Ibstock PLC - final results
Released 5 March 2019

Ibstock plc
Results for the year ended 31 December 2018

Financial performance in line with expectations

Updated strategic priorities following divestment of US business

Ibstock plc ('Ibstock' or the 'Group'), a leading manufacturer of clay bricks and concrete products in the United Kingdom, announces its preliminary results for the year ended 31 December 2018.

Results for the year:

Year ending 31 Dec	2018	2017	Change
Revenue	£391.4m	£362.6m	+7.9%
Adjusted EBITDA	£112.4m	£107.9m	+4.1%
Profit before tax	£92.5m	£77.7m	+19.1%
Statutory EPS	18.8p	16.0p	+17.5%
Adjusted EPS	18.8p	18.9p	-0.5%
Final Dividend	6.5p	6.5p	-
Total ordinary divided	9.5p	9.1p	+4.4%

Note: continuing operations

Financial Highlights:

- Strong revenue growth and adjusted EBITDA in line with management's expectations
- Continued robust underlying cash generation, supported by proceeds from sale of US business and surplus property
- Net debt to adjusted EBITDA down to 0.4x
- Final dividend of 6.5 pence per share (2017: 6.5 pence per share) making the 2018 full year dividend 9.5 pence per share (2017: 9.1 pence per share)
- Additional 6.5p supplementary dividend paid with 2018 interim dividend in September 2018

Operational Highlights:

- Group structure simplified with the disposal of US brick business, Glen-Gery, for US$110 million
- Group now focused on the UK, with two businesses with leading positions in the brick and concrete markets respectively, which provide an excellent base for further development
- Disposals of surplus property generated £9.5 million profit
- Ibstock Brick benefitting from good activity levels within the UK new build housing sector, with both price and volume growth achieved in the year
- New Eclipse brick factory in Leicester performing well and contributed to volume growth in the second half of 2018. Full year benefit of increased production capacity in 2019
- Enhanced maintenance programme in UK brick business progressing as planned
- Increased market share in concrete roof tiles, benefiting from recent investment in new capacity

Joe Hudson, Chief Executive Officer of Ibstock plc, commented:

"2018 was a busy year of development for Ibstock, and we are pleased to be announcing profit growth and cash generation in line with management's expectations.

"Two strategic milestones were achieved during the year. First, we commissioned our new 100 million capacity brick factory in Leicestershire, adding significant new capacity to our UK brick operations. Secondly, we also took the decision to dispose of Glen Gery, our US brick manufacturing business, to focus the Group on the UK market, where we have leading positions. I am also pleased to report that the enhanced maintenance programme announced in July remains on track.

"With our business structure now simplified and with a clear strategic focus on the UK, we are updating shareholders today on a range of operational excellence initiatives to optimise performance of both our clay and concrete businesses in the years ahead. We will maintain our disciplined approach to investment and capital allocation, and our strong balance sheet gives us the opportunity to invest to grow, either organically or by selective acquisition.

"Whilst we remain mindful of the current political and economic uncertainties in the UK, Ibstock is well-positioned, with market fundamentals that remain encouraging for the medium term. We look forward to another year of progress for the Group."

Results presentation

Ibstock is holding a presentation to analysts at 09:00 today at the offices of UBS, 5 Broadgate, London, EC2M 2AN.

Analysts wishing to attend should contact ibstock@citigatedewerogerson.com to register.

Analysts unable to attend in person may listen to the presentation live by using the details below:
Webcast link: **https://edge.media-server.com/m6/p/ktp9re72**
Conference Call Dial-In Details: 0808 109 0700
Standard International Access: +44 (0) 20 3003 2666
Password: Ibstock

An archived version of today's webcast analyst presentation will be available on www.ibstockplc.com later today.

Ibstock plc	**via Citigate Dewe Rogerson**
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Notes to Editors:

Ibstock plc is a leading manufacturer of clay bricks and a diversified range of clay and concrete products. Its principal products are clay bricks, brick components, concrete roof tiles, concrete substitutes for stone masonry, concrete fencing and pre-stressed concrete products.

The Group's primary businesses are:

Ibstock Brick: The leading manufacturer by volume of clay bricks sold in the United Kingdom. With 19 manufacturing sites Ibstock Brick has the largest brick production capacity in the United Kingdom. It operates a network of 23 active quarries which are generally located close to its manufacturing plants. Ibstock Brick has recently commissioned a new soft mud brick manufacturing plant in Leicestershire that added approximately 100 million bricks (c13%) to its brick production capacity per annum.

Supreme: A leading manufacturer of concrete fencing products, concrete lintels and general concrete building products, with seven manufacturing plants in the United Kingdom.

Forticrete: A leading manufacturer of concrete substitutes for natural stone walling, dressings and concrete roof tiles, with seven manufacturing plants in the United Kingdom.

Chief Executive's review

Introduction

I am pleased to report on the first full year results for the Group since my appointment as CEO in April 2018.

The market backdrop for our products was relatively supportive through the year, with building rates remaining robust and brick imports continuing to be drawn into a UK market where demand exceeded domestic supply capacity. Against this backdrop, I am pleased to report that our results for the full year were in line with our expectations as set out in our July trading statement.

We delivered another year of revenue and adjusted EBITDA and profit before taxation growth, driven principally by our clay brick business, which benefited from a combination of both price and volume growth. We successfully commissioned our new 100 million soft mud brick factory during the year, at a time when the market needs additional capacity, and this contributed to volume growth in the second half. In November, we announced the sale of Glen-Gery, our US brick manufacturing business, enabling us to focus on our core markets in the UK.

We remained strongly cash generative and the additional cash inflows we saw from our surplus property sales and the disposal of Glen-Gery allowed us to continue to de-leverage to the bottom end of our guided debt range. We paid our first supplementary dividend to shareholders in 2018, which demonstrates our commitment to shareholder returns.

We had to make some tough decisions at the half year and announced an enhanced maintenance programme in our UK clay brick business. This was essential to sustain the output of our plants following a prolonged period of strong demand and high utilisation, but also to maintain the range and quality of our products. The programme ensures we take a more disciplined approach to plant outages, while investing more in maintenance. The programme is continuing into 2019 as planned and we are pleased with the progress made to date.

Optimising our operational performance will be an important area of focus going forward as we seek to maintain our current market positioning and execute on our strategy. We made good progress in some areas this year. People are our most important asset, so I am delighted to see a further decline in lost time accidents. There is more work to do here but I am pleased we are making progress. Ibstock was also recently awarded an 'edie Energy Efficiency Award', reflecting some of the progress we have made in recent years with our environmental KPIs which are very important to us as a Group.

Overall Group performance

On a continuing basis, revenues for the Group increased 8% to £391 million reflecting good price and volume growth in the clay brick business. Adjusted EBITDA increased by 4% to £112 million, with higher than expected energy costs and the impact of the enhanced maintenance programme in the clay brick business, along with increased central PLC costs, offsetting some of the revenue growth from which we benefited. As a result, adjusted EPS was broadly flat at 18.8 pence, on a continuing basis.

Despite the positive market backdrop, 2018 presented some challenges for the UK business. Bad weather in the winter months at the start of the year reduced activity levels for a period and the unexpected increase in spot energy prices as we entered the spring and summer months provided a further headwind. However, conditions improved in the second half of the year and we benefited from increased production capacity from our new Eclipse clay brick factory.

The commissioning of Eclipse, our new 100 million capacity clay brick plant, progressed as planned. The plant contributed to the volume growth we saw during 2018 and allowed us to increase our market share in the second half of the year. We continue to broaden the range of products we can manufacture at the site, to service the diverse needs of our customers.

Demand for bricks continued to be very robust in 2018. Overall, the market consumed c.2.5 billion bricks in the year, the highest level of consumption since 2007, with 2.1 billion being supplied by domestic production or from existing inventories. The level of imports increased further year on year to over 0.4 billion bricks, despite the fact production and despatches from domestic producers increased by 0.1 billion in 2018. Inventory levels also declined slightly as a further 0.1 billion bricks were supplied out of existing stocks across the industry.

Revenues in our concrete business were broadly flat on the prior year due to a slight softening in the rail and civils markets. On the positive side, we continue to see a gradual increase in market share in concrete roof tiles, reflecting our innovative product portfolio, which offer improved aesthetics and reduced laying costs. Late in 2018 we took the decision to reorganise our concrete business, simplifying the management structure under a single managing director. We expect these changes to improve the performance of what is an important platform for driving growth for Ibstock going forward.

