FORTERRA plc

Keeping Britain Building

Annual Report
and Accounts

2018

Our strength as one of Britain's largest manufacturers of building products is helping to support the growth of UK house building. Our wide range of bricks, blocks and precast concrete products are used in the building of communities across the country, from housing for families, to schools, community facilities and vital infrastructure. Across our 18 manufacturing facilities in the UK, we employ a workforce of over 1,900 people and produce some of the sector's most trusted brands.

At Forterra, we are keeping Britain building.

Highlights

Revenue

£367.5m

+11.0%
2017: £331.0m

Net debt

£38.8m

-36.2%
2017: £60.8m

Profit before tax

£64.8m

+9.3%
2017: £59.3m

Earnings per share

26.5p

+11.3%
2017: 23.8p

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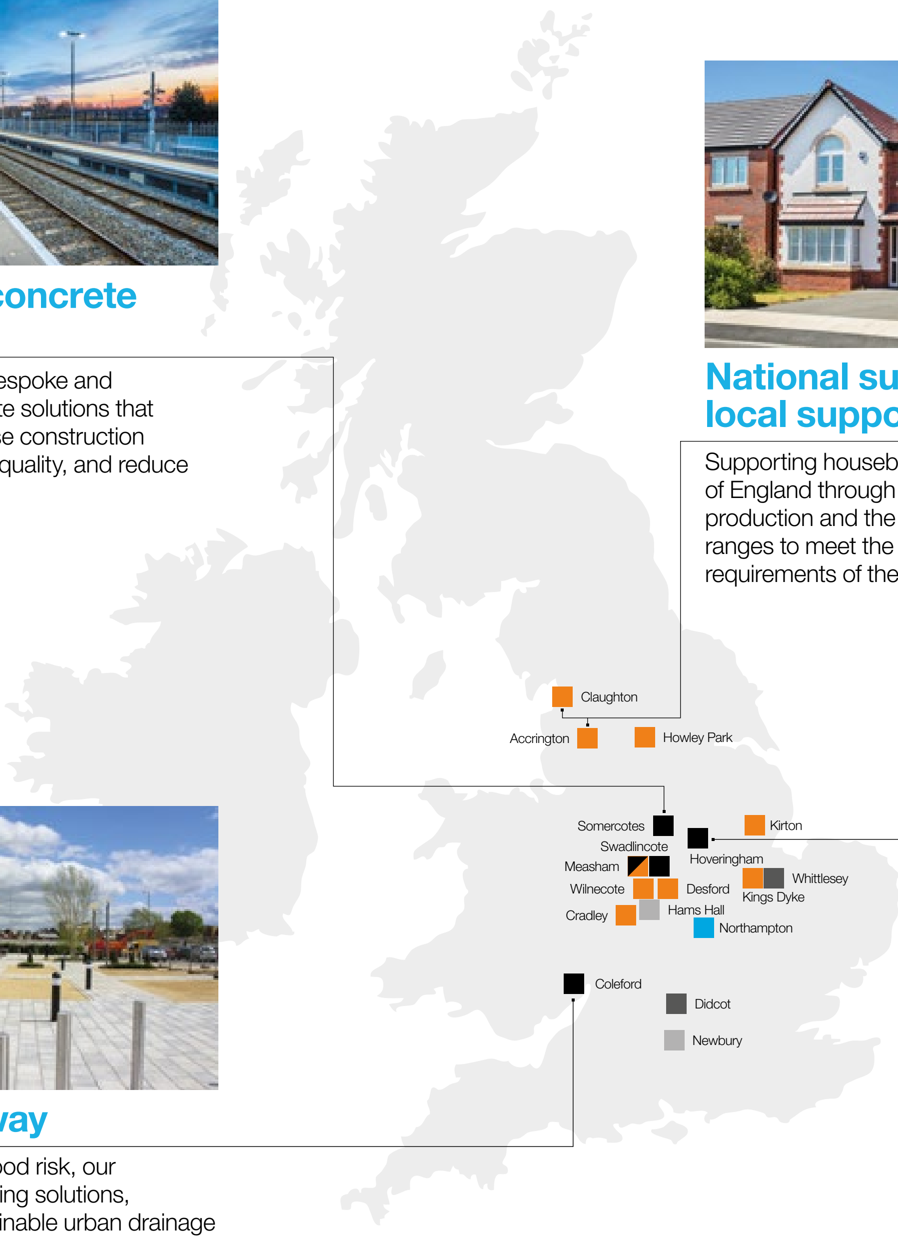
Keeping Britain Building

Pioneering concrete solutions

Leading the way in bespoke and prefabricated concrete solutions that are helping to increase construction safety, improve build quality, and reduce installation times.

National supply, local support

Supporting housebuilding in the north of England through increased brick production and the development of ranges to meet the aesthetic and technical requirements of the region.



Paving the way

Helping to combat flood risk, our permeable block paving solutions, incorporating a sustainable urban drainage system (SuDS), are laying the foundations for a safer and more sustainable future.

Innovation in flooring

Providing the construction market with a future-proofed, robust solution for thermally insulated structural ground floors.

Forterra at a Glance

We are a leading producer of manufactured masonry products, focused solely on the UK market.

Bricks

Forterra is one of the largest manufacturers of bricks in the United Kingdom and is the only producer of the iconic London Brick. We operate nine brick manufacturing facilities throughout the country.

Core products

- Extruded bricks
- Fletton bricks
- Soft mud bricks

THE ORIGINAL LONDON BRICK
ECOSTOCK BRICK
BUTTERLEY BRICK
CRADLEY SPECIAL BRICK

Blocks

Forterra is a leading manufacturer of aircrete blocks, which it produces at two sites and sells under the Thermalite brand. A further two plants are dedicated to the production of aggregate blocks sold under the Conbloc brand.

Core products

- Aircrete blocks
- Aggregate blocks

THERMALITE
CONBLOC

Bespoke Products

Our Bespoke Products business operates from five facilities and comprises precast concrete, concrete block paving and chimney and roofing solutions. The Bison Precast brand was added in September 2017, following the acquisition of our Swadlincote site.

Core products

- Precast concrete flooring
- Concrete block paving
- Bespoke concrete products
- Chimney and roofing components

BISON PRECAST
JETFLOOR
INNOVATORS IN FORMPAVE PERMEABLE PAVING
RED BANK

Investment Case

Growth

We are well-equipped to deliver long-term growth through helping to meet the house building needs of the UK.

Our 18 manufacturing facilities produce a range of complementary products designed to meet the large-scale demand of the house building sector, and we are continuing to invest in new facilities to ensure we are at the forefront of long-term market supply.

Read more on page 16

Resilience

Our exposure to end markets is well balanced, with a strong presence in the historically less volatile repair, maintenance and improvement (RM&I) sector.

As the sole manufacturer of the iconic London Brick, we hold a strong position within the RM&I market. We also possess an agile manufacturing base, with the ability to flex production levels and our cost base to suit market requirements.

Read more on page 12

Efficiency

The efficiency of our manufacturing base is at the heart of our strategy.

We have recently completed a series of debottlenecking projects across several of our manufacturing facilities to optimise throughput, increase capacity utilisation and reduce unit costs of production. In addition to this, we continuously strive for operational efficiency improvements through a lean manufacturing culture.

Read more on page 8

UK focus

Our focus is on UK markets, and we enjoy strong market positions in key industry sectors via our established brands.

