BREEDON

BREEDON GROUP
Annual Report 2017

SOLID PROGRESS

2017 was one of the most productive years in our history.”

< Cover: Stuart Hopley, Area Operations Manager, Leaton

∧ Craigenlow quarry in Aberdeenshire

> The team at West Deeping quarry

IN THIS REPORT

We are the UK's largest independent construction materials group. Our operations are fully integrated, incorporating the country's largest cement plant, two cementitious import terminals, around 60 quarries, 26 asphalt plants, nearly 200 ready-mixed concrete plants and three concrete products plants nationwide. Our most valuable assets are our 2,200 colleagues and around 750 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.

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For more information visit
www.breedongroup.com

Leinthall quarry in Herefordshire

FINANCIAL HIGHLIGHTS

Revenue

£652.4m

2016: £454.7m

+43%

Underlying EBIT*

£80.4m

2016: £59.6m

+35%

* 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.

Underlying EBIT margin*

12.3%

2016: 13.1%

Underlying basic earnings per share*

4.14p

2016: 3.49p

+19%

Profit before taxation

£71.2m

2016: £46.8m

+52%

Net debt

£109.8m

2016: £159.3m

-31%

OPERATIONAL HIGHLIGHTS

- A year of solid progress, with improved performances from all three divisions
- Strong organic earnings growth, supplemented by contributions from acquisitions
- Significant investment in mineral assets, capacity and operational improvements
- Two bolt-on acquisitions completed
- Planned acquisition of Tarmac quarry and asphalt assets announced
- Following full integration of 2016 Hope acquisition, growth platform strengthened, with significant scale, national reach and vertical integration
- Further 25 per cent reduction in Employee Lost Time Injury Frequency Rate (LTIFR) to 1.41

OUR INVESTMENT CASE

Breedon Group is the only major quoted company offering a focused UK investment opportunity in the heavyside construction materials industry.

FAVOURABLE MARKETS

- Construction output is steadily recovering from the downturn in 2008, and is forecast to grow by 3.7 per cent over the three years to 2020.
- Aggregates, asphalt and ready-mixed concrete volumes are forecast to grow by three to five per cent over the same period.
- The most buoyant sectors are predicted to be infrastructure and housing, which are expected to grow by a further 23 per cent and seven per cent respectively over the next three years. Together these account for the majority of Breedon's end-use sales.

Read about our markets on page 14

SCALE AND REACH

- Breedon has a business of significant scale and reach, with around 250 locations stretching from the Hebrides to Essex, including the UK's largest cement plant, around 60 quarries, nearly 200 ready-mixed concrete plants and 26 asphalt plants.
- With the exception of cement, these are all essentially local businesses, equipped to serve a very diverse range of customers, in a large number of local markets, with products which need to be delivered rapidly after production.
- We benefit from significant economies of scale, with the advantages of vertical integration.

Read more in our Business Overview on pages 6 to 7

STRONG ASSET BACKING

- Our industry has significant barriers to entry, with consents for new rock quarries granted very rarely.
- Breedon has around 750 million tonnes of mineral reserves and resources, enough to last more than 42 years at current rates of production.
- We have consistently demonstrated our ability to add to our reserves and resources through planning extensions, efficiency improvements and reduction of waste.
- We continue to maintain our annual net reserves and resources position, against the background of an industry in which annual replenishment of crushed rock reserves in each year since 2013 has been lower than annual sales.

Read about our Business Model on pages 8 to 9

CONSOLIDATION OPPORTUNITIES

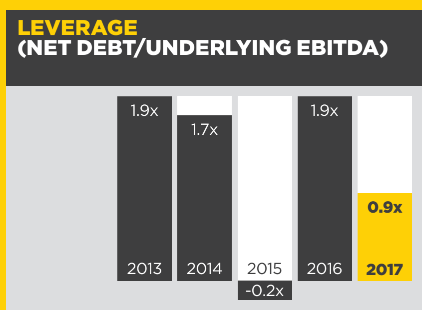
- We have repeatedly proven our ability to acquire businesses, large and small, at the right price, and extract significant value from them for our shareholders.
- The industry remains very fragmented: there are still around 150 to 200 independent construction materials businesses in the UK.
- There are also continuing potential opportunities arising from non-core divestments by the major global construction materials groups.

Read about our strategy on pages 16 to 17

FINANCIALLY CONSERVATIVE WITH STRONG CASHFLOW

- We have a strong 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 position on pages 38 to 41



BREEDON GROUP OVERVIEW

Breedon is a business of significant scale, with the UK's largest cement plant, two cementitious import terminals and a national network of 60 quarries, nearly 200 ready-mixed concrete plants, 26 asphalt plants and three concrete products plants.

50%

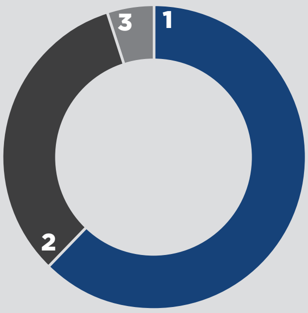
interest in Breedon Bowen Limited, owner and operator of Tan-y-Foel high PSV stone quarry in Wales

50%

interest in Breedon Whitemountain Ltd, supplier of asphalt and surfacing on Aberdeen Western Peripheral Route

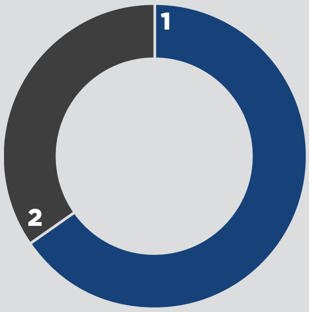
37.5%

interest in BEAR Scotland Limited, specialist road maintenance company



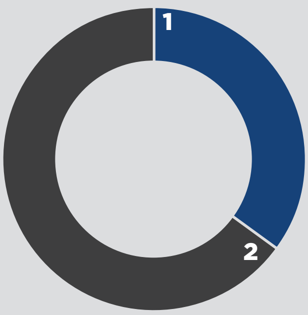
Quarries

1	Breedon Northern	38
2	Breedon Southern	20
3	Breedon Cement	2



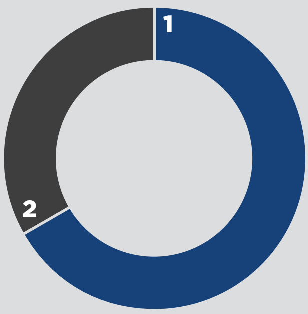
Asphalt plants

1	Breedon Northern	17
2	Breedon Southern	9



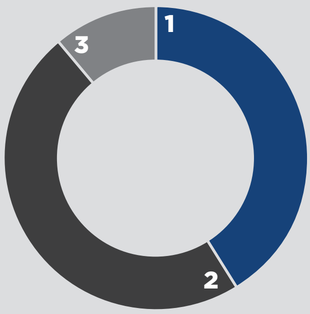
Ready-mixed concrete and mortar plants

1	Breedon Northern	70
2	Breedon Southern	122



Contract surfacing hubs

1	Breedon Northern	6
2	Breedon Southern	3



Colleagues*

1	Breedon Northern	900
2	Breedon Southern	1,047
3	Breedon Cement	234

* Excludes central administration

All figures correct as at 31 December 2017.

1

cement works

2

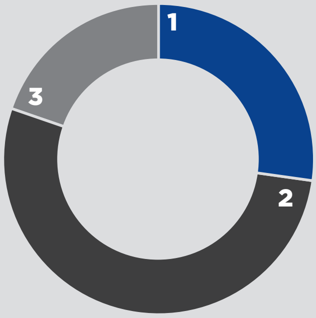
cementitious import terminals

3

concrete products plants

4

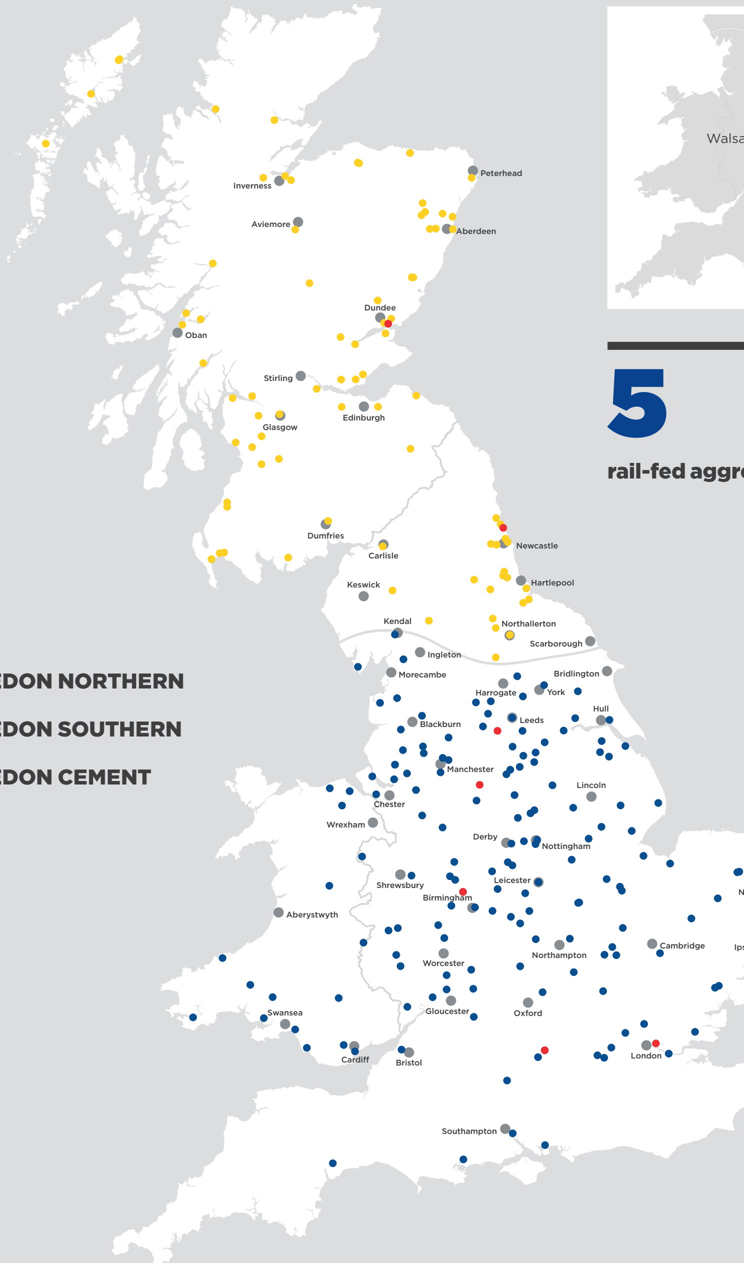
rail-fed cement depots



Revenue by division †

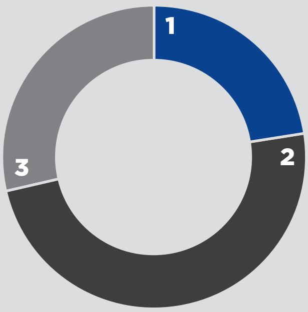
	£m
1 Breedon Northern	196.0
2 Breedon Southern	381.5
3 Breedon Cement	141.6

† Excludes eliminations



5

rail-fed aggregates depots



Underlying EBIT by division ‡

	£m
1 Breedon Northern	20.4
2 Breedon Southern	44.1
3 Breedon Cement	25.8

‡ Excludes central administration and share of profit of associate and joint ventures

OUR BUSINESS MODEL*

Our objective 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 full range of downstream products and associated services.

CORE ACTIVITIES

(see pages 10 to 15 to learn more about how our core activities create value)

GROWING ASSET BASE

+ See page 10

This is the heart of our business. It is our ability to secure sparingly-granted planning consents for new quarry reserves and extensions, and identify additional consented reserves to acquire, that ensures we continue to expand our mineral supplies.

EFFICIENT PRODUCTION

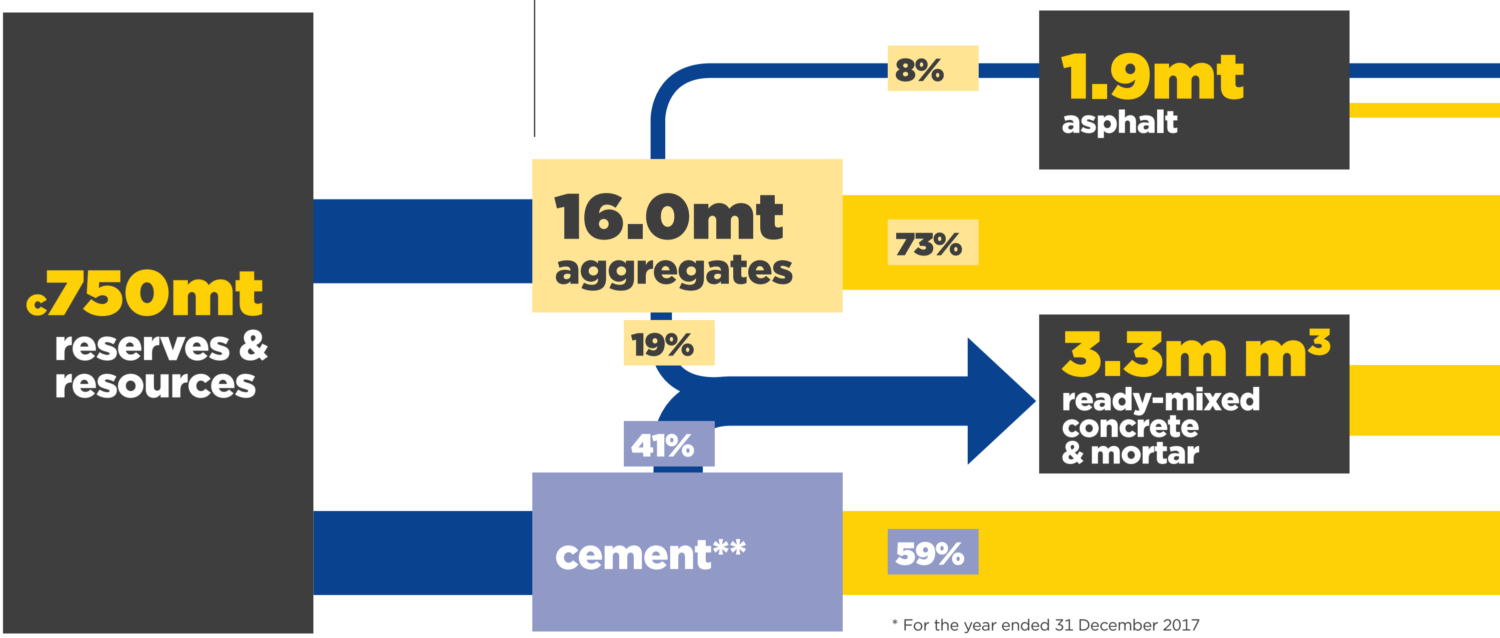
+ See page 11

Whether it is blasting, crushing and screening rock; extracting sand & gravel; or producing and importing high-grade cement, we do it as efficiently and cost-effectively as possible.

MAXIMUM VALUE ADDED

+ See page 12

We mix aggregates and cement to produce concrete and mortar; combine aggregates and bitumen to make asphalt; and form our concrete into blocks, walling and paving products. We maximise the margin on every tonne of our minerals and cement through the manufacture of these downstream products.



* For the year ended 31 December 2017

** In accordance with the Cement Market Data Order 2016, cement volumes are not disclosed.

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 our strong 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

We have a vertically-integrated business, which ensures a high level of self-sufficiency: from the extraction and processing of minerals; through the manufacture of cement, ready-mixed concrete, concrete blocks and asphalt; to nationwide distribution and regional surfacing contracting.

FIRST-CLASS DISTRIBUTION AND LOGISTICS

+ See page 13

Managing our sizeable road and rail fleet efficiently, to ensure we deliver to our customers as quickly as possible whilst minimising distribution costs, is a crucial element of our success.

SERVING GROWING MARKETS

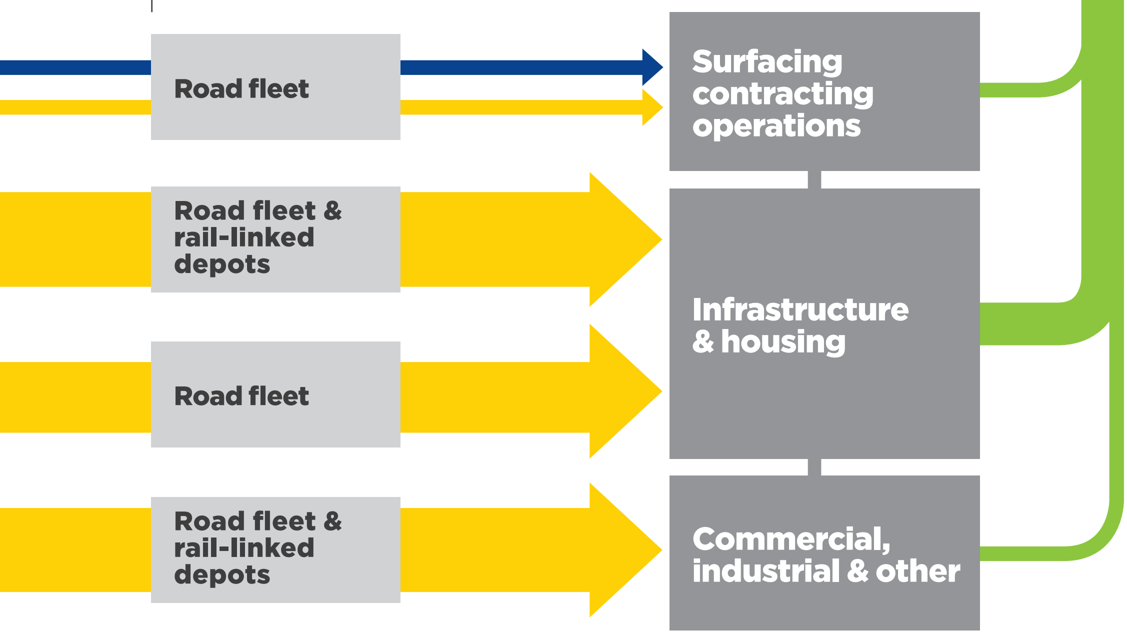
+ See page 14

There is significant pent-up demand for construction materials in the UK and output continues to recover following the sharp downturn in 2008, with infrastructure and housing leading the way.

RETURNING LAND TO COMMUNITIES

+ See page 15

Restoration is as much a part of our business as extraction. Every year we return many hectares of land to the communities in which we operate, by landscaping and repurposing worked-out areas of our quarries.



We recycle substantial quantities of our aggregates through reprocessing of waste minerals, concrete and asphalt.

INTERNAL

EXTERNAL

RECYCLING

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

Wherever possible, locate our offices in our quarries

8. DELIVER VALUE FROM ACQUISITIONS

Always enhance our earnings

OUR BUSINESS MODEL –

A GROWING ASSET BASE

We work hard to secure planning consents for new reserves and resources.

c750m

tonnes of mineral reserves and resources at end of 2017

Our mineral reserves and resources are literally the bedrock of our business. We seek continually to extend them both organically and through 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.

We begin by securing planning consents for new reserves and extensions. These are granted sparingly and our success in obtaining them depends in large measure on maintaining good relationships with local authorities, landowners and – perhaps most importantly – the local communities which are affected by, and in some cases depend upon, our operations. We have an excellent track record of working with local stakeholders to develop our sites sensitively and ensure that the lives of the people, flora and fauna around them are subject to the minimum possible disruption. (See more on our restoration activities on page 15.)

By the end of 2017 we had retained around 750 million tonnes of reserves and resources in our aggregates portfolio, including a new greenfield site in England, extensions to our existing quarries, and the acquisition of North Cave quarry which came with our purchase of Humberside Aggregates. Following our pending acquisition of additional quarries from Tarmac, this will be augmented by a substantial quantity of additional reserves and resources.

In the case of our cementitious business, our Hope cement plant in Derbyshire is dependent on a steady supply of limestone from its adjacent quarry, where we have at least 20 years of consented reserves, but are already test-drilling neighbouring deposits to ensure we can secure even longer-term supplies. A quantity of shale, or shale substitute, is also required in the cement manufacturing process. In the past, the plant has relied on Hope Works' neighbouring shale quarry for this material, but we are increasingly using pulverised fly ash (PFA) as a sustainable alternative source of waste-derived raw material, which is helping to improve our husbandry of our shale resources.

Ethiebeaton quarry near Dundee, headquarters of Breedon Northern

Tongland quarry in Kirkcudbright

OUR BUSINESS MODEL –

EFFICIENT PRODUCTION

We aim to extract the raw material from our quarries as efficiently and cost-effectively as possible.

16.0m

tonnes of aggregates sold in 2017

In our core aggregates operations, we aim to extract the raw material – rock and sand & gravel – from our quarries as efficiently and cost-effectively as possible. Rock is blasted from the quarry face, crushed and screened into a variety of grades for a range of applications. Sand & gravel are extracted directly from the pit and similarly crushed and screened.

There are many determinants of a successful quarrying operation. For example, it is vital to configure the site in such a way that the maximum potential reserve is extracted, with as little waste as possible. The logistics of blasting, loading, transporting and processing the material are complex and require great technical proficiency, well-invested plant and smart utilisation of everything from the loading shovels and dump trucks to conveyors, crushers and screens.

In addition to operating as efficiently as possible, quality and environmental controls are paramount. Every tonne of aggregate needs to be fit for purpose, whether its destiny is as a raw material for concrete or asphalt, rail ballast, coastal armour rock or a multitude of other applications. Management of water, protection of wildlife, suppression of dust and noise and effective management of lorry movements are prerequisites for environmental licences and good community relations.

Close relationships with suppliers are essential to optimising use of the quarry plant, minimising downtime and ensuring that loading and crushing capacity is available as needed, particularly given the constraints commonly imposed on our operating hours by the planning authorities.

The same principles apply in our cement works. Although it is a more complex process, cement manufacturing requires the same mix of technical expertise, quality controls and operational efficiency, as well as adherence to even more stringent environmental compliance. We are proud of the fact that our Hope Cement Works ended the year with a reliability factor of 97 per cent, which ranks as a world-class performance.

More important than all these things is the safety of our colleagues. Quarries and cement plants are inherently dangerous places to work and we have a duty of care to everyone who works in or visits them. We go to great lengths to ensure that every area of our quarries is as safe as possible and that our colleagues not only follow the strict operational rules we lay down, but are encouraged to look after each other as well as themselves. (See pages 43 to 45 for more on our health & safety performance.)

OUR BUSINESS MODEL –

MAXIMUM VALUE ADDED

We aim to maximise the return from every tonne of aggregates we extract.

1.9m

tonnes of asphalt sold in 2017

3.3m

cubic metres of concrete sold in 2017

One of our oft-quoted Golden Rules is that we will maximise the return from every tonne of material we produce, whether it is rock or sand & gravel from our quarries, or cementitious products from our cement works and import terminals. We achieve this through constant innovative product development.

For example, in addition to crushed rock and sand & gravel, we produce specialist decorative aggregates for creative landscaping, including Breedon Golden Amber self-binding gravel, for which we hold the Royal Warrant.

We have nearly 200 concrete plants across the UK, some in our quarries, some on standalone sites, which mix aggregates and cement to produce ready-mixed concrete and mortar for their local markets. We aim to generate the highest possible margin on these products by offering an above-average service and by producing high-performance mixes for specialist applications, including our proprietary range of BREEDONFlow® self-compacting concretes.

These are complemented by three concrete products plants which produce a range of concrete blocks and paving products, together with the highly-regarded Fyfestone range of walling products.

We also operate 26 asphalt plants, located mainly in our quarries, which mix aggregates and bitumen to produce coated stone. As with our ready-mixed concrete products, we augment a range of standard mixes for use on Britain's major and minor roads with a portfolio of specialist high-performance, high-margin asphalt products for applications as diverse as car parks, driveways, pathways, tennis courts, silos and animal-house floors.

Our Hope Cement Works in Derbyshire is the largest cement plant in the UK, producing quality-assured Portland Cement marked by its high quality and the distinctiveness and consistency of its composition and colour. We maximise the margin on our cement by internalising as large a proportion as possible to our ready-mixed concrete plants, and we also produce a range of packed cements, dry-mixed cementitious mortars and screeds for the builders merchants market.

> Our fleet of over 850 delivery vehicles is a major showcase for our brand

v Cloud Hill asphalt plant

OUR BUSINESS MODEL –

FIRST-CLASS DISTRIBUTION AND LOGISTICS

We move large quantities of cement, minerals, ready-mixed concrete and asphalt around the country at a competitive cost.

Nationwide fleet

of rail freight wagons, tankers, tippers and ready-mixed concrete trucks

Cost-effective delivery of heavyside construction materials from quarry or plant to site requires highly efficient logistics management, coupled with flexible and responsive customer service. Breedon has always prided itself on staying local and being easy to do business with, which means we have no national call centres or centralised shipping for our downstream products, but instead a network of local businesses with an uncompromising commitment to outstanding service.