Continuing adjusted EBITDA increased by 4% as higher than expected energy costs, primarily higher gas prices, and costs associated with the enhanced maintenance programme in our clay brick operations, partly offset some of the good revenue growth we saw in the year. Looking forward, we have increased our forward buying of energy to give greater visibility on these costs over the next year or so.

Unallocated costs of £4 million (2017: £3 million) include expenses related to operating the plc operations of the Group. These costs increased year-on-year primarily as a result of the higher employment related expenses incurred during 2018.

Strategic update

During the year, we completed a review of the Group's assets and as a result, announced in November that the Board had made the decision to dispose of Glen-Gery, the Group's US brick manufacturing operation. The structure of the brick market in the US is different from that of the UK, being more regional and fragmented, and therefore returns were unlikely to be in line with our strategic objectives. The disposal has simplified the Group and focused it on its core UK market. The net cash proceeds on disposal totalled £76 million, which significantly strengthened our balance sheet during the year.

Following the disposal of Glen-Gery, the Group now comprises two core businesses, both with leading market positions in the UK, which provide an excellent base for further growth and development.

Ibstock Brick is the leading clay brick manufacturer in the UK, with an extensive product range of over 400 brick types, and 19 manufacturing sites across the country, strategically located near to its extensive clay reserves. Ibstock Kevington is the UK's largest brickwork special shape and masonry fabrication company with five manufacturing sites.

Ibstock Concrete, comprising the Forticrete, Supreme and Anderton concrete brands, with strong positioning across building, fencing, roofing and rail markets.

These businesses provide a strong platform for growth and, looking ahead, we have many opportunities for innovation and optimisation. We have identified three broad areas of opportunity for the Group which we plan to put at the heart of our strategic development in the years ahead:

1. Driving sustainable performance

   We have high-quality people with significant expertise across our business. However, we believe that we will need to continually develop new organisational capabilities and structures to ensure we drive world-class performance in our operations. To that end, we have identified the following focus areas:

   - Health and safety – our people are our most important asset, protecting them is key to a safe and sustainable Group performance.

- Operational excellence and continuous improvement – our product quality and range has been the hallmark of our success. Going forward we will invest more in world-class manufacturing systems and processes to ensure our assets are optimised and maintained to ensure reliability and cost effectiveness.

- Sustainability – already plays an important part in our business but we are in the process of setting more ambitious targets which focus on our environmental footprint and social impact.

- Structure and capability – we will look to simplify our organisation to ensure excellent service for our customers, best practice sharing and efficiencies across our businesses. In addition, we will recruit new talent and capabilities from other industries to support our existing teams and bring in new ideas and conventions.

2. Market led innovation

Ibstock's product range is unrivalled in terms of breadth and depth but as the market leader, we need to be at the forefront in innovation to support the changing needs of the built environment and to maximise value. To achieve this, we will focus on:

- Optimising the supply chain – our industry is very traditional and we must develop more efficient systems and technologies to service our customers and the markets in which we operate.
- Commercial excellence – we will strive to ensure we have the right levels of differentiation, segmentation and pricing rigour to ensure we have the best value propositions for our customers and our businesses.
- Innovation and product development – Ibstock has a long history of innovation and we will continue to focus on developing our products and building systems to provide solutions for our industry.

3. Selective growth

We ended 2018 with a strong balance sheet and a net debt to adjusted EBITDA ratio of 0.4x, leaving the Group well positioned to invest to deliver long-term growth. Following the disposal of Glen-Gery, the Group is now firmly focused on the UK, where it has opportunities to grow both organically and selectively by acquisition. Our approach to growth continues with the following priorities:

- Portfolio management – our objective is to have a balanced portfolio of businesses with leading positions in their respective markets. At this stage, we remain focused on businesses that service the "building envelope" for housing and commercial applications.
- Organic growth – the allocation of capital to projects within our existing portfolio provides control and greater certainty for return. The recent investment in our state-of-the-art 100 million brick Eclipse factory bears this out. We will continue to evaluate similar projects in the future. However, we have identified several smaller enhancement projects which will increase capacity at some of our existing brick and concrete manufacturing plants. These projects will increase efficiency, add incremental volumes and improve the asset performance over the mid-term.
- M&A – in addition, we will review acquisition opportunities, looking at both smaller bolt-on opportunities and larger transformational M&A, where there is a clear strategic fit and opportunities for both revenue and cost synergies. We will maintain a disciplined approach to reviewing any potential acquisition – at this stage our focus is on assets that are UK-based, with a strong strategic rationale and overlap with our existing businesses and routes to market as our key principles. We will maintain financial discipline and intend to take a conservative view on valuations.

People

We announced in February 2019 that Kevin Sims will retire as Chief Financial Officer later this year, after more than 30 years with the Group. Kevin played a vitally important role in Ibstock's successful listing on the London Stock Exchange in 2015 and in its continued success and development. Kevin will hand over to Chris McLeish who joins us from Tate and Lyle PLC in August 2019. Kevin will work with Chris to ensure an orderly succession and a smooth handover and will continue to be available to the Group until the year end. I look forward to welcoming Chris to the team later in the year and wish Kevin well for his retirement.

I am also strengthening the broader executive management team at Ibstock. We have recently recruited a new head of marketing with significant industry experience, who will ensure we take a more strategic approach to branding and marketing across the Group. A new managing director for our clay brick business will join us later in the year, to assist with refocusing that business both commercially and operationally. These new hires will also be key to helping us deliver some of the operational excellence initiatives which will help us drive revenue growth in the coming years. Additionally, we have developed the role of Continuous Improvement and Sustainability Director, which will support our operational excellence and sustainability initiatives.

Outlook

2018 has been a very busy year for Ibstock. Following our trading update in July, we have divested our US business, simplified the Group structure and refocused on the UK, where we have strong market positions in our two core businesses. These changes provide us with a solid platform to deliver future growth and value creation over the medium term.

During 2018, UK brick demand continued to outstrip domestic supply capacity which resulted in over 0.4 billion imported bricks entering the UK market and further de-stocking from UK manufacturers. We were able to take advantage of this robust market environment with increased volumes from our new Eclipse facility, and further benefit to come in 2019 as the first full year of production.

Looking forward we expect capital expenditure to be in the region of £28-32 million for 2019 and 2020, reflecting both maintenance and enhancement project spend. We expect the enhancement projects to deliver phased adjusted EBITDA benefits in excess of £5 million per annum, with the majority of benefits to come from 2021.

The need for new housing is widely recognised by the main political parties and the Help-to-buy scheme has been extended until 2023. Interest rates remain low and mortgage availability is good, all of which supports affordability and suggests that market fundamentals remain robust. Whilst the political and economic uncertainty from the UK's withdrawal from the EU is unhelpful, and may impact consumer confidence and demand in our end markets in the short term, we believe the fundamentals remain favourable in the medium-term.

We have a solid core business with strong market positioning, focused on the UK. This provides a good platform for growth, and we hope to deliver further value creation in the coming years from our operational excellence programmes. With a strong balance sheet, we also have optionality to invest to drive further growth, both organically and through M&A. I look forward to working with the team here at Ibstock to deliver on our refreshed strategy as we look to deliver long-term value creation for all our stakeholders.

Chief Financial Officer's report

Group results

Group revenue from continuing operations in the year ended 31 December 2018 saw an increase of 7.8% to £391.4 million (2017: £362.6 million). Continuing Group revenue excludes the performance of our US operations, which were disposed of in November 2018, as discussed below. Growth in revenue was driven by the performance of our UK clay business, which benefited from good activity levels within the new build housing sector during 2018.

Following a slower, weather-impacted start to the year, we saw increased sales volumes and ended the year with higher volumes year on year. Strong market conditions were experienced for the year ended 31 December 2018 and have continued into the beginning of 2019. UK Clay sales growth was supported by mid-single digit price increases, whilst revenue performance within UK Concrete was marginally ahead year on year.

Group statutory profit before taxation was £92.5 million (2017: £77.7 million) – an increase of 19.1%. This increase reflects the exceptional profit on disposal of surplus properties arising in the current year (£9.5 million). Prior to exceptional items, profit before taxation was £84.5 million (2017: £82.5 million), representing growth of 2.4% on the prior year.

