10 March 2020

2019 FULL YEAR RESULTS

Forterra plc, a leading UK producer of manufactured masonry products, announces its results for the year ended 31 December 2019.

	Before exceptional items and IFRS 16		Statutory	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Revenue	**380.0**	367.5	**380.0**	367.5
EBITDA	**76.4**	78.8	**78.4**	78.8
Operating profit	**64.6**	67.1	**60.7**	67.1
Profit before tax	**62.5**	64.8	**58.2**	64.8
Earnings per share (pence)	**25.6**	26.5	**23.8**	26.5
Net debt	**43.2**	38.8	**57.3**	38.8
Net debt / EBITDA (times)	**0.6**	0.5	**0.7**	0.5
Total dividend (pence)			**11.5**	10.5

KEY POINTS

- Revenue increased 3.4%, driven by growth in Bespoke Products and specifically Bison Precast, where improvements in productivity benefited sales volumes and revenue.
- EBITDA before exceptional items of £82.7m (2018: £78.8m) benefits from implementation of IFRS 16.
- EBITDA before the impact of exceptional items and IFRS 16 decreased slightly (£2.4m), demonstrating the resilience of the business in the face of weaker market conditions, particularly in H2.
- Strong balance sheet with net debt to EBITDA before the impact of exceptional items and IFRS 16 of 0.6x (2018: 0.5x). The increase of £4.4m to £43.2m reflected spend on the new Desford brick manufacturing facility.
- Final dividend proposed of 7.5 pence per share taking total dividend to 11.5 pence per share, an increase of 9.5% over 2018.

Stephen Harrison, Chief Executive Officer, commented:

“The first half of the year saw strong demand for our products, which slowed in the second half as the impact of political and economic uncertainty weighed on consumer confidence. The general election result in December should provide greater political certainty in the future.

“Demand for our products is driven by housebuilding activity. As enabling works such as access roads and drainage generally need to be completed on new housing developments before our products are required on site, we typically experience some lag in demand following an increase in housebuilding activity. We remain optimistic that demand will recover through the year although this may take some time given an extremely wet winter.

“Therefore, as stated in January 2020, the Board continues to expect the challenging market conditions experienced in the second half of 2019 to gradually improve but anticipates that the Group’s performance in the first half of 2020 will be below that achieved in the first half of 2019.

“Whilst the Board remains watchful of any further political and economic uncertainty, our investment in the new Desford brick manufacturing facility, which will be the largest brick factory in Europe, reflects confidence in our ability to capitalise on the attractive market fundamentals and to deliver sustainable shareholder value over the medium term.”

ENQUIRIES

Forterra plc **+44 1604 707 600**
Stephen Harrison, Chief Executive Officer
Ben Guyatt, Chief Financial Officer

FTI Consulting **+44 203 727 1340**
Richard Mountain / Nick Hasell

A presentation for analysts will be held today, 10 March 2020, at 9.00am at the offices of FTI Consulting. An audio webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

Forterra is a UK leader in manufactured masonry products, with a unique combination of strong market positions in clay bricks and concrete blocks. We also have a leadership position in the precast concrete products market operating under the well-known Bison Precast brand.

Within our clay bricks business we focus upon the efficient manufacture of high volume extruded and soft mud bricks, primarily for the housing market. The business is also the sole manufacturer of the iconic Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. Within our concrete blocks business, we are one of the leading producers of both aircrete and aggregate blocks, the former being sold under one of the country's principal aircrete brands of Thermalite.

BUSINESS REVIEW

RESULTS FOR THE YEAR

	Statutory 2019 £m	IFRS 16 2019 £m	Exceptional items 2019 £m	**Before exceptional items and IFRS 16 2019 £m**	**Statutory 2018 £m**
Revenue	380.0	-	-	**380.0**	**367.5**
EBITDA	78.4	(6.3)	4.3	**76.4**	**78.8**
Depreciation and amortisation	(17.7)	5.9	-	**(11.8)**	**(11.7)**
EBIT	60.7	(0.4)	4.3	**64.6**	**67.1**
Finance expense	(2.5)	0.4	-	**(2.1)**	**(2.3)**
Profit before tax	58.2	-	4.3	**62.5**	**64.8**

The table above is presented to allow like-for-like comparison of the current and previous year's results. The statutory 2019 results are adjusted to remove the impacts of adopting IFRS 16 and exceptional items providing a meaningful comparison with the prior year. The prior year comparative figures have not been restated on adoption of IFRS 16 and there were no exceptional items in 2018.

Group revenue for the year ended 31 December 2019 was £380.0m (2018: £367.5m), an increase of 3.4%. Bricks and Blocks revenue grew by 0.6% and Bespoke Products grew by 12.3%, specifically attributable to the Bison Precast business.

This growth was achieved against a backdrop of slowing construction activity. The prolonged political paralysis surrounding Brexit and the December general election took its toll on the economy, with all key indicators confirming a marked deterioration in our key markets in the second half of the year.

The primary drivers of demand for our products are new housebuilding and residential repair, maintenance and improvement (RM&I). National House Building Council (NHBC) figures show that housing starts in 2019 declined 8% on the prior year. NHBC also reports that the number of new building sites opened in 2019 fell 17% relative to 2018. In addition, data from the Office of National Statistics (ONS) highlighted that the private residential repair maintenance and improvement (RM&I) market also declined approximately 2% in 2019 with this rate of decline increasing towards the end of the year. This reduction in activity across our key markets impacted sales volumes across the majority of our products.

Earnings before interest, tax, depreciation and amortisation (EBITDA) as stated before the impact of IFRS 16 and exceptional items were £76.4m (2018: £78.8m), demonstrating the Group's resilience in the face of the weaker market conditions.

As in previous years, the majority of our selling price increases were agreed at the start of the year and were generally sufficient to offset input cost inflation. Pricing was more difficult in the Bison Precast business however with strong competition in this market limiting achievable price increases. Significant energy cost inflation was experienced during the year. Raw material cost inflation was more benign, with the exception of pulverised fuel ash (PFA), which we use for aircrete block production. Due to shortages of supply, we purchased some imported PFA at higher prices to ensure continuity of production.

The profit reported by our Bespoke Products segment, of which the Bison Precast business is the primary constituent, again fell short of our expectations. Notwithstanding the improvements in manufacturing efficiency which we have steadily achieved, market conditions in the precast concrete market have deteriorated since we purchased the Swadlincote factory in 2017.

During the year the Group incurred exceptional costs totalling £4.3m, primarily comprised of restructuring costs as we aligned production to prevailing market conditions. Profit before tax as stated on a statutory basis was £58.2m (2018: £64.8m) reflecting the slight reduction in the trading result along with the exceptional costs.

The EBITDA margin, as stated before exceptional items and IFRS 16, was 20.1% (2018: 21.4%). This decline is a function of the strong revenue growth in Bespoke Products where margins are lower than in Bricks and Blocks.

EARNINGS PER SHARE AND DIVIDEND

Earnings per share (EPS), as stated before exceptional items, was 25.6 pence (2018: 26.5 pence). Basic EPS after exceptional items was 23.8 pence (2018: 26.5 pence), reflecting the lower trading result, exceptional items and higher tax rate.

The Board is proposing a final dividend of 7.5 pence per share, which together with the interim dividend, would make a total of 11.5 pence for the full year. This represents an increase of 9.5% over the 2018 total dividend of 10.5 pence. The final dividend will be paid on 9 July 2020 to shareholders on the register at 19 June 2020.

SUMMARY AND OUTLOOK

The first half of the year saw strong demand for our products, which slowed in the second half as the impact of political and economic uncertainty weighed on consumer confidence. The general election result in December should provide greater political certainty in the future.

Demand for our products is driven by housebuilding activity. As enabling works such as access roads and drainage generally need to be completed on new housing developments before our products are required on site, we typically experience some lag in demand following an increase in housebuilding activity. We remain optimistic that demand will recover through the year although this may take some time given an extremely wet winter.