As a leading supplier of clay bricks, concrete blocks, and precast concrete flooring we are ideally placed to benefit from government policy focused on housebuilding and infrastructure investment. Our proximity to our customers and low value to weight ratio of our products provides competitive advantages over imported products.

Read more on page 10

Strategy

We have established clear strategic priorities focused on achieving long-term sustainable growth for shareholders.

Our strategy combines the optimisation of our current core product range with expansion opportunities, through investment in new facilities, product development, and consideration of appropriate acquisitions. These options are supported by our highly cash generative business coupled with a strong balance sheet, allowing us to invest in future growth whilst maintaining a progressive dividend policy.

Read more on page 12

Leadership

Our leadership team possess strong industry experience with a track record of delivery.

Our Executive Committee supports our Board, and possess a diverse range of skills and experience, ensuring the business is ideally equipped to meet it's long-term goals.

We support our employees with a strong leadership culture and an agile organisational structure, which enables us to respond to the needs of our customers.

Read more on pages 42-44

Chairman's Statement

Highlights

Revenue

£367.5m

+11.0%
2017: £331.0m

PBT before exceptionals[1]

£64.8m

+6.1%
2017: £61.1m

Net debt

£38.8m

-36.2%
2017: £60.8m

EPS before exceptionals[1]

26.5p

+8.2%
2017: 24.5p

[1] Stated before exceptional finance charge in 2017. There were no exceptional items in 2018.

"The Board has approved an investment of £95 million to build a new brick factory with a net additional capacity of 95 million bricks per annum."

Paul Lester CBE
Chairman

I am pleased to report that Forterra has made good progress during 2018, with an increase in both revenue and profit and ongoing implementation of its strategic goals.

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

Within our clay bricks business, Forterra focuses on 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, which is sold mainly to the home improvement market. Within our concrete blocks business, Forterra is one of the leading producers of both aircrete and aggregate blocks, the former being sold under one of the country's principal aircrete brands: Thermalite.

Strategy implementation

The Group's objective of generating sustainable shareholder value is achieved through delivery of 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 through both organic and appropriate bolt-on acquisitions.

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

The UK brick market has continued to perform strongly, with high levels of capacity utilisation across the industry due to the sustained increase in new housing output over the last few years. Brick imports have increased to help satisfy market demand and now represent over 16% of the total UK brick market. The overall fundamentals of the market continue to be favourable, supported by the Government's commitment to further increase new housebuilding. In this context, the Board has approved an investment of £95 million to build a new extruded brick factory at Desford in Leicestershire with an annual production capacity of 180 million bricks. It is anticipated that planning consent will be received this year and that the new plant will commence full production during 2022. Once completed, the new factory will replace the existing facility at the site which currently has a capacity of 85 million bricks per annum, thereby increasing our total brick capacity by 16% whilst also reducing the average cash cost of production. The preparation work for the project is well-advanced, prior to receiving formal planning consent, with tenders being evaluated for equipment supply and construction.

The acquisition of the Bison business in 2017 enabled us to take a leadership position in the UK precast concrete business whilst also reducing capacity constraints. The market dynamics of the business are favourable in the medium term due to anticipated growth in the housing market, a greater level of construction in the private rented and social housing segments, higher investment in infrastructure projects, and an increase in the use of off-site manufactured structural precast concrete. We remain confident of the business case for the acquisition and anticipate making progress towards this during 2019 following the challenges faced in 2018.

The Group has secured supplies of stockpiled conditioned (wet) pulverised fuel ash (PFA) and modified the aircrete facility at Hams Hall, Birmingham to enable use of this raw material. This has reduced reliance on dry PFA available only from running coal-fired power stations which are being phased out.

Investment in innovation and developing the product range has been a specific priority. Our brick range has been extended during the year and within Bison Precast we have introduced an off-site manufactured twin wall product with brick facing alongside a wider range of structural precast products.

Capital allocation

In view of the excellent progress made in reducing net debt and the strong financial position, the Board has reviewed and confirmed its priorities for allocating capital:

1) Organic investment

The increase in capacity at Desford at a cost of £95 million is an example of the attractive organic investment opportunities available to the Group and the Board will continue to prioritise these. Other projects include investments in the Bison Precast business to improve productivity, IT system upgrades, new product development and the conversion of the Newbury aircrete plant to take conditioned PFA as well as dry ash. There will be further opportunities to increase capacity in other product lines over the medium term.

2) Dividends

The Board intends to continue a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This policy will reflect the long-term earnings and cash flow potential of the Group whilst recognising that the businesses of the Group operate in cyclical markets.

3) Acquisitions

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

Chairman's Statement continued

Health and Safety

Forterra is committed to the highest safety standards for all employees, sub-contractors and visitors to our various facilities. We describe in the Corporate Social Responsibility section of the report the initiatives being taken in this area including completion of a comprehensive risk assessment review by zone at each site and safety training for employees to build awareness and good working practice. In addition, each Board Director undertakes at least two health and safety site visits each year. This emphasises to the workforce the importance placed by the Board on health and safety and is part of driving a strong safety culture across the Group.

Performance

Group revenue at £367.5m was 11.0% ahead of 2017 reflecting in part the acquisition of the Bison business completed in September 2017. The underlying increase in revenue was due to higher volumes arising from the sustained strength of the new build residential market, and price increases applied across all product lines to offset cost inflation.

The profit before tax (PBT) of £64.8m for 2018 was up £3.7m (6.1%) compared to last year's PBT before exceptionals, due to the higher volumes and prices offset by the effects of cost inflation, particularly in relation to energy and fuel, and increased repair and maintenance costs. The 2017 PBT included an exceptional £1.8m finance charge. There were no exceptional items in 2018.

Earnings per share (EPS) was 26.5 pence, an increase of 8.2% over the 2017 EPS before exceptionals of 24.5 pence, due to the increase in profits and the benefit of a lower tax rate. Basic EPS was 23.8 pence for 2017.

The Group generated a strong level of free cash flow during the year due to increased profits and good working capital management whilst continuing to invest in the business. Net debt at 31 December 2018 of £38.8m was £22.0m lower than at the start of the year. This excellent performance meant that the Group's gearing was at 0.5 times EBITDA, demonstrating the strength of the business and the balance sheet as we prepare for the major capacity increase project at Desford.

Dividend

The Board is proposing a final dividend of 7.2 pence per share, which together with the interim dividend, would make a total of 10.5 pence for the full year. This represents an increase of 10.5% over the 2017 total dividend of 9.5 pence.

The dividend is in line with the progressive dividend policy followed by the Board and demonstrates the progress made by the Group in reducing net debt and our confidence in the business going forward.

Board and corporate governance

Since listing, one of my main responsibilities has been to develop the appropriate corporate governance framework and ensure the formation of the plc Board with strong independent Directors. We achieved full compliance with the UK Corporate Governance Code during 2017 and have operated as such throughout 2018.

The corporate governance section of this report outlines the Board's approach to corporate governance arrangements. The section includes reports from each of the Committee Chairs, providing details on key matters addressed by the Committees during the year. We have also set out a separate Corporate Governance Statement (pages 45 to 48) to provide a detailed description of how the Group has complied with the principles of the UK Corporate Governance Code.