Disposal of US brick manufacturing business

As noted elsewhere, in November 2018, we successfully completed the disposal of our US segment for an enterprise value of $110 million, equating to over eight times Glen-Gery's last 12 months adjusted EBITDA to June 2018, as reported. As a consequence of the disposal, our results exclude the trading performance of the Glen-Gery operations and represent the continuing UK businesses only. The trading results of Glen-Gery up to the point of sale, together with details of the disposal transaction are set out in Note 7 of the financial statements.

Alternative performance measures

This results statement contains multiple alternative performance measures ("APMs"). A description of each APM is included in Note 3 to the financial statements. The Group uses APMs to aid comparability of its performance and position between periods. The APMs represent measures used by management and the Board to monitor performance and plan. Additionally, certain APMs are used by the Group in setting director and management remuneration. Whilst measures have been restated to take account of the discontinuation of our US operations, during 2018 there have been no changes to the bases of calculation with those presented in our 2017 Annual Report and Accounts.

Adjusted EBITDA

Management measure the Group's operating performance using adjusted EBITDA, which has remained in line with management's expectations following the Group's July trading statement. For the continuing operations, adjusted EBITDA increased by 4.1% to £112.4 million in the year ended 31 December 2018 (2017: £107.9 million). The increase was driven by the Group's revenue growth in the UK Clay business, and was achieved despite significantly higher energy costs experienced, which were flagged in our AGM trading update announcement in May 2018. For the full year, our gas energy costs increased by c.22% compared to 2017. We have subsequently sought to forward purchase our energy requirements for 2019, securing the majority of our anticipated needs.

The Group's adjusted EBITDA performance was also adversely impacted by a slower RMI market, which has constrained revenue growth within UK Concrete. The UK Concrete businesses also faced some pricing pressure and a slight fall in the end use of non-residential products, which impacted revenue in our Supreme and Forticrete operations, respectively, and restricted the UK business from greater adjusted EBITDA growth during the year.

Cash flow and net debt

Cash generated from operations during 2018 is shown in Table 1, below. Our cash generation was in line with our expectations and operations remained strongly cash generative in the year ended 31 December 2018. Adjusted free cash flow increased due to our profitability growth and reduced expenditure on major capital projects although this was mitigated to some extent by movements in working capital during the year. Although assisted by exceptional profits on disposal of surplus properties, cash conversion fell to 87% in the year ended 31 December 2018, primarily as a result of increased maintenance capex and adverse working capital movements.

The increase in maintenance capex follows the Group's review of brick manufacturing assets which identified a number of measures required to sustain the quality and range of our production output, as identified in our July 2018 trading update. The review has resulted in additional maintenance shutdowns and additional spending on plant maintenance and refurbishment, all aimed at maintaining our number one position. To date these actions have been successful and continue to progress to plan.

A net working capital balance at 31 December 2018 of £23.3 million compares to £48.2 million at 31 December 2017. This reflects the absence of Glen-Gery balances, which remained high going into the prior year end following the usual closedown of operations and in anticipation of sales activity early in the New Year in advance of factory start-ups. Trade receivable levels year on year increased due to the higher sales activity in late-2018 as a result of Clay sales being back-end loaded following the weather-impacted 1H 2018. These increases are offset to some extent by an increase in trade payables, which has arisen as a result of the increased activity in the final months of 2018.

Net debt (borrowings less cash) of £48.4 million at 31 December 2018 compares to £117.0 million at the prior year end. The significantly improved debt position is as a result of the proceeds from the Group's disposal of Glen-Gery, noted above and was achieved arisen despite the Group's payment of increased dividends of £65.0 million in the year ended 31 December 2018 (2017: £32.1 million).

In March 2017, the Group refinanced its debt arrangements and entered into a £250 million revolving credit facility ("RCF") with a group of six major banks. During 2018, following our disposal of the Glen-Gery business, the US Fifth Third Bank withdrew from the facility, reducing the RCF to £213.5 million. The facility contains interest cover and leverage covenant limits of 4x and 3x, respectively. The Group remains significantly within both covenant limits.

Table 1	2018 (£m)	2017 (£m)	Change (£m)
Adjusted EBITDA[1]	112	108	+4
Share-based payments	2	1	+1
Exceptional profits on disposal of surplus assets	13	-	+13
Capex before major projects[2]	(20)	(11)	(9)
Adjusted Change in working capital	(7)	2	(9)
Other	(3)	-	(3)
Adjusted EBITDA – maintenance capex – change in WC	97	100	(3)
Major project capex[2]	(11)	(23)	+12
Cash flow from operating and investing activities	86	77	+9
Net interest	(4)	(4)	-
Tax	(10)	(11)	+1
Post-employment benefits	(7)	(7)	-
Adjusted free cash flow	65	55	+10
Cash conversion[1]	*87%*	*93%*	

Exceptional items

In line with our accounting policy for exceptional items, we have excluded certain items from our adjusted EBITDA to aid shareholders' understanding of our underlying financial performance. Infrequent events, such as the material profits on disposal of surplus property assets in the current year and the non-cash interest expenses arising in the prior year from our refinancing (see below), have been treated as exceptional. Further details are set out in Note 5 of the financial statements.

Finance costs

Net finance costs of £3.5 million were incurred in the year (2017: £10.8 million). The current year cost represents the reduced interest costs associated with the Group's debt, which remained below prior year levels throughout 2018. The single largest element of the prior year charge, which did not recur in the current year, were exceptional finance costs of £6.4 million arising in respect of accelerated debt issue fees and accounting adjustments resulting from the refinancing and prior year interest rate change, respectively.

Taxation

The Group recorded a taxation charge of £16.1 million (2017: £12.6 million) on Group continuing pre-tax profits of £92.5 million (2017: £77.7 million) for the year ended 31 December 2018, resulting in an effective tax rate ("ETR") of 17.4% (2017 16.2%). The ETR is lower than the UK statutory tax rate of 19% and 19.25% for the current and prior year, respectively as shown in Note 6. In particular, a deferred tax credit has been recognised in the current year to reflect the expected unwinding of the pension scheme surplus, reducing the ETR by 1.6%. In the prior year, the recognition of the tax benefit claimed in respect of the IPO transaction costs incurred during 2015 decreased the ETR by 2.7%. Absent these items, the ETR would have been 19.0% and 18.9% respectively.

The disposal of the Group's US segment during the year was tax exempt.

Earnings per share

Group statutory basic EPS for continuing operations increased by 17% to 18.8 pence in the year to 31 December 2018 (2017: 16.0 pence) as a result of the Group's increased statutory profit after taxation, which was boosted by the net £8.0 million exceptional credit arising on the Group's surplus property disposals and other exceptional items, as discussed above.

Our Group adjusted basic EPS for continuing operations of 18.8 pence per share reduced marginally from the 18.9 pence reported last year - the movement resulting from the slightly higher ETR in the current year. In line with prior years, our adjusted EPS metric removes the impact of exceptional non-trading items, the fair value uplifts resulting from our acquisition accounting and non-cash interest impacts (net of the related taxation charge/credit). Adjusted EPS is the Group's measure for calculating distributions to shareholders, see below, and has been included to provide a clearer guide as to the underlying earnings performance of the Group. A full reconciliation of our adjusted EPS measure is included in Note 8.

Table 2	2018	2017
Statutory Basic EPS – Continuing operations	18.8p	16.0p
Adjusted Basic EPS – Continuing operations	18.8p	18.9p

Dividend

A final dividend of 6.5 pence per ordinary share (2017: 6.5 pence) is being recommended for payment on 7 June 2019 to shareholders on the register at the close of business on 10 May 2019. This is in addition to our interim dividend paid in September 2018 of 3.0 pence per ordinary share (2017: 2.6 pence), which was paid alongside our first ever supplementary dividend of 6.5 pence per ordinary share.

The total dividends paid during 2018 of 16.0 pence per ordinary share were 76% higher than the prior year (2017: 9.1 pence). The proposed dividend is in line with our dividend policy, which is based on a pay-out ratio of 40 to 50% of adjusted profit after taxation over a business cycle. In 2018, the Directors have selected a 45% pay-out ratio in determining the proposed dividend (2017: 42.5%) based on the total Group adjusted EPS, which includes 0.8 pence per ordinary share in relation to results of the disposed Glen-Gery operations.

