BREEDON

BREEDON GROUP
Annual Report 2016

FINANCIAL HIGHLIGHTS

REVENUE

£454.7m

2015: £318.5m +42.8%

UNDERLYING EBIT*

£59.6m

2015: £37.8m +57.8%

UNDERLYING EBIT MARGIN*

13.1%

2015: 11.9% +1.2ppt

UNDERLYING BASIC EARNINGS PER SHARE*

3.49p

2015: 2.68p +30.2%

PROFIT BEFORE TAXATION

£46.8m

2015: £31.3m +49.5%

NET DEBT

£159.3m

2015: Net cash £10.3m

* 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.

OPERATIONAL HIGHLIGHTS

- Group transformed by the acquisition of Hope Construction Materials ('Hope'†), with integration well advanced and synergies accelerated
- Strong trading performances across the Group, with improved sales and profits in former Breedon Aggregates business, boosted by five-month contribution from Hope
- Acquisition of Sherburn Minerals Group ('Sherburn') completed, adding two cementitious import terminals, four quarries and five ready-mixed concrete plants to Group portfolio
- Continued planned capital investment in capacity and operational improvements
- Former Breedon Aggregates business's Lost Time Injury Frequency Rate (LTIFR) improved by 22 per cent to 2.13
- Strong platform for growth established, with encouraging outlook for 2017 on the back of expected increases in infrastructure and housing investment

† Hope Construction Materials was renamed Hope Cement following completion of the acquisition.

Cover photo: Stephanie Hallows, Laboratory Supervisor, Hope Cement Works

IN THIS REPORT

WE ARE THE UK'S LARGEST INDEPENDENT CONSTRUCTION MATERIALS GROUP. OUR OPERATIONS ARE FULLY VERTICALLY 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. WE EMPLOY AROUND 2,300 COLLEAGUES AND HAVE MORE THAN 750 MILLION TONNES OF MINERAL RESERVES AND RESOURCES. OUR STRATEGY IS TO CONTINUE GROWING ORGANICALLY AND THROUGH ACQUISITION OF BUSINESSES IN THE UK HEAVYSIDE CONSTRUCTION MATERIALS MARKET.

For the purposes of our 2016 results, the Group reported as three businesses: Breedon Northern (comprising the former Breedon Aggregates Scotland business), Breedon Southern (comprising the former Breedon Aggregates England business) and Hope Cement (comprising all the operations of the former Hope Construction Materials business).

For more information visit
www.breedongroup.com

STRATEGIC REPORT

OUR PERFORMANCE

GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

BREEDON AT A GLANCE*

2016 WAS A YEAR OF SIGNIFICANT STRATEGIC EXPANSION. THE ACQUISITION OF HOPE – AUGMENTED BY THE PURCHASE OF SHERBURN LATER IN THE YEAR – GIVES US A POWERFUL PLATFORM FOR FUTURE GROWTH, WITH AN IMPROVED PRODUCT MIX, INCREASED SCALE AND A BROADER GEOGRAPHICAL FOOTPRINT.

over **750mt** mineral reserves and resources

around **2,300** colleagues

1 cement plant

2 cementitious import terminals

8 rail-fed depots

around **60** quarries

26 asphalt plants

nearly **200** ready-mixed concrete and mortar plants

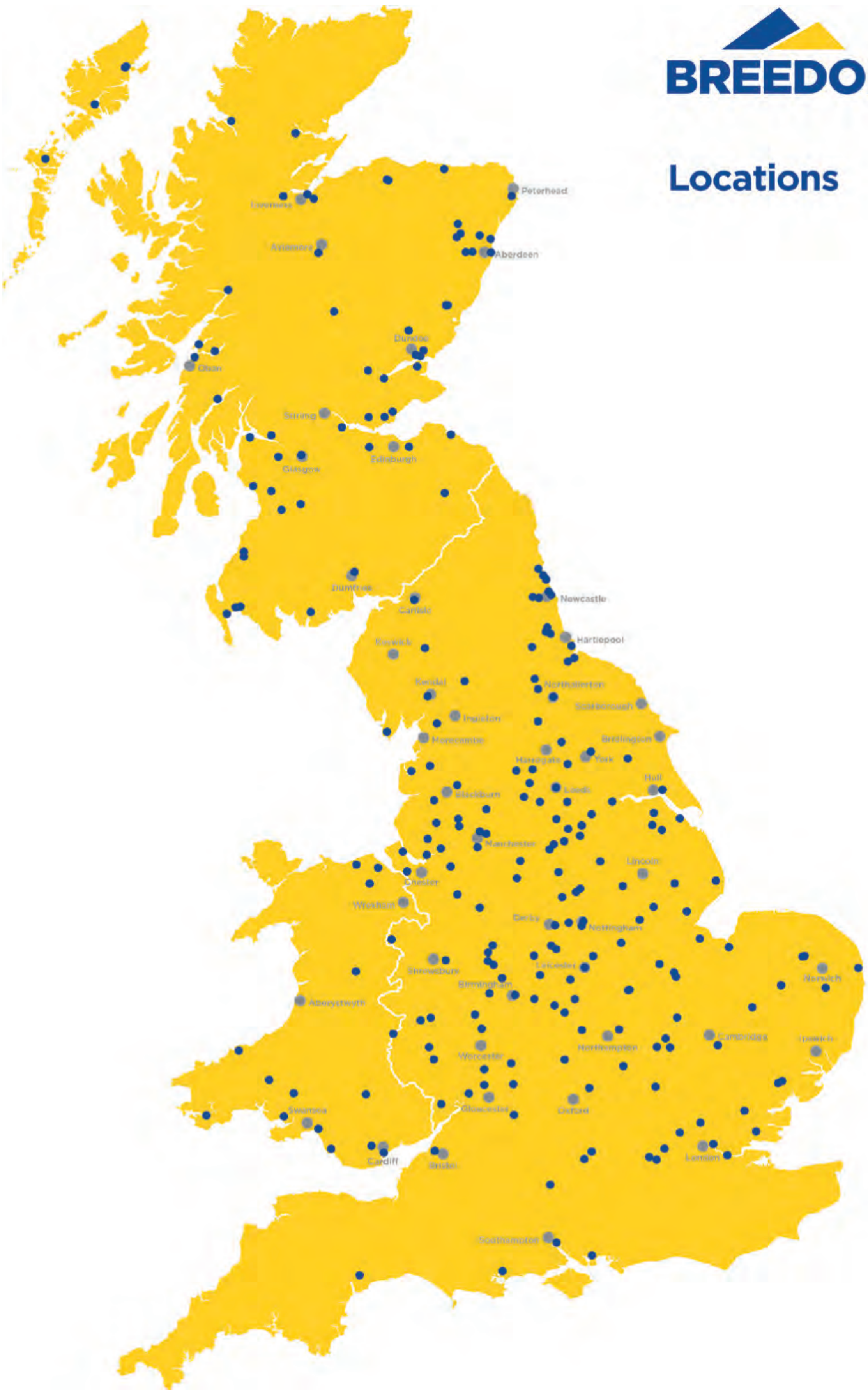
3 concrete products plants

9 regional contract surfacing hubs

* at 31 December 2016.

BREEDON

Locations



BREEDON TODAY

OUR PRODUCTS AND SERVICES

WE SUPPLY A FULL RANGE OF CEMENTITIOUS PRODUCTS, CRUSHED ROCK, SAND AND GRAVEL, ASPHALT, READY-MIXED CONCRETE AND MORTAR FROM AROUND 250 SITES NATIONWIDE, TOGETHER WITH CONCRETE PRODUCTS FROM THREE PLANTS AND CONTRACT SURFACING SERVICES FROM NINE REGIONAL HUBS IN ENGLAND AND SCOTLAND.

AGGREGATES

We produce a wide variety of quality-assured construction aggregates, from crushed rock (e.g. limestone, granite and high PSV stone) and sand and gravel to specialised decorative aggregates for creative landscaping – including Breedon Golden Amber self-binding gravel, for which we hold the Royal Warrant.

Typical customers

- Civil engineers (infrastructure and housing)
- Industrial and commercial (offices, warehouses, etc.)
- Agricultural (chicken sheds, biomass, etc.)
- Landscaping (driveways, pathways, courtyards, patios, etc.)
- Rail industry (rail ballast)

11.4 m tonnes

aggregates sales in 2016

(2015: 8.7 m tonnes)

CEMENT

We manufacture quality-assured Portland Cement at the UK's largest independent cement works in the Hope Valley, Derbyshire and also import cementitious products through two terminals in Scotland and northern England. Our bulk supplies are complemented by a range of packed cements, dry-mix mortars and screeds.

Typical customers

- Internal (Breedon concrete plants)
- Third-party bulk cement customers
- Third-party concrete producers
- Builders merchants and garden centres

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

READY-MIXED CONCRETE

Our quality-assured concrete business supplies a range of value-added performance products, including mortars and screeds, for all types of construction projects. We also operate a fleet of mini-mix trucks under the 1stMix brand, supplying smaller loads primarily to domestic customers and smaller builders.

Typical customers

- Civil engineers
- Industrial and commercial
- Housebuilders
- Agricultural
- Homes and smaller businesses

1.9 m m^3

ready-mixed concrete sales in 2016

(2015: 0.9 m m^3)

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.

ASPHALT

We have a comprehensive portfolio of specialist quality-assured asphalt products, with applications ranging from major and minor roads to airport runways, car parks, sport surfaces and domestic driveways.

Typical customers

- Highways England and Transport Scotland
- Local authorities
- Civil engineers
- Local surfacing contractors
- Utilities

CONCRETE PRODUCTS

We produce a range of quality-assured concrete walling and paving products, blocks and pre-stressed T-beams from our factories in England and Scotland. These include our renowned Fyfestone portfolio of specialist masonry products.

Typical customers

- Industrial and commercial
- Infrastructure
- Housing
- Agricultural

CONTRACTING SERVICES

Our quality-assured contract surfacing business comprises highly-skilled teams undertaking all types of road surfacing and maintenance projects, from major and minor road networks to car parks, domestic driveways and farm access roads.

Typical customers

- Motorway and trunk road operators
- Road-building contractors
- Infrastructure
- Local authorities
- Industrial and commercial
- Agricultural
- Domestic customers

1.9 m tonnes

asphalt sales in 2016

(2015: 1.8 m tonnes)

OUR BUSINESS MODEL

CREATING SUSTAINABLE VALUE

OUR BUSINESS PROCESSES CREATE SUSTAINABLE VALUE.

SECURING MINERAL SUPPLIES

Core activities

- Securing sparingly-granted planning consents for new reserves and extensions
- Consultation and community engagement

Things we need to do right

- Good relationships with local authorities and landowners
- Environmental and safety compliance
- Land restoration
- Excellent community engagement
- Good stewardship of land and minerals

QUARRYING

Core activities

- Blasting and extraction of rock
- Sand and gravel extraction
- Crushing and screening
- Tipping and landfill

Things we need to do right

- Safety
- Operating efficiency
- Quality control and technical proficiency
- Environmental controls
- Close relationships with suppliers
- Compliance with our licences to operate
- Optimisation of land use

CEMENT PRODUCTION & IMPORTATION

Core activities

- Blasting and extraction of limestone and shale
- Production and grinding of clinker
- Cement importation via coastal terminals
- Bulk shipping via road and rail tankers
- Bagging

Things we need to do right

- Safety
- Operating efficiency
- Quality control and technical proficiency
- Environmental controls
- Alternative fuel development
- Strong community engagement
- Compliance with licences to operate

ADDING VALUE

Core activities

- Mixing aggregates and cement to produce ready-mixed concrete and mortar
- Mixing aggregates and bitumen to produce asphalt products
- Forming ready-mixed concrete to produce a range of concrete blocks, walling and paving products

Things we need to do right

- Safety
- Operational efficiency
- Product innovation
- Quality control and technical proficiency
- Compliance with licences to operate

EIGHT COMMITMENTS TO CREATING VALUE FOR OUR STAKEHOLDERS

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

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

6
Keep central overhead to a minimum
Maintain a flat structure

MARKETING AND DISTRIBUTION

Core activities

- Securing business through direct sales teams
- Efficient customer relations
- Transportation by road and rail
- Responsive after-sales service

Things we need to do right

- Safety
- Understanding customers' needs
- Product innovation
- Excellent service standards
- Professionalism when making deliveries
- Maximisation of fleet efficiency
- Minimisation of vehicle emissions

RESTORATION ACTIVITIES

Core activities

- Returning land to communities
- Landscaping and repurposing

Things we need to do right

- Close community engagement
- Long-term planning
- Environmental controls

3
Devolve responsibility
Allow decision-making by regional teams

4
Squeeze our assets
Maximise return from every tonne of material

7
Don't pay rent
Locate our offices in our quarries

8
Deliver value from acquisitions
Always enhance our earnings

BENEFITING OUR STAKEHOLDERS.

Customers

Our customers are front and centre in all our planning and decision-making. Our mantra is 'Quality and Service. Delivered.' and it has enabled us to build close working relationships with many of the country's largest public and private clients, and with local customers in hundreds of communities nationwide.

Our commitments to our customers

- Maintain the same high standards, irrespective of who, where or how big they are, or how much they spend with us
- Continuously innovate in products and services
- Keep lines of communication short and respond fast to their needs
- Never let them down
- Do everything we do safely

CSR Section
Pages 44 and 45

Investors

Our shareholders saw a 10 per cent increase in the value of their shares in 2016.

Our commitments to our investors

- Deliver a healthy return on their investment through pursuit of our strategy and effective deployment of our assets
- Operate effective and appropriate governance processes
- Manage risk effectively
- Communicate in a timely and transparent manner

Government and local authorities

Breedon is a substantial contributor to the Exchequer and to local government revenues. In 2016 the total taxes borne by, or collected on behalf of and paid to, HMRC amounted to more than £90 million, in addition to local business rates.

Our commitment to the taxpayer

- Comply with all relevant tax regulations
- Ensure that we pay all taxes due promptly and in full
- Be open and transparent in our dealings with the tax authorities

Colleagues

We have more than 2,300 colleagues, all of whom benefit from our success both through competitive pay and benefits (we intend that every one of our employees should earn at least the National Living Wage, regardless of their age) and as investors: many of them are Breedon Group shareholders.

Our commitments to our colleagues

- Keep them safe
- Reward them appropriately
- Provide them with opportunities to share in the Group's growth
- Engage with them regularly
- Invest in their personal development

CSR Section
Pages 38 to 40, 42 and 43

Environment and community

A substantial proportion of our investment goes into energy-efficient equipment and vehicles, ensuring that our quarries, plants and manufacturing facilities operate to the highest environmental standards. We take great care to ensure that the impact of our operations on their local environment is minimised and that after use we return land to the community in a healthy condition, ensuring that we consistently behave as good corporate citizens.

Our commitments to our local communities

- Minimise the impact of our operations on their lives
- Listen to their concerns and tackle issues arising quickly and efficiently
- Respect our shared environment and ensure that we leave it as near as possible to how we found it

CSR Section
Pages 41 and 46

OUR OPERATING MODEL*

WE ADD MAXIMUM VALUE TO THE AGGREGATES WE EXTRACT THROUGH OUR INTEGRATED OPERATING MODEL.

CORE ASSETS

around **60** quarries

1 cement plant

2 cementitious import terminals

CORE OUTPUT
11.4mt aggregates

CORE OUTPUT
cement†

Bitumen
We buy in bitumen to mix with our aggregates to produce asphalt

11%

26 asphalt plants

73%

16%

37%

nearly **200** ready-mixed concrete and mortar plants

Raw materials
We manufacture, import and buy in cement and additives to mix with our aggregates to produce ready-mixed concrete and mortar

63%

* for the year ended 31 December 2016
† In accordance with the Cement Market Data Order 2016, cement volumes are not disclosed

Breedon's surfacing and contracting operations

34%

66%

Large and small surfacing projects

CORE OUTPUT
1.9mt
asphalt

Industrial, commercial, infrastructure, housing and special projects

CORE OUTPUT
1.9m m^3
ready-mixed concrete and mortar

100%

Small 'mini mix' loads for houses and small businesses

Third-party bulk and packed cement customers and third party ready-mixed concrete producers

OUR MARKET

WITH THE ACQUISITIONS OF HOPE CONSTRUCTION MATERIALS AND SHERBURN MINERALS GROUP IN 2016, BREEDON FURTHER CONSOLIDATED ITS POSITION AS THE UK'S LARGEST INDEPENDENT CONSTRUCTION MATERIALS GROUP, AGAINST THE BACKGROUND OF A MORE RESILIENT CONSTRUCTION MARKET THAN FORECAST BY MANY ECONOMISTS FOLLOWING THE EUROPEAN UNION REFERENDUM IN JUNE.

A year that defied expectations

The UK economy held up well in 2016 and the construction industry continued to grow. The Construction Products Association (CPA) estimates that construction output rose by 1.5 per cent in 2016 compared to 2015.

Product volumes resilient

According to the Mineral Products Association (MPA) sales of construction materials remained resilient, with aggregates volumes up 4.1 per cent and ready-mixed concrete rising by 4 per cent. Cementitious volumes were also ahead, by 4 per cent. By contrast asphalt sales, which respond to different market dynamics, remained flat, mainly reflecting lower spending on road maintenance as funding was directed primarily to major projects.

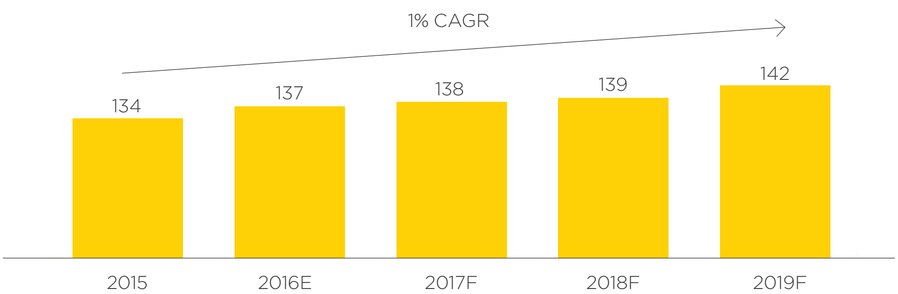
As always, there were significant regional variations, with some local economies performing more strongly than others.

Continuing positive outlook

The CPA forecasts that construction output will increase by 0.8 per cent in 2017 and 0.7 per cent in 2018, with the strongest growth expected to be in Breedon's core markets of infrastructure (7 per cent in 2017 and 11 per cent in 2018) and housing (starts forecast to grow by 2 per cent over 2017–19). Overall, the CPA expects construction output to be around 6 per cent higher in 2019 than in 2015.

Although the MPA expects product volumes to be broadly flat this year, overall aggregates, ready-mixed concrete and cementitious volumes are still expected to grow by around 3 per cent over the three years to 2019.

UK CONSTRUCTION OUTPUT 2015-2019 (£BN)



Source: Construction Products Association

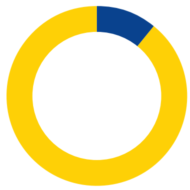
AGGREGATES

GB MARKET SIZE

130.5 M TONNES[1]

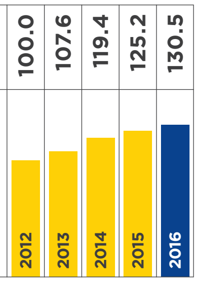
BREEDON MARKET SHARE[2]

11%



MARKET GROWTH (M TONNES)[1]

+31%
five-year performance



Market dynamics and drivers

- Investment in infrastructure
- Commercial and industrial development
- Housebuilding

1. Source: Mineral Products Association (members)
2. Source: Management estimates

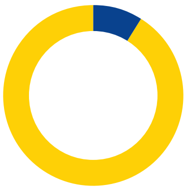
ASPHALT

GB MARKET SIZE

21.9 M TONNES[1]

BREEDON MARKET SHARE[2]

9%



MARKET GROWTH (M TONNES)[1]

+20% five-year performance

2012	2013	2014	2015	2016
18.2	18.9	20.6	21.9	21.9

Market dynamics and drivers

- Investment in roadbuilding, repair and maintenance
- Infrastructure, commercial and industrial investment
- Housebuilding

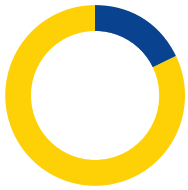
READY-MIXED CONCRETE

GB MARKET SIZE

17.7 M M^3[1]

BREEDON MARKET SHARE[2]

18%



MARKET GROWTH ($M M^3$)[1]

+26% five-year performance

2012	2013	2014	2015	2016
14.1	15.7	16.3	17.0	17.7

Market dynamics and drivers

- Investment in infrastructure and renewable energy
- Commercial and industrial development
- Housebuilding

CEMENTITIOUS

GB MARKET SIZE

13.5 M TONNES[1]

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

MARKET GROWTH (M TONNES)[1]

+29% five-year performance

2012	2013	2014	2015	2016
10.5	11.5	12.4	13.0	13.5

Market dynamics and drivers

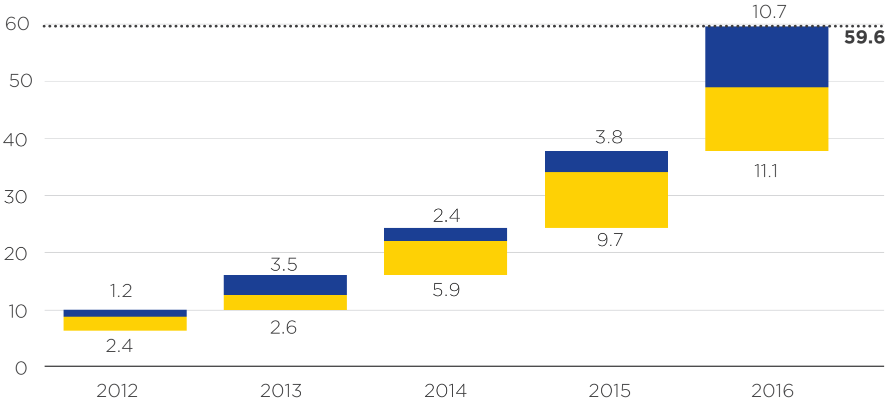
- Investment in infrastructure and renewable energy
- Commercial and industrial development
- Housebuilding

OUR MARKETS	OUR RESPONSE
Markets for most of our products are local owing to high transport costs. Most products travel less than 30 miles unless rail-linked.	We have strong coverage in England, Scotland and Wales and are able to meet the demands for local/regional services. We can also rail aggregates and cement into more distant markets.
As there is minimal product differentiation, business is won on price and customer service.	Our brand and reputation is built on listening to and responding quickly to our customers' needs, summed up in our strapline: 'Quality and Service. Delivered.'
Barriers to entry are high due to the constraints of the planning regime. For example, no new rock quarries have been consented for many years.	We are able to meet demand by expanding or reopening existing sites. In 2016 we were successful in securing planning consent for additional reserves at our quarries.
Despite ongoing consolidation, the market remains relatively fragmented, with larger players divesting non-core assets.	We continue to take advantage of divestments through targeted earnings-enhancing acquisitions in the heavyside building materials sector.
It is a highly capital-intensive market with high fixed costs and a need for ongoing investment in plant and machinery.	We are a highly cash-generative business with sound financial backing, enabling us to make the necessary investments to realise our growth strategy.
Underinvestment in UK infrastructure is expected to be addressed: e.g. Highways Agency budget is expected to more than double by 2020. Rail, housing, energy and airports are earmarked for significant investment – important markets for our products.	As the leading independent construction materials group in the UK, we are in a strong position to benefit from construction sector activity. This is important, as any increase in volume can be expected to have a positive impact on earnings.