Our four rail-linked cementitious depots and five rail-linked aggregates depots enable us to move large quantities of bulk cement and minerals across the country at a competitive cost, using our own and third-party freight wagons. This rail distribution network is complemented by a fleet of more than 850 delivery vehicles, including cement tankers, articulated tipper lorries and ready-mixed concrete trucks, which deliver direct to customers' sites anywhere from Stornoway in the Hebrides to the south coast of England.

The key to efficient distribution of our products is a keen understanding of our customers' needs: knowing exactly what they want, when and where they want it – and adapting our logistics planning accordingly. This is particularly true of the ready-mixed concrete and asphalt markets, because these materials are time-limited and prompt delivery is crucial.

On-the-ground service standards need to be second to none. Our fleet livery is the most prominent and widespread face of our brand and our professionalism when making deliveries has a significant potential impact on that brand and therefore on our reputation. We pride ourselves on both the quality and closeness of our customer relations.

OUR BUSINESS MODEL –

SERVING GROWING MARKETS

We are well placed to benefit from projected long-term growth in our key markets.

Aggregates – GB market size (m tonnes)

130.0

Asphalt – GB market size (m tonnes)

22.7

Ready-mixed concrete – GB market size (m m^3)

17.2

Cementitious – UK market size (m tonnes)

14.6

Breedon market share

	%
1 Aggregates	12
2 Asphalt	8
3 Ready-mixed concrete	19

In accordance with the Cement Market Data Orders 2016, cement volumes are not disclosed.

Sources: Mineral Products Association (members), Construction Products Association, Experian.

As the UK's largest independent construction materials group, we are well placed to benefit from projected long-term growth in our key markets.

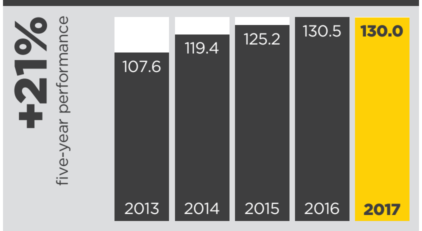
Industry activity continued to grow in 2017, albeit at a slower rate, with the Construction Products Association (CPA) estimating that construction output increased by 3.0 per cent (compared to 3.8 per cent in 2016). Against this background, figures from the Mineral Products Association (MPA) indicate that sales of key construction materials (apart from mortar) remained broadly flat or were modestly down over the year.

As always, there were marked regional variations, with some parts of the UK significantly outperforming others. Our Midlands heartland saw particularly healthy growth in volumes of some products, along with parts of the north-west of England and Wales.

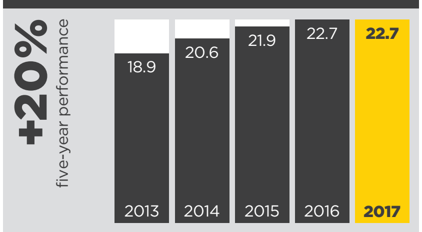
There remains substantial pent-up demand for construction materials to feed the UK building industry over the next few years, particularly in areas where the Government has signalled its commitment to invest for the future. Accordingly, construction output is expected to rise by 3.7 per cent in the three years to 2020, a trend which is reflected in MPA volume forecasts over the same period.

Significantly, housing and infrastructure are expected to grow by 7.0 per cent and 22.8 per cent respectively over the next three years and, given that these account for the majority of our end-use markets, we are strongly positioned to take advantage of them.

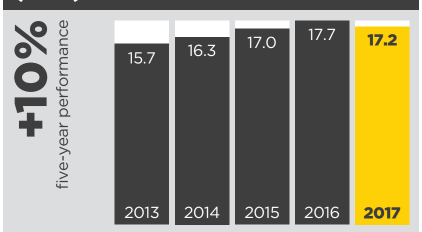
AGGREGATES MARKET GROWTH (M TONNES)



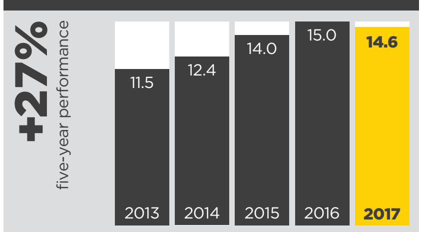
ASPHALT MARKET GROWTH (M TONNES)



READY-MIXED CONCRETE MARKET GROWTH (M M^3)



CEMENTITIOUS MARKET GROWTH (M TONNES)



OUR BUSINESS MODEL –

RETURNING LAND TO COMMUNITIES

We have a duty to return the land to our communities in the best possible condition when we have finished working it.

approx.

30

hectares of land restored in 2017

We see ourselves as stewards of the land we quarry. This means that environmental and safety compliance are crucial components of our licence to operate and we take them extremely seriously. It also means that we consider landscaping and restoration to be every bit as important as extraction, because we understand that we have a duty to return the land to our communities in the best possible condition when we have finished working it.

Over the years we have restored many hundreds of hectares of quarried land. Restoration has taken a variety of forms, from fields returned to agriculture or wildlife habitats, to lakes used for leisure pursuits – sometimes preceded by landfill where there is a pressing local need for additional waste disposal facilities. We have planted many trees and hedgerows and created many acres of grassland for grazing.

We begin thinking about how we will restore an area of land as soon as we begin preparing an application to quarry it. It forms a fundamental part of our long-term mineral planning strategy. We also maintain the closest possible links with our local communities throughout the life of the quarry to ensure we have a clear understanding of how they would eventually like the land to be repurposed.

Λ Five hectares of land at Powmyre quarry, restored to agriculture for the Strathmore Estate

< Resurfacing at Stornoway Airport, one of the major infrastructure projects undertaken by Breedon in 2017

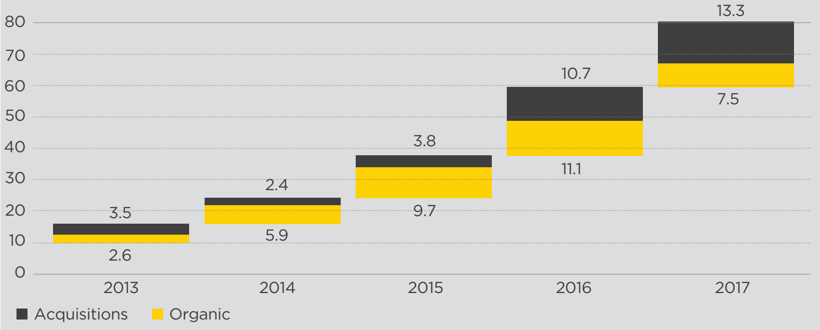
OUR STRATEGY

Our strategy underpins our mission to be the UK's safest and most profitable construction materials company.

STRATEGIC PRIORITY	WHY THIS IS IMPORTANT	KPI
Strive for best customer service	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	Revenue
Deliver continuous organic improvement	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	Revenue Underlying EBIT margin Underlying basic EPS Leverage Reserves and resources
Secure value-enhancing acquisitions	Industry is still consolidating: we aim to lead this process at the smaller end of the heavyside market 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	Underlying basic EPS Leverage
Do all these things safely	Crucial element of our licence to operate Our primary obligation to our employees and others The safest sites tend to be the most profitable	LTIFR Underlying EBIT margin

PROFITABLE GROWTH THROUGH TARGETED ACQUISITIONS AND STRONG ORGANIC DEVELOPMENT

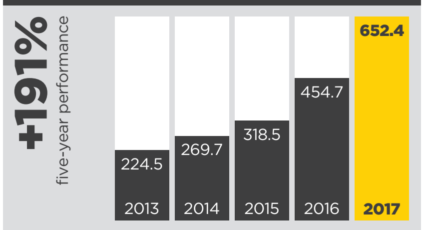
Underlying EBIT components 2013 – 2017 (£m)



PROGRESS IN 2017	PRIORITIES FOR 2018	RISK FACTORS
Major value-enhancing contracts won New regional office opened at Raisby First sales office opened in Manchester Remaining close to our local markets	Maintain focus on local markets Further develop value-added products and services Optimise market segmentation and pricing & distribution models Seek to provide more solutions on major projects	Competition & margins Health, safety & environment People IT & cyber security
Continued investment in efficiency improvements Notable improvements at flagship Dowlow and Tom's Forest quarries Upgrade and maintenance completed at Hope Works New quarry opened at Low Harperley	Commissioning of new asphalt plant at Dowlow quarry and replacement asphalt plant at Furnace quarry Opening of new quarries at North Drumboy and Earls Barton Further improvements to cement plant reliability and performance	Market conditions Competition & margins Acquisitions Financing & liquidity Legal & regulatory People
Hope fully integrated, £10m of synergies realised and platform created for future acquisitions Sherburn fully integrated Pro Mini Mix acquired Humberside Aggregates acquired Announcement of planned acquisition of Tarmac assets	Two to three bolt-on acquisitions Continue to review larger, strategic opportunities	Acquisitions Financing & liquidity Legal & regulatory IT & cyber security
Employee LTIFR reduced by 25 per cent Safety Commitments launched Reinvigorated VFL programme	Further reductions in Employee LTIFR (with a 2018 target of 1.0) and injury severity rate over full year	Competition & margins Acquisitions Legal & regulatory Health, safety & environment People

KEY PERFORMANCE INDICATORS

1. REVENUE (£M)



WHY WE'VE CHOSEN THIS MEASURE:

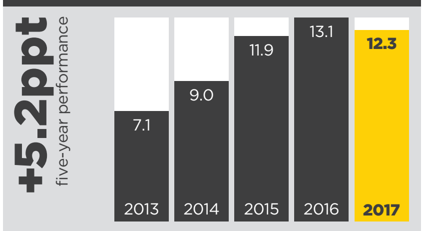
This metric tracks the Group's top-line growth. We also use it as a risk monitor.

See risks **1** – **8** inc.

HOW WE'VE PERFORMED:

Good progress was made through a combination of solid organic growth, supplemented by sales contributions from acquisitions completed in 2016 and 2017.

2. UNDERLYING EBIT MARGIN (%)



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 by 2020. We also use it as a risk monitor.

See risks **1** – **8** inc.

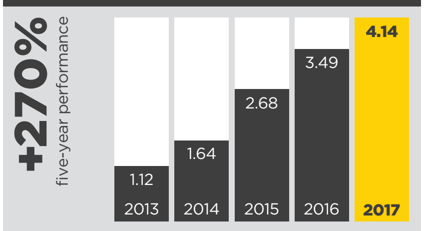
HOW WE'VE PERFORMED:

Our underlying EBIT margin was, as expected, diluted by the impact of the acquisition of Hope, where historic EBIT margins were single-digit. The impact of this dilution is now behind us and we are making good progress towards our target.

REMUNERATION LINK:

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

3. UNDERLYING BASIC EPS (PENCE)



WHY WE'VE CHOSEN THIS MEASURE:

This metric tracks improvements in the underlying earnings per share for our shareholders. We also use it as a risk monitor.

See risks **1** – **8** inc.

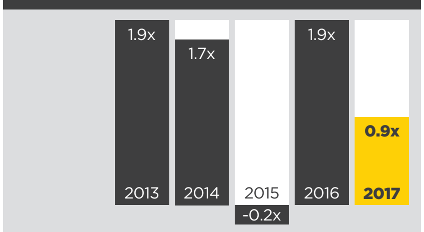
HOW WE'VE PERFORMED:

The 19 per cent annual increase in our underlying basic earnings per share in 2017 reflects the improved performance of the business across all three divisions.

REMUNERATION LINK:

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

4. LEVERAGE (NET DEBT/UNDERLYING EBITDA)



WHY WE'VE CHOSEN THIS MEASURE:

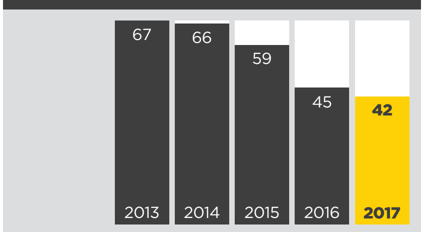
This metric tracks the ability of the Group to generate sufficient cash flows to service the needs of the business and to pursue its bolt-on acquisition strategy, whilst covering its contractual debt-servicing obligations. We also use it as a risk monitor.

See risks **3** & **4**

HOW WE'VE PERFORMED:

The Group continued to generate strong cash flows in 2017, reducing our net debt by a further 31 per cent, to £109.8 million, and reducing our leverage to less than one times.

5. RESERVES AND RESOURCES LIFE (YEARS)



WHY WE'VE CHOSEN THIS MEASURE:

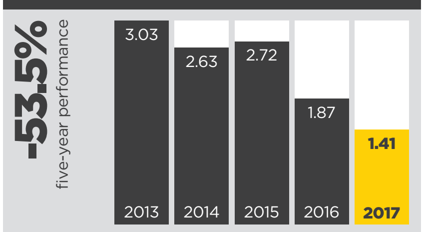
This metric tracks the ability of the Group to replenish its reserves and resources. We also use it as a risk monitor.

See risks **3** & **5**

HOW WE'VE PERFORMED:

We continued to preserve our asset base in 2017 and ended the year with total reserves and resources of around 750 million tonnes.

6. EMPLOYEE LTIFR PER 1 MILLION HOURS WORKED



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 **6**

HOW WE'VE PERFORMED:

Whilst we reduced our LTIFR in 2017 by 25 per cent, this fell short of our target reduction of 40 per cent, although there was a marked decrease in the severity of injuries sustained.

REMUNERATION LINK:

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

MANAGING OUR RISKS AND OPPORTUNITIES

By identifying and managing our risks effectively we can focus on our long-term business opportunities.

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 of effectiveness of risk management processes and internal controls on behalf of the Board.

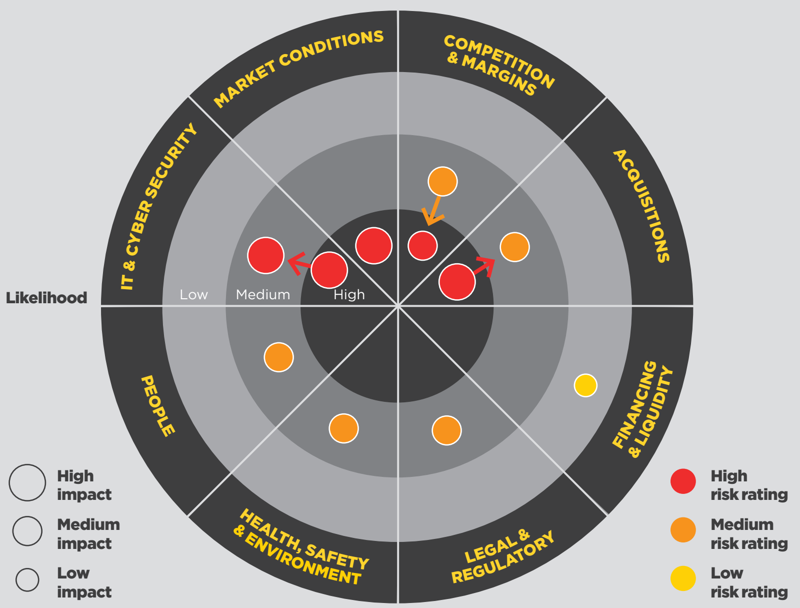
Group Finance Director
Provides a twice-yearly update to the Board on the key risks and controls within the Group, highlighting the roles and responsibilities of key management in managing those risks.

Group Controls Manager
Works with the divisions to identify and assess the key risks and controls in their businesses and reports them to the Group Finance Director.

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 HEAT MAP



The Group's principal risks and uncertainties, together with examples of mitigants, are set out overleaf. They do not comprise all the risks associated with the Group and are not in any order of priority. 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 key risks and then to develop actions or processes within the business to eliminate or mitigate those risks to an acceptable level.

During the year one of our risks increased, five remained the same and two of our risks reduced.

INCREASED RISKS

The risk that increased related to competition and margins. This increase recognises the current status of market conditions risk and the widely-held view that it will be difficult for construction to escape the impact that subdued economic growth, rising inflation and falling real wages will have on the industry over the next year or so.

REDUCED RISKS

The two risks that have reduced related to acquisitions and IT and cyber security. The acquisition risk reduction recognises the successful integration and performance in respect of the 2016 Hope acquisition. The IT & cyber security reduction reflects the successful migration of Hope onto the Breedon IT applications and infrastructure but also recognises the evolving cyber threat.

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.

+ **For our viability statement see page 73**

MANAGING OUR RISKS AND OPPORTUNITIES CONTINUED

THE RISKS | **HOW WE MITIGATE THEM** | **FIT WITH STRATEGY**

1. MARKET CONDITIONS

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

The risks
- Changes in the UK macro-economic environment (including Brexit and Government policy) expose the Group to changes in the level of activity and therefore demand for the Group's products
- In the short term adverse weather can also impact demand for the Group's products
- Difficult economic conditions also increase the Group's exposure to credit risk among its customers

How we mitigate them
- The Group regularly reviews available indicators of market activity, including market data and economic forecasts
- The Group maintains regular communication with key suppliers and customers to identify significant events that could impact the Group
- The Group maintains a broad exposure to various end-uses for its products
- The Group undertakes a formal budgeting and forecasting process, which incorporates assessments of market conditions
- The Group maintains credit insurance cover over the majority of its private sector customers

2. COMPETITION & MARGINS

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

The risks
- Increased competition could reduce the Group's volumes and margins
- Unprofitable contracts could be entered into
- The Group is heavily reliant on energy and hydrocarbons to produce its products and to get them to market and increases in those costs could reduce the Group's margins
- The Group is subject to foreign exchange risk on certain purchases
- Heavy reliance on key suppliers may cause difficulties for the Group if there are supply issues
- The Group could suffer an unplanned production outage at the cement works
- Haulage supply is disrupted or not aligned with demand

How we mitigate them
- The Group supplies a diverse customer base and focuses on providing a high level of customer service
- The Board approve all major contracts
- The Group operates a strategic purchasing plan to address key supplier risks including energy, hydrocarbon and foreign exchange risks
- The Group seeks to optimise the internal supply chain
- A preventative maintenance programme, real time performance monitoring and inspection regimes are in place at the cement works
- The Group can import cementitious products through its two import terminals
- The Group holds Business Interruption Insurance and is developing improved business continuity plans
- The Group employs experienced Transport Managers to manage all haulage

3. ACQUISITIONS

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

The risks
- The Group could overpay for an acquisition
- The Group could fail to integrate an acquisition
- The Group could fail to deliver the expected returns from an acquisition
- The Group may fail to identify potential acquisitions to continue its growth strategy

How we mitigate them
- The Group uses specialist advisers and undertakes extensive due diligence
- The Board approve all major acquisitions
- Acquisitions are supported by detailed integration plans and progress is monitored by the Board
- The Group has a strong acquisition track record
- The Group has developed its management structure to facilitate its growth strategy

4. FINANCING & LIQUIDITY

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

The risks
- The Group may not have sufficient financial resources to meet its obligations as they fall due
- The Group may not have sufficient financial resources to continue to consolidate the smaller end of the heavyside building materials industry
- The Group borrows at floating and fixed interest rates therefore is exposed to changes in interest rates

How we mitigate them
- The Group manages liquidity risk by continuously monitoring forecasts and cash flows to ensure that it maintains significant headroom
- The Group's committed credit facility runs to November 2019
- The Group maintains strong relationships with its key banks and shareholders
- The Group uses interest rate caps to manage its exposure to changes in floating interest rates

Change during the year: No change | Reduced risk | Increased risk

THE RISKS	HOW WE MITIGATE THEM	FIT WITH STRATEGY

5. LEGAL & REGULATORY

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

The risks
- A breach of law or regulation could result in a disruption of the Group's business and potential reputational damage
- Product quality issues could result in customer claims
- Planning and emission restrictions could prevent the Group from operating facilities or extracting its mineral reserves
- The Group could be prevented by regulatory bodies from consolidating the smaller end of the heavyside building materials industry

How we mitigate them
- The Group employs an in-house solicitor who monitors and responds to legal and regulatory developments
- The Group maintains compliance policies and has developed a rolling training programme to ensure that employees are made aware and kept up to date with these
- The Group has clear contracting terms, maintains a quality control policy and procedures and holds appropriate insurance
- The Group reviews and updates its terms and conditions of purchasing and sale on a regular basis
- The Group involves stakeholders in early consultation and meets with members of the community in areas where they are impacted by its operations
- The Group has emissions monitoring, maintenance and inspection regimes in place at key sites
- The Group has considerable experience of the requirements of the UK Competition and Markets Authority

6. HEALTH, SAFETY & ENVIRONMENT

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

The risks
- Failure to manage health & safety risks could expose the Group to significant potential disruption, liabilities and reputational damage
- Failure to manage environmental risks could expose the Group to significant potential disruption, liabilities and reputational damage

How we mitigate them
- The Group safeguards the health & safety of employees, contractors or other people working on behalf of the Group
- The Group employs experienced health & safety professionals who promote a strong safety culture and related training
- Management, training and control systems are in place across the Group to minimise and prevent environmental incidents
- The Group coordinates health & safety strategy across the three operating businesses to ensure consistency and compliance
- The Group has increased the profile of health & safety through improved communication and reporting across the business
- In addition to individual targets for Visible Felt Leadership (VFL) visits, the Executive Committee holds regular, programmed safety days across the business
- The Group has a driver risk group to better manage the risk and safety issues associated with driving
- During 2017 the Group launched and embedded its core Safety Commitments

7. PEOPLE

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

The risks
- Failure to recruit, develop and retain the right people could have an adverse impact on the Group's ability to deliver on its strategic objectives

How we mitigate them
- The Group has a formal development and performance monitoring process
- Appropriate remuneration and incentive packages are in place to assist in the attraction and retention of key employees
- The Remuneration Committee reviews all key aspects of executive remuneration
- The Nomination Committee regularly reviews the succession plan for key leadership roles in the businesses
- The Group has launched a management development programme for site and functional management to improve the competency of managers across the business
- During 2017 the Group reviewed core benefits and introduced a standardised grading and benefit structure for all staff positions
- During 2017 the Group strengthened its senior leadership capability with several key external executive appointments

8. IT & CYBER SECURITY

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

The risks
- Disruption to the IT environment could affect the Group's ability to conduct its ongoing operations
- Disruption to the IT environment could lead to an adverse effect on the Group's performance
- A major breach of system security could lead to reputational losses, regulatory penalties and significant financial loss

How we mitigate them
- The Group employs dedicated internal IT support teams, together with external support service providers
- All IT system development projects are actively and carefully planned with defined governance and control procedures
- The migration of Hope onto the Breedon IT applications and infrastructure was successfully completed during 2017
- The Group's security and disaster recovery plans and procedures are regularly reviewed

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

“We made good progress in 2017, with volumes and revenues comfortably ahead of the prior year.”

OUR PERFORMANCE

< David Edwards, Quarry Manager, Leinthall

OUR PERFORMANCE

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A REVIEW OF 2017 –

CHAIRMAN'S STATEMENT

We have a very straightforward mission: to be the safest and most profitable company in our industry. This ambition drives all our decision-making."

Peter Tom CBE
Executive Chairman

FINANCIAL RESULTS

2017 was one of the most productive years in our history. We completed the integration of our largest-ever acquisition, concluded two bolt-on purchases and announced an important transaction with Tarmac Holdings Limited (Tarmac) that, subject to approval by the competition authorities, will see us streamline our ready-mixed concrete network in exchange for a substantial new reserve of minerals and a strategically valuable asphalt plant. This did not, however, distract us from our operational focus and we once again delivered a solid financial performance.

Group revenues for the year grew by 43 per cent to £652.4 million and underlying earnings before interest and tax (EBIT) increased by 35 per cent to £80.4 million, including a full-year contribution from Hope Construction Materials Limited (Hope). This equates to an underlying EBIT margin of 12.3 per cent and we are making good progress towards our 2020 target of 15 per cent.

Profit before tax rose by 52 per cent to £71.2 million and underlying basic earnings per share increased by 19 per cent to 4.14 pence. The Group continued to generate a healthy cash flow and, even after the substantial investments made during the year, we ended 2017 with a significantly stronger balance sheet than we entered it.

Your Group Chief Executive provides more details on our performance in the following pages.

A YEAR OF FURTHER GROWTH

We believe that what distinguishes us from our competitors is our willingness to go beyond reasonable expectations to deliver an exceptional service to our customers. This applies whether we are delivering a few metres of concrete for a garage floor, or servicing a major road scheme. In fact, as Breedon has matured, we have become increasingly involved in critical industrial, commercial and infrastructure projects which have demanded strategic partnerships with some of the country's leading national companies.

The foundations of the Group are our aggregates reserves and at the end of 2017 we had around 750 million tonnes of mineral reserves and resources, with further reserves due to be added to our portfolio following completion of our planned acquisition of a number of quarries from Tarmac.

