputational damage or regulatory bodies could prevent us from consolidating the smaller end of the heavyside materials industry. Product quality issues could result in customer claims while planning, licensing and emission restrictions could prevent us from operating facilities or extracting mineral reserves economically. Leased sites may not be retained.	Our in-house solicitor monitors and responds to legal and regulatory developments, whilst compliance policies are maintained and a rolling training programme ensures that employees are made aware of and kept up to date with them. We are also in the process of refreshing our Group Code of Conduct and corporate values given the increased size of the Group. We have a good understanding of competition law and regulations and engage local legal, tax and planning experts for advice on new market laws and regulations. We have clear contracting terms with all our customers and suppliers and regularly update our terms and conditions. We maintain a strict quality control policy and procedures, with high quality laboratories and experienced technical teams. We also hold all appropriate business accreditations and insurances, including those for specialist and Government projects. Our experienced Planning & Estates teams monitor and respond to changes in planning regulations, track our mineral reserves against planning consents across all our sites and actively manage the renewal of leased assets. We consult early and regularly with our stakeholders, especially with members of those communities impacted by our operations. Stringent emissions monitoring, maintenance and inspection regimes are in place at all our key sites. Our trained and competent transport teams manage compliance with the Group's Goods Vehicle Operator licences and Road Traffic laws.	Deliver continuous organic improvement; Secure value-enhancing acquisitions; Do all these things safely
7 Market conditions	KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS	
Changes in the macro-economic environment, shifts in Government policy and adverse weather could all have an impact on demand for our products and on utilisation of our assets. Difficult economic conditions could also increase our exposure to credit risk from our customers.	We closely follow published indicators of activity in our sectors, including market data and economic forecasts drawn from a wide range of sources. We also maintain regular contact with our key suppliers and customers in order to identify significant events which could potentially impact the Group. Our formal budgeting and forecasting process takes account of these assessments. We also maintain broad exposure to a diverse range of end-uses for our products and our recent acquisition of Lagan provides corresponding geographical diversity. Credit risk insurance cover is maintained over the majority of our private sector customers and authorisation procedures are in place for both insured and uninsured risk.	Deliver continuous organic improvement; Secure value-enhancing acquisitions
8 People	KPI used as a risk monitor: • Revenue • Underlying EBIT margin • Underlying basic EPS	
Failure to recruit, develop and retain the right people could have an adverse impact on our ability to meet our strategic objectives.	The Board reviews and agrees the Group's Human Resources policies, together with the succession plan for key leadership roles in the business. The Remuneration Committee reviews all key aspects of executive and senior management remuneration and appropriate remuneration packages are in place to assist in the attraction and retention of key employees. The Group has a standardised grading and benefit structure for all positions, with a formal development and performance monitoring process. Our experienced senior leadership team is supported by high-quality operational management and we have recently taken steps to strengthen this cohort with the launch of a management development programme for site and functional managers to improve their competencies across the business.	Strive for best customer service; Deliver continuous organic improvement; Secure value-enhancing acquisitions; Do all these things safely

Key

- Strive for best customer service
- Deliver continuous organic improvement
- Secure value-enhancing acquisitions
- Do all these things safely

Group Finance Director's review

"We delivered strong earnings growth, underpinned by the contributions from our recent acquisitions."

Strong growth

During the year we delivered strong earnings growth, which was underpinned by the contributions from our recent acquisitions (those completed during 2017 and 2018), the most significant being the April 2018 acquisition of Lagan.

Group aggregates volumes for the year were up 22 per cent at 19.4 million tonnes and asphalt volumes were up 50 per cent at 2.8 million tonnes; however, ready-mixed concrete volumes were down three per cent at 3.2 million cubic metres.

On a like-for-like basis, excluding acquisitions and the impact of the disposal of 23 ready-mixed concrete plants to Tarmac in July 2018, aggregates and asphalt volumes were up four per cent and two per cent respectively, with ready-mixed concrete volumes flat.

These like-for-like volumes were delivered in difficult trading conditions, stemming from a severe winter in the first quarter and ongoing uncertainty surrounding Brexit.

In accordance with the CMDO, we have historically been unable to report our UK cement volumes. However, following the acquisition of Lagan and the adoption of our new operating segments (see page 32), we are now able to report Group cement volumes for 2018, which totalled 2.0 million tonnes.

Revenue for the year at £862.7 million was 32 per cent ahead of 2017 (£652.4 million). On a like-for-like basis, revenue was up two per cent on the prior year.

Underlying EBIT was £103.5 million, 29 per cent ahead of 2017 (£80.4 million). Underlying EBIT also includes our share of profit from our associate and joint ventures.

On a like-for-like basis, Underlying EBIT declined by six per cent, reflecting the difficult trading conditions referred to above, together with increased input costs. The strong contribution from recent acquisitions was reinforced by the performance of Lagan, which reflects the quality of the business and its exposure to the more favourable Irish market.

Despite the difficult trading conditions in 2018, the Group's Underlying EBIT margin was broadly maintained at 12 per cent. We continue to target 15 per cent in the medium term.

NON-UNDERLYING ITEMS

Non-underlying items in the year amounted to a net pre-tax cost of £11.8 million (2017: £2.8 million), the major items being acquisition costs, redundancy and reorganisation costs and amortisation of acquired intangible assets.

REVENUE AND UNDERLYING EBIT*

	2018			2017		
	Revenue £m	**Underlying EBIT £m**	**Underlying EBIT margin %**	Revenue £m	Underlying EBIT* £m	Underlying EBIT margin %
Great Britain	**609.8**	**61.4**	**10.1**	577.5	64.5	11.2
Ireland	**156.3**	**20.9**	**13.4**	–	–	–
Cement	**176.5**	**31.4**	**17.8**	141.6	25.8	18.2
Central administration	**–**	**(11.9)**	**–**	–	(12.6)	–
Share of profit of associate and joint ventures	**–**	**1.7**	**–**	–	2.7	–
Eliminations	**(79.9)**	**–**	**–**	(66.7)	–	–
Total	**862.7**	**103.5**	**12.0**	652.4	80.4	12.3

* Underlying results are stated before acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items.

Group Finance Director's review continued

INTEREST

Net finance costs in the year totalled £11.8 million (2017: £6.4 million) and included interest on the Group's bank facilities, amortisation of bank arrangement fees, interest on finance leases and the unwinding of discounting on provisions. The higher costs in 2018 reflected the higher level of borrowings following the Lagan acquisition.

PROFIT BEFORE TAX

Profit before taxation was £79.9 million, 12 per cent ahead of 2017 (£71.2 million). Underlying profit before tax was £91.7 million, 24 per cent ahead of 2017 (£74.0 million).

TAX

The tax charge was £15.3 million (2017: £14.2 million). An Underlying tax charge of £15.9 million (2017: £14.7 million) was recorded in the year, resulting in an Underlying effective tax rate for the full year of 17.3 per cent (2017: 19.9 per cent), reflecting the fact that the acquired businesses in RoI are taxed at a lower rate than in the UK.

The Group's tax strategy is to comply with all relevant regulations, whilst managing the total tax burden and seeking to maintain a stable effective tax rate. The Group seeks to achieve this through operating an uncomplicated Group structure.

The Group endeavours to structure its affairs in a tax-efficient manner where there is commercial benefit in doing so, with the aim of supporting investment in the business and its capital expenditure programmes. It seeks to ensure that all tax affairs are administered in a lawful and responsible manner and that its actions do not adversely impact its reputation as a responsible taxpayer. The parameters which govern the Group's approach are set by the Board, which regularly reviews the Group's tax strategy.

The Board and Audit Committee are kept regularly informed of all material developments relating to the Group's tax position. The Group Tax Manager oversees tax compliance activities on a day-to-day basis and reports to senior management.

There is an integrated approach to governance across the business through management control, policies, procedures and training. Risks inherent in the calculation, collection and payment of tax are mitigated by documented policies and procedures. On an annual basis, the Group carries out a review for the purpose of complying with the UK Senior Accounting Officer legislation.

The Group takes appropriate tax advice and support from reputable professional firms in relation to any tax planning considerations. It is open and transparent in its dealings with HMRC in the UK and the Revenue in RoI and deals with any queries in a timely and open manner and on a full-disclosure basis. In areas of complexity, it is proactive in engaging with HMRC and the Revenue.

The Group has implemented a Prevention of Facilitation of Tax Evasion policy, which confirms both its zero tolerance approach to acts of criminal facilitation of tax evasion and its commitment to act fairly, professionally and with integrity in all its business dealings.

The Group's tax liabilities arise in the UK and RoI subsidiary companies. In terms of the corporation tax position, all years up to 2016 are agreed in respect of companies acquired prior to 2018.

The Group makes a significant contribution to the economies in which it operates through taxation, either borne by the Group or collected on behalf of, and paid to, HMRC or the Revenue. In 2018 the total taxes borne and collected by the Group amounted to over £150 million (2017: over £110 million).

EARNINGS PER SHARE

Basic EPS for the year were 4.01 pence (2017: 3.98 pence), reported after the non-Underlying items mentioned above. Underlying basic EPS for the year totalled 4.70 pence (2017: 4.14 pence).

DIVIDENDS

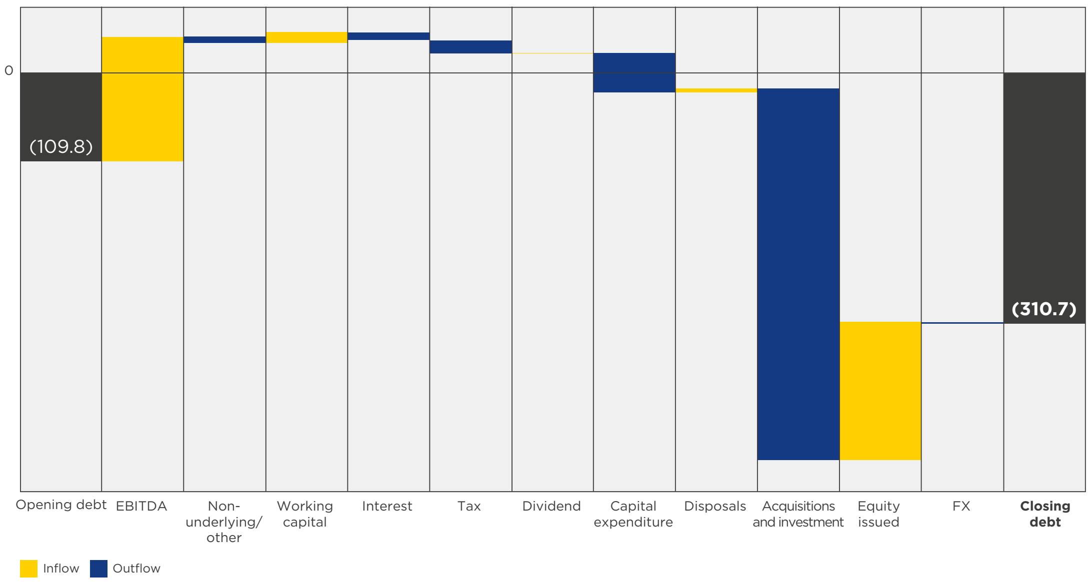
Subject to availability of distributable reserves, dividends will be paid to shareholders when the directors believe it is appropriate and prudent to do so. However, at present the main focus of the Group continues to be on delivering continued capital growth for shareholders.

STATEMENT OF FINANCIAL POSITION

Net assets at 31 December 2018 were £773.3 million (2017: £528.1 million).

The net assets continue to be underpinned by the mineral reserves and resources of the Group, which at the end of December 2018 totalled nearly 900 million tonnes (2017: around 750 million tonnes).

2018: NET DEBT MOVEMENT (£M)



CASH FLOW

Cash generated from operating activities was £160.6 million (2017: £117.2 million).

In addition to delivering short-term earnings growth and optimising working capital, we are positioning the Group for the longer term and, as part of that, we are investing further in plant and equipment and adding acquisitions where these make strategic and financial sense.

During 2018 the Group spent £406.3 million in cash on four acquisitions: Staffs Concrete, Blinkbonny quarry, Lagan and four quarries and an asphalt plant from Tarmac (2017: £9.2 million on Pro Mini Mix and Humberside). The Group also incurred capital expenditure of £48.6 million (2017: £46.2 million). Further details of this expenditure can be found in the Business Reviews on pages 33 to 37.

Proceeds from the sale of property, plant and equipment totalled £4.9 million in 2018 (2017: £3.2 million).

Proceeds from the issue of shares of £171.2 million (2017: £0.8 million) included the net proceeds of the equity placing and open offer in respect of the Lagan acquisition. The proceeds from new loans raised of £409.7 million (2017: £nil) and the repayment of loans of £246.1 million (2017: £26.6 million) reflect the refinancing undertaken at the time of the acquisition.

Repayment of finance lease obligations totalled £7.4 million (2017: £5.7 million).

* Pro forma Leverage is a forecast Leverage ratio calculated as the ratio of the forecast Underlying EBITDA of the enlarged Group relative to anticipated net debt as communicated to shareholders at the point of the transaction in April 2018.

NET DEBT

Net debt at 31 December 2018 was £310.7 million (2017: £109.8 million).

Key movements include: Underlying EBITDA of £154.4 million (2017: £117.0 million); non-Underlying items of £11.8 million (2017: £2.8 million); interest paid of £9.2 million (2017: £4.1 million); tax paid of £16.5 million (2017: £12.1 million); purchase of property, plant and equipment of £48.6 million (2017: £46.2 million); expenditure on acquisitions of £461.3 million (2017: £9.7 million); and equity raised of £171.2 million (2017: £0.8 million).

Leverage at 31 December 2018 was 2.0, a substantial reduction on the proforma Leverage* of 2.6 at the time of the Lagan acquisition in April 2018. This reduction demonstrates the highly cash-generative nature of the Group.

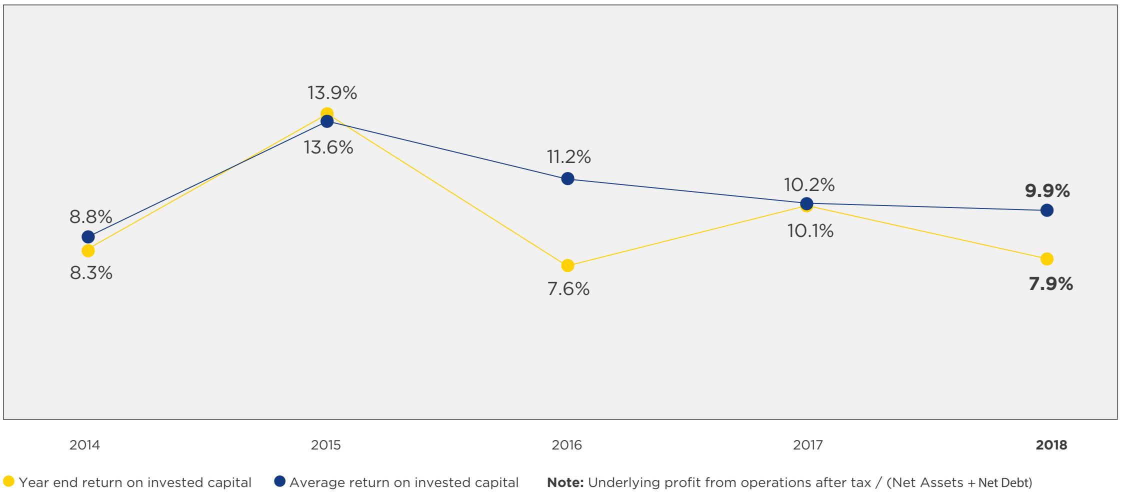
RETURN ON INVESTED CAPITAL

Year-end ROIC was 7.9 per cent (2017: 10.1 per cent). The reduction year-on-year was primarily due to the Lagan acquisition. Using average invested capital, year-end ROIC was 9.9 per cent (2017: 10.2 per cent).

Notwithstanding this modest anticipated decline, our ROIC reflects the high level of capital invested in the Group and more than covers our cost of capital.

Group Finance Director's review continued

RETURN ON INVESTED CAPITAL



Note: Underlying profit from operations after tax / (Net Assets + Net Debt)

BANK FACILITIES

At the time of completing the Lagan acquisition in April 2018 we entered into a new four-year £500 million facility agreement, comprising a term loan of £150 million and a multi-currency revolving credit facility of £350 million. This new facility replaced our existing £300 million revolving credit facility.

The facility is subject to a floating interest rate based on LIBOR or, in relation to any loan in Euros, EURIBOR, plus margin. At 31 December 2018, the total undrawn facility available to the Group amounted to £157.2 million. The facility is subject to Group leverage and Group interest cover covenants which are tested half-yearly. At 31 December 2018, the Group comfortably complied with these two covenants. Based on our current estimates, we expect to comply with all our covenants for the foreseeable future.

The Group has in place an interest rate hedge which partially mitigates the risk of interest rate rises on the Group's bank loans (see note 20 to the Financial Statements).

ADOPTION OF IFRS 16 - LEASES

The adoption of this accounting standard in 2019 under the 'modified retrospective' approach will not have a material impact on the Income Statement at the Underlying profit before tax level: an increase in Underlying EBITDA will be offset by increased depreciation and interest costs.

We expect that approximately £45 million of additional debt will be recognised on adoption. On a proforma basis this would take Leverage at 31 December 2018 to 2.2.

This increase in debt will not impact our ability to comply with the covenants associated with our banking facility, as these are tested by reference to accounting policies that were in place at the time the facility was entered into.

NEW OPERATING SEGMENTS

The operating segments disclosed reflect the change in the structure of the Group following the acquisition of Lagan.

The Group was previously split into three reportable units: Breedon Northern, Breedon Southern and Breedon Cement.

Following the acquisition of Lagan, the operating segments have been updated to conform with our revised management reporting, as follows:

Great Britain: comprising the trade previously reported in Breedon Northern and Breedon Southern, together with the building products businesses acquired with Lagan.

Ireland: comprising the construction materials and contracting services businesses on the Island of Ireland which were acquired with Lagan.

Cement: comprising the trade previously reported in Breedon Cement, together with the cementitious operations acquired with Lagan.

Rob Wood
Group Finance Director
6 March 2019

Business reviews

A year of further investment

As indicated in the Group Finance Director's review on page 32, following the acquisition of Lagan, Breedon now reports as three segments: Great Britain, Ireland and Cement.

Business reviews continued

GREAT BRITAIN

Our operations in GB, which – following the acquisition of Lagan – now include our new Building Products business (bricks, tiles, clay products, decorative aggregates and Welsh Slate) generated revenues of £609.8 million (2017: £577.5 million) and Underlying EBIT of £61.4 million (2017: £64.5 million), reflecting the slow start to the year due to severe weather, challenging markets, rising input costs and the general uncertainty around Brexit.

Weather was the biggest factor in the first quarter, presenting us with the challenge in subsequent months of recovering work lost due to the 'Beast from the East'. With a lot of hard work and rigorous attention to service levels, we managed to regain much of the lost ground by the year-end and delivered a creditable performance.

In Scotland, reduced spending on infrastructure and private development made the year particularly challenging, exacerbated by increased competition in our markets from competitors who, having completed major contracts in the Central Belt, moved north to secure replacement volumes. This was to some extent offset by a strong performance on the Aberdeen Western Peripheral Route.

A major contract was won on the Aberdeen to Inverness rail upgrade, together with substantial supplies of on-site concrete to Edinburgh Airport and RAF Lossiemouth.

The acquisition of Blinkbonny quarry established us in a new market in the Scottish borders, while the acquisition of Daviot and Low Plains quarries via the Tarmac asset swap gave us direct access to valuable aggregates reserves which we have quickly internalised in our concrete and asphalt plants. We also opened a strategically important new quarry at North Drumboy to service the Glasgow market.

Significant investments in a replacement concrete plant at Port Dundas in Glasgow, a new crusher and load and haul equipment at our Raisby Quarry and a new screening system for single size aggregates at Daviot all added to our capacity, whilst new sub-metering at a number of our sites in Scotland and northern England have helped improve power management at a time of rising energy costs.

Above: Penrhyn quarry, home of Welsh Slate

We stepped up our engagement with external stakeholders during the year with an extended programme of quarry visits for Members of the Scottish Parliament in Scotland. In all, we hosted over a dozen visits to our quarries across the country. Looking ahead, we are focused this year on delivering the next phase of the A9 dualling project and are placing a particular emphasis on bringing our Daviot and Low Plains quarries up to full strength. As always, we will seek to maximise price growth and apply robust 'self-help' wherever weak markets demand it.

In England and Wales, aggregates volumes were generally ahead of our other products, especially in the Midlands, helped by the East Midlands Gateway project to which substantial quantities of material were supplied during the year. The south-east of England also showed signs of improvement in the second half and a robust housebuilding sector led to a general improvement in ready-mixed concrete sales as the year progressed. We were also delighted that our newly-formed joint venture, Breedon Bow Highways, was awarded Midlands Lots 7 and 9 and East Lots 6 and 8 on the Highways England Pavement Framework.

Expanding

organically and through acquisitions

Our newly-acquired quarry at Borras and the quarry and asphalt plant at Minffordd were successfully integrated following completion of the Tarmac asset swap and their performance has steadily improved. We also completed the integration of Welsh Slate, acquired as part of Lagan, along with bricks and tiles which, together with our decorative aggregates and masonry products, now constitute a new Breedon Building Products business.

In our concrete business we strengthened our mini-mix offer with the acquisition of Staffs Concrete, which extended our reach to the north of Birmingham. This operation, together with Pro Mini Mix, acquired in 2017, has now been integrated into our 1stMix network, which has expanded significantly since its formation in 2012 to the point where we now have a substantial fleet of 1stMix trucks operating across the Midlands.

Dowlow, one of our flagship quarries, benefited from substantial investments in a new wash plant, which has significantly improved the yield on our crushed rock output, and in a new asphalt plant, which was installed towards the end of the year and gives us access to new road maintenance markets in and around Derbyshire. In addition, incremental mineral reserves and resources were secured at our quarries at Norton Bottoms, North Cave and Raisby.

We achieved a substantial increase in employee training days in 2018, including the introduction of the Breedon Management Development Programme (BMDP), as we sought to increase engagement of our colleagues in all aspects of our business.

Whilst we delivered a strong safety performance in Scotland and northern England in 2018, our experience in the Midlands and southern England was more disappointing. Looking ahead, we are committed to a material improvement in this area. This will depend in large measure on achieving higher levels of engagement with our colleagues, in turn part of a wider engagement programme aimed at embedding our purpose and values more firmly across the business.

Business reviews continued

IRELAND

Our operations in Ireland trade as Whitemountain in NI and Lagan in RoI. Both are fully-integrated aggregates, downstream products and contracting services businesses. They produced a strong result in 2018, generating an Underlying EBIT of £20.9 million, on revenues of £156.3 million.

Despite being hampered by exceptionally poor weather in the first quarter and the absence of a Local Legislative Assembly, which hindered progress on major infrastructure and housing projects, Whitemountain delivered a strong performance. This was due in no small part to our strategy of selective route-to-market decisions and a focus on high-calibre contracts in both NI and GB.

In the second quarter we relocated our NI head office from Lisburn, where it had been based for 15 years, to newly-refurbished offices in Mallusk, to the north of Belfast, providing a first-class working environment for our colleagues with the potential for further expansion in the years ahead.

Whitemountain's aggregates business had another encouraging year. We continued to ship quantities of high PSV stone to GB from our quarries in NI and there is a great opportunity to expand these shipments in the future, enabling us to satisfy the growing demand for this high-margin product in England, Scotland and Wales.

Whitemountain's contracting services business also enjoyed a strong year, winning significant quantities of work in GB, including landmark schemes at Colley Lane in Somerset, Kettering and Wellingborough, the latter projects generating aggregate and asphalt activity for our business in the Midlands.

Below: Somerset Bridge installation at Colley Lane Southern Access Road in Bridgwater, one of Whitemountain's high-profle projects in GB

We worked hard to further embed a strong safety culture in Whitemountain during 2018 and received a number of awards, including a Silver RosPA Award and a WISHNI (Waste Industry Safety and Health Forum Northern Ireland) Ambassador Award for Alpha Resource Management, our waste management business. We placed a particular emphasis on engaging with subcontractors and drivers and commenced a new Road Worker Safety Campaign in conjunction with QPANI and Transport NI.

Recognising the importance of our colleagues' mental as well as physical wellbeing, we rolled out an extensive programme of mental health awareness training for operatives, supervisors and managers and a group of colleagues have been trained in Mental Health First Aid at Work. In addition, we mounted several wellbeing campaigns in 2018 and launched a new-look Health & Wellbeing Newsletter which has since been rolled out bi-monthly across Breedon.

Looking ahead to 2019, we will seek further commercial opportunities with our current customers and aim for steady and sustainable growth in both our materials and contracting businesses, whilst identifying new activities and markets that present opportunities for expansion. We will focus on further reducing our environmental footprint and continue to invest in training and resourcing, with an emphasis on the safety and wellbeing of our colleagues.

Market conditions in RoI improved substantially during the year. The volume of Government maintenance contracts tendered increased by 65 per cent and Lagan saw continued improvement in the private sector, especially in the Greater Dublin area. As the year progressed, this began to spread to other major conurbations, including Cork, Galway and Limerick. We were particularly pleased to have maintained market share and improved pricing throughout the year.

Following the restructuring of our Irish operations, Lagan now operates – like Whitemountain – as a fully-integrated aggregates, downstream products and contracting services business.