As announced in September 2018, I have made the decision to step down from the role of Chairman and from the Board with effect from the conclusion of the Annual General Meeting in May 2019. I am pleased to have guided Forterra through its listing on the London Stock Exchange in April 2016 and its subsequent strong performance.

Justin Atkinson, currently Senior Independent Director, will succeed me as Chairman and Katherine Innes Ker will become the Senior Independent Director from May 2019. Following a thorough search process, we appointed Vince Niblett as an independent Non-Executive Director in February 2019. Vince has extensive experience during his many years at Deloitte including as Managing Partner, Senior Markets Group and as member of the Global Executive Committee. Vince will become Chairman of the Audit Committee from May 2019.

Stakeholders

On behalf of the Board, I would like to recognise the continued commitment and dedication of all our employees which has enabled the success of the business.

At the listing, under the Share Incentive Plan we were pleased to give each employee a deferred stake of £500 in the equity of the business and this plan will vest during 2019. We have also had an excellent participation rate in the employee Sharesave scheme offered each year, and approximately 77% of our employees participate in the Share Incentive or Sharesave plans.

The priorities given to improve employee engagement and develop our people are described later in this report.

We want all our stakeholders, including employees, customers, suppliers and shareholders, to benefit from the success of Forterra and I personally would like to thank them all for their support.

Outlook

2018 was a year of good progress for the Group, with a strong performance from the Bricks and Blocks businesses and the integration of Bison gaining traction following a slow start. We also approved a £95m investment to build a new brick manufacturing facility that will increase our existing capacity by 16%.

Trading in the current year has been in line with our expectations. The improvement in productivity seen at Bison Precast in the last quarter has been sustained into the first two months of 2019 and the business is performing well. As anticipated, price increases have now been agreed with most customers in order to cover the increase in our cost base.

Based on our current order book and indications from major customers, the Board's expectations for 2019 are unchanged.

Whilst we are watchful of the impact of the current political and economic uncertainty on our end markets, the Board remains confident that the business is well positioned to take advantage of the attractive market fundamentals in order to continue delivering sustainable shareholder value.

Paul Lester CBE
Non-Executive Chairman

Chief Executive's Statement

"We continued to deliver on our strategic priorities in 2018, thanks to the hard work of our dedicated people."

Stephen Harrison
Chief Executive Officer

The Group delivered a good performance overall in 2018 despite the challenges faced. There was a strong increase in revenue and profit in the Bricks and Blocks product lines, with revenue up by 8.0% and EBITDA by £6.7m to £75.8m. The Bison Precast business had a tough year, with weather-related delays in the first half, which slowed the integration of the three production facilities following the acquisition of Bison in 2017. I am pleased to say that the precast business achieved an increase in productivity in the last quarter, which has been sustained in early 2019.

During the year, we continued the investment programme in order to deliver on our strategic priorities. The last of the four debottlenecking projects at the brick facilities was completed during the year, with the projects in aggregate delivering an additional capacity of around 40 million bricks per annum. We also upgraded the aircrete facility at Hams Hall and made further investments in replacing outdated IT systems. These investments will continue during 2019, including embarking on the major capacity expansion programme at our Desford brick facility.

We place the health and safety of all employees, sub-contractors and visitors to our facilities at the top of our priorities. In addition to the Board safety visits, members of the Executive team regularly visit sites to review working practices and discuss safety issues with our employees. During May, I held all-employee meetings at each of our facilities to highlight the importance we place on safety and understand issues of concern. We also arranged peer reviews in February at each site with a manager from another facility meeting members of staff and carrying out a review of health and safety standards and risk assessments. These proved to be valuable in highlighting improvement opportunities and sharing best practice, and follow-up visits were carried out in September. We have also revisited our operational risk assessments, creating zonal maps to ensure all areas at a site are covered, activities for each zone considered and providing a link to other risk reduction projects throughout the year.

Our people are critical to the continuity, growth and success of our business. During the year, we implemented further development programmes for staff at all levels, including at supervisor and middle management. We continued to invest in our apprenticeship and graduate programmes so as to build up a talent pool for the future and support internal succession planning and development. Employee engagement was enhanced through the Employee Forum and developing a monthly communication to all employees including news on financial performance, progress against business objectives, market updates, charity and community events and local news of interest to employees. The Best Practice Awards had a very successful second year with over 100 people from across all parts of the business nominated in the six award categories: Health and Safety, People Management, Customer, Procurement, Community and Project.

We continued to deliver on our strategic priorities in 2018 due to the hard work of our dedicated people and I would like to take this opportunity to thank them for their efforts.

Stephen Harrison
Chief Executive Officer

Business Model

We create value through every stage of our business model, transforming raw materials into a range of sustainable building products which support the needs of the UK construction market.

Our value chain

Resources and raw materials

Clay reserves
access to
>90 million
tonnes
>50 years
production*
* on average basis

Key raw materials
- ● Cement
- ▲ Aggregates
- ■ Pulverised Fuel Ash (PFA)
- ⬢ Steel
- ▰ Expanded Polystyrene (EPS)

Manufacturing efficiency

9 Brick plants
Annual production capacity
590 million bricks

2 Aircrete block plants ● ■

2 Aggregate block plants ● ▲

Annual production capacity
1.1 million m^3

3 Precast concrete factories ● ▲ ⬢ ▰

Concrete block paving plant ● ▲

Concrete flue systems ● ▲

Clay roofing products

Products

Bricks
- THE ORIGINAL LONDON BRICK
- ECOSTOCK BRICK
- BUTTERLEY BRICK
- CRADLEY SPECIAL BRICK

Blocks
- THERMALITE
- CONBLOC

Bespoke Products
- BISON PRECAST
- JETFLOOR
- INNOVATORS IN FORMPAVE PERMEABLE PAVING
- RED BANK

Security of supply

Our strength starts from the ground up. In total we have access to over 90 million tonnes of clay reserves, equating to over 50 years of current brick production, with these reserves typically located alongside our manufacturing facilities.

We source several other key raw materials externally, including cement, aggregates, pulverised fuel ash (PFA), steel and expanded polystyrene (EPS) via our centralised procurement function, who also oversee our significant energy purchases, including natural gas and electricity.

Long-term efficiency and scale

Manufacturing is a key driver of our success. Our 18 production facilities provide us with a scale of output to support our leading positions in our core markets, including the highest average brick production capacity per plant of the UK brick industry.

We pride ourselves on our operating efficiency, underpinned by lean manufacturing principles and a continuous improvement philosophy.

Our decision to expand the Desford facility will create the largest brick plant in Europe, increasing Group brick production capacity by 16%. In addition, the acquisition of the Bison Precast plant in 2017 has enabled us to substantially expand our precast concrete flooring production.

Trusted brands

Our brands are steeped in history and synonymous with quality in the market. The heritage London Brick is found in around 25% of English housing stock, whilst Thermalite aircrete blocks, Butterley and Ecostock bricks and Jetfloor precast concrete flooring systems lead the way in our residential new housing offering.

Our Bespoke Products range includes Formpave permeable paving, Red Bank chimney and roofing products, and Bison Precast – incorporating our concrete flooring products and a wider range of off-site, precast solutions.

In addition to our brand strength, our products are underpinned by the highest standards of quality under ISO 9001 certification.