OUR STRATEGY

OUR STRATEGY UNDERPINS OUR AIM: TO BE THE UK'S SAFEST AND MOST PROFITABLE CONSTRUCTION MATERIALS COMPANY.

PROFITABLE GROWTH THROUGH TARGETED ACQUISITIONS AND STRONG ORGANIC DEVELOPMENT



Underlying EBIT components 2012-2016 (£m) Organic Acquisitions

2012	2013	2014	2015	2016
Acquisitions and investment				
• Acquisition of Nottingham Readymix	• Acquisition of Aggregate Industries' Scottish operations • Acquisition of Marshalls' quarries	• Acquisition of Huntsman's Quarries • Acquisition of Barr Quarries • Investment in Breedon Bowen joint venture	• Announcement of the acquisition of Hope	• Completion of Hope acquisition • Acquisition of Sherburn
Organic growth				
• Launch of 1stMix • Launch of Mobile Concrete Solutions	• Major plant replacement programme for acquired units • Start of project to increase capacity at Norton Bottoms	• Reopening of West Deeping quarry • Reopening of Ardchronie quarry • Purchase of concrete plant at Clearwell quarry • Opening of Cannock concrete plant • Purchase of asphalt plants in Suffolk and Essex	• Major capital investment programme at former Barr quarries • Major upgrade commenced at Cloud Hill quarry • Block plant upgrade at Naunton quarry • Erection of new asphalt plant at Daviot	• North Wales quarry reopened • New concrete plant opened in Gloucestershire • New asphalt plant commissioned at Tom's Forest quarry • Significant fleet investments • Breedon Whitemountain joint venture created

Our aim:

To be the safest and most profitable construction materials company in the UK.

Our unique market positioning:

We are the UK's largest, fully-integrated, independent construction materials group, ranked fifth after the four global majors in a highly fragmented market. At the heart of our culture is a commitment to operating nimbly and with a sharp local focus, ensuring we deliver a consistently best-in-class service to our customers.

Our strategy:

To achieve our aim by:

1. Striving for the best customer service
2. Delivering continuous operational improvement
3. Continuing organic growth
4. Pursuing value-enhancing acquisitions
5. Doing all these things safely

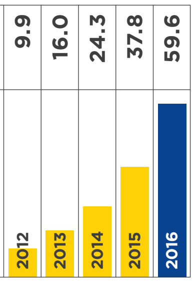
OUR STRATEGY IN ACTION

WE ARE PURSUING A PROVEN COMBINATION OF ORGANIC IMPROVEMENT AND VALUE-ENHANCING ACQUISITIONS.

	Why this is important	What we did in 2016
STRIVING FOR BEST CUSTOMER SERVICE	Most of the materials we produce are essentially commodities. Our competitive advantage – and the reason why our customers are loyal to us – lies in our ability to develop specialist high-performance products which meet our customers' specific needs and our reputation for an outstanding delivery service and excellent aftercare.	One of our priorities following the acquisition of Hope was to begin focusing on internalisation of cement supplies. This will help us to develop more innovative products for our customers which are also best suited to our materials.
DELIVERING CONTINUOUS OPERATIONAL IMPROVEMENT	We seek to be the most profitable company in a highly competitive industry. Our medium-term underlying EBIT margin target is 15 per cent by 2020 and to achieve this it is vital that we operate as efficiently as possible in all areas of our business.	We continued to invest in more efficient plant, including new crushing and screening equipment, mobile loaders, excavators, washing plants and upgraded vehicles.
CONTINUING ORGANIC GROWTH	Whilst our business has benefited from a number of value-enhancing acquisitions over the last six years, we cannot achieve our growth ambitions and margin targets without complementary organic growth. We have sought always to demonstrate our ability to deliver this and historically roughly a third of our underlying EBIT growth has been organic.	We commissioned two new asphalt plants in Scotland, together with a new concrete plant in Tewkesbury, and reopened a mothballed quarry in North Wales. We also invested in new plant, machinery and fleet.
PURSUING VALUE-ENHANCING ACQUISITIONS	It has always been our stated ambition to consolidate the smaller end of the heavyside construction materials industry in the UK, and to do so whilst continuing to deliver underlying organic growth. Acquisitions offer us the opportunity to gain scale, increase our geographical footprint and enhance our profitability by improving the performance of under-invested businesses.	We completed our largest-ever acquisition, Hope, in the late summer. It provided us with a significantly enhanced platform for our future growth and made possible the purchase later in the year of Sherburn. We are confident that both acquisitions will deliver appreciable shareholder value in the years ahead.
DOING ALL THESE THINGS SAFELY	Our people are our most valuable asset and it is our obligation to keep them safe, ensuring that they return home in the same condition they arrived at work. It is notable in our industry that the safest sites also tend to be the most profitable, so there is a commercial – as well as a welfare – benefit to ensuring that our operations are as safe as they can possibly be.	Our safety performance improved, with a further fall in serious injuries: the Lost Time Injury Frequency Rate (LTIFR) in the former Breedon Aggregates business fell by 22 per cent from 2.72 to 2.13, which demonstrates that Breedon is becoming a safer place to work. Nonetheless, we failed to meet our target of a 30 per cent reduction year-on-year and still have a long way to go before we achieve our objective of zero harm and our ambition to be the safest company in our industry in the UK.

KEY PERFORMANCE INDICATORS

1. UNDERLYING EBIT (£M)



+502%
five-year performance

Why we've chosen this measure:

This metric tracks improvements in the absolute profitability of the Group and helps us to monitor progress towards one of our strategic objectives: to be the UK's most profitable construction materials company. We also use it as a risk monitor.

See risks 1 – 8 inc.

How we've performed:

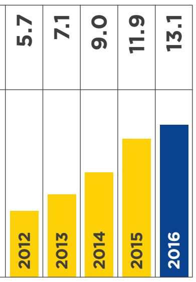
Good progress was made in 2016 through a combination of strong organic growth and value-enhancing acquisitions.

Remuneration link:

This measure is used to determine levels of annual cash bonus.

Annual cash bonus
Page 57

2. UNDERLYING EBIT MARGIN (%)



+7.4ppt
five-year performance

Why we've chosen this measure:

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

See risks 1 – 8 inc.

How we've performed:

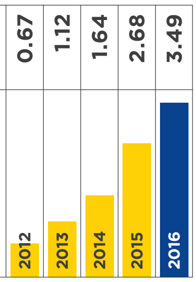
Good progress was made in 2016 and we improved the underlying EBIT margin by 1.2 percentage points.

Remuneration link:

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

Annual cash bonus
Page 57

3. UNDERLYING BASIC EPS (PENCE)



+421%
five-year performance

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:

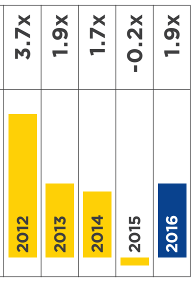
The 30.2 per cent annual increase in our underlying basic earnings per share in 2016 reflects the improved performance of the former Breedon Aggregates business and the positive contribution from acquisitions.

Remuneration link:

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

Performance share plans
Page 57

4. LEVERAGE (NET DEBT/ UNDERLYING EBITDA)



Why we've chosen this measure:

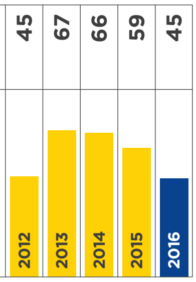
This metric tracks the ability of the Group to generate sufficient cash flows to service the needs of the business and to pursue its bolt-on acquisition strategy, whilst covering its contractual debt-servicing obligations. We also use it as a risk monitor.

See risk 4

How we've performed:

The Group continued to generate strong cash flows in 2016, however the impact of the completion of Hope moved the Group back into a net debt position.

5. RESERVES AND RESOURCES LIFE (YEARS)



Why we've chosen this measure:

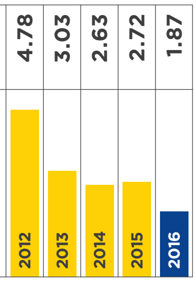
This metric tracks the ability of the Group to replenish its reserves and resources. We also use it as a risk monitor.

See risk 5

How we've performed:

Whilst we continued to add to our reserves and resources in 2016, the impact of the Hope acquisition reduced the overall life reflected in this KPI.

6. 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 2016 by 31 per cent, the reduction in the former Breedon Aggregates business of 22 per cent was somewhat below our target of a 30 per cent reduction.

Remuneration link:

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

Annual cash bonus
Page 57

MANAGING OUR RISKS AND OPPORTUNITIES

BY IDENTIFYING AND MANAGING OUR RISKS EFFECTIVELY WE CAN FOCUS ON OUR LONG-TERM BUSINESS OPPORTUNITIES.

The Group's principal risks and uncertainties, together with examples of mitigants, are set out below. 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, two of our risks increased, four remained the same and two reduced.

Increased risks

The two risks that increased related to market conditions, and IT and cyber security. These increases reflected the increased market uncertainty relating to Brexit and the migration of the acquired Hope business onto the Breedon IT infrastructure and applications.

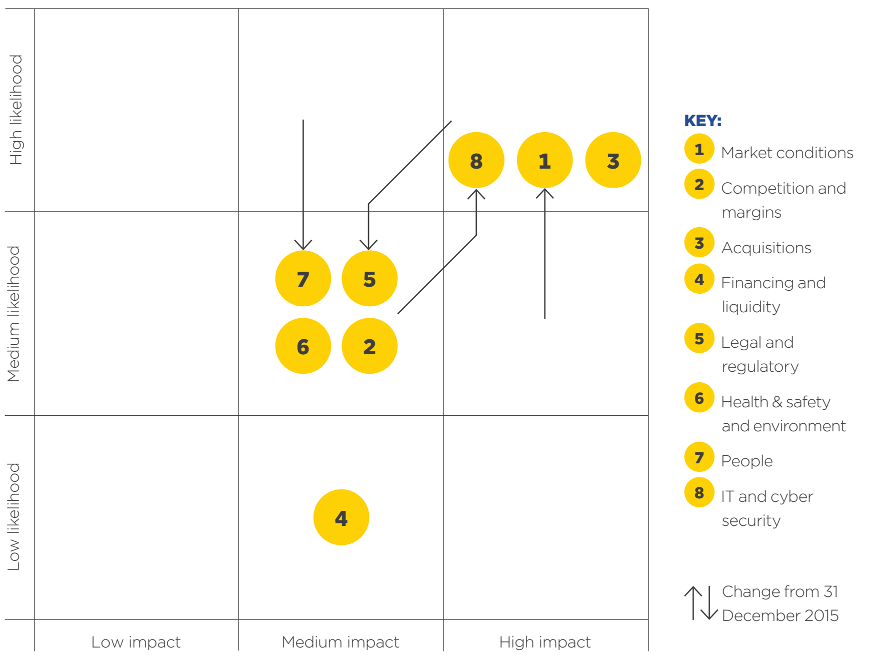
Reduced risks

The two risks that reduced related to legal and regulatory, and people. These reductions reflected the UK Competition and Markets Authority clearance of the Hope acquisition and the appointment of a Group Human Resources Director to oversee all people matters and to support the effective integration of the Breedon and Hope businesses.

Risk appetite

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

RISK HEAT MAP



RISK GOVERNANCE AND RESPONSIBILITIES

BOARD

The Board is responsible for the Group's system of risk management and internal control, and for reviewing their effectiveness.

↓

AUDIT COMMITTEE

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

↓

GROUP FINANCE DIRECTOR

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.

MANAGING OUR RISKS AND OPPORTUNITIES CONTINUED

The risks	How we mitigate them	KPI used as risk monitor
1 MARKET CONDITIONS		
• Changes in the UK macro-economic environment (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	• 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	• Underlying EBIT • Underlying EBIT margin • Underlying EPS
2 COMPETITION AND MARGINS		
• Increased competition could reduce the Group's volumes and margins • Unprofitable contracts are 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 some purchases • The Group could suffer an unplanned production outage at the cement works • Haulage supply is not aligned with demand	• The Group supplies a diverse customer base and focuses on providing a high level of customer service • The Board approves all major contracts • The Group operates a strategic purchasing plan to address energy and hydrocarbon risk, including foreign exchange risk • A preventative maintenance programme, real-time performance monitoring and inspection regimes are in place at the Hope Works • Following the acquisition of Sherburn, the Group can import cementitious products through its two import terminals • The Group holds Business Interruption Insurance and is in the process of establishing Business Continuity plans • The Group employs experienced Transport Managers to manage all haulage	• Underlying EBIT • Underlying EBIT margin • Underlying EPS
3 ACQUISITIONS		
• 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	• The Group uses specialist advisers and undertakes extensive due diligence • The Board approves 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 appointed a Head of Strategy and Commercial Services to assist in the identification of acquisitions	• Underlying EBIT • Underlying EBIT margin • Underlying EPS • Leverage
4 FINANCING AND LIQUIDITY		
• The Group does not have sufficient financial resources to meet its obligations as they fall due • The Group does 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 and is therefore exposed to changes in interest rates	• The Group manages liquidity risk by continuously monitoring forecasts and cash flows to ensure that it maintains sufficient headroom • The Group's committed 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	• Underlying EBIT • Underlying EBIT margin • Underlying EPS • Leverage

The risks	How we mitigate them	KPI used as risk monitor
5 LEGAL AND REGULATORY		
• A breach of law or regulation could result in 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 authorities from consolidating the smaller end of the heavyside building materials industry	• The Group monitors and responds to legal and regulatory developments and benefits through its membership of the Mineral Products Association • The Group maintains compliance policies, including a Competition Law Compliance handbook and an Anti-Bribery & Corruption policy, and ensures 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 involves stakeholders in early consultation and meets with members of the community in areas where they are impacted by its operations • The Group has a good understanding of the requirements of the UK Competition and Markets Authority	• Underlying EBIT • Underlying EBIT margin • Underlying EPS • Reserves and resources life
6 HEALTH & SAFETY AND ENVIRONMENT		
• Failure to manage health & safety and environment risks could expose the Group to significant potential disruption, liabilities and reputational damage • Following the acquisition of Hope, the Group cement Works is subject to Sulphur Dioxide and Carbon Emission regulatory limits	• 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 • Full online emissions monitoring, maintenance and inspection regimes are in place at the Hope Works	• Underlying EBIT • Underlying EBIT margin • Underlying EPS • Lost Time Injury Frequency Rate
7 PEOPLE		
• 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	• The Board reviews and agrees the Group's Human Resources policies • 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 Group has appointed a Human Resources Director to oversee all people matters • The Board regularly reviews the succession plan for key leadership roles in the businesses	• Underlying EBIT • Underlying EBIT margin • Underlying EPS
8 IT AND CYBER SECURITY		
• Disruption to the IT environment could affect the Group's ability to conduct its ongoing operations • Disruption 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 • The migration of the Hope business onto the Breedon IT infrastructure and applications may not be effectively implemented	• 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 has been fully planned and the migration is being project managed through to completion with appropriate governance in place • In light of the Hope systems migration the Group's security and disaster recovery plans and procedures are being reviewed	• Underlying EBIT • Underlying EBIT margin • Underlying EPS

STRATEGIC REPORT

OUR PERFORMANCE

IN THIS SECTION

Breedon's Hope Cement Works, deep in the heart of the Peak District National Park.

A REVIEW OF 2016

CHAIRMAN'S STATEMENT

2016 was arguably the most eventful in the Group's history. We completed our largest acquisition to date, invested a record amount in our business, began supplying our biggest ever contract and delivered an excellent financial performance – all against the background of an uncertain economic environment and challenging trading conditions in many of our markets.

Group revenues for the year grew by 42.8 per cent to £454.7 million and underlying earnings before interest and tax (EBIT) increased by 57.8 per cent to £59.6 million, including a five-month contribution from newly-acquired Hope Construction Materials ('Hope'). This equates to an underlying EBIT margin of 13.1 per cent (2015: 11.9 per cent), reflecting good progress towards our 2020 target of 15 per cent.

Profit before tax rose by 49.5 per cent to £46.8 million, underlying profit before tax rose by 57.4 per cent to £55.1 million and underlying basic earnings per share increased by 30.2 per cent to 3.49 pence. The Group remained strongly cash-generative and, even after the increase in borrowings used to part-fund our acquisitions of Hope and Sherburn Minerals Group ('Sherburn'), our leverage remains modestly below 2x EBITDA (earnings before interest, tax, depreciation and amortisation).

Your Group Chief Executive provides more details on our 2016 performance in the following pages.

We are proud to be the largest independent construction materials business in the UK and the only publicly-quoted British company of any size in our sector. We have a very straightforward mission: to be the safest and most profitable company in our industry, and this ambition drives all our decision-making.

Our success has been built on simple principles. First and foremost, we put our customers first in everything we do. Whether they are a householder ordering a couple of metres of ready-mixed concrete or a contractor ordering tens of thousands of tonnes of asphalt, we work hard to ensure that our service standards are the same – everywhere, day in, day out.

We aim to extract and add value to our precious mineral reserves as efficiently as possible, investing prudently to deliver the highest possible return from every tonne of aggregate we quarry: over the last six years the business has benefited from nearly £100 million of capital

'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

13.1%

Underlying EBIT margin
2015: 11.9%
+1.2ppt

expenditure. We read our markets carefully and select our work streams prudently, maximising profitability by balancing larger high-volume jobs with a broad range of smaller higher-margin work, whilst aiming always to exceed our customers' expectations.

This organic growth has been, and will continue to be, complemented with accretive acquisitions. Since the Group was created in 2010 we have invested over £500 million in a combination of bolt-on and strategic purchases, culminating in the acquisition last year of Hope and Sherburn. Hope in particular has provided us with a significantly stronger platform for growth, with a broader geographical footprint, increased scale, an improved product mix and greater financial capacity. We were particularly proud that this acquisition was recognised as Transaction of the Year at the 2016 AIM Awards.

Following these latest acquisitions, around 2,300 colleagues now work in the Breedon Group. Our first and most important obligation to them is to ensure that they go home from work unhurt at the end of every day, which is why safety is the number one item on the agenda at every meeting of the Board and Executive Committee. Our record in this area has improved over the last six years, but it is still some way short of where we want it to be. Our senior management team will therefore be redoubling their efforts in 2017 to make Breedon a safer place to work, leading by example and seeking to embed in our business a culture of safe behaviour which ensures that we take better care of ourselves and each other and move closer to our target of Zero Harm.

As we look ahead to the remainder of 2017, we clearly face some challenges in the wake of the UK's decision to leave the European Union, which will inevitably result in a lengthy period of uncertainty while the precise terms of our departure are agreed. However, we have demonstrated our ability to thrive in adversity and believe that uncertain conditions always create opportunities. For example, the Government appears to have finally committed to substantial investment in the UK's infrastructure and this, coupled with anticipated growth in the private housing market, is expected to bring significant medium- and long-term benefits to our business.

We keep our dividend policy continually under review. However, we have a clear strategy for growth, both organically and through earnings-enhancing acquisitions, and we continue to believe this is the best way for the foreseeable future to deploy our resources in pursuit of capital growth for our shareholders.

nearly
£100m
capital expenditure in the business over the last six years

over
£500m
investment in earnings-enhancing acquisitions since 2010

Similarly, we continue to consider the possibility of transferring from the Alternative Investment Market (AIM) to the main market. We have consulted over the past year with some of our major shareholders and advisers and, in light of those discussions, the Board sees no immediate urgency to do so, given that AIM currently provides us with a more than adequate platform from which to pursue our growth ambitions. Once again, we will keep this matter under regular review.

It is important, as always, to remember that we could not have delivered these excellent results without the hard work and dedication of everyone in our business, many of whom are investors in Breedon and therefore share in the benefits of our success. On behalf of the Board, I would like to thank all our colleagues for their continuing support and commitment.

We will carry on doing what we do best: running our company as efficiently as possible, delivering healthy organic growth complemented by earnings-enhancing acquisitions, and thereby continuing to generate the excellent returns our shareholders expect of us. We look to the future with considerable optimism.

Peter Tom CBE
Executive Chairman

8 March 2017

A REVIEW OF 2016

GROUP CHIEF EXECUTIVE'S STATEMENT

Trading performance

We maintained our track record of continuous improvement in 2016. The former Breedon Aggregates business turned in a strong performance, with volumes and revenues both ahead of the prior year, boosted by a healthy five-month contribution from Hope Construction Materials ('Hope'), a transformational acquisition and the largest in our history.