Nearly

£150m

capital expenditure in the business over the last seven years

Over

£525m

investment in earnings-enhancing acquisitions since 2010

Underlying EBIT margin

12.3%

Maximising the return from every tonne of those reserves is one of the keys to our success and in 2017 we invested a further £46 million in our quarries, cement plant and downstream operations. This has enabled us to open new quarries, extend existing operations and improve the efficiency of many of our sites. Once again, organic growth was balanced with selected bolt-on purchases. We invested around £10 million in acquisitions during 2017, which extended our market reach and added further to our reserves and resources. The Group now has an even stronger platform for growth, with a national presence, enhanced product portfolio, robust central management functions and an exceptionally strong asset base.

PROGRESS ON SAFETY

Around 2,200 colleagues now work in the Breedon Group and in 2017 we intensified our efforts to ensure that they all go home safely at the end of every working day. This took on an even greater importance in light of the tragically high number of fatalities in our industry last year. We maintain our ambition to be the safest, as well as the most profitable, construction materials company in the UK and we firmly believe that with the right culture of safe behaviour, Zero Harm is a realistic goal. I am pleased to say that the number of serious injuries declined last year, as our new Safety Commitments became firmly embedded in the business and colleagues took greater care of themselves and each other.

SENIOR MANAGEMENT CHANGES

Ashley Bryan stepped down as Managing Director of Breedon Cement and left the Group in early 2017, to be succeeded by Interim Managing Director Tim Billingham.

Following the departure of Tim Hall from the Group in September, we were recently joined by Mike Pearce as Chief Executive of Breedon Southern. Mike was formerly Managing Director of the aggregates division of Aggregate Industries, where he had also been responsible at various times for the company's building products, asphalt, ready-mixed concrete, contracting and commercial activities.

I would like to take this opportunity to welcome Mike to the Group and to thank Colin Parke for his interim leadership of Breedon Southern over the past six months.

THE BOARD

We are today announcing Simon Vivian's retirement from the Board and he will be stepping down with immediate effect. Simon and I worked closely together on the creation of Breedon and he did distinguished service as the Group's chief executive from 2010 to 2015. He retires with our thanks for the significant contribution he made to the Group's early development and we wish him well in all his future endeavours. Following Simon's departure, and recognising the need to maintain the right mix of skills and experience, we have commenced a formal search process to seek two new independent non-executive directors.

LOOKING AHEAD

Our business is in great shape and we are well positioned to benefit from the medium-term growth in residential and infrastructure development, to which the majority of our material is supplied.

As I have said in the past, our dividend policy remains constantly under review. We still believe that continuing to deliver capital growth, by reinvesting our resources in the organic development of our business and in earnings-enhancing acquisitions, is the best way of rewarding our shareholders for the foreseeable future.

We also keep our Alternative Investment Market (AIM) quotation under review. We feel no particular pressure to transfer to the main market whilst AIM continues to provide us with a platform from which to pursue our growth ambitions, but do not rule out a full listing in the longer term.

I would like to thank everyone in Breedon, together with all our contract hauliers and the many companies who do business with us, for their continued enthusiastic support for the Group. I am particularly pleased that so many of our colleagues are themselves shareholders in Breedon, thanks in part to widespread participation in our Sharesave scheme.

We look to 2018 and beyond with confidence and optimism.

Peter Tom CBE

Executive Chairman

7 March 2018

A REVIEW OF 2017 –

GROUP CHIEF EXECUTIVE'S STATEMENT

We are confident that we can continue to deliver organic growth, complemented by value-enhancing acquisitions."

Pat Ward
Group Chief Executive

TRADING PERFORMANCE

We made good progress in 2017, with volumes and revenues comfortably ahead of the prior year. These included a full-year contribution from Hope, which was fully integrated into the Group less than 12 months after completion of the acquisition, and from Sherburn Minerals Limited (Sherburn).

We delivered healthy growth in volumes of aggregates and ready-mixed concrete, with asphalt volumes broadly maintained, against the background of more difficult markets, exacerbated by some major project delays and challenging weather towards the end of the year. It is also important to note that our revenue growth reflects - and will continue to reflect - the increasing internalisation of aggregates and cement following the acquisition of Hope.

Group revenues rose by 43 per cent to £652.4 million, generating underlying EBIT of £80.4 million and an underlying EBIT margin of 12.3 per cent. We remain committed to achieving a medium-term underlying EBIT margin target of 15 per cent by 2020. The Group continued to be strongly cash-generative, with net debt reduced by a further 31 per cent to just under £110 million.

All three divisions delivered improved performances, reflecting a resolute emphasis on outstanding customer service, coupled with rigorous cost control and a sharpened focus on operating efficiency. The businesses are each reviewed by their respective leaders on pages 29 to 37.

THE MARKET

Construction output continued to grow in 2017, rising by three per cent despite a softening of the market during the second and third quarters. As always, there were marked geographical disparities, with generally stronger demand in England than in Scotland and many regional variances within both countries. Growth was led by healthy increases in residential and infrastructure development, which together account for the majority of our end-use markets.

A summary of 2017 market conditions and the outlook for 2018 can be found on page 14.

ORGANIC DEVELOPMENT

Once again we invested well ahead of depreciation in mineral assets, capacity and operational improvements throughout the Group, including three new quarries, which will facilitate further internalisation of material to our concrete and asphalt plants.

We have a long-term ambition to strengthen our position in the UK asphalt market and to this end in 2017 we commenced installation of a new plant at our rail-linked quarry at Dowlow in Derbyshire and a replacement plant at our Furnace quarry in Scotland. The planned acquisition of Minffordd quarry from Tarmac will give us another new plant, expanding our asphalt network to 28 plants nationwide.

Investments last year in equipment upgrades at Tom's Forest and Dowlow quarries are already producing improved performances. We have also been operating formal OEE (Overall Equipment Effectiveness) and REE (Running Equipment Effectiveness) programmes for some time at selected sites in Breedon Southern and these are now being rolled out across Breedon Northern. They are enabling us to make clearly measurable improvements to the efficiency and running costs of our fixed plant and drive selective capital investment, thereby ensuring that all our operations are fit for purpose in the years ahead.

We completed a major planned programme of capital investment in Breedon Cement, encompassing significant upgrades to our Hope Cement Works, quarry equipment and road and rail fleets.

ACQUISITIONS

In May we secured another valuable route to market for our aggregates and cement with the purchase of Pro Mini Mix Concrete, Mortars and Screeds Limited (Pro Mini Mix), a mini mix operator in the West Midlands. This was followed in August by the acquisition of Humberside Aggregates Limited (Humberside Aggregates), bringing with it around three million tonnes of mineral reserves, opening up new markets for us in East Yorkshire and Humberside and enabling us to internalise supplies to our concrete plants in the region.

Q&A

Group CEO answers key questions on 2017

Q: What were the highlights of 2017?

A: The integration of Hope, which we completed shortly before the first anniversary of closing the deal, was a major achievement for everyone concerned. The entire Group is now on a common IT platform, with strong and well-structured central functions, well equipped to service Breedon through the next stage of its development. We were also very pleased to complete the acquisitions of Pro Mini Mix and Humberside Aggregates, which expanded our service network and brought us additional reserves of valuable minerals. Our planned acquisition of quarries and an asphalt plant from Tarmac is an elegant means of acquiring additional reserves and asphalt capacity, whilst simultaneously streamlining our ready-mixed concrete network.

Q: How do you maintain Breedon's unique culture as you continue to grow?

A: It is obvious that, as the Group grows, we need more robust processes. But that does not mean making those processes lengthier. We will keep our reporting lines short, our central overhead to a minimum, and devolve as much responsibility as possible to our managers – giving them the training they need to assume accountability with confidence. Investment decisions will continue to be made quickly and we will remain close to our customers, continuing to give them the outstanding service they have come to expect from us, whether they are small local purchasers or one of the many major national concerns with which we are increasingly partnering.

Q: What are you doing about succession-planning?

A: We decided very soon after the acquisition of Hope to restructure our management on Regional and Area General Manager lines, in order to ensure that we had ambitious and capable people in those key roles on which the business depends. All our General Managers run substantial businesses in their own right and they provide us with an excellent pool of talent on which to draw in the future. We are supporting them with significant investment in training and leadership development, so that each of them is properly equipped to reach their full potential as future leaders of the business.

Q: What criteria do you use to decide how and where to invest in the business?

A: We have always said that Breedon will expand through a combination of acquisitions and organic growth. Acquisitions must be earnings-enhancing, bring tangible strategic benefits and deliver meaningful value for our shareholders. The same is true of organic investment: we apply rigorous tests to every item of capital expenditure, demanding a healthy rate of return and speedy payback. We also make decisions fast: if the case for expenditure is strong and well presented, we can give it approval within days or even hours. This approach has enabled us to deliver widespread performance improvements in our quarries and plants.

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

Revenue up 43%

Underlying EBIT up 35%

Net debt down 31%

In December, we announced the planned acquisition of four quarries and an asphalt plant from Tarmac, in exchange for 27 of our ready-mixed concrete plants and a cash payment of £4.9 million. This acquisition is in line with our strategy of expanding our aggregates portfolio and streamlining our concrete network, whilst enabling us to replace third-party aggregates providers with our own sources of supply. Subject to approval from the Competition and Markets Authority (CMA), the transaction is expected to be completed in the next couple of months.

SAFETY

We set out in 2017 to embed a culture of safer behaviour in the business, encouraging all our colleagues to recognise the importance of moving towards Zero Harm. This led to a further 25 per cent reduction in the frequency of employee lost-time injuries across the Group which, although not as great a reduction as we had targeted, is nonetheless an encouraging improvement. I am particularly pleased to note a significant fall in the severity of injuries reported, which signals that our colleagues are embracing the challenge to make Breedon a safer place to work.

A detailed review of our safety activities is provided within the Corporate Social Responsibility review on pages 43 to 45.

OUTLOOK

Breedon is an appreciably stronger and more strategically well positioned business today than it was two years ago. The acquisition of Hope, followed by Sherburn, Pro Mini Mix and Humberside Aggregates, have consolidated our position as the UK's leading independent construction materials producer. Our planned acquisition of quarrying and asphalt assets from Tarmac will give us an even more powerful platform for growth.

We have a business of significant scale and national reach with fully vertically integrated operations, from cement production at the UK's largest plant to an extensive network of downstream product units. The addition of two cementitious import terminals has also opened up new strategic relationships with European producers which will potentially bring valuable benefits in the future.

We have a tried and tested operational management team who have the experience and bandwidth to exploit new market and acquisition opportunities to the full in the years ahead, backed by robust processes which ensure that we can move quickly when potential investments become available. Furthermore, the consolidation of our back-office systems following the acquisition of Hope has given us capacity to further expand the Group without adding materially to our overhead.

There is no doubt that 2018 will continue to be challenging in some areas of the construction market. However, our bias towards housebuilding and infrastructure development will ensure that we are well positioned to take advantage of healthy forecast growth in these sectors and we also have further acquisitions in the pipeline. We therefore remain confident of our ability to continue delivering value for our shareholders in the current and future years.

Patrick R Ward

Pat Ward
Group Chief Executive
7 March 2018

OUR PERFORMANCE –

BREEDON NORTHERN

Breedon Northern comprises our aggregates, asphalt, concrete and contracting operations in Scotland, Cumbria and North-East England.

Alan Mackenzie
Chief Executive, Breedon Northern

TRADING SUMMARY

Breedon Northern delivered a solid performance in 2017, underpinned by major projects and in the face of highly competitive market conditions, especially in the second half of the year, which were exacerbated by relatively low local authority expenditure and a subdued market around Aberdeen. Total revenues were ahead 13 per cent to £196.0 million, generating a three per cent increase in underlying EBIT to £20.4 million.

2017 ACHIEVEMENTS

- Solid performance in competitive market
- Integration of Hope & Sherburn completed
- New quarry opened in northern England
- Management strengthened
- Agreement on planned acquisition of quarries from Tarmac

KEY ACHIEVEMENTS

The integration of the northern operations of Hope was completed on 1 January, followed by Sherburn on 1 March. This was followed by the opening of a new North-East Regional Office at our Raisby quarry in County Durham, generating significant savings from the release of two office rentals and enabling us to bring the former Hope and Sherburn teams together in a single location.

We continued to supply material to both the first phase of the A9 dualling project, completed in the second half of the year, and the Aberdeen Western Peripheral Route (AWPR); major additional aggregates and concrete volumes were supplied directly and asphalt was supplied and laid to the latter through our Breedon Whitemountain Ltd (Breedon Whitemountain) joint venture. Subsequent to the year-end, Carillion – one of the three shareholders of the Aberdeen Roads Limited consortium responsible for the AWPR contract – entered liquidation. Due to the joint and several liability structure of the contract held by the consortium, we expect the project to be completed by the remaining parties with no adverse financial impact on Breedon Whitemountain or Breedon Northern.

Despite a temporary pause in investment in new energy projects in Scotland, Mobile Concrete Solutions, our unincorporated joint venture with TSL Contractors, ended the year well by securing a substantial concrete order from Morrison Construction for a new wind farm at Dorenell in Moray.

Headquarters
Ethiebeaton, near Dundee

Colleagues
900

Quarries
38

Asphalt plants
17

Ready-mixed concrete and mortar plants
70

Concrete products plants
2

Regional contract surfacing hubs
6

Traffic management services company
1

OUR PERFORMANCE –
BREEDON NORTHERN CONTINUED

MAJOR INVESTMENTS

New mineral reserves were secured during the year. We opened a new sand & gravel quarry at Low Harperley near Durham - the only active sand & gravel source in County Durham - which will enable us to internalise the supply of more material to our concrete plants. Further investments were made in commencing replacement of our asphalt plant at Furnace quarry near Inverary and installing a new wash plant at our Tom's Forest quarry near Aberdeen, which will enable us to fully exploit a valuable sand resource in the overburden. In addition, we invested in new crushing and screening equipment to improve the performance of our mobile crushing trains and in a new mobile concrete plant which will support the supply of ready-mixed concrete to a potash mine in Yorkshire.

STRENGTHENED MANAGEMENT

Following the integration of the former Hope and Sherburn businesses, we restructured our Regional and Area Management teams to better serve the needs of the enlarged division. This included the appointment of a new Regional Director for the northern half of the division, together with a number of senior contracting operations managers.

We also embarked on a programme of coaching and mentoring for our Area General Managers with a view to improving our succession planning.

OUTLOOK

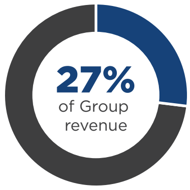
As we look to the remainder of 2018, we enter the final stages of the AWPR project and we expect Transport Scotland to begin preparations for the next phase of the A9 dualling project between Luncarty and Birnam, from which we hope to benefit in due course. We will also be preparing for BEAR Scotland's new 5G highway maintenance contract, for which the tendering process will begin towards the end of the year.

The market is likely to continue to be challenging this year and, in the absence of significant market growth, we will focus on further cost control and operational efficiency improvements. Earlier this year we opened a new greenfield hard rock quarry at North Drumboy, about 10 miles from Glasgow and we have a new concrete plant proposed at Port Dundas, to serve the growing Glasgow market. We will continue to evaluate bolt-on acquisitions where we can secure value for shareholders.

Our planned acquisition of quarries from Tarmac will bring valuable benefits, plugging gaps in our mineral resources and providing us with strategically valuable new sources of aggregates.

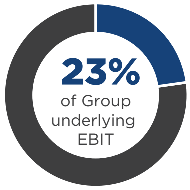
Finally, I would like to thank all our colleagues for their efforts in 2017 and I look forward to making our business an even safer place to work in 2018.

Alan Mackenzie
Chief Executive
Breedon Northern
7 March 2018



Revenue

£196.0m



Underlying EBIT

£20.4m

“Breedon Northern delivered a solid performance in a competitive market.”

∧ Raisby quarry in County Durham, acquired as part of Hope, now home to our new North-East Regional Office

< Euan Patterson, Quarry Supervisor/on-site Fitter, Ethiebeaton quarry

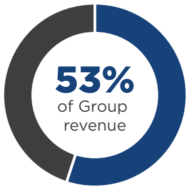
OUR PERFORMANCE –

BREEDON SOUTHERN

Breedon Southern comprises our aggregates, asphalt, concrete and contracting operations in Southern, Central and North-West England and Wales.

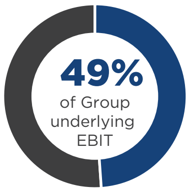
Colin Parke

Interim Managing Director, Breedon Southern



Revenue

£381.5m



Underlying EBIT

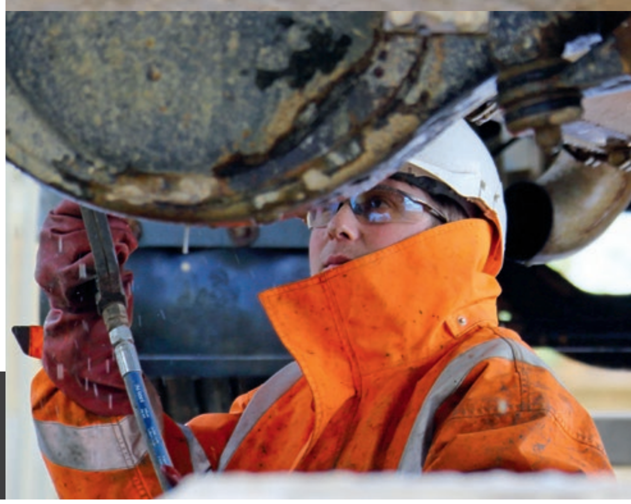
£44.1m

TRADING SUMMARY

Breedon Southern delivered a good performance against the background of challenging market conditions, albeit with marked regional variations. Aggregates volumes remained strong, particularly in central England, the west and Wales, and asphalt volumes were also slightly ahead on the back of healthy residential and industrial demand. Ready-mixed concrete volumes held up throughout the year, reflecting the strength of the housing market. Total revenues rose by 49 per cent to £381.5 million, and underlying EBIT grew by 16 per cent to £44.1 million.

2017 ACHIEVEMENTS

- Good performance in challenging market
- Integration of Hope completed
- Acquisitions of Pro Mini Mix and Humberside Aggregates
- New reserves secured, plus new quarries planned to be acquired from Tarmac
- New Divisional Chief Executive appointed



>> Dowlow quarry in Derbyshire

> Craig Crawford, Workshop Apprentice, West Deeping

“Breedon Southern delivered a good performance against the background of challenging market conditions.”

OUR PERFORMANCE –

BREEDON SOUTHERN CONTINUED

Headquarters

Breedon on the Hill, Derbyshire

Colleagues

1,047

Quarries

20

5

Rail-fed aggregates depots

Asphalt plants

9

Ready-mixed concrete and mortar plants

122

Concrete products plants

1

Regional contract surfacing hubs

3

1stMix and Pro Mini Mix mini mix businesses

KEY ACHIEVEMENTS

2017 was a year of major change for Breedon Southern, dominated by the full IT and operational integration of the former Hope operations, which was completed in less than a year and transformed the scale and reach of the division. Notwithstanding the challenges of the integration, Breedon Southern's management remained focused on the commercial opportunities available to the business and recorded some marked successes during the year.

Major contract wins included the supply of materials to the six million square feet East Midlands Gateway scheme, the largest multi-modal project of its kind in the UK. We also won significant work at Manchester International Airport and from a wide range of groundwork specialists servicing the buoyant housebuilding industry. Supplies continued to the £53 million Newtown bypass through our Breedon Bowen Limited (Breedon Bowen) joint venture at Welshpool and to Jaguar Land Rover through our contracting business.

MAJOR INVESTMENTS

Our investments in 2017 were geared primarily to growing our mineral reserves and resources and improving the performance of our key strategic quarries. In August we completed the £9 million acquisition of Humberside Aggregates, giving us around three million tonnes of additional reserves in the important markets of East Yorkshire and Humberside, with the potential to secure additional reserves in the future.

Works were also completed at Earls Barton quarry in Northamptonshire, which enabled us to open this new site in early 2018, providing access to a further source of scarce sand & gravel reserves.

We made substantial investments in our existing major quarries, notably at Dowlow, our flagship rail-linked quarry in Derbyshire, where we are seeing significant benefits flowing from improved operational efficiencies. Installation of a new asphalt plant at Dowlow is also well underway and we expect it to be operational in the first half of this year.

In May we invested in the expansion of our successful mini mix business, 1stMix, with the complementary acquisition of Pro Mini Mix, which extended our reach into the West Midlands.

OUTLOOK

We expect the market to continue to be challenging this year. However, we already have a strong order book, including further work on the East Midlands Gateway and Newtown bypass, and will as always seek to exploit all the commercial opportunities available to us.

We see potential for incremental development of our ready-mixed concrete portfolio in certain key markets, particularly in light of the planned streamlining of our network with the divestment to Tarmac of 25 of Breedon Southern's peripheral plants.

2017 was a challenging year for all our colleagues and I would like to thank them personally for their hard work and dedication. As we look forward to the remainder of this year, our priority will be to ensure that they keep themselves and those they work with as safe as possible, as we aspire to achieve our target of Zero Harm.

Colin Parke

Interim Managing Director
Breedon Southern

7 March 2018

OUR PERFORMANCE –

BREEDON CEMENT

Breedon Cement comprises all our cementitious operations UK-wide.

Tim Billingham

Interim Managing Director, Breedon Cement

TRADING SUMMARY

Breedon Cement traded strongly in 2017, with an accelerating performance in the second half following completion in the first six months of both annual maintenance and upgrade shutdowns. Total revenues rose to £141.6 million, generating underlying EBIT of £25.8 million.

These results were delivered against the background of generally softer UK volumes of ready-mixed concrete, one of our principal routes to market, coupled with high levels of cement imports, which combined to intensify competition in the bulk cement market.

2017 ACHIEVEMENTS

- Strong trading performance
- Plant reliability ahead of budget
- Import terminals integrated
- Bagged cement building solid customer base
- Major investment programme completed
- Logistics and service functions streamlined

KEY ACHIEVEMENTS

As planned, we have internalised cement supplies to the great majority of Breedon Southern's concrete plants.

One of our primary goals in 2017 was to further enhance the reliability of our cement plant in the Hope valley. Following two major kiln shutdowns, two kiln pit-stops and a cement mill shutdown – all completed safely, on time and on budget – the reliability factor of the plant at the year-end reached 97 per cent, a world-class level of performance.

Our two import terminals at Blyth and Dundee, which were acquired as part of the Sherburn acquisition in November 2016, were successfully integrated into the division, enabling us to expand our cementitious business through the importation of cement and ground granulated blast-furnace slag (GGBS). They also provide a complementary source of supply and back-up support to our main cement plant.

Our new bagged cement range, launched towards the end of 2016, has performed in line with our expectations, building a solid core customer base among builders merchants in the south-east of England. We are seeking to establish a strong competitive advantage in this business through a fast and responsive service to customers, coupled with an innovative loyalty scheme for both merchants and builders.

Headquarters
Hope Works, Derbyshire

Colleagues
234

Cement plants
1

Quarries
2

Cementitious import terminals
2

Bagging plants
1

Rail-fed depots
4

OUR PERFORMANCE –
BREEDON CEMENT CONTINUED

CAPITAL INVESTMENT

We completed a major programme of capital investment during the year, including a fleet of new tractor units and powder tankers; upgrades to the pre-heater riser, kiln feed and rail line at Hope Works; and a replacement excavator at the limestone quarry.

IMPROVED LOGISTICS AND SERVICE

Another priority for 2017 was to streamline our logistics and customer service operations. We have now completed a restructuring of these functions, which will enable us to improve our service delivery and drive greater efficiencies through both our in-house and contracted fleets.

OUTLOOK

Looking ahead to the remainder of 2018, we will be focused on maximising value from every tonne of cement we produce, delivering further efficiency gains and cost-savings through selective capital investment and pushing for continual improvements in the performance and reliability of our plant.

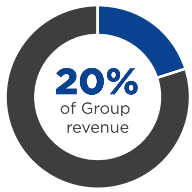
We will also be accelerating our shale replacement project, sourcing increased quantities of pulverised fly ash (PFA) as a shale substitute, to ensure that we have in place a sustainable alternative source of waste-derived raw material for the cement-making mix by the middle of 2019.

We will be paying close attention to customer segmentation and will further extend the geographical spread of our bagged cement customers, whilst ensuring that our service levels are maintained.

In light of the planned divestment of a number of the Group's concrete plants to Tarmac, we are currently reviewing the configuration of our rail network to ensure that we optimise utilisation of our rail fleet.

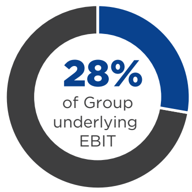
We recognise that none of our achievements would be possible without a supportive and collaborative workforce and we will be working hard in 2018 to ensure that all our colleagues are well engaged and – above all – that they keep themselves and each other safe as we continue our drive towards Zero Harm.

Tim Billingham
Interim Managing Director
Breedon Cement
7 March 2018



Revenue

£141.6m



Underlying EBIT

£25.8m

>> Our Hope Cement Works ships around a million tonnes of cement by rail direct to our four regional depots

> Jess Holland and Daniel Hobson, apprentices at Hope Works

“Breedon Cement traded strongly in 2017, with an accelerating performance in the second half.”