Pensions

At 31 December 2018, the defend benefit pension scheme ("the scheme") was in an actuarial accounting surplus position of £80.7 million (31 December 2017: surplus of £46.1 million). At the year end, the scheme had asset levels of £574.4 million (31 December 2017: £659.4 million) against scheme liabilities of £493.7 million (31 December 2017: £613.4 million). Liabilities include an amount of £1.5 million in relation to the GMP equalisation liability, which was recognised it the current year.

The improvement in the underlying balance sheet position over the year is primarily due to the use of updated membership data available from the Scheme's actuarial valuation as at 30 November 2017 and changes in assumptions used. The fall in liabilities also reflects the significant values transferred out of the scheme by members following the closure of the scheme to future accrual.

The Group continues ongoing work with the scheme Trustees to de-risk the pension and to match asset categories investment strategy with the associated liabilities.

Related party transactions

During the prior year, Bain Capital Partners LLC ceased to hold any ordinary shares in Ibstock plc and no longer has significant influence over the Group. There have been no material related party transactions during the year ended 31 December 2018.

Subsequent events

With the exception of the final dividend noted above, there have been no further events subsequent to 31 December 2018, which management believe require adjustment or disclosure.

Going concern

The Group continues to meet its day to day working capital and other funding requirements through a combination of strong operational cash flows generated by the business and the long-term funding in place. As noted above, the Group agreed new banking facilities during the prior year, with a five-year £250 million RCF. As noted above, during 2018, following our disposal of the Glen-Gery business, the US Fifth Third Bank withdrew from the RCF, reducing this facility to £213.5 million.

Risks and uncertainties

The Board assesses and monitors the key risks impacting the business on an on-going basis. The Group's activities expose it to a variety of risks: economic conditions, Government action and policy, Government regulation and standards relating to the manufacture and use of building products, customer relationships and reputation, operational disruption, recruitment and retention of key personnel, input prices, product quality, financial risk management and pension obligations.

Statement of directors' responsibilities in relation to the financial statements

The responsibility statement below has been prepared in connection with the Company's Annual Report and Financial Statements for the year ended 31 December 2018; certain parts of this report are not included within this announcement.

Each of the directors in office as at the date of the Annual Report, whose names and functions are set out within the Annual Report, confirm that to the best of their knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the management report (which comprises the Strategic Report and the Directors' Report) includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by

Joe Hudson	Kevin Sims
Chief Executive Officer	Chief Financial Officer
4 March 2019	4 March 2019

Consolidated income statement
for the year ended 31 December 2018

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 restated (Note 4)
		£'000	£'000
Continuing operations			
Revenue	4	391,402	362,589
Cost of sales		(236,994)	(213,256)
Gross profit		**154,408**	**149,333**
Distribution costs		(39,749)	(36,872)
Administrative expenses before exceptional items		(31,116)	(30,877)
Exceptional administrative items	5	(1,447)	1,529
Administrative expenses		**(32,563)**	**(29,348)**
Exceptional profit on disposal of property, plant and equipment	5	9,472	-
Profit on disposal of property, plant and equipment		1,735	142
Total profit on disposal of property, plant and equipment		**11,207**	**142**
Other income		3,036	5,859
Other expenses		(348)	(691)
Operating profit		**95,991**	**88,423**
Finance costs before exceptional items		(4,737)	(5,109)
Exceptional finance costs	5	-	(6,386)
Finance costs		(4,737)	(11,495)
Finance income		1,262	732
Net finance cost		**(3,475)**	**(10,763)**
Profit before taxation		**92,516**	**77,660**
Taxation	6	(16,102)	(12,594)
Profit from continuing operations		**76,414**	**65,066**
Discontinued operations			
Profit from discontinued operations, net of tax	7	**652**	**8,484**
Profit		**77,066**	**73,550**
Profit attributable to:			
Owners of the parent		77,066	73,550

Profit attributable to:			
Continuing operations		**76,414**	**65,066**
Discontinued operations		**652**	**8,484**
		77,066	73,550

	Notes	pence per share	pence per share
Earnings per share			
Basic - continuing operations	8	18.8	16.0
Basic - discontinued operations	8	0.2	2.1
		19.0	18.1
Diluted - continuing operations	8	18.6	15.9
Diluted - discontinued operations	8	0.2	2.1
		18.8	18.0

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Notes	**Year ended 31/12/2018**	Year ended 31/12/2017
		£'000	£'000
Profit for the financial year		**77,066**	**73,550**
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Remeasurement of post employment benefit assets and obligations1	10	28,892	54,728
Remeasurement of post employment benefits - surplus restriction1		-	14,223
Related tax movements1	8	(5,357)	(12,857)
		23,535	56,094
Items that may be subsequently reclassified to profit or loss			
Currency translation differences - discontinued operations2		3,157	(7,853)
Reclassification of accumulated translation differences on disposal of subsidiary undertaking2		(11,347)	-
		(8,190)	(7,853)
Other comprehensive income for the year net of tax		15,345	48,241
Total comprehensive income for the year, net of tax		92,411	121,791
Total comprehensive income attributable to:			
Owners of the parent		92,411	121,791

1 Impacting retained earnings

2 Impacting the currency translation reserve

Non-GAAP measure

Reconciliation of Adjusted EBITDA to Operating profit for the financial period:

	Notes	**Year ended 31/12/2018**	Year ended 31/12/2017
Adjusted EBITDA		112,371	107,899
Add back exceptional items	5	8,025	1,529
Less depreciation and amortisation	4	(24,405)	(21,005)
Operating profit		95,991	88,423

Consolidated balance sheet

as at 31 December 2018

	Notes	**31 December 2018**	31 December 2017
		£'000	£'000
Assets			
Non-current assets			
Intangible assets		100,587	116,010
Property, plant and equipment		365,478	400,480
Deferred tax assets		-	1,412
Post-employment benefit asset	10	80,705	46,064
		546,770	563,966
Current assets			
Inventories		68,426	91,118
Trade and other receivables		55,733	53,416
Cash and cash equivalents		36,048	31,490
		160,207	176,024
Assets held for sale		-	4,853
Total assets		706,977	744,843
Current liabilities			
Trade and other payables		(92,447)	(85,342)
Borrowings		(548)	(551)
Current tax payable		(6,357)	(3,735)
Provisions		(783)	(350)
		(100,135)	(89,978)
Net current assets		60,072	90,899
Total assets less current liabilities		606,842	654,865
Non-current liabilities			
Borrowings		(83,882)	(147,980)
Post-employment benefit obligations		-	(8,735)
Deferred tax liabilities		(67,336)	(66,702)
Provisions		(7,593)	(10,620)
		(158,811)	(234,037)
Total liabilities		(258,946)	324,015
Net assets		**448,031**	**420,828**
Equity			
Share capital		4,065	4,064
Share premium		917	781

Retained earnings	813,851	776,912
Merger reserve	(369,119)	(369,119)
Own shares held	(1,683)	-
Currency translation reserve	-	8,190
Total equity	**448,031**	**420,828**

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Merger reserve	Other reserves	Currency translation reserve	Own shares held	Total equity attributable to owners
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	**4,064**	**781**	**776,912**	**(369,119)**	**-**	**8,190**	**-**	**420,828**
Profit for the year	-	-	77,066	-	-	-	-	**77,066**
Other comprehensive income	-	-	23,535	-	-	(8,190)	-	**15,345**
Total comprehensive income for the year	**-**	**-**	**100,601**	**-**	**-**	**(8,190)**	**-**	**92,411**
Transactions with owners:								
Share based payments	-	-	1,773	-	-	-	-	**1,773**
Deferred tax on share based payment	-	-	(184)	-	-	-	-	**(184)**
Equity dividends paid	-	-	(65,031)	-	-	-	-	**(65,031)**
Purchase of own shares	-	-	-	-	-	-	(1,865)	**(1,865)**
Issue of own shares held on exercise of share options	-	-	(182)	-	-	-	182	**-**
Issue of share capital on exercise of share options	1	136	(38)	-	-	-	-	**99**
Issue of share capital	-	-	-	-	-	-	-	**-**
At 31 December 2018	**4,065**	**917**	**813,851**	**(369,119)**	**-**	**-**	**(1,683)**	**448,031**
At 1 January 2017	**4,063**	**-**	**677,361**	**(369,119)**	**1,109**	**16,043**	**-**	**329,457**
Profit for the year	-	-	73,550	-	-	-	-	**73,550**
Other comprehensive income/(expense)	-	-	56,094	-	-	(7,853)	-	**48,241**
Total comprehensive income/(expense) for the year	**-**	**-**	**129,644**	**-**	**-**	**(7,853)**	**-**	**121,791**
Transactions with owners:								
Release of contingent consideration provision	-	-	1,109	-	(1,109)	-	-	**-**