Major contracts undertaken included several substantial resurfacing projects, notably the second runway at Dublin Airport, key sections of the M1 motorway and the New Ross Bypass in County Wexford.

Visible Felt Leadership (VFL) training was rolled out to the Lagan senior management team and followed up with the implementation of Breedon's Safety Commitments across the business. Recognising that we have a particularly sizeable contracting business in RoI, we also developed a bespoke training programme called 360° Safety, focused on improving safe interaction between people and vehicles.

Over the longer term we aim to increase the scale of our aggregates business in RoI.

As we look ahead to the remainder of 2019, we are confident that our markets will remain strong and that we will continue to benefit from our share of the major contracts in the pipeline. We will also be reviewing potential bolt-on acquisition opportunities as we seek to build on and extend our platform in RoI.

Above: Temple quarry near Belfast

CEMENT

Cement comprises all our cementitious operations in GB and Ireland. In common with other areas of our business, the first quarter was severely affected by weather. However, for the year as a whole Cement performed in line with our expectations, delivering revenues of £176.5 million (2017: £141.6 million) and Underlying EBIT of £31.4 million (2017: £25.8 million).

The integration of Lagan into the Group enabled us to flex our supply strategy during 2018, exporting cement from Kinnegad in RoI to GB. In the next few months we will further strengthen our supply chain by importing cement from Kinnegad through a new terminal at Runcorn, optimising our cement logistics.

Major investments during the year included the expansion of our transport fleet in GB, new mobile plant at Hope quarry and the next stage of our four-year project to replace our plant control systems at Hope Works.

Our bagged cement operations in Ireland and GB were combined during the year, which means we can now supply a full range of bagged cement products to our customers in the south of England from our plant at Dagenham, with a similar range shipped from our Kinnegad plant to customers in the Midlands and north of England, as well as to customers in Ireland.

We continued energetically to engage with our local communities, most notably the Peak District National Park with which Hope Works has had a longstanding positive relationship. During the year we sought to quantify our contribution to the local Park community by publishing a socio-economic report which concluded that we provided £53 million of Gross Value-Added to the Peak District community in 2017.

Above: Kinnegad Cement Plant

In 2019 our primary aim is to recover the recent cost increases through higher prices. We will also be looking to secure further efficiencies and cost-reductions by expanding our owned haulage fleet. Our largest single investment during the year will be the replacement of the raw mill drive at our Hope plant, which will bring benefits to the plant operation principally via operational risk reduction.

Resources & relationships

1. Colleagues

HEALTH & SAFETY

We continued in 2018 to focus on improving our health & safety performance, in particular by engaging more actively with our colleagues, starting in January with our annual Back-to-Work safety campaign involving all the Group's employees. We maintained engagement throughout the year with a programme of toolbox talks, safety briefings and roadshows for our contract hauliers. Site improvement boards were introduced at all sites, encouraging colleagues both to identify and make safety improvements to their own workplaces, and to measure their own performance.

Breedon's Safety Commitments and our Assure safety software system were successfully introduced into the former Lagan businesses, along with core Breedon safety standards, and we also rolled out VFL training across these businesses to ensure that this crucial element of our safety engagement activity is being practised throughout the entire Group.

In July we appointed a specialist occupational health partner, to provide health support and services to the Breedon Group. Their vans were quickly out on the road touring our sites and they conducted more than 600 employee screening medicals in our GB businesses during the year.

Mental health in the workplace was a particular focus in 2018. Managers and supervisors in Whitemountain and Cement received mental health awareness training and a number of mental health first aiders have been appointed across the business.

2018 was a challenging year in terms of our safety performance, with over 150 injuries recorded and a further 300 non-injury incidents, mostly involving vehicles or mobile plant. Our LTIFR for employees was 1.81, compared to 1.41 the previous year, against an LTIFR target of 1.0. In 2018 we also began reporting the LTIFR for our contractors (excluding hauliers), which was 2.38 (the combined LTIFR for employees and contractors was 1.91). The biggest cause of injury remained slips, trips and falls.

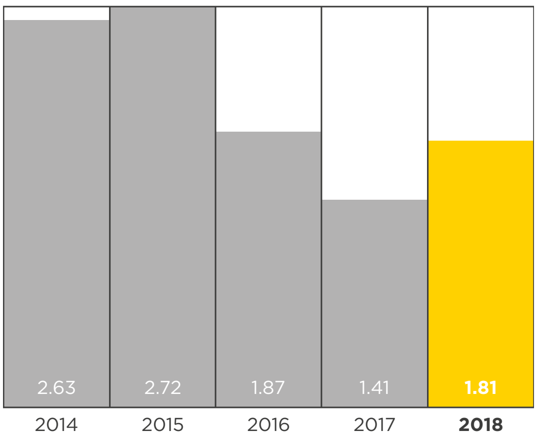
In 2018 we recorded more than 6,500 VFL interactions, including by members of our Executive Committee and senior leadership teams, and more than 5,500 safety observations on our Assure software system.

Safety is our **top priority**

A number of Breedon businesses successfully renewed their OHSAS 18001 health & safety accreditation in 2018. Other honours included a Silver Award for Whitemountain in the RoSPA Annual Safety Awards; Breedon Tile were highly commended for their entry in the MPA Annual H&S Awards; and Kinnegad Cement Works received the Irish Concrete Federation Health & Safety Award for employee engagement.

Above: a chest, heart and stroke talk at Whitemountain, part of several health & wellbeing initiatives undertaken in 2018

EMPLOYEE LTIFR



KEY PRIORITIES FOR 2019

- Site standards and housekeeping
- Contractor safety
- Vehicle and driver safety
- Safe isolation of plant and machinery
- Continued focus on colleague engagement
- Extend mental health awareness and First Aid skills across the Group

TRAINING AND DEVELOPMENT

It is vital that we develop the knowledge, skills and behaviours of our managers and supervisors.

What did we do during the year to help our colleagues reach their full potential and keep them safe?

To that end we successfully launched our Breedon Management Development Programme in March and saw 73 managers complete the programme during the year, with a further 77 due to complete it in early 2019. We have invited 67 managers to commence the programme in the first half of 2019 and will continue with more new groups in the second half of this year and into 2020.

We are pleased that the programme has been accredited by the Institute of Quarrying and carries a total of 48 continuous professional development learning hours. We have now commenced work on the next phase of the programme, enabling us to give further focus to the development of our managers and supervisors. New modules will be ready by mid-2019.

Apprenticeships

We continued to recruit apprentices in 2018, increasing the total number across the Group to 33, more than double that in 2017. We have focused on mechanical and electrical fitters, as well as providing opportunities in IT, quantity surveying, accounting, heavy vehicle mechanics and business administration. This drive to attract new colleagues into our business will continue in 2019 with the launch of our LGV Driver Apprenticeship and Graduate Trainee Manager Programmes.

Qualifications

We saw continued success with colleagues undertaking sponsored higher education, with four achieving their Foundation Degrees in Mineral Extractives, two with Distinction. Admissions onto university courses increased by 42 per cent between 2017 and 2018. Twelve colleagues are being sponsored to study towards their accountancy qualifications, ranging from Level 3 to Level 7, demonstrating the variety of learning and personal development undertaken across the Group.

We surpassed the achievements of 2017, with a year-on-year increase in the number of colleagues gaining an industry-recognised qualification. More than 65 colleagues achieved a Level 2 qualification in their core job roles in 2018, with a further 19 achieving Level 3 to Level 6.

KEY PRIORITIES FOR 2019

- Expand the reach and content of the BMDP
- Continue to build the capabilities of our commercial teams
- Launch our new Apprenticeship Academies
- Increase engagement among colleagues through development of clear purpose and values for the Group

WHAT WE BELIEVE

We are committed to providing our colleagues with the training and tools they need both to provide an outstanding service to our customers and to enable them to reach their full potential as members of the Breedon Group. Above all, we have an obligation to keep them safe.

Right: Candidates at our recent Southern Driver LGV Apprentice Assessment Centre

CASE STUDY

Alex and Bradley are typical of the many apprentices developing their careers at Breedon. Now in their final year of a three-year Higher Apprenticeship programme, they both joined in 2016 shortly after passing their A-Levels. Alex has spent most of his first two years at Naunton quarry in the Cotswolds, while Bradley has been based at our Cloud Hill quarry in Leicestershire.

Both study part-time through an online learning programme at the University of Derby, working towards a Foundation Degree in Mineral Extractives Technology. Alex has also completed a Level 4 Diploma in Safety, Health and Environmental Management and the MPQC Level 2 Diploma in Plant Operations (Extractives). He spent the last few months of 2018 on a business rotation, gaining experience in Breedon's contract surfacing and cement businesses.

Bradley has completed his Level 4 Diploma and MPQC Geotechnics short course and, like Alex, started a business rotation in September 2018, gaining experience in various areas of the business, most recently with our Planning, Estates and Geology team, taking a particular interest in blasting operations.

Both are keen to grow into management roles. To this end, they plan to continue studying for the BSc Honours Degree in Minerals Management.

Top: Bradley Richardson
Above: Alex Light

2. Natural resources

What did we do during the year to manage our resources sustainably?

We capitalised on the investment in a new plate press at Dowlow by reprocessing large quantities of tip material for resale; installed an additional screen at Naunton to recover saleable material from scalpings; and washed dust at many of our crushed rock quarries in GB and Ireland for resale or use in concrete – thereby reducing our dependence on increasingly scarce natural sand.

We continued to improve yields by crushing oversize material at many of our sand & gravel quarries, whilst the excavation of various silt lagoons gave us additional fill sand for blending in our plants. We also submitted planning and permit applications to extend quarrying or waste management operations at a number of quarries, and for ready-mixed concrete and block plants to provide outlets for slower-moving by-products in our high PSV quarries in Ireland.

Increased use of Recycled Asphalt Planings (RAP) in our asphalt plants remains a priority, reducing our dependence on virgin aggregates.

In a notable development in Scotland, we secured planning consent for a borrow pit at Loak Farm, north of Perth, positioning us to provide an economical and sustainable supply of minerals to phase two of the £3 billion A9 Dualling project, the largest road improvement project in the country for a generation.

Managing our resources sustainably

WHAT WE BELIEVE

Our mineral reserves and resources are literally the bedrock of our business. New consents are granted sparingly and with stringent conditions attached, so we must husband our reserves carefully and maximise the value of every tonne we quarry, whilst minimising our impact on the environment and on the communities we serve.

In the north of England, we secured planning approval to extend the life of our Raisby quarry to 2042 and began to exploit the full potential of our new quarry at Low Plains, acquired as part of our asset swap with Tarmac, which provides high quality concrete sand to complement our other pit at Low Harperley near Durham.

How did we mitigate our environmental impact?

All our UK businesses completed their transition to the revised ISO 14001 environmental management standard and complied fully with our stack emission obligations. Sub-metering has been rolled out to key sites in GB, which will help us to manage electricity consumption more efficiently and we now have solar farms established at our Breedon workshop, Naunton quarry and our recently-acquired Blinkbonny quarry.

CASE STUDY

Planning consents for new hard rock quarries are very rare, so we had good reason to celebrate the opening in 2018 of our new quarry at North Drumboy. Situated just 10 miles from the centre of Glasgow, North Drumboy is an important step forward in our strategy for developing a presence in the Central Belt of Scotland. Securing this valuable new source of minerals, which we have ambitious plans to expand, enabled us to progress investment in upgrading our ready-mixed concrete plant at Port Dundas in the heart of the city, to which we are now able to supply our own aggregates. This is a perfect example of an integrated regional minerals and downstream products development strategy.

A full review was carried out during the year on all water management activities in our English quarries, in accordance with the Water Framework Directive and the removal of the exemption for quarry de-watering.

In NI we worked closely with several voluntary organisations including the Northern Ireland Raptor Group and the Belfast Hills Partnership to promote conservation and enhance biodiversity, including the development of a new native woodland nursery near our Blackmountain quarry.

Both Whitemountain and Alpha Resource Management, our waste management business near Belfast, won Platinum Awards in the community Environmental Benchmarking Survey for a third consecutive year and the Alpha Programme funded 32 community and ecological projects within a 15-mile radius of our Mullahglass landfill site.

Whitemountain also achieved a CEEQUAL (Civil Engineering Environmental Quality Assessment) award of Very Good for its RAF Valley runway refurbishment project.

From 2020 we will monitor and report on all environmental issues under the Streamlined Energy & Carbon Reporting (SECR) framework.

In addition to these initiatives, our UK businesses are all preparing to meet our obligations under the second phase of the Energy Savings Opportunities Scheme (ESOS).

At our Kinnegad cement plant in Ireland, fossil fuel replacement has reached its highest level to date, at more than 70 per cent, and plans are in place to improve this still further.

PRIORITIES FOR 2019

- Continue to convert mineral reserves into mineral resources
- Develop greenfield and marine-dredged aggregates opportunities
- Protect existing mineral planning consents through timely periodic review submissions
- Maximise economic viability and quarry development through innovative designs
- Publish significant historic knowledge discovered through archaeological investigations at quarry operations
- Maintain positive engagement with communities neighbouring our operations and minimise environmental impact
- Create educational opportunities in geodiversity and increase awareness of our industry through our employee STEM (Science, Technology, Engineering & Mathematics) ambassadors

3. Service and innovation

What did we do during the year to improve our service?

Collaboration was a major feature of 2018. The need to have readily-available supplies of concrete for sensitive airport infrastructure work at Edinburgh Airport and RAF Lossiemouth demanded close cooperation with our customer in order to co-locate plants on site for the duration of the works. More broadly, our growing airfield construction business required meticulous working relationships with airport operators in the production and laying of highly specialised airfield asphalt and concrete products.

We continued to work closely with our associate company, BEAR Scotland, on the maintenance of Scotland's road network.

Going the extra mile

WHAT WE BELIEVE

Breedon's business has been built on providing a highly localised service, always going the extra mile, helping our customers find creative solutions to their challenges – and never letting them down.

Much of this work is carried out at night in order to minimise disruption for road-users and Breedon and BEAR Scotland have established an excellent partnership which ensures that this work is carried out speedily and efficiently. Similarly, the potential of Breedon Southern's joint venture with Thomas Bow was amply demonstrated with a number of lots won in the Highways England Pavement Framework.

On the haulage front, we continued to improve the integration of our production and delivery systems. For example, in Scotland we developed automated data collection for asphalt production, inclusive of site testing, coordination of truck movements and rolling consolidation. In England, our 1stMix business continued to grow, to the point where it now operates one of the country's largest fleets of mini-mix trucks serving customers who require small loads (typically four cubic metres or less) of ready-mixed concrete. We also increased the number of 'walking floor' artic tippers in our fleet, which significantly improves safety and speeds up deliveries of asphalt to our customers.

How did we drive continuous product innovation?

We placed a heavy emphasis in 2018 on increasing the proportion of performance concrete available to our customers. These are typically specialised mixes designed for specific applications (for example, in underwater locations or heavy industrial environments) and require strong product development expertise. During the year we launched BREEDONFlow® Swiftscreed, a new self-compacting free-flowing cementitious floor screed which complements our already highly successful BREEDONFlow® self-compacting concrete. We also increased customer penetration of BREEDON Fibreforce®, a fibre-reinforced concrete which provides a cost-effective alternative to conventional steel reinforcement, especially for floors.

In our Cement business we signed an agreement with Panda, Ireland's largest waste management company, to develop a Solid Recovered Fuel (SRF) facility at our Kinnegad plant which will produce a range of alternative fuels that will secure our required SRF volume and gate fee for the next 10 years. We also installed FLSmidth's specialist plant operation app on managers' phones, which allows key plant performance data to be monitored 24 hours a day.

Fingerprint sign-in was introduced for all contractors during the Kinnegad plant shutdown, further strengthening our safety protocols.

4. Stakeholders

What did we do to engage with our stakeholders during the year?

Breedon is an inherently local business and this is reflected in the way we go about our stakeholder engagement activity. We support our customers, suppliers and communities in a wide variety of ways, from donating construction materials for local building projects, to providing kit for sports teams, minibuses for fund-raising events, mentoring in schools and quarry open days.

In 2018 our businesses donated material to, amongst others, Whiteleys holiday home for sick children in Ayr for a garden, Dunbeg primary school in Oban for an outdoor learning area, a Maltby Miners Memorial Community Group in Rotherham for a memorial garden and The Bomber County Gateway Trust for a Lancaster bomber art installation in Lincolnshire.

Our colleagues also raise substantial funds for charities on their own accounts and provide personal support to schools. Last year they engaged in a host of sporting challenges to raise money for local good causes, most notably hospices in Leicestershire, Derbyshire, Belfast and County Westmeath, in addition to a range of national charities. Other colleagues worked on Speyside with the Developing the Young Workforce programme, set up to prepare three- to 18-year-olds for the world of work; with Career Ready, mentoring students in Elgin; and with Young Engineers and Science Clubs Scotland on the STEM initiative.

Our cement plant at Hope Works in the Peak District National Park has a particularly strong relationship with its local community, supporting a wide range of charities and projects, actively participating in the annual Hope Show, putting on an annual firework display and hosting many site visits and open days. An Economic Impact Assessment commissioned last year from Mott Macdonald, the engineering and development consultancy, reported that in 2017 the Works contributed £53 million to the Peak Park economy.

Elsewhere in the Group, we are especially proud of the work of the Alpha Programme, which in 2018 celebrated 10 years of supporting communities in NI.

WHAT WE BELIEVE

Breedon's success depends on the support of all our stakeholders, starting with our employees and customers, extending to our suppliers and business partners, the communities in which we operate, the political groups who determine policy in our industry and, of course, our shareholders, who provide us with the funds to grow our business. We believe we have an obligation to engage actively with all these stakeholders, to listen to their views, learn from them and act on them.

In its first decade, the programme invested in 148 projects within 15 miles of our Alpha Resource Management landfill site at Mullahglass near Lisburn. Alpha makes grants of up to £50,000, via the Landfill Communities Fund, to fund projects that make a positive impact at ground level – for example, by developing facilities for community use or encouraging biodiversity and environmental improvements.

CASE STUDY

Our quarry at Borras in North Wales has a very special relationship with St. Christopher's pioneer school in Wrexham. This is a specialist school for pupils with a range of additional learning needs, ranging from moderate to severe learning difficulties to social, emotional and behavioural difficulties and autistic spectrum disorders. The school offers an extensive range of accredited vocational courses which can be accessed by pupils from all secondary schools in Wrexham.

An important part of St. Christopher's care and teaching programmes centres on their Millennium Eco Centre, which is situated in our quarry four miles away from the school. We provide the land and additional support for the Eco Centre, which offers outdoor learning for children and young adults throughout the north-east corner of Wales and neighbouring authorities. In 2019 we plan to get even more involved with the Eco Centre by donating additional land and construction materials as it expands its excellent work.

Board of Directors

Our leadership

Our Board comprises an executive leadership team with extensive experience of the international aggregates industry, supported by experienced non-executives who bring strong governance disciplines and a valuable external perspective to our business.

BOARD OF DIRECTORS

A Member of the Audit Committee

R Member of the Remuneration Committee

N Member of the Nomination Committee

S Senior Independent Director

PETER TOM CBE N

EXECUTIVE CHAIRMAN

Appointed to Board: 2008

Core strengths and experience:
Over 50 years' experience in the aggregates industry

Other positions currently held:
- Chairman of Leicester Rugby Football Club (Leicester Tigers)

Background
Peter has more than 50 years' experience in the aggregates industry. He joined Bardon Hill Quarries Limited as a school-leaver in 1956, becoming Managing Director in 1977 and Chief Executive of Bardon Group plc in 1985. He went on to lead the merger of Bardon and Evered plc in 1991 and the enlarged group's subsequent merger with CAMAS in 1997 to form Aggregate Industries plc.

Following the acquisition of Aggregate Industries by Swiss building materials Group Holcim Limited for £1.8 billion, he served as non-executive Chairman of Aggregate Industries until his resignation in December 2007. He has been Executive Chairman of Breedon since its formation in 2010 through the reverse acquisition of Breedon Holdings by Marwyn Materials, the AIM-listed company he co-founded in 2008 to consolidate the smaller end of the heavyside building materials industry. Peter has been Chairman of Leicester Rugby Football Club (Leicester Tigers) since 1993.

PAT WARD

GROUP CHIEF EXECUTIVE

Appointed to Board: 2016

Core strengths and experience:
- Over 30 years' experience in the aggregates and construction industries in the UK, USA and Middle East
- Former CEO of Aggregate Industries Europe, a subsidiary of LafargeHolcim

Background
Pat spent 20 years with Aggregate Industries in various roles across their UK and US businesses. He joined them in 1995 and in 1999 was given the opportunity to relocate to Denver as Vice President of the Colorado business. At the time of leaving the USA, Pat had responsibilities for the businesses in Nevada, Colorado, Texas, Oklahoma and the Mid-Atlantic region. He was appointed CEO of Aggregate Industries Europe in April 2014. Pat joined Breedon in January 2016, and was appointed to the Board in March 2016.

ROB WOOD

GROUP FINANCE DIRECTOR

Appointed to Board: 2014

Core strengths and experience:
- Over 15 years' experience in the building materials industry, including Hanson PLC and HeidelbergCement AG
- Qualified Chartered Accountant with M&A experience

Background
Rob has over 15 years' experience in the international building materials industry. He qualified as a Chartered Accountant with Ernst & Young and subsequently joined Hanson PLC where he held a number of senior positions including Finance Director Brick Continental Europe, Finance Director Building Products UK and Chief Financial Officer Australia and Asia Pacific. Following the acquisition of Hanson PLC by HeidelbergCement AG, Rob returned to the UK and joined Drax Group plc as Group Financial Controller. During his time at Drax he also spent a period of time as Head of M&A. Rob joined Breedon and was appointed to the Board in 2014.

AMIT BHATIA

NON-EXECUTIVE DIRECTOR, DEPUTY CHAIRMAN

Appointed to Board: 2016

Independent: No

Core strengths and experience:
- Over 10 years' experience in corporate finance, private equity and start up investing

Other positions currently held:
- Chairman, Queens Park Rangers Football Club
- Director of Brimary Investments Sarl, QPR Holdings Limited, Summix Capital Limited and Global Relief Initiative
- Advisory Board Member, Metro Bank PLC
- Member of the External Advisory Council for Internationalisation, Cornell University

Background
Amit is the founder and CEO of Swordfish Investments, a private equity fund, and Chairman of the Global Relief Initiative, a philanthropic trust he founded in 2011. He is also a Partner of Summix Capital, a strategic land fund and Initial Capital a firm that invests in early stage technologies. Additionally, he is a Gold Leaf Member at the Aspen Institute, Lionel Curtis Group member at Chatham House and serves on the Advisory Board of Metro Bank plc. Amit was Executive Chairman of Hope Construction Materials until it was acquired by Breedon Group in August 2016 when he joined the Board. He was appointed as Deputy Chairman of the Board in 2018.

PETER CORNELL A R N

NON-EXECUTIVE DIRECTOR

Appointed to Board: 2018

Independent: Yes

Core strengths and experience:
- Senior corporate lawyer with significant experience in investment markets

Other positions currently held:
- Non-executive Chairman of Grant Thornton (C.I.)
- Non-executive Chairman of Augusta Securities Ltd
- Non-executive Chairman of Lexington Consultants
- Non-executive director of a number of listed and unlisted companies

Background
Prior to co-founding Metric Capital in 2011, Peter was a Managing Director at Terra Firma, one of Europe's leading private equity firms. He formerly spent more than 20 years with international law firm Clifford Chance, latterly as Global Managing Partner. Peter is a Partner in Metric Capital, a Special Situations Fund targeting mid-sized companies throughout Europe with approximately €2 billion of assets currently under management.

SUSIE FARNON A R N S

NON-EXECUTIVE DIRECTOR

Appointed to Board: 2010

Independent: Yes

Core strengths and experience:
- Chartered Accountant with significant experience in the financial services industry

Other positions currently held:
- Non-executive director of a number of listed and unlisted companies

Background
Susie was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001 and Head of Audit at KPMG Channel Islands from 1999. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of The States of Guernsey Audit Commission, and is a former Commissioner of the Guernsey Financial Services Commission. She is a non-executive director of a number of listed and unlisted companies and is a member of the board of The Association of Investment Companies. Susie was appointed to the Board of Breedon in 2010 and became the Senior Independent Director in January 2012. She was appointed as Chair of the Audit Committee in 2018.

DAVID WILLIAMS R

NON-EXECUTIVE DIRECTOR

Appointed to Board: 2007

Independent: No

Core strengths and experience:
- Significant experience in investment markets
- Public and private market experience

Other positions currently held:
- Chairman of Shearwater Group plc
- Chairman of Oxford Biodynamics Plc

Background
David has significant experience in the investment market. He has served as Chairman in executive and non-executive capacities of a number of companies, both public and private. He has built a reputation for creating significant shareholder value through both organic and acquisitive growth, as well as leading turnaround situations. David founded Marwyn, a business bringing talented management teams to AIM. During his 10 years as Chairman of Marwyn, more than £1 billion was raised for its investee companies. One of them, Marwyn Materials, went on to become Breedon Group.

The Directors of Breedon recognise the value of strong and effective corporate governance.

PETER TOM CBE

EXECUTIVE CHAIRMAN

The AIM Rules require all AIM-listed companies to adopt and comply with a recognised corporate governance code. The Board of Breedon has adopted the QCA Corporate Governance Code 2018 (QCA Code) with effect from 1 January 2019.

The purpose of this statement is to set out in broad terms how we currently comply with the QCA Code. The Company will provide annual updates on its compliance with the QCA Code in its future annual reports, which will also be published on its website.