OUR PERFORMANCE –

FINANCIAL REVIEW

“

During the year we again delivered strong organic earnings growth, supplemented by healthy contributions from our recent acquisitions.”

Rob Wood
Group Finance Director

ACQUISITIONS

In May we acquired Pro Mini Mix, a mini mix concrete operator based at Oldbury in the Black Country and covering the West Midlands. In addition, in August we acquired Humberside Aggregates, a leading independent sand & gravel quarry and aggregates merchanting business based at North Cave near Hull in East Yorkshire.

The consideration in respect of these acquisitions was £9.7 million.

REVENUE AND UNDERLYING PROFIT FROM OPERATIONS

During the year we again delivered strong organic earnings growth, supplemented by healthy contributions from our recent acquisitions (those completed during 2016 and 2017), the most significant of these being the August 2016 acquisition of Hope.

Group aggregates volumes for the year were up 40 per cent at 16.0 million tonnes, asphalt volumes were comparable at 1.9 million tonnes and ready-mixed concrete volumes were up 74 per cent at 3.3 million cubic metres. Excluding acquisitions, aggregates volumes were up five per cent and asphalt and concrete volumes were flat. In accordance with the Cement Market Data Order 2016, cement volumes are not disclosed.

Revenue for the year at £652.4 million was 43 per cent ahead of 2016 (£454.7 million). Excluding acquisitions it was broadly in line with the prior year.

Our volumes were delivered against the background of generally softer markets in 2017, coupled with major project delays and adverse weather conditions towards the end of the year. Our revenue was also impacted by the increasing internalisation of aggregates and cement only made possible as a result of the Hope acquisition in 2016. Internal cement sales grew by four percentage points to 41 per cent and internal aggregates sales into ready-mixed concrete by three percentage points to 19 per cent.

Underlying EBIT was £80.4 million, 35 per cent ahead of 2016 (£59.6 million). Underlying results are stated before acquisition-related expenses, redundancy and reorganisation costs, property items, amortisation of acquisition intangibles and related tax items.

Underlying EBIT improved in all three divisions, although the overall underlying EBIT margin for the Group at 12.3 per cent was, as expected, diluted by the impact of the acquisition of Hope, where historic EBIT margins were single-digit. The impact of this dilution is now behind us and we are making good progress towards our 2020 underlying EBIT margin target of 15 per cent.

EBIT includes our share of profit from associate and joint ventures (net of tax). We have three such entities: BEAR Scotland Limited, Breedon Bowen and Breedon Whitemountain.

NON-UNDERLYING ITEMS

Non-underlying items in the year amounted to a net pre-tax cost of £2.8 million (2016: £8.4 million), the major item being redundancy and reorganisation costs of £2.5 million primarily in respect of the integration of Hope, which has now been completed.

INTEREST

Net finance costs in the year totalled £6.4 million (2016: £4.5 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 2017 reflect the higher level of borrowings following the 2016 acquisition of Hope.

PROFIT BEFORE TAX

Profit before taxation was £71.2 million, 52 per cent ahead of 2016 (£46.8 million). Underlying profit before tax was £74.0 million, 34 per cent ahead of 2016 (£55.1 million).

TAX

The tax charge was £14.2 million (2016: £10.0 million). An underlying tax charge of £14.7 million (2016: £11.2 million) was recorded in the year, resulting in an underlying effective tax rate for the full year of 19.8 per cent, reflecting the effect of costs for which no tax relief can be obtained.

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 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 informed of all material developments relating to the Group's tax position on a regular basis. 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 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 HM Revenue & Customs (HMRC) 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.

Revenue

£652.4m

2016: £454.7m

+43%

Underlying EBIT

£80.4m

2016: £59.6m

+35%

Underlying EBIT margin

12.3%

2016: 13.1%

Profit before tax

£71.2m

2016: £46.8m

+52%

OUR PERFORMANCE –

FINANCIAL REVIEW CONTINUED

The Group's tax liabilities arise in the UK subsidiary companies. In terms of the UK corporation tax position, all years up to 2015 are agreed in respect of companies acquired prior to 2016. The Group is responsible for paying and submitting computations and returns in respect of Corporation Tax, National Insurance, Aggregates Levy and other taxes including VAT and PAYE.

The Group makes a significant contribution to the economy through taxation, either borne by the Group or collected on behalf of, and paid to, HMRC. In 2017, the total taxes borne and collected by the Group amounted to over £110 million (2016: over £90 million).

EARNINGS PER SHARE

Basic earnings per share (EPS) for the year were 3.98 pence (2016: 2.92 pence), reported after the non-underlying items mentioned above. Underlying basic EPS for the year totalled 4.14 pence (2016: 3.49 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 2017 were £528.1 million (2016: £467.5 million).

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

CASH FLOW

Cash generated from operating activities was £117.2 million (2016: £80.8 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 in the business, adding acquisitions where these make sense both strategically and financially and investing further in plant and equipment.

During 2017 the Group spent £9.2 million cash on two acquisitions, Pro Mini Mix and Humberside Aggregates (2016: £57.1 million on Hope and Sherburn), and incurred a cash spend on capital expenditure projects of £46.2 million (2016: £23.7 million). Further details of this expenditure can be found in the Business Reviews on pages 29 to 37.

Proceeds from the sale of property, plant and equipment totalled £3.2 million in 2017 (2016: £10.1 million). The 2016 proceeds included an instalment of £2.8 million from the 2014 sale of the 60-acre former concrete products plant site at Doseley near Telford in Shropshire, together with the proceeds of the Hope divestments that were required to be made by the Competition and Markets Authority.

Repayments of loans during the year totalled £26.6 million (2016: £205.1 million). The 2016 repayment (and proceeds from new loans raised) reflected the refinancing that took place on the acquisition of Hope.

Repayment of finance lease obligations totalled £5.7 million (2016: £7.2 million), which reflects the fact that the majority of property, plant and equipment purchases during the year were for cash.

Underlying basic earnings per share

4.14p

2016: 3.49p

+19%

Net assets

£528.1m

2016: £467.5m

+13%

Net debt

£109.8m

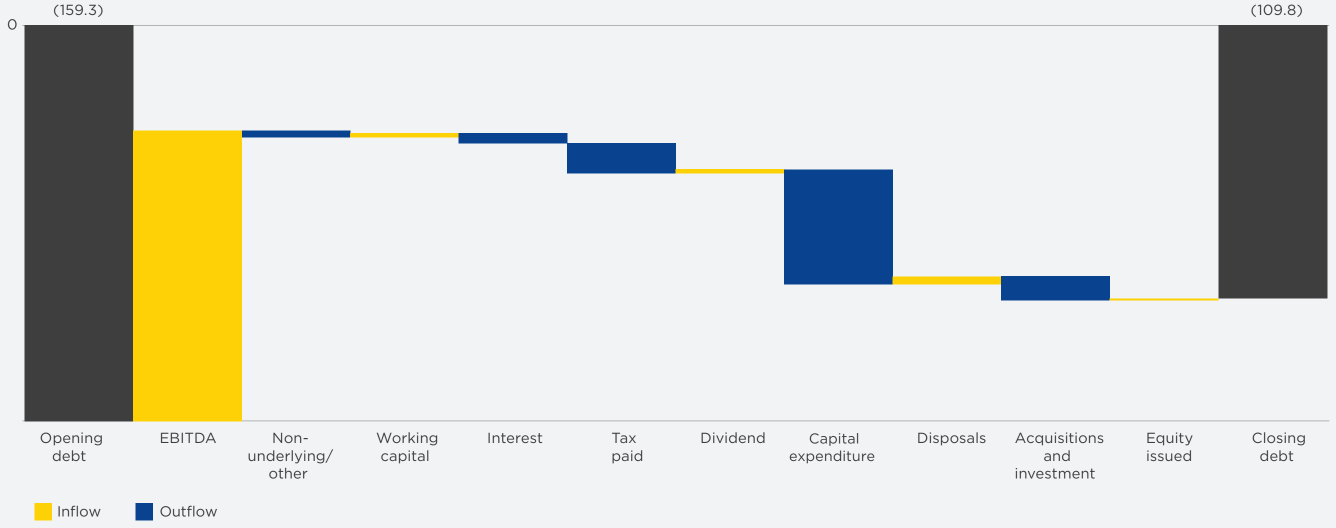
2016: £159.3m

-31%

Leverage ratio

0.9x

2017: NET DEBT MOVEMENT (£M)



NET DEBT

Net debt at 31 December 2017 was £109.8 million (2016: £159.3 million).

Key movements are shown in the chart above and include: underlying earnings before our share of associate and joint ventures, interest, tax, depreciation and amortisation (EBITDA) of £117.0 million (2016: £83.7 million); tax paid of £12.1 million (2016: £8.3 million); purchase of property, plant and equipment of £46.2 million (2016: £30.7 million), including £Nil (2016: £7.0 million) financed by way of new finance leases; and expenditure on acquisitions of £9.7 million.

Leverage (the ratio of net debt to EBITDA) at 31 December 2017 was less than one times which, after taking into account the acquisition of Hope in 2016, clearly demonstrates the cash-generative nature of the Group.

BANK FACILITIES

At the time of completing the acquisition of Hope in 2016, we entered into a new £300 million committed revolving credit facility agreement with Barclays Bank PLC, HSBC Bank plc, The Royal Bank of Scotland plc and Santander UK plc. This facility expires in November 2019 and contains a £100 million accordion option.

The facility is subject to a floating interest rate based on LIBOR plus margin. At 31 December 2017, the total undrawn facility available to the Group amounted to £173.0 million (2016: £148.0 million). The facility is subject to Group leverage and Group interest cover covenants which are tested half-yearly. At 31 December 2017, 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.

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

Rob Wood
Group Finance Director
7 March 2018

CORPORATE SOCIAL RESPONSIBILITY REVIEW

"Our products play an important role in the UK's economic development and we're working to reduce any impact our operations may have on people or the environment."

Restored land at West Deeping

TAKING A BALANCED APPROACH TO CORPORATE RESPONSIBILITY

For our business to be sustainable we must balance the need to create shareholder value with the requirement to be a good corporate citizen, mindful of the needs of all our key stakeholders.

CORPORATE SOCIAL RESPONSIBILITY REVIEW

1. HEALTH & SAFETY

Our ambition is to be the safest, as well as the most profitable, construction materials company in the UK.

Patrick O'Shea, Quarry Operative, Cloud Hill

The safety of our colleagues is our top priority. It is the first item on the agenda at every meeting of the Board and Executive Committee. We have set ourselves the goal of achieving Zero Harm across the Group, which we can only hope to attain with the active cooperation of everyone in our business, starting with the senior leadership team whose responsibility it is to ensure that a safe environment is maintained at all our operations.

We of course comply with all relevant health & safety legislation, but go well beyond this requirement by encouraging all our colleagues to actively involve themselves in the pursuit of continuous improvement in health & safety standards.

HOW WE MEASURE AND MONITOR

We monitor and review our safety record continuously and comprehensive safety reports are produced regularly for the Board. Our principal KPI is our Employee Lost Time Injury Frequency Rate (LTIFR), which measures the number of lost-time injuries (those which result in time off work for at least one day or shift) per million hours worked, augmented by our Total Injury Frequency Rate (TIFR) and Total Lost Time Injury Severity Rate, which helps us to gauge the seriousness of those accidents which result in lost time.

All these measures are essentially lagging indicators, and if we are to improve them, our focus must be on improving the embedded safety culture in our business. We strongly believe that the best way to do this is by enhancing the competence of our supervisors and encouraging our senior management to actively and regularly engage with colleagues employed or deployed on our sites.

We therefore place a heavy emphasis on Visible Felt Leadership (VFL), led by the Executive Committee and requiring all our managers to spend a significant proportion of their time out in the business interacting with our operational teams. We closely monitor the number of VFL interactions carried out across the Group and the recommendations they contain for areas to improve, and we ensure consistent implementation of improvements in all three divisions.

We also formally report monthly on the number of Safety Observations made by colleagues throughout the business. These Observations record instances of unsafe behaviour or unsafe conditions and/or breaches of safety rules. Root-cause analysis and consequence management are crucial elements of accident and near-miss reviews.

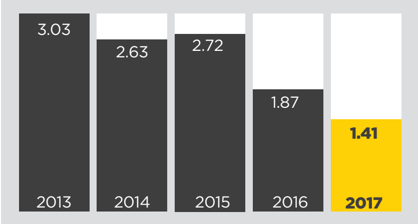
CORPORATE SOCIAL RESPONSIBILITY REVIEW
CONTINUED

1. HEALTH & SAFETY CONTINUED

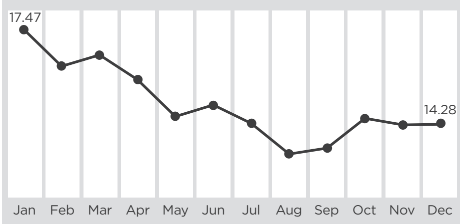
KEY PRIORITIES FOR 2018

- Improve site standards and housekeeping
- Increase support for front-line managers and supervisors
- Improve driver, vehicle and traffic management
- Sharpen focus on contractor safety
- Enhance communication and engagement with colleagues

EMPLOYEE LTIFR



EMPLOYEE TIFR
(12-MONTH ROLLING AVERAGE)



HOW WE PERFORMED

One of our main aims in 2017 was to significantly increase the number of VFL interactions across the Group, as we believe this has a direct impact on on-site behaviour. In this we were very successful, with a marked increase on the prior year, including substantially more interactions by the Group's senior leadership team.

At the start of the year we set ourselves a tough target for 2017 of a 40 per cent reduction in our Employee LTIFR which, although it is the industry-standard mechanism for measuring safety performance, tends to be a somewhat blunt instrument and can mask underlying improvements. So although our Employee LTIFR fell more slowly than we would have liked - from 1.87 to 1.41 - we were very encouraged by the fact that our increasingly visible VFL programme is having a marked impact on the absolute level of injuries in our business, which fell by 12 per cent over the year. In fact, there were no employee LTIs at all in Breedon Southern last year and by the year-end the vast majority of Breedon sites had been LTI-free for more than 12 months.

We also saw a continuing improvement in the reporting of Safety Observations (formerly known as near-misses), which increased by 16 per cent year-on-year. Every Safety Observation reported is a potential accident avoided, so we are pleased to see this continuing upward trend. As with VFLs, the key to a safer environment is ensuring that learnings from Safety Observations are communicated widely across the Group and that changes and improvements are implemented consistently and quickly.

ONLINE REPORTING SYSTEM LAUNCHED

By the autumn we had put in place a proprietary safety reporting process based on the Assure workplace management system, which means that colleagues in the business can now log VFLs, Safety Observations and other key safety information online in real time. This is enabling us to manage our safety learnings, actions and follow-up much more effectively and share them instantly around the Group, ensuring that no time is lost in taking action or recommending improvement following any safety incidents.

OTHER GROUP INITIATIVES

Following the launch of the Safety Commitments at the beginning of 2017, a revised set of Group Health & Safety Standards is now being rolled out across the Group, setting clear expectations for the safe behaviour of all Breedon colleagues. They include the introduction of a new root-cause analysis system (employing the commonly used 'Why-Tree' protocol), based on a 'Fair & Just' culture which prioritises learning and accountability over blame and judgment.

Among the safety improvements stemming from our VFL learnings in 2017 were the replacement of all powered angle-grinders with cordless battery models, incorporating improved safety features, and a move to 'cut-level-3' general-purpose gloves to help prevent hand injuries. Pit covers were also fitted as standard to all workshop pits.

Towards the end of the year we began the roll-out of a new locally-based Site Improvement Plan scheme, which will bring much greater discipline to the monitoring and improvement of operational and safety performance on each of our sites.

SAFE SHUTDOWNS AT BREEDON CEMENT

Two major kiln shutdowns, two kiln pit-stops and a mill shutdown were carried out at Hope Cement Works during 2017 involving more than 200,000 additional man-hours of work, carried out mainly by a range of engineering sub-contractors, without a single incident being recorded. This graphically demonstrates that 'Zero Harm' is a realistic and achievable objective with meticulous planning and strong management and supervisory control.

HEALTH & SAFETY TRAINING

2017 kicked off with a series of 'safety stand-down' days at which our new Safety Commitments were introduced for the first time. These Commitments formed the primary focus of all our safety training during the year and are steadily becoming embedded in the business. We also undertook rigorous inductions with our colleagues at recently-acquired Sherburn, Humberside Aggregates and Pro Mini Mix to ensure that their safety practices meet the high standards expected of all our businesses.

In addition, we continue to invest heavily in improving the competence of our site managers, supervisors and operatives, using the Mineral Products skills courses which are specifically designed for our industry.

RAIL SAFETY

With the acquisition of Hope we inherited a major rail operation and immediately recognised that we needed additional expertise in this area if we are to ensure a safe working environment in our rail depots and sidings. We accordingly created a new Rail Infrastructure Manager role to manage these operations, with the primary remit of ensuring that safety practices are robust and any necessary improvements are quickly implemented.

LOOKING AHEAD

We continue to aim for further improvements in our Employee LTIFR and in 2018 we are targeting a reduction in this KPI from 1.4 to 1.0.

∧ Major kiln refit at Hope Works, carried out without incident

< Colleagues being awarded Track Safety Cards after completing our Personal Track Safety Training course at Hope Works

CORPORATE SOCIAL RESPONSIBILITY REVIEW CONTINUED

2. ENVIRONMENT

KEY PRIORITIES FOR 2018

- Implementation of sub-metering to improve collection of data on electricity usage
- More detailed analysis of fleet fuel utilisation
- Continuing increase in use of RAP in asphalt plants
- Focus on lifecycle management of plant and equipment
- 50 per cent increase in usage of SRF at Hope in 2018 compared to 2017
- Replacement of more than half the road cement tanker fleet with lighter vehicles, reducing road impact

Hope Works (courtesy of Stephen Elliott)

The implementation of rigorous site-by-site Overall Equipment Effectiveness (OEE) and Running Equipment Effectiveness (REE) programmes resulted in marked performance enhancements across our business, with a general rise in the maximum operating capacity of our plants and corresponding improvements in availability, utilisation and production rates – all of which combined to reduce our energy consumption.

A major expansion project at our West Deeping workshop provided compelling evidence of the benefits of applying a lifecycle perspective to our operations. By extending the workshop and expanding its activities to allow it to undertake refurbishment and repair work, we significantly reduced the need to buy new plant and equipment. Instead, we are now able to recycle and reuse key machinery, reducing scrap, waste and our need for raw materials. For example, a newly-refurbished mobile crushing plant is now back in service and looking as good as new.

This initiative is significant in the context of the new ISO 14001:2015 Environment Standard, which specifically required us to consider a lifecycle perspective. Breedon Southern achieved transition to the new standard late last year, using West Deeping as an example.

Our recently-refurbished Raisby quarry offices and laboratory provided an excellent example of our continuing commitment to environmental improvement, specifically through enhanced energy efficiency.

The installation of low-energy lighting, occupancy sensors, highly efficient AAA+ rated heating units and ventilation units with heat recovery facilities helped to reduce Raisby's carbon footprint, with a speedy payback. This provides the model for similar energy-efficiency schemes at other key sites around the Group.

The use of Reclaimed Asphalt Planings (RAP) continued to play a role in increasing our use of recycled product in our asphalt plants.

At our Hope cement plant we used around 135,000 tonnes of waste to replace virgin raw materials and fossil fuels, utilised more Solid Recovered Fuel (SRF) than ever before and almost doubled our year-on-year usage of Pulverised Fly Ash (PFA), thereby preserving more of our valuable shale reserves. The plant also increased its participation in National Grid's Demand Side Response schemes, providing a valuable service to the UK's electricity network.

Breedon Cement's entire road fleet was replaced, moving from Euro 5 specified MAN vehicles to more efficient Euro 6 specified DAF trucks, which will yield a five per cent fuel saving. In addition, new planning and tracking tools were introduced to improve our cement delivery planning and adding new JPA tankers to the rail fleet has helped to reduce rail movements to our depots at Theale and Dagenham.

3. COLLEAGUES

Breedon continues to grow, with two acquisitions and many new hires in 2017. By the end of the year there were around 2,200 people in the Group. Ensuring that all our colleagues are empowered to use their full range of skills and professional competencies is an increasingly important priority for us and during the year we made good progress in formalising our induction and training programmes at all levels of the business.

NEW LEARNING AND DEVELOPMENT MANAGER

In July we appointed a new Group Learning and Development Manager, with a brief to define a common Group approach to the career development of all our colleagues. He spent his first six months creating a strategy for management and leadership development programmes, graduate and trainee manager programmes and apprenticeship opportunities.

SUPERVISORY AND MANAGEMENT DEVELOPMENT PROGRAMMES

We have some extremely talented managers and supervisors in our business and we want to ensure that their talents are fully developed to the benefit of the Group. In 2017 we developed a core management skills programme that will be fully rolled out during 2018. It comprises five modules: leading for success; interpersonal skills; developing people; managing & driving performance; and managing & driving change.

To ensure that we plan effectively for management succession, we have also created a trainee operations manager programme that will enable us to recruit and develop assistant site managers on a fast-track basis, providing the pool of talent we need to become tomorrow's quarry and site managers. Recruitment for this programme is now underway.

APPRENTICESHIPS AND QUALIFICATIONS

We recruited four new apprentices in 2017, bringing the total number throughout the Group to 15. Our HR team is working closely with the divisions to identify further apprentice recruitment opportunities, focusing in particular on drivers, operatives and fitters. We continue to provide training opportunities for people beginning careers in our industry, with a number of trainee quarry managers, technicians and fitters working across our three divisions.

More of our colleagues than ever before studied for industry-recognised qualifications in 2017 and more than 100 gained Level 2 qualifications in their core job roles, with another 47 gaining Level 3 qualifications, 13 achieving Level 4, seven achieving Level 6 and six gaining Level 7 qualifications. We have 25 colleagues currently enrolled at Derby University studying the various Foundation Degrees in Mineral Products and Certificate programmes. In 2017, 11 colleagues successfully completed Foundation Degrees and Diplomas.

MPQC INSPIRING FUTURES

The Mineral Products Qualifications Council estimates that fewer than one in five of our industry's workforce is aged 18-34, with the average age at around 55. This means that we have approximately 10 years to source a replacement workforce before the bulk of our present one retires. Inspiring Futures is a new initiative that aims to encourage young people to join our sector by recruiting and training a cohort of ambassadors who currently work in the sector to engage with the STEM (Science, Technology, Engineering & Mathematics) Learnings network of schools, colleges and universities.

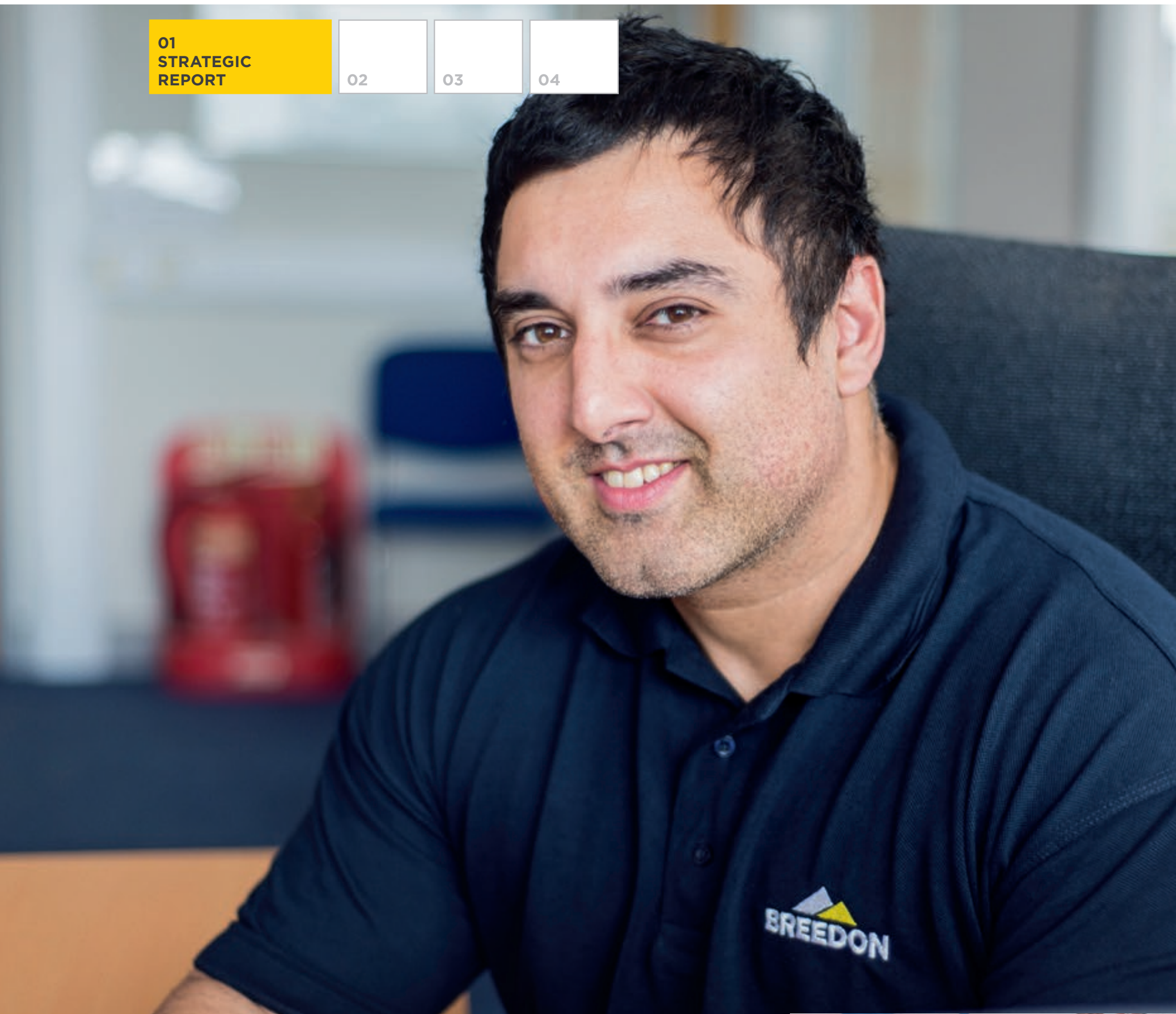
Breedon has committed to the scheme by providing three of the first 13 STEM Ambassadors, including our new Learning and Development Manager and representatives from both Breedon Northern and Breedon Southern.