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Delivery and service

137
Specialist delivery vehicles

Centralised customer service centre

Design and specification service

Installation service

Customers and markets

Residential new build	Residential RM&I	Commercial
	✓ (primary)	
✓ (primary)	✓	✓
✓ (primary)	✓	✓
✓	✓	✓
✓ (primary)	✓	✓
✓ (primary)	✓	✓
✓		✓
✓ (primary)		
✓	✓	✓
✓	✓ (primary)	✓

■ Primary markets

Total end use revenue	65%	29%	6%

Over 1,900 employees

Value creation

Shareholders

- Strong balance sheet and cash generation for future investment
- Progressive dividend policy

Employees

- Investment in career and personal development
- Equity ownership

Supply chain

- Quality products into construction markets
- Sustained supply chain employment
- Long-term supplier and customer relationships

Communities

- Sustained local employment
- Environmental commitments
- Providing the materials to build great communities

Synergies by design

Our service reliability is underpinned by a dedicated road distribution fleet of 137 crane-equipped delivery vehicles, distributing our Bricks and Blocks products throughout the UK.

Our commercial function provides customers with dedicated account management, whilst leveraging our full product range opportunity in the market. A centralised customer service function and technical support team help ensure our products and service meet customer expectations.

Within Bespoke Products, our service is enhanced via the provision of design, specification, and installation services where required, to meet the needs of the market.

Residential at our core

Whilst our products supply a diverse range of end-user markets, our core business is focused on residential new housing and repair, maintenance and improvement (RM&I) and is supported by long-standing customer relationships with major house builders, builders' merchants and major distributors.

The recent addition of the Bison Precast brand has leveraged our ability to further support new housing, supplemented by a range of off-site product solutions for the commercial and infrastructure sectors.

Our wider value drivers

Our employees are critical to our success. We currently employ over 1,900 people, and it is our dedication to their safety and development, enabling them to reach their full potential, that drives our high performance culture.

Our environmental sustainability is key to our long-term presence. Alongside our commitment to our environmental responsibilities, we return much of our land back to local communities after its restoration. We also recycle large quantities of waste materials, such as brick and aircrete surplus, into concrete blocks, and re-use waste heat in our manufacturing process.

Market Overview

The Government is committed to supporting housebuilding and major market sectors continue to grow.

The key market for Forterra is the UK residential construction sector

Economic overview

As a subset of the UK economy, new build housing has remained strong, with a cross-party political agenda to increase housing supply prevailing despite wider macro-economic uncertainty. This political will has been emphasised in the most recent (October 2018) Budget, with expectations around future growth in housing being reinforced. Interest rates remain low, offering further support to the UK housing market.

Uncertainty surrounding the UK's withdrawal from the EU has been a dominant theme during 2018, with overall GDP growth in the UK of 1.3%, lower than 2017 (1.8%). With the exit date under Article 50 drawing near, this uncertainty has continued into the new year, and as a result the Office for Budget Responsibility's (OBR) 2019 growth estimate of 1.6% has a high level of variability attached to it.

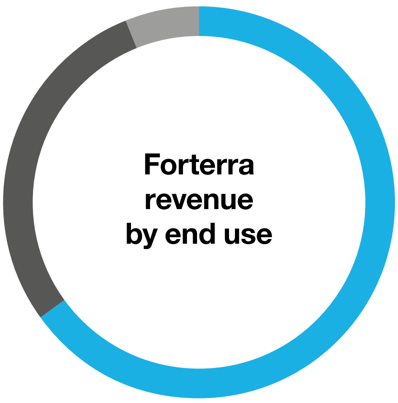
Forecast housing growth for 2019 of 1.9% combines with strong predicted growth in infrastructure construction offsetting expected shrinkage in the commercial construction sector, giving a total construction growth forecast as presented by the Construction Products Association of 0.3%.

Our market

The Group's products are used almost exclusively in construction activities within the UK. Demand for the Group's products is therefore directly related to levels of UK construction activity. Levels and growth of construction activity are influenced by a number of macro-economic factors, including general economic prosperity, government policy, mortgage availability and interest rates. The UK construction market can be segmented by both end market and end use.

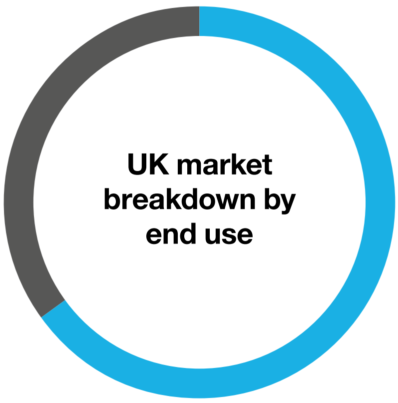
The Group's products are utilised predominantly within the residential construction sector.

In 2018, c.95% of the Group's revenue was derived from sales to residential construction applications. In addition to housebuilders, the Group's customers also include builders' merchants and distributors who sell the products to a range of end users, so a degree of estimation is inherent within these end-use figures.



	%
Residential new build	65
Residential RM&I	29
Commercial	6

	%
Residential	44
Non-residential	56



	%
New works	65
RM&I	35

Source: CPA Forecast Winter 2018/19, Company Information

UK housing market

The residential construction sector in the UK consists of private and public (social) housing and includes both new build and the repair, maintenance and improvement (RM&I) of existing properties. New build activity is generally measured by the number of housing starts and the number of housing completions.

Activity in this sector has grown consistently in recent years and housebuilding across the UK remains at the heart of the political agenda. In October 2018 the Government announced the extension of the Help to Buy scheme until 2023.

New build residential construction continues to benefit from supportive Government policy along with strong market fundamentals as house prices continue to rise against a backdrop of low interest rates. Conversely, RM&I has faced a more challenging period, though the trend in this sector remains flat as opposed to negative.

The use of off-site construction, and modern methods of construction continues to develop within the industry, and will help bolster the rate of growth in the sector, particularly in instances where speed of construction is a key requirement, such as public sector housing, and the build to rent market. Off-site construction may demand fewer traditional building products such as bricks and blocks, however Forterra is actively developing products to serve this growing market.

Brick imports

For a number of years, in addition to a base demand from commercial and specification projects seeking the aesthetics of brick types not manufactured in the UK, brick imports to the UK have been used to bridge the gap between domestic supply and demand. Imports have increased in recent years in support of the capacity-constrained domestic market.

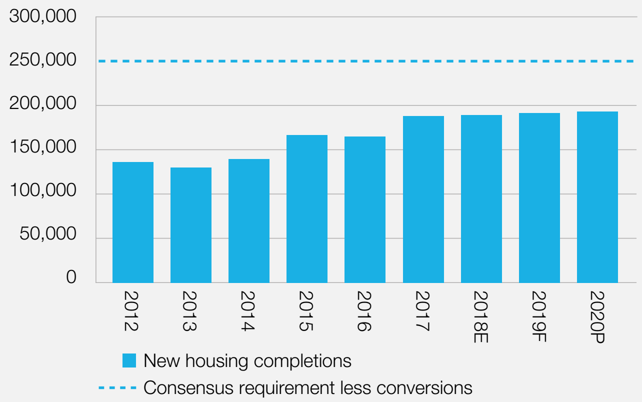
The low value to weight ratio of bricks coupled with the UK's island geography make the importing of bricks a costly exercise. With 16% of the UK demand for bricks being satisfied by imports in 2018 this creates future opportunity for the Group following the announcement of the project at Desford, which will increase the Group's brick manufacturing capacity from 2022.