DELIVER GROWTH

Principle 1

Establish a strategy and business model which promote long-term value for shareholders

The Board has established the Group's strategy and regularly reviews it. The Group's strategy is focused on delivering capital growth for shareholders. The Board ensures that the Company communicates its strategy to investors, employees and other stakeholders using means appropriate for each group.

We have a fully vertically-integrated business model which gives us significant economies of scale, a high level of self-sufficiency and tight control over our costs. The objective of our business model is to extract maximum value from every tonne of aggregates we quarry and every tonne of cement we produce, through the efficient manufacture and sale of a wide range of downstream products and associated services.

The Group's Business Model and Strategy, together with the key challenges faced by the Group in their execution, are described in more detail on pages 14 to 21.

Principle 2

Seek to understand and meet shareholder needs and expectations

Strong and effective relationships and communication with the Group's shareholders are important in helping us achieve our objectives. The Board actively encourages such engagement.

Dialogue with shareholders

Breedon is committed to maintaining good communications with its shareholders. Members of the Board have face-to-face meetings with representatives of institutional shareholders to aid understanding of the Group's strategic objectives and performance, and all shareholders are encouraged to participate in the Company's Annual General Meeting.

The Executive Directors are primarily responsible for shareholder liaison and may be contacted via investors@breedongroup.com. Any individual can subscribe for the Group's regulatory news and information via www.breedongroup.com.

The Executive Chairman also ensures that the views of shareholders are communicated to the Board as a whole, and we believe that this has been successful in ensuring that all directors have a clear understanding of the views of major shareholders.

Use of general meetings

At general meetings the Company proposes separate resolutions on each substantially separate issue. The Company provides shareholders with the opportunity to appoint a proxy. In addition, proxy votes are counted, and the results announced after any vote on a show of hands.

The Chair of the Remuneration and Audit Committees, the Senior Independent Director, and all other directors are available to answer questions at each Annual General Meeting of the Company.

The Company arranges that notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting, giving time for all shareholders to consider resolutions properly.

Principle 3

Take into account wider stakeholder and social responsibilities and their implications for long-term success

Breedon recognises the importance of balancing the interests of its key stakeholders – employees, customers, investors, suppliers and the wider communities in which it operates. Engaging with our stakeholders strengthens our relationships and helps us make better business decisions to deliver on our commitments.

Health & Safety

One of our key responsibilities to all people with whom we interact is to keep them safe from harm. We of course comply with all health & safety legislation but we go well beyond that requirement by encouraging all our colleagues to actively involve themselves in the pursuit of continuous improvement in health & safety. Further information on our health & safety activities can be found on pages 38 and 39.

Colleagues

The Company communicates with its employees in various ways, including local meetings with management, site visits from senior management and a groupwide newsletter. We have also developed an intranet which we use to communicate a wide range of topics with our colleagues. These include company news, career opportunities and important company publications.

The Group's all-employee savings-related share option scheme is an important element in seeking to engage employees in the performance of the business, and many have taken up the scheme. We have over 1,100 employees currently participating in the scheme, holding options over more than 18 million shares.

We have also developed and delivered a management core skills and trainee manager training programme, training for drivers, and recruited a number of apprentices across the Group. Further information on our training and development activities can be found on pages 40 and 41.

Customers

Breedon regularly works alongside its customers by striving to deliver best customer service and to seek innovative solutions to support many of the major projects on which it operates. We pride ourselves on going the extra mile and recognise customer loyalty is a key part of our long-term success. Examples of some of our recent collaboration with customers can be found on page 44.

Suppliers

The Company recognises the huge role its key suppliers play in its long-term success. We strive to maximise value from our suppliers and work with them to support the delivery of our customers' needs. We also recognise that in many cases some of our suppliers can be the face of our Company and we have therefore developed and rolled out to our key suppliers a new Supplier Code of Conduct. This sets out the standards expected of them and others in their own supply chain and ensures our values are aligned, including a commitment to ensure compliance with our obligations under the Modern Slavery Act.

Wider communities

We are at the heart of the communities in which we operate and recognise our responsibility to be good, supportive and engaged neighbours. Where appropriate, Breedon businesses have active liaison programmes with the communities in which they operate, and they seek to take into account the interests and concerns of those communities in their operational activities.

Group businesses support their local communities in many ways e.g. by donating free materials to local causes, sponsoring sporting and/or social events, and providing opportunities for employees to provide voluntary services. One example of how we benefit our communities is set out in a recent study of our cement works in Hope, within the Peak National Park, which found that the cement works itself was a £53million contributor to the Peak Park economy. Further examples of community engagement are described on page 45.

The key resources underpinning Breedon's business are explained in the description of our business model on pages 14 to 17.

Principle 4

Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board recognises its responsibility for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and maintains sound risk management and internal control systems.

Risk management processes are embedded throughout the organisation and assist management in identifying and understanding the risk that they face in delivering business objectives and the key controls that they have in place to manage those risks.

The Board is responsible for the Group's systems of risk management and internal control, and for reviewing their effectiveness. The Audit Committee reviews the suitability and effectiveness of risk management processes and controls on behalf of the Board.

The Group Finance Director provides a twice-yearly update to the Board on the key risks and controls within the Group, highlighting the roles and responsibilities of key management in managing those risks.

The Group Controls Manager works with the businesses to identify and assess the key risks and controls and reports them to the Group Finance Director. They also facilitate the embedding and monitoring of the Board's agreed Risk Management Process within the business, under the direction of the Group Finance Director.

Directors and senior managers ensure that the Risk Management Framework is implemented effectively within their respective business areas. Their key responsibilities include ensuring an effective risk culture is in place, with risk management embedded in the business.

The Board is committed to maintaining appropriate standards for all the Company's business activities and ensuring that the standards are set out in written policies. Key examples include the 'Competition Law Compliance Policy', 'Data Protection Policy', and the 'Anti Bribery and Corruption Policy' on each of which internal training has been delivered across all relevant members of the Group's businesses. All policies are underpinned by our social responsibilities and we are developing a Business Conduct Policy which will consolidate the standards of behaviour expected of all employees of the Group in relation to these and other key risk areas.

Each of the businesses have their own internal approval levels and are aware of which matters require approval at Group level.

Purchasing of key strategic items, such as electricity, coal and bitumen, and in relation to large capital expenditure items, is led by the strategic purchasing team and supports the business.

Further details of the Group's approach to risk management, together with a description of the key risks faced by the Group, are set out in pages 24 to 27.

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

Principle 5

Maintain the board as a well-functioning, balanced team led by the chair

The Chairman sets the Board's agenda and the Board is provided with clear, regular and timely information on the financial performance of the businesses within the Group, and of the Group as a whole, together with other trading reports, contract performance and market reports and data, including reports on personnel-related matters such as health & safety and environmental issues.

The Chairman encourages and facilitates the contribution of each of the directors to ensure that no one individual can dominate its proceedings. All directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational.

The current Board comprises the Executive Chairman, two executive directors (one of whom is the Group Chief Executive), two independent non-executive directors (being Susie Farnon, who is the Senior Independent Director, and Peter Cornell who was appointed as a non-executive director with effect from 1 October 2018) and two non-executive directors who are not considered to be independent, Amit Bhatia, who has been appointed as non-executive Deputy Chairman, and David Williams.

The Company has stated that it intends to appoint a further new independent non-executive director in 2019 and good progress is being made in that process.

The Board has established Audit, Remuneration and Nomination committees to support the Board in the performance of its duties, and it believes that the members of those committees have the appropriate skills and knowledge to perform the functions delegated to them.

The time commitment expected from directors is set out in their service agreements or letters of appointment (as appropriate). Executive directors are required to work such hours as may be necessary for the proper performance of their duties. The Board has agreed that each executive director may also take on one non-executive directorship of a public company outside of the Breedon Group.

Non-executive directors are expected to devote such time as is necessary for the proper performance of their duties, including in preparation for and attendance at Board, committee and shareholder meetings. When accepting their appointment, each non-executive director confirms that they can allocate sufficient time to meet the expectations of their role.

The Board is satisfied that it has a suitable balance between independence on the one hand, and knowledge of the Company on the other, to enable it to discharge its duties and responsibilities effectively.

Details of the directors' attendance at Board meetings are set out below:

MEETING ATTENDANCE

	Meetings attended	Eligible to attend
Peter Tom CBE	7	7
Pat Ward	7	7
Rob Wood	7	7
Amit Bhatia	6	7
Peter Cornell	1	1
Susie Farnon	6	7
David Williams	6	7

Principle 6

Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The identity and biographical details of the current directors are shown on pages 46 and 47.

The composition and performance of the Board, and the skills and experience of each director are regularly evaluated, to ensure that they best fit the evolution of the Group's business. When seeking to appoint new members to the Board the directors will consider a range of relevant matters including the diversity of its composition.

The Board considers that each of the directors brings a senior level of experience and judgement to bear on issues of operations, finance, strategy, performance, resources (including key appointments) and standards of conduct. All directors are given regular access to the Group's operations and personnel as and when required.

The roles of Chairman and Group Chief Executive are not exercised by the same individual.

The primary role of the Chairman is to oversee the operation of the Board and the Company's governance structures. He is also responsible for ensuring that the Company maintains an appropriate level of dialogue with its shareholders. The role of the Chief Executive is to oversee the operational management of the Group's businesses, and the role of the Senior Independent Director is to act as a sounding board for the Chairman and other members of the Board and to be an alternative point of access for shareholders for matters that they do not wish to raise through other channels.

The Board considers and reviews the requirement for continued professional development. The Board seeks to ensure that their awareness of developments in corporate governance and the regulatory framework is current, as well as remaining knowledgeable of any industry-specific updates. The Group Services Director, the Company's Nomad and other external advisers serve to strengthen this development by providing guidance and updates as required.

Breedon has regularly refreshed the membership of its Board, including the appointment of a new Group Chief Executive in 2016, and the appointment of a Deputy Chairman and a new independent non-executive director in 2018. We have stated that we intend to appoint a further new independent non-executive director in 2019.

All directors stand for re-election by shareholders every year, notwithstanding that the articles of association of the Company require only one third of them to do so annually.

Principle 7

Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The Board regularly reviews its own effectiveness and considers whether it comprises the appropriate skills to meet the needs of the business. The Chairman is in regular contact with each member of the Board to ensure that any concerns that any of them may have are identified and can be acted upon.

The Board aims to carry out an externally facilitated Board Effectiveness Review every three years. The most recent review, carried out in 2017, consisted of each director participating in a one-to-one interview with the provider and the output of those interviews then being compiled in a report for consideration by the Board as a whole. While the review covered the whole spectrum of the Board's activities, it had a particular focus on four key areas which the directors had identified in advance as being worthy of additional attention.

Those areas related to the Board's approach to strategy, succession planning, risk and employee management and development. The review concluded that the Breedon Group Board was highly effective. It comprises well-experienced individuals, has good reporting, little bureaucracy, conducts well controlled and open meetings and benefits from a high level of challenge. There is a high degree of trust amongst the directors and between the directors and senior management.

Given his background, the Deputy Chairman has been asked by the Board to assist the executive management team in its review and development of the next phase of the Group's strategic evolution. The Nomination Committee is tasked with monitoring the Group's succession planning arrangements and its activities on this topic are reported on page 66. Principle 4 above describes the Board's approach to risk management, and page 40 includes details of the Group's training and development activities.

Following recent changes to the composition of the Board we intend to continue to review the performance of the Board as a unit to ensure that it continues to function in an efficient and productive manner.

Principle 8

Promote a corporate culture that is based on ethical values and behaviours

All Group employees are expected to maintain an appropriate standard of conduct in all of their activities, and the directors seek to set the tone for such behaviour through their own actions.

The Group has established policies to regulate its activities in respect of *inter alia* Modern Slavery, Competition Law Compliance, Anti-Bribery and Corruption, Data Protection, Whistleblowing and Non-facilitation of Tax Evasion and closely monitors compliance with these. The implementation of a Supplier Code of Conduct during 2018 has promoted our ethical values and high standards across our supply chain. A code of Business Conduct which will apply to all employees is also being developed.

Having undergone substantial growth in recent years because of major acquisitions, the Company is undertaking an exercise, led by the Deputy Chairman, to ensure that a common culture, ethical values and standards of behaviour are recognised throughout its business. The Board will use the feedback from that exercise to monitor how such matters are recognised and respected within the Group.

Principle 9

Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board meets at least six times per year (it met seven times in 2018) in accordance with its scheduled meeting calendar. The Board receives appropriate and timely information prior to each meeting, a formal agenda is produced, and these papers are distributed in good time before each meeting.

The Board is responsible for the long-term success of the Company. There is a formal schedule of matters reserved to the Board. It is responsible for overall Group strategy, approval of annual budgets, annual and interim results, dividend policies and approval of major investments, including long-term contracts, acquisitions or large capital items. The Chairman is responsible for maintaining strategic focus and direction and the Group Chief Executive is responsible for implementing the strategy and overseeing the management of the Company through the executive and management teams.

The executive and management teams, who are overseen by the Group Chief Executive with input from the individual business managing directors, are responsible for day-to-day management of the Group's business and its overall trading, operational and financial performance.

The Board is supported by the Audit, Remuneration and Nomination committees. Terms of reference of each board committee, and the schedule of matters reserved to the Board are set out on the company's website www.breedongroup.com.

The activities of the Audit, Remuneration and Nomination Committees during 2018 are described on pages 54 to 56.

BUILD TRUST

Principle 10

Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

Breedon is committed to maintaining good communications with its shareholders, and it has put in place appropriate processes and structures to allow that to happen. The Company communicates with its shareholders through the Annual Report and Accounts, trading announcements, the AGM and in the manner set out in the commentary above in relation to Principle 2.

It maintains a dedicated e-mail address which current or potential investors can use in order to communicate with the Group's investor relations team (investors@breedongroup.com).

The Company announces the result of the proxy votes cast for each resolution proposed at each general meeting of the Company immediately after such meeting, and a range of corporate information (including all historical annual reports and notices of meetings, announcements and presentations) is made available on the Company's website at www.breedongroup.com.

The Board receives regular updates on the views of shareholders through reports and notes from its brokers, the Group's Head of Communications and other board members. Analysts notes are also reviewed and discussions held with the Company's brokers to maintain a broad understanding of varying investor views.

Peter Tom CBE

Executive Chairman

6 March 2019

The Audit Committee maintained its focus on ensuring high standards of financial governance during the year.

KEY ACTIVITIES CARRIED OUT IN THE YEAR:

During the year, the Committee met formally three times and discussed the following:

- Audit planning
- Auditor's fees and independence
- Auditor's effectiveness
- Interim report and annual report
- Internal audit
- Internal controls and risk management
- Taxation
- Going concern and viability statement
- Significant accounting matters
- Plans for transition to new accounting standards
- Whistleblowing
- The Audit Committee's terms of reference

MEETING ATTENDANCE

Members	Eligible to attend
David Warr, Chairman until 20 November 2018	3/3 meetings
Susie Farnon, Senior Independent Director and Chairman from 20 November 2018	3/3 meetings
Peter Cornell, Non-executive Director (appointed 20 November 2018)	1/1 meetings

SUSIE FARNON

CHAIRMAN, AUDIT COMMITTEE

The role of the Audit Committee is to monitor the integrity of the Group's Financial Statements and to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

The Audit Committee monitors and reviews the effectiveness of the internal financial controls, the internal control and risk management systems and the compliance environment operating within the Group.

The Audit Committee makes recommendations to the Board in respect of the appointment of the external auditor, reviews and monitors their independence and objectivity and approves their remuneration. The Audit Committee consults with the external auditor on the scope of their work and reviews all major points arising from the audit.

The Audit Committee was chaired by David Warr until 20 November 2018 after which date I became Chairman, having been a member of the Audit Committee throughout the year. Peter Cornell was appointed to the Board on 1 October 2018 and joined the Audit Committee on 20 November 2018.

The Committee has relevant financial experience at a senior level as set out in their biographies on page 47. The Audit Committee met three times formally in 2018 and also held informal discussions with the external auditor as appropriate.

The principal activities of the Audit Committee in respect of the year ended 31 December 2018, and the manner in which it discharged its responsibilities, were as follows:

FINANCIAL STATEMENTS

The Audit Committee reviewed and agreed the external auditor's strategy and approach in advance of their audit for the year ended 31 December 2018, and reviewed reports on the outcome of the audit.

The Audit Committee also reviewed the 2018 Preliminary Results Announcement, the 2018 Annual Report, the 2018 Interim Results Announcement and the 2018 Interim Report.

SIGNIFICANT ACCOUNTING MATTERS

During the year, the Audit Committee considered key accounting issues, judgements and disclosures in relation to the Group's Financial Statements, the most significant of which were in relation to acquisition accounting in respect of Lagan and impairment of goodwill.

AREA OF JUDGEMENT	DETAIL	ACTION TAKEN
ACQUISITION ACCOUNTING FOR LAGAN As described in note 26, on 20 April 2018, the Group completed the £455 million acquisition of Lagan. Accounting for business combinations involves significant judgement in relation to the application of IFRS 3 to the recognition of separately identifiable assets and the estimation of values for separately identifiable assets and liabilities. These estimation techniques involve the forecasting of future uncertain cash flows and the use of appropriate discount rates.	The most significant fair value adjustments made by the directors in respect of the acquisition of Lagan were in respect of the Lagan cement plant at Kinnegad, mineral assets and intangible assets. The Lagan Cement works at Kinnegad is a core asset of the acquired Lagan business and the Group has attributed substantial value to it in the fair value exercise. The calculation of the fair value of the plant is an estimate, which is made more complex by the nature of the asset. Cement plants are rarely, if ever, sold in the market. Significant fair value uplifts were recognised in respect of mineral assets. The fair value of these assets is based on a discounted cash flow model, which involves significant estimation around the rate at which cash flows are discounted and the assessment of the quantum of accessible reserves and resources. The identification of separately identifiable intangible assets is a judgemental exercise. The subsequent calculation of the fair value of those assets identified involves significant estimates of future cash flows derived from those assets and the discount rate that should be applied to those cash flows.	An external expert was engaged to value the cement plant. This valuation was carried out on a Depreciated Replacement Cost basis, which involved the calculation of the cost of a modern equivalent plant, before estimating a hypothetical level of depreciation to reflect the age and condition of the plant. The estimation risk in respect of the key inputs for the valuation of mineral asset is mitigated through the use of external experts. External geological surveys were undertaken in respect of mineral assets to assess the level of available reserves and resources, and an expert was also engaged to calculate the discount rate. The most appropriate method for the calculation of the fair value of intangibles is considered on an asset by asset basis, but is typically calculated by discounting cash flows through a model such as Multi-Period Excess Earnings. An external expert was utilised to calculate the rate used to discount cash flows, with the period over which cash flows were discounted being determined by management using their own experience, industry forecasts, the historic performance of the acquired business and external due-diligence reports to assist with estimation of the appropriate period. The Audit Committee reviewed and discussed the written submissions received from management detailing the key matters in respect of the acquisition accounting. They also received a detailed report of audit findings and discussed these with the external auditor and reviewed the disclosure provided in the notes to the Financial Statements, both with respect to the detail of the acquisition set out in note 26 and of the associated estimates and judgements in note 27. Following discussion of the estimates and judgements made, and consideration of the factors which contributed to the level of the residual value of goodwill recognised on the transaction, the Committee was satisfied with the conclusions reached by management.
IMPAIRMENT OF GOODWILL The Group has £410.5 million of goodwill which it has recognised on acquisitions and which represents the excess of the fair value of the consideration paid over the share of identifiable assets acquired and liabilities assumed. This value has increased significantly in the year, primarily as a result of the acquisition of Lagan. Goodwill is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. This testing is performed at the lowest level at which management monitor goodwill, being the groups of CGUs which comprise the Group's three operating segments.	The recoverable amounts for each segment to which goodwill has been allocated are calculated by determining the value in use of each segment which is based on the net present value of projected cash flows. The most significant judgements are in setting the assumptions for the calculation of the value in use, which includes the discount rate applied to cash flows, forecast financial performance and the longer-term rate of growth. Details of the assumptions used are provided in note 9 to the Group Financial Statements.	Cash flows for each segment were calculated over a 30-year period, starting with the 2019 budget approved by the Board, followed by forecast three year plan results for 2020 and 2021 and subsequently by a longer term growth assumption of between two and three per cent for the remaining 27 years. These cash flows were adjusted for the impact of working capital and capital expenditure, before being discounted at a pre-tax discount rate of between 9.2 and 9.6 per cent which was calculated by an external expert. The recoverable amounts of each segment show significant headroom compared to their carrying value when reasonably possible changes are made to key assumptions. The Audit Committee discussed the assumptions underlying the cash flow projections with both management and the external auditor, considered the appropriateness of the key assumptions and the adequacy of the disclosure provided in note 9 of the Financial Statements. They also considered the additional analysis around the possible impact of Brexit on impairment calculations which was prepared by management. Following discussion on headroom and sensitivity, the Committee was satisfied that no impairment of goodwill was necessary.

SIGNIFICANT ACCOUNTING MATTERS CONTINUED

The Audit Committee also received communications from management and the external auditor on a number of matters, including the valuation of mineral reserves and resources, revenue recognition, restoration provisions, new accounting standards, the reorganisation of the operating statements, Brexit risk assessment and disclosures, the use of the going concern assumption to support the going concern statement on page 69 and in respect of the viability statement on page 69.

EXTERNAL AUDITOR

The external auditor, KPMG LLP, attends meetings of the Audit Committee. The Audit Committee has the opportunity to meet with the external auditor without the executive directors being present to provide a forum to raise any matters of concern in confidence.

The Audit Committee discusses and agrees the scope of the audit plan for the full year with the auditor.

The external auditor reports on the control environment in the Group, key accounting matters and mandatory communications. The Audit Committee also receives and reviews a report from the external auditor setting out to its satisfaction how its independence and objectivity is safeguarded when providing non-audit services.

The value of non-audit services provided by KPMG in respect of the year ending 31 December 2018 amounted to £16,000 (2017: £59,000) principally in respect of life assurance and pension advisory services.

During the year there were no circumstances where KPMG was engaged to provide services prohibited by the FRC's 2016 ethical standard or which might have led to a conflict of interest.

KPMG LLP either directly or via KPMG Channel Islands Limited has acted as auditor to the Group since its formation in 2008. The Audit Committee continues to be satisfied with the work of KPMG and that they continue to remain objective and independent.

The lead audit partner changed during the year and rotates at least every five years to assure independence.

The Audit Committee has therefore recommended to the Board that a resolution be put to shareholders for the reappointment of KPMG LLP as auditor at the Annual General Meeting of the Company.

The Committee has recommended to the Board that a tender process for the external audit is carried out in 2019 with the auditor formally appointed at the Annual General Meeting of the Company in 2020.

INTERNAL AUDIT

The Group does not have a formal internal audit function. However the Group Controls Manager performs a number of activities that an internal audit function would perform.

The Audit Committee considers this is appropriate given the close involvement of the executive directors and senior management on a day-to-day basis, the location of operations in the UK and RoI and the work of the Group Controls Manager. However, the need for an internal audit function will be kept under review by the Audit Committee on behalf of the Board.

WHISTLEBLOWING

The Group has adopted a whistleblowing policy which gives its employees, or indeed any other third party, the means to raise concerns in confidence and (if they wish) anonymously. The Audit Committee reviews reports on notifications received and ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow up action.

Susie Farnon

Chairman, Audit Committee

6 March 2019

The Group needs to ensure that its pay and benefits practices are competitive but consistent with its circumstances.

KEY ACTIVITIES CARRIED OUT IN THE YEAR:

During the year, the Remuneration Committee met formally seven times and discussed the following:

- Executive salaries
- Annual bonuses
- Long-term incentives
- Executive remuneration benchmarking
- The Deputy Chairman's remuneration
- Pay and benefit levels across the Group
- The Directors' Remuneration report

MEETING ATTENDANCE

Members	Eligible to attend
David Williams, Chairman	7/7 meetings
Peter Cornell, Non-executive Director*	2/2 meetings
Susie Farnon, Senior Independent Director	7/7 meetings
David Warr, Independent Director**	7/7 meetings

* Peter Cornell joined the Board and the Committee on 1 October 2018.

** David Warr retired from the Board and the Committee on 31 December 2018.

DAVID WILLIAMS

CHAIRMAN, REMUNERATION COMMITTEE

DEAR SHAREHOLDER

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. The Report is set out in two sections. The 'Policy Report' summarises our forward-looking Remuneration Policy. The 'Annual Report on Remuneration' shows the amounts earned by directors in 2018, and how we propose to apply the Remuneration Policy in 2019.

2018 BUSINESS PERFORMANCE

2018 was an extremely busy year for the Group, with the focus on ongoing performance and completion of the Lagan acquisition in April, with the resulting integration process continuing during the year. In addition, the asset swap transaction we completed with Tarmac in July saw us streamline our ready-mixed concrete network in exchange for a substantial new reserve of minerals and a strategically valuable asphalt plant.

As reported in the Chairman's statement, Group Chief Executive's review on pages 8 to 13, and the Financial and Operating review on pages 28 to 37, the Group continued to perform well, driving positive results in a tough trading environment for the sector.

DECISIONS IN RELATION TO DIRECTORS' REMUNERATION IN 2018

A further external benchmarking exercise was undertaken in 2018 in order to set the pay and benefits of the executive directors and other senior management to reflect the significant increase in the size of the Group, and the change in the scope and increased level of responsibilities of the directors following the acquisition of Lagan. The base salaries set for 2018 were:

- £450,000 for the Executive Chairman,
- £600,000 for the Group Chief Executive, and
- £400,000 for the Group Finance Director.