Group revenues rose by 42.8 per cent to £454.7 million, generating underlying earnings before interest and tax (EBIT) of £59.6 million and an underlying EBIT margin of 13.1 per cent. This represented good progress towards our medium-term underlying EBIT margin target of 15 per cent by 2020. The Group continued to be strongly cash-generative.

We made encouraging progress in all areas of the business. Our sales improved on the back of strong market demand, particularly in Breedon Southern, reflecting a sharper focus than ever on delivering an outstanding service to our customers.

The performances of our three businesses are reviewed in more detail by their respective leaders on pages 25 to 33.

'We will continue to deliver organic growth, complemented by value-enhancing acquisitions.'

Pat Ward
Group Chief Executive

The UK construction market

Market conditions proved to be very resilient in 2016, with volumes of almost all major construction products ahead of the prior year.

This reflected a solid and accelerating contribution from residential building and civil engineering, with a marginal improvement in commercial construction.

Overall construction output grew by 1.5 per cent in 2016, a very much better outturn than anticipated by some economists in the wake of the Brexit vote. There was a solid improvement in employment levels, although input costs rose gradually, reflecting a general rise in raw material prices occasioned by the fall in sterling.

Investment and development

We continued to invest, as planned, in capacity and operational improvements across the Group, with capital expenditure, as expected, running comfortably ahead of depreciation. This meant that we exited the year with our primary assets – our mineral resources and plant and equipment – in a better condition than when we entered it.

Commissioning of two new asphalt plants in Breedon Northern took our national network to 26 plants, giving us around a 9 per cent share of the UK asphalt market. In Breedon Southern we completed a major upgrade of crushing equipment at our flagship Cloud Hill quarry, reopened a mothballed quarry in north Wales and erected a new concrete plant in Gloucestershire.

Safety

We made further progress in improving the safety of our colleagues in 2016, with the former Breedon Aggregates business reporting a 22 per cent improvement in our Lost Time Injury Frequency Rate (LTIFR, measuring the number of accidents per hours worked) from 2.72 to 2.13. However, disappointingly this fell short of our 30 per cent reduction target, signalling that too many of our colleagues are still being hurt, often as a result of careless accidents which could easily have been avoided with a little more thought and planning.

By contrast, Hope reported an appreciably better LTIFR for the full year of 0.92, resulting in a pro forma Group LTIFR for the combined businesses of 1.61.

We will be working hard in 2017 to embed a culture of safe behaviour in the business, encouraging all our colleagues to recognise the crucial importance of moving towards Zero Harm. Accordingly, we are targeting a further 40 per cent reduction in the Group's LTIFR this year.

A more detailed review of our safety activities is provided within the Corporate and Social Responsibility review on pages 38 to 40.

Q&A Group CEO answers key questions on 2016

Q: What were the highlights of 2016?

A: The acquisition of Hope, literally transformed the Group. It took us into cement manufacturing for the first time, added five new quarries, a national network of concrete plants and eight rail-linked distribution depots, giving us a powerful platform for future growth. In fact, our acquisition of Sherburn towards the end of the year only made strategic sense following the increased scale and broader geographical footprint we gained with Hope.

Q: What was the biggest challenge?

A: Integrating two businesses of the sizes of Breedon and Hope was never going to be straightforward and had the potential to be very disruptive. In the event, the commitment of our colleagues in both businesses ensured not only that we made excellent progress in the integration process, but that we did so very quickly and without impacting trading.

Q: How similar were the cultures of Breedon and Hope?

A: There were remarkable similarities. We were both fast-learning organisations – results-focused and open to change, with highly engaged colleagues who were really committed to making personal contributions to the success of our businesses. This made the integration process much easier and ensured that we will not only achieve our short-term goals, but that we have a strong, sustainable platform for our future growth.

Q: What does 2017 hold for Breedon?

A: We fully intend to maintain our track record of improved financial performance. We will continue to deliver organic growth, complemented by accretive acquisitions, and our new regional business structure will ensure that we secure the commercial and operational improvements to which we have committed following the acquisition of Hope. We will also do all those things more safely. All in all, we have a solid platform for performance in 2017 and beyond.

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

Integration of Hope

Everyone tackled the challenges of bringing our two companies together with enthusiasm, creativity and good humour, which made the integration process speedy and efficient.

We put in place a new regional business structure, with General Managers all appointed within a month of completion of the acquisition, each focused on a local market with full P&L responsibility. Key decisions on a common IT platform and on office rationalisation were quickly made and communicated and by the end of the year our attention had turned to the commercial and operational opportunities. The smoothness of the transition is reflected in the fact that we have been able to accelerate delivery of the £10 million of synergy benefits identified when we first announced the purchase of Hope.

For the purposes of our 2016 results, the Group reported as three businesses: Breedon Northern (comprising the former Breedon Aggregates Scotland business), Breedon Southern (comprising the former Breedon Aggregates England business) and Hope Cement (comprising all the operations of the former Hope Construction Materials business). By the end of 2017 all aggregates and concrete operations will be consolidated into our Northern and Southern businesses and all our cementitious operations will be housed within Hope Cement and that is the basis on which we will report all future results.

Acquisition of Sherburn

In November we completed our second acquisition of the year, Sherburn Minerals Group ('Sherburn').

Sherburn is a leading independent heavyside building materials business headquartered in County Durham, employing approximately 110 people. It operates four quarries and five ready-mixed concrete plants in County Durham, Northumberland, North Yorkshire and Cumbria. It also distributes cementitious products from two strategically-located import terminals at Blyth near Newcastle and Dundee in eastern Scotland.

Sherburn was a perfect infill acquisition for us. It gives us additional mineral reserves and access to new markets for our aggregates and concrete, as well as a first-rate workforce. It also complements our existing cement plant at Hope and will enable us to expand our cementitious business through the importation of cement and ground granulated blast-furnace slag (GGBS) through Sherburn's two terminals.

40%

Our new, demanding LTIFR improvement target for 2017

Outlook

There is no doubt that continuing uncertainty over the timing and nature of the UK's departure from the EU has the potential to create confusion in the economy. However, we believe that the need for investment in UK infrastructure and housing remains critical and it was encouraging to hear the Government committing in its Autumn Statement to prioritising spending in these areas over the next few years, which we believe will help to stimulate corresponding investment from the private sector.

Our new, strengthened growth platform is in place. Our operations are now fully vertically integrated – from cement and aggregates through to a comprehensive portfolio of high-value-added downstream products – we have the best people in place to lead the business, and we have a clear route map for the further development of the Group in 2017.

We will continue to invest in improving plant performance through our Operational Improvement Programme (OIP), complemented by organic investment in projects which will extend our reach into new markets and expand our mineral reserves. We will also be taking our health & safety activity back to basics and redoubling our efforts on our journey towards Zero Harm across our business.

These actions will take us closer to our objective: to be the UK's safest and most profitable construction materials company.

We look forward to 2017 with confidence and enthusiasm and expect to make further progress both operationally and financially.

Pat Ward
Group Chief Executive

8 March 2017

BREEDON NORTHERN

Breedon Northern Limited comprises the former Breedon Aggregates Scotland operations.

Ethiebeaton (near Dundee) headquarters

840 colleagues (inc Sherburn)

42 quarries (inc Sherburn)

2 concrete products plants

17 asphalt plants

41 ready-mixed concrete and mortar plants (inc Sherburn)

6 regional contract surfacing operations

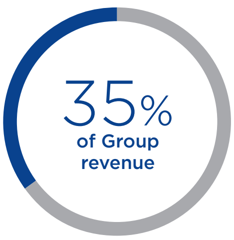
traffic management services company (majority share of Alba Traffic Management Limited)

37.5% share of BEAR Scotland Limited

50% share of Breedon Whitemountain Ltd

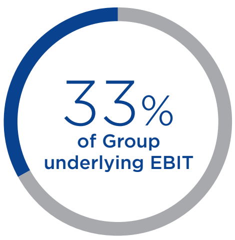
2 cementitious import terminals

All above statistics as at 31 December 2016.



REVENUE

£159.4m
(2015: £147.6m)



UNDERLYING EBIT

£19.9m
(2015: £16.1m)

Alan Mackenzie
Chief Executive of Breedon Northern

Trading summary

Breedon Northern enjoyed a successful year. Revenues were ahead 8.0 per cent to £159.4 million and underlying EBIT (earnings before interest and taxation) was up 23.9 per cent to £19.9 million.

Market conditions

Although market conditions were challenging, with continuing modest road maintenance spending by local government, and reduced activity in the Aberdeenshire oil services sector, we delivered healthy increases in all our product volumes. This was helped by additional Scottish Government funding for BEAR Scotland in the second half of the year.

Major contract wins

We began work on two of the largest road surfacing projects currently being undertaken in Scotland, including our largest-ever contract award, won in joint venture with Whitemountain Quarries, to supply and lay asphalt on the Aberdeen Western Peripheral Route (AWPR). We also commenced work on the first phase of dualling the A9 and this continues into 2017. Supplies of aggregates and concrete to these projects helped to offset the downturn in the wider Aberdeen market.

We continued to see success in the energy industry, with aggregates and concrete supplied to a number of renewable energy projects around the country.

Hydrocarbon prices began to rise again in the second half of the year and this will be a key cost to manage and monitor in the current year.

BREEDON NORTHERN CONTINUED

'We continued to invest heavily in the business to deliver organic expansion and improved efficiency.'

Capital investment

We continued with our strategy of investing heavily in the business to deliver organic expansion and improved efficiency. Most notably, we completed construction of a brand-new asphalt plant to serve the Aberdeen market at our Tom's Forest quarry, which gives us greatly enhanced capacity and efficiency in this region. It is also strategically located close to the AWPR and A96 corridor, which we believe gives us a competitive advantage in respect of numerous infrastructure and A96 dualling projects over the next decade.

At our Shierglas quarry, near Pitlochry, a newly refurbished lime filler ball mill was installed, increasing our capacity to produce lime filler for our asphalt plants.

Efficient delivery of our products continues to be one of our key priorities and we again invested in our fleet of tipper and ready-mixed concrete trucks to ensure that, in conjunction with our owner drivers, we have a distribution capacity capable of delivering excellent customer service around the country.

We also continued to invest in crushing and screening equipment, mobile loaders and excavators and washing plants, all designed to ensure we continue to improve capacity and reduce both running costs and wastage of our products.

SUPPLYING SCOTLAND'S LARGEST INFRASTRUCTURE PROJECT

The £745 million Aberdeen Western Peripheral Route is one of the largest construction projects in Scotland and one of the largest in the UK. It is a cornerstone of the Scottish Government's commitment to improving the transport infrastructure around Aberdeen and throughout the north-east of Scotland.

The project comprises 46km of new dual carriageway, 12km of dual carriageway upgrade, 40km of new side roads, 30km of access tracks and 76 new bridges.

Breedon is a major beneficiary of the project, with well-located quarries, ready-mixed concrete plants and asphalt plants along the route, including our brand-new asphalt plant at Tom's Forest.

The AWPR drew steady volumes from Breedon in 2016 and has yet to peak. We expect to secure continuing substantial volumes from the job until its anticipated completion in 2018.

A new team for a new business

Following completion of the Group's acquisition of Hope Construction Materials ('Hope') in August, we immediately rebranded the business 'Breedon Northern', reflecting the fact that the business will in future incorporate the former Hope aggregates and ready-mixed concrete operations in the north of England.

A new lean and focused management structure was put in place, enabling us to enter 2017 in full control of our destiny. Breedon Northern is also leading the Group with a full IT systems integration of the Breedon/ Hope business, which was achieved in time to roll out on 1 January this year. This enables us to focus collectively as one team with full commercial and cost visibility.

In November we completed the acquisition of Sherburn Minerals Group ('Sherburn'), adding a number of quarries and concrete plants in north-east England and a cement import business with terminals in Blyth and Dundee which will be integrated into the Hope Cement business. Sherburn's concrete and aggregates business fits extremely well into our network in the north of England and delivers many synergy opportunities, which we expect to capitalise upon in 2017.

Outlook

The A9 contract will be completed in the first half of this year, whilst the AWPR will continue to provide a significant workload for both Breedon Northern and our joint venture Breedon Whitemountain into 2018. We have also been successful in securing a large concrete order for the new Aberdeen Exhibition and Conference Centre, which will underpin ready-mixed concrete volumes in that market throughout the year.

Alan Mackenzie
Chief Executive
Breedon Northern

8 March 2017

INVESTMENT	BENEFITS
New asphalt plant at Tom's Forest	Greatly enhanced capacity to serve the long-term Aberdeenshire market, plus the substantial immediate requirements of the AWPR project
New lime filler ball mill at Shierglas	Provides additional in-house raw material additive for our asphalt plants, with reduced energy and running costs
Additional tipper and mixer trucks	Ensures sufficient haulage capacity for our medium-term delivery needs

'A new lean and focused management structure enabled us to enter 2017 in full control of our destiny.'

Wins for 2016

- **Revenues and underlying EBIT well ahead despite challenging market conditions**
- **Supplies commenced to major AWPR and A9 projects**
- **Significant investment in new asphalt plant, ball mill, fleet and quarry plant**
- **New management structure put in place following acquisition of Hope**
- **Full IT systems integration completed**
- **Acquisition of Sherburn Minerals Group**

BREEDON SOUTHERN

Breedon Southern Limited comprises the former Breedon Aggregates England operations.

Breedon on the Hill (Leicestershire) headquarters

540 colleagues

15 quarries

1 concrete products plant

9 asphalt plants

23 ready-mixed concrete and mortar plants

3 regional contract surfacing operations

50% share of Breedon Bowen Limited

All above statistics as at 31 December 2016.

38% of Group revenue

57% of Group underlying EBIT

REVENUE

£175.3m
(2015: £170.8m)

UNDERLYING EBIT

£34.0m
(2015: £27.0m)

Tim Hall
Chief Executive of Breedon Southern

Trading summary

I am pleased to report a strong performance in 2016, with revenues ahead 2.6 per cent to £175.3 million and underlying EBIT (earnings before interest and taxation) up 26.1 per cent to £34.0 million. We broadly maintained our share of our key markets, primarily by continuing to deliver our traditionally high levels of service.

Market conditions

The demand picture varied across our business, with strong markets in central and eastern England and somewhat slower demand in the west. This reflected a reduction in Highways Agency, local authority and agricultural work, offset by stronger private infrastructure and housing activity.

Aggregates volumes remained healthy during the first half of the year, with a modest slowdown in the second half. In contrast, ready-mixed concrete volumes held up well throughout the year, reflecting the strength of the housing and private infrastructure sectors.

Major contract wins

Among the significant contracts supplied in 2016 were the new MoD fulfilment centre at Donnington near Telford, the Midland Metropolitan Hospital near Birmingham and the Worcester Southern Bypass, together with a number of major new housing and warehousing developments. We also supplied substantial quantities of concrete to Amazon's new giant distribution centre at Rugeley in Staffordshire and DHL's expanded cargo hub at East Midlands Airport.

Our Breedon Bowen joint venture at Welshpool continued to trade well, supplying the Newtown Bypass and a number of large wind farms.

Continuing investment

At the beginning of the year we commissioned a new primary crusher at Cloud Hill quarry, which encountered some challenges in the first few months due to difficult weather conditions, but is now fully operational and delivering an excellent performance.

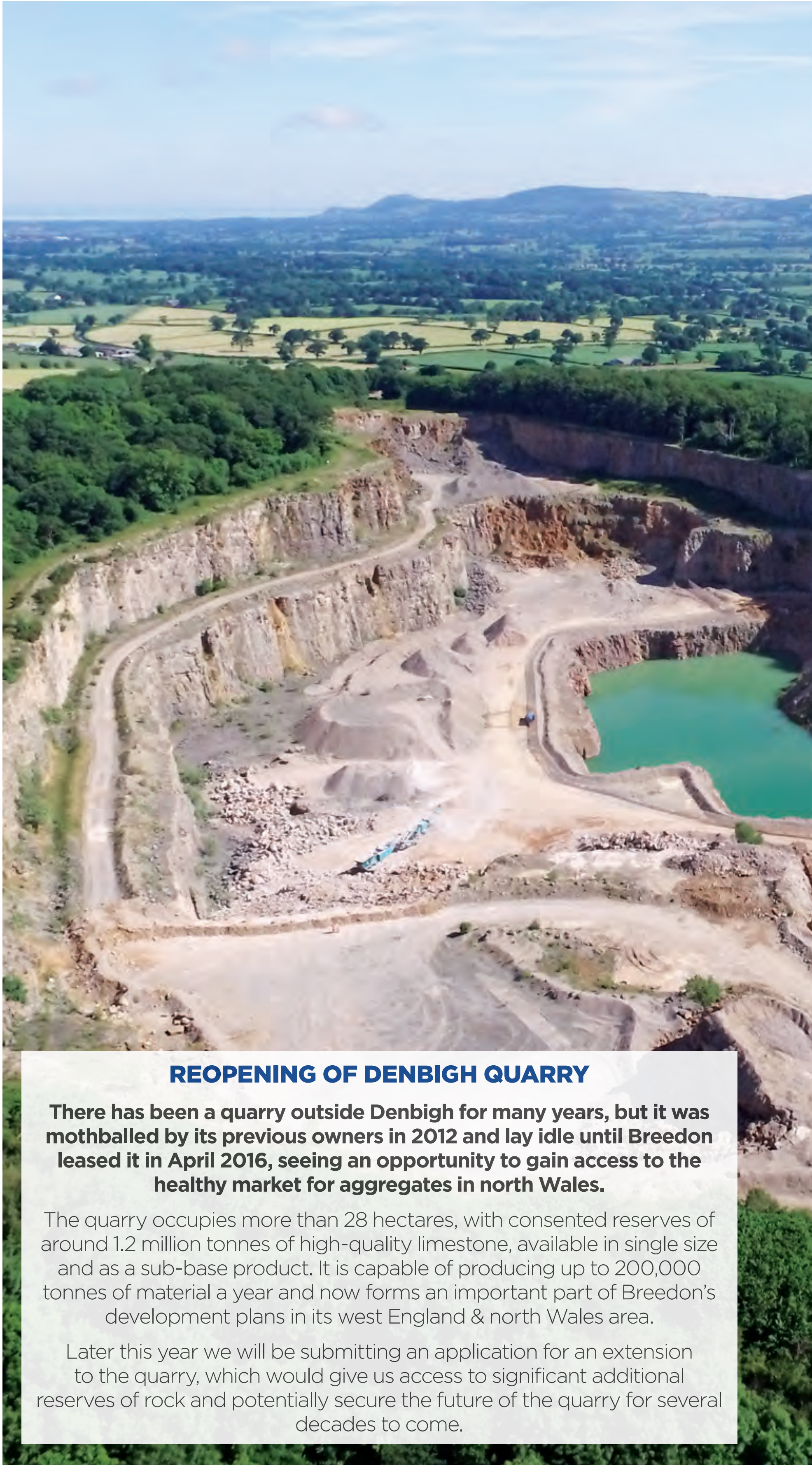
We also made a significant investment in updating our mobile plant fleet, which should flow through to lower operating costs in 2017.

A new concrete plant was commissioned at Tewkesbury to provide access to the buoyant markets of Gloucestershire and the Forest of Dean, delivering significant volumes throughout the year, and a mothballed quarry at Denbigh was reopened to expand our presence in north Wales.

A new team for a new business

Following the acquisition of Hope Construction Materials ('Hope') in August, we immediately rebranded the business 'Breedon Southern', which from 2017 will combine all Hope's former southern aggregates and concrete operations with those in the former Breedon Aggregates England in a single business.

A new management structure was quickly put in place and this is being followed later this year by a full IT systems integration of the Breedon/ Hope business, on the same model as that already adopted by Breedon Northern, similarly enabling us to focus collectively as one team with full commercial and cost visibility.



REOPENING OF DENBIGH QUARRY

There has been a quarry outside Denbigh for many years, but it was mothballed by its previous owners in 2012 and lay idle until Breedon leased it in April 2016, seeing an opportunity to gain access to the healthy market for aggregates in north Wales.

The quarry occupies more than 28 hectares, with consented reserves of around 1.2 million tonnes of high-quality limestone, available in single size and as a sub-base product. It is capable of producing up to 200,000 tonnes of material a year and now forms an important part of Breedon's development plans in its west England & north Wales area.

Later this year we will be submitting an application for an extension to the quarry, which would give us access to significant additional reserves of rock and potentially secure the future of the quarry for several decades to come.

BREEDON SOUTHERN CONTINUED

Energy and environment

We continue to focus on the efficient use of energy to save costs and protect the environment. During the year we installed new solar panels at Breedon quarry and are currently exploring the potential of new developments in electric mixer truck technology.

Outlook

We remain optimistic about the prospects for 2017, as the early benefits of the Government's infrastructure investment start to come through and a number of significant new jobs gain traction in our traditional markets.

Tim Hall
Chief Executive
Breedon Southern

8 March 2017

INVESTMENT	BENEFITS
Replacement of primary crusher at Cloud Hill quarry	Significant improvement in operational efficiency
Updating of mobile plant fleet	Improved performance and enhanced capacity
New concrete plant at Tewkesbury	Provides an additional route to market for aggregates from our Clearwell quarry and extends our reach in Gloucestershire and the Forest of Dean, where demand from private and local authority customers remains buoyant

Wins for 2016

- Strong growth in revenues and underlying EBIT
- Major contract wins across the division
- Expanded operations in west of England and north Wales
- Substantial plant and fleet investment
- Further progress on energy reduction
- Excellent progress on integration of Hope quarries and concrete plants

'We remain optimistic about the prospects for 2017.'

HOPE CEMENT

Hope Cement Limited comprises all the operations of the former Hope Construction Materials Limited.

Breedon on the Hill (Leicestershire) headquarters

930 colleagues

1 cement plant

4 rail-fed cement depots

4 rail-fed aggregates depots

129 ready-mixed concrete and mortar plants

5 quarries

All above statistics as at 31 December 2016.