This trend is not necessarily supported going forwards however, as the supply from continental Europe (from where the majority of UK imports originate) should be considered in the context of local demand in these markets, where recovering housebuilding in the Benelux region, combined with a weaker sterling may impact import levels.

"The Government is determined to fix the broken housing market. Building more homes in the right places is critical to unlocking productivity growth and makes housing more affordable. At Autumn Budget 2017, the Government set out a comprehensive package of new policies to raise housing supply by the end of this Parliament to its highest level since 1970, on track to reach 300,000 a year."

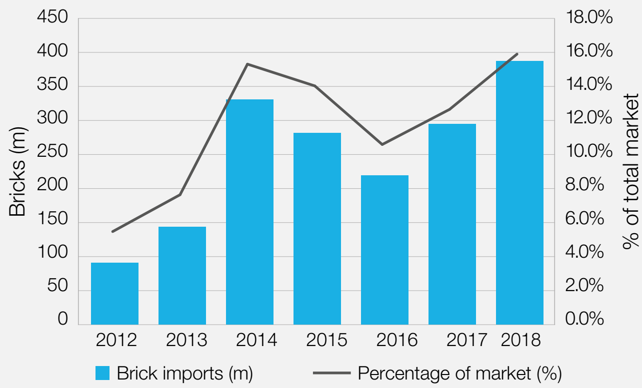
Source: Budget October 2018

Annual housing completions vs. requirement



Source: MHCLG, CPA Forecast Winter 2018/19 (GB Completions)

Brick imports (m)



Source: HMRC, ONS

Strategy

Sustainable shareholder value remains our overarching strategic objective. We continue to focus on delivery of this through our three key strategic priorities, with considerable progress made during 2018.

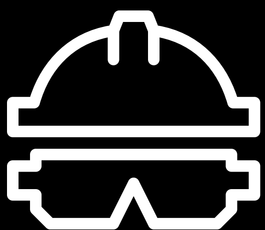
Strategic priority	Our future targets
1. Manufacturing excellence Our products are manufactured across our 18 production facilities. Operating efficiency, product quality and capacity utilisation are key drivers of our financial performance, and our commitment to long-term investment in our facilities supports our future growth aspirations.	• Continue our health and safety aspiration of a workplace free of accidents and ill health • Further develop the continuous improvement culture of our business towards lean six sigma standard • Focus capital investment on process enhancements delivering productivity improvements • Maintain agility in flexing capacities to meet demand
2. Core product focus Bricks, blocks and precast concrete flooring form our core product offering, and represent the bulk of our supply into the new build residential sector. Maintaining our strong market positions in these core areas is key to our success.	• Maintain our leading positions in core product areas • Focus on long-term security of key raw materials and management of key input costs, including energy • Progress our customer service offering including digitalisation • Leverage our commercial performance via cross-selling opportunities and new market sector development
3. Business expansion Growth in our business is vital to ensure sustainable shareholder value. Our growth strategy is centred on product development and capacity expansion, supplemented with appropriate acquisitions where opportunities arise.	• Deliver the new Desford factory and continue to progress wider capacity expansion opportunities • Enhance the innovation pipeline of new product development opportunities, particularly in the area of off-site construction utilising modern methods of manufacture • Continue to monitor potential opportunities where enhanced shareholder value can be created via acquisitions in related product and market areas

Our values

We launched our corporate values in 2018 focusing on key behaviours and providing our employees with a framework for conducting business. Our organisational culture is developed around these principles.

Safety first

Safety is our number one priority. Everyone who works with us should feel safe. We are each responsible for our own safety, health and well-being and for creating an accident-free environment.



People matter

We strive to treat everyone fairly, involve them in decision-making and have open communication channels. This helps create an engaging workplace that attracts and retains successful people.

Our 2018 highlights

Our Bricks business operated at its highest output levels for 10 years, and our final brick debottlenecking project at Accrington was successfully delivered, unlocking additional capacity.

We completed a £2.2 million process enhancement investment at the Hams Hall aircrete plant near Birmingham, enabling the use of conditioned Pulverised Fuel Ash (PFA) as an alternative raw material for the production of aircrete blocks.

Capacity utilisation was further enhanced via the recently acquired Bison Precast factory at Swadlincote, with productivity levels accelerating over the course of the year, resulting in a considerable increase in our hollowcore concrete flooring production.

Our commitment to continuous improvement across our business was supported by increased capital expenditure across our manufacturing base, alongside the embedding of best in class lean manufacturing principles.

During the year we successfully secured long-term supplies of conditioned PFA, decoupling the production process from its previous reliance upon dry ash produced from a diminishing number of active coal-fired power stations.

We acquired further long-term clay reserves at our Fletton brick facility safeguarding this core product for decades to come.

The integration of the Bison manufacturing business into the Group presented wider commercial opportunities, both within residential housing, and commercial and public infrastructure projects. A number of new customers were gained during the year, especially within mid-tier housebuilders where the sector enjoyed strong growth levels.

In order to support our core business, 2018 saw a significant increase in capital investment, including in our primary IT systems, which will streamline our processes and improve our customer interface.

Financial performance was strong, underpinned by price discipline across our core products despite increases in key input costs, such as energy and raw materials, coupled with our increased capacity utilisation across the Group.

We announced the £95 million investment to build a new factory at our Desford site in Leicestershire by 2022, creating the largest brick plant in Europe and increasing Group brick production capacity by 16%. The Desford project demonstrates our commitment to long-term investment in our core markets.

There has been a continued focus on research and development. Specific investment was made in innovation and product development, including brick range expansion and precast products aimed at the growing off-site construction market including façade solutions and composite walls.

Customer focus

Our business is dependent on its customers. We work hard to develop strong, mutually beneficial relationships that ensure we are always their preferred supplier.

Trusted to deliver

Working to the highest standards of compliance and environmental management. Mindful of our responsibility as a good neighbour we manufacture and supply industry leading products, delivering them where and when our customers need them.

Driving improvement

We embrace change and are open to new initiatives that bring better ways of working. We endeavour to continually improve all aspects of our business and performance.


Cornerstone

Building Communities

In 2018 we manufactured over half a billion bricks, enough to build around 75,000 new homes, which is 25% of the 300,000 annual requirement the country needs to address the housing shortage and keep Britain building.

Our bricks have been used to create many inspiring new developments, two of which won the Large Housebuilder category at the 2018 Brick Awards, in partnership with the housebuilder Countryside Properties.

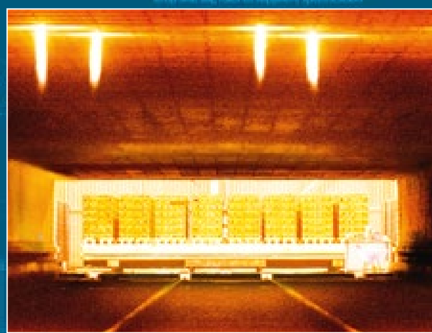
In addition to our products being used to create much needed homes for families, they are also used to inspire and build the fabric of communities, including schools, hospitals, places of worship and transport infrastructure.

Supporting Housebuilding

With a 180 million brick annual capacity Desford will be the largest and most efficient brick factory in Europe; capable of producing enough bricks annually to build 24,000 average family homes. The facility will offer an attractive range of red and buff extruded bricks sought after by housebuilders.

Encompassing our ‘manufacturing excellence’ strategic priority by deploying state of the art levels of automation, the factory will deliver market leading efficiency and sustainability credentials, minimising the impact on the environment.