The bonuses earned in the year by the directors reflect the performance of the business. Further information is given on page 64.

REMUNERATION COMMITTEE

The responsibility for establishing the Group's overall Remuneration Policy lies with the Board. The role of the Remuneration Committee is broadly to determine the terms of employment for the executive directors and senior management of the Group within the framework agreed by the Board. The Remuneration Committee works within agreed terms of reference to make recommendations to the Board on that framework. The terms of reference for the Remuneration Committee are available on the Group's website.

The Remuneration Committee was chaired by me throughout the year and my co-members were David Warr and Susie Farnon, with Peter Cornell joining the Committee in October in order to replace David Warr who stepped down from the Board at the end of the year. The Committee met formally seven times in 2018.

LOOKING FORWARD TO 2019

No significant changes are proposed to our executive remuneration arrangements for 2019. In accordance with Breedon's usual salary review timetable for the Group as a whole, executive directors' salaries for 2019 will be determined in March 2019. Any increases to executive directors' salaries are expected to be in line with the range of increases awarded to the wider workforce and will be reported in the 2019 Directors' Remuneration Report. A summary of our approach to other elements of executive remuneration is set out on pages 59 to 65.

David Williams

Chairman, Remuneration Committee

6 March 2019

REMUNERATION POLICY

EXECUTIVE DIRECTORS

The Board seeks to ensure that the Group is able to attract and retain a management team with sufficient skills to produce results which drive the maximum shareholder value. To do this, the Group's pay and benefits are set at competitive levels, but are also consistent with the Group's circumstances, are motivational for its employees at all levels and appropriately recognise and reward high levels of performance.

In the table below we have set out a summary of our Remuneration Policy for executive directors.

BASE SALARY

To provide a competitive base salary reflective of the particular skills and experience of an individual.

Operation	Maximum opportunity	Performance conditions
Reviewed annually or on a significant change of responsibilities. Salaries are determined by reference to the skills and personal performance of the individual. The Remuneration Committee also takes into account external market data and pay and employment conditions elsewhere in the Group when considering increases to base salary levels.	Whilst there is no maximum salary, increases will normally be broadly in line with the range of salary increases awarded (in percentage of salary terms) to the wider workforce. Salary increases above this level may be awarded to take into account individual circumstances, including a change in the scope or responsibilities of the role, a change in market practice, a change in the size or complexity of the business or to reflect development and performance in role.	None

ANNUAL CASH BONUS

To incentivise the delivery of annual financial, strategic and safety objectives.

Operation	Maximum opportunity	Performance conditions
Executive directors may participate in the annual bonus scheme. Performance measures and targets are set by the Remuneration Committee at the start of the financial year or later if appropriate and, based on performance, bonuses are paid in cash shortly after the completion of the audit of the annual results.	For executive directors, the maximum opportunity is 125 per cent of salary. This level of incentive opportunity reflects the Committee's desire to retain a high proportion of remuneration on variable pay. Bonuses are not pensionable.	Performance is assessed against financial targets. A moderator may also be applied to increase or decrease the outturn dependent on average capital employed performance against targets, subject to the 125 per cent of salary limit. The bonus may be reduced or eliminated if safety performance or accident records reach unacceptable levels.

PERFORMANCE SHARE PLANS (PSPs)		
To drive superior performance of the Group and delivery of the Group’s long-term objectives, aid retention and align directors’ interests with those of the Company’s shareholders.		
Operation	**Maximum opportunity**	**Performance conditions**
Annual share-based awards with a three-year performance period.	In line with best and market practice, it is currently intended that rolling annual awards will be made. The maximum award limit in any financial year under the plan rules is 250 per cent of base salary. In 2018 awards with a face value of 150 per cent of salary were made to the Executive Chairman and Group Chief Executive, and 125 per cent to the Group Finance Director and it is expected that a similar level of award will be made in 2019.	The vesting of awards is subject to the satisfaction of performance conditions, typically measured over a period of at least three years. Performance conditions, and their weightings where there is more than one metric, are reviewed annually to maintain appropriateness and relevance. Awards are based on financial measures which may include, but are not limited to, EPS. Awards will usually vest between 20 per cent and 100 per cent for performance between ‘threshold’ (the lowest level of performance which results in any level of vesting) and ‘maximum’ performance.

PENSION		
To aid recruitment and retention by allowing the directors to make provision for long-term retirement benefits comparable with similar roles in similar companies.		
Operation	**Maximum opportunity**	**Performance conditions**
A salary supplement equivalent to the contribution that would otherwise be made to a defined contribution pension plan.	The Group Chief Executive and the Group Finance Director receive a salary supplement of 17.5 per cent of their base salary in lieu of a pension contribution. The Executive Chairman does not receive a contribution towards his pension.	None.

OTHER BENEFITS		
To provide market-competitive, cost-effective benefits.		
Operation	**Maximum opportunity**	**Performance conditions**
Other benefits may include private medical insurance, a company car or car allowance, executive medical screening and the reimbursement of certain travel costs. The Company also operates a ShareSave scheme on an annual basis. This scheme is open to all employees of the Group who have completed the requisite length of service at the launch of each invitation to participate.	Based on costs determined by third-party providers. ShareSave contribution limits and the ShareSave option exercise price are set as permitted by the applicable tax legislation and apply in the same way to all qualifying employees.	None.

APPROACH TO PERFORMANCE MEASURES

The Committee's approach to the setting of performance measures for the annual bonus and PSPs is to select measures that are aligned with the Group's key performance indicators and the interests of shareholders. Targets are set at levels which require stretching performance to be achieved for maximum payout, but without encouraging excessive risk-taking. When setting targets, the Committee considers a number of reference points, including the Company's own plans, external expectations and the economic environment.

The annual bonus targets for 2018 were set by reference to Underlying EBIT, which tracks improvements in the profitability of the Group, and the targets were increased part way through the year to reflect the proportionate contribution from the newly acquired Lagan.

Health & safety performance is fundamental to the Group. We are committed to maintaining a safe environment at all of our operations and have set ourselves the goal of achieving Zero Harm across the entire business. To reflect this, the annual bonus may be reduced or eliminated if safety performance or accident records reach unacceptable levels.

The current performance measure for the PSPs is based on EPS, reflecting our focus on profitability and the delivery of value to shareholders, whilst maintaining simplicity and line-of-sight for the participants.

The Committee retains the ability to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or disposal of a Group business, or a change in prevailing market conditions) which cause the Committee to consider that the measures are no longer appropriate and that an amendment is required to enable them to achieve their original purpose.

The PSPs are operated in accordance with their terms, which includes the ability of the Committee to adjust awards in the event of a variation of share capital.

NON-EXECUTIVE DIRECTORS

NON-EXECUTIVE DIRECTORS' REMUNERATION

To provide market-competitive, cost-effective benefits.

Operation

Non-executive directors each receive a basic fee for holding the office of non-executive director, and may also receive an additional fee for further responsibilities (such as holding the office of Senior Independent Director or chairing a Board committee). Fees are set by the Board as a whole, taking into account market rates and the required time commitment.

Non-executive directors do not participate in any incentive scheme, share scheme or pension arrangement, but may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.

SERVICE AGREEMENTS/LETTERS OF APPOINTMENT OF THE DIRECTORS AND LOSS OF OFFICE

Each of the directors has a service agreement or letter of appointment with the Company as follows:

		Notice period	
Director	Date of contract/letter of appointment	From the Director	From the Company
Peter Tom CBE	5 June 2008*	12 months	12 months
Pat Ward	20 January 2016	12 months	12 months
Rob Wood	27 February 2014	12 months	12 months
Amit Bhatia	1 August 2016	N/A	N/A
Peter Cornell	31 August 2018	N/A	N/A
Susie Farnon	25 October 2010	N/A	N/A
David Williams	5 June 2008	N/A	N/A

* The service agreement is entered into with Rise Rocks Limited for the purposes of procuring the services of Peter Tom as a consultant to the Company in the role of Executive Chairman.

The Board’s overriding approach to payments for loss of office is to act in shareholders’ interests. The principles on which payments for loss of office will be approached are set out below:

Notice periods and payments in lieu of notice	The maximum notice period for executive directors is 12 months. The Committee retains the right to terminate an executive director’s service agreement by making a payment in lieu of notice, consisting of salary, benefits and loss of pension provision for the notice period (or the unexpired portion of it). It is the Company’s policy to have regard to the executive director’s duty to mitigate his loss in respect of those contractual rights that he would otherwise be entitled to receive.
Annual bonus	The payment of bonus for the year in which the executive director leaves is determined by the Committee, taking into consideration their contribution up to the leaving date and normal pro-rating for time in service during the year.
PSP	PSP awards will usually lapse on cessation of employment. However, if a participant leaves due to death, ill health, injury, retirement with the agreement of the Committee, or any other reason at the discretion of the Committee, his award shall either vest on the normal vesting date or at the date of cessation. In either case, the extent of vesting will be determined by reference to the extent the performance conditions are satisfied and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed.
Other payments	Payments may be made in the event of a loss of office under the ShareSave scheme, which is governed by its rules and the applicable legislation and which does not provide discretion in the case of leavers. In appropriate circumstances, other payments may also be made, such as in respect of accrued holiday and outplacement and legal fees.

RECRUITMENT REMUNERATION

When appointing a new executive director, the Committee will seek to ensure that his/her remuneration arrangements are in the best interests of the Company, and not more than is appropriate. The Committee will typically determine a new executive director’s remuneration package in line with the policy set out above. However, the Committee retains discretion to award different elements of remuneration in appropriate circumstances, such as:

- if an interim appointment is being made to fill a role on a short-term basis,
- if, in exceptional circumstances, a non-executive director is required to take on an executive function,
- if the circumstances of the recruitment make it appropriate to provide relocation, travel and subsistence payments,
- where it is considered appropriate to reflect remuneration arrangements provided by a previous employer, including that the Committee may grant ‘buy-out’ awards to reflect remuneration forfeited on leaving a previous employer. Any such buy-out award would be determined taking into account relevant factors of the forfeited award – including the period over which it would have vested and any applicable performance conditions, and
- where it is considered appropriate to reimburse the new director for any costs he/she may have incurred as a consequence of resigning from their previous employment.

The Committee would not use this discretion to make a non-performance-based incentive payment, such as a guaranteed bonus.

ANNUAL REPORT ON REMUNERATION

The remuneration of the directors for the year ended 31 December 2018 was as shown in the table below:

	2018					
	Salary	Bonus (note 1)	Fees (note 2)	Benefits (note 3)	Pension (note 4)	Total
Peter Tom CBE	–	–	777,835	–	–	777,835
Pat Ward	581,250	453,780	–	16,960	89,383	1,141,373
Rob Wood	383,750	352,520	–	22,656	59,012	817,938
Amit Bhatia	–	–	37,500	–	–	37,500
Peter Cornell*	–	–	12,500	–	–	12,500
Susie Farnon	–	–	58,650	–	–	58,650
Simon Vivian**	–	–	12,500	–	–	12,500
David Warr***	–	–	57,500	–	–	57,500
David Williams	–	–	57,500	–	–	57,500
Total	**965,000**	**806,300**	**1,013,985**	**39,616**	**148,395**	**2,973,296**

* Peter Cornell joined the Board on 1 October 2018.

** Simon Vivian retired from the Board on 7 March 2018.

*** David Warr retired from the Board on 31 December 2018.

Notes:

1 Further information in relation to the bonuses payable to Pat Ward and Rob Wood is given on page 64 and these bonuses were earned pursuant to their service agreements and the rules of the Group's executive bonus scheme. In addition, Rob Wood had a supplement of £50,000 applied to his bonus to reflect his contribution to the acquisition and subsequent integration of the Lagan business.

2 Included in fees above is an amount of £437,500 (2017: £393,750) in respect of services provided by Rise Rocks Limited, a company in which Peter Tom has a beneficial interest, and the sum of £340,335 (2017: £335,560) which was paid to Rise Rocks Limited as a bonus pursuant to the consultancy agreement between the Company and Rise Rocks Limited; further information is given on page 64.

3 Benefits paid to Pat Ward and Rob Wood comprise the provision of private medical insurance, the provision of a car allowance and the reimbursement of certain travel costs.

4 Both Pat Ward and Rob Wood received a salary supplement in lieu of a contribution to a pension arrangement.

The remuneration of the directors for the year ended 31 December 2017 was as shown in the table below:

	2017					
	Salary	Bonus (note 1)	Fees (note 2)	Benefits (note 3)	Pension (note 4)	Total
Peter Tom CBE	–	–	729,310	–	–	729,310
Pat Ward	518,750	440,423	–	16,796	79,773	1,055,742
Rob Wood	326,250	281,032	–	23,638	50,170	681,090
Amit Bhatia	–	–	–	–	–	–
Susie Farnon	–	–	50,000	–	–	50,000
Simon Vivian	–	–	40,000	–	–	40,000
David Warr	–	–	50,000	–	–	50,000
David Williams	–	–	50,000	–	–	50,000
Total	845,000	721,455	919,310	40,434	129,943	2,656,142

Notes:

1 The bonuses payable to Pat Ward and Rob Wood were earned pursuant to their service agreements and the rules of the Group's executive bonus scheme.

2 Included in fees above is an amount of £393,750 (2016: £361,000) in respect of services provided by Rise Rocks Limited, a company in which Peter Tom has a beneficial interest, and the sum of £335,560 (2016: £468,750) which was paid to Rise Rocks Limited as a bonus pursuant to the consultancy agreement between the Company and Rise Rocks Limited.

3 Benefits paid to Pat Ward and Rob Wood comprise the provision of private medical insurance, the provision of a car allowance and the reimbursement of certain travel costs.

4 Both Pat Ward and Rob Wood received a salary supplement in lieu of a contribution to a pension arrangement.

BONUSES

Pat Ward and Rob Wood were each eligible to earn a bonus of up to 125 per cent of salary, based on the achievement of stretching Underlying EBIT targets. Bonuses were earned as set out below:

Threshold level of Underlying EBIT £m	Target level of Underlying EBIT £m	Maximum level of Underlying EBIT £m	Actual level of Underlying EBIT £m	Bonus earned* (percentage of salary) %
97.8	102.3	108.0	103.5	75.63

The bonus of £340,335 paid to Rise Rocks Limited (a company in which Peter Tom has a beneficial interest) pursuant to the consultancy agreement between the Company and Rise Rocks Limited, was earned by reference to the same Underlying EBIT targets referred to above.

PSP AWARDS VESTING IN RESPECT OF PERFORMANCE IN 2018

Awards were granted under the PSPs in April 2016, with vesting subject to a performance condition based on Underlying diluted EPS growth in excess of RPI over a performance period running from 2016 to 2018. Subject to the rules of the PSPs, the executive directors' awards will vest in April 2019 as described below:

					Vesting level	
Director	Shares subject to award	Threshold EPS growth in excess of RPI (20% of the award vests)	Maximum EPS growth in excess of RPI (100% of the award vests)	Actual EPS growth in excess of RPI	Percentage	Number of shares
Peter Tom CBE*	531,914	37%	80%	71.1%	83.45%	443,883
Pat Ward	709,219	37%	80%	71.1%	83.45%	591,844
Rob Wood	425,531	37%	80%	71.1%	83.45%	355,106

* The option to Peter Tom was granted to Rise Rocks Limited, a company in which he has a beneficial interest and which provides his services as Executive Chairman of the Company.

In addition, the further awards under the PSPs noted below vested in 2018 or are expected to vest in 2019 as noted below:

			Vesting level		
Director	Shares subject to award	Vesting date	Percentage	Number of shares	Vesting condition
Pat Ward	231,788	26 April 2018	100%	231,788	Performance assessment by the Chairman of the Company and the Chairman of the Remuneration Committee.
Rob Wood	132,450	26 April 2018	100%	132,450	Performance assessment by the Chairman of the Company and the Chairman of the Remuneration Committee.
Pat Ward	463,576	2 April 2019	100%	463,576	EPS growth in excess of RPI for 3 years ended 31 December 2017 being between 56 per cent and 110 per cent. Actual EPS growth was 159.8 per cent in excess of RPI.

PSP AWARDS GRANTED IN 2018

On 2 April 2018, awards were granted to the executive directors under the PSPs. The vesting of those awards is subject to a performance condition based on Underlying diluted EPS growth in excess of RPI as follows, assessed over 2018, 2019 and 2020:

EPS growth in excess of RPI	Percentage of award that vests
Less than 17.5%	0%
Equal to 17.5%	20%
Between 17.5% and 38%	Between 20% and 100% on a straight line basis
38% or more	100%

Awards were granted to the Executive Chairman and Group Chief Executive at 150 per cent of salary and the Group Finance Director at 125 per cent as follows:

- Peter Tom CBE†: 802,615 shares
- Pat Ward: 1,070,154 shares
- Rob Wood: 594,530 shares

† The award to Peter Tom was granted to Rise Rocks Limited, a company in which he has a beneficial interest and which provides his services as Executive Chairman of the Company.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2019

No significant changes to the Remuneration Policy are currently proposed in 2019.

EXECUTIVE DIRECTORS' SALARIES

In accordance with Breedon's usual salary review timetable for the business as a whole, executive directors' salaries for 2019 will be determined in March 2019. Any increases to executive directors' salaries are expected to be in line with the range of increases awarded to the wider workforce and will be reported in the 2019 Directors' Remuneration Report.

NON-EXECUTIVE DIRECTORS' FEES

The basic fee for the non-executive directors for 2019 are:

- Basic fee: £50,000;
- Additional fee for holding the office of Senior Independent Director or for chairing the Audit or Remuneration Committee remains at: £10,000.

EXECUTIVE DIRECTORS' BONUS OPPORTUNITY

For 2019, the executive directors will continue to have the opportunity to earn a bonus of up to 125 per cent of salary. The bonus will be subject to stretching performance conditions based on Underlying EBIT. The performance targets contain confidential information and so are not disclosed on a prospective basis. However, the Committee proposes to disclose the targets, and performance against them, retrospectively as has been done for the bonuses earned in 2018.

PSP AWARDS

The Committee currently expects to grant awards under the PSPs in 2019 at the level of 150 per cent of salary for the Executive Chairman and Group Chief Executive, and 125 per cent for the Group Finance Director.

The awards will vest subject to the satisfaction of a performance condition assessed over 2019, 2020 and 2021.

DIRECTORS' INTERESTS IN SHARE PLANS

Details of the directors' interests in the Company's share-based incentive schemes are set out on page 68.

Nomination Committee report

The Nomination Committee has continued to keep the leadership of the Group under review, and to ensure adequate resources are made available to support its future development.

KEY ACTIVITIES CARRIED OUT IN THE YEAR:

- Recommended the appointment of a Deputy Chairman
- Reviewed the composition of the Board, and oversaw the process for identifying new independent non-executive directors
- Recommended the appointment of Mr Peter Cornell as an independent non-executive director

MEETING ATTENDANCE

Members	Eligible to attend
Peter Tom CBE, Chairman	3/3 meetings
Peter Cornell, Independent Director*	1/1 meetings
Susie Farnon, Senior Independent Director	3/3 meetings
David Warr, Independent Director**	3/3 meetings

* Peter Cornell joined the Board on 1 October 2018.

** David Warr resigned from the Board on 31 December 2018.

PETER TOM CBE

CHAIRMAN, NOMINATION COMMITTEE

The Nomination Committee is chaired by the Chairman of the Company (unless the business under discussion includes the appointment of his own successor) and the quorum for Committee meetings is a minimum of two directors and must comprise a majority of independent directors. The Committee meets as required. The terms of reference of the Committee are available on the Group's website.

During the year the Committee met three times to consider the search process for two new independent non-executive directors, including the final appointment to the Board of Mr Peter Cornell, and the appointment of a Deputy Chairman.

In early 2019 the Committee also considered the latest succession plans for senior management within the business. It noted that those plans had been substantially updated following the acquisition of Lagan in April 2018. In accordance with its terms of reference, the Committee will continue to keep succession planning for all senior executives under review, and it will continue to receive regular updates on the plan.

During 2019, in addition to its ongoing work on succession planning, meetings of the Committee may be convened to further review the size and composition (including the skills, knowledge, experience and diversity) of the Board and, if appropriate, make recommendations to the Board on possible changes.

Peter Tom CBE

Chairman, Nomination Committee

6 March 2019

The directors present their report, together with the audited Financial Statements, for the year ended 31 December 2018.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group is the quarrying of aggregates and manufacture and sale of construction materials and building products, including cement, asphalt and ready-mixed concrete, together with related activities in GB and Ireland. Further details of the Group's activities and future developments are included in the Chairman's statement, and the Group Chief Executive's review on pages 8 to 13 and in the Financial and Operating review on pages 28 to 37.

RISK MANAGEMENT

The Board is responsible for the Group's system of risk management and continues to develop policies and procedures that reflect the nature and scale of the Group's business. Further details of the key areas of risk to the business identified by the Group are included on pages 24 to 27. Details of the Group's operational key performance indicators are shown on pages 22 and 23.

RESULTS AND DIVIDENDS

For the year to 31 December 2018, the Group's profit before tax was £79.9 million (2017: £71.2 million) and after tax was a profit of £64.6 million (2017: £57.0 million). Subject to availability of distributable reserves, dividends will be paid to shareholders when the directors believe it is appropriate and prudent to do so.

STATED CAPITAL

Details of the Company's shares in issue are set out in note 18 to the Financial Statements.

DIRECTORS

The following directors served during the year:

Peter Tom CBE	Executive Chairman
Pat Ward	Group Chief Executive
Rob Wood	Group Finance Director
Amit Bhatia	Non-executive director, Deputy Chairman
Peter Cornell (appointed 1 October 2018)	Independent non-executive director
Susie Farnon	Independent non-executive director
Simon Vivian (resigned 7 March 2018)	Non-executive director
David Warr (resigned 31 December 2018)	Independent non-executive director
David Williams	Non-executive director

Biographical details of the directors can be found on pages 46 and 47 and details of the directors' service contracts are given in the Directors' Remuneration report on page 61.

DIRECTORS' INTERESTS

The directors in office at 31 December 2018 had interests in the issued share capital of the Company as shown in the table below:

	Ordinary shares	
	2018	2017
Peter Tom CBE	**43,044,063**	41,792,965
Pat Ward	**483,590**	200,000
Rob Wood	**672,823**	356,263
Amit Bhatia	**500,000**	–
Peter Cornell	**140,000**	–
Susie Farnon	**1,865,000**	1,814,365
David Williams	**5,000,000**	5,000,000

In addition, the following directors had an interest in the shares set against their names in the table below in accordance with the rules of the Group's share-based incentive schemes:

	Non-employee Performance Share Plan		Performance Share Plan		Savings-Related Share Option Scheme	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
Peter Tom CBE	**1,864,330**	1,762,813	**–**	–	**–**	–
Pat Ward	**–**	–	**2,938,313**	2,099,947	**30,030**	30,030
Rob Wood	**–**	–	**1,569,729**	1,502,672	**79,365**	79,365

The savings-related share options held by Pat Ward are exercisable at a price of 59.94 pence and are normally exercisable between 1 May 2019 and 30 October 2019. Those held by Rob Wood are exercisable at a price of 37.8 pence and are normally exercisable between 1 June 2019 and 30 November 2019.

Further details of the above schemes are set out in note 19 to the Financial Statements.

All the interests are beneficial, unless indicated otherwise. No director has any interests in the issued share capital or loan stock of any subsidiary undertaking.

There were no changes in the directors' interests between 1 January 2019 and 6 March 2019.

SUBSTANTIAL SHAREHOLDINGS

The Company is aware that, as at 19 February 2019, other than the directors, the interests of shareholders holding three per cent or more of the issued share capital of the Company were as shown in the table below:

Beneficial Holder	Number	%
Abicad Holding Limited*	**298,922,677**	17.80
Invesco Perpetual Asset Management	**288,849,863**	17.20
Columbia Threadneedle Investments	**145,884,504**	8.69
Woodford Investment Management	**121,254,844**	7.22
Merian Global Investors	**86,163,773**	5.13
AXA Investment Managers	**84,601,767**	5.04
Investec Asset Management	**62,114,197**	3.70
Octopus Investments	**59,592,585**	3.55
Aviva Investors	**52,474,988**	3.12

* Amit Bhatia has been appointed as Abicad Holding Limited's Representative Director on the Board of the Company pursuant to a Relationship Deed dated 17 November 2015.

EMPLOYEES

The Group recognises the importance of employee involvement in the operation and development of its business units, which are given autonomy, within a group policy and structure, to enable management to be fully accountable for their own actions and gain maximum benefit from local knowledge. Employees are informed by regular consultation, intranet, and internal newsletters of the progress of both their own business units and the Group as a whole.

The Group is committed to providing equal opportunities for individuals in all aspects of employment, and considers the skills and aptitudes of disabled persons in recruitment, career development, training and promotion. If existing employees become disabled, every effort is made to retain them, and retraining is arranged wherever possible.

POLITICAL CONTRIBUTIONS

The Group did not make any contributions to political parties during either the current or the previous year.

ANNUAL GENERAL MEETING

The AGM will be held at La Seigneurie Suite, St. Pierre Park Hotel, Rohais, St. Peter Port, Guernsey GY1 1FD on 30 April 2019 at 2.00pm. The formal notice convening the AGM, together with explanatory notes on the resolutions contained therein, is included in the separate circular accompanying this document and is available on the Company's website at www.breedongroup.com.