Therefore, as stated in January 2020, the Board continues to expect the challenging market conditions experienced in the second half of 2019 to gradually improve but anticipates that the Group's performance in the first half of 2020 will be below that achieved in the first half of 2019.

Whilst the Board remains watchful of any further political and economic uncertainty, our investment in the new Desford brick manufacturing facility, which will be the largest brick factory in Europe, reflects confidence in our ability to capitalise on the attractive market fundamentals and to deliver sustainable shareholder value over the medium term.

STRATEGY IMPLEMENTATION

The Group's objective remains to generate sustainable shareholder value through delivering upon the following strategic priorities:

- drive for a flexible and efficient manufacturing base, aligning capacity to market conditions;
- maintain strong market positions in our core products; and
- expand the range of products and services offered both organically and through appropriate bolt-on acquisitions.

These priorities are underpinned by having high performing people throughout the business and continuing to strengthen customer relationships.

The Board believes the market headwinds experienced in the second half of 2019 to be temporary and that the long-term fundamentals that drive demand for our products remain strong. The UK housing shortage is well documented and the Government continues to pursue policies to stimulate housebuilding. Employment remains high with interest rates at near record lows. UK brick manufacturing capacity remains insufficient to meet current demand with a reliance on imports to address the shortfall.

In April 2019 we received the necessary planning consents for our new £95m production facility at Desford in Leicestershire and shortly afterwards ground was broken and construction commenced. Desford is the centrepiece of the Group's organic growth strategy and will deliver production capacity of 180m clay bricks per annum, an incremental increase of 95m bricks over the current Desford facility, which will be decommissioned in due course. The new facility will increase our brick manufacturing capacity by 16% and produce a range of bricks already established and popular with housebuilders, and discussions with customers regarding future supply agreements have now commenced. The construction project is progressing to plan, with the shell of the building now nearing completion allowing fit out to commence ahead of the installation of the manufacturing equipment later in the year.

We have continued to innovate and develop our product range, and during the year our Bison Precast business won a major contract from the Ministry of Justice for a new prison in Wellingborough. This project showcases the continued development of Forterra's capability and we are pleased to supply a range of precast concrete walling products, including brick faced precast panels, to this prominent project.

In 2019 we successfully delivered modifications to our aircrete block facility in Newbury to allow the use of conditioned (wet) pulverised fuel ash, which is a major step towards our goal of decoupling aircrete production from its reliance on coal-fired power generation.

CAPITAL ALLOCATION

During the year, the Board reviewed the Group's capital allocation priorities and reaffirmed these as follows:

- **Organic Investment**

The Desford project is a prime example of the attractive organic investment opportunities available to the Group and the Board will continue to prioritise these projects. Whilst construction has commenced on the new facility, we continue to explore several other potential renewal and expansion projects which will give the Group optionality in years to come.

- **Dividends**

Once fully operational, the new plant at Desford will deliver a significant increase in earnings through the cycle by increasing sales volumes and reducing the cash cost of production in comparison to the facility that it will replace. In anticipation of this increase in earnings, we previously announced an increase in our dividend payout percentage to 45% of earnings for 2019, along with restating our intention to maintain a progressive policy thereafter. This policy reflects the long-term earnings and cash flow generation potential of the Group whilst recognising that our primary markets are cyclical in nature.

- **Acquisitions**

We will continue to evaluate potential acquisitions which strengthen our existing market positions, expand our product range or enable us to address complementary markets. We will only pursue those opportunities where the strategic rationale can be demonstrated and where the financial hurdles set by the Board can be met.

ENVIRONMENT SOCIAL AND GOVERNANCE

The profile of sustainability has grown significantly in recent years and this is underlined by the Government's commitment to net zero carbon by 2050. We understand both the contribution our products can make to delivering a sustainable built environment and the potential impact our production processes can have on the environment if we don't manage them in a responsible manner. We set a series of environmental targets to demonstrate continual improvement to support our ISO14001 certification which run from 2010 through to 2020 and we will be defining new stretching targets in the current year.

We are formulating our long-term sustainability strategy focused on actions in areas where our business can make a difference. One of the first steps on this journey was to use the UN Sustainable Development Goals to underpin our long-term ambitions around three areas of sustainability:

- People: Our priorities are the safety, health and wellbeing of our employees and the elimination of accidents, making sure that anyone who works at or visits one of our sites goes home unharmed. We want to ensure Forterra is a great place to work by providing best-in-class training and opportunities for development, inclusion, and progression within the business. We want to be an asset to and support the local economy and communities where we operate.
- Planet: We want to be a leading responsible business ensuring that we operate in the most resource efficient manner possible, minimising waste and helping the UK achieve its target of net zero carbon through the provision of building materials to provide quality, energy-efficient homes.
- Product: We provide essential building products which last for generations. Where possible we will produce our products in a resource-efficient manner through the use of recycled or alternative materials and modern manufacturing techniques. We will ensure that the correct advice is readily available so that our products can be easily recycled at the end of life.

Plastic is a versatile material and is currently the principal material used in the packaging of our products. We understand that single use plastic is a global issue and we all need to take responsibility for how we use, recycle and dispose of this material. During 2020 we will carry out a full review of our packaging needs whilst still meeting the basic requirements of ensuring that our products are delivered in a safe manner to our customers with no damage and ready for use. To guide this review we have developed a five point plan within which we will ensure that all packaging is recyclable and look at any potential obstacles to its recycling. We will also eliminate unnecessary or problematic packaging as well as identifying opportunities to increase the use of recycled content and alternative packaging materials or techniques.

PEOPLE

The significant contribution our employees make to Forterra through their exceptional efforts and ongoing commitment is evident for all to see. In 2019 the Board has spent time at many of the Group's facilities and continue to be impressed by the engagement, knowledge and enthusiasm displayed by our employees. We continue to offer the employees the ability to participate in the Company's success through the Sharesave plan and with the first three-year plan maturing at the end of 2019 it was pleasing to see our employees realise a substantial gain upon the amount saved given the progression of our share price since the IPO in 2016.

BOARD CHANGES

Paul Lester retired as Chairman at the conclusion of the 2019 AGM and we wish to place on record our thanks for his efforts in guiding the Company through a successful IPO and helping it to become established as a listed company. As Justin Atkinson stepped up to become the new Chairman, Katherine Innes Ker also stepped up to the role of Senior Independent Non Executive Director. We were pleased to welcome Vince Niblett who joined the Board on 8 February 2019 and whom subsequently succeeded

Justin Atkinson as Chairman of the Audit Committee. Vince brings extensive and complementary experience to the Board having spent many years as a partner with international professional services firm, Deloitte.

In addition, Shatish Dasani stood down from the business at the end of 2019 following four years of service in which he played a key role in the IPO and the subsequent success of the business. We are very pleased to welcome Ben Guyatt to the Board as Chief Financial Officer. Ben previously held the role of Director of Finance and Company Secretary and has gained a wealth of experience within the Group playing key roles in both the separation of the business from HeidelbergCement and the subsequent IPO. We are particularly pleased that we have been able to make an internal appointment for this important role, demonstrating the success of our succession planning.

CASH FLOW, BORROWINGS AND FACILITIES

The Group continues to be highly cash generative. Operating cash flow, stated before the impact of IFRS 16 and exceptional items, was £58.6m (2018: £79.8m) which represents a cash conversion of 71% (2018: 91%) (defined as operating cash flow less capex, excluding spend on the Desford project, divided by operating profit). We have removed the capital spend related to the Desford project from this KPI as this is a long-term project which will generate cash flows over a period in excess of 30 years.

Capital expenditure totalled £24.3m with £14.4m of this related to strategic projects being the Desford expansion and the project to upgrade the Newbury aircrete facility to utilise conditioned ash.