Desford is ideally located with excellent transport links. The project costing approximately £95 million represents a sound long-term investment in both the future of Forterra and the UK housebuilding sector. Planning consent is expected to be received in 2019 and production is expected to commence in 2022.



Forterra’s production capacity will increase to nearly

0.7bn

bricks per annum by 2022

Increase in brick production capacity of

16%

£95m

investment in Desford facility

Thermalite contains up to

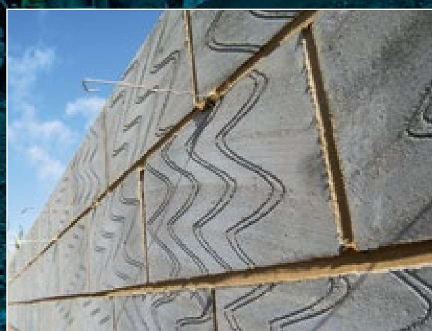
80%

recycled content

Securing our Supply Chain

Security of raw material supply has been an area of focus for our Aircrete block business in recent years. A significant reduction in coal-fired energy generation has led to shortages in the availability of the dry pulverised fuel ash (PFA) that our facilities use to manufacture our Thermalite blocks. 2018 saw us secure a long-term supply of conditioned (wet) PFA and we have invested £2.2 million on modifying our Hams Hall plant to use this material. A further investment of £3.4 million is already underway to allow our Newbury plant to also use this material. These investments will help secure our production of Aircrete blocks for years to come.

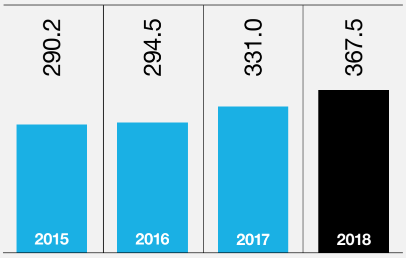
£5.6m
of investment



Key Performance Indicators

We use the metrics below to monitor our strategic process.

Revenue
(£ million)



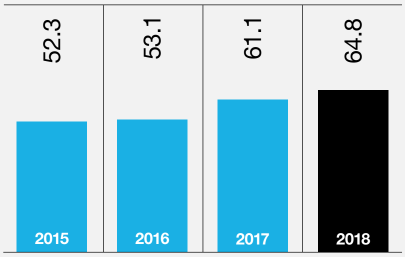
Definition

Revenue represents the sale of our products, net of rebates, discounts and value added taxes.

Performance

Revenue increased by 11.0% compared with 2017 due to the benefits of higher volumes, prices and the Bison acquisition in 2017. Both brick and block volumes were ahead of the prior year due to the ongoing strength of the new build residential market. Price increases were achieved across each of the product lines in line with our expectations to offset increases in the cost base.

Profit before tax[1]
(£ million)



Definition

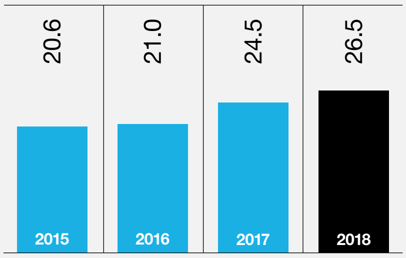
Profit before tax adjusted for exceptional items, additional costs related to being a stand-alone plc and with finance costs restated to present the debt facility at IPO as if it had been in place throughout 2015 and 2016.

Performance

The profit before tax was higher than the result for 2017 due to higher volumes and prices, offset in part by increased costs. There was also a lower finance cost due to the reduction in net debt.

[1] Results for 2015, 2016 and 2017 have been presented before exceptional items and on a pro-forma basis in line with what was disclosed in prior years.

Earnings per share[2]
(pence)



Definition

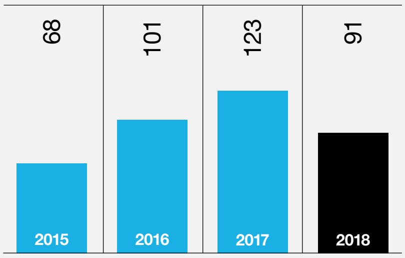
Basic earnings per share adjusted for exceptional items, additional costs related to being a standalone plc and with finance costs restated to present the debt facility at IPO as if it had been in place throughout 2015 and 2016.

Performance

Earnings per share (EPS) was 26.5 pence compared with 24.5 pence before exceptionals for 2017. The increase reflected the higher level of profit and also a lower effective tax rate.

[2] Results for 2015, 2016 and 2017 have been presented before exceptional items and on a pro-forma basis in line with what was disclosed in prior years.

Operating cash conversion
(%)



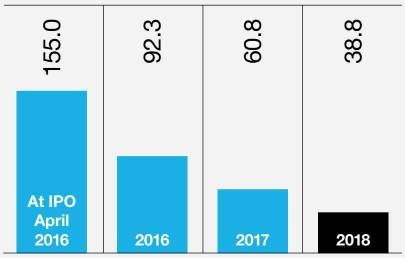
Definition

Operating cash conversion is calculated as operating cash flow before exceptional items less capital expenditure divided by operating profit before exceptional items. This KPI measures our efficiency at turning operating profits into cash.

Performance

The Group continues to have a strong level of cash conversion. The reduction in 2018 was due to higher capital expenditure and a lower reduction in working capital.

Net debt
(£ million)



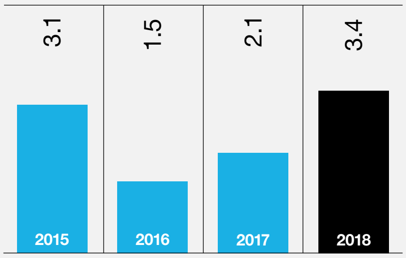
Definition

Net debt comprises the balance of short and long-term borrowings, less cash and cash equivalents.

Performance

Net debt reduced by £22.0m in the year due to continued strong operating cash flows, offset by higher investments and dividends.

Lost time incident frequency rate



Definition

Our lost time incident (LTI) frequency rate is calculated using contracted working hours and is stated as the number of lost time incidents suffered per million man hours worked.

Performance

The LTI frequency rate increased to 3.4 in 2018. This performance is disappointing and improving this is a key priority. The Group continues to take initiatives to build awareness and emphasise the importance placed on safety.

Business Review

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

Results for the year

Group revenue of £367.5m was ahead of the prior year by 11.0%. The underlying increase was in high single digits after excluding the benefit of the Bison acquisition completed in September 2017 and was partly due to a modest increase in volumes which reflected the sustained strength of the new build residential market following the strong growth seen in 2017. Price increases were applied across all product ranges to cover increases in the operating cost base.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year of £78.8m was £3.4m ahead of prior year. The benefit of increased volumes and prices described above was somewhat offset by higher operating costs, especially for energy, fuel and carbon credits (under the EU Emissions Trading Scheme) which all increased by double digit percentages, though the impact was mitigated by the forward purchases of gas and electricity made previously. Repair and maintenance costs were higher than prior year due to the brick facilities operating at near full capacity and also due to the issues experienced with the kiln at Desford. The result for the Bison Precast business was disappointing due to lower than budget volumes, which partly arose from the delays in despatches in the first quarter due to poor weather, and also the challenges faced in integrating the acquired site at Swadlincote, Derbyshire. The business has made good progress in the final quarter with a sustained increase in productivity.