GOING CONCERN

The Group meets its day-to-day working capital and other funding requirements through its banking facility, which includes an overdraft facility, which expires in April 2022. Further details of the Group's bank facilities are given on page 32.

The Group actively manages its financial risks as set out in note 20 to the Financial Statements and operates Board-approved financial policies, including interest rate hedging policies, that are designed to ensure that the Group maintains an adequate level of headroom and effectively mitigates financial risks.

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these Financial Statements.

VIABILITY STATEMENT

The directors have assessed the viability of the Group over a period to December 2021. This is the period over which financial projections have been prepared for the Group's strategic financial plan.

In making their assessment the directors have taken into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 24 to 27 on its business model, future performance, solvency or liquidity. They have also stress-tested their analysis by running a number of credible scenarios and considered the availability of mitigating actions.

Based on this assessment, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021. In making this statement, the directors have assumed that financing remains available and that mitigating actions are effective.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who hold office at the date of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware, and each director has taken all steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

KPMG LLP has expressed willingness to continue in office and, in accordance with Article 113 of the Companies (Jersey) Law 1991, a resolution to reappoint KPMG LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Patrick R Ward

Peter Tom CBE
Executive Chairman
6 March 2019

Pat Ward
Group Chief Executive

Statement of Directors' Responsibilities

in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Financial Statements in accordance with applicable law and IFRS.

Company law requires the directors to prepare Group Financial Statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year. In preparing those Financial Statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Jersey) Law 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Financial statements

Clatchard quarry, near Perth

Financial Statements

Independent Auditor's Report to the Members of Breedon Group plc

1. OUR OPINION IS UNMODIFIED

We have audited the Financial Statements of Breedon Group plc ('the Group') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the Financial Statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion

Overview	
Materiality:	£4.0 million (2017:£3.5 million)
Group Financial Statements as a whole	4.6% of Group profit before tax adjusted for acquisition costs of £6.4 million (2017: 4.7% of Group profit before tax adjusted for redundancy and reorganisation costs, acquisition costs and gains on property disposals of £2.6 million)
Coverage	93.0% (2017:97.0%) of Group profit before tax

Key audit matters	**vs 2017**
Brexit	
New: The impact of uncertainties due to the UK exiting the European Union on our audit.	★
Going concern under Brexit	
New: The impact on the Group's ability to continue as a going concern due to Brexit uncertainties.	★
Acquisition of Lagan Group	
New: Recognition and valuation of tangible and intangible assets acquired in the Lagan Group business combination.	★
Recoverability of goodwill allocated to Cement and Ireland	
Recurring: Recoverability of goodwill allocated to Cement and Ireland.	▲

Key

New Key audit matter ★

Increased risk since 2017 ▲

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to pages 24 to 27 (principal risks), page 69 (viability statement), page 54 (Audit Committee report).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the key audit matters on the impairment of goodwill allocated to Cement and Ireland and recognition and valuation of tangible and intangible assets acquired in the Lagan Group business combination below (together referred to as "the key audit matters affected"), and related disclosures and the appropriateness of the going concern basis of preparation of the Financial Statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** Considering the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing the key audit matters affected and other areas that depend on forecasts, comparing the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the key audit matters affected we considered all of the Brexit-related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Going concern under Brexit Refer to page 69 (viability statement), page 85 (accounting policies), pages 54 to 56 (Audit Committee report).	**Potential disclosure omission** The Financial Statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business model, in particular, risks associated with Brexit, and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the Financial Statements. The risks most likely to adversely affect the Group's available financial resources over this period are mainly driven by a no deal Brexit and are: • supply chain delays; • the requirement for additional working capital; and • tariffs. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Funding assessment:** Confirming the Group has sufficient resources to repay debt falling due in at least the 12 months from signing off the accounts by analysing the Group's financing terms and reviewing directors' forecasts and assumptions for ongoing covenant compliance and available headroom. • **Benchmarking assumptions:** Assessing the assumptions used in the cash flow projections by vouching observable inputs to supporting documentation and analysing other key inputs, such as projected growth and profitability margins, based on our knowledge of the business, industry and current geopolitical climate. • **Sensitivity analysis:** Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, such as general market downturn and increased cash outflows as a result of Brexit. • **Assessing transparency:** Assessing the completeness and accuracy of the disclosures in the Annual Report and ensuring that they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern.

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Recoverability of goodwill allocated to Cement (£155.0 million) and Ireland (£110.0 million) Refer to pages 54 to 56 (Audit Committee report), page 89 (accounting policy) and pages 100 and 101 (financial disclosures).	**Forecast-based valuation** Goodwill allocated to the Cement and Ireland businesses is at risk of irrecoverability as these businesses are at an early stage in their trading life cycle under the Group's ownership. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.	Our procedures included: • **Benchmarking assumptions:** Challenging, using our own valuation specialists, the key inputs used in the Group's calculation of the discount rates by comparing them to externally derived data, including available sources for comparable companies. • **Our sector experience:** Assessing whether assumptions used, in particular those relating to forecast cash flow growth and long term growth rates reflect our knowledge of the business and industry, including known or probable changes in the business environment. • **Historical comparisons:** Considering historical forecasting accuracy, by comparing previously forecast cash flows to actual results achieved. • **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. • **Sensitivity analysis:** Performing our own sensitivity analysis on the assumptions noted above. • **Assessing transparency:** Assessing whether the Group's disclosures regarding the sensitivity of the impairment assessment to changes in key assumptions and the impact of Brexit, appropriately reflected the risks inherent in the valuation of goodwill.

Independent Auditor’s Report to the Members of Breedon Group plc continued

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Recognition and valuation of tangible and intangible assets acquired in the Lagan Group business acquisition (£230.6 million) Refer to pages 54 to 56 (Audit Committee report), page 89 (accounting policy) and pages 118 to 120 (financial disclosures).	**Subjective valuation** On 20 April 2018, Breedon Group plc completed the acquisition of Lagan Group (‘Lagan’) for a total consideration of £416.0 million. Accounting for business combinations involves significant judgement in relation to the application of IFRS 3 to the recognition of separately identifiable assets and the estimation of fair values for separately identifiable assets and liabilities, given the estimation techniques involve the forecasting of future uncertain cash flows and the use of appropriate discount rates. The key judgements and estimates made by the directors relate to: • The identification of separately identifiable intangible assets, with different characteristics, including remaining useful lives, attrition rates and contributory asset charges. • The determination of the fair value of the Kinnegad cement plant which was derived from a range provided by external valuers. • The determination of fair values of those tangible and intangible assets identified, which are in turn determined by: – The estimates of future cash flows derived from those assets. – The discount rate that should be applied to those cash flows, in particular the mineral reserves and acquired intangibles. Recognition and valuation of tangible and intangible assets acquired in the Lagan Group business combination is a key audit matter due to the size of the acquisition and the complexities inherent in business combinations as discussed above.	Our procedures included: • **Accounting analysis:** Challenging the Group’s identification of separately identifiable intangible assets based on our knowledge of the acquired business and industry and through sites visits to the major Lagan businesses. • **Our sector experience**: Assessing whether key assumptions used in the cash flow projections, such as projected growth, profitability margins, useful lives, attrition rate and contributory asset charges, reflect our knowledge of the business and industry, including known or probable changes in the business environment. • **Assessing experts’ credentials:** Evaluating the independence, competence and objectivity of external experts appointed by directors to determine (1) the appropriate discount rate to apply to the cash flows used in the mineral reserves and intangible asset valuations; (2) the valuation of the cement works at Kinnegad; and (3) the quantity of minerals acquired. • **Methodology choice:** Assessing, using our own valuation specialists, the results of the valuation reports for the customer related intangibles and Kinnegad cement plant, by checking that the valuations were in accordance with relevant accounting standards and acceptable valuation practices. • **Benchmarking assumptions:** Challenging, using our own valuation specialists, the key inputs used in the Group’s calculation of the discount rate by comparing them to externally derived data, including available sources for comparable companies. • **Assessing transparency:** Assessing the appropriateness of the Group’s disclosures in respect of fair value measurement of acquired net assets.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

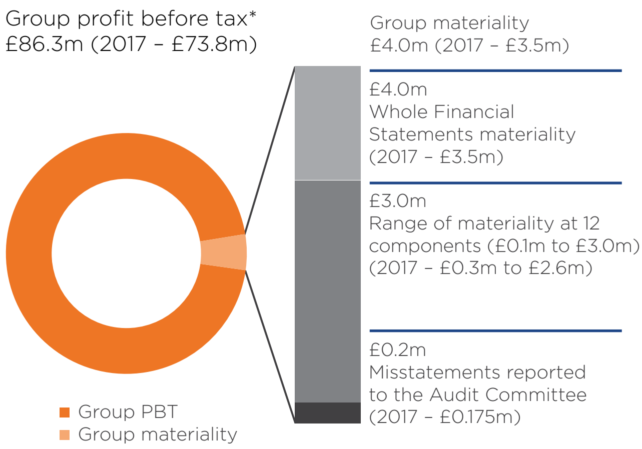
Materiality for the Financial Statements as a whole was set at £4.0 million (2017: £3.5 million). This has been determined with reference to a benchmark of £86.3 million (2017: £73.8 million) being Group profit before tax of £79.9 million adjusted for acquisition costs of £6.4 million. The materiality represents 4.6 per cent of this benchmark (2017: 4.7 per cent profit before tax of £71.2 million adjusted for acquisition costs of £0.6 million and other non-underlying items of £2.2 million).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £200,000 (2017: £175,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

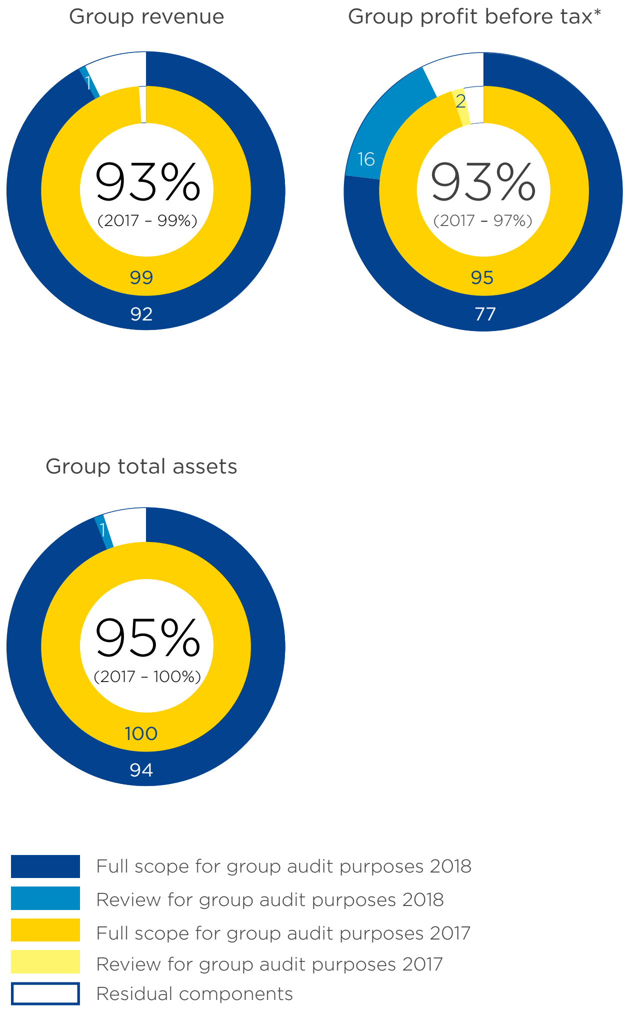
Of the Group's 32 (2017:15) reporting components, 12 (2017: 5) were subject to full scope audits for group reporting purposes whilst 2 (2017: 1) were subject to a review of financial information (including enquiry). The Group audit team performed all the work carried out in each component and performed procedures on the items excluded from normalised group profit before tax.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 7.0 per cent of total group revenue, 7.0 per cent of Group profit before tax and 5.0 per cent of total Group assets is represented by the remaining reporting components, none of which individually represented more than 3.0 per cent of any of total Group revenue, Group profit before tax or Group total assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement present.



* Adjusted for acquistion costs of £6.4m.



4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

The directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's available financial resources as a result of Brexit uncertainties over this period were:

- supply chain delays;
- the requirement for additional working capital; and
- tariffs.

As these were risks that could potentially cast significant doubt on the Group's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of a disorderly Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least 12 months from the date of approval of the Financial Statements.

We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies (Jersey) Law 1991, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 70, the directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Craig Parkin

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham B4 6GH

6 March 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Note	2018 Underlying £m	2018 Non-underlying* (note 3) £m	2018 Total £m	2017 Underlying £m	2017 Non-underlying* (note 3) £m	2017 Total £m
Revenue	1,2	**862.7**	**–**	**862.7**	652.4	–	652.4
Cost of sales		**(556.9)**	**–**	**(556.9)**	(408.0)	–	(408.0)
Gross profit		**305.8**	**–**	**305.8**	244.4	–	244.4
Distribution expenses		**(145.5)**	**–**	**(145.5)**	(117.7)	–	(117.7)
Administrative expenses		**(58.5)**	**(11.8)**	**(70.3)**	(49.0)	(2.8)	(51.8)
Group operating profit	2	**101.8**	**(11.8)**	**90.0**	77.7	(2.8)	74.9
Share of profit of associate and joint ventures	11	**1.7**	**–**	**1.7**	2.7	–	2.7
Profit from operations		**103.5**	**(11.8)**	**91.7**	80.4	(2.8)	77.6
Financial income	6	**0.1**	**–**	**0.1**	–	–	–
Financial expense	6	**(11.9)**	**–**	**(11.9)**	(6.4)	–	(6.4)
Profit before taxation		**91.7**	**(11.8)**	**79.9**	74.0	(2.8)	71.2
Taxation	7	**(15.9)**	**0.6**	**(15.3)**	(14.7)	0.5	(14.2)
Profit for the year		**75.8**	**(11.2)**	**64.6**	59.3	(2.3)	57.0
Attributable to:							
Equity holders of the parent		**75.7**	**(11.2)**	**64.5**	59.2	(2.3)	56.9
Non-controlling interests		**0.1**	**–**	**0.1**	0.1	–	0.1
Profit for the year		**75.8**	**(11.2)**	**64.6**	59.3	(2.3)	57.0
Basic earnings per ordinary share	24	**4.70p**		**4.01p**	4.14p		3.98p
Diluted earnings per ordinary share	24	**4.68p**		**3.99p**	4.07p		3.91p

* Non-underlying items represent acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Profit for the year		**64.6**	57.0
Other comprehensive income			
Items which may be reclassified subsequently to profit and loss:			
Foreign exchange differences on translation of foreign operations, net of hedging		**6.6**	–
Effective portion of changes in fair value of cash flow hedges		**–**	–
Taxation on items taken directly to other comprehensive income	7	**–**	–
Other comprehensive income for the year		**6.6**	–
Total comprehensive income for the year		**71.2**	57.0
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		**71.1**	56.9
Non-controlling interests		**0.1**	0.1
		71.2	57.0

Consolidated Statement of Financial Position

at 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Property, plant and equipment	8	**665.9**	477.4
Intangible assets	9	**467.0**	194.6
Investment in associate and joint ventures	11	**6.4**	6.2
Total non-current assets		**1,139.3**	678.2
Current assets			
Inventories	13	**54.8**	30.9
Trade and other receivables	14	**160.8**	113.5
Cash and cash equivalents		**37.6**	23.9
Total current assets		**253.2**	168.3
Total assets		**1,392.5**	846.5
Current liabilities			
Interest-bearing loans and borrowings	15	**(31.2)**	(4.4)
Trade and other payables	16	**(177.5)**	(120.8)
Current tax payable		**(7.3)**	(6.8)
Provisions	17	**(2.3)**	(2.6)
Total current liabilities		**(218.3)**	(134.6)
Non-current liabilities			
Interest-bearing loans and borrowings	15	**(317.1)**	(129.3)
Provisions	17	**(36.2)**	(26.1)
Deferred tax liabilities	12	**(47.6)**	(28.4)
Total non-current liabilities		**(400.9)**	(183.8)
Total liabilities		**(619.2)**	(318.4)
Net assets		**773.3**	528.1
Equity attributable to equity holders of the parent			
Stated capital	18	**549.0**	377.8
Translation reserve	18	**6.6**	–
Retained earnings		**217.5**	150.1
Total equity attributable to equity holders of the parent		**773.1**	527.9
Non-controlling interests		**0.2**	0.2
Total equity		**773.3**	528.1

These Financial Statements were approved by the Board of Directors on 6 March 2019 and were signed on its behalf by:

Pat Ward
Group Chief Executive

Rob Wood
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Stated capital £m	Translation reserve £m	Capital reserve £m	Retained earnings £m	Attributable to equity holders of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2017	375.5	–	1.5	90.3	**467.3**	0.2	**467.5**
Shares issued	2.3	–	(1.5)	–	**0.8**	–	**0.8**
Dividend to non-controlling interests	–	–	–	–	**–**	(0.1)	**(0.1)**
Total comprehensive income for the year	–	–	–	56.9	**56.9**	0.1	**57.0**
Share-based payments	–	–	–	2.9	**2.9**	–	**2.9**
Balance at 31 December 2017	377.8	–	–	150.1	**527.9**	0.2	**528.1**
Shares issued	174.9	–	–	–	**174.9**	–	**174.9**
Expenses of share issue	(3.7)	–	–	–	**(3.7)**	–	**(3.7)**
Dividend to non-controlling interests	–	–	–	–	**–**	(0.1)	**(0.1)**
Total comprehensive income for the year	–	6.6	–	64.5	**71.1**	0.1	**71.2**
Share-based payments	–	–	–	2.9	**2.9**	–	**2.9**
Balance at 31 December 2018	**549.0**	**6.6**	**–**	**217.5**	**773.1**	**0.2**	**773.3**

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year		**64.6**	57.0
Adjustments for:			
Depreciation		**52.6**	39.3
Amortisation		**4.2**	0.2
Financial income		**(0.1)**	–
Financial expense		**11.9**	6.4
Share of profit of associate and joint ventures		**(1.7)**	(2.7)
Net gain on sale of property, plant and equipment		**(0.5)**	(1.0)
Equity settled share-based payment expense		**2.9**	2.9
Taxation		**15.3**	14.2
Operating cash flow before changes in working capital and provisions		**149.2**	116.3
Decrease in trade and other receivables		**13.5**	0.7
Increase in inventories		**(0.6)**	(1.0)
Increase/(decrease) in trade and other payables		**(0.2)**	2.3
Decrease in provisions		**(1.3)**	(1.1)
Cash generated from operating activities		**160.6**	117.2
Interest paid		**(8.9)**	(3.7)
Interest element of finance lease payments		**(0.4)**	(0.4)
Dividend paid to non-controlling interests	10	**(0.1)**	(0.1)
Income taxes paid		**(16.5)**	(12.1)
Net cash from operating activities		**134.7**	100.9
Cash flows used in investing activities			
Acquisition of businesses	26	**(406.3)**	(9.2)
Purchase of property, plant and equipment		**(48.6)**	(46.2)
Proceeds from sale of property, plant and equipment		**4.9**	3.2
Repayment of loan to joint venture		**0.4**	0.3
Interest received		**0.1**	–
Dividends from associate and joint ventures	11	**0.4**	1.8
Net cash used in investing activities		**(449.1)**	(50.1)
Cash flows from/(used in) financing activities			
Proceeds from the issue of shares (net of costs)	18	**171.2**	0.8
Proceeds from new interest-bearing loans (net of costs)		**409.7**	–
Repayment of interest-bearing loans		**(246.1)**	(26.6)
Repayment of finance lease obligations		**(7.4)**	(5.7)
Net cash from/(used in) financing activities		**327.4**	(31.5)
Net increase in cash and cash equivalents		**13.0**	19.3
Cash and cash equivalents at 1 January		**23.9**	4.6
Foreign exchange differences		**0.7**	–
Cash and cash equivalents at 31 December		**37.6**	23.9

1 ACCOUNTING POLICIES

The principal activities of the business are the quarrying of aggregates and manufacture and sale of construction materials and building products, including cement, asphalt and ready-mixed concrete, together with related activities in GB and Ireland. Breedon Group plc is a company domiciled in Jersey. The address of the Company's registered office is 28 Esplanade, St Helier, Jersey JE2 3QA.

Basis of preparation

These Financial Statements consolidate the results of the Company and its subsidiary undertakings, and equity account for the Group's interest in its associate and its joint ventures (collectively the Group).

Applicable laws and accounting standards

These consolidated Financial Statements have been prepared in accordance with Adopted IFRS. The consolidated Financial Statements have been prepared under the historical cost convention except for the revaluation to fair value of certain financial instruments.

Parent company information has not been provided in accordance with Article 105 (11) of the Companies (Jersey) Law 1991.

The accounting policies set out below have, unless otherwise stated, been applied consistently throughout the year presented in this financial information.

Going concern

The Group meets its day-to-day working capital and other funding requirements through its banking facility, which includes an overdraft facility, which expires in April 2022. Further details of the Group's bank facilities are given in note 15.

The Group actively manages its financial risks as set out in note 20 and operates Board-approved financial policies, including interest rate hedging policies, that are designed to ensure that the Group maintains an adequate level of headroom and effectively mitigates financial risks.

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these Financial Statements.

Accounting estimates and judgements

The preparation of Financial Statements in conformity with Adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated Financial Statements, are disclosed in note 27.

Presentation

These Financial Statements are presented in Sterling, which is the Group's functional currency. As a result of the enlargement of the Group in the year, all financial information has been presented rounded to the nearest 0.1 million pounds for the first time. Previously values were presented to the nearest thousand pounds, and so prior year values have been restated accordingly.

New IFRS Standards and Interpretations

The following standards have been adopted by the Group during the year:

IFRS 9 – *Financial Instruments*

The Group does not hold complex financial instruments and therefore the majority of changes to the standard did not change the existing accounting for assets or liabilities held. The change to an 'expected loss' model of impairment resulted in an immaterial increase in the overall level of bad debt provision. In line with the transition options permitted by the standard, the Group has opted not to restate comparative balances.

1 ACCOUNTING POLICIES CONTINUED

New IFRS Standards and Interpretations continued

IFRS 15 – *Revenue from Contracts with Customers*

Although the adoption of this standard has not impacted the timing or value of revenue recognition by the Group, the Financial Statements include additional disclosures compared to the previous year in order to comply with the requirements of the new standard. These include the disaggregation of revenue by operating segments between those customer contracts recognised at a point in time compared to those recognised over time. In addition, contract assets and liabilities are now disclosed separately within the trade and other receivables and trade and other payables disclosures. Comparative information has been provided for 2017, resulting in the restatement of the notes to the accounts where relevant.

Further details of the Group's application of IFRS 15 are set out in the revenue accounting policy on page 90.

New IFRS Standards and Interpretations not adopted

At the date on which these Financial Statements were authorised, the following Standards, Interpretations and Amendments had been issued but were not effective for the year ended 31 December 2018 (and in some cases had not yet been adopted by the EU) and have not yet been adopted by the Group:

IFRS 16 – *Leases*

The Group will adopt IFRS 16 – *Leases* for the financial year starting on 1 January 2019. The impact of the new standard will be to bring operating lease arrangements on balance sheet, with a right of use asset and corresponding financial liability recognised on transition. The Group will adopt the modified retrospective approach in adopting the standard, meaning that this asset and liability will be recognised from 1 January 2019 without restatement of prior year balances.

The net asset position of the Group will not be impacted on transition. However the value of both property, plant and equipment assets and the net debt of the Group will increase by around £45 million. As depreciation on the right of use asset and interest on the lease liability replace the existing operating lease expense, this will increase Underlying EBITDA by around £7 million but decrease statutory profit before tax by around £1 million.

This accounting change does not impact the covenants on the Group's banking facility, as they are calculated with reference to the accounting standards adopted by the Group at the point at which the facility was taken out.

Other new standards

There are no other IFRS Standards or Interpretations that are effective subsequent to the 31 December 2018 year-end that are expected to materially impact the Group's Financial Statements.

Basis of consolidation

Subsidiary undertakings are entities controlled by the Group. Control exists when the Group is exposed to or has rights to variable returns from its investment with the investee and has the ability to effect those returns through its power over the investee. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Ordinarily, the Group considers a company a subsidiary undertaking when it holds more than 50 per cent of the shares and voting rights. The Financial Statements of subsidiary undertakings are included in the Group's Financial Statements from the date that control commences until the date that control ceases.

Associates are those entities in which the Group holds more than 20 per cent of the shares and voting rights and has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, requiring unanimous consent for strategic financial and operating decisions. The Group's Financial Statements includes the Group's share of the total comprehensive income of its associate and joint ventures on an equity accounted basis, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to £nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate or joint venture.

1 ACCOUNTING POLICIES CONTINUED

Foreign exchange

Foreign exchange transactions

Transactions in foreign currencies are recorded at the spot rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the balance sheet date, with all currency translation differences recognised within the Consolidated Income Statement, except for those monetary items that provide an effective hedge for a net investment in a foreign operation.

Foreign exchange translation

The consolidated Financial Statements are presented in Sterling, which is the functional currency of the Group. The individual Financial Statements of the Group's subsidiaries and joint ventures with a functional currency other than Sterling are translated into Sterling according to IAS 21 – *The Effects of Changes in Foreign Exchange Rates*.