Share based payments	-	-	1,279	-	-	-	-	**1,279**
Deferred tax on share based payments	-	-	354	-	-	-	-	**354**
Equity dividends paid	-	-	(32,098)	-	-	-	-	**(32,098)**
Issue of share capital on exercise of share options	1	781	(737)	-	-	-	-	**45**
At 31 December 2017	**4,064**	**781**	**776,912**	**(369,119)**	**-**	**8,190**	**-**	**420,828**

Condensed consolidated cash flow statement

for the six months ended 31 December 2018

	Continuing operations	Discontinued operations	**Year ended 31/12/2018**	Continuing operations	Discontinued operations	Year ended 31/12/2017
	£'000	£'000	£'000	£'000	£'000	£'000
Cash flow from operating activities						
Cash generated from operations (Note 9)	95,009	(515)	94,494	102,904	7,891	110,795
Interest paid	(3,798)	(62)	(3,860)	(3,705)	-	(3,705)
Tax paid	(9,744)	(842)	(10,586)	(11,343)	(1,883)	(13,226)
Net cash inflow/(outflow) from operating activities	**81,467**	**(1,419)**	**80,048**	**87,856**	**6,008**	**93,864**
Cash flows from investing activities						
Purchase of property, plant and equipment	(31,196)	(1,909)	(33,105)	(33,674)	(4,155)	(37,829)
Purchase of intangible assets	(1,124)	-	(1,124)	-	(167)	(167)
Proceeds from sale of property plant and equipment	3,104	5	3,109	507	1	508
Proceeds from sale of property plant and equipment - exceptional	12,821	-	12,821	-	-	-
Disposal of subsidiary undertaking	-	75,841	75,841	-	-	-
Interest received	22	-	22	-	-	-
Net cash (outflow)/inflow from investing activities	**(16,373)**	**73,937**	**57,564**	**(33,167)**	**(4,321)**	**(37,488)**
Cash flows from financing activities						
Proceeds from issuance of equity shares	-	-	-	-	-	-
Equity issue costs	-	-	-	-	-	-
Dividends paid	(65,031)	-	(65,031)	(32,098)	-	(32,098)
Drawdown of borrowings	85,000	-	85,000	180,000	-	180,000
Repayment of borrowings	(149,583)	-	(149,583)	(215,000)	-	(215,000)
Debt issue costs	-	-	-	(2,424)	-	(2,424)
Proceeds from issuance of equity shares	137	-	137	-	-	-
Purchase of own shares	(1,865)	-	(1,865)	-	-	-
Group transfers	74,251	(74,251)	-	9,214	(9,214)	-

Net cash outflow from financing activities	**(57,091)**	**(74,251)**	**(131,342)**	**(60,308)**	**(9,214)**	**(69,522)**
Net increase/(decrease) in cash and cash equivalents	8,003	(1,733)	6,270	(5,619)	(7,527)	(13,146)
Cash and cash equivalents at beginning of the year	28,437	3,053	31,490	34,261	11,568	45,829
Exchange (losses)/gains on cash and cash equivalents	(392)	85	(307)	(205)	(988)	(1,193)
Cash and cash equivalents on disposal of subsidiary undertaking	-	(1,405)	(1,405)	-	-	-
Cash and cash equivalents at end of the year	**36,048**	**-**	**36,048**	**28,437**	**3,053**	**31,490**

1. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of Ibstock plc, which has a premium listing on the London Stock Exchange, for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 4 March 2019. The balance sheet was signed on behalf of the Board by J Hudson and K Sims. Ibstock plc is a public company limited by shares, which is incorporated and domiciled in England. The registered office is Leicester Road, Ibstock, Leicestershire, LE67 6HS and the company registration number is 09760850.

2. BASIS OF PREPARATION

European law requires that the Group's consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with all applicable International Financial Reporting Standards ('IFRS'), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ('IFRIC') interpretations issued by the International Accounting Standards Board ('IASB') and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2018 but is derived from those accounts. Statutory accounts for 2018 will be delivered to the registrar of companies in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2017. The consolidated financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated. The significant accounting policies are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Ibstock plc and its subsidiaries as at 31 December 2018. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-Group balances, transactions, income and expenses and profit and losses resulting from intra-Group transactions have been eliminated in full. Subsidiaries are consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which the Group no longer retains control.

The subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration and the fair value of any retained interests and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS).

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 16, 'Leases' - in January 2016 the IASB issued IFRS 16 "leases" on accounting for leases, which specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The Group has adopted IFRS 16 from 1 January 2019.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Under IFRS 16 lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

This standard will have a material effect on the Group's consolidated financial statements as follows:

Income statement: Operating expenses will decrease, as the Group currently recognises operating lease costs within either cost of sales or administrative expenses, depending upon the nature of the lease. The Group's lease expense for the year ended 31 December 2018 was £6,837,000 from continuing operations. Depreciation and finance costs as currently reported in the Group's Income Statement will increase, as under the new standard the right-of-use asset will be capitalised and depreciated over the term of the lease with an associated finance cost applied annually to the lease liability.

Balance sheet: At transition date, the Group will determine the lease payments outstanding at that date and apply the appropriate discount rate to calculate the present value of the lease payments. The Group is currently considering adopting the new standard by applying the modified retrospective approach. The Group's commitment outstanding on all leases as at 31 December 2018 was £41,583,000 . The Group continues to assess the impact of the new standard and whilst the exact financial impact is currently unknown due to the number of factors still to be finalised (such as discount rate, expected lease terms), this provides an indication of the scale of the leases held and how significant they are within the Ibstock plc Group.

In addition to the impacts above, there will also be significantly increased disclosures when the Group adopts IFRS 16.

Going concern

The Group has maintained its positive cash position in the period. In order to ensure that the Group can maintain its strong liquidity, it has a £213.5 million committed revolving credit facility. The Group's forecasts and projections, which allow for reasonably possible variations show that the Group will continue to maintain its strong liquidity position, and therefore supports the Directors' view that the Group has sufficient funds available to meet its foreseeable requirements. Additionally, the Group has significant headroom on each of its covenant requirements. In considering the Group's going concern status, management has modelled the impact of a financial downturn (including as a possible result of Brexit) and has concluded that there will be no material impact of the Group's ability to continue as a going concern. The Directors have concluded therefore that the going concern basis remains appropriate for a period of at least 12 months from approval of the results announcement.

3. Alternative Performance Measures

Alternative Performance Measures (APMs) are disclosed within the results announcement where management believes it is necessary to do so to provide further understanding of the financial performance of the Group. Management uses APMs in its own assessment of the Group's performance. It is not intended that APMs are a substitute for, or superior to, statutory measurements. None of the APMs are outlined within IFRS and they may not be comparable with similarly titled APMs used by other companies.

Exceptional items

The Group presents items as exceptional on the face of the income statement, those items which, because of their materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the period, so as to facilitate comparison with future periods and to assess trends in financial performance. Details of all exceptional items are disclosed in Note 5.

Adjusted EBITDA

Adjusted EBITDA is the earnings before interest, taxation, depreciation and amortisation adjusted for exceptional items. A full reconciliation is included at the foot of the Group's condensed consolidated statement of comprehensive income.

Adjusted EPS

Adjusted EPS is the basic earnings per share adjusted for exceptional items, amortisation and depreciation on fair value uplifted assets and non-cash interest net of tax (at the Group's effective tax rate). A full reconciliation is provided in Note 8.

Net debt

Net debt is defined as the sum of cash and total borrowings at the balance sheet date. Net debt to EBITDA is the ratio of net debt to Adjusted EBITDA (as defined above).

Cash conversion

Cash conversion is the ratio of Adjusted EBITDA after movements in working capital less maintenance capital expenditure and share based payments, to Adjusted EBITDA. The calculation of the cash conversion ratio is set out within Table 1 of the Chief Financial Officer's report.

Cash flow before major projects

Cash flow before major capex is a key performance indicator of cash flow prior to capital expenditure on major projects. This represents adjusted EBITDA plus share-based payment costs less maintenance capital expenditure and adjusted for changes in working capital. The calculation of the cash flow before major projects is set out within Table 1 of the Chief Financial Officer's report.