The Group initiated a project during 2018 to identify and claim credit for qualifying Research and Development (R&D) expenditure under the HMRC R&D Tax Credit Scheme. The project analysed the extensive activities carried out across the business in areas such as developing alternative raw material solutions to PFA used in aircrete, brick production process improvements and innovative modifications undertaken in the precast concrete manufacturing business going back to 2016. A benefit of £1.3m has been recognised within operating profit relating to the credit arising from qualifying expenditure identified.

The EBITDA margin for Bricks & Blocks increased during the year, but the Group EBITDA margin of 21.4% was lower than the 22.8% in 2017 due to the Bison Precast performance and also the diluting effect of Bespoke Products on overall margin.

Profit before tax of £64.8m was £5.5m higher than the result for 2017 due to the increased operating result, a lower finance cost and the inclusion in 2017 of an exceptional finance charge of £1.8m. There were no exceptional items in 2018. The increase in profit before tax was £3.7m (6.1%) after excluding the exceptional item.

Earnings per share and dividend

Earnings per share (EPS) was 26.5 pence compared with 24.5 pence before exceptionals for 2017, an increase of 8.2%. The increase reflected the higher level of profit and also a lower effective tax rate of 18.5% compared with 20.0% for 2017. Basic EPS for 2017 was 23.8 pence.

As reported in the Chairman's Statement, the Board is recommending a final dividend of 7.2 pence per share, making a total dividend of 10.5 pence for the year. This represents an increase of 10.5% over the dividend for 2017. The final dividend will be paid on 4 July 2019 to those shareholders on the register as at 14 June 2019.

Cash flow, borrowings and facilities

Operating cash flow for the year was £79.8m which represented a cash conversion of 91% (operating cash flow less total capital expenditure, divided by operating profit). Working capital reduced by £2.7m in the year, compared with a £10.6m reduction last year, and this was the main factor in operating cash flow being below the £90.2m generated in 2017. Brick inventory reduced at a lower rate than in 2017 due to a double digit increase in output which meant that there was a better balance between sales and production. There was a continued good level of cash collections, and debtor days were 41 compared with 40 in the prior year.

Business Review continued

Results for the year

	2018			2017		
	Bricks and Blocks £m	**Bespoke Products £m**	**Group £m**	Bricks and Blocks £m	Bespoke Products £m	Group £m
Revenue	**269.4**	**100.3**	**369.7**	249.5	83.6	333.1
Intersegment elimination			**(2.2)**			(2.1)
Group Revenue			**367.5**			331.0
EBITDA	**75.8**	**3.0**	**78.8**	69.1	6.3	75.4
EBITDA margin	***28.1%***	***3.0%***	***21.4%***	*27.7%*	*7.5%*	*22.8%*
Group PBT before exceptional items			**64.8**			61.1

Capital expenditure increased by £7.8m to £18.6m due mainly to greater investment in strategic projects. These included the modification of the Hams Hall aircrete facility to enable use of conditioned PFA, purchase of long-term clay reserves at an investment of £4.5m for the London Brick facility, the completion of the brick debottlenecking project at Accrington, and the preparation work for the major capacity increase project at Desford.

Maintenance capital expenditure included further investment in improving IT systems. The project to upgrade the main IT systems used across the Group was completed in early 2019 with the roll-out to the brick facilities. It reduces risk to the business by removing reliance on outdated bespoke solutions and other disparate systems. The next stage is to optimise usage of the new system so as to deliver business benefits in terms of improved processes and enhanced customer service. Further IT expenditure including the upgrade of other specific functional and business systems will continue during 2019.

Net cashflow of £22.0m also includes the dividends paid in the year of £19.3m and funding for the purchase of shares by the Employee Benefit Trust of £6.1m. As a result, net debt reduced from £60.8m at the start of the year to £38.8m at December 2018.

Cash flow – highlights

	2018 £m	2017 £m
Cash generated from operations	**79.8**	90.2
Interest paid	**(2.2)**	(3.3)
Tax paid	**(11.8)**	(9.3)
Capital expenditure:		
– maintenance	**(8.5)**	(7.6)
– strategic	**(10.1)**	(3.2)
Acquisition of Bison	**–**	(20.0)
Dividends	**(19.3)**	(13.8)
Purchase of shares by Employee Benefit Trust	**(6.1)**	–
Other movements	**0.2**	(1.5)
Reduction in net debt	**22.0**	31.5
Debtor days	**41**	40

Since listing in April 2016, the free cash flow (net cash flow excluding dividends, share purchases and acquisitions) generated by the business has been over £175m which has funded investment in the business, both organic through debottlenecking and efficiency projects, and also through acquisition. It has also enabled the Board to follow a progressive dividend policy whilst strengthening the balance sheet.

Net debt to EBITDA was 0.5 times at 31 December 2018 compared with 0.8 times at December 2017 and 2.2 times at IPO. For this purpose, the net debt excludes capitalised finance costs in line with the calculation required by the banking covenant.

The Group's debt facility comprises a committed Revolving Credit Facility of £150m extending to July 2022 with a group of major international banks. At 31 December 2018, £85m 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 the facility.

Bricks and Blocks

Revenue

£269.4m

+8.0%
2017: £249.5m

EBITDA

£75.8m

+9.7%
2017: £69.1m

EBITDA margin

28.1%

+40bps
2017: 27.7%

"The four debottlenecking projects highlighted at IPO have now all been implemented, resulting in a total increase in brick capacity of around 40 million bricks per annum at a modest capital cost of under £9 million."

Stephen Harrison
Chief Executive Officer

The Group has a unique combination of strong market positions in both clay brick and concrete blocks. It is 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. The Group operates nine brick manufacturing facilities across the country with a total production capacity of 590 million bricks per annum. It is also a leader nationally in the aircrete block market, operating from facilities at Newbury and Hams Hall in the Midlands. The aggregate blocks business 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).

Revenue increased by 8.0% compared with 2017 due to the benefits of higher volumes and prices. Brick volumes were modestly ahead in 2018 following the strong growth achieved in 2017 due to the ongoing strength of the new build residential market. Block volumes were also ahead of prior year, with the switch from aircrete to aggregate blocks seen in 2017 being reversed. Price increases were achieved across each of the product lines in line with our expectations to offset increases in the cost base.

EBITDA of £75.8m was up by £6.7m compared with 2017, and there was an improvement in EBITDA margin to 28.1%. The result reflected the benefit of higher volumes and prices, partly offset by increased operating costs, particularly for gas, electricity, fuel and carbon credits which all increased in double digit percentage terms. Forward purchasing of gas and electricity previously put in place under the Group policy helped to mitigate the effect of this during the year. Repair and maintenance costs at the brick facilities were higher than prior year due to the ongoing maintenance programme designed to enable the facilities to operate at near full capacity, and also the impact of the kiln repair required at the Desford facility following a prolonged power outage which caused overheating. The repair was completed by mid-December 2018 and production re-commenced.

Brick production increased by 13% compared with prior year, reflecting full year production at Claughton and Accrington and also the benefits of increased capacity achieved through the debottlenecking investments. This enabled demand to be mainly fulfilled by current year output and enabled a rebalancing between sales and production.

The capital investment programme at the Accrington facility was completed to schedule during the year, resulting in an increase in capacity of 10 million bricks per annum. The four debottlenecking projects highlighted at IPO have now all been implemented, resulting in a total increase in brick capacity of around 40 million bricks per annum at a modest capital cost of under £9m.