Working capital increased by £17.2m in the year, primarily as a result of an inventory build of £10.4m Given that brick inventories were previously close to historically low levels that we consider unsustainable in the longer term, this increase in inventory leaves the Group better placed to meet future demand whilst retaining the high levels of service our customers expect. We manage inventory carefully and optimise production such that levels remain balanced to demand. In late 2019, we announced some restructuring within our brick business, which during 2020, will see a re-alignment of production to demand. Overall, this will not have a significant impact on the Group's total output as the production decline at one facility will be met by an increase at another. The costs of this restructuring exercise have been included as an exceptional item in the period. Cash collections from customers remained strong. Debtor days were 40 compared with 41 in the prior year.

We continued to purchase shares for the Employee Benefit Trust for the purpose of settling awards made under the Group's employee share schemes. A large number of these shares were subsequently utilised in settling the first vesting of the Group's Sharesave scheme and proceeds of £4.9m were received, partially offsetting this outlay.

	Statutory 2019 £m	IFRS 16 2019 £m	**Before IRFS 16 2019 £m**	**Statutory 2018 £m**
Operating cash flow before exceptional items	64.9	(6.3)	**58.6**	**79.8**
Payments made in respect of exceptional items	(1.1)	-	**(1.1)**	**-**
Cash generated from operations after exceptional items	63.8	(6.3)	**57.5**	**79.8**
Interest paid	(2.4)	0.4	**(2.0)**	**(2.2)**
Tax paid	(8.8)	-	**(8.8)**	**(11.8)**
Capital expenditure				
− maintenance	(9.9)	-	**(9.9)**	**(8.5)**
− expansion	(14.4)	-	**(14.4)**	**(10.1)**
Dividends paid	(22.0)	-	**(22.0)**	**(19.3)**
Purchase of shares by Employee Benefit Trust (EBT)	(9.7)	-	**(9.7)**	**(6.1)**
Proceeds from sale of shares by EBT	4.9	-	**4.9**	**-**
Lease liabilities on adoption of IFRS 16	(14.6)	14.6	**-**	**-**
New lease liabilities	(5.4)	5.4	**-**	**-**
Other movements	-	-	**-**	**0.2**
(Increase)/reduction in net debt	(18.5)	14.1	**(4.4)**	**22.0**
Debtors days	40			**41**

Net debt to EBITDA, as stated excluding the impact of IFRS 16 and exceptional items, was 0.6 times (2018: 0.5 times).

The Group's debt facility comprises a committed revolving credit facility (RCF) of £150m extending to July 2022 with a group of major international banks. At 31 December 2019, £80m of the facility was undrawn. There is also an accordion facility of £50m on the same terms as the main facility. The Group continues to operate comfortably within the covenants under this facility.

On adoption of IFRS 16 the Group recognised a liability of £14.6m in respect of leases which had previously been classified as operating leases. This adjustment primarily relates to leased equipment and in particular, heavy goods vehicles where all of the Group's brick and block delivery fleet are leased under a range of different agreements, affording the Group the greatest level of flexibility. The Group adopted IFRS 16 from 1 January 2019 and has not restated the 2018 comparatives.

BRICKS AND BLOCKS

	Statutory 2019 £m	IFRS 16 2019 £m	Exceptional items 2019 £m	**Before exceptional items and IFRS 16 2019 £m**	**Statutory 2018 (restated[1]) £m**
Revenue	279.1	-	-	**279.1**	**277.5**
EBITDA	77.1	(5.7)	3.3	**74.7**	**75.8**
EBITDA margin				**26.8%**	**27.3%**

[1]In 2019, the Formpave business was reclassified from the Bespoke Products to the Bricks and Blocks segment after a management reorganisation. Overhead allocation was also changed to reflect this. The 2018 results have been restated to reflect this change consistently across periods.

We have a unique combination of strong market positions in both clay brick and concrete blocks. We are also the only manufacturer of the iconic and original Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. We operate nine brick manufacturing facilities across the country with a total production capacity of 590 million bricks per annum. We are also a leader nationally in the aircrete block market, operating from facilities at Newbury and Hams Hall (Warwickshire). Our aggregate blocks product has a leading position in the important South East and East of England markets, with well-located manufacturing facilities at Milton (Oxfordshire) and Whittlesey (Cambridgeshire).

This segment now includes the results of Formpave, the Group's concrete block paving business. Formpave, based at our Coleford site, manufactures a wide range of high-quality concrete block paving to suit all projects from commercial to domestic applications, and including the patented Aquaflow drainage system. Following a management reorganisation under which the business now reports to Bricks and Blocks management, the segmental revenue and results for 2018 have been restated accordingly.

Revenue remained broadly stable, increasing by 0.6% compared to 2018. Selling price increases obtained in the year broadly offset the impact of the decline in sales volumes. 2019 despatches of domestically produced bricks as reported by the Department for Business, Energy and Industrial Strategy fell by 3% relative to the prior year and our own brick sales volumes followed a consistent trend. Aircrete and aggregate block volumes fell by greater percentages driven by a competitive market characterised by a degree of under-utilised capacity and higher inventories, which are not replicated in the brick industry.

During the year we saw an increase in energy costs of approximately 9%. In addition, we supplemented our PFA supplies with more expensive imported materials to ensure continuity of production. With the equipment to utilise conditioned ash now installed at both facilities, and supplies of conditioned ash secured in the short to medium term, we expect to be able to mitigate some of this cost going forward.

Formpave had a challenging year, primarily due to a number of operational issues. Changes to management will enable the business to respond better to these challenges and drive an improvement in operational efficiency.

EBITDA as stated before the impact of IFRS 16 and exceptional items of £74.7m, is a decrease of £1.1m compared with 2018 (£75.8m), with the EBITDA margin of 26.8% remaining broadly consistent with the prior year (2018: 27.3%).

Brick production increased 4% compared with the prior year. Our soft mud facility at Measham achieved record annual production of more than 100 million bricks, reflecting our focus on continuous improvement. We also increased production at our Wilnecote facility with the addition of an extra shift, and, following the outage associated with the kiln during 2018, production at Desford increased in 2019, although operating this ageing factory alongside the adjacent construction site remains a challenge. Repair and maintenance costs were broadly in line with prior year and reflect the ongoing maintenance programme designed to enable our facilities to continue operating at near full capacity.

During the year £12.9m was invested in the construction of the new Desford brick manufacturing facility, including the purchasing of mineral rights which will secure the supply of clay to the plant for a period in excess of 40 years. The total invested in the project up to 31 December 2019 was £14.2m.

In the aircrete business, following the successfully-completed project in 2018 to convert the Hams Hall facility to allow the use of conditioned or wet PFA, a similar project was delivered at our Newbury facility in the first half of the year at a cost of £3.7m. This completed a £6.0m investment programme to decouple production at both facilities from coal-fired power generation. Raw material supply still remains a challenge with an element of dry PFA still currently required to manufacture certain products. The Group has secured supplies of conditioned PFA for the short to medium term and negotiations are continuing to secure further longer-term supplies. The value of this investment however cannot be underestimated. In 2020, the first full year following the conversion of both plants, we expect around 60% of the PFA we consume to be conditioned. Work is also underway to assess the feasibility of switching to a sand supply in the longer term.

We continued to develop our long-term relationships with customers across different channels including housebuilders, builders' merchants and other specialised distributors. Discussions have already commenced with key customers with regard to their purchase of product from the new Desford facility when it comes on-line in the second half of 2021.

During the year new product development continued to progress with the recent launch of our next generation brick slip system, SureBrick, demonstrating our commitment to modernising and improving building standards whilst gaining access to the growing market for products which can be used offsite or with modern methods of construction. Lighter than traditional masonry, SureBrick is simple to install with no reliance on traditional brick laying skills.