CORPORATE SOCIAL RESPONSIBILITY REVIEW CONTINUED

3. COLLEAGUES CONTINUED

“We pride ourselves on going the extra mile for our customers.”

Matthew Richardson, Electrical Engineering Apprentice, Holme Hall quarry



KEY PRIORITIES FOR 2018

- Training for drivers, both employees and owner-drivers
- Management core skills and trainee manager training programmes
- Increased focus on online and e-learning
- Effective utilisation of apprenticeship levy

< Harpal Lidder, Internal Sales Manager, Cloud Hill quarry

Raisby quarry fitters being presented with their MPQC Level 3 Diplomas in Extractive Maintenance Engineering

> Julian Veal, Quarry and Recycling Manager at our Naunton quarry (far left), took part in the afternoon panel session on 'Young Professionals of the Future' at the Institute of Quarrying's centenary conference and dinner in October

PRO MINI MIX AND HUMBERSIDE AGGREGATES

The need to strengthen and extend our formal induction programme became more pressing in 2017 as the Group continued to expand, both organically and with the acquisitions of Pro Mini Mix and Humberside Aggregates. Our new Welcome Programme combines a thorough introduction to our health & safety culture – with a particular focus on core safety elements such as risk assessment and manual handling – with in-depth product briefings and opportunities to network with the executive team and other colleagues around the business.

CORPORATE SOCIAL RESPONSIBILITY REVIEW CONTINUED

4. SERVICE AND INNOVATION

KEY PRIORITIES FOR 2018

- Extend market penetration of high-performance concretes
- Maintain focus on local markets
- Seek to provide innovative solutions to more major projects

V A concrete section ready for installation at Dundee V&A Museum

V V The Dee bridge under construction

We aim to be the safest and most profitable construction materials company in the UK and our strategy is to achieve this principally by striving for the best customer service. It is self-evident that if we are loyal to our customers and give them a strong reason to do business with us, they will be loyal in return and we will profit from their custom.

We pride ourselves on going the extra mile for our customers, developing an intimate understanding of their needs, providing them with tailored solutions where they need them and ensuring that our production teams are as fast and responsive as possible.

Early in 2017 we launched an updated range of performance concretes, made possible in part by the increased internalisation of cement supplies following our acquisition of Hope. Later in the year we further expanded our portfolio with the introduction of BREEDONFlow Swiftscreed. This free-flowing cementitious screed is ideal for applications where thinner sections are needed than traditional screeds, for example in underfloor heating systems and wet rooms, both increasingly popular applications.

Later in the year we were part of the team which was highly commended for work on the new V&A Museum of Design in Dundee, constructed by BAM Nuttall. Breedon created a bespoke dark-grey concrete for the project's Japanese architects, Kengo Kuma Associates, which was poured into a series of curved and twisted shapes and needed to be almost self-compacting. The judges in the 2017 Concrete Society Awards commented that "the expectation of the material from both a structural integrity and external finish was very high and the contractor had to constantly redesign mixes and placing practicalities as the structure progressed."

Among the other challenging and innovative projects worked on in 2017 was the largest ever concrete pour in the Group's history, supplying the material for new concrete flooring at a new Airbus facility in North Wales constructed by Jones Brothers and their sub-contractor Wrexham Concrete Designs. The new facility is being used to produce components for the wings on Airbus's flagship A380 aircraft and the job involved a major team effort, with a relay of 150 non-stop deliveries of concrete, enabling two pours of 900 cubic metres and 1,005 cubic metres over a 12-hour day starting at 5am.

Arguably the most demanding project in which Breedon has been involved in recent years is the Aberdeen Western Peripheral Route, currently the UK's longest road construction project, with 58 kilometres of dual carriageway, 40 kilometres of side roads and 30 kilometres of access roads. In addition to the original concrete order, we were asked to supply additional material to supplement the construction team's own supply from their on-site batching plants, in particular for the construction of the two largest bridges in the project, over the Dee and Don rivers.

The concrete deck sections for the bridges had to be tensioned in order that they could be constructed one segment at a time, which required concrete that achieved a high early strength at low heat. This was achieved via an innovative mix with a unique combination of micro-silica, blended cement and special additives.

5. COMMUNITY

We are at the heart of the communities in which we operate and recognise our responsibility to be good, supportive and engaged neighbours.

We welcome and encourage visits to our sites and regularly go out into our communities to talk to teachers and schoolchildren. Where possible we donate products to help local people create better communities.

It is obviously vital that we maintain an open dialogue with the residents and businesses who live and operate around our quarries, so that we can tackle planning and development issues, discuss transport and road usage and generally consider how best to support them.

We undertook a wide range of community initiatives in 2017, some large, some small. Here are just a few examples:

- We created a new footpath and secure fencing on a permissive access route that joins two sections of the 'Cloud Trail', at our Cloud Hill quarry. The footpath was made wider to accommodate horse-riders, cyclists and walkers.
- We donated funds towards the next phase of a local Parish Council's village traffic calming scheme, which hopes to bring many safety benefits to a village community near our Leinthall quarry in Herefordshire.
- Many of our quarries held school visits or safety days throughout the year, including the first ever school visit to our Denbigh quarry in North Wales, a variety of road and cycle safety events in England and Scotland and numerous tours of our Hope cement plant.

- Our annual Hope Works bonfire and firework display was once again a hugely popular event, with many local residents attending and Hope was also a major participant, as always, in the local Hope Show.
- We supported both the South Wales Memorial Children's Hospice and Ashgate Hospice Care in Derbyshire.
- Hope Cement was included in a compendium of case studies entitled Employers Engaging with Schools, produced by the CBI in conjunction with the Careers & Enterprise Company, which gives positive examples of how employers work with schools. Hope's case study listed a number of initiatives, including supporting Key Stage 4 option evenings, working with a local Wildlife Trust to help children interact with nature, and running a 'Scrums & Sums' programme, which links rugby with numeracy.
- We supported a major STEM (Science, Technology, Engineering & Mathematics) day in Scotland, at which pupils from primary and secondary schools across the Highlands and Islands had the opportunity to showcase their experiments, projects and other work to an expert panel of judges.
- We sponsored a number of local children's football teams in a variety of ways around the country.

KEY PRIORITIES FOR 2018

- Continue to extend our community programmes across our enlarged network
- Increase the number of community liaison meetings and visits at and around our quarries
- Expand our STEM involvement
- Further participate in school road and cycle safety programmes

Hope Works bonfire and firework display

STEM Science Day in Scotland

Cycle Safety Day

BOARD OF DIRECTORS

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).
- Chairman of Jacksons (CI) Ltd.

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 with Simon Vivian 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. He is also Chairman of Jacksons (CI) Ltd.

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 10 years' experience in the building materials industry, including Hanson PLC and HeidelbergCement AG.
- Qualified Chartered Accountant with M&A experience.

BACKGROUND
Rob has over 10 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

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:
- Director of Brimary Investments Sarl, QPR Holdings Limited and Global Relief Initiative.
- Advisory Board Member, Metro Bank PLC.
- Member of the External Advising Council in Internationalisation, Cornell University.

BACKGROUND
Amit is the founder and CEO of Swordfish Investments, a private equity fund, and founder of Global Relief Initiative. He is also a Partner in Summix Capital, and Initial Capital; Vice Chairman of QPR Football Club; a Gold Leaf Member at Aspen Institute and Lionel Curtis Group member at Chatham House, Advisor to the CEO of Air Asia, and serves on the Advisory Board of Metro Bank plc. Previously, Amit was Executive Chairman of Hope Construction Materials which was acquired by Breedon Group in August 2016.

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. Susie was appointed to the Board of Breedon in 2010 and became the Senior Independent Director in January 2012.

SIMON VIVIAN
NON-EXECUTIVE DIRECTOR

APPOINTED TO BOARD: 2008
Independent: No

CORE STRENGTHS AND EXPERIENCE:
- Over 25 years' experience in the aggregates and construction industries.
- Execution and integration of acquisitions.

BACKGROUND
Simon held a number of roles during his time with Hanson PLC, ultimately as main board director and Chief Executive of the European Building Materials business. From 2004 to 2006 Simon was Chief Executive of Mowlem PLC, until its sale to Carillion plc in 2006 when he left to work with private equity group CVC Partners. He became Group Chief Executive of Breedon when it was formed in 2010 and he retired from this post in January 2016, whilst remaining as a non-executive director. Simon retired from the Board on 7 March 2018.

DAVID WARR A R N
NON-EXECUTIVE DIRECTOR

APPOINTED TO BOARD: 2008
Independent: Yes

CORE STRENGTHS AND EXPERIENCE:
- Chartered Accountant with experience in the financial services industry.

OTHER POSITIONS CURRENTLY HELD:
- Non-executive director of a number of listed and unlisted companies.

BACKGROUND
David is a Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales. He became a partner of Reads & Co, a Guernsey-based practice of Chartered Accountants, in 1981 and helped develop it into a broadly based financial services business which was sold in 1999. David currently holds a number of non-executive directorships including Acorn Income Fund Limited, Aberdeen Frontier Market Investment Company Limited, The Guernsey Community Foundation LBG and Hadrian's Wall Secured Investments Limited.

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.

CORPORATE GOVERNANCE REPORT

1 LEADERSHIP

2 EFFECTIVENESS

3 ACCOUNTABILITY

4 REMUNERATION

5 RELATIONS WITH SHAREHOLDERS

PETER TOM CBE
EXECUTIVE CHAIRMAN

The directors recognise the value of strong and effective corporate governance and the Company has therefore sought to comply, as far as it is appropriate to do so, with the Corporate Governance Code for Small and Mid-size Quoted Companies published by the Quoted Companies Alliance in 2013 (the 'QCA Code'), in respect of the accounting year ended 31 December 2017. As an AIM-listed company, the Company is not required to comply with the UK Corporate Governance Code 2016 (the 'Code') and it has not voluntarily elected to do so. The directors have, however, structured this report around the main principles of the Code in order to provide greater clarity of the governance framework adopted by the Company.

The purpose of this statement is to describe what the Board does and how it facilitates effective, entrepreneurial and prudent management with the aim of delivering the long term success of the Company.

1 LEADERSHIP

The Role of the Board

The Board is collectively responsible for providing leadership of the Group within a framework of prudent and effective controls and constructively challenges and helps to develop and communicate its strategic aims.

The Board has adopted a Schedule of Matters Reserved to the Board which is available to view on the Group's website, and it keeps this under regular review.

Six formal board meetings are held each year to enable the Board to discharge its duties effectively and to consider those matters which have been specifically reserved to it for review and decision. These include the management of the Group's assets to maximise performance and the control of the operation of the business, to review corporate strategy and to monitor the progress of individual business units.

Board of Directors

The current Board comprises the Executive Chairman, two executive directors (one of whom is the Group Chief Executive), two independent non-executive directors (one of whom is the Senior Independent Director) and two non-executive directors who are not considered to be independent.

Meeting attendance

	Meetings attended	Eligible to attend
Peter Tom CBE	6	6
Pat Ward	6	6
Rob Wood	6	6
Amit Bhatia	5	6
Susie Farnon	6	6
Simon Vivian*	5	6
David Warr	6	6
David Williams	6	6

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

Division of responsibilities

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 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.

Non-executive directors

The Board considers that each of the non-executive directors brings a senior level of experience and judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct. The Chairman encourages and facilitates the contribution of the non-executive directors.

Susie Farnon is the Company's Senior Independent Director.

All directors are given regular access to the Group's operations and personnel as and when required.

Biographical details of all the directors are set out on pages 52 to 53.

2 EFFECTIVENESS

Composition of the Board

The composition and performance of the Board, and the skills, experience and independence of each director are regularly evaluated, to ensure that they best fit the evolution of the Group's business.

Directors' independence

As a consequence of David Williams' financial investment in Marwyn Materials Limited ('MML') (now Breedon Group plc), through Marwyn Investments, at the time when MML was created in 2008, and Amit Bhatia's association with Abicad, which has a significant shareholding in the Company, the Board do not consider either of those directors to be independent. The Company has two independent non-executive directors on the Board: Susie Farnon and David Warr. The Board considers David Warr to be independent notwithstanding the fact that he was appointed as a director in June 2008 and has therefore served on the Board for more than nine years. The Board believes that he continues to demonstrate an independence of character and judgement in the performance of his role as a non-executive director. In addition, his external experience as a member of the boards of other listed companies provides a valuable source of expertise and knowledge. Furthermore, the Company has stated that it intends to appoint two new independent non-executive directors to strengthen and diversify the Board.

Nomination Committee

The Board has a formal and transparent procedure for the appointment of new directors to the Board. This function is carried out by a Nomination Committee and its terms of reference (explaining its role and the authority delegated to it by the Board) are available on the Group's website. A report on the activities of the Nomination Committee during 2017 is set out on page 69.

External advice

Where it considers it necessary to do so, the Board instructs external professional advisers to provide advice and guidance on any matter where it considers it prudent to seek such advice. All members of the Board are able to take independent professional advice at the Company's expense in the furtherance of their duties.

Board evaluation

In 2017 the Board carried out an externally facilitated Board Effectiveness Review. The review consisted of each director participating in a one-to-one interview with the provider and the output of those interviews was then 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 is 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.

The review also highlighted some minor matters on which the Board should focus in its future development and the directors will therefore put plans in place to address those matters.

CORPORATE GOVERNANCE REPORT CONTINUED

Re-election

At the forthcoming AGM all current directors will be subject to re-election by shareholders, notwithstanding the provisions of the Company's Articles of Association which only require one third of them to be so.

3 ACCOUNTABILITY

Financial and Business Reporting

The Board recognises its responsibility for presenting a fair, balanced and understandable assessment of the Group's financial performance, and for establishing and maintaining appropriate systems of risk management and internal control.

The directors explain their responsibilities for preparing the Financial Statements on page 74 and the Independent Auditor's Report on page 76 to 79 contains a statement of its reporting responsibilities.

Going concern

In the Directors' Report on page 72 the directors set out the basis on which they consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements for the year ended 31 December 2017.

Risk management

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 divisions to identify and assess the key risks and controls in their businesses 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.

Internal control

The Board has reviewed the effectiveness of the Group's system of internal control, including financial, operational, compliance and risk management controls, which mitigate the significant risks identified. It has concluded that the Group maintained sound risk management and internal control systems throughout the year. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Audit Committee

The Board has established, and throughout the year maintained, an Audit Committee. David Warr and Susie Farnon (both independent non-executive directors) served on the Audit Committee throughout the year. David Warr is Chairman of the Committee. The Board is satisfied that at least one member of the Audit Committee has relevant financial experience. Written terms of reference have been agreed for the Audit Committee and these are available on the Group's website, and further details of the activities of the Committee are given in the Audit Committee Report on pages 58 to 59.

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 Board ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow up action.

4 REMUNERATION

The Board seeks to ensure that its executive remuneration practices are designed to promote the long-term success of the Group and align with its overall strategy.

Remuneration Committee

Throughout the year, the Remuneration Committee comprised solely of three non-executive directors. David Williams, David Warr and Susie Farnon served on the Remuneration Committee throughout the year. David Williams is Chairman of the Committee.

The Executive Chairman makes himself available to the Committee to discuss the performance of other executives and to make proposals as necessary. The Remuneration Committee's terms of reference are available on the Group's website and its responsibilities are to make recommendations to the Board on terms of service, remuneration and benefits of the executive directors and other senior executives of the Group.

Where it considers it prudent to do so, the Committee engages external remuneration consultants to advise and assist it.

Further details of the activities of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 60 to 68.

5 RELATIONS WITH SHAREHOLDERS

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

Dialogue with shareholders

The Company 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 Chairman ensures that the views of shareholders are communicated to the Board as a whole, and that non-executive directors develop an understanding of the views of major shareholders.

Use of general meetings/AGM

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 will be counted and the results announced after any vote on a show of hands.

David Williams and David Warr, as Chairmen of the Remuneration and Audit Committees respectively, Susie Farnon, as Senior Independent Director, and all other directors will be available to answer questions at the forthcoming Annual General Meeting.

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.

Peter Tom CBE

Executive Chairman

7 March 2018

AUDIT COMMITTEE REPORT

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

Members	Attendance
David Warr, Chairman	3/3 meetings
Susie Farnon, Senior Independent Director	3/3 meetings

DAVID WARR
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 throughout the year and comprised David Warr and Susie Farnon.

Both members of the Audit Committee have relevant and recent financial experience at a senior level as set out in their biographies on page 53. The Audit Committee met three times formally in 2017 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 2017, 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 2017, and reviewed reports on the outcome of the audit.

The Audit Committee also reviewed the 2017 Preliminary Results Announcement, the 2017 Annual Report, the 2017 Interim Results Announcement and the 2017 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 was impairment of goodwill.

Area of Judgement	Detail	Action taken
Impairment of goodwill The Group has £190.7 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. 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 ('Cash Generating Units') which comprise the Group's three operating segments.	The recoverable amounts for each group of CGUs to which goodwill has been allocated are calculated by determining the value in use of each group of CGUs, 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 CGU were calculated over a 30 year period, starting with the 2018 budget approved by the Board, followed by forecast three year plan results for 2019 and 2020 and subsequently by a longer term growth assumption of two 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 10.4 per cent which was calculated by an external expert. The recoverable amounts of each CGU show significant headroom compared to their carrying value when reasonably likely 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. Following discussion on headroom and sensitivity, the Committee was satisfied that no impairment of Goodwill was necessary.

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, acquisition accounting, customer claims, restoration provisions, judgements made in respect of contract surfacing revenue recognition, the use of the going concern assumption to support the going concern statement on page 72 and in respect of the viability statement on page 73.

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 with 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 2017 amounted to £59,000 (2016: £98,000) principally in respect of tax advisory 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.

Tax services were subject to a tender process during the year, with PwC being appointed as tax advisory and compliance provider for the Group.

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 rotates every five years to assure independence, with the current partner having served three years of his tenure.

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.

INTERNAL AUDIT

The Group does not have an internal audit function. The Audit Committee presently consider this is appropriate given the close involvement of the executive directors and senior management on a day-to-day operational basis, the relatively small number of trading components, and that operations are solely within the United Kingdom. However the need for an internal audit function will be kept under review by the Audit Committee on behalf of the Board.

David Warr

David Warr

Chairman, Audit Committee

7 March 2018

DIRECTORS' REMUNERATION REPORT

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 Committee met formally four times and discussed the following:

- Executive salaries
- Annual bonuses
- Long-term incentives
- Executive remuneration benchmarking
- Pay and benefit levels across the Group

Members	Attendance
David Williams, Chairman	4/4 meetings
Susie Farnon, Senior Independent Director	4/4 meetings
David Warr, Independent Director	4/4 meetings

DAVID WILLIAMS
CHAIRMAN, REMUNERATION COMMITTEE

DEAR SHAREHOLDER

I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2017. 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 2017, and how we propose to apply the Remuneration Policy in 2018.

2017 BUSINESS PERFORMANCE

2017 was an extremely busy year for the Group, with the focus on performance and driving the synergy benefits derived from the first full year of trading following the acquisition of Hope Construction Materials (Hope) in August 2016 and Sherburn Minerals Limited (Sherburn) in November 2016. The planned transaction with Tarmac will see 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 and Group Chief Executive's Statements and the business reviews on pages 23 to 37, the Group continued to perform well, driving positive results throughout the integration phase of the Hope acquisition.

DECISIONS IN RELATION TO DIRECTORS' REMUNERATION IN 2017

Having conducted an external review and benchmarking of executive remuneration in late 2015 in the context of setting the pay and benefits of the incoming Group Chief Executive and other senior management, the 2017 review focussed on the size of the Group relative to its peers in the sector and of its recent increase in size following the acquisitions of Hope, Sherburn, and Humberside Aggregates in August 2017. The executive directors' salaries were set for 2017 having regard to the significantly increased size of the Group as a result of these transactions. The base salaries set for 2017 were:

- £400,000 for the Executive Chairman;
- £525,000 for the Group Chief Executive; and
- £335,000 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 66.

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 Chairman, other 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. The Committee met four times formally in 2017.

LOOKING FORWARD TO 2018

No significant changes are proposed to our executive remuneration arrangements for 2018. In accordance with Breedon's usual salary review timetable for the Group as a whole, executive directors' salaries for 2018 will be determined in March 2018. Any increases to executive directors' salaries are expected to be broadly in line with the range of increases awarded to the wider workforce, other than where a larger increase is considered appropriate to reflect any additional responsibilities arising as a result of the increase in the size of the Group, and will be reported in the 2018 Directors' Remuneration Report. A summary of our approach to other elements of executive remuneration is set out on pages 62 to 68.

David Williams

Chairman, Remuneration Committee

7 March 2018

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The Board seeks to ensure that the Group manages 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 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 2017 awards with a face value of 100 per cent of salary were made to executive directors and it is expected that a similar level of award will be made in 2018.	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 overall economic environment.

The annual bonus targets for 2017 were set by reference to underlying EBIT, which tracks improvements in the profitability of the Group.

A moderator enables the Remuneration Committee to adjust the formulaic outcome of the EBIT performance measure to reflect the efficiency with which capital is employed.

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.

DIRECTORS' REMUNERATION REPORT CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

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
Susie Farnon	25 October 2010	N/A	N/A
David Warr	5 June 2008	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 Board, 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.

SUCCESSION PLANNING

The Board recognises the requirements of the QCA code that it should, through periodic review, ensure that plans for an orderly succession to Board and senior management positions are regularly reviewed and updated. It will continually monitor the composition of the senior management team, including the executive directors, and taking into account factors such as age, experience and career progression opportunities, it will formulate plans well in advance of potential vacancies arising.

During 2017, the Group has further strengthened the senior management teams in the three operating divisions, with appointments in Breedon Northern, Breedon Southern and Breedon Cement. The Nomination Committee of the Board reviewed these appointments and the succession for each role in September 2017 and the outcome of that review is reported on page 69.

RECRUITMENT REMUNERATION POLICY

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.
- 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. The Committee also retains discretion to alter the performance measures and performance and vesting periods applying to the annual bonus and PSP.

ANNUAL REPORT ON REMUNERATION

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] Further information in relation to the bonuses payable to Pat Ward and Rob Wood is given on page 66 and these bonuses 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; further information is given on page 66.

[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.

DIRECTORS' REMUNERATION REPORT CONTINUED

The remuneration of the directors for the year ended 31 December 2016 was as shown in the table below:

			2016			
	Salary	Bonus (note 2)	Fees (note 3)	Benefits (note 4)	Pension (note 5)	Total
Peter Tom CBE	–	–	829,750	–	–	829,750
Simon Vivian (note 1)	110,000	–	24,872	5,325	16,916	157,113
Pat Ward (note 6)	473,718	625,000	–	16,037	72,848	1,187,603
Rob Wood	300,000	375,000	–	22,912	46,133	744,045
Amit Bhatia	–	–	–	–	–	–
Susie Farnon	–	–	46,250	–	–	46,250
David Warr	–	–	46,250	–	–	46,250
David Williams	–	–	46,250	–	–	46,250
Total	883,718	1,000,000	993,372	44,274	135,897	3,057,261

Notes:

[1] Simon Vivian's salary was in relation to the period January 2016 to March 2016, when he was an executive director. His fees relate to the period May 2016 to December 2016 when he was a non-executive director.

[2] 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.

[3] Included in fees above is an amount of £361,000 (2015: £319,000) in respect of services provided by Rise Rocks Limited, a company in which Peter Tom has a beneficial interest, and the sum of £468,750 (2015: £398,750) which was paid to Rise Rocks Limited as a bonus pursuant to the consultancy agreement between the Company and Rise Rocks Limited.