Results and cash flows are translated using average annual exchange rates for the reporting period, assets and liabilities translated using the closing rates at the reporting date and equity at historic exchange rates. The translation differences resulting from this are recognised in the Consolidated Statement of Comprehensive Income until the subsidiary is disposed of. Goodwill and fair value adjustments arising on acquisition of a foreign operation are regarded as assets and liabilities of the foreign operation and are translated accordingly.

Financial instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

Trade receivables and trade payables

Trade receivables and trade payables are initially recognised at fair value and then are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less. For the purposes of the Consolidated Statement of Cash Flows, bank overdrafts are also included as they are an integral part of the Group's cash management.

Bank and other borrowings

Interest-bearing bank loans and overdrafts and other loans are recognised initially at fair value less attributable transaction costs. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the Consolidated Income Statement over the period to redemption on an effective interest basis.

Derivative financial instruments

The Group uses financial instruments to manage financial risks associated with the Group's underlying business activities and the financing of those activities. The Group does not undertake any trading in financial instruments.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The gain or loss on the remeasurement of fair value is recognised immediately in profit or loss. However, where the derivative qualifies for hedge accounting, recognition of the resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective part of any gain or loss on the derivative financial instrument is recognised in the Consolidated Statement of Comprehensive Income and in the cash flow hedging reserve. Any ineffective portion of the hedge is recognised immediately in the Consolidated Income Statement.

Amounts recorded in the cash flow hedging reserve are subsequently reclassified to the Consolidated Income Statement when the interest expense is actually recognised.

1 ACCOUNTING POLICIES CONTINUED

Financial instruments continued

Cash flow hedges continued

To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, at hedge inception and on an annual basis, as to whether the derivatives that are used in hedging transactions have been, and are likely to continue to be, effective in offsetting changes in fair value or cash flows of hedged items.

Mineral reserves and resources

Mineral reserves and resources are stated at cost and are depreciated based on the physical unit-of-production method over their estimated commercial lives.

The value of mineral reserves and resources recognised as a result of business combinations is based on the fair value at the point of acquisition.

Costs incurred to gain access to mineral reserves and resources are capitalised and depreciated over the life of the quarry, which is based on the estimated tonnes of raw material to be extracted from the reserves.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over their estimated useful lives to write off the cost or deemed cost of assets. The estimated useful lives are as follows:

- Freehold buildings – 50 years
- Long leasehold land and buildings – life of the lease
- Fixtures and fittings – up to 10 years
- Office equipment – up to 5 years
- Fixed plant – up to 35 years
- Loose plant and machinery – up to 10 years
- Motor vehicles – up to 10 years

No depreciation is provided on freehold land.

1 ACCOUNTING POLICIES CONTINUED

Intangible assets and goodwill

The Group measures goodwill as the fair value of the purchase consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Fair value adjustments are always considered to be provisional at the first reporting date after the acquisition to allow the maximum time to elapse for management to make a reliable estimate.

The Group measures non-controlling interests at a proportionate share of the recognised amount of the identifiable net assets at the acquisition date.

Goodwill arising on the acquisition of subsidiary undertakings is recognised as an asset in the Consolidated Statement of Financial Position and is subject to annual impairment review. Goodwill arising on the acquisition of associated undertakings is included within the carrying value of the investment. When the excess is negative, a gain on bargain purchase is recognised immediately in the Consolidated Income Statement.

Other intangible assets that are acquired by the Group as part of a business combination are stated at cost less accumulated amortisation and impairment losses. Cost reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future economic benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate. Other intangibles arising on the acquisition of associated undertakings are included within the carrying value of the investment.

Amortisation is based on the useful economic lives of the assets concerned, currently being the consumption of economic benefits over a period up to 20 years.

Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets (see separate accounting policies), are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment reviews are undertaken at the level of each significant cash-generating unit, which is no larger than an operating segment as defined by IFRS 8 – *Operating Segments*. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held exclusively with a view to resale

Non-current assets acquired exclusively with a view to subsequent disposal are classified as assets held for resale at the acquisition date only where all criteria set out in IFRS 5 are satisfied within a short period following the acquisition. When acquired as part of a business combination, non-current assets acquired exclusively with a view to subsequent disposal are initially measured at fair value less costs to sell. Subsequently, these non-current assets are measured at the lower of their current carrying value and current fair value less costs to sell. Subsequent gains or losses on remeasurement are recognised in the Consolidated Income Statement. Gains are not recognised in excess of any cumulative loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1 ACCOUNTING POLICIES CONTINUED

Emissions rights

Emissions rights where an annual allowance is received for nil cost, typically EU ETS credits, are accounted for such that an emissions liability is recognised only in circumstances where emissions have exceeded the allowance from the perspective of the Group as a whole and will require the purchase of additional allowances to settle the emissions liability. Assets and liabilities arising in respect of nil cost emission allowances are accordingly netted against one another in the preparation of the Consolidated Financial Statements.

Retirement benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Income Statement as incurred.

Provisions

Restoration provisions

Where a legal or constructive obligation exists, the Group provides for the costs of restoring a site and of decommissioning associated property, plant and equipment. The initial cost of creating provisions on commencement of the exploitation of the raw materials is included in property, plant and equipment and depreciated over the life of the site. Changes in the measurement of a provision that result from changes in the estimated timing or amount of cash outflows are added to, or deducted from, the cost of the related asset. All provisions are discounted to their present value at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Other provisions

A provision is recognised in the Consolidated Statement of Financial Position when the Group has a present legal or constructive obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Revenue

Group revenue arises from the sale of goods and contracting services. IFRS 15 requires revenue from contracts with customers to be recognised in line with a principles-based five-step model. This requires the Group to identify performance obligations within its contracts with customers, determine the transaction price applicable to each of these performance obligations and then to select an appropriate method for the timing of revenue recognition reflecting the substance of the performance obligation, being either recognition at a point in time or over time.

Sale of goods

The majority of the Group's revenue is derived from the sale of physical goods to customers. Depending on whether the goods are delivered to or collected by the customer, the contract contains either one performance obligation which is satisfied at the point of collection, or two performance obligations which are satisfied simultaneously at the point of delivery.

The transaction price for this revenue is the amount which can be invoiced to the customer once the performance obligations are fulfilled, reduced to reflect provisions recognised for returns, trade discounts and rebates. The Group does not routinely offer discounts or volume rebates, but where it does the variable element of revenue is based on the most likely amount of consideration that the Group believes it will receive. This value also excludes items collected on behalf of third parties, such as sales and value added taxes.

For all sales of goods, revenue is recognised at a point in time, being the point that the goods are transferred to the customer.

1 ACCOUNTING POLICIES CONTINUED

Revenue continued

Contracting services

The majority of contracting services revenue arises from contract surfacing work, which typically comprises short-term contracts with a performance obligation to supply and lay product. Other contracting services revenue can contain more than one performance obligation dependent on the nature of the contract.

The transaction price is calculated as consideration specified by the contract, adjusted to reflect provisions recognised for returns, remedial work arising in the normal course of business, trade discounts and rebates. The Group does not routinely offer discounts or volume rebates, but where it does the variable element of revenue is based on the most likely amount of consideration that the Group believes it will receive.

Where the contract provides for elements of variable consideration, these values are included in the calculation of the transaction price only to the extent that it is 'highly probable' that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

Where the transaction price is allocated between multiple performance obligations on other contracts, this typically reflects the allocation of value to each performance obligation agreed with the end customer, unless this does not reflect the economic substance of the transaction.

As contracting services performance obligations are satisfied over time, revenue is recognised over time. It is measured on an output basis, being volume of product laid for contract surfacing.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Income Statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial income and expense

Financial income and expense comprises interest payable, finance charges, finance lease charges, interest receivable on funds invested, and gains and losses on hedging instruments that are recognised in the Consolidated Income Statement.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Warranties and customer claims

The Group provides assurance type warranties over the specification of products, but does not provide extended warranties or maintenance services in its contracts with customers. Additionally, claims with customers may arise in the usual course of business. Both customer claims and warranties are accounted for under IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets.*

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the reporting date and includes any adjustment to tax payable in respect of previous years.

1 ACCOUNTING POLICIES CONTINUED

Deferred tax

Deferred tax is provided in full using the Statement of Financial Position liability method and represents the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Share-based transactions

Equity-settled share-based payments to directors, key employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value is expensed, with a corresponding increase in equity, on a straight line basis over the period that the employees become unconditionally entitled to the awards. At each reporting date, the Group revises the amount recognised as an expense to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with market-based performance conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Dividends

Dividends are recognised as a liability in the period in which they are approved by the Company's shareholders.

Alternative performance measures

The following non-GAAP performance measures have been used in the Financial Statements:

i. Underlying EBIT

ii. Underlying EBIT margin

iii. Underlying EBITDA

iv. Underlying basic earnings per share

Management uses these terms as it believes they allow a better understanding of underlying business performance, are consistent with its communication with investors and reflects the way in which the business is managed.

A reconciliation between Underlying EBIT, EBITDA and reported profit is included within note 28.

2 SEGMENTAL ANALYSIS

The principal activity of the Group is the quarrying of aggregates and manufacture and sale of construction materials and building products, including cement, asphalt and ready-mixed concrete, together with related activities in GB and Ireland.

The Group previously split into three reportable units: Breedon Northern, Breedon Southern and Breedon Cement. Following the acquisition of Lagan the operating segments which have been reported have been updated to reflect the new structure of management reporting to the Chief Operating Decision Maker which is the Breedon Board of Directors. The prior year segmental analysis has been restated accordingly to reflect the new structure.

Great Britain comprising the trade previously reported in Breedon Northern and Breedon Southern, along with the building products businesses acquired with Lagan.

Ireland comprising the construction materials and contracting services businesses on the Island of Ireland which were acquired with Lagan.

Cement comprising the trade previously reported in Breedon Cement along with the cementitious operations acquired with Lagan.

A description of the activities of each segment is included on pages 33 to 37. There are no other operating segments.

Income statement

	2018		2017 (restated)	
	Revenue £m	EBITDA* £m	Revenue £m	EBITDA* £m
Great Britain	**609.8**	**92.2**	577.5	89.5
Ireland	**156.3**	**25.4**	–	–
Cement	**176.5**	**48.6**	141.6	39.9
Central administration	**–**	**(11.8)**	–	(12.4)
Eliminations	**(79.9)**	**–**	(66.7)	–
Group	**862.7**	**154.4**	652.4	117.0

* EBITDA is earnings before interest, tax, depreciation, amortisation, non-underlying items (note 3) and before our share of profit from associate and joint ventures.

	2018	2017 (restated)
Reconciliation to statutory profit		
Group EBITDA as above	**154.4**	117.0
Depreciation and mineral depletion	**(52.6)**	(39.3)
Underlying operating profit		
Great Britain	**61.4**	64.5
Ireland	**20.9**	–
Cement	**31.4**	25.8
Central administration	**(11.9)**	(12.6)
	101.8	77.7
Share of profit of associate and joint ventures	**1.7**	2.7
Underlying profit from operations (EBIT)	**103.5**	80.4
Non-underlying items (note 3)	**(11.8)**	(2.8)
Profit from operations	**91.7**	77.6
Net financial expense	**(11.8)**	(6.4)
Profit before taxation	**79.9**	71.2
Taxation	**(15.3)**	(14.2)
Profit for the year	**64.6**	57.0

2 SEGMENTAL ANALYSIS CONTINUED

Disaggregation of revenue from contracts with customers

Analysis of revenue by geographic location

The primary geographic market for all Group revenues for the purpose of IFRS 15 is the UK and RoI. In line with the requirements of IFRS 8, this is analysed by individual countries as follows:

	2018 £m	2017 £m
United Kingdom	**765.8**	652.4
Republic of Ireland	**95.2**	–
Other	**1.7**	–
Total	**862.7**	652.4

Analysis of revenue by major products and service lines

	2018 £m	2017 £m
Sale of goods		
Great Britain	**532.7**	506.7
Ireland	**38.0**	–
Cement	**176.5**	141.6
Eliminations	**(79.9)**	(66.6)
	667.3	581.7
Contracting services		
Great Britain	**77.1**	70.7
Ireland	**118.3**	–
Cement	**–**	–
Eliminations	**–**	–
	195.4	70.7
Total	**862.7**	652.4

Timing of revenue recognition

All revenues from the sale of goods relate to products for which revenue is recognised at a point in time as the product is transferred to the customer. Contracting services revenues are accounted for as products and services for which revenue is recognised over time.

2 SEGMENTAL ANALYSIS CONTINUED

Statement of financial position

	2018		2017 (restated)	
	Total assets £m	**Total liabilities £m**	Total assets £m	Total liabilities £m
Great Britain	**629.2**	**(119.5)**	513.2	(112.3)
Ireland	**250.9**	**(35.3)**	–	–
Cement	**471.1**	**(47.7)**	307.6	(29.1)
Central administration	**3.7**	**(13.5)**	1.8	(8.1)
Total operations	**1,354.9**	**(216.0)**	822.6	(149.5)
Current tax	**–**	**(7.3)**	–	(6.8)
Deferred tax	**–**	**(47.6)**	–	(28.4)
Net debt	**37.6**	**(348.3)**	23.9	(133.7)
Total Group	**1,392.5**	**(619.2)**	846.5	(318.4)
Net assets		**773.3**		528.1

GB total assets include £6.4m (2017: £6.2m) in respect of investment in an associate and joint ventures.

Geographic location of property, plant and equipment assets

	2018 £m	2017 £m
United Kingdom	**546.5**	477.4
Republic of Ireland	**119.4**	–
Total	**665.9**	477.4

Analysis of depletion & depreciation, amortisation and capital expenditure

	Mineral depletion & depreciation £m	**Amortisation of intangible assets £m**	**Additions to property, plant & equipment £m**
2018			
Great Britain	**30.8**	**1.4**	**27.9**
Ireland	**4.5**	**2.8**	**6.4**
Cement	**17.2**	**–**	**14.2**
Central administration	**0.1**	**–**	**0.2**
Total	**52.6**	**4.2**	**48.7**
2017 (restated)			
Great Britain	25.0	0.2	33.3
Ireland	–	–	–
Cement	14.1	–	12.9
Central administration	0.2	–	–
Total	39.3	0.2	46.2

Additions to property, plant and equipment exclude additions in respect of business combinations.

3 NON-UNDERLYING ITEMS

Non-underlying items are those which are either unlikely to recur in future periods or represent non-cash items which distort the underlying performance of the business. In the opinion of the directors, this presentation aids understanding of the underlying business performance and references to underlying earnings measures throughout this report are made on this basis. Underlying measures are presented on a consistent basis over time to assist in the comparison of performance.

	2018 £m	2017 £m
Included in administrative expenses:		
Redundancy and reorganisation costs	**1.5**	2.5
Acquisition costs (note 26)	**6.4**	0.6
Loss/(gain) on property disposals	**0.2**	(0.5)
Amortisation of acquired intangible assets	**4.2**	0.2
Gain on stepped acquisition of joint venture (note 11)	**(0.5)**	–
Total non-underlying items (pre-tax)	**11.8**	2.8
Non-underlying taxation	**(0.6)**	(0.5)
Total non-underlying items (after tax)	**11.2**	2.3

4 EXPENSES AND AUDITOR'S REMUNERATION

	2018 £m	2017 (restated) £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment:		
Owned assets	**47.7**	36.1
Assets held under finance lease	**4.9**	3.2
Amortisation of intangible assets	**4.2**	0.2
Loss/(gain) on property disposals (note 3)	**0.2**	(0.5)
Gain on sale of plant and equipment	**(0.7)**	(0.4)
Operating lease rentals:		
Plant, equipment and vehicles	**6.6**	6.9
Land and buildings	**3.5**	3.2
Auditor's remuneration		
Audit of the Company's annual accounts	**–**	–
Audit of the Company's subsidiary undertakings	**0.6**	0.2
Non-audit services	**–**	0.1
	0.6	0.3

This note has been restated to exclude future payments in relation to the exploration and use of minerals which fall outside the scope of the standard.

5 REMUNERATION OF DIRECTORS, STAFF NUMBERS AND COSTS

Details of the remuneration received by directors is summarised below:

	2018 £m	2017 £m
Salaries and short-term employee benefits	**2.0**	1.7
Directors' fees	**1.0**	1.0
Equity settled share-based payments (note 19)	**1.6**	1.4
	4.6	4.1

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Great Britain	**2,039**	1,952
Ireland	**317**	–
Cement	**310**	237
Central administration	**34**	56
	2,700	2,245

The aggregate payroll costs of these persons (including directors) were as follows:

	2018 £m	2017 £m
Wages and salaries	**106.8**	84.0
Social security costs	**11.6**	8.8
Pension costs	**4.0**	2.9
Equity settled share-based payments (note 19)	**2.9**	2.9
	125.3	98.6

6 FINANCIAL INCOME AND EXPENSE

	2018 £m	2017 £m
Bank deposits	**0.1**	–
Financial income	**0.1**	–
Bank loans and overdrafts	**(8.9)**	(3.7)
Amortisation of prepaid bank arrangement fee	**(1.0)**	(0.8)
Finance leases	**(0.4)**	(0.4)
Unwinding of discount on provisions	**(1.6)**	(1.5)
Financial expense	**(11.9)**	(6.4)

7 TAXATION

Recognised in the Consolidated Income Statement

	2018 £m	2017 £m
Current tax expense		
Current year	**17.1**	14.0
Prior year	**(0.5)**	(0.9)
Total current tax	**16.6**	13.1
Deferred tax expense		
Current year	**(1.2)**	1.3
Prior year	**(0.1)**	(0.2)
Total deferred tax	**(1.3)**	1.1
Total tax charge in the Consolidated Income Statement	**15.3**	14.2

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit before taxation	**79.9**	71.2
Tax at the Company's domestic rate of 0%*	**–**	–
Higher tax rates on earnings in the United Kingdom and the Republic of Ireland*	**15.2**	14.1
Expenses not deductible for tax purposes	**1.3**	1.7
Property sales	**(0.4)**	0.2
Share-based payments	**0.1**	(0.1)
Income from associate and joint ventures already taxed	**(0.1)**	(0.5)
Effect of change in rate	**(0.2)**	(0.1)
Adjustment in respect of prior years	**(0.6)**	(1.1)
Total tax charge	**15.3**	14.2

* The Company is resident in Jersey and has a zero per cent tax rate. The Group has subsidiary operations in the UK which pay tax at a higher rate of 19 per cent (2017: 19.25 per cent) and RoI which pay tax at a higher rate of 12.5 per cent (2017: 12.5 per cent).

A reduction in the UK corporation tax rate from 19 per cent to 17 per cent (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on these rates.

8 PROPERTY, PLANT AND EQUIPMENT

	Mineral reserves and resources £m	Land and buildings £m	Plant, equipment & vehicles £m	Total £m
Cost				
Balance at 1 January 2017	156.1	44.0	356.4	556.5
Acquisitions through business combinations (note 26)	3.7	–	1.5	5.2
Additions	0.3	4.5	41.4	46.2
Disposals	(1.0)	–	(4.3)	(5.3)
Reclassification	2.3	2.2	(4.5)	–
Balance at 31 December 2017	**161.4**	**50.7**	**390.5**	**602.6**
Translation adjustment	0.6	0.9	2.0	3.5
Acquisitions through business combinations (note 26)	70.4	41.8	83.7	195.9
Additions	4.7	3.0	41.0	48.7
Disposals	(2.6)	(0.9)	(7.8)	(11.3)
Reclassification	–	0.5	(0.5)	–
Balance at 31 December 2018	**234.5**	**96.0**	**508.9**	**839.4**
Depreciation and mineral depletion				
Balance at 1 January 2017	20.7	4.2	64.1	89.0
Charge for the year	5.5	2.3	31.5	39.3
Disposals	–	–	(3.1)	(3.1)
Balance at 31 December 2017	**26.2**	**6.5**	**92.5**	**125.2**
Translation adjustment	–	–	0.1	0.1
Charge for the year	8.7	5.3	38.6	52.6
Disposals	–	(0.1)	(4.3)	(4.4)
Balance at 31 December 2018	**34.9**	**11.7**	**126.9**	**173.5**
Net book value				
At 31 December 2017	135.2	44.2	298.0	477.4
At 31 December 2018	**199.6**	**84.3**	**382.0**	**665.9**

Assets under construction

Presented within plant, equipment and vehicles are assets in the course of construction totalling £29.9m (2017: £20.4m) which are not being depreciated.

Depreciation and mineral depletion

Depreciation and mineral depletion is recognised in the following line items in the Consolidated Income Statement:

	2018 £m	2017 £m
Cost of sales	**50.5**	38.5
Administration expenses	**2.1**	0.8
	52.6	39.3

Security

All mineral reserves, resources, land and buildings are subject to a floating charge as security for bank loans and borrowings with Barclays Bank plc as security agent for the Group's lenders.

9 INTANGIBLE ASSETS

	Goodwill £m	Customer related £m	Other £m	Total £m
Cost				
At 1 January 2017	185.9	4.6	3.8	194.3
Acquisitions through business combinations (note 26)	4.8	–	–	4.8
Disposals	–	–	(3.8)	(3.8)
At 31 December 2017	190.7	4.6	–	195.3
Translation adjustment	3.5	0.6	0.1	4.2
Acquisitions through business combinations (note 26)	224.2	36.6	19.5	280.3
Disposals	(7.9)	–	–	(7.9)
At 31 December 2018	**410.5**	**41.8**	**19.6**	**471.9**
Amortisation				
At 1 January 2017	–	0.5	–	0.5
Charge for the year	–	0.2	–	0.2
At 31 December 2017	–	0.7	–	0.7
Translation adjustment	–	–	–	–
Charge for the year	–	3.6	0.6	4.2
Disposals	–	–	–	–
At 31 December 2018	**–**	**4.3**	**0.6**	**4.9**
Net book value				
At 31 December 2017	190.7	3.9	–	194.6
At 31 December 2018	**410.5**	**37.5**	**19.0**	**467.0**

Other intangible assets at 31 December 2018 includes the value of brand, permits and emissions assets arising from acquisitions.

As a result of the acquisition of Lagan, the Group now has significant customer related intangible assets. This note has therefore been restated to present these separately from other intangible assets.

The amortisation charge on these assets is being recognised in non-underlying administrative expenses in the Consolidated Income Statement.

9 INTANGIBLE ASSETS CONTINUED

Impairment tests for cash-generating units containing goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that the goodwill may be impaired. Goodwill is allocated to groups of CGUs according to the level at which management monitor that goodwill, which is at the level of operating segments.

A summary of the carrying value allocated to each operating segment is shown below:

	2018 £m	2017 (restated) £m
Great Britain	145.5	90.9
Ireland	110.0	–
Cement	155.0	99.8
	410.5	190.7

Following the reorganisation of operating segments in the year, goodwill has been reallocated between operating segments. This note has been restated accordingly. See note 2 for further details.

Key assumptions

The key assumptions used in performing the impairment review are set out below:

Cash flow projections

Cash flow projections for each operating segment are derived from the annual budget approved by the Board for 2019 and the three-year plan for 2020 and 2021. The key assumptions on which budgets and forecasts are based include sales growth, product mix and operating costs. These cash flows are then extrapolated forward for a further 27 years, with the total period of 30 years reflecting the long-term nature of the underlying assets. Budgeted cash flows are based on past experience and forecast future trading conditions.

Long-term growth rates

Cash flow projections assume growth rates of between 2.0 and 3.0 per cent (2017: 2.0 per cent) between year 4 to 30 of the cash flow projections. This reflects forecast rates of growth in the UK and RoI.

Discount rate

Forecast pre-tax cash flows for each segment have been discounted at pre-tax rates of between 9.2 and 9.6 per cent (2017: 10.4 per cent) which was calculated by an external expert based on market participants' cost of capital and adjusted to reflect factors specific to each segment.

Sensitivity

The Group has applied sensitivities to assess whether any reasonable possible changes in assumptions could cause an impairment that would be material to these consolidated Financial Statements. This demonstrated that neither a 1.0 per cent point increase in the discount rate, nor a 1.0 per cent reduction in the annual growth rate would cause an impairment.

The directors have therefore concluded that no impairment to goodwill is required.

Impact of Brexit

In performing the impairment review, the directors have carefully considered the additional uncertainty arising from Brexit through performing additional sensitivity analysis based on Brexit specific scenarios. These included changes to the discount rate and modelling the impact of a significant decline in short-to-medium term growth caused by an economic shock following a disorderly exit. This additional analysis indicated the existence of continued headroom for all segments.

10 PRINCIPAL GROUP COMPANIES

	Country of incorporation	Percentage of ordinary shares held	Principal activity
Subsidiary undertakings			
Great Britain			
Breedon Northern Limited	Scotland	100%	Production of construction materials
Breedon Southern Limited	England	100%	Production of construction materials
Alba Traffic Management Limited	Scotland	75%*	Traffic management
Breedon Whitemountain Ltd	Scotland	100%**	Contracting services
Breedon Brick Limited	Republic of Ireland	100%	Manufacture of building products
Lagan Cement Products Limited	Northern Ireland	100%	Manufacture of building products
Ireland			
Whitemountain Quarries Limited	Northern Ireland	100%	Production of construction materials
Alpha Resource Management Limited	Northern Ireland	100%	Waste disposal
Lagan Asphalt Limited	Republic of Ireland	100%	Contracting services
Lagan Bitumen Limited	Republic of Ireland	100%	Production of construction materials
Cement			
Breedon Cement Limited	England	100%	Cement production
Breedon Cement Ireland Limited	Republic of Ireland	100%	Cement production
Central administration			
Breedon Holdings Limited	England	100%	Service company
Breedon Group Services Limited	England	100%	Service company
Breedon Holdings (Jersey) Limited	Jersey	100%***	Holding company
Breedon Facilities Management Limited	Scotland	100%	Holding company
Associated undertaking			
BEAR Scotland Limited	Scotland	37.5%	Contracting services
Joint ventures			
Kingscourt Country Manor Brick Company Limited	Republic of Ireland	50%	Distribution of building products
Breedon Bowen Limited	England	50%	Production of construction materials

* The Consolidated Statement of Financial Position includes total assets of £1.5m (2017: £1.3m) and total liabilities of £0.6m (2017: £0.6m) in respect of Alba Traffic Management Limited, the Group's 75 per cent owned subsidiary undertaking.