We also celebrated success at the Brick Development Association's annual Brick Awards, where our projects won three awards for The Interlock and were highly commended for York House. The Interlock a newly-built, five-storey building in London's Fitzrovia, which blends historic and contemporary aesthetics won the Innovation, Small Housing Development and Architects Choice awards. York House, a 1980s office building in Kings Cross which has recently been transformed into a contemporary, high-specification workspace, was highly commended in the Innovation category.

Delivery of our bricks and blocks is fulfilled by our own fleet of vehicles, supplemented by third party hauliers. During the year we implemented a system which deploys the latest technology in the planning and execution of our distribution operations. Whilst allowing us to drive greater efficiency in distribution, this system will also deliver a number of benefits to customers, including sign-on-glass technology. Our commitment to customer service was demonstrated by a further increase in our distribution fleet, which takes our fleet to over 150 vehicles, all of which are equipped with mechanical offload capabilities.

BESPOKE PRODUCTS

	Statutory	IFRS 16	Exceptional items	**Before exceptional items and IFRS 16**	**Statutory**
	2019 £m	2019 £m	2019 £m	**2019** **£m**	**2018 (restated[1])** **£m**
Revenue	103.5	-	-	**103.5**	**92.2**
EBITDA	2.0	(0.6)	0.3	**1.7**	**3.0**
EBITDA margin				**1.6%**	**3.3%**

[1]In 2019, the Formpave business was reclassified from the Bespoke Products to the Bricks and Blocks segment after a management reorganisation. Overhead allocation was also changed to reflect this. The 2018 results have been restated to reflect this change consistently across periods.

The Bespoke Products segment focuses on specification-led, made-to-order products comprising both precast concrete and chimney and roofing solutions, much of which is customised to meet the customer's specific needs. The Formpave business has been removed from this segment and the comparatives restated accordingly.

Segmental revenue grew by 12.3% to £103.5m due to an increase in revenue generated by the Bison Precast business. EBITDA before the impact of IFRS 16 and exceptional items fell by £1.3m to £1.7m (2018: £3.0m). The EBITDA contributed by both the Bison and Red Bank businesses was lower than the prior year with the reduction in the segmental result being attributable to both businesses.

Precast concrete products are designed, manufactured and shipped nationwide under the Bison Precast brand from our Swadlincote, Hoveringham and Somercotes facilities in the Midlands. Our products include:

- Hollowcore floors and associated staircases and landings which are used for upper floors of multi-family and commercial developments, with the majority of floors fitted by our in-house installations team;
- Beam and block flooring including Jetfloor, which was the UK's first system to use expanded polystyrene blocks combined with a structural concrete topping to provide high levels of thermal insulation;
- Structural precast components including precast concrete walls used in applications such as hotels and prisons, and concrete beams used in the construction of building frames as well as stadia components;
- Architectural precast concrete facades, a new addition to our range and available in a variety of finishes including brick facings.

We are encouraged by the strategic progress made by the Bison business during the year with revenue increasing by 13.8%, enabled by improvements in productivity and the launch of new products. Challenging and competitive market conditions however impacted margins, with the pricing dynamic in this sector being particularly competitive, limiting our ability to recover cost inflation.

During the year we conducted a comprehensive reappraisal of the UK precast concrete market. Our research points to a decline in industry margins over recent years, although we remain hopeful that increased Government infrastructure spending, specifically on HS2, along with continued growth in demand for fire safe products suitable for offsite construction, will benefit margins going forward.

We presently hold a leading position in the flooring segment of the market and our strategy is to grow our offering in the higher complexity façade systems segment of the market where margins are higher. In the course of the last year, we made significant progress on this front. Our Somercotes facility has been transformed from a factory producing commoditised grey concrete products, such as culverts and retaining walls, to a specialist facility focusing on architectural and brick-faced walling panels.

We are pleased to have secured two major contracts to supply our new range of products. We were awarded a substantial contract to supply almost five thousand precast components to the new prison being built in Wellingborough for the Ministry of Justice. Deliveries are ongoing to both the house blocks and the entry building. The latter includes the first insulated brick-faced sandwich panels manufactured by Bison Precast and feature the Forterra Village Golden Thatch brick. In addition to the Wellingborough project, Bison Precast is manufacturing brick-faced components for a multi-storey car park in Nottingham. Both projects mark the business's move into the precast façades market. We remain on a learning curve in developing new products and taking them to market. As we gain experience in façades, we expect our efficiency to improve and the margins we can earn from these products to increase.

Also included in our Bespoke Products segment is our Red Bank business. Red Bank manufactures from a facility alongside our Measham brick facility, producing a wide range of chimney, roofing and flue systems.

Following strong results in recent years, Red Bank experienced a more difficult year in 2019. Many of Red Bank's products are niche in their nature and sold to builders' merchants for use in the RM&I sector, often on older and listed buildings. As covered earlier in the review, the RM&I market was more challenging throughout 2019 and with Red Bank highly reliant on this sector, its result suffered accordingly. Research and development continues with a view to identifying new products which are relevant to the construction industry of today and will capitalise on the skills, experience and history offered by Red Bank.

OTHER FINANCIAL INFORMATION

EXCEPTIONAL ITEMS

We incurred exceptional expenses of £4.3m in 2019. £3.6m of this relates to restructuring, of which the largest element relates to our Fletton brick facility near Peterborough where we announced plans to reduce the workforce by approximately 50 individuals. The unique Fletton manufacturing process by its nature requires step changes in manufacturing output with it being inefficient to make small adjustments to output. Over the last few years London Brick production has exceeded sales and this adjustment is now required to ensure inventory and working capital remains tightly controlled whilst retaining the flexibility to increase production in the future. At the same time, we are making changes to increase production at other brick facilities such that the overall change to our brick production will be negligible.

In addition to restructuring costs, exceptional costs totalling £0.7m were also incurred in respect of an acquisition which was not completed.

FINANCE COSTS

Finance costs for 2019, as stated before the impact of IFRS 16, were £2.1m (2018: £2.3m). Net debt excluding the impact of IFRS 16 remains comfortably below the one times EBITDA threshold meaning that the interest charged on our RCF facility remains at the lowest band of the grid under the credit agreement.

TAXATION

The effective tax rate (ETR) was 19.5% (ETR before exceptional costs was 19.3%) compared with 18.5% in 2018. The ETR is higher than the UK statutory rate of 19.0% (2018: 19.0%) due to permanent adjustments for non-deductible items such as depreciation on non-qualifying assets. The 2018 ETR was lower than the UK statutory rate of corporation tax due to the release of an uncertain tax provision.

PENSIONS

The Group has no defined benefit pension liabilities. There is a defined contribution arrangement in place and pension costs for the year amounted to £6.1m (2018: £5.8m).

PRINCIPAL RISKS AND UNCERTAINTIES

Effective risk management is critical to successfully meeting the Group’s strategic objectives and delivering long-term value to shareholders. The Group’s approach to risk management, the key risks faced and mitigating activities are detailed later in this document.

CORONAVIRUS (COVID-19)

The Group is closely monitoring the potential impact of COVID-19 and will continue to review the possible effects on the business and refine its contingency plans accordingly. The Group does not envisage any specific impacts to its business although it may be affected by any general disruption should the virus adversely affect wider economic activity in the UK.

GOING CONCERN & VIABILITY STATEMENT

The Directors have assessed the Group's current financial position and the factors likely to affect performance in the coming year in light of current and anticipated economic conditions. Based on this assessment the Directors can have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. On this basis the going concern concept has been adopted in the preparation of these preliminary financial statements.

The Directors have conducted a review and assessed the prospects and viability of the Group. They confirm that they have a reasonable expectation that the Group will continue in operation, meet liabilities as they fall due and will not breach covenants over the three year period covered by the review.