[4] Benefits paid to Simon Vivian, Pat Ward and Rob Wood comprised the provision of private medical insurance, the provision of a car allowance and the reimbursement of certain travel costs.

[5] Each of Simon Vivian, Pat Ward and Rob Wood received a salary supplement in lieu of a contribution to a pension arrangement.

[6] In addition to the remuneration set out in the table above, Pat Ward received a payment in the year of £754,176 due to him following acceptance of the offer of employment made to him in August 2015, to compensate him for certain tax liabilities he incurred as a result of him resigning his previous employment.

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) %
72.0	**79.0**	**85.5**	**80.4**	**83.89**

* After application of moderator

The bonus of £335,560 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 2017

Awards were granted under the PSPs in April 2015, with vesting subject to a performance condition based on underlying EPS growth in excess of RPI over a performance period running from 2015 to 2017. Subject to the rules of the PSPs, the directors' awards will vest in April 2018 as described below:

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	Vesting level Percentage	Number of shares
Peter Tom CBE*	701,098	56%	110%	159.8%	100%	701,098
Rob Wood	527,473	56%	110%	159.8%	100%	527,473
Simon Vivian**	322,050	56%	110%	159.8%	100%	322,050

*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.

**Simon Vivian was treated as a 'good leaver' for PSP purposes on his retirement on 31 March 2016. The number of shares in respect of which his award granted in April 2015 will vest will be reduced pro-rata to reflect the proportion of the vesting period for which Simon Vivian was employed by the Group.

PSP AWARDS GRANTED IN 2017

On 18 April 2017, awards were granted to the executive directors under the PSP. The vesting of those awards is subject to a performance condition based on underlying EPS growth in excess of RPI as follows, assessed over 2017, 2018 and 2019:

EPS growth in excess of RPI	Percentage of award that vests
Less than 25%	0%
Equal to 25%	20%
Between 25% and 59%	Between 20% and 100% on a straight line basis
59% or more	100%

Awards were granted to the executive directors at the level of 100 per cent of salary as follows:

- Peter Tom CBE†: 529,801 shares
- Pat Ward: 695,364 shares
- Rob Wood: 417,218 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.

In addition, the Company has granted further awards under the PSPs to the directors shown below:

- Pat Ward: 231,788[1]
  463,576[2]
- Rob Wood: 132,450[1]

[1] Pat Ward's award was granted in respect of the PSP awards granted in April 2014 which were subject to a performance condition assessed over the period 2014 to 2016 and which vested on 3 April 2017. Pat Ward did not participate in the PSP awards granted in April 2014 but was in service and led the business for part of the performance period; the award granted was calculated on a pro-rata basis reflecting the proportion of the performance period for which he was in service. Rob Wood's award was granted to ensure that he is rewarded on a fair and consistent basis relative to other members of the senior executive team, and to reflect his contribution since joining the business. Each award will vest in April 2018, following the expiration of an additional 12-month holding period and subject to an assessment of the relevant executive's ongoing performance in their role.

[2] This award was granted in respect of the PSP awards granted in April 2015 and which were subject to a performance condition assessed over the period 2015 to 2017. Pat Ward did not participate in the PSP awards granted in April 2015 but was in service for a large part of the performance period. The award granted was calculated on a pro-rata basis reflecting the proportion of the performance period which he led the business. The award granted was subject to the same performance condition as the PSP awards granted to other directors in April 2015 and, subject to the satisfaction of those condition, will vest in April 2019, following the expiration of an additional 12-month holding period to further align the interests of the director with shareholders.

DIRECTORS' REMUNERATION REPORT CONTINUED

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018

No significant changes to the Remuneration Policy are currently proposed in 2018, but the Remuneration Committee will continue to keep the salaries and benefits of the executive directors under review during the year.

EXECUTIVE DIRECTORS' SALARIES

In accordance with Breedon's usual salary review timetable for the business as a whole, executive directors' salaries for 2018 will be determined in March 2018. Any increases to executive directors' salaries are expected to be broadly in line with the range of increases awarded to the wider workforce, other than where a larger increase is awarded to reflect any additional responsibilities arising as a result of the increase in the size of the Group, and will be reported in the 2018 Directors' Remuneration Report.

NON-EXECUTIVE DIRECTORS' FEES

Following a review of non-executive directors' fees, it is proposed to increase non-executive directors' fees for 2018 to:

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 2018, 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 2017.

PSP AWARDS

The Committee proposes to grant the executive directors awards under the PSP in 2018 at the level of 100 per cent of salary.

The awards will vest subject to the satisfaction of a performance condition assessed over 2018, 2019 and 2020 as follows:

EPS growth in excess of RPI	Percentage of award that vests
Less than 17%	0%
Equal to 17%	20%
Between 17% and 38%	Between 20% and 100% on a straight line basis
38% or more	100%

DIRECTORS' INTERESTS IN SHARE PLANS

Details of the directors' interests in the Company's share-based incentive schemes are set out on page 71.

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.

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 once, together with members of the Group's senior management team, and considered the latest succession plans for senior management within the business. In 2017, the Group recruited additional key senior managers in each of its three operating divisions and promoted several of its own managers to senior executive levels.

These appointments were noted by the Nomination Committee and, in accordance with its terms of reference, it will continue to keep succession planning for all senior executives under review, and it will receive an update on the plan on at least an annual basis.

As a consequence of its review, the Committee recommended that the Group should increase its focus on its identification and development of its future managers. Further details of the Group's response to that recommendation are given on page 47.

During 2018, in addition to its work on succession planning, meetings of the Committee may be convened to 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
7 March 2018

KEY ACTIVITIES CARRIED OUT IN THE YEAR:

The Nomination Committee was established in 2016 and, since its establishment, it has met twice to consider the Group's management succession plans following the increase in the size of its operations as a consequence of the acquisitions made by the Group.

Members	Attendance
Peter Tom CBE, Chairman	1/1 meetings
Susie Farnon, Senior Independent Director	1/1 meetings
David Warr, Independent Director	1/1 meetings

DIRECTORS' REPORT

The directors present their report, together with the audited Financial Statements, for the year ended 31 December 2017.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

Breedon Group plc's principal activity is as a holding company for companies involved in the quarrying, production and sale of aggregates and related activities. Further details of the Group's activities and future developments are included in the Chairman's and Group Chief Executive's Statements and the business reviews on pages 23 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 19 to 21. Details of the Group's operational key performance indicators are shown on page 18.

RESULTS AND DIVIDENDS

For the year to 31 December 2017, the Group's profit before tax was £71.2 million (2016: £46.8 million) and after tax was a profit of £57.0 million (2016: £36.8 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
Susie Farnon	Independent non-executive director
Simon Vivian (resigned 7 March 2018)	Non-executive director
David Warr	Independent non-executive director
David Williams	Non-executive director

Biographical details of the directors can be found on pages 52 to 53 and details of the directors' service contracts are given in the Directors' Remuneration Report on page 64.

DIRECTORS' INTERESTS

The directors in office at 31 December 2017 had interests in the issued share capital of the Company as shown in the table below:

	Ordinary shares	
	2017	2016
Peter Tom CBE	**41,792,965**	41,091,867
Pat Ward	**200,000**	200,000
Rob Wood	**356,263**	100,000
Amit Bhatia	**–**	–
Susie Farnon	**1,814,365**	1,814,365
Simon Vivian (resigned 7 March 2018)	**10,509,371**	10,509,371
David Warr	**5,555,556**	5,555,556
David Williams	**5,000,000**	10,000,000

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 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
Peter Tom CBE	**1,762,813**	1,934,110	**–**	–	**–**	–
Pat Ward	**–**	–	**2,099,947**	709,219	**30,030**	30,030
Rob Wood	**–**	–	**1,502,672**	1,436,520	**79,365**	79,365
Simon Vivian (resigned 7 March 2018)	**–**	–	**322,050**	1,934,066	**–**	–

The savings-related share options held by Pat Ward are exercisable at a price of 59.94p and are normally exercisable between 1 May 2019 and 30 October 2019. Those held by Rob Wood are exercisable at a price of 37.8p 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 2018 and 7 March 2018.

DIRECTORS' REPORT CONTINUED

SUBSTANTIAL SHAREHOLDINGS

The Company is aware that, as at 20 February 2018, 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	%
Invesco Asset Management	296,954,103	20.53
Abicad Holding Limited*	259,120,245	17.91
Woodford Investment Management	175,120,084	12.11
AXA Investment Managers UK	126,240,671	8.73
Columbia Threadneedle Investments	110,697,812	7.65
Investec Asset Management	54,741,279	3.78

*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

Shareholders are being asked at the forthcoming Annual General Meeting to grant the directors authority to allot up to 480,000,000 ordinary shares, being approximately one third of the issued ordinary share capital of the Company as at 7 March 2018. Shareholders are also being asked to grant the directors authority to allot, for cash otherwise than in connection with a rights issue, up to 72,334,777 ordinary shares, being five per cent of the issued ordinary share capital of the Company without first offering the securities to existing shareholders. Shareholders are being further asked to grant the directors authority, in addition to the general disapplication of pre-emption rights referred to above, to allot up to 72,334,777 ordinary shares, being five per cent of the issued share capital of the Company without first offering such shares to existing shareholders but only for the purpose of funding one or more acquisitions or specified capital investments. The Company did not purchase any of its ordinary shares during the year. However, the approval of shareholders is being sought to renew the existing authority to purchase its own shares.

If granted, and unless previously renewed, varied or revoked, each of the authorities described above shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2019 or 15 months after being granted if earlier.

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 November 2019. Further details of the Group's bank facilities are given on page 41.

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 2020. 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 19 to 21 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 2020. 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 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
7 March 2018

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 International Financial Reporting Standards (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

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 2017 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 accompanying Financial Statements:

– give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), of the state of the Group's affairs as at 31 December 2017 and of its profit for the year then ended; and

– have been prepared in accordance with the requirements of 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:	£3.5 million (2016 - £2.7 million)
Group Financial Statements as a whole	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	97% (2016 - 100%) of Group profit before tax

Risks of material misstatement	
Impairment of goodwill allocated to Cement	▲

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

Key audit matters are those matters that, in our professional judgment, 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. 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. In arriving at our audit opinion above, the key audit matter was as follows:

	The risk	Our response
Impairment of goodwill allocated to Cement (£99.9 million) Risk in comparison to prior year ▲ Refer to pages 58 to 59 (Audit Committee Report), page 88 (accounting policy) and pages 97 to 98 (financial disclosures).	**Forecast-based valuation** The goodwill balance includes £99.9 million allocated to the Cement business. This goodwill is at risk of recoverability as the Cement business is at an early stage in its 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 and there is limited headroom available.	Our procedures included: – **Benchmarking assumptions:** Comparing the Group's assumptions to externally derived data in relation to key inputs such as long-term growth rates and discount rates. – **Our experience:** Assessing the appropriateness of the forecasted cash flows within the budgeted period based on our understanding of the business and sector experience. – **Historical comparisons:** Considering historical forecasting accuracy, by comparing previously forecasted 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 sensitivity analysis in relation to the key assumptions. – **Assessing transparency:** Assessing whether the Group's disclosures regarding the sensitivity of the impairment assessment to changes in key assumptions, appropriately reflected the risks inherent in the valuation of goodwill.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BREEDON GROUP PLC CONTINUED

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

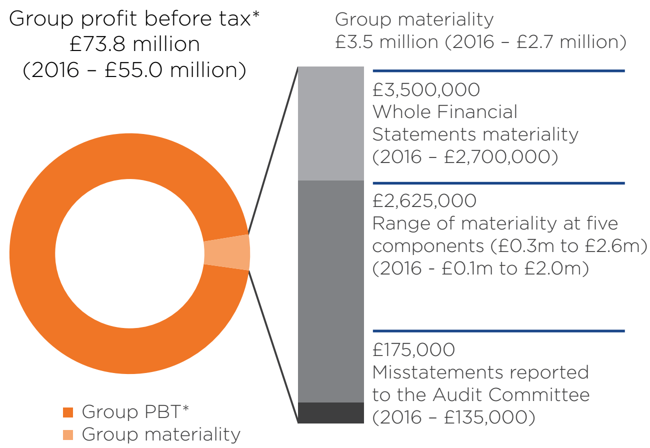
The materiality for the Financial Statements as a whole was set at £3.5 million (2016: £2.7 million). This has been determined with reference to a benchmark of £73.8 million (2016: £55.0 million) being Group profit before tax of £71.2 million adjusted for redundancy and reorganisation costs, acquisition costs and gains on property disposals of £2.6 million. The materiality represents 4.7% (2016: same basis, 4.9%) of this benchmark.

We report to the Audit Committee any corrected or uncorrected misstatements exceeding £175,000 (2016: £135,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

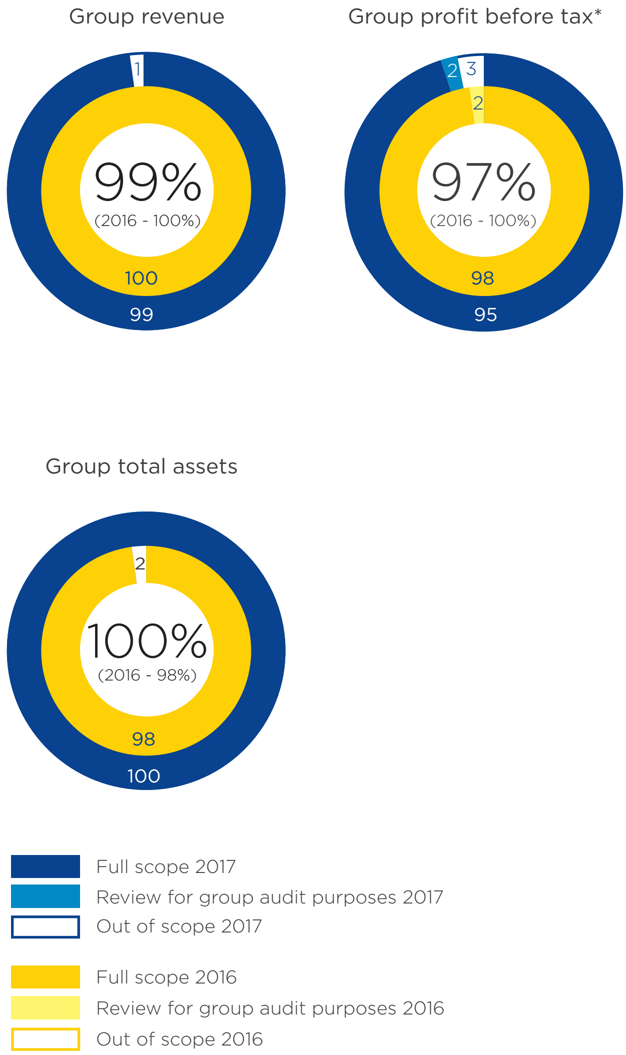
Of the Group's 15 (2016: 14) reporting components, 5 (2016: 9) were subject to full scope audits for group reporting purposes whilst 1 (2016: 3) was subject to a review of financial information (including enquiry). The components within the scope of our work accounted for 99% (2016: 100%) of total Group revenue; 97% (2016: 100%) of Group profit before taxation; and 100% (2016: 98%) of total Group assets.

The Group audit team performed all the work carried out in each component.

The remaining 1% of total Group revenue and 3% of group profit before tax is represented by the remaining reporting components, none of which individually represented more than 3% of any of total Group revenue or Group profit before tax. 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 redundancy and reorganisation costs, acquisition costs and gains on property disposals of £2.6 million



4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the 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:

– proper 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 Group accounts are not in agreement with the accounting records and returns; 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 74, 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.

Darren Turner
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham, B4 6GH

7 March 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 Underlying £000	2017 Non-underlying* (note 3) £000	2017 Total £000	2016 Underlying £000	2016 Non-underlying* (note 3) £000	2016 Total £000
Revenue	1,2	652,416	–	652,416	454,688	–	454,688
Cost of sales		(408,041)	–	(408,041)	(278,746)	–	(278,746)
Gross profit		244,375	–	244,375	175,942	–	175,942
Distribution expenses		(117,647)	–	(117,647)	(78,517)	–	(78,517)
Administrative expenses		(49,035)	(2,776)	(51,811)	(39,188)	(8,372)	(47,560)
Group operating profit	2	77,693	(2,776)	74,917	58,237	(8,372)	49,865
Share of profit of associate and joint ventures	11	2,688	–	2,688	1,374	–	1,374
Profit from operations		80,381	(2,776)	77,605	59,611	(8,372)	51,239
Financial income	6	7	–	7	63	–	63
Financial expense	6	(6,415)	–	(6,415)	(4,540)	–	(4,540)
Profit before taxation		73,973	(2,776)	71,197	55,134	(8,372)	46,762
Taxation	7	(14,683)	481	(14,202)	(11,198)	1,206	(9,992)
Profit for the year		59,290	(2,295)	56,995	43,936	(7,166)	36,770
Attributable to:							
Equity holders of the parent		59,222	(2,295)	56,927	43,885	(7,166)	36,719
Non-controlling interests		68	–	68	51	–	51
Profit for the year		59,290	(2,295)	56,995	43,936	(7,166)	36,770
Basic earnings per ordinary share	24	4.14p		3.98p	3.49p		2.92p
Diluted earnings per ordinary share	24	4.07p		3.91p	3.38p		2.83p

* 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 2017

	Note	2017 £000	2016 £000
Profit for the year		**56,995**	36,770
Other comprehensive income			
Items which may be reclassified subsequently to profit and loss:			
Effective portion of changes in fair value of cash flow hedges		**(8)**	44
Taxation on items taken directly to other comprehensive income	7	**–**	–
Other comprehensive income for the year		**(8)**	44
Total comprehensive income for the year		**56,987**	36,814
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		**56,919**	36,763
Non-controlling interests		**68**	51
		56,987	36,814

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Non-current assets			
Property, plant and equipment	8	**477,393**	467,514
Intangible assets	9	**194,543**	193,784
Investment in associate and joint ventures	11	**6,171**	5,502
Total non-current assets		**678,107**	666,800
Current assets			
Inventories	13	**30,923**	29,331
Trade and other receivables	14	**113,487**	110,772
Cash and cash equivalents		**23,912**	4,628
Total current assets		**168,322**	144,731
Total assets		**846,429**	811,531
Current liabilities			
Interest-bearing loans and borrowings	15	**(4,414)**	(6,893)
Trade and other payables	16	**(120,825)**	(116,783)
Current tax payable		**(6,776)**	(5,114)
Provisions	17	**(2,568)**	(6,478)
Total current liabilities		**(134,583)**	(135,268)
Non-current liabilities			
Interest-bearing loans and borrowings	15	**(129,340)**	(157,073)
Provisions	17	**(26,097)**	(24,429)
Deferred tax liabilities	12	**(28,350)**	(27,217)
Total non-current liabilities		**(183,787)**	(208,719)
Total liabilities		**(318,370)**	(343,987)
Net assets		**528,059**	467,544
Equity attributable to equity holders of the parent			
Stated capital	18	**377,755**	375,495
Cash flow hedging reserve	18	**–**	8
Capital reserve	18	**–**	1,516
Retained earnings		**150,118**	90,307
Total equity attributable to equity holders of the parent		**527,873**	467,326
Non-controlling interests		**186**	218
Total equity		**528,059**	467,544

These Financial Statements were approved by the Board of Directors on 7 March 2018 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 2017

	Stated capital £000	Cash flow hedging reserve £000	Capital reserve £000	Retained earnings £000	Attributable to equity holders of parent £000	Non-controlling interests £000	Total equity £000
Balance at 1 January 2016	178,637	(36)	1,516	52,958	233,075	167	233,242
Shares issued	196,858	–	–	(177)	196,681	–	196,681
Dividend to non-controlling interests	–	–	–	–	–	–	–
Total comprehensive income for the year	–	44	–	36,719	36,763	51	36,814
Share-based payments	–	–	–	807	807	–	807
Balance at 31 December 2016	375,495	8	1,516	90,307	467,326	218	467,544
Shares issued	2,260	–	(1,516)	–	744	–	744
Dividend to non-controlling interests	–	–	–	–	–	(100)	(100)
Total comprehensive income for the year	–	(8)	–	56,927	56,919	68	56,987
Share-based payments	–	–	–	2,884	2,884	–	2,884
Balance at 31 December 2017	**377,755**	**–**	**–**	**150,118**	**527,873**	**186**	**528,059**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the year		**56,995**	36,770
Adjustments for:			
Depreciation and amortisation		**39,528**	25,530
Financial income		**(7)**	(63)
Financial expense		**6,415**	4,540
Share of profit of associate and joint ventures		**(2,688)**	(1,374)
Net gain on sale of property, plant and equipment		**(998)**	(1,007)
Equity settled share-based payment expense		**2,884**	807
Taxation		**14,202**	9,992
Operating cash flow before changes in working capital and provisions		**116,331**	75,195
Decrease in trade and other receivables		**706**	6,862
Increase in inventories		**(1,057)**	(1,887)
Increase/(Decrease) in trade and other payables		**2,331**	(801)
(Decrease)/Increase in provisions		**(1,142)**	1,429
Cash generated from operating activities		**117,169**	80,798
Interest paid		**(3,707)**	(4,315)
Interest element of finance lease payments		**(388)**	(466)
Dividend paid to non-controlling interests	10	**(100)**	–
Income taxes paid		**(12,082)**	(8,307)
Net cash from operating activities		**100,892**	67,710
Cash flows used in investing activities			
Acquisition of businesses	26	**(9,201)**	(57,062)
Purchase of property, plant and equipment		**(46,193)**	(23,729)
Proceeds from sale of property, plant and equipment		**3,246**	10,070
Repayment of loan to joint venture		**269**	200
Interest received		**7**	63
Dividends from associate and joint ventures	11	**1,750**	750
Net cash used in investing activities		**(50,122)**	(69,708)
Cash flows used in financing activities			
Proceeds from the issue of shares (net)	18	**744**	397
Proceeds from new loans raised		**–**	195,000
Repayment of loans		**(26,568)**	(205,090)
Repayment of finance lease obligations		**(5,662)**	(7,191)
Purchase of financial instrument - derivative		**–**	(12)
Net cash used in financing activities		**(31,486)**	(16,896)
Net Increase/(Decrease) in cash and cash equivalents		**19,284**	(18,894)
Cash and cash equivalents at 1 January		**4,628**	23,522
Cash and cash equivalents at 31 December		**23,912**	4,628

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The principal activities of the business are the quarrying of aggregates and the production of cement and other added value products, including asphalt and ready-mixed concrete, together with related activities in Great Britain. Breedon Group plc (the Company) is a company domiciled in Jersey. The address of the Company's registered office is 28 Esplanade, St Helier, Jersey, JE2 3QA.

1.1 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).

The Financial Statements have been prepared on a going concern basis based on the assessment made by the directors as described in the Directors' Report on page 72.

These consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The consolidated Financial Statements have been prepared under the historical cost convention except for the revaluation to fair value of certain financial instruments.

The preparation of Financial Statements in conformity with Adopted IFRSs 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.

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

These Financial Statements are presented in pounds sterling, which is the Group's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand.

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

1.2 New IFRS Standards and Interpretations

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

- Amendments to IAS 12 - *Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 - *Disclosure Initiative*

The adoption of these standards has not had a material impact on the Financial Statements.

1.3 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 2017 (and in some cases had not yet been adopted by the EU) and have not yet been adopted by the Group:

Effective for periods beginning on or after 1 January 2018:

- IFRS 15 - *Revenue from Contracts with Customers*

The Group will adopt IFRS 15 - *Revenue from Contracts with Customers* for the financial year starting 1 January 2018. An impact assessment exercise was completed during the current year which considered all revenue streams, but in particular focussed on revenues which are currently accounted for on a percentage of completion basis. The conclusion reached is that, with the exception of the additional disclosure requirements, the new standard will not have a significant impact on the Group's Financial Statements.

- IFRS 9 - *Financial Instruments*

The Group will adopt IFRS 9 - *Financial Instruments* for the financial year starting 1 January 2018. The Group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. The change in the standard to an 'expected loss' model of impairment may result in a slight increase in the overall level of bad debt provision, but this will not have a significant impact on the Group's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

1.3 New IFRS standards and interpretations not adopted continued

Effective for periods beginning on or after 1 January 2019:

- IFRS 16 - *Leases*

IFRS 16 - *Leases* will be adopted by the Group 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. An impact assessment commenced during 2017 which will be completed in the first half of 2018. The Group has material operating leases (see note 21) and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the Group.

There are no other IFRSs or IFRIC interpretations that are effective subsequent to the 31 December 2017 year-end that are expected to materially impact the Group's Financial Statements.

1.4 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 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.

1.5 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 re-measured in future periods at their fair value. The gain or loss on the re-measurement 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.

1 ACCOUNTING POLICIES CONTINUED

1.5 Financial instruments continued

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.

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.

1.6 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.

1.7 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 30 years
- Loose plant and machinery – up to 10 years
- Motor vehicles – up to 10 years

No depreciation is provided on freehold land.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

1.8 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 25 years.

1.9 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.