27% of Group revenue

18% of Group underlying EBIT

REVENUE

£121.3m

UNDERLYING EBIT

£10.9m

Ashley Bryan
Managing Director of Hope Cement

Trading summary

Hope Cement traded in line with the Board's expectations in the first five months under Breedon's ownership. Total revenues were £121.3 million, generating underlying EBIT (earnings before interest and taxation) of £10.9 million.

CEMENTITIOUS PRODUCTS

Growing the portfolio

Following the summer opening of our new depot in Dagenham and the subsequent launch of our packed product range, we enjoyed a positive final five months of 2016 as part of the Breedon Group.

The new Dagenham operation gave us the opportunity not only to establish our place in the builders merchants market, but also to expand our customer base for bulk cement in south-east England.

At the same time as focusing on internal supplies to a number of Breedon concrete plants, we also reviewed our external customer base with a view to securing additional volume in 2017.

Capital investment

By the end of 2016, several major projects were completed at the Hope cement works ('Hope Works'). In the second half of the year we successfully installed new burners on both kilns, which increase the throughput of fuel to maximise the efficiency of the manufacturing process. In addition, we invested in the installation of new cyclones to speed up the rate at which raw material is fed through the pre-heater tower to the kilns.

Boosting the sustainability of our process and extending the life of our shale quarry, we were delighted to secure a significant contract with a major energy supplier for the supply of Pulverised Fly Ash (PFA) This is a waste by-product from coal-fired power stations. It is used as a complementary waste-derived raw material in the cement-making mix, enabling us to use

HOPE CEMENT CONTINUED

less shale and reduce our emissions of SO_2. In the second half of 2016 we began preparations to receive increased volumes of PFA.

In addition to developing our use of PFA, we also continued our drive to increase the use of waste-derived materials as fuels to replace traditional fossil fuels. These currently include scrap tyre chips, refuse-derived material and meat and bone meal – all of which are classed as partially carbon-neutral biomass.

‘In 2016 our rail-fed cement depots achieved their highest-ever annual bulk delivery volumes to customers.’

Logistics success

The success of our cement business relies not only on efficient production, but also a fluid supply chain to customers. In 2016 our rail-fed cement depots at Theale, Dewsbury, Walsall and Dagenham achieved their highest ever annual bulk delivery volumes to customers. We continue to invest in these important sites, which are supplied via the rail network with one million tonnes of cement each year from Hope Works, shipped in new bespoke-built aluminium rail wagons.

Towards the end of the year we embarked on a new deal with DAF to replace the existing road fleet, with the emphasis on additional safety features including on-board cameras and sensors to protect vulnerable road-users, such as cyclists.

OPENING OF NEW CEMENT DEPOT AND BAGGING PLANT AT DAGENHAM

Our new state-of-the-art cement distribution depot and bagging plant opened for business in the summer of 2016, starting with the launch of our bagged Professional Grade Cement to customers across the south of England. This made us the newest entrant to a UK bagged cement market worth around £180 million annually.

The cement is produced at Hope Works in Derbyshire, then transported directly by rail to Dagenham for bagging and for bulk distribution to the buoyant markets of south-east England. All the bags, which are distributed via builders merchants, are plastic, waterproof and produced using the best equipment on the market, enabling merchants and builders to confidently store them outside.

Opportunity through acquisition

Breedon’s acquisition of Sherburn Minerals Group (‘Sherburn’) towards the end of 2016 not only expanded Breedon Northern’s geographical footprint in north-east England, with the addition of four quarries and five ready-mixed concrete plants, but also gave us our first two cementitious import terminals – at Blyth near Newcastle and Dundee in Scotland. These will be integrated into Hope Cement and will allow us to import cement and ground granulated blast-furnace slag (GGBS – another industry by-product which is complementary to the raw materials used in cement-making), delivering growth opportunities for the Group’s cement business. The addition of these depots enables us to provide national cement coverage for the first time.

Outlook

The ongoing plant upgrade at Hope Works, coupled with embedding the Sherburn sites in our business and gaining a stronger foothold in the packed product sector, point to a positive outlook for our cementitious business in 2017.

Ashley Bryan
Managing Director
Hope Cement

8 March 2017

Wins for 2016

- **First five months revenue and underlying EBIT in line with expectations**
- **Record bulk delivery volumes via rail-fed depots**
- **Excellent progress on integration into Breedon Group**
- **Acquisition of two new cementitious terminals, providing national cement coverage**
- **Significant PFA supply contract secured**

AGGREGATES AND READY-MIXED CONCRETE

Following completion of the purchase of Hope, Breedon acquired over 150 ready-mixed concrete plants, together with five quarries. Operational control of 25 of these plants and one quarry in the north of England was assumed by Breedon Northern from completion on 1 August, with control of the remaining sites assumed by Breedon Southern.

All these operations performed in-line with expectations in the five months under Breedon's ownership. Delivery of synergies from the acquisition was accelerated throughout the latter part of the year, as we moved quickly to restructure our management teams, standardise our IT systems and start to identify the available commercial opportunities.

The process of assimilating the former Hope units into Breedon's network, under new regional and area management teams, was largely complete by the end of the year. This paved the way for the full integration of the former Breedon and Hope operations in Breedon Northern on 1 January this year, to be followed by Breedon Southern later in 2017.

We see opportunities throughout the former Hope concrete network to improve safety, plant availability and reliability of service, by strengthening our logistics and regularising maintenance.

In the quarries, there are also opportunities to improve production per employee, diversify the products we produce and broaden routes to market. In addition, there is further potential to integrate our aggregates into the former Hope network of concrete plants.

With the business now well understood, a challenging budget and beneficial capital investment plans have been set for 2017.

(l to r) Peter Tom, Ashley Bryan and Pat Ward celebrate completion of the acquisition of Hope Construction Materials.

FINANCIAL REVIEW

Acquisitions

In August we completed the acquisition of Hope Construction Materials Limited, ('Hope'), a leading independent producer of cement, concrete and aggregates. The consideration was £251.9 million, satisfied by the payment of £55.6 million in cash and the issue of 259,120,245 new shares (valued at £196.3 million at the time of completion, compared with £134.5 million at the time of the announcement in November 2015). We also assumed net debt of £148.2 million.

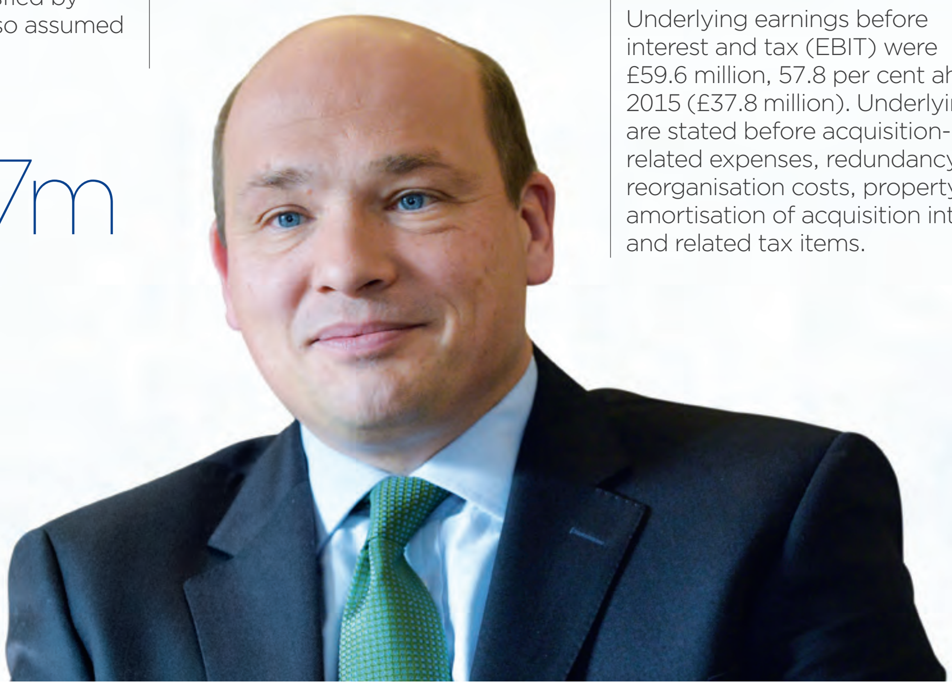
At the end of November we completed the acquisition of Sherburn Minerals Group ('Sherburn'), a leading independent heavyside building materials business. The consideration was £9.8 million, largely satisfied by payment in cash. We also assumed net debt of £6.3 million.

'During the year we again delivered strong organic growth in both Breedon Northern and Breedon Southern, and Hope made a healthy contribution.'

Rob Wood
Group Finance Director

£454.7m

Revenue
2015: £318.5m
+42.8%



Revenue and underlying profit from operations

During the year we again delivered strong organic growth in both Breedon Northern and Breedon Southern, and Hope made a healthy contribution. Group aggregates volumes for the year were up 31 per cent at 11.4 million tonnes, asphalt volumes were up 3 per cent at 1.9 million tonnes and ready-mixed concrete volumes were up 121 per cent at 1.9 million cubic metres. Excluding acquisitions, these increases were 7 per cent, 3 per cent and 10 per cent respectively. In accordance with the Cement Market Data Order 2016, cement volumes are not disclosed.

Revenue for the year at £454.7 million was 42.8 per cent ahead of 2015 (£318.5 million). Excluding acquisitions this increase was 5.1 per cent.

Underlying earnings before interest and tax (EBIT) were £59.6 million, 57.8 per cent ahead of 2015 (£37.8 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 margins in both Breedon Northern and Breedon Southern improved year-on-year and the overall underlying EBIT margin for the Group increased to 13.1 per cent from 11.9 per cent in 2015. As expected, the underlying EBIT margin was diluted by the impact of the acquisition of Hope, where historic EBIT margins were single digit. This dilution will continue to impact EBIT margins in 2017. Having said this, 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 Limited and Breedon Whitemountain Ltd – the latter being our 50/50 joint venture with the Lagan Group to supply and lay asphalt on the £745 million Aberdeen Western Peripheral Route.

Non-underlying items

Non-underlying items in the year amounted to a net pre-tax cost of £8.4 million (2015: £3.8 million), consisting mainly of expenses related to Hope, which totalled £7.8 million in 2016 (2015: £3.7 million) and comprised acquisition-related and subsequent integration costs.

Interest

Net finance costs in the year totalled £4.5 million (2015: £2.8 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 2016 reflect the level of borrowings following the acquisitions during the year.

Profit before taxation

Profit before taxation was £46.8 million, 49.5 per cent ahead of 2015 (£31.3 million).

Underlying profit before taxation was £55.1 million, 57.4 per cent ahead of 2015 (£35.0 million).

Tax

The tax charge was £10.0 million (2015: £6.3 million). An underlying tax charge of £11.2 million (2015: £6.3 million) was recorded in the year, resulting in an underlying effective tax rate for the full year of 20.3 per cent, reflecting the beneficial effect of the reduced future UK corporation tax rate on deferred tax liabilities being more than offset by 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 a simple 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. This takes into account utilisation of capital allowances and any historic losses in the business which can be offset against current-year profits. The Group seeks to ensure that its actions do not adversely impact its reputation as a responsible taxpayer in the following ways:

- it takes appropriate tax advice and support from reputable professional firms and the parameters which govern its approach are set by the Board, which regularly reviews the Group's tax strategy;
- it is open and transparent in its dealings with HM Revenue & Customs and deals with any queries in a timely and open manner and, in particular, responds to any tax queries quickly and on a full-disclosure basis;
- all tax affairs are administered in a lawful and responsible manner; and
- all its tax liabilities arise in the subsidiary companies in the UK and in terms of the UK corporation tax position, all years up to 2014 are agreed in respect of companies acquired prior to 2016.

The Group makes a significant contribution to the economy through taxation, either borne by the Group or collected on behalf of, and paid to, HM Revenue & Customs. In 2016, the total taxes borne and collected by the Group amounted to over £90 million (2015: over £50 million).

Earnings per share

Basic earnings per share (EPS) for the year were 2.92 pence (2015: 2.33 pence), reported after the non-underlying items mentioned above. Underlying basic EPS for the year totalled 3.49 pence (2015: 2.68 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 will be on delivering continued capital growth for shareholders.

FINANCIAL REVIEW CONTINUED

Statement of financial position

Net assets at 31 December 2016 were £467.5 million (2015: £233.2 million).

The net assets continue to be underpinned by the mineral reserves and resources of the Group, which at the end of December 2016 totalled over 750 million tonnes.

Cash flow

Cash generated from operating activities was £80.8 million (2015: £62.1 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 2016 the Group spent £57.1 million cash on two acquisitions, Hope and Sherburn (2015: Nil), and incurred a cash spend on capital expenditure projects of £23.7 million (2015: £14.4 million). Further details of this expenditure can be found in the Business Reviews on pages 25 to 33.

Proceeds from the sale of property, plant and equipment totalled £10.1 million in 2016 (2015: £4.5 million) and included a further instalment of £2.8 million (2015: £2.8 million) from the 2014 sale of the 60-acre former concrete products plant site at Doseley near Telford in Shropshire. Also included are the Hope divestments that were required to be made by the Competition and Markets Authority.

At the time of announcement of the Hope acquisition in November 2015, we also raised a net £39.1 million through the issue of shares to part-fund the consideration. In addition, we raised £0.4 million (2015: £0.1 million) through the issue of shares in 2016 in connection with the exercise of certain savings-related share options.

Net debt

Net debt at 31 December 2016 was £159.3 million (2015: net cash £10.3 million).

Key movements are shown in the chart below and include: underlying earnings before our share of associate wand joint venture, interest, tax, depreciation and amortisation (EBITDA) of £83.7 million (2015: £54.9 million); purchase of property, plant and equipment of £30.7 million (2015: £21.5 million), including £7.0 million (2015: £7.1 million) financed by way of new finance leases, and spend on acquisitions of £219.9 million.

Leverage (the ratio of net debt to EBITDA) at 31 December 2016 was 1.9 times.

Bank facilities

At the time of completing the acquisition of Hope, 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 replaced the previous £100 million committed revolving credit facility. The new facility expires in November 2019 and contains a £100 million accordion option. The pricing of the new facility is in line with our previous facility, as are the covenants and testing regime.

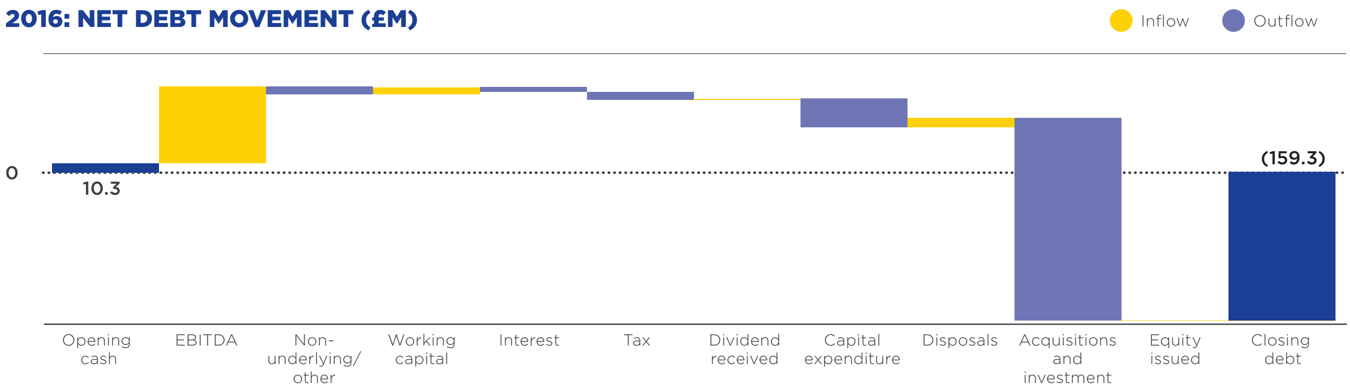
The new facility is subject to a floating interest rate based on LIBOR plus margin. At 31 December 2016, the total undrawn facility available to the Group amounted to £148.0 million (2015: £98.5 million in respect of the old facility). The facility is subject to Group leverage and Group interest cover covenants which are tested half-yearly. At 31 December 2016, 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

8 March 2017

2016: NET DEBT MOVEMENT (£M)



CORPORATE AND SOCIAL RESPONSIBILITY REVIEW

UNDERLYING OUR BUSINESS MODEL ARE A RANGE OF CORPORATE, SOCIAL, ENVIRONMENTAL AND SAFETY ACTIVITIES THAT WE NEED TO GET RIGHT IF WE ARE TO CREATE LONG-TERM VALUE FOR OUR SHAREHOLDERS.

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 AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

1. HEALTH & SAFETY

OUR AMBITION IS TO BE THE SAFEST, AS WELL AS THE MOST PROFITABLE, CONSTRUCTION MATERIALS COMPANY IN THE UK.

We are committed to maintaining a safe environment at all of our operations. We want to ensure that all our colleagues, contractors, suppliers and visitors return home, unhurt, every day. To this end, at a minimum we comply with all relevant health & safety legislation and our senior management team are charged to lead by example. We have set ourselves the goal of achieving Zero Harm across the entire Group and we encourage all our colleagues to be actively involved 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 regularly produced for the Board. We aim for continuous improvement in health & safety KPIs, including our Lost Time Injury Frequency Rate (LTIFR), representing LTIs per million hours worked, and Lost Time Injury Severity Rate. We report monthly on the number of near-misses, as well as incidents and accidents, believing strongly that today's near-miss is tomorrow's avoidable accident.

Root cause analysis and consequence management are crucial elements of accident and near-miss reviews.

How we performed

At the beginning of the year we targeted a 30 per cent reduction in our LTIFR. We fell short of this, with the legacy Breedon business reporting an improvement of 22 per cent from 2.72 to 2.13. During the year, we acquired Hope Construction Materials and the Group LTIFR with 5 months of Hope was 1.87. The LTIFR for the combined business for the whole year was 1.61. We have used this lower 12-month combined LTIFR, from which to set ourselves a more aggressive target for the enlarged Group of a c. 40 per cent reduction in 2017. This equates to an employee-only LTIFR target of 1.0 or less. We will not be satisfied until we can claim success in our ambition to be the safest construction materials company in the UK.

We saw a continued improvement in near-miss reporting, with a 12 per cent increase in the number of near-miss cards raised by the former Breedon Aggregates business in 2016 compared to 2015. Our Visible Felt Leadership (VFL) programme, in which we actively engage employees in dialogue about safe working, saw a marked increase in activity, with a 19 per cent increase in VFL interactions, including increased visibility on our interactions by members of the Group's Executive Committee – a key objective for 2016.

Safety leadership enhanced

Stephen Tagg joined us in May 2016 as our first Group Human Resources Director, also assuming Executive Committee responsibility for the Group's health & safety strategy. His priority has been to lead the team in embedding a rigorous safety culture throughout the business, focusing on leadership and accountability at all levels of the organisation. As mentioned, our Executive Team and their own teams of managers have been set clear targets for VFL interactions in 2017 as it is proved that there is a strong correlation between leaders demonstrating their commitment and employees buying into it.

We have also commenced a VFL refresher training programme, in which we have included our colleagues from the recently-acquired Sherburn Minerals Group.

- **LTIFR cut by 22%**
- **Near-miss reporting up 12%**
- **VFL interactions up 19%**

Health & safety training

2016 saw a high level of health & safety training activity. We kicked off the year with our annual safety 'Back to Work' days, building on our Behavioural Safety programme and focusing on Manual Handling skills. These provided us with a strong platform to develop further tailored training programmes throughout the year, including:

- Continuing support for our operational teams to gain qualifications, supporting a drive for improved levels of competency;
- A strong push on driver CPC training in all three of our divisions, with training delivered internally and externally through recognised training providers MPQC and FTA;
- An ongoing commitment to core safety training, such as confined space, first aid and fire awareness; and
- Weekly toolbox talks, which support our managers in keeping safety messages fresh for all our colleagues.

Launch of new Safety Commitments

A new set of five non-negotiable Safety Commitments were introduced towards the end of the year and formally launched to all colleagues at the beginning of 2017. Everyone in Breedon was issued with a 'credit card' printed with the Commitments, which they were expected to sign and carry with them at all times. The Commitments formed the centrepiece of a major drive to improve Breedon's safety culture throughout 2017.

CORPORATE AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

New pavers making contracting safer

Investment in new Dynapac pavers are ensuring that our contracting teams can carry out their jobs more safely. The new machines incorporate innovative safety features including stop buttons on the front hoppers and a state-of-the-art PaveDock system, which uses two sets of red, amber and green lights prominently mounted on the vehicle's hardtop. These enable the operator to give clear signals directly to the driver of the vehicle feeding asphalt to the paver – reverse, stop, dump, mix – reducing the need for a banksman.

Confined space training

Work at Breedon is not always in open spaces. Our colleagues can be called upon to maintain plant and equipment in confined spaces, defined as those which are substantially enclosed and where serious injury can occur from hazardous substances or conditions inside. During the year we invited experts in this area to visit us with their mobile unit which simulates a confined environment, complete with unlit tunnels and rescue winch, to mimic emergency situations such as lack of oxygen or exposure to noxious gases.

Colleagues from Breedon's East Anglia production and contracting teams complete 'confined space' training at Longwater asphalt plant.

Colleagues at Hope Cement Works' health and wellbeing day use pedal power on 'smoothie bikes' to make nutritious drinks.

Health and well being day at Hope

More than 100 colleagues and contractors from the Hope Cement works were given a full life-improvement experience during a health, wellbeing and safety day. The Rail Operations Group gave staff an opportunity to drive a locomotive under supervision, highlighting what a loco driver can and can't see from their cab. The Royal Society for the Prevention of Accidents gave a presentation on home safety, a scaffolding company presented a new process for working at height and manufacturers of protective equipment displayed the latest in eye, ear and foot protection. Derbyshire Fire and Rescue were on hand with one of their vehicles and there were stands promoting cycle and motorcycle safety.