FORWARD LOOKING STATEMENTS

Certain statements in this announcement are forward looking. Although the Group believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements.

We undertake no obligation to update any forward looking statements, whether as a result of new information, future events or otherwise.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Stephen Harrison

Chief Executive Officer

Ben Guyatt

Chief Financial Officer

10 March 2020

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenue		**380.0**	367.5
Cost of sales		**(243.8)**	(230.2)
Gross profit		**136.2**	137.3
Distribution costs		**(54.4)**	(51.8)
Administrative expenses		**(21.8)**	(20.1)
Other operating income		**0.7**	1.7
Operating profit		**60.7**	67.1

EBITDA before exceptional items		**82.7**	78.8
Exceptional items	4	**(4.3)**	–
EBITDA		**78.4**	78.8
Depreciation and amortisation		**(17.7)**	(11.7)
Operating profit		**60.7**	67.1

Finance expense	5	**(2.5)**	(2.3)
Profit before tax		**58.2**	64.8
Income tax expense	6	**(11.4)**	(12.0)
Profit for the year attributable to equity shareholders		**46.8**	52.8

Total comprehensive income for the year attributable to equity shareholders		**46.8**	52.8

Earnings per share		**Pence**	Pence
Basic earnings per share	8	**23.8**	26.5
Diluted earnings per share	8	**23.7**	26.1

CONSOLIDATED BALANCE SHEET

At 31 December 2019

	Note	**2019 £m**	2018 £m
Assets			
Non-current assets			
Intangible assets		**18.2**	17.3
Property, plant and equipment		**182.6**	170.5
Right-of-use assets		**13.7**	–
		214.5	187.8
Current assets			
Inventories		**47.8**	37.4
Trade and other receivables		**40.4**	37.9
Cash and cash equivalents		**26.6**	26.0
		114.8	101.3
Total assets		**329.3**	289.1
Current liabilities			
Trade and other payables		**(71.5)**	(72.0)
Current tax liabilities		**(3.5)**	(3.9)
Loans and borrowings	9	**(0.1)**	(0.3)
Lease liabilities		**(5.1)**	–
Provisions for other liabilities and charges		**(4.3)**	(4.2)
		(84.5)	(80.4)
Non-current liabilities			
Loans and borrowings	9	**(69.7)**	(64.5)
Lease liabilities		**(9.0)**	–
Provisions for other liabilities and charges		**(8.1)**	(8.4)
Deferred tax liabilities		**(1.8)**	(1.6)
		(88.6)	(74.5)
Total liabilities		**(173.1)**	(154.9)
Net assets		**156.2**	134.2
Capital and reserves attributable to equity shareholders			
Ordinary shares		**2.0**	2.0
Retained earnings		**157.8**	138.0
Reserve for own shares		**(3.6)**	(5.8)
Total equity		**156.2**	**134.2**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Operating profit before exceptional items		**65.0**	67.1
Adjustments for:			
– Depreciation and amortisation		**17.7**	11.7
– Movement on provisions		**(0.3)**	(4.5)
– Share-based payments		**1.3**	2.1
– Other non-cash items		**(1.6)**	(1.3)
– Profit on sale of property, plant and equipment		**–**	(0.2)
Changes in working capital:			
– Inventories		**(10.4)**	(1.1)
– Trade and other receivables		**(2.9)**	(4.9)
– Trade and other payables		**(3.9)**	10.9
Operating cash flow before exceptional items		**64.9**	79.8
Cash flows relating to exceptional items		**(1.1)**	–
Cash generated from operations		**63.8**	79.8
Interest paid		**(2.4)**	(2.2)
Tax paid		**(8.8)**	(11.8)
Net cash generated from operating activities		**52.6**	65.8
Cash flows from investing activities			
Purchase of property, plant and equipment		**(22.5)**	(16.5)
Purchase of intangible assets		**(1.8)**	(2.1)
Proceeds from sale of property, plant and equipment		**–**	0.2
Net cash used in investing activities		**(24.3)**	(18.4)
Cash flows from financing activities			
Dividends paid	7	**(22.0)**	(19.3)
Drawdown of borrowings		**17.0**	–
Repayment of borrowings		**(12.0)**	(25.0)
Purchase of shares by Employee Benefit Trust		**(9.7)**	(6.1)
Proceeds from sale of shares by Employee Benefit Trust		**4.9**	–
Repayment of lease liability		**(5.9)**	–
Net cash used in financing activities		**(27.7)**	(50.4)
Net increase/(decrease) in cash and cash equivalents		**0.6**	(3.0)
Cash and cash equivalents at the beginning of the period		**26.0**	29.0
Cash and cash equivalents at the end of the period		**26.6**	26.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Note	Share capital £m	Reserve for own shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2018		2.0	–	102.7	104.7
Total comprehensive income for the year		–	–	52.8	52.8
Dividends paid	7	–	–	(19.3)	(19.3)
Own shares purchased by Employee Benefit Trust		–	(6.1)	–	(6.1)
Share-based payments charge		–	–	2.4	2.4
Share-based payments exercised		–	0.3	(0.3)	–
Tax on share-based payments		–	–	(0.3)	(0.3)
Balance at 31 December 2018		**2.0**	**(5.8)**	**138.0**	**134.2**
Adoption of IFRS 16 accounting standard		–	–	(0.6)	(0.6)
Restated balance at 1 January 2019		**2.0**	**(5.8)**	**137.4**	**133.6**
Total comprehensive income for the year		–	–	46.8	46.8
Dividends paid	7	–	–	(22.0)	(22.0)
Purchase of shares by Employee Benefit Trust		–	(9.7)	–	(9.7)
Proceeds from sale of shares by Employee Benefit Trust		–	4.9	–	4.9
Share-based payments charge		–	–	1.5	1.5
Share-based payments exercised		–	7.0	(7.0)	–
Tax on share-based payments		–	–	1.1	1.1
Balance at 31 December 2019		**2.0**	**(3.6)**	**157.8**	**156.2**

NOTES TO THE PRELIMINARY RESULTS

1 General information

Forterra plc ('Forterra' or the 'Company') and its subsidiaries (together referred to as the 'Group') are domiciled in the United Kingdom. The address of the registered office of the Company and its subsidiaries is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA. The Company is the parent of Forterra Holdings Limited and Forterra Building Products Limited, which together comprise the Group. The principal activity of the Group is the manufacture and sale of bricks, dense and lightweight blocks, precast concrete, concrete block paving and other complementary building products.

Forterra plc was incorporated on 21 January 2016 for the purpose of listing the Group on the London Stock Exchange. Forterra plc acquired the shares of Forterra Building Products Limited on 20 April 2016, which to that date held the Group's trade and assets, before admission to the main market of the London Stock Exchange.

2 Basis of preparation

The preliminary results for the year ended 31 December 2019 have been extracted from the audited Consolidated Financial Statements, which were approved by the Board of Directors on 10 March 2020. The audited Consolidated Financial Statements have not yet been delivered to the Registrar of Companies but are expected to be published by the end of April 2020. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

This preliminary announcement has been prepared in accordance with the accounting policies under IFRS as adopted by the EU. Whilst the financial information included in this preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. This preliminary announcement constitutes a dissemination announcement in accordance with Section 6.3 of the Disclosures and Transparency Rules (DTR).

Copies of the Annual Report for the year ended 31 December 2019 will be mailed to those shareholders who have opted to receive them by the end of April 2020 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

The preliminary results are presented in pounds sterling and all values are rounded to the nearest hundred thousand unless otherwise indicated.

Going concern

The Group meets its day-to-day working capital requirements through its cash reserves and borrowings. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed. The Group therefore adopts the going concern basis in preparing its preliminary financial statements.

New standards, amendments and interpretations

The accounting policies adopted in the preparation of the preliminary financial statements are consistent with those followed in the preparation of the Consolidated Financial Statements for the year ended 31 December 2018, except as disclosed below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 – Leases (effective 1 January 2019)

The group has adopted IFRS 16 from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.55%.