1.10 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 re-measurement are recognised in the Consolidated Income Statement. Gains are not recognised in excess of any cumulative loss.

1.11 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

1.12 Emissions rights

Emission rights are accounted for such that a liability is recognised only in circumstances where emission rights have been exceeded 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 emission credits are accordingly netted against one another in the preparation of the Consolidated Financial Statements.

1.13 Retirement benefits

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

1.14 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 a provision 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.

1.15 Revenue

Group revenue arises from two primary revenue streams, sale of goods and contract surfacing. IAS 18 requires the identification of components of revenue and the allocation of consideration to each component, with revenue recognised by the Group when the significant risks and rewards associated with the transaction have been transferred to the customer and the amount of revenue can be measured reliably.

Revenue from the sale of goods represents the amount (excluding value added and sales taxes) invoiced to third party customers in respect of those goods and the costs of distribution, net of provisions recognised for returns, remedial work arising in the normal course of business and trade discounts & rebates. For sale of goods, the point of revenue recognition is typically the point at which products have been delivered to, or collected by, the end customer. As all components of this transaction are effected simultaneously, revenue relating to all components of the sale is recognised immediately.

Contract surfacing revenues typically relate to short-term contracts. Revenue is recognised by reference to the degree of completion based on quantity surveyor reports of volumes of product laid.

1.16 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

1.17 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.

1.18 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.

1.19 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.

1.20 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 Statement of Financial Position 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.

1.21 Dividends

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

1.22 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 the production of cement and other added value products, including asphalt and ready-mixed concrete, together with related activities in Great Britain. For the purpose of management reporting to the chief operating decision maker, the Group previously split into three reportable units: Breedon Northern, Breedon Southern and Hope Cement. From 1 January 2017, the aggregates and concrete operations of Hope Cement were transferred into Breedon Northern and Breedon Southern according to geographic location, and the remaining cementitious operations rebranded as Breedon Cement. The prior year segmental analysis has been restated to reflect the new structure.

A description of the activities of each segment is included on pages 29 to 37. There are no other operating segments.

Income statement

	2017		2016 (restated)	
	Revenue £000	EBITDA* £000	Revenue £000	EBITDA* £000
Breedon Northern	**196,025**	**32,062**	172,833	29,963
Breedon Southern	**381,456**	**57,486**	255,563	48,338
Breedon Cement	**141,561**	**39,851**	52,115	16,152
Central administration	**–**	**(12,400)**	–	(10,803)
Eliminations	**(66,626)**	**–**	(25,823)	–
Group	**652,416**	**116,999**	454,688	83,650

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

	2017	2016 (restated)
Reconciliation to statutory profit		
Group EBITDA as above	**116,999**	83,650
Depreciation and mineral depletion	**(39,306)**	(25,413)
Underlying operating profit		
Breedon Northern	**20,374**	19,909
Breedon Southern	**44,148**	38,113
Breedon Cement	**25,762**	11,060
Central administration	**(12,591)**	(10,845)
	77,693	58,237
Share of profit of associate and joint ventures	**2,688**	1,374
Underlying profit from operations (EBIT)	**80,381**	59,611
Non-underlying items (note 3)	**(2,776)**	(8,372)
Profit from operations	**77,605**	51,239
Net financial expense	**(6,408)**	(4,477)
Profit before taxation	**71,197**	46,762
Taxation	**(14,202)**	(9,992)
Profit for the year	**56,995**	36,770

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 SEGMENTAL ANALYSIS CONTINUED

Statement of financial position

	2017		2016 (restated)	
	Total assets £000	Total liabilities £000	Total assets £000	Total liabilities £000
Breedon Northern	**190,313**	**(40,317)**	192,360	(45,106)
Breedon Southern	**322,772**	**(71,965)**	300,975	(65,780)
Breedon Cement	**307,542**	**(29,128)**	311,966	(26,204)
Central administration	**1,890**	**(8,080)**	1,602	(10,600)
Total operations	**822,517**	**(149,490)**	806,903	(147,690)
Current tax	**–**	**(6,776)**	–	(5,114)
Deferred tax	**–**	**(28,350)**	–	(27,217)
Net debt	**23,912**	**(133,754)**	4,628	(163,966)
Total Group	**846,429**	**(318,370)**	811,531	(343,987)
Net assets		**528,059**		467,544

Breedon Southern total assets include £3,343,000 (2016: £3,399,000) in respect of an investment in a joint venture and Breedon Northern total assets include £2,828,000 (2016: £2,103,000) in respect of investments in a joint venture and an associate.

Analysis of depletion, depreciation, amortisation and capital expenditure

	Mineral depletion £000	Depreciation £000	Amortisation of intangible assets £000	Additions to property, plant and equipment £000
2017				
Breedon Northern	**1,437**	**10,251**	**35**	**14,028**
Breedon Southern	**4,007**	**9,331**	**182**	**19,238**
Breedon Cement	**–**	**14,089**	**5**	**12,895**
Central administration	**–**	**191**	**–**	**32**
Total	**5,444**	**33,862**	**222**	**46,193**
2016 (restated)				
Breedon Northern	1,570	8,484	35	14,641
Breedon Southern	2,909	7,316	77	12,758
Breedon Cement	–	5,092	5	3,268
Central administration	–	42	–	35
Total	4,479	20,934	117	30,702

Additions to property, plant and equipment exclude additions in respect of business combinations (note 26).

All revenues are derived in the UK. An analysis of revenue streams is as follows:

	2017 £000	2016 £000
Sale of goods	**581,717**	379,857
Contract surfacing	**70,699**	74,831
	652,416	454,688

3 NON-UNDERLYING ITEMS

Non-underlying items are those which are either unlikely to recur in future periods or 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.

	2017 £000	2016 £000
Included in administrative expenses:		
Redundancy and reorganisation costs	**(2,499)**	(5,326)
Acquisition costs (note 26)	**(626)**	(3,119)
Gain on property disposals	**571**	185
Amortisation of acquired intangible assets	**(222)**	(112)
Total non-underlying items (pre-tax)	**(2,776)**	(8,372)
Non-underlying taxation	**481**	1,206
Total non-underlying items (after tax)	**(2,295)**	(7,166)

4 EXPENSES AND AUDITOR'S REMUNERATION

	2017 £000	2016 £000
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment:		
Owned assets	**36,118**	22,401
Assets held under finance lease	**3,188**	3,012
Amortisation of intangible assets	**222**	112
Gain on sale of property (note 3)	**(571)**	(185)
Gain on sale of plant and equipment	**(427)**	(822)
Operating lease rentals:		
Plant, equipment and vehicles	**6,895**	4,955
Land, buildings and minerals	**6,195**	4,719
Auditor's remuneration		
Audit of the Company's annual accounts	**11**	11
Audit of the Company's subsidiary undertakings	**252**	265
Audit of the Company's joint venture	**13**	11
Taxation compliance services	**–**	55
Taxation advisory services	**31**	24
Other non-audit services	**28**	19
	335	385

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

5 REMUNERATION OF DIRECTORS, STAFF NUMBERS AND COSTS

Details of the remuneration received by directors is summarised below:

	2017 £000	2016 £000
Salaries and short-term employee benefits	1,737	2,064
Directors' fees	919	993
Equity settled share-based payments (note 19)	1,381	571
	4,037	3,628

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

	Number of employees	
	2017	2016 (restated)
Breedon Northern	915	793
Breedon Southern	1,037	719
Breedon Cement	237	99
Central administration	56	52
	2,245	1,663

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

	2017 £000	2016 £000
Wages and salaries	83,977	62,209
Social security costs	8,761	6,518
Pension costs	2,939	2,811
Equity settled share-based payments (note 19)	2,884	807
	98,561	72,345

6 FINANCIAL INCOME AND EXPENSE

	2017 £000	2016 £000
Bank deposits	7	63
Financial income	7	63
Bank loans and overdrafts	(3,707)	(2,748)
Amortisation of prepaid bank arrangement fee	(806)	(497)
Finance leases	(388)	(466)
Unwinding of discount on provisions	(1,514)	(829)
Financial expense	(6,415)	(4,540)

7 TAXATION

Recognised in the Consolidated Income Statement

	2017 £000	2016 £000
Current tax expense		
Current year	**13,956**	9,996
Prior year	**(850)**	(104)
Total current tax	**13,106**	9,892
Deferred tax expense		
Current year	**1,327**	(193)
Prior year	**(231)**	293
Total deferred tax	**1,096**	100
Total tax charge in the Consolidated Income Statement	**14,202**	9,992

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit before taxation	**71,197**	46,762
Tax at the Company's domestic rate of 0%*	**–**	–
Effect of tax in UK at UK rate*	**14,038**	10,061
Expenses not deductible for tax purposes	**1,746**	1,835
Property sales	**246**	(25)
Relief in respect of share-based payments	**(114)**	(222)
Income from associate and joint ventures already taxed	**(517)**	(275)
Effect of change in rate	**(116)**	(1,571)
Adjustment in respect of prior years**	**(1,081)**	189
Total tax charge	**14,202**	9,992

* 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 19.25 per cent (2016: 20.00 per cent).

A reduction in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) was substantively enacted on 26 October 2015, and an additional reduction 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 2017 has been calculated based on these rates.

** The adjustment in respect of prior years arises as a result of the difference between tax relating to acquired companies calculated for provisioning purposes in the prior year Financial Statements and the submission of final tax returns for 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PROPERTY, PLANT AND EQUIPMENT

	Mineral reserves and resources £000	Land and buildings £000	Plant, equipment and vehicles £000	Total £000
Cost				
Balance at 1 January 2016	130,687	21,131	125,802	277,620
Acquisitions through business combinations (note 26)	22,483	22,818	212,379	257,680
Additions	2,984	632	27,086	30,702
Disposals	–	(615)	(8,907)	(9,522)
Balance at 31 December 2016	**156,154**	**43,966**	**356,360**	**556,480**
Acquisitions through business combinations (note 26)	3,705	–	1,535	5,240
Additions	289	4,587	41,317	46,193
Disposals	(1,000)	(4)	(4,336)	(5,340)
Reclassification	2,268	2,190	(4,458)	–
Balance at 31 December 2017	**161,416**	**50,739**	**390,418**	**602,573**
Depreciation and mineral depletion				
Balance at 1 January 2016	16,243	2,893	47,626	66,762
Charge for the year	4,479	1,397	19,537	25,413
Disposals	–	(77)	(3,132)	(3,209)
Balance at 31 December 2016	**20,722**	**4,213**	**64,031**	**88,966**
Charge for the year	5,444	2,336	31,526	39,306
Disposals	–	–	(3,092)	(3,092)
Balance at 31 December 2017	**26,166**	**6,549**	**92,465**	**125,180**
Net book value				
At 31 December 2016	135,432	39,753	292,329	467,514
At 31 December 2017	**135,250**	**44,190**	**297,953**	**477,393**

Assets under construction

Presented within plant, equipment and vehicles are assets in the course of construction totalling £20,430,000 (2016: £17,316,000) which are not being depreciated. Transfers out of assets in the course of construction during the year totalled £21,056,000

Leased plant and machinery

At 31 December 2017, the net carrying amount of leased plant and machinery was £14,654,000 (2016: £24,108,000). Details of finance lease obligations are set out in note 15.

Depreciation and mineral depletion

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

	2017 £000	2016 £000
Cost of sales	**38,509**	24,524
Administration expenses	**797**	889
	39,306	25,413

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 £000	Other £000	Total £000
Cost			
At 1 January 2016	22,197	744	22,941
Acquisitions through business combinations (note 26)	163,687	7,668	171,355
At 31 December 2016	185,884	8,412	194,296
Acquisitions through business combinations (note 26)	4,784	–	4,784
Disposals	–	(3,813)	(3,813)
At 31 December 2017	**190,668**	**4,599**	**195,267**
Amortisation			
At 1 January 2016	–	395	395
Charge for the year	–	117	117
At 31 December 2016	–	512	512
Charge for the year	–	222	222
Disposals	–	(10)	(10)
At 31 December 2017	–	**724**	**724**
Net book value			
At 31 December 2016	185,884	7,900	193,784
At 31 December 2017	**190,668**	**3,875**	**194,543**

Other intangible assets at 31 December 2017 relate to acquisition intangibles, being the fair value of certain customer lists and contracts. These intangible assets are being amortised over the anticipated life of the underlying asset as appropriate, with the amortisation charge being recognised in non-underlying administrative expenses in the Consolidated Income Statement. The balance at 31 December 2016 included emissions rights of £3,813,000 which were utilised during the year.

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 cash generating units (CGUs) according to the level at which management monitor that goodwill.

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

	2017 £000	(Restated)* 2016 £000
Cash generating units		
Breedon Northern	**15,022**	15,022
Breedon Southern	**75,801**	71,017
Breedon Cement	**99,845**	99,845
	190,668	185,884

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

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

Cash flow projections

Cash flow projections for each CGU are derived from the annual budget approved by the Board for 2018 and the three year plan for 2019 and 2020. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 INTANGIBLE ASSETS CONTINUED

Long-term growth rates

Cash flow projections assume a 2.0 per cent (2016: 2.0 per cent) annual growth rate from year 4 to 30 of the cash flow projections. This reflects forecast rates of growth in the UK.

Discount rate

Forecast pre-tax cash flows for each CGU have been discounted at a pre-tax rate of 10.4 per cent (2016: 10.7 per cent) and a post-tax rate of 8.0 per cent (2016: 8.3 per cent) which was calculated by an external expert based on market participants' cost of capital and adjusted to reflect the risks specific to the CGU. As each CGU is considered to have similar risks and similar long-term prospects, the same discount rate has been applied to each of them.

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.

10 PRINCIPAL GROUP COMPANIES

	Country of incorporation	Percentage of ordinary shares held	Principal activity
Subsidiary undertakings			
Ordinary shares held directly			
Marwyn Materials Investments Limited	Jersey	100%	Holding company
Ordinary shares held indirectly			
Breedon Northern Limited	Scotland	100%	Production and sale of aggregates
Breedon Southern Limited	England	100%	Production and sale of aggregates
Breedon Cement Limited (formerly Hope Cement Limited)	England	100%	Production and sale of cement
Breedon Group Services Limited	England	100%	Service company
Breedon Holdings Limited	England	100%	Service company
Breedon Properties Limited	England	100%	Property holding company
Breedon Facilities Management Limited	Scotland	100%	Holding company
Alba Traffic Management Limited	Scotland	75%	Traffic management
Pro Mini Mix Concrete, Mortars and Screeds Limited	England	100%	Sale of concrete products
Humberside Aggregates Limited	England	100%	Production and sale of aggregates
Associated undertaking			
Ordinary shares held indirectly			
BEAR Scotland Limited	Scotland	37.5%	Road maintenance contracting
Joint ventures			
Ordinary shares held indirectly			
Breedon Whitemountain Ltd	Scotland	50%	Road construction
Breedon Bowen Limited	England	50%	Production and sale of aggregates

The Consolidated Statement of Financial Position includes total assets of £1,327,000 (2016: £1,220,000) and total liabilities of £583,000 (2016: £192,000) in respect of Alba Traffic Management Limited, the Group's 75 per cent owned subsidiary undertaking.

11 INVESTMENT IN ASSOCIATE AND JOINT VENTURES

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

	Associate £000	Joint ventures £000	Total £000
Carrying value			
At 1 January 2016	1,576	3,502	5,078
Share of profit of associate and joint ventures	776	598	1,374
Dividends received	(750)	–	(750)
Loan repayment	–	(200)	(200)
At 31 December 2016	**1,602**	**3,900**	**5,502**
Share of profit of associate and joint ventures	870	1,818	2,688
Dividends received	(750)	(1,000)	(1,750)
Loan repayment	–	(269)	(269)
At 31 December 2017	**1,722**	**4,449**	**6,171**

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

	2017		2016	
	Associate £000	**Joint ventures £000**	Associate £000	Joint ventures £000
Non-current assets	**8,265**	**4,756**	9,667	5,396
Current assets	**12,733**	**10,063**	15,624	11,157
Current liabilities	**(14,227)**	**(6,465)**	(14,113)	(8,888)
Non-current liabilities	**(2,179)**	**(781)**	(6,905)	(1,046)
Net assets	**4,592**	**7,573**	4,273	6,619
Revenue	**84,441**	**31,457**	80,945	15,510
Net profit	**2,319**	**3,636**	2,070	1,195

12 DEFERRED TAX

	1 January 2017 £000	Acquisitions (note 26) £000	Recognised in income £000	Recognised in equity £000	31 December 2017 £000
Property, plant and equipment	**(31,006)**	**(113)**	**(2,125)**	**–**	**(33,244)**
Intangible assets	**(726)**	**–**	**44**	**–**	**(682)**
Working capital and provisions	**4,480**	**76**	**1,008**	**–**	**5,564**
Tax value of loss carry-forwards	**35**	**–**	**(23)**	**–**	**12**
	(27,217)	**(37)**	**(1,096)**	**–**	**(28,350)**

	1 January 2016 £000	Acquisitions (note 26) £000	Recognised in income £000	Recognised in equity £000	31 December 2016 £000
Property, plant and equipment	(9,430)	(22,067)	491	–	(31,006)
Intangible assets	(66)	(538)	(122)	–	(726)
Financial instruments – derivatives	9	–	(9)	–	–
Working capital and provisions	2,462	2,478	(460)	–	4,480
Tax value of loss carry-forwards	13	22	–	–	35
	(7,012)	(20,105)	(100)	–	(27,217)

There are no unrecognised deferred tax assets (2016: £Nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 INVENTORIES

	2017 £000	2016 £000
Raw materials and consumables	**13,878**	13,026
Work in progress	**1,969**	4,206
Finished goods and goods for resale	**15,076**	12,099
	30,923	29,331

Inventories (being directly attributable costs of production) of £358,048,000 (2016: £253,034,000) were expensed in the year.

14 TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Trade receivables	**102,128**	94,311
Trade receivables due from associate and joint ventures (note 23)	**3,813**	6,992
Other receivables and prepayments	**7,546**	9,011
Financial instruments – derivatives	**–**	458
	113,487	110,772
Non-current	**–**	–
Current	**113,487**	110,772
	113,487	110,772

The derivative asset reported at 31 December 2016 represented the fair value of foreign exchange contracts.

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 more information about the Group's exposure to interest rate risk.

	2017 £000	2016 £000
Non-current liabilities		
Secured bank loans	**124,247**	147,779
Finance lease liabilities	**5,093**	9,294
	129,340	157,073
Current liabilities		
Unsecured bank loans	**–**	1,336
Current portion of finance lease liabilities	**4,414**	5,557
	4,414	6,893

The Group has a £300 million facility agreement at rates of interest of between 1.35 and 1.9 per cent above LIBOR. Rates of between 1.5 and 1.9 per cent above LIBOR were paid during the year. The loan is secured by a floating charge over the assets of the Company and its subsidiary undertakings and has a final repayment date of 17 November 2019.

15 INTEREST-BEARING LOANS AND BORROWINGS CONTINUED

Finance lease liabilities

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

	2017			2016		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	**4,656**	**242**	**4,414**	5,918	361	5,557
Between one and five years	**5,226**	**133**	**5,093**	9,659	365	9,294
More than five years	**–**	**–**	**–**	–	–	–
	9,882	**375**	**9,507**	15,577	726	14,851

Net debt

	2017 £000	2016 £000
Net debt comprises the following items:		
Cash and cash equivalents	**23,912**	4,628
Current borrowings	**(4,414)**	(6,893)
Non-current borrowings	**(129,340)**	(157,073)
	(109,842)	(159,338)

Changes in net debt which do not relate to cash movements as set out in the Consolidated Statement of Cash Flows primarily comprise the amortisation of bank arrangement fees and debt acquired through business combinations.

16 TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
Trade payables	**73,985**	76,067
Trade payables due to joint ventures (note 23)	**60**	19
Other payables and accrued expenses	**30,965**	26,966
Other taxation and social security costs	**15,815**	13,731
	120,825	116,783

17 PROVISIONS

	Restoration £000	Other £000	Total £000
At 1 January 2016	10,358	967	11,325
Amounts arising from business combinations (note 26)	12,139	5,187	17,326
Utilised during the year	(56)	(404)	(460)
Charged to income statement	501	1,683	2,184
Unused amounts reversed	(82)	(215)	(297)
Unwinding of discount	711	118	829
At 31 December 2016	23,571	7,336	30,907
Amounts arising from business combinations (note 26)	449	–	449
Utilised during the year	(597)	(4,927)	(5,524)
Charged to income statement	798	521	1,319
Unwinding of discount	1,431	83	1,514
At 31 December 2017	**25,652**	**3,013**	**28,665**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 PROVISIONS CONTINUED

	2017 £000	2016 £000
Analysed as		
Current	**2,568**	6,478
Non-current	**26,097**	24,429
	28,665	30,907

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 and will be settled over the next 25 years.

Other provisions primarily comprise provisions for continued obligations for dilapidations and onerous leases which will be settled over the next 25 years.

18 CAPITAL AND RESERVES

Stated capital

	Number of ordinary shares	
	2017	2016
Issued ordinary shares at beginning of year	**1,411,013,763**	1,149,390,728
Issued in connection with:		
Acquisition of Hope Construction Materials Limited	**–**	259,120,245
Exercise of savings-related share options	**2,456,412**	2,502,790
Vesting of Performance Share Plan awards	**2,876,962**	–
Exercise of warrants	**30,279,073**	–
	1,446,626,210	1,411,013,763

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 2017:

During 2017, the Company issued 2,456,412 ordinary shares of no par value raising £737,000 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 £7,000 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.

Movements during 2016:

On 2 August 2016, the Company issued 259,120,245 ordinary shares of no par value in connection with the acquisition of Hope Construction Materials Limited. Subsequent to acquisition, Hope Construction Materials Limited changed its name to Breedon Cement Limited.

During 2016, the Company issued 2,502,790 ordinary shares of no par value raising £409,000 in connection with the exercise of certain savings-related share options.

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.

18 CAPITAL AND RESERVES CONTINUED

Capital reserve

The capital reserve at 31 December 2016 comprised the fair value of warrants to subscribe for 35,370,667 ordinary shares in the Company at 12.0 pence per share. On 5 July 2017, the Company announced that it had received notice to exercise warrants over those shares. The shares were issued for no consideration, with the number of ordinary shares arising from the exercise being reduced by 5,091,594 to satisfy the subscription price that would otherwise have been payable by the exercising warrant holder, and accordingly the Company issued 30,279,073 new ordinary shares in settlement of this exercise. Following this exercise, no warrants remain outstanding over the ordinary shares of the Company.

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 £2,939,000 (2016: £2,811,000). Contributions outstanding at 31 December 2017 amounted to £672,000 (2016: £204,000) 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.

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 2017	Granted	Vested	Lapsed	Outstanding at 31 Dec 2017
April 2014	45.6	–	2014 to 2017	**2,175,864**	**–**	**(2,175,864)**	**–**	**–**
April 2015	45.5	–	2015 to 2018	**1,967,104**	**–**	**–**	**(58,714)**	**1,908,390**
April 2016	71.8	–	2016 to 2019	**2,006,023**	**–**	**–**	**(120,127)**	**1,885,896**
April 2017	75.3	–	2017 to 2020	**–**	**2,415,284**	**–**	**(307,494)**	**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**
				6,148,991	**3,649,414**	**(2,175,864)**	**(486,335)**	**7,136,206**

The weighted average consideration payable upon vesting in respect of the conditional awards outstanding at 31 December 2017, and movements in conditional awards during the period was 0.0p (2016: 0.0p).

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

Date of grant	April 2014	April 2015	April 2016	April 2017
Total awards at date of grant	2,520,385	2,671,868	2,006,023	3,649,414
Share price at date of grant	45.6p	45.5p	71.8p	75.3p
Expected volatility	118%	27%	24%	24%
Risk-free rate	1.12%	0.65%	0.59%	0.10%
Expected term	3 years	3 years	3 years	1-3 years
Expected dividend yield	0%	0%	0%	0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 will normally vest three years after grant 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 2017	Granted	Exercised	Lapsed	Outstanding at 31 Dec 2017
April 2014	44.6	1.0	2014 to 2017	**701,098**	–	**(701,098)**	–	–
April 2015	44.5	1.0	2015 to 2018	**701,098**	–	–	–	**701,098**
April 2016	70.75	1.0	2016 to 2019	**531,914**	–	–	–	**531,914**
April 2017	74.25	1.0	2017 to 2020	–	**529,801**	–	–	**529,801**
				1,934,110	**529,801**	**(701,098)**	–	**1,762,813**

The weighted average exercise price of share options outstanding at 31 December 2017, and movements in share options during the period was 1.0p (2016: 1.0p).

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

Date of grant	April 2014	April 2015	April 2016	April 2017
Share price at date of grant	45.6p	45.5p	71.8p	75.3p
Total options at date of grant	701,098	701,098	531,914	529,801
Expected volatility	118%	27%	24%	24%
Risk-free rate	1.12%	0.65%	0.59%	0.10%
Expected term	3 years	3 years	3 years	3 years
Expected dividend yield	0%	0%	0%	0%

Sharesave Scheme

During the year, the Group operated a savings-related share option scheme open to all employees (the Breedon Sharesave Scheme).