Key focus areas for 2017

- Embed new Safety Commitments throughout the Group
- 40 per cent reduction in LTIFR from 1.61 to 1.0 or less
- Increase near-miss reporting
- Focus on leadership from the Executive Committee to site level
- Increase 'role-modelling' by the leadership team
- Continue leadership and competence-awareness training
- Improve management of on-site contractors

CORPORATE AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

2. ENVIRONMENT

We appreciate that our activities can have a significant impact on the wider social, environmental and economic well-being of the areas in which we operate.

Wider use of cleaner fuels for our dryers, including liquid gas, has played an important role in reducing electrical and fossil fuel consumption and we continue, wherever possible, to employ inverters to reduce electricity usage.

Following the successful submission of our audit of energy use as part of the Government's Energy Saving Opportunity Scheme (ESOS), Breedon Southern is trialling detailed action plans at our Leaton quarry. These include reducing air pressure in the coating plant, introducing energy-saving LED floodlights, insulating hot storage bins and installing automatic stop systems on the asphalt mixer, bitumen pump and main fan. Breedon Northern is similarly pursuing a number of energy-saving initiatives, including the installation of variable speed drives and LED lighting, and has secured ISO14001 accreditation for all operational sites.

Beehives have been installed at Dowlow and Hope Works quarries as part of our continued commitment to biodiversity.

The use of Reclaimed Asphalt Planings (RAP) in our asphalt plants continued to increase in 2016 and our new plant at Tom's Forest is the only supplier in the region with two dedicated feeders, one for base course RAP and one for surface course RAP.

We conduct our operations to minimise impact on the local environment, for example by setting aside areas for nesting birds such as sand-martins, and we continue to work with local environmental and community groups to enhance and provide access to wildlife sites.

Hope Works became the first UK cement plant to agree the conditions of its new environmental permit with the Environment Agency, putting us in a strong position to ensure ongoing compliance. A deal to ensure the long-term supply of pulverised fly ash (PFA) was also concluded with EDF Energy, which will improve environmental performance and safeguard the plant's future.

The use of waste-derived alternative fuels (WDF) at the Works accounted for around 35 per cent of heat input. Trials were completed on three new waste fuels, one of which is now in regular use. The first full year using Solid Recovered Fuel (SRF) presented some challenges, which are now being overcome. In all, we used around 20,000 tonnes of fuel that Hope is paid to burn, which helped keep our carbon dioxide emissions within acceptable levels and ensure there was no need to purchase extra emission allowances.

An active liaison committee, meeting every quarter, has ensured that all local stakeholders have been kept abreast of developments at the cement plant and this has also helped to streamline planning discussions with the local authority. A healthy level of environmental incident reporting and close-out was maintained for the year with 82 reports being generated within the system and over 94 per cent of these being closed out by the year end.

Key focus areas for 2017

BREEDON NORTHERN AND SOUTHERN

- Improve energy management systems, including installation of further sub-meters
- Increase use of recycled materials, including RAP in asphalt products
- Further reduce fleet vehicle emissions

HOPE CEMENT

- Comply with new environmental permit conditions
- Push WDF usage above 40 per cent, including more than 25,000 tonnes of SRF
- Increase PFA usage, including design and development of new handling facilities
- Develop improved energy management system
- Improve dioxin and heavy metal emission understanding and control

CORPORATE AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

3. COLLEAGUES

Breedon is ambitious and fast-growing – and we want everyone in the Company to be able to contribute to our future success. That means ensuring that all our employees are empowered to use their full range of talents and professional competencies to help improve our performance.

We use formal training, both internal and external, on- and off-the-job, together with regular coaching and mentoring. Personal development is managed and monitored through regular personal reviews.

Apprenticeships

Our Apprenticeship Academy has grown significantly in recent months and we now have 13 apprentices actively engaged in exceptional programmes, together with several former apprentices working towards their degrees, fully funded by Breedon.

The Hope Cement Works Apprenticeship Scheme was approved by The Institute of Mechanical Engineers and The institute of Engineering Technology in 2016. We are proud of the apprentices in our business and make strenuous efforts to ensure that they are fully equipped to play an active role in our future plans.

- **13 apprentices in Apprenticeship Academy**
- **218 Level 2 qualifications gained**

Qualifications

We said last year that we planned to increase the number of colleagues studying for industry-recognised qualifications during 2016 and we have exceeded our targets, with more than 200 gaining Level 2 qualifications in their core job roles and another nine signed up for the widely recognised Foundation Degree in Mineral Products.

In addition to encouraging them to spend time progressing their learning outside work, we have also provided additional internal support to ensure that they are given the appropriate guidance and tools they need to succeed in the business.

Hope and Sherburn

One of the major challenges in 2016 was embedding over 1,000 new colleagues in the Group from the former Hope Construction Materials and Sherburn Minerals businesses. We took this opportunity to introduce a formal Performance and Development Process to ensure that we continue to get the best out of our colleagues at all levels of the business. We also launched a new training catalogue which enhanced and formalised our professional development offering.

Employee engagement

Regular and open communication with our colleagues is essential to effective employee engagement. One of the centrepieces of our activity is our in-house magazine, previously called *From the Rock Face* and relaunched during the year as *Breedon Voice*, a name which better reflects the broader base of activity and people in the enlarged Group.

According to the Union of Construction Allied Trades & Technicians (UCATT), women account for only 11 per cent of the UK construction workforce. Against this background, our gender balance is improving, with women now accounting for 13 per cent of our workforce, but we would very much like to see this increase. The average UK construction worker is in their 50s, whilst the average age of our employees is 45. This points to a potential skills shortage over the next 10 years as these older workers retire, which we are working hard to address by attracting more young people to our company.

Source: UCATT

The current Hope Cement apprentices with their certificates from external institutes which have accredited our Hope Cement apprenticeship scheme.

45

Average age of our employees

Share participation

Breedon Group employees have always had the opportunity to share tangibly in our success by joining our ShareSave scheme and the scheme will again be open to all eligible employees in 2017 including, for the first time, those who joined with Hope and Sherburn.

Key focus areas for 2017

- Further expand our Apprenticeship Academy and launch our new Graduate Programme
- Focus on leadership, team and individual development to augment the successful health & safety training programme we already have in place
- Extend our engagement programme with the launch of our new Group-wide intranet and internal social media channel

CORPORATE AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

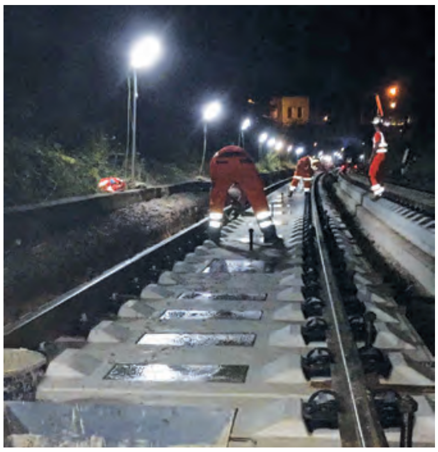
4. SERVICE AND INNOVATION

At the heart of our strategy is a constant striving to offer the best possible service. Although we are a nationwide company, most of our operations are essentially local businesses, serving customers and communities within a few miles of their quarries or plants. Today we provide a local service to customers extending from the Hebrides in the far north of Scotland to London and the South East, from Wales in the west to Norfolk in the east. We pride ourselves on our intimate knowledge of our customers' needs, on our ability to provide them with tailored solutions for their projects and on the speed and responsiveness of our production and delivery teams.

Following the acquisitions of Hope and Sherburn, we began to focus on the internalisation of our cement supply, which will enable us to develop more innovative products best suited to our materials. As part of this process, during 2016 we reviewed the performance concrete portfolios of both Breedon and Hope and consolidated them into a single range which was launched with a new suite of marketing materials earlier this year. These are specialist products for specific applications which generally offer us appreciably higher margins than conventional ready-mixed concrete.

One recent example was an innovative HF rail self-compacting concrete designed for the contractor working on electrification of the railway line between Gospel Oak and Barking in London.

They needed a free-flowing mix to fill the voids between the metal framework and sound deadening materials. The concrete flows up to 840mm for three hours and self-compacts, avoiding the need for tamping. It is now undergoing trials with Network Rail and the hope is that it will be specified for construction of the HS2 project.



Breedon's innovative HF Rail Self-Compacting Concrete being poured on a section of the Gospel Oak to Barking line in London.

The Breedon Southern Contracting team lay a new artificial pitch to allow Worcester Warriors rugby club to stage concerts and other commercial ventures.

We also expanded our range of specialist asphalt products. We are now able to offer more than 20 specialist mixes, for applications ranging from highly trafficked major roads to agricultural access roads, tennis courts, car parks, driveways, trench reinstatements and racetracks.

One of our more notable achievements during the year was the supply of materials for a new surface water drainage system at Aberlour in north-east Scotland. Breedon Contracting went deep beneath the streets to install two 12-tonne 'downstream defender' tanks and four 16-tonne concrete chambers directly underneath the A95 right in the centre of the town, just a few metres from buildings lining the road – some of which date back some 200 years. This was one of the most challenging civil engineering jobs we have supplied, requiring extremely detailed and careful planning, and is a great example of our ability to solve complex problems for our customers in highly sensitive locations.

Key focus areas for 2017

- Consolidate and select 'best practice' for our technical systems from Breedon and our newly-acquired businesses
- Continue to improve our technical services, to enable us to provide enhanced technical support to our colleagues and customers
- Develop additional new products for our asphalt, concrete, mortar and screed operations
- Internalise materials where possible and appropriate

CORPORATE AND SOCIAL RESPONSIBILITY REVIEW CONTINUED

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 2016, some large, some small. Here are just a few examples:

- We resurfaced the footpaths around the Breedon Priory Church, the iconic landmark which sits above our quarry at Breedon on the Hill, making coming and going easier and safer for worshippers

Hope Cement runs many tours of the Works each year for local community groups, schools and customers.

- A series of tours of Tom's Forest quarry in Aberdeenshire, including for 150 local schoolchildren, formed one of the centrepieces of last year's Countryside Live event organised by the Royal Northern Agricultural Society
- An 11-strong team of volunteers from Hope Cement in South Wales gave Monmouthshire Youth Services' Education Centre a makeover, painting fences, clearing overgrown areas, pruning, weeding and doing general outside maintenance
- Supplies of drainage gravel were donated to a local Scout group to prevent water damage to their scout hut walls and enable them to create a new garden
- As it does every year, Hope Cement had a key presence at the annual Hope Agricultural Show on August Bank Holiday, held on land gifted by Hope Cement to the Hope Show Committee – an ideal opportunity to talk to local people about what goes on at the cement works
- One of our health & safety team turned teacher for an afternoon, talking to Year 10 chemistry students at the Priory School in Shrewsbury, near our Leaton quarry, about rocks and quarrying – linked to the National Curriculum specifications for the subjects of limestone and building materials
- We donated a Breedon-branded Aveling Barford cricket pitch roller to a local cricket club in Essex

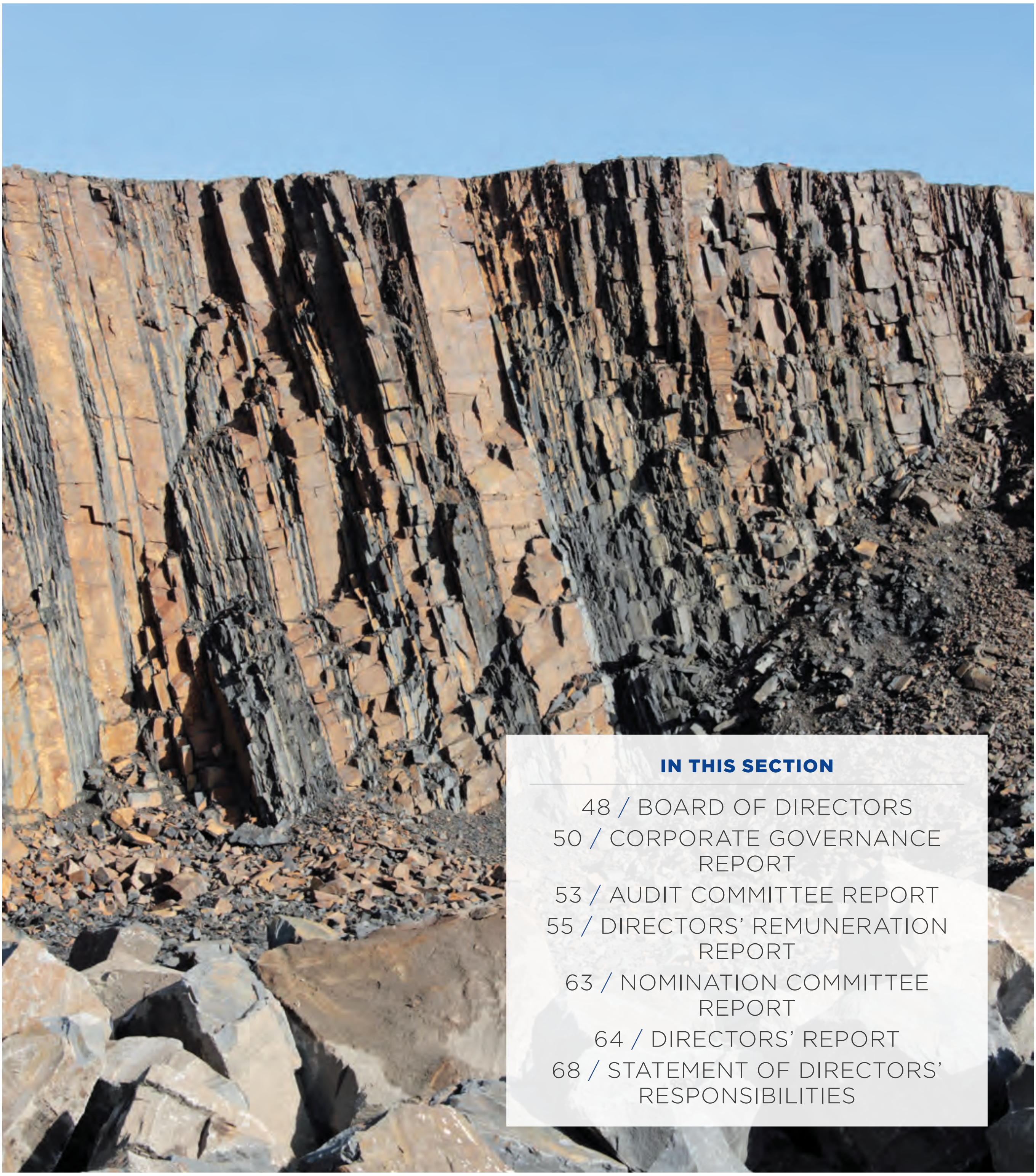
Breedon sponsors many local sporting teams, including the Feeder Soccer Blues under-9s and Coalville Town FC's Ravens under-13 team.

- When Earl Sterndale C.E. Primary School sacrificed its precious garden for extra classroom space, a team from our Dowlow quarry cleared a nearby area of waste ground, renovated it, installed railings and planted grass seed, to give the school a new play area at break times.

Key focus areas for 2017

- With a substantially larger network of sites following our acquisition of Hope Construction Materials, we will be seeking to extend direct contact with the increased number of communities in which we now operate
- We will continue to engage with communities around our quarries through regular liaison meetings
- We once again aim to make more visits to schools to explain to pupils what their local site does and enable us to communicate important safety messages

GOVERNANCE



IN THIS SECTION

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) since 1993.
- 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 began his career working in mergers and acquisitions at Morgan Stanley in New York and Credit Suisse First Boston in London. He then set up Swordfish Investments, a private equity fund, and Swordfish Capital Management, an investment management company. In 2007 Amit invested in Queens Park Rangers FC and currently serves as its Vice-Chairman. In 2010, Amit set up the Global Relief Initiative and in 2013 he created Hope Construction Materials, which he chaired until it was acquired by Breedon Group. Amit joined the Board on completion of the acquisition 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.

Other positions currently held:
- Chairman of the Mineral Products Association.

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 director. Simon is the Chairman of the Mineral Products Association.

David Warr A R

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 Charted 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 Threadneedle UK Select Trust Limited, 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: 2008

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

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 2016. As an AIM-listed company, Breedon Group is not required to comply with the UK Corporate Governance Code 2016 (the 'Code') and it has not voluntarily elected to do so. We 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 Group.

The purpose of this statement is to describe the Company's approach to corporate governance and, in particular, to explain how the Company has applied the provisions of the Code or, where appropriate, the QCA Code.

1 LEADERSHIP

2 EFFECTIVENESS

3 ACCOUNTABILITY

4 REMUNERATION

5 RELATIONS WITH SHAREHOLDERS

1 LEADERSHIP

The Board is collectively responsible for the long-term success of the Group and constructively challenges and helps to develop and communicate its strategy.

Board of Directors

The current Board comprises the Executive Chairman, two Executive Directors, two independent Non-executive Directors and three Non-executive Directors who are not considered to be independent.

As reported last year, we made two appointments to the Board in 2016. Following his retirement as Group Chief Executive in January 2016, Simon Vivian became a Non-executive Director of the Company. In addition, following the completion of the acquisition of Hope Construction Materials Limited ('Hope'), a representative of Hope's previous shareholders, Abicad Holding Limited ('Abicad'), joined the Board as a Non-executive Director. Amit Bhatia was appointed as such representative.

Six formal board meetings are held each year to consider those matters which have been specifically reserved to the Board for review and decision. This includes the management of assets to maximise performance and the control of the operation of the business, to review corporate strategy and the progress of individual business units, and to discharge the Directors' other duties.

Meeting attendance

	Meetings attended	Eligible to attend
Peter Tom CBE	6	6
Pat Ward	4	4
Simon Vivian	5	5
Rob Wood	6	6
Amit Bhatia	2	2
Susie Farnon	6	6
David Warr	6	6
David Williams	6	6

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.

The Board is provided with regular and timely information on the financial performance of 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.

All Directors are given regular access to the Group's operations and personnel.

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.

Susie Farnon is the Company's Senior Independent Director.

Biographical details of the Directors are set out on pages 48 and 49.

2 EFFECTIVENESS

We regularly evaluate the composition and performance of the Board, and the skills, experience and independence of each Director, to ensure that they best fit the evolution of our 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, Simon Vivian's previous executive employment with the Group, and Amit Bhatia's association with Abicad, which has a significant shareholding in the Company, the Board do not consider any of those Directors to be independent.

Nomination Committee

The Board has established a Nomination Committee and its terms of reference are available on the Group's website. A report on the activities of the Nomination Committee during 2016 is set out on page 63.

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 2014 the Board engaged an independent, external provider to facilitate such an evaluation. The evaluation of the Board and the Chairman concluded that the Board members and the Chairman are contributing to the overall effectiveness of the Board with a focus on accountability, strong governance and effective management of risk in the delivery of the Group's overall strategy. It did not identify any areas of concern. The Directors intend that, following the changes in the composition of the Board in 2016 referred to above, a further evaluation exercise will be conducted during 2017.

At the forthcoming AGM all 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

The Board recognises its responsibility for presenting a fair and balanced 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 68 and the Independent Auditor's Report on page 71 contains a statement of its reporting responsibilities.

Risk management processes and internal control

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 system 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.

CORPORATE GOVERNANCE REPORT CONTINUED

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.

Going Concern
In the Directors' Report on page 67 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 2016.

Audit Committee
The Board has established, and throughout the year maintained, an Audit Committee. David Warr and Susie Farnon served on the Audit Committee throughout the year. David Warr is Chairman of the Committee. 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 53 and 54.

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 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 responsibilities are to make recommendations to the Board on terms of service, remuneration and benefits of the executive directors and 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 55 to 62 and its terms of reference are available on the Group's website.

5 RELATIONS WITH SHAREHOLDERS

Strong and effective relationships and communication with our shareholders are important to us in helping us achieve our objectives. We actively encourage such engagement.

The Company is committed to maintaining good communications with its shareholders. Members of the Board have meetings with 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. 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. In addition, proxy votes will be counted and the results announced after any vote on a show of hands.

The Company complies with the recommendation of the Code that the notice of the Annual General Meeting and related papers should be sent to shareholders at least 20 working days before the 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.

Peter Tom CBE
Executive Chairman

8 March 2017

AUDIT COMMITTEE REPORT

David Warr
Chairman, Audit Committee

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 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

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

The role of the Audit Committee is broadly to monitor the integrity of the Group's Financial Statements and to be assured that the principles and policies adopted in those Financial Statements comply with statutory requirements and with best practice.

The Audit Committee 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. The Audit Committee met three times formally in 2016 and also held informal discussions with the external auditor when it was considered appropriate to do so.

The principal activities of the Audit Committee in respect of the year ended 31 December 2016, and the manner in which it discharged its responsibilities, were as follows:

AUDIT COMMITTEE REPORT CONTINUED

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 2016, reviewed the reports from the external auditor on the outcome of their audits and reviewed the 2016 Preliminary Results Announcement and the 2016 Annual Report.

The Audit Committee also reviewed the 2016 Interim Results Announcement and the 2016 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 relating to:

- **Acquisition accounting in respect of Hope Construction Materials:** The Audit Committee reviewed the report from management prepared to summarise the provisional fair values and, taking into account the external auditor's review of this report, concluded that the provisional fair values were appropriate.
- **Valuation of mineral reserves and resources:** The Audit Committee considered the valuation of mineral reserves and resources in its review of the Financial Statements and noted that there were no issues identified in the report that it received from the external auditor.
- **Impairment of goodwill:** The Audit Committee received communications from management and the external auditor and reviewed the disclosure in note 9 to the Financial Statements and agreed that no impairment of goodwill was necessary.
- **Going concern:** The Audit Committee reviewed the report from management prepared to support the going concern assumption and, taking into account the external auditor's review of this report, concluded that management's recommendation to prepare the Financial Statements on a going concern basis was appropriate.

The Audit Committee also received communications from management and from the external auditor on a number of other accounting matters, including the provisional fair values in respect of other acquisitions, the adequacy of restoration provisions, the accounting treatment in respect of share-based payments and deferred taxation.

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 a report from the external auditor setting out to its satisfaction how its independence and objectivity is safeguarded when providing non-audit services. During the year, the value of non-audit services provided by KPMG amounted to £98,000 (2015: £146,000) principally in respect of tax compliance and advisory services, pension advisory services and transaction-related services. During the year there were no circumstances where KPMG was engaged to provide services which might have led to a conflict of interest.