As at 1 January 2019 the Group did not hold any finance leases, therefore no accounting adjustment for finance leases on transition was necessary.

	£m
Operating lease commitments as at 31 December 2018	**(22.6)**
Less: adjustments on transition to IFRS 16	**6.7**
	(15.9)
Weighted average incremental borrowing rate as at 1 January 2019	**2.55%**
Lease liabilities under IFRS 16 as at 1 January 2019	**(14.6)**

Adjustments on transition to IFRS 16 includes non-lease components, short-term and low-value leases, leases outside the scope of IFRS 16 and additional leases identified through the transition process.
The associated right-of-use assets for all leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The effect of the adoption of IFRS 16 as at 1 January 2019 is as follows:

Assets	**£m**
Right-of-use assets	**14.2**
Prepayments	**(0.4)**
Deferred tax asset	**0.2**
	14.0
Liabilities	
Lease liabilities	**(14.6)**
	(14.6)
Total adjustment on equity	
Retained earnings	**0.6**

Impact on segment disclosures

EBITDA and segment assets for December 2019 increased as a result of the change in accounting policy. Group liabilities are not reported on a segment basis. The effect of the change in policy at 31 December 2019 is as follows:

	Bricks and Blocks £m	Bespoke Products £m	Total £m
EBITDA	**5.7**	**0.6**	**6.3**
EBIT	**0.4**	**–**	**0.4**
Depreciation	**(5.3)**	**(0.6)**	**(5.9)**
Right-of-use assets	**11.9**	**1.8**	**13.7**

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3 Segmental reporting

Management has determined the operating segments based on the management reports reviewed by the Executive Committee that are used to assess both performance and strategic decisions. Management has identified that the Executive Committee is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

The Executive Committee considers the business to be split into 3 operating segments: Bricks, Blocks and Bespoke Products. The principal activity of the operating segments are:

- Bricks – Manufacture and sale of bricks to the construction sector
- Blocks – Manufacture and sale of concrete blocks and permeable block paving to the construction sector
- Bespoke Products – Manufacture and sale of bespoke products to the construction sector

The Executive Committee considers that for reporting purposes, the operating segments above can be aggregated into two reporting segments: Bricks and Blocks and Bespoke Products. The aggregation of Bricks and Blocks is due to these operating segments having similar long-term average margins, production processes, suppliers, customers and distribution methods.

In 2019, the Formpave business was reclassified from the Bespoke Products to the Bricks and Blocks segment after management reorganisation. The segment revenue, results, assets and other information that follows have been restated to reflect this change comparatively across periods.

The Bespoke Products range includes precast concrete, now marketed under the 'Bison Precast' brand, chimney and roofing solutions, each of which are typically made-to-measure or customised to meet the customer's specific needs. The precast concrete flooring products are complemented by the Group's full design and nationwide installation services, while certain other bespoke products, such as chimney flues, are complemented by the Group's bespoke specification and design service.

Costs which are incurred on behalf of both segments are held at the centre and these, together with general administrative expenses, are allocated to the segments for reporting purposes using a split of 80% Bricks and Blocks and 20% Bespoke Products. Management considers that this is an appropriate basis for the allocation. This allocation changed in 2019 to reflect the reclassification detailed, and this is reflected in the restatements below (previously the costs were allocated using a split of 75% Bricks and Blocks and 25% Bespoke Products).

The revenue recognised in the Consolidated Statement of Total Comprehensive Income is all attributable to the principal activity of the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complementary building products.

Substantially all revenue recognised in the Consolidated Statement of Total Comprehensive Income arose within the UK.

Segment revenue and results:

		2019		
	Notes	**Bricks and Blocks £m**	**Bespoke Products £m**	**Total £m**
Segment revenue		**279.1**	**103.5**	**382.6**
Intersegment eliminations				**(2.6)**
Revenue				**380.0**
EBITDA before exceptional items		**80.4**	**2.3**	**82.7**
Depreciation and amortisation		**(15.0)**	**(2.7)**	**(17.7)**
Operating profit before exceptional items		**65.4**	**(0.4)**	**65.0**
Allocated exceptional items		**(3.3)**	**(0.3)**	**(3.6)**
Unallocated exceptional items				**(0.7)**
Operating profit				**60.7**
Net finance expense	5			**(2.5)**
Profit before tax				**58.2**

Segment assets:

		2019		
	Notes	**Bricks and Blocks £m**	**Bespoke Products £m**	**Total £m**
Property, plant and equipment		**148.6**	**34.0**	**182.6**
Intangible assets		**16.6**	**1.6**	**18.2**
Right-of-use assets		**11.9**	**1.8**	**13.7**
Inventories		**41.5**	**6.3**	**47.8**
Segment assets		**218.6**	**43.7**	**262.3**
Unallocated assets				**67.0**
Total assets				**329.3**

Property, plant and equipment, intangible assets, right-of-use assets and inventories are allocated to segments and considered when appraising segment performance. Trade and other receivables and cash and cash equivalents are centrally controlled and unallocated.

Other segment information:

	Notes	2019 Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions		19.7	3.4	23.1
Intangible asset additions		1.5	0.2	1.7
Right-of-use asset additions		4.2	1.2	5.4

Customers representing 10% or greater of revenues were as follows:

	2019 Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	40.3	1.9	42.2
Customer B	36.2	2.9	39.1

Segment revenue and results:

	Notes	2018 (Restated) Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		277.5	92.2	369.7
Intersegment eliminations				(2.2)
Revenue				367.5
EBITDA		75.8	3.0	78.8
Depreciation and amortisation		(9.4)	(2.3)	(11.7)
Operating profit		66.4	0.7	67.1
Net finance expense	5			(2.3)
Profit before tax				64.8

Segment assets:

	Notes	2018 (Restated) Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment		137.6	32.9	170.5
Intangible assets		15.4	1.9	17.3
Inventories		31.5	5.9	37.4
Segment assets		184.5	40.7	225.2
Unallocated assets				63.9
Total assets				289.1

Property, plant and equipment, intangible assets and inventories are allocated to segments and considered when appraising segment performance. Trade and other receivables and cash and cash equivalents are centrally controlled and unallocated.

Other segment information:

		2018 (Restated)		
	Notes	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions		**15.3**	**1.3**	**16.6**
Intangible asset additions		**1.8**	**0.4**	**2.2**

Customers representing 10% or greater of revenues were as follows:

	2018 (Restated)		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	**46.6**	**2.1**	**48.7**
Customer B	**35.6**	**0.6**	**36.2**

4 Exceptional items

	2019 £m	2018 £m
Restructuring costs	**(3.6)**	–
Aborted transaction costs	**(0.7)**	–
	(4.3)	–

The Group incurred exceptional expenses of £4.3m in 2019. £3.6m of this relates to restructuring, of which the largest element relates to the Group's Fletton brick facility near Peterborough where plans were announced to reduce the workforce by approximately 50 individuals.

In addition to the restructuring costs, exceptional costs totalling £0.7m were also incurred in respect of an acquisition which was not completed.

5 Net finance expense

	2019 £m	2018 £m
Interest payable on external borrowings	**(2.0)**	(2.2)
Interest payable on lease liabilities	**(0.4)**	–
Other finance expense	**(0.1)**	(0.1)
	(2.5)	(2.3)

6 Taxation

	2019 £m	2018 £m
Current tax		
UK corporation tax on profit for the year	**(9.4)**	(11.7)
Prior year adjustment on UK corporation tax	**(0.5)**	0.2
Total current tax	**(9.9)**	(11.5)

Origination and reversal of temporary differences	**(2.0)**	(0.7)
Effect of change in tax rates	**–**	0.1
Effect of prior period adjustments	**0.5**	0.1
Total deferred tax	**(1.5)**	(0.5)
Income tax expense	**(11.4)**	(12.0)

	2019 £m	2018 £m
Profit on ordinary activities before tax	**58.2**	64.8
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19% (2018: 19%)	**(11.1)**	(12.3)
Effects of:		
Change in tax rate	**–**	0.1
Expenses not deductible for tax purposes	**(0.3)**	(0.1)
Prior period adjustments	**–**	0.3
Income tax expense	**(11.4)**	(12.0)

The main rate of UK corporation tax for 2019 is 19.0%, which was effective from 1 April 2017.