Adjusted free cash flow

Adjusted free cash flow represents cash flow before major projects (defined above) less expenditure on major projects and cash outflows for taxation, net interest costs and post-employment benefits. The calculation of adjusted free cash flow is set out within Table 1 of the Chief Financial Officer's report.

4. SEGMENT REPORTING

During the year ended 31 December 2018, the management team considered the reportable segments to be the UK and the US. On 23 November 2018, the Group disposed of its US Segment, the results of which have been classified as discontinued operations within the 2018 Annual Report and Accounts. The trading results of the US segment up to the date of disposal are set out within Note 7.

The key Group performance measure is Adjusted EBITDA, as detailed below, which is profit before interest, tax adjusted for exceptional items, depreciation and amortisation. Transactions between segments are carried out at arms' length. No aggregation of segments has been applied.

	Year ended 31 December 2018		
	Continuing operations	Unallocated	Total
	£'000	£'000	£'000
<u>Continuing operations</u>			
Clay revenue	293,449	-	293,449
Concrete revenue	97,953	-	97,953
Total revenue from external customers	**391,402**	**-**	**391,402**
Adjusted EBITDA	**116,354**	**(3,983)**	**112,371**
Exceptional Pension related expenses (see Note 5)	(2,006)	-	(2,006)
Release of provision for contingent consideration (see Note 5)	1,892	-	1,892
Exceptional restructuring costs (see Note 5)	(348)	-	(348)
Exceptional corporate costs (see Note 5)	-	(985)	(985)
Exceptional profit on disposal of PP&E (see Note 5)	9,472	-	9,472
EBITDA after exceptional items	**125,364**	**(4,968)**	**120,396**
Depreciation and amortisation pre fair value uplift	(15,849)	-	(15,849)
Incremental depreciation and amortisation following fair value uplift	(8,556)	-	(8,556)
Net finance costs	(3,475)	-	(3,475)
Profit/(loss) before tax	**97,484**	**(4,968)**	**92,516**
Taxation			(16,102)
Profit for the year from continuing operations			**76,414**
<u>**Discontinued operations**</u>			
Profit for the year from discontinued operations (note 7)			652
Profit for the year			**77,066**
Consolidated total assets	706,977	-	706,977
Consolidated total liabilities	(258,946)	-	(258,946)
Non-current assets			
Consolidated total intangible assets	100,587	-	100,587
Property, plant and equipment	365,478	-	365,478
Total	**466,065**	**-**	**466,065**
Non-current asset additions			
Continuing operations	**33,378**	-	**33,378**
Discontinuing operations			**1,909**
Total non-current asset additions			35,287

Included within the revenue of our Clay operations during the year ended 31 December 2018 were £6,603,000 of bill and hold transactions. At 31 December 2018, inventory relating to sales of £4,294,000 remained on the Group's premises. The unallocated segment balance includes the fair value of the Group's share-based payments and associated taxes of (£1.8 million), plc Board and other plc employment costs (£3.7 million) and legal expenses associated with the listed business (£0.3 million). These costs have been offset by the research and development taxation credits of (£2.5 million).

	Year ended 31 December 2017		
	Continuing operations	Unallocated	Total
	£'000	£'000	£'000
Continuing operations			
Clay revenue	265,358	-	265,358
Concrete revenue	97,231	-	97,231
Total revenue from external customers	**362,589**	**-**	**362,589**
Adjusted EBITDA	**110,509**	**(2,610)**	**107,899**
Pension closure costs (see Note 5)	(211)	-	(211)
Release of provision for contingent consideration (see Note 5)	1,740	-	1,740
EBITDA after exceptional items	**112,038**	**(2,610)**	**109,428**
Depreciation and amortisation pre fair value uplift	(12,449)	-	(12,449)
Incremental depreciation and amortisation following fair value uplift	(8,556)	-	(8,556)
Net finance costs	(10,763)	-	(10,763)
Profit/(loss) before tax	**80,270**	**(2,610)**	**77,660**
Taxation			(12,594)
Profit for the year from continuing operations			**65,066**
Discontinued operations			
Profit for the year from discontinued operations (Note 7)			8,484
Profit for the year			**73,550**
Total assets	638,689	-	638,689
Assets relating to discontinued operations			106,154
Consolidated total assets			**744,843**
Total liabilities	(279,558)	-	(279,558)
Liabilities relating to discontinued operations			(44,457)
Consolidated total liabilities			**(324,015)**
Non-current assets			
Intangible assets	105,619	-	105,619
Intangible assets relating to discontinued operations			10,391
Consolidated total intangible assets			**116,010**
Property, plant and equipment	351,338	-	351,338
Property, plant and equipment relating to discontinued operations			49,142
			400,480
Total	**456,957**	**-**	**516,490**
Non-current asset additions			
Continuing operations	**32,489**	-	**32,489**

Discontinuing operations	**4,155**
Total non-current asset additions	36,644

In the prior year, the unallocated segment balance includes the fair value of the Group's share-based payments and associated taxes of (£1.6 million), plc Board costs (£1.6 million) and legal expenses associated with the listed business (£0.4 million). These costs have been offset by the research and development taxation credits of (£1.8 million). Prior year figures have been restated to exclude activities of discontinued operations.

5. EXCEPTIONAL ITEMS

	Year ended 31 December 2018	Year ended 31 December 2017
Continuing operations	£'000	£'000
Exceptional administrative expenses:		
Pension related expenses		
Pension closure costs - legal and actuarial costs	(506)	(211)
Exceptional GMP equalisation costs	(1,500)	-
	(2,006)	(211)
Release of provision for contingent consideration	1,892	1,740
Exceptional Corporate costs	(985)	-
Exceptional restructuring costs	(348)	-
Total exceptional administrative expenses	(1,447)	1,529
Exceptional profit on disposal of property plant and equipment	9,472	-
Exceptional items impacting EBITDA	**8,025**	**1,529**
Exceptional finance costs - acceleration of debt issue costs on September 2015 borrowings	-	(3,100)
Exceptional finance costs - reversing credit related to EIR accounting of September 2015 borrowings	-	(3,286)
	-	(6,386)
Exceptional items relating to continuing operations	8,025	(4,857)
Exceptional items relating to discontinued operations	(2,576)	-
Total exceptional items	**5,449**	**(4,857)**

2018

Included within the current year are the following exceptional items:

Exceptional administration expenses

Pension related costs which arose in the current year include further residual professional advisor fees associated with the closure of the Group's UK defined benefit pension scheme, which took place in the year ended 31 December 2016, and costs associated with the pension data cleansing exercise currently taking place as part of the Group's pension de-risking exercise. Additionally, in the current year, costs relating to past service costs associated with the Guaranteed Minimum Pension equalisation have been classified as exceptional. All exceptional pension costs have been assessed as exceptional due to the non-recurring nature of the event giving rise to the costs.

The release of a provision for contingent consideration of £1,892,000 arose in the current period following the finalisation of negotiations relating to outstanding contingent consideration following the Group's disposal by CRH plc in February 2015. This exceptional credit has been classified as exceptional due to the original categorisation of the associated provision creation in order to ensure consistency in accounting.

Exceptional corporate costs relate to the duplication of Chief Executive Officer's expenses in the current year, which has been categorised as exceptional on the basis of the non-recurring nature of the event giving rise to the costs.

Exceptional restructuring costs were incurred following the Group's decision to combine the Group's concrete businesses under one management team, and have been treated as exceptional due to the non-recurring nature of the event giving rise to the costs.

Exceptional profit on disposal of property, plant and equipment

The exceptional profit on disposal relates to the sale of the Group's surplus properties near Bristol and Keele, which occurred in the current year. The profits on disposal have been categorised as exceptional due to the materiality of the amounts recorded.

Exceptional items relating to discontinued operations of £2,576,000 relate to the loss on disposal of the Group's US segment in the current year, as set out in Note 7 of the results announcement. The amount has been categorised as exceptional due to the material and non-recurring nature of the disposal**.**

2017

Included within the prior year are the following exceptional items:

Exceptional administration expenses

Pension closure costs which arose in the year ended 31 December 2017 represent residual professional advisor fees associated with the closure of the Group's UK defined benefit pension scheme, which took place in the year ended 31 December 2016.

The release of a provision for contingent consideration of £1,740,000 arose in the prior period following the disposal of all interests in the Group by Bain Capital LLC.