KPMG LLP either directly or via KPMG Channel Islands Limited has acted as auditor to the Group since its formation in 2008.

The Audit Committee continues to be satisfied with the work of KPMG and that they continue to remain objective and independent. The lead audit partner rotates every five years to assure independence. The Audit Committee has therefore recommended to the Board that a resolution be put to shareholders for the reappointment of KPMG LLP as auditor at the Annual General Meeting of the Company.

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. However, following the increase in the size of the Group, the need for an internal audit function will be kept under review by the Audit Committee on behalf of the Board.

David Warr
Chairman, Audit Committee

8 March 2017

DIRECTORS' REMUNERATION REPORT

David Williams
Chairman, Remuneration Committee

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 four times and considered the following:

- Executive salaries
- Annual bonuses
- Long-term incentives
- Terms of appointment for the new Group Chief Executive
- Remuneration benchmarking
- Pay and benefit levels across the Group

Members	Attendance
David Williams, Chairman	4/4 meetings
Susie Farnon, Senior Independent Director	3/4 meetings
David Warr, Independent Director	4/4 meetings

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2016. 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 2016, and how we propose to apply the Remuneration Policy in 2017.

2016 Business performance

2016 was a year of significant change for the Group, with the appointment of a new Group Chief Executive at the start of the year and the completion of the Hope acquisition on 1 August. We also completed the acquisition of the Sherburn Minerals Group in November.

As reported in the Chairman's and Group Chief Executive's Statements and the business reviews on pages 20 to 33, the Group continued to perform well, driving positive results throughout the integration phase of the Hope acquisition.

DIRECTORS' REMUNERATION REPORT CONTINUED

Decisions in relation to Directors' remuneration in 2016

As reported in the 2015 Directors' Remuneration Report, towards the end of 2015 an external review and benchmarking of executive remuneration was undertaken in the context of setting the pay and benefits of the new Group Chief Executive and other senior management. The Executive Directors' salaries which, in the case of the Executive Chairman and the then Group Chief Executive, had not been increased from 2014, were set for 2016, having regard to the significantly increased size of the Group as a result of the Hope transaction. The base salaries set for 2016 were:

- £375,000 for the Executive Chairman;
- £500,000 for the newly-appointed Group Chief Executive; and
- £300,000 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 61.

On his retirement as Group Chief Executive on 10 March 2016, Simon Vivian was treated as a 'good leaver' for the purposes of his awards under the Company's Performance Share Plan, which will vest subject to the satisfaction of the applicable performance conditions. The extent to which the awards vest will also be reduced pro-rata to reflect the proportion of the vesting period for which Mr Vivian served as Group Chief Executive.

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, 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 2016.

Looking forward to 2017

No significant changes are proposed to our executive remuneration arrangements for 2017. In accordance with Breedon's usual salary review timetable for the Group as a whole, Executive Directors' salaries for 2017 will be determined in March 2017. Any increases to Executive Directors' salaries are expected to be 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 2017 Directors' Remuneration Report. A summary of our approach to other elements of executive remuneration is set out on pages 57 to 60.

David Williams
Chairman, Remuneration Committee

8 March 2017

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 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. Financial targets will be based on the Group's financial KPIs, which may include EBIT and EPS. 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 2016 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 2017.	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.

DIRECTORS' REMUNERATION REPORT CONTINUED

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 award.	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 PSP 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 2016 were set by reference to underlying EBIT, one of our KPIs, 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 PSP is operated in accordance with its terms, which includes the ability of the Committee to adjust awards in the event of a variation of share capital.

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
Simon Vivian	18 May 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
Amit Bhatia	1 August 2016	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 2016, following the acquisition of Hope, a new senior management team was formulated for the Group and its three operating divisions. These teams were created from a combination of ex-Breedon, ex-Hope, and new external senior talent. The Nomination Committee of the Board reviewed these appointments and the succession for each role in November 2016 and the outcome of that review is reported on page 63.

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 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 is in relation to the period January to March, 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 Further information in relation to the bonuses payable to Messrs Ward and Wood is given on page 61 and these bonuses 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 Mr 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; further information is given on page 61.

4 Benefits paid to Simon Vivian, 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.

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.

The remuneration of the Directors for the year ended 31 December 2015 was as shown in the table below:

	2015					
	Salary	Bonus (note 1)	Fees (note 2)	Benefits (note 3)	Pension (note 4)	Total
Peter Tom CBE	–	–	717,750	–	–	717,750
Simon Vivian	440,000	550,000	–	19,579	67,663	1,077,242
Pat Ward	N/A	N/A	N/A	N/A	N/A	N/A
Rob Wood	235,000	344,150	–	20,317	36,138	635,605
Amit Bhatia	N/A	N/A	N/A	N/A	N/A	N/A
Susie Farnon	–	–	35,000	–	–	35,000
David Warr	–	–	35,000	–	–	35,000
David Williams	–	–	35,000	–	–	35,000
Total	675,000	894,150	822,750	39,896	103,801	2,535,597

Notes:

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

2 Included in fees above is an amount of £319,000 (2014: £319,000) in respect of services provided by Rise Rocks Limited, a company in which Mr Tom has a beneficial interest, and the sum of £398,750 (2014: £398,750) which was paid or payable to Rise Rocks Limited as a bonus pursuant to the consultancy agreement between the Company and Rise Rocks Limited.

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

4 Each of Simon Vivian and Rob Wood received a salary supplement in lieu of a contribution to a pension arrangement.

Bonuses

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

Threshold level of underlying EBIT £m	Target level of underlying EBIT £m	Maximum level of underlying EBIT £m	Actual level of underlying EBIT £m	Bonus earned (percentage of salary) %
50.0	54.0	59.0	59.6	125

The bonus of £468,750 paid to Rise Rocks Limited (a company in which Mr 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 2016

Awards were granted under the PSPs in April 2014, with vesting subject to a performance condition based on the compound annual growth in EPS over a performance period running from 2014 to 2016. Subject to the rules of the PSPs, the Directors' awards will vest in April 2017 as described below:

					Vesting level	
Director	Shares subject to award	Threshold EPS CAGR (20% of the award vests)	Maximum EPS CAGR (100% of the award vests)	Actual EPS CAGR	Percentage	Number of shares
Peter Tom CBE*	701,098	11.1%	45.9%	49.1%	100	701,098
Simon Vivian**	967,033	11.1%	45.9%	49.1%	100	644,100
Rob Wood	483,516	11.1%	45.9%	49.1%	100	483,516

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

**Simon Vivian was treated as a 'good leaver' for PSP purposes on his retirement as Group Chief Executive on 31 March 2016. The number of shares in respect of which his award granted in April 2014 will vest will be reduced pro-rata to reflect the proportion of the vesting period for which Mr Vivian was employed by the Group.

PSP awards granted in 2016

On 6 April 2016, 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 2016, 2017 and 2018:

EPS growth in excess of RPI	Percentage of award that vests
Less than 37%	0%
Equal to 37%	20%
More than 37% but less than 80%	Calculated on a straight line basis between 20% and 100%
80% or more	100%

Awards were granted to the Executive Directors at the level of 100 per cent of salary as follows:

- Peter Tom CBE*: 531,914 shares
- Pat Ward: 709,219 shares
- Rob Wood: 425,531 shares

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

Implementation of the Remuneration Policy in 2017

No significant changes to the Remuneration Policy are currently proposed in 2017, 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 2017 will be determined in March 2017. Any increases to Executive Directors' salaries are expected to be 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 2017 Directors' Remuneration Report.

Non-executive Directors' fees

No changes are proposed to the Non-executive Directors' fees for 2017, which will remain as follows:

- Basic fee: £40,000;
- Additional fee for holding the office of Senior Independent Director or for Chairing the Audit or Remuneration Committee: £10,000.

Executive Directors' bonus opportunity

For 2017, 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 2016 bonuses.

PSP awards

The Committee proposes to grant the Executive Directors awards under the PSP in 2017 at the level of 100 per cent of salary.

The awards will vest subject to the satisfaction of a performance condition assessed over 2017, 2018 and 2019 as follows:

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

Directors' interests in share plans

Details of the Directors' interests in the Company's share plans are set out on page 65.

GOVERNANCE

NOMINATION COMMITTEE REPORT

Peter Tom CBE
Chairman, Nomination Committee

In 2016, in recognition of the growth in the size of the Breedon Group and of the Board, we established a Nomination Committee for the first time.

Key activities carried out in the year:

The Committee was established in 2016 and, since its establishment, it has met once to consider the Group's management succession plans following the increase in the size of its operations as a consequence of the acquisition of Hope Construction Materials Limited.

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

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 the Group Chief Executive and the Group Human Resources Director, and considered the latest succession plans for senior management within the business following the completion of the acquisition of Hope. It was agreed that the Committee would keep such planning under review and that it would receive an update on the plan on at least an annual basis.

It is expected that, during 2017, 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

8 March 2017

DIRECTORS' REPORT

The Directors present their report, together with the audited Financial Statements, for the year ended 31 December 2016.

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 20 to 33.

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 15 to 17. Details of the Group's operational key performance indicators are shown on page 14.

Results and dividends

For the year to 31 December 2016, the Group's profit before tax was £46.8 million (2015: £31.3 million) and after tax was a profit of £36.8 million (2015: £25.0 million). Subject to availability of distributable reserves, dividends will be paid to shareholders when the Directors believe it is appropriate and prudent to do so.

Stated capital

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

Directors

The following Directors served during the year:

Peter Tom CBE	Executive Chairman
Simon Vivian	Group Chief Executive (resigned 10 March 2016) Non-executive Director (appointed 18 May 2016)
Pat Ward	Group Chief Executive (appointed 8 March 2016)
Rob Wood	Group Finance Director
Amit Bhatia	Non-executive Director (appointed 1 August 2016)
Susie Farnon	Independent Non-executive Director
David Warr	Independent Non-executive Director
David Williams	Non-executive Director

Biographical details of the Directors can be found on pages 48 and 49 and details of the Directors' service contracts are given in the Directors' Remuneration Report on page 59.

Directors' interests

The Directors in office at 31 December 2016 had interests in the issued share capital of the Company as shown in the table below:

	Ordinary shares	
	31 December 2016	31 December 2015*
Peter Tom CBE	**41,091,867**	48,091,867
Simon Vivian	**10,509,371**	16,509,371
Pat Ward	**200,000**	–
Rob Wood	**100,000**	100,000
Amit Bhatia	**–**	–
Susie Farnon	**1,814,365**	1,814,365
David Warr	**5,555,556**	5,555,556
David Williams	**10,000,000**	21,710,636

* or date of appointment if later

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 2016	31 December 2015*	**31 December 2016**	31 December 2015*	**31 December 2016**	31 December 2015*
Peter Tom CBE	**1,934,110**	1,402,196	**–**	–	**–**	–
Simon Vivian	**–**	–	**1,934,066**	1,934,066	**–**	–
Pat Ward	**–**	–	**709,219**	–	**30,030**	–
Rob Wood	**–**	–	**1,436,520**	1,010,989	**79,365**	79,365

* or date of appointment if later

The savings-related share options held by Mr Ward are exercisable at a price of 59.94p and are normally exercisable between 1 May 2019 and 30 October 2019. Those held by Mr 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 2017 and 8 March 2017.

Substantial shareholdings

The Company is aware that, as at 21 February 2017, other than the Directors, the interests of shareholders holding 3 per cent or more of the issued share capital of the Company were as shown in the table below.

	Ordinary shares	
Beneficial Holder	Number	%
Invesco Asset Management	**309,771,291**	**21.95**
Abicad Holding Limited	**259,120,245**	**18.36**
Woodford Investment Management	**171,222,734**	**12.13**
AXA Investment Managers UK	**118,701,571**	**8.41**
Threadneedle Asset Management	**103,158,078**	**7.31**
Investec Asset Management	**44,834,372**	**3.18**
Lansdowne Partners	**43,928,412**	**3.11**

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 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 8 March 2017 (as adjusted for the potential exercise of outstanding warrants). Shareholders are also being asked to grant the Directors authority to allot, for cash otherwise than in connection with a rights issue, up to 72,322,300 ordinary shares, being 5 per cent of the issued ordinary share capital of the Company (as adjusted for the potential exercise of the outstanding warrants) without first offering the securities to existing shareholders. 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 2018.

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 36.

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 2019. 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 15 to 17 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 2019.

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

Peter Tom CBE
Executive Chairman

Pat Ward
Group Chief Executive

8 March 2017

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 as adopted by the EU.

Company law requires the Directors to prepare 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 period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Financial Statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

IN THIS SECTION

FINANCIAL STATEMENTS

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

We have audited the group Financial Statements of Breedon Group plc (the 'Company') for the year ended 31 December 2016 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 68, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Darren Turner (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

8 March 2017

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Note	2016 Underlying £000	2016 Non-underlying* (note 3) £000	2016 Total £000	2015 Underlying £000	2015 Non-underlying* (note 3) £000	2015 Total £000
Revenue	1,2	**454,688**	**–**	**454,688**	318,452	–	318,452
Cost of sales		**(278,746)**	**–**	**(278,746)**	(211,395)	–	(211,395)
Gross profit		**175,942**	**–**	**175,942**	107,057	–	107,057
Distribution expenses		**(78,517)**	**–**	**(78,517)**	(43,737)	–	(43,737)
Administrative expenses		**(39,188)**	**(8,372)**	**(47,560)**	(26,266)	(3,754)	(30,020)
Group operating profit	2	**58,237**	**(8,372)**	**49,865**	37,054	(3,754)	33,300
Share of profit of associate and joint ventures (net of tax)	11	**1,374**	**–**	**1,374**	728	–	728
Profit from operations		**59,611**	**(8,372)**	**51,239**	37,782	(3,754)	34,028
Financial income	6	**63**	**–**	**63**	25	–	25
Financial expense	6	**(4,540)**	**–**	**(4,540)**	(2,776)	–	(2,776)
Profit before taxation		**55,134**	**(8,372)**	**46,762**	35,031	(3,754)	31,277
Taxation	7	**(11,198)**	**1,206**	**(9,992)**	(6,347)	33	(6,314)
Profit for the year		**43,936**	**(7,166)**	**36,770**	28,684	(3,721)	24,963
Attributable to:							
Equity holders of the parent		**43,885**	**(7,166)**	**36,719**	28,629	(3,721)	24,908
Non-controlling interests		**51**	**–**	**51**	55	–	55
Profit for the year		**43,936**	**(7,166)**	**36,770**	28,684	(3,721)	24,963
Basic earnings per ordinary share	24	**3.49p**		**2.92p**	2.68p		2.33p
Diluted earnings per ordinary share	24	**3.38p**		**2.83p**	2.59p		2.25p

* 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 2016

	Note	2016 £000	2015 £000
Profit for the year		**36,770**	24,963
Other comprehensive income			
Items which may be reclassified subsequently to profit and loss:			
Effective portion of changes in fair value of cash flow hedges		**44**	19
Taxation on items taken directly to other comprehensive income	7	**–**	(4)
Other comprehensive income for the year		**44**	15
Total comprehensive income for the year		**36,814**	24,978
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		**36,763**	24,923
Non-controlling interests		**51**	55
		36,814	24,978

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Property, plant and equipment	8	**467,514**	210,858
Intangible assets	9	**193,784**	22,546
Investment in associate and joint ventures	11	**5,502**	5,078
Total non-current assets		**666,800**	238,482
Current assets			
Inventories	13	**29,331**	12,569
Trade and other receivables	14	**110,772**	58,779
Cash and cash equivalents		**4,628**	23,522
Total current assets		**144,731**	94,870
Total assets		**811,531**	333,352
Current liabilities			
Interest-bearing loans and borrowings	15	**(6,893)**	(5,338)
Trade and other payables	16	**(116,783)**	(65,110)
Current tax payable		**(5,114)**	(3,391)
Provisions	17	**(6,478)**	(184)
Total current liabilities		**(135,268)**	(74,023)
Non-current liabilities			
Interest-bearing loans and borrowings	15	**(157,073)**	(7,934)
Provisions	17	**(24,429)**	(11,141)
Deferred tax liabilities	12	**(27,217)**	(7,012)
Total non-current liabilities		**(208,719)**	(26,087)
Total liabilities		**(343,987)**	(100,110)
Net assets		**467,544**	233,242
Equity attributable to equity holders of the parent			
Stated capital	18	**375,495**	178,637
Cash flow hedging reserve	18	**8**	(36)
Capital reserve	18	**1,516**	1,516
Retained earnings		**90,307**	52,958
Total equity attributable to equity holders of the parent		**467,326**	233,075
Non-controlling interests		**218**	167
Total equity		**467,544**	233,242

These Financial Statements were approved by the Board of Directors on 8 March 2017 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 2016

	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 2015	139,139	(51)	1,516	26,406	167,010	162	167,172
Shares issued	41,194	–	–	(252)	40,942	–	40,942
Expenses of share issue	(1,696)	–	–	–	(1,696)	–	(1,696)
Dividend to non-controlling interests	–	–	–	–	–	(50)	(50)
Total comprehensive income for the year	–	15	–	24,908	24,923	55	24,978
Credit to equity of share-based payments	–	–	–	1,896	1,896	–	1,896
Balance at 31 December 2015	178,637	(36)	1,516	52,958	233,075	167	233,242
Shares issued	196,858	–	–	(177)	196,681	–	196,681
Total comprehensive income for the year	–	44	–	36,719	36,763	51	36,814
Credit to equity of share-based payments	–	–	–	807	807	–	807
Balance at 31 December 2016	**375,495**	**8**	**1,516**	**90,307**	**467,326**	**218**	**467,544**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		**36,770**	24,963
Adjustments for:			
Depreciation and amortisation		**25,530**	17,898
Financial income		**(63)**	(25)
Financial expense		**4,540**	2,776
Share of profit of associate and joint ventures (net of tax)		**(1,374)**	(728)
Net gain on sale of property, plant and equipment		**(1,007)**	(1,320)
Equity-settled share-based payment expenses		**807**	1,896
Taxation		**9,992**	6,314
Operating cash flow before changes in working capital and provisions		**75,195**	51,774
Decrease in trade and other receivables		**6,862**	4,187
(Increase)/Decrease in inventories		**(1,887)**	458
(Decrease)/Increase in trade and other payables		**(801)**	5,959
Increase/(Decrease) in provisions		**1,429**	(264)
Cash generated from operating activities		**80,798**	62,114
Interest paid		**(4,315)**	(1,463)
Interest element of finance lease payments		**(466)**	(624)
Dividend paid to non-controlling interest	10	**–**	(50)
Income taxes paid		**(8,307)**	(5,767)
Net cash from operating activities		**67,710**	54,210
Cash flows used in investing activities			
Acquisition of businesses	26	**(57,062)**	–
Purchase of property, plant and equipment		**(23,729)**	(14,447)
Proceeds from sale of property, plant and equipment		**10,070**	4,501
Repayment of loan to joint venture		**200**	100
Interest received		**63**	25
Dividend from associate	11	**750**	375
Net cash used in investing activities		**(69,708)**	(9,446)
Cash flows used in financing activities			
Proceeds from the issue of shares (net)	18	**397**	39,246
Proceeds from new loans raised		**195,000**	–
Repayment of loans		**(205,090)**	(69,000)
Repayment of finance lease obligations		**(7,191)**	(7,214)
Purchase of financial instrument – derivative		**(12)**	(59)
Net cash used in financing activities		**(16,896)**	(37,027)
Net (decrease)/increase in cash and cash equivalents		**(18,894)**	7,737
Cash and cash equivalents at 1 January		**23,522**	15,785
Cash and cash equivalents at 31 December		**4,628**	23,522

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 Elizabeth House, 9 Castle Street, St Helier, Jersey, JE2 3RT. The Company was incorporated on 15 August 2007.

1.1 Basis of preparation

The Financial Statements were authorised for issue by the Board of Directors on 8 March 2017.

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 67.

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 where the measurement of balances at fair value is required as set out below.

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 IFRS 2 – Share-based Payment
- Amendments to IFRS 3 – Business Combinations
- Amendments to IFRS 8 – Operating Segments
- Amendments to IFRS 13 – Fair Value Measurement
- Amendments to IAS 16 – Property, Plant and Equipment
- Amendments to IAS 24 – Related Party Disclosures
- Amendments to IAS 38 – Intangible Assets

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

1 Accounting policies continued

1.3 New IFRS standards and interpretations not adopted

The IASB and IFRIC have issued additional standards and amendments which are effective for periods starting after the date of these Financial Statements. The following standards and amendments have not yet been adopted by the Group:

Effective for periods beginning on or after 1 January 2017:

- Amendments to IAS 7 – Cash Flows
- Amendments to IAS 12 – Income Taxes

Effective for periods beginning on or after 1 January 2018:

- Amendments to IFRS 2 – Share-based Payment
- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

Effective for periods beginning on or after 1 January 2019:

- IFRS 16 – Leases

Implementation of IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases) may have an impact on the Group Financial Statements and an assessment of the impact of them is being carried out. The Group is presently unable to quantify the potential impact until this assessment has been concluded.

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 financial information 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 financial information includes the Group's share of the total comprehensive income of 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.

1 Accounting policies continued

1.5 Financial instruments continued

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 (see below).

Interest rate caps are used to hedge the Group's exposure to movements on interest rates.

The fair value of interest rate caps is the estimated amount that the Group would receive to terminate the cap at the reporting date, taking into account current interest rates and the current creditworthiness of the financial derivative counterparties.

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 fair value.

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. Lease payments are accounted for as described below.

1 Accounting policies continued

1.7 Property, plant and equipment continued

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.

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 assets 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 Accounting policies continued

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.

1.12 Retirement benefits

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

1.13 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 in respect of dilapidations, environmental and planning requirements and onerous leases as a result of a past event, 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.