7 Dividends

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend of 4.0p per share (2018: 3.3p)	**(7.8)**	(6.6)
Final dividend of 7.2p per share in respect of prior year (2018: 6.4p)	**(14.2)**	(12.7)
	(22.0)	(19.3)

The Directors are proposing a final dividend for 2019 of 7.5p per share, making a total payment for the year of 11.5p (2018: 10.5p).

The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the preliminary financial statements.

8 Earnings per share

	Notes	**2019 £m**	2018 £m
Operating profit for the year		**60.7**	67.1
Finance expense	5	**(2.5)**	(2.3)
Profit before taxation		**58.2**	64.8
Tax charge	6	**(11.4)**	(12.0)
Profit for the year		**46.8**	52.8

Weighted average number of shares (millions)	**196.6**	199.2
Effect of share incentive awards and options (millions)	**0.8**	3.1
Diluted weighted average number of ordinary shares (millions)	**197.4**	202.3

Earnings per share:

Basic (in pence)	**23.8**	26.5
Diluted (in pence)	**23.7**	26.1
Basic earnings per share before exceptional items (in pence)	**25.6**	26.5

Earnings per share (EPS) before exceptional items is presented as an additional performance measure and is calculated by excluding the exceptional charge of £4.3m in 2019 and the associated tax effect (the effective tax rate before the impact of exceptional items was 19.3%).

9 Loans and borrowings

		2019 £m	2018 £m
Non-current loans and borrowings			
External bank loans	– Revolving Credit Facility	**70.0**	65.0
	– unamortised debt issue costs	**(0.3)**	(0.5)
		69.7	64.5
Current loans and borrowings			
External bank loans – interest		**0.1**	0.3
		0.1	0.3
		69.8	64.8

Since 27 July 2017 the Group has had access to a five-year revolving credit facility of £150m and an accordion facility of £50m with a group of leading banks. This facility is in place until July 2022.

Interest is payable on amounts drawn down under the agreement at a rate of LIBOR plus a variable margin ranging from 1.25% to 2.25%.

The facility is subject to both financial and non-financial covenants and is secured by fixed charges over the shares of Forterra Building Products Limited and Forterra Holdings Limited.

10 Net Debt

The analysis of net debt is as follows:

	2019 £m	2018 £m
Cash and cash equivalents	**26.6**	26.0
External bank loans	**(69.8)**	(64.8)
Lease liabilities	**(14.1)**	–
	(57.3)	(38.8)

11 Reconciliation of net cash flow to net debt

	2019 £m	2018 £m
Operating cash flow before exceptional items	**64.9**	79.8
Payments made in respect of exceptional items	**(1.1)**	–
Cash generated from operating activities after exceptional items	**63.8**	79.8
Interest paid	**(2.4)**	(2.2)
Tax paid	**(8.8)**	(11.8)
Net cash used in investing activities	**(24.3)**	(18.4)

Dividends paid	**(22.0)**	(19.3)
Purchase of shares by Employee Benefit Trust	**(9.7)**	(6.1)
Proceeds from sale of shares by Employee Benefit Trust	**4.9**	–
Lease liabilities recognised on adoption of IFRS 16	**(14.6)**	–
New lease liabilities	**(5.4)**	–
(Increase)/decrease in net debt	**(18.5)**	22.0
Net debt at the start of the period	**(38.8)**	(60.8)
Net debt at the end of the period	**(57.3)**	(38.8)

12 Related party transactions

Transactions with key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors of the Company and the Executive Committee fall within this category.

	2019 £m	2018 £m
Emoluments including taxable benefits	**(2.4)**	(2.8)
Share-based payments	**(0.5)**	(0.7)
Pension and other post-employment benefits	**(0.2)**	(0.2)
	(3.1)	(3.7)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within the Annual Report and Accounts to be published in April 2020.

RISK MANAGEMENT AND KEY RISKS

OVERVIEW

Effective risk management is critical to us successfully meeting our strategic objectives and delivering long-term value to our shareholders. Instilling a risk management culture at the core of everything we do continues to be a key priority. Our Risk Management policy is critical to this and has been developed to capture our risk management strategy, processes, reporting measures, internal reporting lines and responsibilities. By developing this we continue to increase awareness of risk management, encourage further efforts to embed controls and ensure a greater level of consistency across the Group. In summary, our risk management objectives are to:

- embed risk management into our management culture;
- develop plans and make decisions that are supported by an understanding of risk and opportunity; and
- anticipate change and respond appropriately.

In the year Management made progress in formalising and better documenting some of the procedures that have been put in place in recent years and continuing to ensure that these documented procedures reflect what is happening throughout the business.

KEY RISKS

Key risks are determined by applying a standard methodology to all risks which considers the potential impact and likelihood of a risk event occurring before considering the mitigating actions in place and the severity and likelihood of risk that remains. This is a robust but straightforward system for identifying, assessing and managing key risks in a consistent and appropriate manner.

Management of key risks is an ongoing process. Many of the key risks that are identified and monitored evolve and new risks regularly emerge.

BREXIT RISK

The UK’s decision to exit the European Union created significant uncertainty for the Group and stakeholders. This uncertainty existed throughout 2019 and continued to evolve and change; this meant that significant time and resource had to be invested in repeatedly mitigating this risk. The General election at the end of 2019 and signing of the withdrawal agreement in early 2020 gives some greater clarity in the short-term, but with future arrangements not fully finalised, the business will continue to monitor risk closely and put procedures in place to mitigate risks where possible.

The ‘Brexit risk’ is inherent within many of the key risks that the Board regularly reviews. The main risk to the business arises from a reduction in consumer confidence and its effect on the markets which the Group serves. In these areas we cannot fully control the risk through management actions, though we can mitigate the impact. Our focus is therefore to stay close to our customers, industry associations and advisors to ensure that we are up-to-date with developments and equipped to respond.

At the balance sheet date, the Group was still holding higher levels of raw material and critical spares, having built these ahead of the departures dates that had been proposed in 2019. Forward purchasing of this nature has been critical to mitigating the Brexit risk on the supply chain. These measures ensured the availability of materials, similar measures were taken to secure prices, using forward purchase contracts for budgeted energy and foreign currency requirements. Key mitigating activities in other areas ensured cash flow was closely managed, access to sufficient undrawn debt facilities was retained and market trends were being continually tracked using leading and lagging indicators.

RISK APPETITE

The Group's risk appetite reflects that effective risk management requires risk and reward to be suitably balanced. Exposure to health and safety, financial and compliance risks are mitigated as far as is reasonably practicable.

The Group is however prepared to take certain strategic, commercial and operational risks in pursuit of its objectives; where these risks and the potential benefits have been fully understood and reasonable mitigating actions have been taken.