Exceptional finance costs

Exceptional finance costs arising in the prior period resulted from the refinancing of the Group's loan in March 2017, representing £3,286,000 of accelerated loan deal fees and £3,100,000 of interest charges as a result of the effective interest method of accounting.

Tax on exceptional items

2018

The release of the provision for contingent consideration is non-taxable. The pension-related expenses, corporate and restructuring costs are tax deductible. The disposal of surplus properties during the current year give rise to capital gains which are taxable. The loss on disposal of the Group's US segment is tax exempt.

2017

The pension closure costs of £211,000 and the exceptional finance costs of £6,386,000 were tax deductible in full in the prior year whilst the £1,740,000 release of contingent consideration was not taxable.

6. TAXATION

Analysis of income tax charge

	Notes	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Continuing operations			
Current tax on profits for the period		**14,634**	9,911
Adjustments in respect of prior period		**(360)**	(324)
Total current tax		**14,274**	9,587
Deferred tax on profits for the period		**3,452**	4,974
Impact of change in tax rate		**(1,571)**	(29)
Adjustments in respect of prior period		**(53)**	(1,938)
Total deferred tax		**1,828**	3,007
Total continuing operations		**16,102**	12,594
Discontinued operations		**1,149**	(2,718)
		17,251	9,876

Income tax recognised within the consolidated statement of other comprehensive income

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Tax adjustments arising on the UK pension scheme assets and liabilities:		
Current tax charge / (credit)	**-**	-
Deferred tax charge	**5,357**	12,857

Income tax recognised within the consolidated statement of changes in equity

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Deferred tax charge / (credit) on share based payments	**184**	(354)

The tax expense for the period differs from the applicable standard rate of corporation tax in the UK of 19% for the year ended 31 December 2018 (2017: 19.25%). The differences are explained below:

	Year ended 31 December 2018 £'000	**Percentage**	Year ended 31 December 2017 £'000	Percentage
Profit before tax from continuing operations	**92,516**	**100%**	77,660	100%
Profit before tax multiplied by the rate of corporation tax in the UK	**17,578**	**19.00%**	14,950	19.25%
Effects of:				
Expenses not deductible	**868**	**0.94%**	270	0.35%
Changes in estimates relating to prior periods - IPO transaction costs	**-**	**-**	(2,113)	(2.72%)
Changes in estimates relating to prior periods	**(413)**	**(0.45%)**	(149)	(0.19%)
Total tax charge before deferred tax rate change and exceptional items	**18,033**	**19.49%**	12,958	16.69%
Non-taxable release of contingent consideration	**(359)**	**(0.39%)**	(335)	(0.43%)
Rate change on deferred tax provision - pension scheme surplus	**(1,469)**	**(1.59%)**	-	-
Rate change on deferred tax provision - other	**(103)**	**(0.11%)**	(29)	(0.04%)
Total taxation expense from continuing operations	**16,102**	**17.40%**	12,594	16.22%

The loss on disposal of the Group's US segment disclosed in note 5 is tax exempt.

There are no income tax consequences for the Company in respect of dividends declared prior to the date of authorisation of these financial statements and for which a liability has not been recognised.

The reduction in the standard rate of corporation tax in the UK from 20% to 19% came into force with effect from 1 April 2017. The further rate reduction to 17% from 1 April 2020 was substantively enacted in Finance Act 2016 on 6 September 2016. The impact of these tax rate changes are reflected in these financial statements.

The Group expects its effective tax rate in the future to be affected by the outcome of any future tax audits as well as the impact of changes in tax law.

7. DISCONTINUED OPERATIONS

On 23 November 2018, the Group sold its entire US segment (see Note 4). Management committed to a plan to sell this segment in second half of 2018 following a strategic decision to place greater focus on the Group's key geography of the UK. The US segment was not previously classified as held-for-sale or as a discontinued operation. The comparative consolidated income statement has been restated to show the discontinued operation separately from continuing operations. The results of the continuing operations for the year ended 31 December 2017 have been amended from those disclosed in the prior year to reflect the full net interest costs and absence of management fee between the UK and US segments at that time.

A. Results of discontinued operations

	Year ended 31/12/2018	**Year ended 31/12/2017**
	£'000	£'000
Revenue	79,690	88,994
Cost of sales	(63,092)	(70,489)
Gross profit	16,598	18,505
Distribution costs	(1,482)	(1,472)
Administrative expenses	(10,744)	(10,665)
Profit on disposal of property, plant and equipment	5	2
Operating profit	4,377	6,370
Net finance cost	-	(604)
Profit before taxation	4,377	5,766
Income tax	(1,149)	2,718
Trading profit after taxation	3,228	8,484
Loss on sale of discontinued operation	(2,576)	-
Income tax on sale of discontinued operation	-	-
Profit from discontinued operations, net of tax	**652**	**8,484**
Basic earnings per share (pence)	0.2	2.1
Diluted earnings per share (pence)	0.2	2.1

The profit from discontinued operations of £652,000 (2017: profit of £8,484,000) is attributable entirely to the owners of the Company.

B. Cash flows from (used in) discontinued operations

£'000	**Year ended 31/12/2018 estimated**	**Year ended 31/12/2017**
Net cash (used in)/from operating activities	(1,419)	6,008
Net cash from/(used in) investing activities	73,937	(4,321)
Net cash (used in) financing activities	(74,251)	(9,214)
Net cash flows from the year	(1,733)	(7,527)

C. Effect of disposal on the financial position of the Group

£'000	**23/11/2018**
Intangible assets	(10,703)
Property, plant and equipment	(49,353)
Deferred tax assets	(1,419)

Inventories	(40,101)
Trade and other receivables	(13,326)
Current tax recoverable	(94)
Trade and other payables	8,439
Provisions	1,090
Post-employment benefit obligations	9,010
Deferred tax liabilities	6,827
Book value of net assets sold	(89,630)
Disposal proceeds	79,208
Foreign currency reserve	11,347
Transaction costs	(3,501)
Loss on disposal	(2,576)

8. EARNINGS PER SHARE

The basic earnings per share figures are calculated by dividing profit for the year attributable to the parent shareholders by the weighted average number of ordinary shares in issue during the year.

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the year. Where the average share price for the year is lower than the option price the options become anti-dilutive and are excluded from the calculation.

	Year ended 31 December 2018	Year ended 31 December 2017
	(000s)	(000s)
Basic weighted average number of shares	406,448	406,361
Effect of share incentive awards and options	3,021	2,321
Diluted weighted average number of shares	409,469	408,682

The calculation of adjusted earnings per share is a key measurement of management that is not defined by IFRS. The adjusted EPS measures should not be viewed in isolation, but rather treated as supplementary information.

Adjusted earnings per share figures are calculated as the Basic earnings per share adjusted for exceptional items, amortisation and depreciation on fair value uplifted assets and non-cash interest expenses. Adjustments are made net of the associated taxation impact at the Effective Tax Rate.

A reconciliation of the statutory profit to that used in the adjusted earnings per share calculations is as follows:

	Continuing	Discontinued	Total 2018	Continuing	Discontinued	Total 2017
	£000	£000	£000	£000	£000	£000
Profit for the period attributable to the parent shareholders	76,414	652	77,066	65,066	8,484	73,550
Add back exceptional items	(8,025)	2,576	(5,449)	4,857	-	4,857
Add back tax expense/(credit) on exceptional items	1,396	(399)	997	(575)	-	(575)
Add fair value adjustments	8,556	606	9,162	8,556	1,058	9,614
Less tax credit on fair value adjustments	(1,489)	(187)	(1,676)	(1,386)	248	(1,138)
Less net non-cash interest	(301)	(61)	(362)	387	516	903
Add back tax expense on non-cash interest	52	14	66	(63)	(44)	(107)
Adjusted profit for the period attributable to the parent shareholders	76,603	3,201	79,804	76,842	10,262	87,104

	Continuing pence	Discontinued pence	Total 2018 pence	Continuing pence	Discontinued pence	Total 2017 pence
Basic EPS on profit for the year	18.8	0.2	**19.0**	16.0	2.1	18.1
Diluted EPS on profit for the year	18.6	0.2	**18.8**	15.9	2.1	18.0
Adjusted basic EPS on profit for the year	18.8	0.8	**19.6**	18.9	2.5	21.4
Adjusted diluted EPS on profit for the year	18.7	0.8	**19.5**	18.8	2.5	21.3