The number and weighted average exercise prices of options granted under the Breedon Sharesave Scheme are as follows:

Date of Grant	Fair Value in pence	Exercise price in pence	Outstanding at 1 Jan 2017	Granted	Exercised	Lapsed	Outstanding at 31 Dec 2017
5 year option granted 2012	7.7	15.2	**1,045,244**	–	**(1,033,075)**	**(12,169)**	–
5 year option granted 2013	13.6	17.8	**569,642**	–	**(40,842)**	**(19,829)**	**508,971**
3 year option granted 2014	11.6	41.4	**1,346,361**	–	**(1,334,173)**	**(12,188)**	–
5 year option granted 2014	16.7	37.8	**1,314,578**	–	**(12,883)**	**(22,036)**	**1,279,659**
3 year option granted 2015	7.8	42.7	**1,162,121**	–	–	**(50,161)**	**1,111,960**
5 year option granted 2015	14.8	39.0	**1,788,711**	–	**(22,050)**	**(192,561)**	**1,574,100**
3 year option granted 2016	18.8	59.9	**1,318,753**	–	**(1,009)**	**(139,823)**	**1,177,921**
5 year option granted 2016	25.9	54.8	**1,825,089**	–	**(6,111)**	**(215,592)**	**1,603,386**
3 year option granted 2017	16.4	69.8	–	**2,823,028**	–	**(166,828)**	**2,656,200**
5 year option granted 2017	23.5	63.8	–	**5,632,643**	**(6,269)**	**(280,082)**	**5,346,292**
			10,370,499	**8,455,671**	**(2,456,412)**	**(1,111,269)**	**15,258,489**

19 EMPLOYEE BENEFITS CONTINUED

The weighted average exercise price of share options outstanding at 31 December 2017 was 55.8p (2016: 41.4p). The weighted average exercise prices of share options granted, exercised and lapsed in the year to 31 December 2017 were 65.8p, 30.0p and 55.1p, respectively (2016: 57.0p, 16.3p and 40.1p, 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 2017	5 year options Granted 2017	3 year options Granted 2016	5 year options Granted 2016
Share price at date of grant	**75.9p**	**75.9p**	71.8p	71.8p
Total options at date of grant	**2,823,028**	**5,632,643**	1,388,720	1,928,552
Expected volatility	**24.6%**	**25.7%**	24.5%	25.7%
Option life	**3 years**	**5 years**	3 years	5 years
Expected dividend yield	**0%**	**0%**	0%	0%
Risk free interest rate	**0.14%**	**0.34%**	0.40%	0.81%

The interests of the directors in both the Performance Share Plans and Breedon Sharesave scheme are disclosed in the Directors' Report.

20 FINANCIAL INSTRUMENTS

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market 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 which primarily relate to movements in interest rates. 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	
	2017 £000	2016 £000
Receivables	**113,487**	110,314
Financial instruments - derivatives	**-**	458
Cash and cash equivalents	**23,912**	4,628
	137,399	115,400

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

Exposure to credit risk continued

Credit risk associated with cash balances and derivative financial instruments 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 at the reporting date, by reportable segment, was:

	Carrying amount	
	2017 £000	2016 (restated) £000
Breedon Northern	**29,889**	30,890
Breedon Southern	**61,028**	55,309
Breedon Cement	**11,211**	8,112
	102,128	94,311

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 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 at the reporting date was:

	2017		2016	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	**96,239**	**(352)**	91,551	(1,046)
Past due 0-30 days	**4,513**	**(140)**	2,997	(105)
Past due 31-60 days	**1,117**	**(173)**	884	(13)
Past due more than 60 days	**2,664**	**(1,740)**	1,555	(1,512)
	104,533	**(2,405)**	96,987	(2,676)

The movement in provisions for impairment of trade receivables is as follows:

	2017 £000	2016 £000
At 1 January	**2,676**	1,534
Amounts arising from business combinations (note 26)	**319**	824
Charged to the Consolidated Income Statement during the year	**607**	718
Utilised during the year	**(1,037)**	(400)
Unused amounts released	**(160)**	–
At 31 December	**2,405**	2,676

20 FINANCIAL INSTRUMENTS CONTINUED

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 at current rates:

31 December 2017	Carrying amount £000	Contractual cash flows £000	Within one year £000	One to five years £000	More than five years £000
Non-derivative financial liabilities					
UK secured bank loans	**124,247**	**131,425**	**3,950**	**127,475**	**–**
Finance lease liabilities	**9,507**	**9,882**	**4,656**	**5,226**	**–**
Other financial liabilities	**127,601**	**127,601**	**127,601**	**–**	**–**
	261,355	**268,908**	**136,207**	**132,701**	**–**

31 December 2016	Carrying amount £000	Contractual cash flows £000	Within one year £000	One to five years £000	More than five years £000
Non-derivative financial liabilities					
UK secured bank loans	147,779	159,186	3,243	155,943	–
UK unsecured bank loans	1,336	1,336	1,336	–	–
Finance lease liabilities	14,851	15,577	5,918	9,659	–
Other financial liabilities	103,052	103,052	103,052	–	–
	267,018	279,151	113,549	165,602	–

Unsecured bank loans were repaid during the year. The capital element of the UK secured bank loans is repayable on 17 November 2019.

Market risk

The Group's activities expose it to the financial risk of changes in interest rates. The Group's operations trade predominantly in their functional currency and accordingly, minimal translation exposures arise in trade receivables or trade payables.

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. Since July 2016, the Group has had an interest rate cap covering £90,000,000 of debt which caps interest rates (excluding margins) at 3.17 per cent to July 2018. 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 2017 was £Nil (2016: asset of £1,000). This amount was recognised as a fair value derivative and the effective portion of the fair value is recognised in the cash flow hedge reserve.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Carrying amount

	2017 £000	2016 £000
Fixed rate instruments		
Financial liabilities	**(9,507)**	(14,851)
Variable rate instruments		
Financial liabilities*	**(124,247)**	(149,115)
Financial assets	**23,912**	4,628
	(109,842)	(159,338)

* variable rate financial liabilities include £90,000,000 (2016: £90,000,000) of debt subject to an interest rate cap (see above).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 FINANCIAL INSTRUMENTS CONTINUED

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 the reporting date would have decreased equity and income and expenditure for a full year by £1,125,000 (2016: £1,454,000). A decrease of 100 basis points would have increased equity and income and expenditure for a full year by £625,000 (2016: £380,000). 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 are carried at fair value. The following table analyses financial instruments carried at fair value by valuation method. 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

	2017 Level 1 £000	2017 Level 2 £000	2017 Level 3 £000	2017 Total £000
Derivative financial asset	**–**	**–**	**–**	**–**

	2016 Level 1 £000	2016 Level 2 £000	2016 Level 3 £000	2016 Total £000
Derivative financial asset	–	458	–	458

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 earnings per share. 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 2017 and 31 December 2016.

21 OPERATING LEASES

Total non-cancellable operating lease rentals are payable as follows:

	2017		2016	
	Land, buildings & minerals £000	Plant, equipment & vehicles £000	Land, buildings & minerals £000	Plant, equipment & vehicles £000
Less than one year	**6,478**	**6,358**	5,514	8,234
Between one and five years	**20,772**	**12,136**	17,828	17,090
More than five years	**41,136**	**6,705**	42,499	5,609
	68,386	**25,199**	65,841	30,933

22 CAPITAL COMMITMENTS

During the year ended 31 December 2017, the Group entered into contracts to purchase property, plant and equipment for £1,614,000 (2016: £5,882,000). 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 £000	Purchases £000	Receivables £000	Payables £000
2017				
BEAR Scotland Limited	**24,911**	**–**	**2,615**	**–**
Breedon Bowen Limited	**171**	**342**	**41**	**60**
Breedon Whitemountain Ltd	**5,089**	**20**	**1,157**	**–**
	30,171	**362**	**3,813**	**60**
2016				
BEAR Scotland Limited	22,880	6	5,404	–
Breedon Bowen Limited	217	239	15	19
Breedon Whitemountain Ltd	4,225	82	1,573	–
	27,322	327	6,992	19

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 £000	Purchases £000	Receivables £000	Payables £000
2017				
Alba Traffic Management Limited	**1,502**	**309**	**129**	**23**
2016				
Alba Traffic Management Limited	1,585	187	181	25

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' Report and the Directors' Remuneration Report on pages 70 to 73 and 60 to 68 respectively.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year attributable to ordinary shareholders of £56,927,000 (2016: £36,719,000) and on the weighted average number of ordinary shares in issue during the year of 1,428,956,906 (2016: 1,257,812,971).

The calculation of underlying earnings per share is based on the profit for the year attributable to ordinary shareholders, adjusted to add back non-underlying items, of £59,222,000 (2016: £43,885,000) and on the weighted average number of ordinary shares in issue during the year as above.

Diluted earnings per ordinary share is based on 1,454,185,019 shares (2016: 1,299,537,417). The adjustment for dilution of 25,228,113 (2016: 41,724,446) potential ordinary shares comprises 15,768,587 (2016: 29,279,278) in respect of warrants (detailed in note 18) and 9,459,526 (2016: 12,445,168) in respect of share based payments.

25 CONTINGENT LIABILITIES

The Group has guaranteed its share of the banking facilities of BEAR Scotland Limited, the Company's associated undertaking. The maximum liability at 31 December 2017 amounted to £1,838,000 (2016: £1,838,000).

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 acquired the entire share capital of the following companies:

- Pro Mini Mix Concrete, Mortars and Screeds Limited (2 May 2017)
- Humberside Aggregates Limited (1 August 2017)

These transactions were accounted for as business combinations. The fair value of the consideration paid and the consolidated net assets acquired, together with the goodwill arising in respect of these were as follows:

	Book value £000	Fair value adjustments £000	Fair value on acquisition £000
Mineral reserves and resources	7,159	(3,454)	3,705
Property, plant and equipment	1,710	(175)	1,535
Inventories	766	(231)	535
Trade and other receivables	2,707	–	2,707
Cash	531	–	531
Trade and other payables	(2,391)	–	(2,391)
Current tax payable	(638)	–	(638)
Interest-bearing loans and borrowings	(550)	–	(550)
Provisions	–	(449)	(449)
Deferred tax liabilities	(156)	119	(37)
Total	9,138	(4,190)	4,948
Consideration – cash			9,732
Goodwill arising			4,784

The fair value adjustments primarily comprised adjustments to:

- revalue certain mineral reserves and resources to reflect the fair value at date of acquisition;
- impairment adjustments in respect of certain items of plant and equipment;
- inventories to reflect fair value;
- restoration provisions to reflect costs to comply with environmental, planning and other legislation; and
- deferred tax balances.

26 ACQUISITIONS CONTINUED

Current year acquisitions continued

The goodwill arising represents the potential to access further reserves of mineral subject to obtaining the necessary permissions, the strategic geographic location of the assets acquired and the skills of the existing workforce. Following careful consideration, in the view of the directors, no intangible assets arose in respect of these acquisitions.

In total the Group incurred acquisition related costs of £626,000 (2016: £3,119,000) 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).

During the year, these acquisitions contributed revenues of £4,409,000 and underlying EBIT of £735,000 to the Group.

Cash flow effect

The cash flow effect of the current year acquisitions can be summarised as follows:

	£000
Consideration paid	(9,732)
Cash acquired with the businesses	531
Net cash consideration shown in the Consolidated Statement of Cash Flows	**(9,201)**

If both the Pro Mini Mix Concrete, Mortars and Screeds Limited acquisition and the acquisition of Humberside Aggregates Limited had occurred on 1 January 2017, the results of the Group for the year ended 31 December 2017 would have shown revenue of £660,200,000 and underlying EBIT of £80,900,000.

Prior year acquisitions

In 2016 the Group acquired Hope Construction Materials Limited and Sherburn Minerals Limited. 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.

Acquisitions announced but not completed at balance sheet date

On 13 December 2017, the Group announced its agreement to acquire from Tarmac Holdings Limited four quarries and an asphalt plant for £16.5 million, to be satisfied by the transfer to Tarmac of 27 ready-mixed concrete plants and payment of £4.9 million in cash. The deal is expected to complete in 2018 subject to CMA approval. As this approval was pending at the balance sheet date, no reclassification adjustment has been made to treat the assets to be disposed of as 'held for sale'.

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 business combinations

In determining the fair valuation of assets acquired under business combinations, including the valuation of other intangibles, a number of estimates are made. These include the market value of minerals, property, plant and equipment, associated liabilities for contractual restoration provisions and the valuation of intangible assets, including customer lists and contracts. The reasons for any residual excess of consideration over the net asset value, being goodwill arising, are then identified. The Group utilises independent experts, where appropriate, to assist with the determination of the market value of certain minerals, property and plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Accounting estimates continued

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 requiring the use of experts where appropriate.

Estimated future cash flows have been determined on a site by site basis through expert evaluation of the present day cost of restoration, which is then inflated to the point that the cash flow is expected to occur and discounted at an appropriate rate to reflect the net present value of the obligation as at the year end. Estimated 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.

Accounting judgements

Mineral reserves and resources

Mineral reserves and resources are the principal asset available to the Group. Mineral reserves and resources are acquired either in the normal course of business or through business combinations.

Mineral reserves and resources 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. This fair value is based on expert geological surveys which provide an estimate of the accessible reserves and resources. The assessment of cost is therefore not considered to be a significant estimate.

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 such as potential changes in the planning and regulatory environment, geological and archaeological factors. The identification of impairment triggers therefore requires the Group to exercise judgement.

Customer claims

Customer claims arise in the normal course of business. The majority of these claims are small in nature, and whilst estimation uncertainty arises in quantifying the possible range of a settlement or value of remedial works needing to be performed, this is not considered to be a significant estimate as claims are typically low in value. The group exercises judgement in determining the recognition or disclosure of any larger claims in line with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets.*

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 .

2017	Breedon Northern £000	Breedon Southern £000	Breedon Cement £000	Central administration and eliminations £000	Share of profit of associate and joint ventures £000	Total £000
Profit from operations						**77,605**
Non-underlying items (note 3)						**2,776**
Underlying EBIT	**20,374**	**44,148**	**25,762**	**(12,591)**	**2,688**	**80,381**
Underlying EBIT margin*	**10.4%**	**11.6%**	**18.2%**			**12.3%**
Underlying EBIT	**20,374**	**44,148**	**25,762**	**(12,591)**	**2,688**	**80,381**
Share of profit for associate and joint ventures	**–**	**–**	**–**	**–**	**(2,688)**	**(2,688)**
Depreciation	**10,251**	**9,331**	**14,089**	**191**	**–**	**33,862**
Mineral depletion	**1,437**	**4,007**	**–**	**–**	**–**	**5,444**
EBITDA	**32,062**	**57,486**	**39,851**	**(12,400)**	**–**	**116,999**

2016 (restated)	Breedon Northern £000	Breedon Southern £000	Breedon Cement £000	Central administration and eliminations £000	Share of profit of associate and joint ventures £000	Total £000
Profit from operations						51,239
Non-underlying items (note 3)						8,372
Underlying EBIT	19,909	38,113	11,060	(10,845)	1,374	59,611
Underlying EBIT margin*	11.5%	14.9%	21.2%			13.1%
Underlying EBIT	19,909	38,113	11,060	(10,845)	1,374	59,611
Share of profit for associate and joint ventures	–	–	–	–	(1,374)	(1,374)
Depreciation	8,484	7,316	5,092	42	–	20,934
Mineral depletion	1,570	2,909	–	–	–	4,479
EBITDA	29,963	48,338	16,152	(10,803)	–	83,650

* Underlying EBIT margin is calculated as underlying EBIT divided by revenue.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given pursuant to the Articles of Association of Breedon Group plc (the 'Company') that the Annual General Meeting of the Company (the 'Meeting') will take place in the La Seigneurie Suite, St. Pierre Park Hotel, Rohais, St. Peter Port, Guernsey GY1 1FD on Tuesday, 24 April 2018 at 2.00pm, or at any adjournment thereof, for the purpose of considering and, if thought fit, passing the following resolutions, of which Resolutions 1 to 11 will be proposed as Ordinary Resolutions and Resolutions 12 to 14 will be proposed as Special Resolutions:

ORDINARY BUSINESS

Ordinary Resolutions

1. THAT the Financial Statements of the Company for the year ended 31 December 2017, together with the reports of the directors and Auditor thereon be received and adopted.
2. THAT KPMG LLP, who have indicated their willingness to act, be and are hereby reappointed as the Auditor of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which Financial Statements are laid before the Company.
3. THAT the directors of the Company be and are hereby authorised to determine the fee payable to the Auditor in respect of the year ending 31 December 2018.
4. THAT Amit Bhatia be reappointed as a director of the Company.
5. THAT Susie Farnon be reappointed as a director of the Company.
6. THAT Peter Tom CBE be reappointed as a director of the Company.
7. THAT Pat Ward be reappointed as a director of the Company.
8. THAT David Warr be reappointed as a director of the Company.
9. THAT David Williams be reappointed as a director of the Company.
10. THAT Rob Wood be reappointed as a director of the Company.

SPECIAL BUSINESS

Ordinary Resolution

11. THAT the directors be and they are hereby generally and unconditionally authorised in accordance with Article 6.2 of the Company's Articles of Association (the 'Articles') to exercise all the powers of the Company to allot relevant securities (as defined in Article 6.2 of the Articles) in the Company, including, but not limited to, ordinary shares in the Company, and to grant rights to subscribe for, or to convert any security into, ordinary shares in the Company up to a maximum of 480,000,000 ordinary shares.

    The authority conferred on the directors under this Resolution shall take effect after the passing of this Resolution and expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, 15 months after that date, save that the Company may before such expiry make an offer or agreement which would or might require ordinary shares to be allotted or rights to subscribe for, or to convert any security into, ordinary shares to be granted after such expiry and the directors may allot ordinary shares or grant rights to subscribe for, or to convert any security into, ordinary shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

12. THAT the directors be and they are hereby authorised pursuant to Article 6.7 of the Articles to allot equity securities (within the meaning of Article 6.6 of the Articles) for cash or otherwise pursuant to the authority conferred by Resolution 11 above, as if Article 6.3 did not apply to any such allotment, provided that this authority shall be limited to the allotment of equity securities consisting of, or the right to subscribe for, or convert any security into, shares in the Company, up to a maximum of 72,334,777 ordinary shares in the Company.

The authority conferred on the directors under this Resolution 12 shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, 15 months after that date, save that the Company may before such expiry make offers or enter into agreements which would, or might, require ordinary shares to be allotted or rights to subscribe for, or to convert any security into, ordinary shares to be granted after such expiry and the directors may allot ordinary shares or grant rights to subscribe for, or to convert any security into, ordinary shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

13. THAT the directors be and they are hereby authorised pursuant to Article 6.7 of the Articles, in addition to any authority granted under Resolution 12 above, to allot equity securities (within the meaning of Article 6.6 of the Articles) for cash or otherwise pursuant to the authority conferred by Resolution 12 above, as if Article 6.3 did not apply to such allotment, provided that this authority shall be:

    (a) limited to the allotment of equity securities consisting of, or the right to subscribe for, or convert any security into, shares in the Company up to a maximum of 72,334,777 ordinary shares and;

    (b) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board of the Company determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this Notice.

    The authority conferred on the directors under this Resolution 13 shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution or, if earlier, 15 months after that date, save that the Company may before such expiry make offers, or enter into agreements, which would, or might, require ordinary shares to be allotted or rights to subscribe for, or to convert any security into, ordinary shares to be granted after such expiry and the directors may allot ordinary shares or grant rights to subscribe for, or to convert any security into, ordinary shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

14. THAT the Company be and is hereby generally and unconditionally authorised to make one or more market purchases of ordinary shares in the capital of the Company pursuant to Article 57 of the Companies (Jersey) Law 1991 as amended (the 'Law') provided that:

    (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 72,334,777 (being five per cent of the issued ordinary share capital of the Company as at 16 March 2018);

    (b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 1.0 pence;

    (c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is an amount equal to 105 per cent of the average middle market quotation of an ordinary share taken from the AIM Appendix to the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which any ordinary share is contracted to be purchased by the Company;

    (d) the directors of the Company can, prior to each such purchase, make the solvency statement required by the Law and fulfil all other requirements of the Law in relation to purchases of a company's own shares;

    (e) this authority will expire at the conclusion of the next Annual General Meeting of the Company held after the date on which this Resolution is passed or, if earlier, 15 months after that date;

    (f) this authority shall only be capable of variation, revocation or renewal by Special Resolution of the Company; and

    (g) the Company may make a contract or contracts to purchase ordinary shares under this authority before this authority expires which will or may be executed and completed wholly or partly after its or their expiration and may make a purchase of ordinary shares in pursuance of any such contract or contracts after its or their expiration.

By order of the Board

Breedon Group plc
16 March 2018

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Notes

1. Under Jersey law a special resolution requires a two thirds rather than three quarters majority of those voting at the Meeting in person or by proxy to vote in favour of the resolution.
2. Every member who is present in person shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he or she is the holder.
3. A member entitled to attend and vote at the Meeting convened by this notice is also entitled to appoint one or more proxies. If a proxy other than the Chairman is desired, strike out 'the Chairman of the Meeting or' and insert the name or names preferred and initial the alteration. A proxy need not be a member of the Company but must attend the Meeting in person.
4. A form of proxy is enclosed. To be valid, this form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must reach the Registrar at Link Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than forty-eight hours before the time appointed for holding the Meeting or adjournment or the taking of a poll at which the person named in the proxy form proposes to vote.
5. As an alternative to completing your hard-copy proxy form, you can appoint a proxy electronically at www.signalshares.com. For an electronic proxy appointment to be valid, your appointment must be received by no later than 2:00pm on 22 April 2018 .
6. If you wish your proxy to speak on your behalf at the Meeting, you will need to appoint your own choice of proxy (which is not the Chairman) and give instructions directly to the proxy. The completion and return of a form of proxy will enable you to vote at the Meeting without having to be present at the Meeting, but will not preclude you from attending the Meeting and voting in person if you should subsequently decide to do so.
7. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the form of proxy. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. If you wish to appoint the Chairman as one of your multiple proxies, leave the words 'Chairman of the Meeting' on the relevant proxy form.
8. Shares held in uncertificated form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly (under CREST participant ID RA10) authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent by the latest time(s) for receipt of proxy appointments by 2.00 pm on 22 April 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by an officer or attorney duly authorised. In the case of an individual, the form of proxy must be signed by the individual or his or her duly authorised attorney.
12. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy will be accepted to the exclusion of the votes of any other joint holders and for this purpose seniority will be determined by the order in which the names are recorded in the Register of Members.
13. The directors of the Company will interpret any ambiguous proxy appointments. The Chairman of the Meeting will, in his capacity as proxy, interpret any voting instructions he receives. Their respective determinations shall be final.
14. Any alterations made to the form of proxy must be initialled by the person who signs it.
15. The Company, pursuant to Article 40 of the Companies Uncertificated Securities (Jersey) Order 1999, specifies that only those members registered in the register of members of the Company as at 6.00pm on 22 April 2018 or, in the event that the Meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting(s), shall be entitled to attend or vote at the Meeting or any adjournment thereof in respect of the number of shares registered in their name at that time. Changes to the register of members after these times will be disregarded in determining the rights of any person to attend or vote at the Meeting or any adjournment thereof.

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 2017 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.

SHAREHOLDER INFORMATION CONTINUED

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 Financial Conduct Authority (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 2018 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 22 April 2018 (or not less than 48 hours before the time fixed for any adjourned meeting).

ANALYSIS OF SHAREHOLDINGS AT 31 DECEMBER 2017

Holding of shares	Number of accounts	Percentage of total accounts	Number of shares	Percentage of total shares
Up to 500	1,039	43.78	322,810	0.02
Up to 5,000	576	24.27	1,080,256	0.07
Up to 10,000	202	8.51	1,614,473	0.11
Up to 50,000	315	13.27	7,368,152	0.51
Up to 100,000	63	2.65	4,359,881	0.30
Up to 500,000	89	3.75	20,310,118	1.40
Up to 99,999,999,999	89	3.75	1,411,570,520	97.58
	2,373	**100.00**	**1,446,626,210**	**100.00**

SHAREHOLDER COMMUNICATION

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ADVISERS AND COMPANY INFORMATION

COMPANY INFORMATION

Registered in Jersey
Company number 98465

REGISTERED OFFICE

28 Esplanade
St Helier
Jersey
JE2 3QA

COMPANY SECRETARY

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28 Esplanade
St Helier
Jersey
JE2 3QA

INDEPENDENT AUDITOR

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St Helier
Jersey
JE1 0BD

CONTACT

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NOTES

Designed and produced by Radley Yeldar www.ry.com

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 Orchard Press Cheltenham Ltd., who hold ISO 9001, ISO 14001, FSC and PEFC certification. 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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