** Breedon Whitemountain Ltd was a 50 per cent joint venture with Lagan which became 100 per cent owned in the year as a result of the acquisition of Lagan on 20 April 2018. See note 11 for further details.

*** Denotes shares are held directly by Breedon Group plc.

11 INVESTMENT IN ASSOCIATE AND JOINT VENTURES

The Group equity accounts for its investments in its associate and in its joint ventures.

	Associate £m	Joint ventures £m	Total £m
Carrying value			
At 1 January 2017	1.6	3.9	5.5
Share of profit of associate and joint ventures	0.9	1.8	2.7
Dividends received	(0.8)	(1.0)	(1.8)
Loan repayment	–	(0.2)	(0.2)
At 31 December 2017	1.7	4.5	6.2
Acquisitions (note 26)	–	0.9	0.9
Share of profit of associate and joint ventures	0.6	1.1	1.7
Dividends received	(0.4)	–	(0.4)
Loans to joint ventures reclassified from creditors	–	0.2	0.2
Loan repayment	–	(0.4)	(0.4)
Disposals	–	(1.8)	(1.8)
At 31 December 2018	**1.9**	**4.5**	**6.4**

The disposal during the year relates to Breedon Whitemountain. This company was previously a joint venture with Whitemountain, which became 100 per cent owned in the year as a result of the acquisition of Lagan on 20 April 2018 and therefore has been fully consolidated from this point. The acquisition accounting for this business combination (which is set out in note 26) required that the Group dispose of its share of investment in the joint venture for deemed proceeds equal to the fair value of the Group's pre-existing share of the business. This generated a profit of £0.5m which is included within non-underlying items in the Consolidated Income Statement.

Summary financial information on associate and joint ventures – 100 per cent:

	2018		2017	
	Associate £m	**Joint ventures £m**	Associate £m	Joint ventures £m
Non-current assets	**4.1**	**4.4**	8.3	4.8
Current assets	**20.7**	**7.5**	12.7	10.1
Current liabilities	**(18.4)**	**(4.3)**	(14.2)	(6.5)
Non-current liabilities	**(1.1)**	**(0.5)**	(2.2)	(0.8)
Net assets	**5.3**	**7.1**	4.6	7.6
Revenue	**106.6**	**22.6**	84.4	31.5
Net profit	**1.7**	**1.2**	2.3	3.6

12 DEFERRED TAX

	1 January 2018 £m	Acquisitions (note 26) £m	Recognised in income £m	Translation adjustments £m	31 December 2018 £m
Property, plant and equipment	**(33.3)**	**(12.8)**	**(0.5)**	**(0.1)**	**(46.7)**
Intangible assets	**(0.7)**	**(8.1)**	**0.7**	**(0.1)**	**(8.2)**
Working capital and provisions	**5.6**	**0.5**	**1.1**	**0.1**	**7.3**
Tax value of loss carry-forwards	**–**	**–**	**–**	**–**	**–**
	(28.4)	**(20.4)**	**1.3**	**(0.1)**	**(47.6)**

	1 January 2017 £m	Acquisitions (note 26) £m	Recognised in income £m	Translation adjustments £m	31 December 2017 £m
Property, plant and equipment	(31.0)	(0.1)	(2.2)	–	(33.3)
Intangible assets	(0.7)	–	–	–	(0.7)
Working capital and provisions	4.5	–	1.1	–	5.6
Tax value of loss carry-forwards	–	–	–	–	–
	(27.2)	–	(1.1)	–	(28.4)

A deferred tax asset of £1.5m in relation to historic losses within a subsidiary of the Lagan business acquired in the year has not been recognised on the basis that there is insufficient certainty around the Group's ability to utilise these losses to obtain tax relief going forwards. There are no unrecognised deferred tax liabilities (2017: No unrecognised assets or liabilities).

13 INVENTORIES

	2018 £m	2017 £m
Raw materials and consumables	**27.2**	13.9
Work in progress	**4.4**	2.0
Finished goods and goods for resale	**23.2**	15.0
	54.8	30.9

Inventories (being directly attributable costs of production) of £511.5m (2017: £358.1m) were expensed in the year.

14 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 (restated) £m
Trade receivables	**124.5**	95.7
Trade receivables due from associate and joint ventures (note 23)	**3.8**	3.8
Contract assets	**17.5**	6.5
Other receivables and prepayments	**15.0**	7.5
	160.8	113.5
Non-current	**–**	–
Current	**160.8**	113.5
	160.8	113.5

This note has been restated to separately disclose contract assets – being unbilled revenue and retentions – following adoption of IFRS 15.

15 INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. Note 20 provides further information about the Group's exposure to foreign exchange, liquidity and interest rate risk in respect of loans and borrowings.

Interest-bearing loans and borrowings

	2018 £m	2017 £m
Non-current liabilities		
Secured bank loans	**311.9**	124.2
Finance lease liabilities	**5.2**	5.1
	317.1	129.3
Current liabilities		
Secured bank loans	**25.0**	–
Finance lease liabilities	**6.2**	4.4
	31.2	4.4

In April 2018, the Group entered into a new four-year £500 million facility agreement, comprising a term loan of £150 million and a multi-currency revolving credit facility of £350 million. The facility became effective on completion of the Lagan acquisition and replaced the facility previously in place. Interest was paid on the facilities during the period at a margin of between 1.35 per cent and 2.05 per cent above LIBOR or EURIBOR according to the currency of borrowings. The facility is secured by a floating charge over the assets of the Company and its subsidiary undertakings. The term loan is repayable in four annual instalments over a four-year period. The revolving credit facility is repayable in April 2022.

Finance lease liabilities

Finance lease liabilities are secured on the assets to which they relate, and are payable as follows:

	2018			2017		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**6.5**	**0.3**	**6.2**	4.7	0.3	4.4
Between one and five years	**5.2**	**0.2**	**5.0**	5.2	0.1	5.1
More than five years	**0.2**	**–**	**0.2**	–	–	–
	11.9	**0.5**	**11.4**	9.9	0.4	9.5

At 31 December 2018, the net carrying amount of leased plant and machinery was £17.9m (2017: £14.7m).

15 INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

Net debt

	2018 £m	2017 £m
Net debt comprises the following items:		
Cash and cash equivalents	**37.6**	23.9
Current borrowings	**(31.2)**	(4.4)
Non-current borrowings	**(317.1)**	(129.3)
	(310.7)	(109.8)

Reconciliation of cash flow movement to movement in net debt

	2018 £m	2017 £m
For the year ended 31 December		
Net increase in cash and cash equivalents	**13.0**	19.3
Net cash flow from movements in debt financing	**(156.2)**	32.2
Movement on bank arrangement fees	**(1.0)**	(1.4)
Debt acquired via acquisitions (note 26)	**(55.0)**	(0.6)
Foreign exchange differences	**(1.7)**	–
Movement in net debt in the year	**(200.9)**	49.5
Net debt as at 1 January	**(109.8)**	(159.3)
Net debt as at 31 December	**(310.7)**	(109.8)

16 TRADE AND OTHER PAYABLES

	2018 £m	2017 (restated) £m
Trade payables	**97.2**	72.5
Trade payables due to joint ventures (note 23)	**–**	0.1
Contract liabilities	**3.2**	1.4
Other payables and accrued expenses	**56.4**	31.0
Other taxation and social security costs	**20.7**	15.8
	177.5	120.8

This note has been restated to present contract liabilities – being work billed in advance of revenue recognition – separately following adoption of IFRS 15.

17 PROVISIONS

	Restoration £m	Other £m	Total £m
At 1 January 2017	23.6	7.3	30.9
Amounts arising from business combinations (note 26)	0.5	–	0.5
Utilised during the year	(0.6)	(4.9)	(5.5)
Charged to income statement	0.8	0.5	1.3
Unused amounts reversed	–	–	–
Unwinding of discount	1.4	0.1	1.5
At 31 December 2017	25.7	3.0	28.7
Translation adjustment	0.1	–	0.1
Amounts arising from business combinations (note 26)	7.9	1.2	9.1
Utilised during the year	(0.4)	(0.9)	(1.3)
Charged to income statement	0.7	–	0.7
Unused amounts reversed	(0.4)	–	(0.4)
Unwinding of discount	1.5	0.1	1.6
At 31 December 2018	**35.1**	**3.4**	**38.5**

	2018 £m	2017 £m
Analysed as		
Current	**2.3**	2.6
Non-current	**36.2**	26.1
	38.5	28.7

Restoration provisions principally comprise provisions for the cost of restoring and decommissioning sites where an obligation arises to comply with contractual, environmental, planning and other legislation. The obligation is calculated on a site by site basis and is regularly reviewed to ensure it is adequate. The obligation has been discounted to reflect the period over which it will be settled.

Other provisions primarily comprise provisions for continued obligations for dilapidations and onerous leases.

18 CAPITAL AND RESERVES

Stated capital

	Number of ordinary shares (m) 2018	2017
Issued ordinary shares at beginning of year	**1,446.6**	1,411.0
Issued in connection with:		
Acquisition of Lagan	**227.8**	–
Exercise of savings-related share options	**1.8**	2.4
Vesting of Performance Share Plan awards	**3.0**	2.9
Exercise of warrants	**–**	30.3
	1,679.2	1,446.6

The Company has no limit to the number of shares which may be issued. The ordinary shares have no par value. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Movements during 2018:

The Company issued 222,222,222 ordinary shares of no par value raising £170.0m on 19 April 2018, and on 14 May 2018 issued 5,542,967 ordinary shares of no par value raising £4.2m in connection with the acquisition of Lagan and the associated open offer.

During 2018, the Company issued 1,839,813 ordinary shares of no par value raising £0.8m in connection with the exercise of certain savings-related share options.

On 25 April 2018, the Company issued 2,973,726 ordinary shares of no par value raising £nil in connection with the vesting of awards under the Performance Share Plans (see note 19).

Movements during 2017:

During 2017, the Company issued 2,456,412 ordinary shares of no par value raising £0.7m in connection with the exercise of certain savings-related share options.

On 4 April 2017, the Company issued 2,876,962 ordinary shares of no par value raising £nil in connection with the vesting of awards under the Performance Share Plans (see note 19).

On 11 July 2017, the Company issued 30,279,073 ordinary shares of no par value in settlement of the exercise of certain warrants issued in September 2010 as part of the reverse takeover of Breedon Holdings Limited.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedged instruments related to hedged transactions which have not yet occurred.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Financial Statements of foreign operations as well as from the translation of the liabilities that hedge the Group's net investment in foreign operations.

19 EMPLOYEE BENEFITS

Pension plans

Various defined contribution pension schemes operate within the Group. These are accounted for on a contribution payable basis. The total cost charged to the income statement in respect of defined contribution pension schemes was £4.0m (2017: £2.9m). Contributions outstanding at 31 December 2018 amounted to £0.7m (2017: £0.7m) and are included in payables.

Share-based payments

An element of senior executive remuneration is provided in the form of Performance Share Plan awards. More details of these options and awards can be found in the Directors' Remuneration Report. Employees are also invited to participate in the Breedon Sharesave scheme. The interests of the directors in both the Performance Share Plans and Breedon Sharesave scheme are disclosed in the Directors' Report.

Performance Share Plan

On 23 May 2011, the Group adopted the Breedon Aggregates Performance Share Plan (the PSP) as a means of attracting, rewarding, motivating and retaining certain key senior employees. Under the PSP, awards may be granted as conditional shares or as nil paid (or nominal) cost options. Awards will normally vest three years after grant subject to satisfaction of the relevant performance condition.

Movements in the number of outstanding conditional awards of ordinary shares during the year were as follows:

Date of Grant	Fair Value in pence	Consideration payable on vesting	Vesting period	**Outstanding at 1 Jan 2018**	**Granted**	**Vested**	**Lapsed**	**Outstanding at 31 Dec 2018**
April 2015	45.5	–	2015 to 2018	**1,908,390**	**–**	**(1,908,390)**	**–**	**–**
April 2016	71.8	–	2016 to 2019	**1,885,896**	**–**	**–**	**–**	**1,885,896**
April 2017	75.3	–	2017 to 2020	**2,107,790**	**–**	**–**	**–**	**2,107,790**
April 2017	75.3	–	2017 to 2018	**364,238**	**–**	**(364,238)**	**–**	**–**
April 2017	75.3	–	2017 to 2019	**603,516**	**–**	**–**	**–**	**603,516**
April 2017	75.3	–	2017 to 2020	**266,376**	**–**	**–**	**–**	**266,376**
April 2018	84.1	–	2018 to 2021	**–**	**3,396,346**	**–**	**–**	**3,396,346**
				7,136,206	**3,396,346**	**(2,272,628)**	**–**	**8,259,924**

The weighted average consideration payable upon vesting in respect of the conditional awards outstanding at 31 December 2018, and movements in conditional awards during the period was 0.0p (2017: 0.0p).

The awards were valued using the Black-Scholes valuation model with key inputs as follows:

Date of grant	April 2015	April 2016	April 2017	**April 2018**
Total awards at date of grant	2,671,868	2,006,023	3,649,414	3,396,346
Share price at date of grant	45.5p	71.8p	75.3p	84.1p
Expected volatility	27%	24%	24%	22%
Risk-free rate	0.65%	0.59%	0.10%	0.85%
Expected term	3 years	3 years	1-3 years	3 years
Expected dividend yield	0%	0%	0%	0%

19 EMPLOYEE BENEFITS CONTINUED

Non-Employee Performance Share Plan

On 3 March 2014, the Group adopted the Breedon Aggregates Non-Employee Performance Share Plan (the NEPSP) as a means of attracting, rewarding, motivating and retaining certain key persons who provide services to the Company either as an individual or through a personal service company and who are not otherwise an employee of any group company. Under the NEPSP, awards may be granted as conditional shares or as nil paid (or nominal) cost options. Awards are subject to satisfaction of the relevant performance condition.

Movements in the number of outstanding share options are as follows:

Date of Grant	Fair Value in pence	Exercise price in pence	Vesting period	Outstanding at 1 Jan 2018	Granted	Exercised	Lapsed	Outstanding at 31 Dec 2018
April 2015	44.5	1.0	2015 to 2018	**701,098**	**–**	**(701,098)**	**–**	**–**
April 2016	70.8	1.0	2016 to 2019	**531,914**	**–**	**–**	**–**	**531,914**
April 2017	74.3	1.0	2017 to 2020	**529,801**	**–**	**–**	**–**	**529,801**
April 2018	83.1	1.0	2018 to 2020	**–**	**802,615**	**–**	**–**	**802,615**
				1,762,813	**802,615**	**(701,098)**	**–**	**1,864,330**

The weighted average exercise price of share options outstanding at 31 December 2018, and movements in share options during the period was 1.0p (2017: 1.0p).

The options were valued using the Black-Scholes valuation model with key inputs as follows:

Date of grant	April 2015	April 2016	April 2017	April 2018
Share price at date of grant	45.5p	71.8p	75.3p	84.1p
Total options at date of grant	701,098	531,914	529,801	802,615
Expected volatility	27%	24%	24%	22%
Risk-free rate	0.65%	0.59%	0.10%	0.85%
Expected term	3 years	3 years	3 years	3 years
Expected dividend yield	0%	0%	0%	0%

Sharesave Schemes

During the year, the Group operated savings-related share option schemes open to all employees in both the UK and RoI (the Breedon Sharesave Schemes). The number and weighted average exercise prices of options granted under the Breedon Sharesave Schemes are as follows:

UK Sharesave Scheme

Date of Grant	Fair Value in pence	Exercise price in pence	Outstanding at 1 Jan 2018	Granted	Exercised	Lapsed	Outstanding at 31 Dec 2018
5 year option granted 2013	13.6	17.8	**508,971**	**–**	**(508,971)**	**–**	**–**
5 year option granted 2014	16.7	37.8	**1,279,659**	**–**	**(68,782)**	**(45,503)**	**1,165,374**
3 year option granted 2015	7.8	42.7	**1,111,960**	**–**	**(1,084,562)**	**(27,398)**	**–**
5 year option granted 2015	14.8	39.0	**1,574,100**	**–**	**(20,127)**	**(75,254)**	**1,478,719**
3 year option granted 2016	18.8	59.9	**1,177,921**	**–**	**(6,756)**	**(118,763)**	**1,052,402**
5 year option granted 2016	25.9	54.8	**1,603,386**	**–**	**(28,739)**	**(298,069)**	**1,276,578**
3 year option granted 2017	16.4	69.8	**2,656,200**	**–**	**(12,676)**	**(438,565)**	**2,204,959**
5 year option granted 2017	23.5	63.8	**5,346,292**	**–**	**(109,200)**	**(1,180,473)**	**4,056,619**
3 year option granted 2018	20.5	72.6	**–**	**1,904,148**	**–**	**(213,604)**	**1,690,544**
5 year option granted 2018	29.1	66.4	**–**	**3,513,419**	**–**	**(206,922)**	**3,306,497**
			15,258,489	**5,417,567**	**(1,839,813)**	**(2,604,551)**	**16,231,692**

19 EMPLOYEE BENEFITS CONTINUED

Sharesave Schemes continued

UK Sharesave Scheme continued

The weighted average exercise price of share options outstanding at 31 December 2018 was 61.0p (2017: 55.8p). The weighted average exercise prices of share options granted, exercised and lapsed in the year to 31 December 2018 were 68.6p, 37.3p and 63.3p, respectively (2017: 65.8p, 30.0p and 55.1p, respectively).

The fair value of services received in return for share options granted is measured based on a Black-Scholes valuation model using the following assumptions in respect of options granted in the current and prior year:

	3 year options Granted 2018	5 year options Granted 2018	3 year options Granted 2017	5 year options Granted 2017
Share price at date of grant	**84.0p**	**84.0p**	75.9p	75.9p
Total options at date of grant	**1,904,148**	**3,513,419**	2,823,028	5,632,643
Expected volatility	**22.1%**	**24.0%**	24.6%	25.7%
Risk-free rate	**0.92%**	**1.18%**	0.14%	0.34%
Option life	**3 years**	**5 years**	3 years	5 years
Expected dividend yield	**0%**	**0%**	0%	0%

RoI Sharesave Scheme

Date of Grant	Fair Value in pence	Exercise price in pence	Outstanding at 1 Jan 2018	Granted	Exercised	Lapsed	Outstanding at 31 Dec 2018
3 year option granted 2018	16.2	64.9	**–**	**226,729**	**–**	**–**	**226,729**
5 year option granted 2018	23.5	59.4	**–**	**1,107,103**	**–**	**(26,581)**	**1,080,522**
			–	**1,333,832**	**–**	**(26,581)**	**1,307,251**

The weighted average exercise price of share options outstanding at 31 December 2018 was 60.4p (2017: nil). The weighted average exercise prices of share options granted and lapsed in the year to 31 December 2018 were 60.3p and 59.4p respectively (2017: nil).

The fair value of services received in return for share options granted is measured based on a Black-Scholes valuation model using the following assumptions in respect of options granted in the current year:

	3 year options Granted 2018	5 year options Granted 2018
Share price at date of grant	**74.2p**	**74.2p**
Total options at date of grant	**226,729**	**1,107,103**
Expected volatility	**22.1%**	**24.0%**
Risk-free rate	**0.92%**	**1.18%**
Option life	**3 years**	**5 years**
Expected dividend yield	**0%**	**0%**

20 FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Foreign exchange risk
- Liquidity risk
- Interest rate risk

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing these risks.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their role and obligations.

Treasury activities are managed on a Group basis under policies and procedures approved and monitored by the Board. These are designed to reduce the financial risks faced by the Group. Where appropriate, the Group uses financial instruments to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises from cash and cash equivalents, derivative financial instruments and, principally, from the Group's receivables from customers.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. The Group has credit insurance covering the majority of its private sector customers. At the reporting date, there were no significant concentrations of credit risk.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2018 £m	2017 £m
Trade and other receivables	**160.8**	113.5
Cash and cash equivalents	**37.6**	23.9
	198.4	137.4

Credit risk associated with cash balances is managed by transacting with financial institutions with high-quality credit ratings. Accordingly, the Group's associated credit risk is limited.

The maximum exposure to credit risk for trade receivables and contract assets (excluding trade receivables due from associate and joint ventures) at the reporting date, by reportable segment, was:

	Carrying amount	
	2018 £m	2017 (restated) £m
Great Britain	**92.9**	91.0
Ireland	**30.3**	–
Cement	**18.8**	11.2
	142.0	102.2

Following the reorganisation of operating segments in the year, goodwill has been reallocated between operating segments. This note has been restated accordingly. See note 2 for further details.

20 FINANCIAL INSTRUMENTS CONTINUED

Exposure to credit risk continued

Management considers that the credit quality of the various receivables is good in respect of the amounts outstanding. The Group has no individually significant customers. The majority of the Group's customers are end-user customers. The Group's credit insurance covers the majority of its private sector UK and Ireland trade receivables subject to an aggregate first loss. The Group has fully provided for all its doubtful debt exposure. The remaining credit risk is therefore considered to be low.

The ageing of trade receivables and contract assets (excluding trade receivables due from associate and joint ventures) at the reporting date was:

	2018		2017	
	Gross £m	**Impairment £m**	Gross £m	Impairment £m
Not past due	**123.4**	**(1.4)**	96.3	(0.4)
Past due 0-30 days	**11.5**	**(0.6)**	4.5	(0.1)
Past due 31-60 days	**6.3**	**(0.2)**	1.1	(0.2)
Past due more than 60 days	**5.7**	**(2.7)**	2.7	(1.7)
	146.9	**(4.9)**	104.6	(2.4)

Provisions for impairment of trade receivables are calculated on an 'expected loss' model in line with IFRS 9. Movements during the year were as follows:

	2018 £m	2017 £m
At 1 January	**2.4**	2.7
Amounts arising from business combinations (note 26)	**2.8**	0.3
Charged to the Consolidated Income Statement during the year	**1.0**	0.6
Utilised during the year	**(0.9)**	(1.0)
Unused amounts released	**(0.4)**	(0.2)
At 31 December	**4.9**	2.4

Foreign exchange risk

Transactional

The Group has limited transactional currency exposures arising on sales and purchases made in currencies other than the functional currency of the entity making the sale or purchase. Significant exposures which are deemed at least highly probable are matched where possible, but the remaining transactional risk is not generally mitigated.

Translation

The Group has significant net assets located in RoI which are denominated in Euro. The translation of these balances into Sterling for reporting purposes exposes the Group to foreign exchange movements in the Consolidated Statement of Financial Position and Consolidated Income Statement, along with a corresponding impact on certain key performance indicators. The Group's strategy is to mitigate this risk through utilising its Euro borrowings, which form part of its multi-currency revolving facility, as a hedge against movements in the Sterling value of its Euro investments. The level of this hedge is currently managed with the objective of mitigating the impact of foreign exchange movements on Leverage.

The carrying amount of the Group's interest-bearing borrowings denominated in foreign currency is as follows.

	2018 £m	2017 £m
Sterling	**280.2**	133.7
Euro	**68.1**	–
	348.3	133.7

20 FINANCIAL INSTRUMENTS CONTINUED

Significant exchange rates

The following significant exchange rates applied during the year

	2018	
	Average rate	Year-end rate
Sterling/Euro	1.13	1.11

Exchange rate sensitivity

A 10 per cent strengthening of Sterling against the following currencies would have decreased equity and profit before tax by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant:

	2018		2017	
	Profit £m	Equity £m	Profit £m	Equity £m
Euro	1.6	21.1	–	–

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecasts and cash flows and negotiating appropriate bank facilities. The Group uses term and revolving bank facilities and sufficient headroom is maintained above peak requirements to meet unforeseen events.

The following are the contractual maturities of financial liabilities, including estimated interest payments based on current utilisation:

31 December 2018	Carrying amount £m	Contractual cash flows £m	Within one year £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities					
Multi-currency revolving credit facility					
– Sterling	125.0	135.6	3.2	132.4	–
– Euro	65.8	69.7	1.2	68.5	–
Term loan					
– Sterling	150.0	158.4	28.4	130.0	–
Prepaid bank arrangement fees	(3.9)	–	–	–	–
Finance lease liabilities	11.4	11.9	6.6	5.2	0.2
Other financial liabilities	184.8	184.8	184.8	–	–
	533.1	560.4	224.2	336.1	0.2

31 December 2017	Carrying amount £m	Contractual cash flows £m	Within one year £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities					
UK secured bank loans	124.2	131.4	3.9	127.5	–
Finance lease liabilities	9.5	9.9	4.7	5.2	–
Other financial liabilities	127.6	127.6	127.6	–	–
	261.3	268.9	136.2	132.7	–

The capital element of the multi-currency revolving credit facility is repayable in April 2022.

The term loan is repayable in annual instalments between April 2019 and April 2022.