9. NOTES TO THE GROUP CASH FLOW STATEMENT

	Continuing operations	Discontinued operations	Year ended 31 December 2018	Continuing operations	Discontinued operations	Year ended 31 December 2017
Cash flows from operating activities	£'000	£'000	£'000	£'000	£'000	£'000
Profit before taxation	92,516	1,801	94,317	77,660	5,766	83,426
Adjustments for:	-	-	-	-	-	-
Depreciation of property, plant and equipment	18,249	4,310	22,559	14,814	5,045	19,859
Amortisation of intangible assets	6,156	250	6,406	6,191	285	6,476
Finance costs	3,475	-	3,475	10,763	604	11,367
(Gain)/loss on disposal of property, plant and equipment	(11,207)	(5)	(11,212)	(142)	(2)	(144)
Loss on disposal of subsidiary undertaking	-	2,576	2,576	-	-	-
Movement in contingent consideration	(1,892)	-	(1,892)	(1,740)	-	(1,740)
Research and development taxation credit	(2,500)	-	(2,500)	(1,762)	-	(1,762)
Share based payment	1,773	-	1,773	1,279	-	1,279
Post-employment benefits	(4,236)	(137)	(4,373)	(5,836)	(282)	(6,118)
Other	-	38	38	(115)	-	(115)
	102,334	8,833	111,167	101,112	11,416	112,528
(Increase) in inventory	(10,194)	(4,822)	(15,016)	623	(5,565)	(4,942)
(increase) in debtors	(12,091)	(3,916)	(16,007)	(5,239)	2,920	(2,319)
Increase/(decrease) in creditors	16,587	(717)	15,870	9,854	(761)	9,093
(Decrease)/increase in provisions	(1,627)	107	(1,520)	(3,446)	(119)	(3,565)
Cash generated from operations	95,009	(515)	94,494	102,904	7,891	110,795

10. POST EMPLOYMENT BENEFITS

The Group participates in the Ibstock Pension Scheme (the 'Scheme'), a defined benefit pension scheme in the UK. During the year ended 31 December 2018, the Scheme surplus of £46,064,000 has increased to a surplus of £80,705,000. Analysis of movements during the year ended 31 December 2018:

	£'000
Scheme surplus at 31 December 2017	**46,064**
Charge within labour costs and operating profit	(2,453)
Interest income	1,202
Remeasurement due to:	
Change in financial assumptions	35,666
Change in demographic assumptions	23,628
Experience gains	8,091
Return on plan assets	(38,493)
Company contributions	7,000
Scheme surplus at 31 December 2018	**80,705**

The improvement in the underlying balance sheet position over the period is primarily due to a combination of actuarial gains due to a change in assumptions, partially offset by lower than expected investment returns.

Key assumptions used at 31 December 2018:

Assumption	**31 December 2018**	31 December 2017
Discount rate	**2.80%**	2.45%
RPI inflation	**3.10%**	3.15%
CPI inflation	**2.10%**	2.15%

The Group participated in two multi-employer defined benefit pension schemes in the US up until the point of disposal of the US business. The liability recognised in respect of these schemes at 31 December 2017 was £8,735,000. No liability remains with the Group at 31 December 2018.

11. RELATED PARTY TRANSACTIONS

In the year ended 31 December 2018

There were no related party transactions during the year ended 31 December 2018 nor any balances with related parties.

In the year ended 31 December 2017

On 9 March 2017, Diamond (BC) S.a.r.l (a wholly owned subsidiary of Bain Capital Partners LLC) announced the proposed placing of approximately 40,600,000 ordinary shares in the capital of Ibstock plc. On 10 March 2017, the Company announced that 48,600,000 ordinary shares were sold due to strong investor demand. Following the sale, Bain Capital Partners LLC held ordinary shares representing approximately 25.0% of the entire issued share capital. On 25 April 2017, Diamond (BC) S.a.r.l announced the proposed placing of approximately 50,000,000 ordinary shares in the capital of Ibstock plc. On 26 April 2017, the Company announced that 101,600,000 ordinary shares were sold due to strong investor demand. Following the sale, Bain Capital Partners LLC ceased to hold any ordinary shares in Ibstock plc. As at 31 December 2017, the board of directors of the company, consider, based on the facts and circumstances, that Bain Capital Partners LLC no longer continues to have significant influence over the Group. There is no ultimate controlling party.

12. DIVIDENDS PAID AND PROPOSED

The directors are proposing a final dividend in respect of the financial year ended 31 December 2018 of 6.5 pence per ordinary share (2017: 6.5 pence) which will distribute an estimated £26,423,000 (2017: £26,417,000) of shareholders' funds. It will be paid on 7 June 2019 to those shareholders who are on the register at 10 May 2019 subject to approval at the Group's Annual General Meeting.

13. POST BALANCE SHEET EVENTS

Except for the proposed dividend (see note 12), no further subsequent events requiring further disclosure or adjustments to these financial statements have been identified since the balance sheet date.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IBSTOCK PLC ON THE PRELIMINARY ANNOUNCEMENT OF IBSTOCK PLC

As the independent auditor of Ibstock PLC we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Ibstock PLC's preliminary announcement statement of annual results for the period ended 31 December 2018.

The preliminary statement of annual results for the period ended 31 December 2018 includes management commentary, the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement, and notes. We are not required to agree to the publication of presentations to analysts.

The directors of Ibstock PLC are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Ibstock PLC is complete and we signed our auditor's report on 4 March 2019. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Revenue recognition: bill and hold arrangements	
Key audit matter description	Ibstock Brick has recognised revenue from bill and hold arrangements in June and December 2018. There is a risk that revenue is recognised in respect of bill and hold arrangements prior to acceptance and risks transferring to the customer. We are required under ISAs (UK) to presume that there is a risk of fraud in revenue. Changes in bill and hold revenue could improve adjusted EBTIDA, which is a key performance measure, and so we have therefore identified bill and hold sales as our key audit matter in revenue. Revenue includes £6.6 million relating to bill and hold arrangements of which £4.3 million relates to inventory remaining at Ibstock Brick sites as at 31 December 2018. This amount includes product sales, where shipment to the customer has not happened as at the balance sheet date, but revenue has been recognised in the year ended 31 December 2018 due to the risks of ownership having passed to the customer. Further information on bill and hold transactions can be found in note 1 of the accounts.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • evaluated the design and implementation of the control to address the key audit matter in Ibstock Brick; • reviewed management's paper on bill and hold arrangements which explains the purpose of the arrangements; • selected a sample of bill and hold transactions and inspected the supporting documentation, including invoice terms to assess whether they meet the revenue recognition criteria in IFRS 15 *Revenue from Contracts with Customers*; • agreed that the inventory is separately identifiable by observing the quarantine of the bill and hold inventory through photographic evidence and physical inspection; • reviewed the contracts between Ibstock Brick and the customer to assess whether it is probable that delivery will be made; and • performed a retrospective review of bill and hold arrangements from June 2018 and checked that there has been no subsequent refund of the bill and hold sales invoices previously paid on normal commercial terms.

Key observations	No issues have been noted in the procedures performed and we concluded that revenue was recognised in accordance with the accounting policy of the Group and relevant accounting standards.
Inflation and discount rate assumptions used in defined benefit pension scheme valuations	
Key audit matter description	The Group has a net defined benefit pension asset of £80.7 million as at 31 December 2018 (2017: £46.1 million). There is a risk of material misstatement relating to judgements made in valuing the defined benefit pension scheme liabilities as small changes in the key model input assumptions such as inflation and discount rates can have a significant impact on the valuation of the liability. Further information on inflation and discount rate assumptions used in defined benefit pension scheme valuations can be found in the Audit Committee report on page 78, note 1 (Summary of significant accounting policies) on page 11 and note 20 (Post employment benefit obligations).
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • evaluated the design and implementation of the control to address the key audit matter; • assessed the appropriateness of the inflation and discount rate assumptions used in respect of the UK scheme by comparing rates adopted by Ibstock plc for the year ended 31 December 2018 against our expectation determined by internal benchmarks and comparator schemes; • considered the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit scheme liabilities to changes in these key assumptions; and • challenged management to understand the sensitivity of changes in assumptions and quantify a range of reasonable rates that could be used in their calculation with reference to comparator company and market data as at 31 December 2018.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Ibstock PLC we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and

- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 our audit report or this report, or for the opinions we have formed.

Jonathan Dodworth (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom

4 March 2019