1.14 Revenue

Revenue from the sale of goods and services represents the amount (excluding value added and sales taxes) invoiced to third party customers, net of returns and trade discounts. Revenue is recognised by the Group when the significant risks and rewards associated with the transaction have been transferred to the customers and the amount of revenue can be measured reliably. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Usually transfer occurs when products have been delivered to, or picked up by, the customer or by reference to the degree of completion for the supply of contracting services.

1.15 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.

1 Accounting policies continued

1.15 Expenses continued

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.

1.16 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.

1.17 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.

1.18 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 non-vesting 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.

1.19 Dividends

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

2 Segmental analysis

Segmental information is presented in respect of the Group's business segments in line with IFRS 8 – Operating Segments which requires segmental information to be presented on the same basis as it is viewed internally. For the purposes of our 2016 results the Group reported as three businesses: Breedon Northern (comprising the former Breedon Aggregates Scotland business), Breedon Southern (comprising the former Breedon Aggregates England business) and Hope Cement (comprising all of the operations of the former Hope Construction Materials business). By the end of 2017 all aggregates and concrete operations will be consolidated into our Northern and Southern businesses and all our cementitious operations will be housed within Hope Cement and that is the basis on which we will report all future results. A description of the activities of each segment is included on pages 25 to 33. There are no other operating segments. The majority of revenues are earned from the sale of aggregates, cement, related products and services.

Income Statement

	2016		2015	
	Revenue £000	**EBITDA* £000**	Revenue £000	EBITDA* £000
Breedon Northern	**159,433**	**29,692**	147,611	25,092
Breedon Southern	**175,264**	**42,463**	170,841	35,837
Hope Cement	**121,271**	**18,152**	–	–
Central administration	**–**	**(6,657)**	–	(6,014)
Eliminations	**(1,280)**	**–**	–	–
Group	**454,688**	**83,650**	318,452	54,915

*EBITDA represents underlying EBITDA before share of profit from associate and joint ventures.

Reconciliation to reported profit		
Group EBITDA as above	**83,650**	54,915
Depreciation and mineral depletion	**(25,413)**	(17,861)
Underlying operating profit		
Breedon Northern	**19,927**	16,088
Breedon Southern	**34,047**	26,997
Hope Cement	**10,940**	–
Central administration	**(6,677)**	(6,031)
	58,237	37,054
Share of profit of associate and joint ventures	**1,374**	728
Underlying profit from operations (EBIT)	**59,611**	37,782
Non-underlying items (note 3)	**(8,372)**	(3,754)
Profit from operations	**51,239**	34,028
Net financial expense	**(4,477)**	(2,751)
Profit before taxation	**46,762**	31,277
Taxation	**(9,992)**	(6,314)
Profit for the year	**36,770**	24,963

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2 Segmental analysis continued

Statement of Financial Position

	2016		2015	
	Total assets £000	Total liabilities £000	Total assets £000	Total liabilities £000
Breedon Northern	**184,175**	**(40,825)**	154,026	(28,993)
Breedon Southern	**154,714**	**(39,238)**	152,685	(36,731)
Hope Cement	**466,118**	**(58,945)**	–	–
Central administration	**1,896**	**(8,682)**	3,119	(10,711)
Total operations	**806,903**	**(147,690)**	309,830	(76,435)
Current tax	**–**	**(5,114)**	–	(3,391)
Deferred tax	**–**	**(27,217)**	–	(7,012)
Net (debt)/cash	**4,628**	**(163,966)**	23,522	(13,272)
Total Group	**811,531**	**(343,987)**	333,352	(100,110)
Net assets		**467,544**		233,242

Breedon Northern total assets include £2,103,000 (2015: £1,576,000) in respect of investments in a joint venture and an associate and Breedon Southern total assets include £3,399,000 (2015: £3,502,000) in respect of an investment in a joint venture.

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
2016				
Breedon Northern	**1,570**	**8,195**	**35**	**14,596**
Breedon Southern	**2,760**	**5,656**	**2**	**9,804**
Hope Cement	**149**	**7,063**	**80**	**6,267**
Central administration	**–**	**20**	**–**	**35**
Total	**4,479**	**20,934**	**117**	**30,702**
2015				
Breedon Northern	1,461	7,543	35	13,228
Breedon Southern	2,803	6,037	2	8,716
Central administration	–	17	–	37
Total	4,264	13,597	37	21,981

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

3 Non-underlying items

As required by IFRS 3 – Business Combinations, acquisition costs have been expensed as incurred. Additionally, the Group incurred redundancy costs in respect of the reorganisation of parts of the business. Non-underlying items also include property items, the amortisation of acquisition intangible assets and related tax items.

	2016 £000	2015 £000
Included in administrative expenses:		
Redundancy and reorganisation costs	**(5,326)**	(306)
Acquisition costs	**(3,119)**	(3,837)
Gain on property disposals	**185**	426
Amortisation of acquisition intangible assets	**(112)**	(37)
Total non-underlying items (pre-tax)	**(8,372)**	(3,754)
Non-underlying taxation	**1,206**	33
Total non-underlying items (after tax)	**(7,166)**	(3,721)

Acquisition costs include costs relating to the acquisition and integration of Hope Cement Limited (formerly Hope Construction Materials Limited) and Sherburn Minerals Limited.

4 Expenses and auditor's remuneration

	2016 £000	2015 £000
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment:		
Owned assets	**22,401**	14,903
Assets held under finance lease	**3,012**	2,958
Amortisation of intangible assets	**117**	37
Gain on sale of property	**(185)**	(426)
Gain on sale of plant and equipment	**(822)**	(894)
Operating lease rentals:		
Plant, equipment and vehicles	**4,955**	2,133
Other	**4,719**	2,674
Auditor's remuneration		
Audit of the Company's annual accounts	**11**	11
Audit of the Company's subsidiary undertakings	**265**	147
Services relating to corporate finance transactions	**–**	10
Taxation compliance services	**55**	62
Taxation advisory services	**24**	37
Other non-audit services	**19**	37
	374	304

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 Remuneration of Directors, staff numbers and costs

Details of the remuneration received by Directors is summarised below:

	2016 £000	2015 £000
Salaries and short-term employee benefits	**2,064**	1,683
Directors' fees	**993**	823
Equity-settled share based payments (note 19)	**571**	700
	3,628	3,206

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

	Number of employees	
	2016	2015
Breedon Northern	**727**	701
Breedon Southern	**535**	529
Hope Cement	**390**	–
Central administration	**11**	10
	1,663	1,240

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

	2016 £000	2015 £000
Wages and salaries	**62,209**	45,365
Social security costs	**6,518**	4,796
Other pension costs	**2,811**	2,073
Equity-settled share based payments (note 19)	**807**	1,896
	72,345	54,130

6 Financial income and expense

	2016 £000	2015 £000
Interest income – bank deposits	**63**	25
Financial income	**63**	25
Interest expense – bank loans and overdrafts	**(2,748)**	(1,567)
Amortisation of prepaid bank arrangement fee	**(497)**	(256)
Interest expense – finance leases	**(466)**	(624)
Unwinding of discount on provisions	**(829)**	(329)
Financial expense	**(4,540)**	(2,776)

7 Taxation

	2016 £000	2015 £000
Recognised in the Consolidated Income Statement		
Current tax expense	**9,996**	6,894
Adjustments in respect of prior years	**(104)**	(372)
Total current tax	**9,892**	6,522
Deferred tax expense		
Origination and reversal of temporary differences		
Current year	**(193)**	(149)
Prior year	**293**	(59)
Total deferred tax	**100**	(208)
Total tax charge in the Consolidated Income Statement	**9,992**	6,314

	2016 £000	2015 £000
Taxation on items taken directly to Other Comprehensive Income		
Deferred tax expense		
Relating to cash flow hedges	**–**	4

	2016 £000	2015 £000
Reconciliation of effective tax rate		
Profit before taxation	**46,762**	31,277
Tax at the Company's domestic rate of 0%*	**–**	–
Effect of tax in UK at UK rate*	**10,061**	7,307
Expenses not deductible for tax purposes	**1,835**	466
Property sales	**(25)**	–
Unrecognised temporary differences utilised	**(222)**	(51)
Income from associate and joint ventures already taxed	**(275)**	(147)
Effect of change in rate	**(1,571)**	(830)
Adjustment in respect of prior years	**189**	(431)
Total tax charge	**9,992**	6,314

* 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 20.00 per cent (2015: 20.25 per cent).

A reduction in the UK corporation tax rate from 21 per cent to 20 per cent (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19 per cent (effective from 1 April 2017) and to 18 per cent (effective 1 April 2020) were 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 Company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

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 2015	129,851	21,086	107,665	258,602
Additions	836	448	20,697	21,981
Disposals	–	(403)	(2,560)	(2,963)
Balance at 31 December 2015	130,687	21,131	125,802	277,620
Balance at 1 January 2016	130,687	21,131	125,802	277,620
Acquisitions through business combinations (see 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**
Depreciation				
Balance at 1 January 2015	11,979	2,245	36,774	50,998
Depreciation charge for the year	4,264	715	12,882	17,861
Disposals	–	(67)	(2,030)	(2,097)
Balance at 31 December 2015	16,243	2,893	47,626	66,762
Balance at 1 January 2016	16,243	2,893	47,626	66,762
Depreciation 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**
Net book value				
At 31 December 2015	114,444	18,238	78,176	210,858
At 31 December 2016	**135,432**	**39,753**	**292,329**	**467,514**

Leased plant and machinery

At 31 December 2016, the net carrying amount of leased plant and machinery was £24,108,000 (2015: £19,073,000). Depreciation charged on these assets in the year was £3,012,000 (2015: £2,958,000). Details of finance lease obligations are set out in note 15.

Depreciation

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

	2016 £000	2015 £000
Cost of sales	**24,524**	17,075
Administration expenses	**889**	786
	25,413	17,861

Security

All mineral reserves and resources, and 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 2015	22,197	744	22,941
Additions	–	–	–
At 31 December 2015	22,197	744	22,941
At 1 January 2016	22,197	744	22,941
Acquisitions through business combinations (see note 26)	163,687	7,668	171,355
At 31 December 2016	**185,884**	**8,412**	**194,296**
Amortisation			
At 1 January 2015	–	358	358
Amortisation for the year	–	37	37
At 31 December 2015	–	395	395
At 1 January 2016	–	395	395
Amortisation for the year	–	117	117
At 31 December 2016	**–**	**512**	**512**
Net book value			
At 31 December 2015	**22,197**	**349**	**22,546**
At 31 December 2016	**185,884**	**7,900**	**193,784**

Other intangible assets relate to acquisition intangibles, being the fair value of certain customer lists, emissions rights and customer contracts as part of acquisitions. 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.

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 according to the level at which management monitor that goodwill. At 31 December 2016, goodwill of £14,305,000 (2015: £8,310,000) has been allocated to Breedon Northern (formerly Scotland), £13,887,000 (2015: £13,887,000) has been allocated to Breedon Southern (formerly England) and £157,692,000 has been allocated to Hope Cement.

For Breedon Northern and Breedon Southern impairment testing, the recoverable amount of goodwill attaching to cash generating units is determined using value in use calculations. These calculations use cash flow projections based on actual operating results for 2016 and budgeted forecasts for 2017. The key assumptions on which budgeted forecasts are based include sales growth, product mix and operating costs. These forecasts are then extrapolated forward for a 30 year period, being an appropriate period reflecting the long term nature of the underlying assets, assuming a 2.0 per cent (2015: 2.0 per cent) annual growth rate, based on management's estimate of the industry's revenue and cost growth discounted at a pre-tax rate of 8.4 per cent (2015: 8.4 per cent) and a post-tax rate of 8.3 per cent (2015: 8.3 per cent). Directors estimate discount rates reflecting current market assessment of the time value of money and the risks specific to the cash generating units ('CGU'). As each CGU is considered to have similar risks and similar long term prospects, the same discount rate has been applied. The Directors have determined that there has been no impairment.

The Group has applied sensitivities to assess whether any reasonably 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 increase in the post-term discount rate, nor a 1.0 per cent reduction in the annual growth rate would cause an impairment.

The Directors have not undertaken a formal impairment review in respect of Hope Cement as this business was acquired in the year but have undertaken an exercise to identity whether there are any 'impairment triggers' and concluded that there were none.

The allocation of the provisional goodwill will be reviewed as a result of the planned changes in our operating segments in 2017 (see note 2).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 Principal Group companies

The principal undertakings in which the Group's interest at the end of the current year was more than 20 per cent were as follows:

	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 (formerly Breedon Aggregates Scotland Limited)	Scotland	100%	Production and sale of aggregates
Breedon Southern Limited (formerly Breedon Aggregates England Limited)	England	100%	Production and sale of aggregates
Breedon Group Services Limited	England	100%	Service company
Breedon Properties Limited	England	100%	Property holding company
Breedon Holdings Limited	England	100%	Service company
Alba Traffic Management Limited	Scotland	75%	Traffic management
Hope Cement Limited (formerly Hope Construction Materials Limited)	England	100%	Cement, concrete and aggregates
Sherburn Minerals Limited	England	100%	Quarrying and supply of aggregates
Sherburn Stone Company Limited	England	100%	Manufacture of heavy building materials
Sherburn Cement Limited	England	100%	Import and distribution of cement
Associated undertaking			
Ordinary shares held indirectly			
BEAR Scotland Limited	Scotland	37.5%	Road maintenance contracting
Joint ventures			
Ordinary shares held indirectly			
Breedon Bowen Limited	England	50%	Production and sale of aggregates
Breedon Whitemountain Ltd	Scotland	50%	Road construction

During the year, the Group acquired the entire issued share capital of Hope Cement Limited (formerly Hope Construction Materials Limited) and Sherburn Minerals Limited (see note 26).

The Consolidated Statement of Financial Position includes total assets of £1,220,000 (2015: £1,022,000) and total liabilities of £192,000 (2015: £251,000) in respect of Alba Traffic Management Limited, the Group's 75 per cent subsidiary undertaking.

11 Investment in associate and joint ventures

The Group equity accounts for its investments in its associate (BEAR Scotland Limited) and in its joint ventures (Breedon Bowen Limited and Breedon Whitemountain Ltd).

	Associate £000	Joint Ventures £000	Total £000
Carrying value			
At 1 January 2015	1,342	3,483	4,825
Share of profit of associate and joint venture (net of tax)	609	119	728
Dividends received	(375)	–	(375)
Loan repayment	–	(100)	(100)
At 31 December 2015	1,576	3,502	5,078
At 1 January 2016	1,576	3,502	5,078
Share of profit of associate and joint ventures (net of tax)	776	598	1,374
Dividends received	(750)	–	(750)
Loan repayment	–	(200)	(200)
At 31 December 2016	**1,602**	**3,900**	**5,502**

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

	2016		2015	
	BEAR Scotland £000	**Joint Ventures £000**	BEAR Scotland £000	Joint Venture £000
Non-current assets	**9,667**	**5,396**	9,741	5,239
Current assets	**15,624**	**11,157**	9,804	2,395
Current liabilities	**(14,113)**	**(8,888)**	(7,548)	(1,405)
Non-current liabilities	**(6,905)**	**(1,046)**	(7,794)	(1,489)
Net assets	**4,273**	**6,619**	4,203	4,740
Revenue	**80,945**	**15,510**	74,508	3,924
Net profit	**2,070**	**1,195**	1,624	238

12 Deferred tax

	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)**

	1 January 2015 £000	Acquisitions (note 26) £000	Recognised in income £000	Recognised in equity £000	31 December 2015 £000
Property, plant and equipment	(9,638)	–	208	–	(9,430)
Intangible assets	(77)	–	11	–	(66)
Financial instruments – derivatives	13	–	–	(4)	9
Working capital and provisions	2,481	–	(19)	–	2,462
Tax value of loss carry-forwards	5	–	8	–	13
	(7,216)	–	208	(4)	(7,012)

There are no unrecognised deferred tax assets (2015: £Nil).

13 Inventories

	2016 £000	2015 £000
Raw materials and consumables	**13,026**	4,950
Work in progress	**4,206**	–
Finished goods and goods for resale	**12,099**	7,619
	29,331	12,569

Inventories (being directly attributable costs of production) of £253,034,000 (2015: £191,990,000) were expensed in the year.

14 Trade and other receivables

	2016 £000	2015 £000
Trade receivables	**94,311**	49,388
Trade receivables due from associate and joint ventures (note 23)	**6,992**	854
Other receivables and prepayments	**9,011**	8,529
Financial instruments – derivatives	**458**	8
	110,772	58,779
Non-current	**–**	–
Current	**110,772**	58,779
	110,772	58,779

The derivatives represent the fair value of interest rate caps and 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.

	2016 £000	2015 £000
Non-current liabilities		
Secured bank loans	**147,779**	359
Finance lease liabilities	**9,294**	7,575
	157,073	7,934
Current liabilities		
Unsecured bank loans	**1,336**	–
Current portion of finance lease liabilities	**5,557**	5,338
	6,893	5,338

In November 2015, the Group entered into a new four year £300 million facility agreement which became effective on completion of the acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited) and which replaced the facilities previously in place. The new facility carried a rate of interest of 1.9 per cent above LIBOR, compared to a rate of interest of between 1.35 per cent and 1.7 per cent above LIBOR on the previous facility. 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 payable as follows:

	2016			2015		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	**5,918**	**361**	**5,557**	5,779	441	5,338
Between one and five years	**9,659**	**365**	**9,294**	7,852	277	7,575
More than five years	**–**	**–**	**–**	–	–	–
	15,577	**726**	**14,851**	13,631	718	12,913

Finance leases are secured on the underlying asset and are for periods of up to five years.

Net (debt)/cash

	2016 £000	2015 £000
Net (debt)/cash comprises the following items:		
Cash and cash equivalents	**4,628**	23,522
Current borrowings	**(6,893)**	(5,338)
Non-current borrowings	**(157,073)**	(7,934)
	(159,338)	10,250

16 Trade and other payables

	2016 £000	2015 £000
Trade payables	**76,067**	40,060
Trade payables due to joint ventures (note 23)	**19**	40
Other payables and accrued expenses	**26,966**	17,014
Other taxation and social security costs	**13,731**	7,996
	116,783	65,110

17 Provisions

	Restoration £000	Other £000	Total £000
At 1 January 2015	10,166	1,094	11,260
Utilised during the year	(227)	(127)	(354)
Charged to income statement	90	–	90
Unwinding of discount	329	–	329
At 31 December 2015	10,358	967	11,325
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**

Included in provisions is £6,478,000 (2015: £184,000) in respect of current amounts and £24,429,000 (2015: £11,141,000) in respect of non-current amounts.

Restoration provisions, of which £1,817,000 (2015: £90,000) are current, principally comprise provisions for the cost of restoring and decommissioning sites where an obligation arises so as 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 through to the end of the production lives of the related quarries and plants.

Other provisions comprise provisions for continued obligations for dilapidations, environmental and planning requirements and onerous leases. These obligations will be settled within the normal operating cycle.

18 Capital and reserves

Stated capital

	Number of ordinary shares	
	2016	2015
Issued ordinary shares at beginning of year	**1,149,390,728**	1,022,540,561
Issued in connection with:		
Acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited)	**259,120,245**	78,782,825
Exercise of savings-related share options	**2,502,790**	826,524
Employee bonus issue	**–**	304,750
Purchase of Marwyn Participation Shares	**–**	46,936,068
	1,411,013,763	1,149,390,728

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.

18 Capital and reserves continued

On 2 August 2016, the Company issued 259,120,245 ordinary shares of no par value in connection with the acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited) (see note 26).

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.

On 26 January 2015, the Company issued 2,391,065 ordinary shares of no par value; on 12 February 2015, it issued 11,574,474 ordinary shares of no par value; and on 25 March 2015, it issued 32,970,529 ordinary shares of no par value, all in connection with the purchase of the remaining Marwyn Participation Shares (see note 19).

On 28 September 2015, the Company issued 304,750 ordinary shares of no par value in connection with a bonus issue of shares to all employees.

On 20 November 2015, in connection with the acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited), the Company issued 78,782,825 ordinary shares of no par value at 51.79 pence per share wholly for cash raising a total of £40,802,000 before expenses and £39,106,000 after expenses.

During 2015, the Company issued 826,524 ordinary shares of no par value raising £140,000 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.

Capital reserve

The capital reserve at 31 December 2016 comprised the fair value of warrants to subscribe for 35,370,667 (2015: 35,370,667) ordinary shares in the Company at 12.0 pence per share. A total of 55,266,667 warrants were issued on 6 September 2010 as part of the consideration for the acquisition of Breedon Holdings Limited and were valued at fair value at acquisition using a modified Black-Scholes model at a value of £2,369,000. They are exercisable at any time until 2 September 2017. No warrants were exercised during 2016 or 2015.

19 Employee benefits

Pension plans

During both the current year and prior year, the Group has contributed to the Breedon Aggregates Group Personal Pension Plan (the 'Breedon Scheme') which is a contract based defined contribution scheme.

The pension costs charged during the year in respect of the Breedon Scheme were £1,959,000 (2015: £1,926,000). Contributions outstanding at 31 December 2016 amounting to £173,000 (2015: £164,000) are included in payables.

In satisfaction of its obligations under the workplace pension legislation (auto-enrolment), the Group also contributed during both the current year and the prior year to the People's Pension.

The pension costs charged during the year in respect of the People's Pension were £160,000 (2015: £147,000). Contributions outstanding at 31 December 2016 amounting to £29,000 (2015: £12,000) are included in payables.

Following the acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited), the Group contributed to the Hope Construction Materials Group Personal Pension Plan (the 'Hope Scheme') which is a contract based defined contribution scheme.

The pension costs charged during the year in respect of the Hope Scheme were £701,000 (2015: £Nil). Contributions outstanding at 31 December 2016 amounting to £2,000 (2015: £Nil) are included in payables.

19 Employee benefits continued

Share-based payments

	2016 £000	2015 £000
Performance Share Plan shares and share options	**807**	1,733
Employee bonus shares	**–**	163
	807	1,896

Participation Shares

Under share based payment arrangements established by the Group to incentivise Directors, key employees and others providing similar services, Participation Shares were issued in 2008, via the Company's subsidiary, Marwyn Materials Investments Limited, to Marwyn Management Partners LP ('Marwyn Participation Shares').