20 FINANCIAL INSTRUMENTS CONTINUED

Interest rate risk

The Group currently borrows at floating and fixed interest rates. The Group uses interest rate caps to manage its exposure to changes in floating interest rates. The Group has an interest rate cap covering £150m (2017: £90m) of debt which caps interest rates (excluding margins) at 3.0 per cent (2017: 3.17 per cent to October 2020). The Group classifies interest rate caps as cash flow hedges and states them at fair value. The fair value of the cap at 31 December 2018 was £nil (2017: £nil).

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2018 £m	2017 £m
Fixed rate instruments		
Financial liabilities	**(11.4)**	(9.5)
Variable rate instruments		
Financial liabilities*	**(336.9)**	(124.2)
Financial assets	**37.6**	23.9
	(310.7)	(109.8)

* variable rate financial liabilities include £150m (2017: £90m) of debt subject to an interest rate cap (see above).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates in respect of variable rate instruments at reporting date values would decrease equity and income and expenditure for a full year by £3.0m (2017: £1.1m). A decrease of 100 basis points would have increased equity and income and expenditure on the same basis by £3.0m (2017: £0.6m). These analyses assume that all other variables remain constant.

Fair values versus carrying amounts

The directors consider that the carrying amounts recorded in the financial information in respect of financial assets and liabilities, which are carried at amortised cost, approximates to their fair values.

Derivative financial assets and liabilities are carried at fair value. The different levels have been defined as follows:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either as a direct price or indirectly derived from prices
- Level 3 – inputs for the asset or liability that are not based on observable market data

The fair value of the derivative financial assets is based on bank valuations.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board closely monitors the shareholder base and EPS. Subject to the availability of distributable reserves, dividends will be paid to shareholders when the directors believe it is appropriate and prudent to do so. However, for now, the main focus of the Group will be on delivering capital growth for shareholders. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The financial covenants associated with the Group's borrowings are a maximum leverage ratio and a minimum interest cover. The Group complied with its covenants at 31 December 2018 and 31 December 2017.

21 OPERATING LEASES

Total non-cancellable operating lease rentals are payable as follows:

	2018		2017 (restated)	
	Land & buildings £m	Plant, equipment & vehicles £m	Land & buildings £m	Plant, equipment & vehicles £m
Less than one year	**3.8**	**5.9**	3.9	6.4
Between one and five years	**12.5**	**9.1**	12.1	12.1
More than five years	**33.7**	**4.9**	31.4	6.7
	50.0	**19.9**	47.4	25.2

This note has been restated to exclude future payments in relation to the exploration and use of minerals which fall outside the scope of the standard.

22 CAPITAL COMMITMENTS

At 31 December 2018, the Group had commitments to purchase property, plant and equipment for £4.6m (2017: £1.6m). These commitments are expected to be settled in the following financial year.

23 RELATED PARTIES

During the year, the Group supplied services and materials to, and purchased services and materials from, its associate and joint ventures on an arm's length basis. It had the following transactions with these related parties during the year:

	Revenue £m	Purchases £m	Receivables £m	Payables £m
2018				
BEAR Scotland Limited	**29.8**	**0.4**	**3.2**	**–**
Breedon Bowen Limited	**0.2**	**0.3**	**–**	**–**
Breedon Whitemountain Ltd*	**2.9**	**–**	**–**	**–**
Kingscourt Country Manor Brick Company Limited	**1.7**	**0.3**	**0.6**	**–**
	34.6	**1.0**	**3.8**	**–**
2017				
BEAR Scotland Limited	24.9	–	2.6	–
Breedon Bowen Limited	0.2	0.3	–	0.1
Breedon Whitemountain Ltd	5.1	–	1.2	–
	30.2	0.3	3.8	0.1

* Transactions disclosed with Breedon Whitemountain for 2018 relate to the period to 20 April 2018. After this point, the company was a wholly owned subsidiary and is included within the consolidated results of the Group.

During the year, the Group also supplied services to, and purchased services from its 75 per cent owned subsidiary undertaking on an arm's length basis. It had the following transactions with this related party during the year which have been fully eliminated on consolidation.

	Revenue £m	Purchases £m	Receivables £m	Payables £m
2018				
Alba Traffic Management Limited	**1.4**	**0.2**	**–**	**–**
2017				
Alba Traffic Management Limited	1.5	0.3	0.1	–

23 RELATED PARTIES CONTINUED

Parent and ultimate controlling party

The Company is listed on AIM and monitors its shareholder base on a regular basis. There is no controlling party.

Transactions with directors and directors' shareholdings

Details of transactions with directors and directors' shareholdings are given in the Directors' Remuneration report and the Directors' Report on pages 57 to 65 and 67 to 69 respectively.

24 EARNINGS PER SHARE

	2018			2017		
	Earnings £m	Weighted average number of shares (millions)	Per share amount Pence	Earnings £m	Weighted average number of shares (millions)	Per share amount Pence
Statutory						
Basic earnings per ordinary share						
Total earnings attributable to ordinary shareholders	**64.5**	**1,609.183**	**4.01**	56.9	1,428.957	3.98
Effect of dilutive items						
Share-based payment	–	**5.525**	–	–	9.459	–
Warrants (note 18)	–	–	–	–	15.769	–
Diluted earnings per ordinary share	**64.5**	**1,614.709**	**3.99**	56.9	1,454.185	3.91
*Underlying**						
Basic earnings per ordinary share						
Underlying earnings attributable to ordinary shareholders	**75.7**	**1,609.183**	**4.70**	59.2	1,428.957	4.14
Effect of dilutive items						
Share-based payment	–	**5.525**	–	–	9.459	–
Warrants (note 18)	–	–	–	–	15.769	–
Diluted earnings per ordinary share	**75.7**	**1,614.709**	**4.68**	59.2	1,454.185	4.07

* Non-underlying items represent acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items.

25 CONTINGENT LIABILITIES

The Group has guaranteed its share of the banking facilities of BEAR Scotland, the Company's associated undertaking. The maximum liability at 31 December 2018 amounted to £1.8m (2017: £1.8m).

The Group has also guaranteed the performance of BEAR Scotland's contracts in respect of the maintenance of trunk roads in the North West and North East of Scotland and in respect of the M80 Operating and Maintenance contract.

26 ACQUISITIONS

Current year acquisitions

During the year, the Group completed the following acquisitions and asset swaps which were accounted for as business combinations:

- Acquisition of Staffs Concrete (3 April 2018)
- Acquisition of Lagan (20 April 2018)
- Acquisition of Blinkbonny quarry (1 June 2018)
- Asset swap with Tarmac (1 July 2018)

Lagan

The directors consider the acquisition of Lagan to be individually material to these Financial Statements. The fair value of the consideration paid and the consolidated net assets acquired, together with the goodwill arising in respect of this acquisition were as follows:

	Book value £m	Fair value adjustments £m	Fair value on acquisition £m
Intangible assets	13.5	42.6	56.1
Share of joint ventures	0.2	0.7	0.9
Property, plant and equipment	115.0	59.5	174.5
Inventories	20.7	0.8	21.5
Trade and other receivables	59.8	(0.3)	59.5
Cash	18.8	–	18.8
Trade and other payables	(55.6)	(0.5)	(56.1)
Interest-bearing loans and borrowings	(54.9)	–	(54.9)
Provisions	(2.3)	(5.9)	(8.2)
Deferred tax liabilities	(2.2)	(16.3)	(18.5)
Total	113.0	80.6	193.6
Consideration – cash			413.7
Consideration – deemed proceeds from stepped acquisition of Breedon Whitemountain Ltd			2.3
Goodwill arising			222.4

The fair value adjustments primarily comprised adjustments to:

- eliminate the £13.5m of pre-existing goodwill which comprised the book values of intangible assets in the opening balance sheet;
- recognise intangible assets, including the value of acquired customer related intangibles, brand, permits and emissions assets;
- revalue certain items of property, plant and equipment, including the Lagan cement plant at Kinnegad and the acquired mineral reserves and resources to reflect the fair value at date of acquisition;
- working capital accounts to reflect fair value;
- restoration provisions to reflect costs to comply with environmental, planning and other legislation; and
- deferred tax balances.

The goodwill arising represents anticipated synergies, the potential for future growth, the strategic geographic location of the assets acquired and the skills of the existing workforce and management team.

26 ACQUISITIONS CONTINUED

Current year acquisitions continued

Other current year acquisitions

The directors consider the acquisitions made in the year – excluding Lagan – to be individually immaterial, but material in aggregate. The combined fair value of the consideration paid and the consolidated net assets acquired, together with the goodwill arising in respect of these acquisitions were as follows:

	Book value £m	Fair value adjustments £m	Fair value on acquisition £m
Property, plant and equipment	19.6	1.8	21.4
Inventories	1.0	0.1	1.1
Trade and other receivables	1.1	–	1.1
Cash	1.1	–	1.1
Trade and other payables	(0.7)	–	(0.7)
Interest-bearing loans and borrowings	(0.1)	–	(0.1)
Provisions	(0.8)	(0.1)	(0.9)
Deferred tax liabilities	(1.6)	(0.3)	(1.9)
Total	19.6	1.5	21.1
Consideration – cash			12.5
Consideration – fair value of assets and liabilities transferred to Tarmac			10.4
Goodwill arising			1.8

The fair value adjustments primarily comprised adjustments to:

- revalue certain items of property, plant and equipment – mineral reserves and resources – to reflect fair value at the point of acquisition;
- working capital accounts to reflect fair value;
- restoration provisions to reflect costs to comply with environmental, planning and other legislation; and
- deferred tax balances.

The goodwill arising represents anticipated synergies, the potential for future growth, the strategic geographic location of the assets acquired and the skills of the existing workforce.

The value of assets and liabilities transferred to Tarmac by way of consideration comprised the following items:

	Book value £m	Fair value adjustments £m	Fair value on disposal £m
Goodwill	7.9	–	7.9
Property, plant and equipment	2.5	–	2.5
Total	10.4	–	10.4

Impact of current year acquisitions

Income statement

During the year, these acquisitions contributed revenues of £197.0m and Underlying EBIT of £27.9m to the Group.

If all current year acquisitions had occurred on 1 January 2018, the results of the Group for the year ended 31 December 2018 would have shown revenue of £910.9m and Underlying EBIT of £102.2m.

In total the Group incurred acquisition related costs of £6.4m (2017: £0.6m) in the year relating principally to external professional fees and due diligence costs. These have been included as non-underlying administrative costs (see note 3).

26 ACQUISITIONS CONTINUED

Impact of current year acquisitions continued

Cash flow

The cash flow effect of all current year acquisitions can be summarised as follows:

	£m
Consideration paid	(426.2)
Cash acquired with the businesses	19.9
Net cash consideration shown in the Consolidated Statement of Cash Flows	**(406.3)**

Prior year acquisitions

In 2017 the Group acquired both Pro Mini Mix and Humberside. No adjustments have been made in respect of either acquisition within the measurement period, and the provisional fair values reported in the prior year are now considered final.

27 ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial information are described below:

Accounting estimates

Fair values of assets on the Lagan business combination

In determining the fair valuation of assets acquired under business combinations, including the valuation of other intangibles, a number of estimates are made. The Lagan acquisition in the year is individually material to the Financial Statements, and therefore the estimates made in the course of applying the requirements of IFRS 3 in respect of this acquisition have a material impact on the Financial Statements. The most significant of these are as follows:

Estimating the fair value of the Lagan Cement works at Kinnegad

The Lagan Cement works at Kinnegad is a core asset of the acquired Lagan business and the Group has attributed substantial value to it in the fair value exercise, resulting in a fair value uplift of £24.1m to book value.

The calculation of the fair value of the plant is an estimate, which is made more complex by the nature of the asset. Cement plants are rarely, if ever, sold in the market, except by way of a sale of the business or entity of which it is part, due to the uniqueness arising from the specialised nature and design of the asset.

The directors therefore engaged an external expert to value the cement plant. This valuation was carried out on a Depreciated Replacement Cost basis, which involved the calculation of the cost of a modern equivalent plant, before estimating a hypothetical level of depreciation to reflect the age and condition of the plant.

The calculation of this requires an estimate as to the remaining life of the plant. This was estimated to be 35 years from the date of acquisition, and reflected the modern nature of the plant. If the estimate of useful economic life had been reduced by 10 years, the fair value recognised on acquisition would have reduced by £6.6m with a corresponding increase in goodwill.

Estimating the fair value of mineral assets

Mineral assets are typically held in the books of acquired companies at depreciated cost, which can be significantly below the fair value of these assets. The calculation of fair value is based on a discounted cash flow model. The significant inputs to this model which involve the use of estimates are the rate at which cash flows are discounted and the assessment of the quantum of accessible reserves and resources.

27 ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Accounting estimates continued

Fair values of assets on the Lagan business combination continued

The directors manage the estimation risk surrounding these items through the use of external experts to both calculate the discount rate and estimate the amount of accessible reserves and resources, based on geological surveys.

The total fair value uplift recognised in respect of mineral assets was £28.3m. A 1 per cent decrease in the discount rate used would result in the recognition of an additional £12.5m of mineral assets.

Reasonably possible changes to the estimate of accessible reserves and resources would be unlikely to have a material impact on the Financial Statements in respect of the acquisition accounting. This is because a change in this estimate would impact volumes available for extraction towards the end of quarry life and is therefore heavily discounted in the model. However, this is an estimate which requires constant monitoring subsequent to initial recognition. This is discussed in further detail below.

Calculation of the fair value of intangible assets

In line with the requirements of IFRS 3, the Group recognises identifiable intangible assets arising on business combinations. These include acquired customer related intangibles, brand, permits and emissions assets. The calculation of the fair value of these assets requires a number of estimates.

The most appropriate method for the calculation of the fair value of intangibles is considered on an asset by asset basis, but is typically calculated by discounting cash flows through a model such as Multi-Period Excess Earnings.

Restoration provisions

Restoration provisions principally comprise provisions for the cost of restoring and decommissioning sites where an obligation arises to comply with contractual, environmental, planning and other legislation. This is an inherently subjective calculation.

Estimated future cash flows have been determined on a site by site basis based on the present day cost of restoration. There is significant estimation required to determine the exact cost of the restoration work. An increase in these gross cash flow assumptions of 10 per cent would result in an increase of the restoration liability of £3.5m. These cash flows are subject to expert evaluation in order to mitigate the risk of material error.

These cash flows are then inflated to the point that the cash flow is expected to occur and discounted at a rate which reflects both the time value of money and the risk specific to the restoration liability in order to derive the net present value of the obligation as at the year-end. Restoration dates have been determined as the earlier of the date at which reserves are expected to be exhausted or planning permission on reserves is expected to expire, which fall over the next 25 years. Reasonably possible changes in assumptions around these estimates would not have a material impact on the Financial Statements, and management do not consider these to be significant estimates.

Goodwill impairment testing

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of the value in use for each operating segment. This calculation requires estimation of both future cash flows and the discount rates applied to these cash flows. Further information on the estimates made, including sensitivity analysis, is included in note 9.

Accounting judgements

Mineral reserves and resources

Mineral reserves and resources are the principal asset available to the Group. As at 31 December 2018, these had a carrying value of £199.6m. These mineral assets of the Group are spread over around 80 quarries, which equates to an average value of £2.5m per quarry. (2017: £135.2m spread over around 60 quarries).

Mineral reserves and resources are acquired either in the normal course of business or through business combinations. Those which are acquired in the normal course of business are held at historic cost on initial recognition. When mineral assets arise through business combinations, these are initially recognised at fair value as part of the acquisition accounting under IFRS 3. The estimation impact of this is discussed within the estimates section above.

27 ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Accounting judgements continued

Mineral reserves and resources continued

Subsequent to initial recognition, mineral assets are held at amortised cost and are expensed to reflect their use over time through an annual depletion charge. Mineral assets are subject to impairment testing if impairment triggers are identified, which include elements outside of the Group's control. This includes a range of factors outside of the Group's control such as changes in the planning and regulatory environment, geological and archaeological factors.

The identification of impairment triggers therefore requires the Group to exercise judgement. The most significant area of judgement is in respect of the likelihood of obtaining planning permission for those quarries where the existing permission is due to expire before all of the reserves and resources which have been recognised on balance sheet have been extracted.

28 RECONCILIATION TO NON-GAAP MEASURES

A number of non-GAAP performance measures are used throughout this Annual Report and these Financial Statements. This note provides a reconciliation between profit from operations (a statutory measure set out on the face of the Consolidated Income Statement) and the various non-GAAP measures used.

2018	Great Britain £m	Ireland £m	Cement £m	Central administration and eliminations £m	Share of profit of associate and joint ventures £m	Total £m
Profit from operations						**91.7**
Non-underlying items (note 3)						**11.8**
Underlying EBIT	**61.4**	**20.9**	**31.4**	**(11.9)**	**1.7**	**103.5**
Underlying EBIT margin*	**10.1%**	**13.4%**	**17.8%**			**12.0%**
Underlying EBIT	**61.4**	**20.9**	**31.4**	**(11.9)**	**1.7**	**103.5**
Share of profit for associate and joint ventures	**–**	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Depreciation and depletion	**30.8**	**4.5**	**17.2**	**0.1**	**–**	**52.6**
EBITDA	**92.2**	**25.4**	**48.6**	**(11.8)**	**–**	**154.4**

2017 (restated)	Great Britain £m	Ireland £m	Cement £m	Central administration and eliminations £m	Share of profit of associate and joint ventures £m	Total £m
Profit from operations						77.6
Non-underlying items (note 3)						2.8
Underlying EBIT	64.5	–	25.8	(12.6)	2.7	80.4
Underlying EBIT margin*	11.2%	–	18.2%			12.3%
Underlying EBIT	64.5	–	25.8	(12.6)	2.7	80.4
Share of profit for associate and joint ventures	–	–	–	–	(2.7)	(2.7)
Depreciation and depletion	25.0	–	14.1	0.2	–	39.3
EBITDA	89.5	–	39.9	(12.4)	–	117.0

* Underlying EBIT margin is calculated as Underlying EBIT divided by revenue.

Shareholder information

REGISTRAR

All administrative enquiries relating to shareholdings, such as lost certificates, changes of address, change of ownership or dividend payments and requests to receive corporate documents by email should, in the first instance, be directed to the Company's Registrar and clearly state the shareholder's registered address and, if available, the full shareholder reference number:

By post: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

By telephone: 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

By email: enquiries@linkgroup.co.uk

Online: www.linkassetservices.com

Registering on the Registrar's share portal enables you to view your shareholding, including an indicative share price and valuation, check your holding balance and transactions, change your address or bank details and view dividend payments. To register for Signal Shares just visit www.signalshares.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

GROUP WEBSITE AND ELECTRONIC COMMUNICATIONS

The 2018 annual report and other information about the Company are available on its website. The Company operates a service whereby you can register to receive notice by email of all announcements released by the Company.

The Company's share price (15 minutes delay) is displayed on the Company's website.

Shareholder documents are now, following changes in company law and shareholder approval, primarily made available via the Company's website, unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address, an email will be sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a letter will be posted to their address that is recorded on the register of members notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholder documents by contacting the Registrar.

If you have not already registered your current email address, you can do so at www.signalshares.com.

Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

The Group has a wide range of information that is available on our website including:

- finance information – annual reports and half year results, financial news and events;
- share price information;
- shareholder services information; and
- press releases – both current and historical.

MULTIPLE ACCOUNTS

Shareholders who receive more than one copy of communications from the Company may have more than one account in their name on the Company's register of members. Any shareholder wishing to amalgamate such holdings should write to the Registrar giving details of the accounts concerned and instructions on how they should be amalgamated.

UNSOLICITED MAIL, INVESTMENT ADVICE AND FRAUD

The Company is obliged by law to make its share register publicly available and, as a consequence, some shareholders may receive unsolicited mail. In addition, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence, typically from overseas 'brokers', concerning investment matters.

These callers can be very persistent and extremely persuasive and their activities have resulted in considerable losses for some investors. It is not just the novice investor that has been deceived in this way; many victims have been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.

If you receive any unsolicited mail or investment advice:

- Make sure you get the correct name of the person and organisation.
- Check the Financial Services Register at www.fca.org.uk.
- Use the details on the Financial Services Register to contact the firm.
- Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call them back.
- Search the list of unauthorised firms and individuals to avoid doing business with at www.fca.org.uk/scams.
- Report a share scam by telling the FCA using the share fraud reporting form in the Consumers section of the FCA website.
- If the unsolicited phone calls persist, hang up.
- If you wish to limit the amount of unsolicited mail you receive, contact the Mailing Preference Service on 020 7291 3310 or visit the website at www.mpsonline.org.uk.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

SHARE DEALING SERVICES

You can buy shares through any authorised stockbroker or bank that offers a share dealing service in the UK, or in your country of residence if outside the UK.

A simple and competitively priced service to buy and sell shares is provided by Link Asset Services. There is no need to pre-register and there are no complicated application forms to fill in and by visiting www.linksharedeal.com you can also access a wealth of stock market news and information free of charge.

For further information on this service, or to buy and sell shares visit www.linksharedeal.com or call 0371 664 0445. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 8.00am – 4.30pm, Monday to Friday excluding public holidays in England and Wales.

This is not a recommendation to buy and sell shares and this service may not be suitable for all shareholders. The price of shares can go down as well as up and you are not guaranteed to get back the amount you originally invested. Terms, conditions and risks apply. Link Asset Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority. This service is only available to private shareholders resident in the European Economic Area, the Channel Islands or the Isle of Man.

Link Asset Services is a trading name of Link Market Services Limited and Link Market Services Trustees Limited. Share registration and associated services are provided by Link Market Services Limited (registered in England and Wales, No. 2605568). Regulated services are provided by Link Market Services Trustees Limited (registered in England and Wales No. 2729260), which is authorised and regulated by the Financial Conduct Authority.

The registered office of each of these companies is The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

ELECTRONIC VOTING

Shareholders can submit proxies for the 2019 AGM electronically by logging on to www.signalshares.com. Electronic proxy appointments must be received by the Company's registrar no later than 2.00 pm on 28 April 2019 (or not less than 48 hours before the time fixed for any adjourned meeting).

Analysis of shareholdings at 31 December 2018

	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 500	995	42.81	310,482	0.02
Up to 5,000	530	22.82	946,738	0.06
Up to 10,000	201	8.65	1,518,965	0.09
Up to 50,000	327	14.07	7,230,020	0.43
Up to 100,000	61	2.62	4,223,900	0.25
Up to 500,000	173	7.44	139,255,779	8.29
Up to 99,999,999,999	37	1.59	1,525,719,054	90.86
	2,324	**100.00**	**1,679,204,938**	**100.00**

SHAREHOLDER COMMUNICATION

Email: enquiries@linkgroup.co.uk

Telephone: 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

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Glossary

The following definitions apply throughout this Annual Report, unless the context requires otherwise.

Adopted IFRS	International Financial Reporting Standards as adopted by the EU
AGM	Annual General Meeting
AIM	Alternative Investment Market of the London Stock Exchange
Alpha Resource Management	Alpha Resource Management Limited
BEAR Scotland	BEAR Scotland Limited
Blinkbonny quarry	Blinkbonny Quarry (Borders) Limited
Breedon	Breedon Group plc
Breedon Whitemountain	Breedon Whitemountain Ltd
CGU	Cash Generating Units
CI	Channel Islands
CIF	Construction Industry Federation
CITB	Construction Industry Training Board
CMDO	Cement Market Data Order 2016
CPA	Construction Products Association
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation and before our share of profit from associate and joint ventures
EPS	Earnings per share
EU ETS	European Union Emissions Trading System
EURIBOR	Euro Inter-bank Offered Rate
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GB	Great Britain
HMRC	Her Majesty's Revenue & Customs in the UK
Humberside	Humberside Aggregates Limited
IAS	International Accounting Standards
IFRS	International Financial Reporting Standard
Invested Capital	Net assets plus net debt
Ireland	The Island of Ireland
ISO	International Organisation for Standardization
KPI	Key Performance Indicator
Lagan	Lagan Group (Holdings) Limited The construction materials and contracting services brand under which Breedon now trades in the Republic of Ireland
Leverage	Net debt expressed as a multiple of Underlying EBITDA
LIBOR	London Inter-bank Offered Rate
LTIFR	Lost Time Injury Frequency Rate
MPA	Mineral Products Association
MPQC	Mineral Products Qualifications Council
NI	Northern Ireland
NISRA	Northern Ireland Statistics Research Agency
OHSAS	Occupational Health and Safety Assessment Standard
Pro Mini Mix	Pro Mini Mix Concrete, Mortars and Screeds Limited
QCA	Quoted Companies Alliance
QPANI	Quarry Products Association Northern Ireland (from January 2019 Mineral Products Association of Northern Ireland)
the Revenue	Office of the Revenue Commissioners in Ireland
RoI	Republic of Ireland
ROIC	Post-tax Return on Invested Capital
Staffs Concrete	Staffs Concrete Limited
Sterling	Pounds sterling
UK	United Kingdom (GB & NI)
Underlying	Stated before acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items
Whitemountain	Whitemountain Quarries Limited The construction materials and contracting services brand under which Breedon now trades in NI
WTO	World Trade Organisation

Notes

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This annual report is printed on Chorus Silk. The manufacturers of Chorus Silk hold ISO 9001 & ISO 14001 certifications and are also FSC & PEFC certified. This report is printed by Pureprint is a CarbonNeutral® company. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are ForestStewardship Council® (FSC) chain-of-custody certified. If you have finished reading the report and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled paper waste.

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