KEY RISK AND WHY IT IS RELEVANT	YEAR-ON-YEAR CHANGE	KEY MITIGATION, CHANGE AND SPONSOR
1. HEALTH AND SAFETY Group employees work in manufacturing environments where heavy machinery operates and moving parts are present. Production can also expose employees to noise, dusts and chemicals. As a result there is a risk of serious injury or ill health. Lost Time Incident Frequency Rate (LTIFR) is a critical KPI that is monitored at all levels in the business on an ongoing basis, along with other leading and lagging indicators.	Static	Health and safety remains the Group's number one priority. The Group targets an accident free environment and has a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. 2019 saw the launch of 'The Golden Rules'. All employees pledged to comply with these in pursuit of a zero-harm workplace. Further, significant progress was made against a number of our other high-profile objectives. The safety, health and wellbeing of any party involved in the Group's daily business activities is never compromised. Reducing accidents and ill health is critical to strategic success. **Executive sponsor: Stephen Harrison**
2. SUSTAINABILITY The Group previously recognised environmental risks in conjunction with Health & safety risks (above). The mitigating actions were biased towards environmental compliance rather than the long-term sustainability of our business model, recognising the importance of all aspects of sustainability the risk has been separated to ensure that sustainability receives sufficient focus.	Increased	Whilst recognising the positive impact that the Group's products have on the built environment across their lifespan, the Group is also undertaking several initiatives to assess the detrimental impact that its existing business model has on the environment and working with stakeholders to revise its model and mitigate any detrimental impacts. Existing sustainability targets run from 2010 through to 2020. As this period comes to an end the Group are taking the opportunity to reassess the current sustainability strategy and link long-term ambitions with the UN Sustainable Development Goals. **Executive sponsor: Stephen Harrison**

3. ECONOMIC CONDITIONS Demand for the Group's products is closely correlated with residential and commercial construction activities. These markets decline if general economic conditions decline and the Group experienced more challenging market conditions in 2019. The outlook for 2020 has improved but uncertainty remains in the near-term.	Static	Business performance, the customer order book and external lead indicators are closely monitored to give the business time to respond to changing market conditions. The Group is confident that costs and capacity utilisation can be effectively managed in challenging markets and the commissioning of the new Desford facility can be managed in a manner that reflects economic conditions. The range of products provided by the Group through different distribution channels, to different end-markets and strong customer relationships continue to provide some resilience. **Executive sponsor: Stephen Harrison**
4. GOVERNMENT ACTION AND POLICY The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding initiatives, investment in public housing and availability of finance. Proximity to the end of the current phase of Help to Buy may stimulate demand ahead of March 2021 but may also see demand for the Group's products fall or change after this date. The Housing Infrastructure Fund could also have an impact. Changes to Government policy or planning regulations could adversely affect Group performance.	Static	The Group participates in trade associations, attends industry events and tracks any policy changes associated with housebuilding and the construction sector more broadly. Where identified, the Group factors any emerging issues into models of anticipated future demand to guide strategic decision making. The Group worked to actively mitigate the short-term risks posed by Brexit through 2019. The focus was on the supply chain and production management. **Executive sponsor: Stephen Harrison**
5. RESIDENTIAL SECTOR ACTIVITY LEVELS Residential development (both new build construction and repair, maintenance and improvement) contribute a significant portion of Group revenue. The weighting of Group revenues towards this sector means that any change in activity levels in this sector could affect our strategic growth plans.	Static	The Group closely follows the demand it is seeing from this sector, market projections, sentiment, mortgage affordability, credit availability in order to identify and respond to opportunities and risk. Group strategy encourages initiatives that strengthen the Group's position in this sector whilst also seeking to strengthen our commercial offer. **Executive sponsor: Stephen Harrison**
6. PRODUCT AVAILABILITY Some of the Group's product ranges are manufactured at a single facility. Low buffer stock levels and high capacity utilisation mean that a breakdown can cause product shortages and have a detrimental impact on the Group's performance and reputation.	Decreased	In the short-term, the Group continues to mitigate risk through its strong customer relationships, efficiency initiatives, production planning and managing shutdowns. However, capacity constraints and plant breakdowns can cause availability issues where the risk is not fully mitigated. Further, whilst

		plans to add capacity at Desford reduce the risk on some of our most popular brick lines longer-term the project itself adds risk i.e. the project does not run to plan or hampers production at the existing facility during the build phase. **Executive sponsors: George Stewart and Peter Varnsverry**
7. CUSTOMER RELATIONSHIPS AND REPUTATION Significant revenues are generated from sales to a number of key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.	Decreased	One of the Group's strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products the Group seeks to develop our long-standing relationships with major customers and replicate these with newer customers. Regular and frequent review meetings focus on the Group's effectiveness in this area and external expertise has been engaged to support these appraisals. Some of the stock availability challenges seen in 2018 have now receded, back-office finance and sales system have been fully migrated for Brick and Block and new fleet scheduling and delivery tracking systems have been put in place. **Executive sponsor: Adam Smith**
8. COST AND AVAILABILITY OF RAW MATERIAL Availability of raw materials can vary at times and where shortages exist, the Group is susceptible to significant increases in the price and threats to its ability to meet customer expectations.	Decreased	The Group continues to focus on ensuring it sees stable prices for and continuity of supply for certain key raw materials. The cost and availability of pulverised fuel ash remains a risk for the business. Conversion of the facilities at Newbury and Hams Hall to accept substitute raw materials has been successful at minimising the requirements for dry pulverised fuel ash, but some requirement remains and the availability and price of this remains variable. Certain other raw materials pose similar (though lesser) risk, the Group continues to evaluate options that mitigate these risks too. The Brexit threat to its supply chain was managed through 2019, firstly in preparation for a 'hard Brexit' in Q1 and then in Q4 **Executive sponsors: George Stewart and Peter Varnsverry**

9. PEOPLE TRAINING AND DEVELOPMENT The Group recognises that its greatest asset is its workforce and a failure to attract, retain and develop talent will be detrimental to Group performance.	Decreased	The Group understands where key person dependencies and skills gaps exist and continues to develop its succession, talent acquisition, and retention plans. Local risks are being managed through the local operational risk registers, and apprentice and graduate schemes continue to prove effective in mitigating staffing risks and supporting strategic priorities at all levels. On balance the risk has reduced, however, progress implementing the Group's new HR and payroll systems has been slower than envisaged and will be a key priority in 2020. **Executive sponsor: Edward Haslam**
10. RESEARCH AND DEVELOPMENT Demand for the products that the Group manufactures may decline if the Group fails to respond to market developments and revenues and margins may suffer.	Increased	Strong relationships with customers and independently administered customer surveys ensure that the Group understands current and future demand. Close ties between the Strategy, Operations and Commercial functions ensure that the Group focuses on the right areas of research and development. The Group continues to develop manufacturing processes and the product range and regularly assesses how this supports the Group's progress against its strategic priorities and in line with its values. During the year particular progress was made developing products for the off-site construction markets and developing this route to market is a priority for 2020. Reducing the requirement for skilled labour on-site is important to our customers; who are also increasingly demanding more sustainable supply chains and reinforcing the need for investment in this area. **Executive sponsor: Darren Rix**
11. IT INFRASTRUCTURE AND SYSTEMS Disruption or interruption to IT systems could have a material adverse impact on performance and position.	Decreased	The Group has undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems. The implementation of an Information Security Management System in the year has been recognised by ISO accreditation. In addition to ensuring that we maintain the availability, integrity and confidentiality of our systems, we must

		pursue further opportunities to optimise our systems to ensure further benefits are realised and improve operational effectiveness. **Executive sponsor: Matthew Day**
12. BUSINESS CONTINUITY Group performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should the Group experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Static	The Group has made plans that will allow key centralised functions to operate in the event of business interruption and audit activities have been undertaken to assess the effectiveness of these plans. The focus of continuity efforts at operational facilities has been on system availability, emergency response and disaster recovery. The Group has previously established a Business Continuity policy. By doing this managers can apply clear principles to develop plans quickly where a scenario without a pre-prepared plan is faced, For instance, following these principles and using existing plans for loss of resource and loss of facilities, Management have been able to plan how to mitigate the risks presented where a pandemic (like COVID-19) results in a restriction on the movement of people and prolonged periods of working from home. **Executive sponsor: Ben Guyatt**