The Company has now settled all these through the issue of new ordinary shares. During the prior year, the Company purchased all remaining 6,380 Marwyn Participation Shares satisfied by the issue of new ordinary shares of no par value in the Company ('Breedon Shares').

During the prior year, £31,000 was transferred to stated capital in respect of the Participation Shares purchased.

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 Performance Condition. The interests of the Directors in PSP awards are disclosed in the Directors' report.

2014 Award

On 2 April 2014, the Group granted conditional awards over 2,520,385 shares under the PSP (the '2014 Award').

Performance Period

The Performance Period applicable to the 2014 Award is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2014 Award is that the Company's EPS growth must match or exceed 11.1 per cent per annum compound over the Performance Period.

Valuation of PSP Awards

The fair value of the 2014 Award was calculated using a binomial model, which valued the awards at £1,150,000, which will be recognised over the period to 2 April 2017. In 2016, £252,000 (2015: £527,000) has been recognised as an expense in the Consolidated Income Statement in respect of the 2014 Award.

The binomial valuation model uses the following assumptions:

Date of grant	April 2014
Share price at date of grant	45.6 pence
Total shares under award	2,520,385
Expected volatility	118%
Risk-free rate	1.12%
Expected term	3.0 years

19 Employee benefits continued

Performance Share Plan continued

2015 Award

On 2 April 2015, the Group granted conditional awards over 2,671,868 shares under the PSP (the '2015 Award').

Performance Period

The Performance Period applicable to the 2015 Award is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2015 Award is that the growth in the Company's EPS in excess of the growth in RPI over the performance period must equal or exceed 56 per cent for any part of the Award to vest.

Valuation of PSP Awards

The fair value of the 2015 Award was calculated using a binomial model, which valued the awards at £1,216,000, which will be recognised over the period to 2 April 2018. In 2016, £244,000 (2015: £304,000) has been recognised as an expense in the Consolidated Income Statement in respect of the 2015 Award.

The binomial valuation model uses the following assumptions:

Date of grant	April 2015
Share price at date of grant	45.5 pence
Total shares under award	2,671,868
Expected volatility	27%
Risk-free rate	0.65%
Expected term	3.0 years

2016 Award

On 6 April 2016, the Group granted conditional awards over 2,006,023 shares under the PSP (the '2016 Award').

Performance Period

The Performance Period applicable to the 2016 Award is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2016 Award is that the growth in the Company's EPS in excess of the growth in RPI over the performance period must equal or exceed 37 per cent for any part of the Award to vest.

Valuation of PSP Awards

The fair value of the 2016 Award was calculated using a binomial model, which valued the awards at £1,439,000, which will be recognised over the period to 6 April 2019. In 2016, £180,000 (2015: £Nil) has been recognised as an expense in the Consolidated Income Statement in respect of the 2016 Award.

The binomial valuation model uses the following assumptions:

Date of grant	April 2016
Share price at date of grant	71.75 pence
Total shares under award	2,006,023
Expected volatility	24%
Risk-free rate	0.59%
Expected term	3.0 years

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 (a 'consultant'). 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 Performance Condition. No NEPSP awards were forfeited, exercised or expired during the year.

2014 Option

On 15 April 2014, the Group granted an option over 701,098 shares under the NEPSP to Rise Rocks Limited, a company in which Mr Tom, a director of the Company, has a beneficial interest (the '2014 Option').

Performance Period

The Performance Period applicable to the 2014 Option is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2014 Option is that the Company's EPS growth must match or exceed 11.1 per cent per annum compound over the Performance Period.

Valuation of NEPSP Award

The fair value of the 2014 Option was calculated using a binomial model, which valued the award at £314,000, which will be recognised over the period to 15 April 2017. In 2016, £103,000 (2015: £142,000) has been recognised as an expense in the Consolidated Income Statement in respect of the 2014 Option.

The binomial valuation model uses the following assumptions:

Date of grant	April 2014
Share price at date of grant	45.3 pence
Exercise price	1.0 pence
Total shares under option	701,098
Expected volatility	125%
Risk-free rate	1.12%
Expected term	3.0 years

2015 Option

On 2 April 2015, the Group granted an option over 701,098 shares under the NEPSP to Rise Rocks Limited, a company in which Mr Tom, a director of the Company, has a beneficial interest (the '2015 Option').

Performance Period

The Performance Period applicable to the 2015 Option is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2015 Option is that the growth in the Company's EPS in excess of the growth in RPI over the Performance Period must equal or exceed 56 per cent for any part of the Option to vest.

19 Employee benefits continued

Valuation of NEPSP Award

The fair value of the 2015 Option was calculated using a binomial model, which valued the award at £312,000, which will be recognised over the period to 15 April 2018. In 2016, £104,000 (2015: £78,000) has been recognised as an expense in the Consolidated Income Statement in respect of the 2015 Option.

The binomial valuation model uses the following assumptions:

Date of grant	April 2015
Share price at date of grant	45.5 pence
Exercise price	1.0 pence
Total shares under option	701,098
Expected volatility	27%
Risk-free rate	0.65%
Expected term	3.0 years

2016 Option

On 6 April 2016, the Group granted an option over 531,914 shares under the NEPSP to Rise Rocks Limited, a company in which Mr Tom, a director of the Company, has a beneficial interest (the '2016 Option').

Performance Period

The Performance Period applicable to the 2016 Option is the three financial years commencing with the financial year in which the award was granted.

Performance Condition

The Performance Condition applicable to the 2016 Option is that the growth in the Company's EPS in excess of the growth in RPI over the performance period must equal or exceed 37 per cent for any part of the Award to vest.

Valuation of NEPSP Award

The fair value of the 2016 Option was calculated using a binomial model, which valued the award at £379,000, which will be recognised over the period to 6 April 2019. In 2016, £47,000 (2015: £Nil) has been recognised as an expense in the Consolidated Income Statement in respect of the 2016 Option.

The binomial valuation model uses the following assumptions:

Date of grant	April 2016
Share price at date of grant	71.8 pence
Exercise price	1.0 pence
Total shares under option	531,914
Expected volatility	24%
Risk-free rate	0.59%
Expected term	3.0 years

19 Employee benefits continued

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:

	Weighted average exercise price	Number of options
At 1 January 2015	24.8p	8,283,133
Granted during the year	40.5p	3,284,077
Exercised during the year	17.1p	(826,524)
Lapsed during the year	31.5p	(538,317)
At 31 December 2015	30.2p	10,202,369
At 1 January 2016	30.2p	10,202,369
Granted during the year	57.0p	3,317,272
Exercised during the year	16.3p	(2,502,790)
Lapsed during the year	40.1p	(646,352)
At 31 December 2016	**41.4p**	**10,370,499**

Details of share options outstanding at 31 December were as follows:

	Number			
	2016	2015	Exercise Price	Exercise period
5 year option granted 2011	–	2,023,742	15.0p	1 May 2016 to 31 October 2016
3 year option granted 2012	–	–	16.6p	1 May 2015 to 31 October 2015
5 year option granted 2012	1,045,244	1,130,506	15.2p	1 May 2017 to 31 October 2017
3 year option granted 2013	–	380,395	19.4p	1 May 2016 to 31 October 2016
5 year option granted 2013	569,642	642,112	17.8p	1 May 2018 to 31 October 2018
3 year option granted 2014	1,346,361	1,421,232	41.4p	1 June 2017 to 30 November 2017
5 year option granted 2014	1,314,578	1,403,466	37.8p	1 June 2019 to 30 November 2019
3 year option granted 2015	1,162,121	1,272,977	42.7p	1 May 2018 to 31 October 2018
5 year option granted 2015	1,788,711	1,927,939	39.0p	1 May 2020 to 31 October 2020
3 year option granted 2016	1,318,753	–	59.9p	1 May 2019 to 31 October 2019
5 year option granted 2016	1,825,089	–	54.8p	1 May 2021 to 31 October 2021
	10,370,499	10,202,369		

The interests of the Directors in share options are shown in the Directors' Report.

19 Employee benefits continued

Sharesave Scheme continued

The fair value of services received in return for share options granted is measured based on a modified Black Scholes Valuation Model using the following assumptions in respect of options granted in the current and prior year:

	3 year options Granted 2016	5 year options Granted 2016	3 year options Granted 2015	5 year options Granted 2015
Fair value at measurement date	**18.8p**	**25.9p**	7.8p	14.8p
Share price at date of grant	**71.8p**	**71.8p**	46.0p	46.0p
Exercise price	**59.9p**	**54.8p**	42.7p	39.0p
Expected volatility	**24.5%**	**25.7%**	24.8%	26.3%
Option life	**3 years**	**5 years**	3 years	5 years
Expected dividend yield	**0%**	**0%**	0%	0%
Risk free interest rate	**0.40%**	**0.81%**	0.79%	1.17%

Employee bonus issue

On 28 September 2015, the Company issued 304,750 ordinary shares to all employees of the Group in celebration of the fifth anniversary of the creation of the Group. The shares were valued at 53.5 pence per share, being the market price on the day of issue and accordingly, £163,000 was charged to the Consolidated Income Statement in 2015 in respect of this bonus issue.

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.

20 Financial instruments continued

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	
	2016 £000	2015 £000
Receivables	**110,314**	58,771
Financial instruments – derivatives	**458**	8
Cash and cash equivalents	**4,628**	23,522
	115,400	82,301

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	
	2016 £000	2015 £000
Breedon Northern	**26,142**	23,804
Breedon Southern	**27,424**	25,584
Hope Cement	**40,745**	–
	94,311	49,388

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 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 credit risk is therefore considered to be low.

The ageing of trade receivables at the reporting date was:

	2016 Gross £000	**Impairment £000**	2015 Gross £000	Impairment £000
Not past due	**91,551**	**(1,046)**	45,138	–
Past due 0-30 days	**2,997**	**(105)**	2,475	–
Past due 31-60 days	**884**	**(13)**	1,471	(5)
Past due more than 60 days	**1,555**	**(1,512)**	1,838	(1,529)
	96,987	**(2,676)**	50,922	(1,534)

20 Financial instruments continued

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

	2016 £000	2015 £000
At 1 January	**1,534**	925
Amounts arising from business combinations (note 26)	**824**	–
Charged to the Consolidated Income Statement during the year	**718**	725
Utilised during the year	**(400)**	(116)
At 31 December	**2,676**	1,534

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 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 liabilities	**103,052**	**103,052**	**103,052**	**–**	**–**
	267,018	**279,151**	**113,549**	**165,602**	**–**

31 December 2015	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	359	1,060	20	1,040	–
Finance lease liabilities	12,913	13,631	5,779	7,852	–
Other liabilities	57,114	57,114	57,114	–	–
	70,386	71,805	62,913	8,892	–

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 operations trade predominantly in their functional currency and accordingly, minimal exposures arise in trade receivables or trade payables.

20 Financial instruments continued

Interest rate risk

The Group currently borrows at floating and fixed interest rates. The Group uses interest rate caps to manage its exposure to changes in floating interest rates.

The Group had an interest rate cap effective from March 2013 until September 2015 with a notional contract amount of £30,000,000 which capped interest rates (excluding margin) at 2.0 per cent.

In July 2016 the notional contract amount was increased to £90,000,000, which now 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 caps at 31 December 2016 was an asset of £1,000 (2015: £8,000). 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	2016 £000	2015 £000
Fixed rate instruments		
Financial liabilities	**(14,851)**	(12,913)
Variable rate instruments		
Financial liabilities*	**(149,115)**	(359)
Financial assets	**4,628**	23,522
	(159,338)	10,250

* variable rate financial liabilities include £90,000,000 (2015: £359,000) of notional debt subject to an interest rate cap (see above).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate caps) as hedging instruments under a fair value hedge accounting model. 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 £1,454,000 (2015: £10,000). A decrease of 100 basis points would have increased equity and income and expenditure for a full year by £380,000 (2015: £5,000). These analyses assume that all other variables remain constant.

Fair values versus carrying amounts

Derivative financial instruments, which are held for trading, are carried at fair value, calculated using quoted market prices relevant for the term, currency and instrument. The Directors consider that the carrying amounts recorded in the financial information in respect of other financial assets and liabilities, which are carried at amortised cost, approximates to their fair values.

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

20 Financial instruments continued

Fair values versus carrying amounts continued

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

	2015 Level 1 £000	2015 Level 2 £000	2015 Level 3 £000	2015 Total £000
Derivative financial asset	–	8	–	8

At 31 December 2016, the Group did not have any assets or liabilities classified at Level 1 in the fair value hierarchy (2015: £Nil). There have been no transfers in any direction in the year. The fair value of the derivative financial assets, being an interest rate cap and foreign exchange contract, is based on a bank's valuation.

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 2016 and 31 December 2015.

21 Operating leases

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

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Less than one year	**5,514**	**8,234**	1,606	1,896
Between one and five years	**17,828**	**17,090**	5,743	4,651
More than five years	**42,499**	**5,609**	12,873	263
	65,841	**30,933**	20,222	6,810

The Group leases properties, vehicles and plant for operational purposes. Property leases vary in length up to a maximum of 100 years. Vehicle leases typically run for a period of up to nine years.

22 Capital commitments

During the year ended 31 December 2016, the Group entered into contracts to purchase property, plant and equipment for £5,882,000 (2015: £3,828,000). 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
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**
2015				
BEAR Scotland Limited	21,488	15	805	–
Breedon Bowen Limited	90	413	49	40
	21,578	428	854	40

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
2016				
Alba Traffic Management Limited	**1,585**	**187**	**181**	**25**
2015				
Alba Traffic Management Limited	1,773	647	202	163

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 64 to 67 and 55 to 62 respectively.

24 Earnings per share

The calculation of earnings per share is based on the profit for the year attributable to ordinary shareholders of £36,719,000 (2015: £24,908,000) and on the weighted average number of ordinary shares in issue during the year of 1,257,812,971 (2015: 1,069,794,307).

The calculation of underlying earnings per share is based on the profit for the year attributable to ordinary shareholders, adjusted to add back the non-underlying items, of £43,885,000 (2015: £28,629,000) and on the weighted average number of ordinary shares in issue during the year as above.

Diluted earnings per ordinary share is based on 1,299,537,417 (2015: 1,106,582,360) shares and reflects the effect of all dilutive potential ordinary shares.

25 Contingent liabilities

The Group has guaranteed the hire purchase liabilities in respect of vehicles operating under the Group's owner driver scheme. The maximum contingent liability in respect of these guarantees amounts to £200,000 (2015: £Nil).

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 2016 amounted to £1,838,000 (2015: £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 South East of Scotland and in respect of the M80 Operating and Maintenance contract.

26 Acquisitions

Current year acquisitions

Hope Cement Limited (formerly Hope Construction Materials Limited)

On 1 August 2016, the Group acquired the entire issued share capital of Hope Cement Limited (formerly Hope Construction Materials Limited). This transaction was accounted for as a business combination.

The fair value of the consideration paid and the consolidated net assets acquired, together with the provisional goodwill arising in respect of this business combination, were as follows:

	Book value £000	Fair value adjustments £000	Fair value on acquisition £000
Intangible assets	2,157	5,511	7,668
Mineral reserves and resources	21,650	1	21,651
Property, plant and equipment	231,188	(4,170)	227,018
Inventories	11,921	1,731	13,652
Trade and other receivables	58,199	(720)	57,479
Cash	8,022	–	8,022
Trade and other payables	(48,938)	–	(48,938)
Current tax	84	–	84
Interest-bearing loans and borrowings	(153,897)	(2,353)	(156,250)
Provisions	(13,808)	(2,306)	(16,114)
Deferred tax liabilities	(20,634)	580	(20,054)
Total	95,944	(1,726)	94,218
Consideration – shares			196,284
Consideration – cash			55,626
Goodwill arising			157,692

The fair value adjustments comprised adjustments to:

- revalue acquired intangible assets and recognise intangibles on acquisition;
- revalue certain mineral reserves and resources to reflect fair value at the date of acquisition;
- property, plant and equipment to reflect fair value;
- inventories to reflect fair value;
- revalue loans and borrowings to reflect fair value at the date of acquisition; and
- provisions to reflect fair value, including deferred tax.

26 Acquisitions continued

Hope Cement Limited (formerly Hope Construction Materials Limited) continued

The goodwill arising represents the geographic location of the assets acquired and the skills of the existing workforce.

During the year, this business contributed revenues of £121,271,000 and underlying EBIT of £10,940,000 to the Group's results.

Sherburn Minerals Limited

On 30 November 2016, the Group acquired the entire share capital of Sherburn Minerals Limited. This transaction was accounted for as a business combination.

The fair value of the consideration paid and the consolidated net assets acquired, together with the provisional goodwill arising in respect of this business combination, were as follows:

	Book value £000	Fair value adjustments £000	Fair value on acquisition £000
Mineral reserves and resources	936	(104)	832
Property, plant and equipment	8,179	–	8,179
Inventories	1,375	(152)	1,223
Trade and other receivables	4,311	–	4,311
Cash	67	–	67
Trade and other payables	(3,040)	–	(3,040)
Current tax payable	(222)	–	(222)
Interest-bearing loans and borrowings	(6,332)	–	(6,332)
Provisions	–	(1,212)	(1,212)
Deferred tax liabilities	(330)	279	(51)
Total	4,944	(1,189)	3,755
Consideration – cash			9,525
Consideration – deferred consideration			225
Goodwill arising			5,995

The fair value adjustments comprised adjustments to:

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

The goodwill arising represents the 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 this acquisition.

During the year, this business contributed revenues of £1,078,000 and underlying EBIT loss of £205,000 to the Group's results.

26 Acquisitions continued

If both the Sherburn Minerals Limited acquisition and the acquisition of Hope Cement Limited (formerly Hope Construction Materials Limited) had occurred on 1 January 2016, the results of the Group for the year ended 31 December 2016 would have shown revenue of £640,998,000 and underlying EBIT of £70,698,000 for the year.

In total the Group incurred acquisition related costs of £3,119,000 in the year relating principally to external professional fees and due diligence costs in respect of the acquisitions which were included as non-underlying administrative costs (see note 3).

Cash flow effect

The cash flow effect of the above two acquisitions can be summarised as follows:

	£000
Hope Cement Limited (formerly Hope Construction Materials Limited) consideration	55,626
Sherburn Minerals Limited consideration	9,525
Cash acquired with the businesses	(8,089)
Net cash consideration shown in the Consolidated Statement of Cash Flows	57,062

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:

Fair values of assets on business combinations

In determining the fair value of assets acquired and liabilities assumed 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 contracts. The reasons for any residual excess of consideration over the net asset value, being goodwill arising, are then identified. The Group has used independent experts, where appropriate, to assist with the determination of the market value of certain minerals, property and plant and equipment.

Mineral reserves and resources

A number of key assumptions have been made in determining the annual depletion charge. These assumptions include the amount of consented and unconsented reserves available for extraction; the estimated residual value; extraction rates; and the gaining of additional planning consents. The Group uses independent experts, where appropriate, to assist with the determination of reserves available for extraction.

27 Accounting estimates and judgements continued

Impairment of goodwill

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each cash generating unit. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each cash generating unit. These factors are all affected by prevailing market and economic factors outside the Group's control. Further information is included in note 9.

Customer claims

Customer claims arise in the normal course of business. The measurement and recognition of provisions related to customer claims requires judgement. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Restoration provisions

Estimated restoration costs have been derived on the basis of the most recent assessments of the likely cost. Certain factors concerning these costs are outside the Group's control. In making this assessment, the Group has sought the aid of independent experts where appropriate. Further information is included in note 17.

Deferred taxation

Deferred taxation has been estimated using the best information available, through the use of internal tax specialists.

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, 25 April 2017 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 12 (inclusive) will be proposed as Ordinary Resolutions and Resolutions 13 and 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 2016, 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 2017.
4. THAT Amit Bhatia be reappointed as a director of the Company.
5. THAT Simon Vivian be reappointed as a director of the Company.
6. THAT Peter Tom CBE be reappointed as a director of the Company.
7. THAT Susie Farnon be reappointed as a director of the Company.
8. THAT Pat Ward be reappointed as a director of the Company.
9. THAT David Warr be reappointed as a director of the Company.
10. THAT David Williams be reappointed as a director of the Company.
11. THAT Rob Wood be reappointed as a director of the Company.

Special Business

Ordinary Resolution

12. 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 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

13. THAT the Directors be and they are hereby empowered 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 12 above, as if Article 6.3 did not apply to any such allotment, provided that this power 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 72,322,300 ordinary shares in the Company.

    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 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.

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 70,553,766 (being 5 per cent of the issued ordinary share capital of the Company as at 17 March 2017);

(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, 18 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

17 March 2017

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 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 Capita 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.
4. 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.
5. 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.
6. 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.
7. 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.
8. 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 23 April 2017. 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.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

9. 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.
10. 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 attorney duly authorised.
11. 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.
12. 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.
13. Any alterations made to the form of proxy must be initialled by the person who signs it.
14. 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 2.00pm on 23 April 2017 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.

ADVISERS AND COMPANY INFORMATION

Company secretary

JTC (Jersey) Limited
Elizabeth House
9 Castle Street
St Helier
Jersey
JE2 3RT

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Company number 98465

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Jersey
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Nominated adviser

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London
EC2R 7AS

Independent auditor

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Legal adviser

Carey Olsen
47 Esplanade
St Helier
Jersey
JE1 0BD

SHAREHOLDER INFORMATION

Registrar and transfer office

The Company's Registrar is Capita Registrars (Jersey) Limited. The address of the Company's Registrar, to which all enquires concerning shareholdings should be addressed, is Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Shareholder enquiries can also be made to 0871 664 0300. Calls cost 10p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday.

Enquiries from outside the UK should be made to +44 208 639 3399.

Email: ssd@capitaregistrars.com

Website: www.capitaassetservices.com

Contact

If you require information regarding Breedon Group, please contact:

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NOTES

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