Business Review continued

In the aircrete business, the project to convert the Hams Hall facility to use conditioned or wet PFA as well as dry PFA, was successfully completed in July 2018 at a capital cost of £2.2m. The Group has entered into a contract to purchase stockpiled conditioned PFA so as to reduce dependence on dry PFA which is only available from running coal-fired power stations. Modification of the other aircrete facility at Newbury is planned for 2019, and once completed will increase the flexibility and resilience of the production capability for the aircrete business.

The Group continued to develop its long-term relationships with customers across different channels: major housebuilders, builders' merchants and other specialised distributors. During the year new product development progressed well, allowing the further expansion of the facing brick range to better meet customer requirements in target markets. This process supported a move away from lower value products (engineering bricks) towards a higher percentage of facing bricks in better value segments. In addition, several best-selling bricks have been replicated at alternative factories allowing a more local customer offering and reducing transport costs. Significant progress has also been made in brick façade solutions utilising off-site manufacturing techniques.

The dedicated team established to serve the commercial and specification segments made progress with 1,600 architect visits during the year as well as attending a number of regional professional development events organised by the Royal Institute of British Architects (RIBA). We sponsored the '2018 House of the Year Award' run by RIBA and improved marketing communication and promotions targeted to architects.

Sales of bricks and blocks are managed by a single team, and delivery is fulfilled through the Group's fleet of vehicles supplemented by third party hauliers. During the year, our fleet was increased by 12 vehicles to 137. Maintaining our fleet provides greater flexibility and enables a high level of customer service. The Board has recently approved a project to improve the technology used in the planning and execution of the distribution operations. This includes a Routing and Scheduling tool to provide more efficient planning and a Transport Management tool to provide better tracking of deliveries and analysis of journeys to enable continuous improvement. The project commenced in the last quarter of 2018 and will be implemented during 2019.

As described previously, in May 2018 the Board approved the project to build a new extruded brick factory at Desford with a capacity of 180 million bricks per annum at a capital cost of £95 million. The preparation work for this project prior to receiving planning consent is well-advanced with tenders being evaluated from both equipment suppliers and construction companies, and a dedicated project team being assembled under a clear governance structure. The existing plant, which has a capacity of 85 million bricks per annum, will remain operational until the new facility built alongside is completed. It is anticipated that planning consent will be received later this year and that the new plant will commence full production during 2022. The expenditure will be funded from the free cash flow generated by the business as well as the Group's existing debt facility. The project is anticipated to deliver an internal rate of return (IRR) over 20 years in excess of 15% after tax.

Bespoke Products

Revenue
£100.3m
+20.0%
2017: £83.6m

EBITDA
£3.0m
-52.4%
2017: £6.3m

EBITDA margin
3.0%
-450bps
2017: 7.5%

"A revised plan was implemented in Bison Precast in the second half of the year under new management and the business performance has improved gradually."

Stephen Harrison
Chief Executive Officer

The Bespoke Products segment focuses on specification-led, made-to-order products comprising: precast concrete, block paving, chimney and roofing solutions, much of which is customised to meet the customer's specific needs.

Overall revenue grew by 20% to £100.3m due mainly to the benefits from the acquisition of the Bison Swadlincote site in September 2017.

EBITDA fell by £3.3m to £3.0m as the integration of the new precast site was slower than anticipated and also due to the weather-related delays in the first half which were not fully recovered. EBITDA margin reduced to 3.0% from 7.5% recorded in 2017.

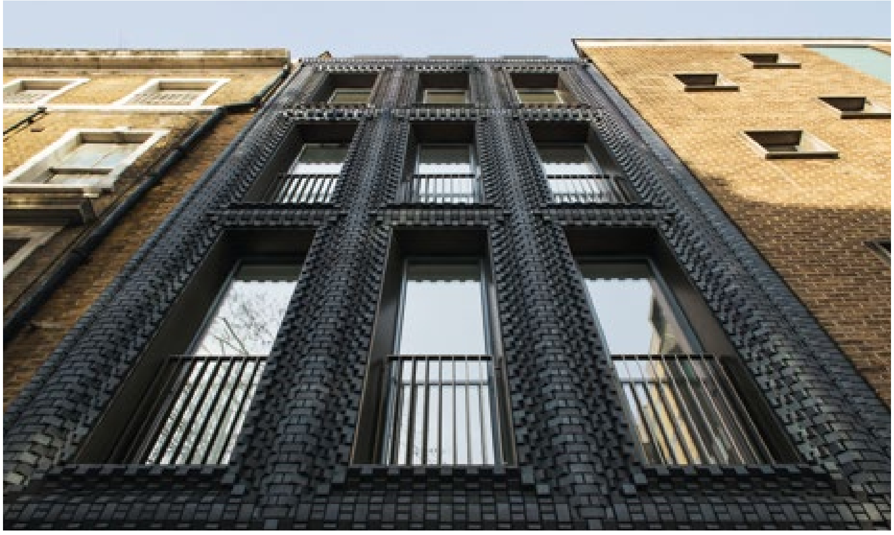
Bison Precast

Precast concrete products are designed, manufactured and shipped nationwide from the Swadlincote, Hoveringham and Somercotes facilities in the Midlands. These products cover:

- Hollowcore floors, which are used for upper floors of multi-family and commercial developments, with the majority of floors fitted by the in-house installations team;
- 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;
- Beam and Block flooring, a traditional and cost-effective suspended flooring system for ground floors in domestic and commercial applications;
- 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;
- a range of concrete retaining walls, culverts, bridge decks, barriers and bespoke products for the housing, commercial, infrastructure and utility markets. The Group's engineers and designers are able to advise on all aspects of a project and are supported by technical specialists to ensure an efficient and effective solution; and
- standard and bespoke precast concrete staircases and landings which are suitable for both commercial and residential projects.

The result from the Bison Precast business in 2018 was disappointing. Delivery volumes reduced in the first few months of the year due to severe weather, and were slow to recover as construction sites appeared to prioritise the completion of single unit houses over multi-occupancy units. This made the integration of the new Swadlincote facility and improvement in productivity at all sites more challenging. A revised plan was implemented in the second half of the year under a new management team and the business performance has improved gradually. Daily production at Swadlincote has increased from five to six beds of precast concrete per day to a sustained level of seven to eight beds per day in the last quarter. A bed in this context is the casting surface of the manufacturing process and is arranged in rows. Improvements in

Business Review continued



productivity have also been achieved at our flooring beam production facility at Hoveringham.

During the year, the launch of the Bison Precast brand was completed allowing the wider business to leverage what is regarded as the leading UK precast concrete brand. The business has made progress commercially and order intake has been encouraging resulting in a robust order book in place at the end of the year. The business has been able to develop new housebuilder customers using existing relationships within the Bricks & Blocks product lines. Precast products supplied during the year includes stadia components such as terraces, walls and stairs for new stands at the Headingley Stadium, Leeds and box culverts and V channels for the Hinkley Point C project. A number of major precast projects are being progressed for 2019 and beyond, and the business is well positioned to provide an attractive proposal to customers.

The business has launched a new offering in the off-site construction market of brick faced sandwich panels. These comprise an outer leaf of precast concrete with a brick finish, an insulating layer and a structural inner leaf. The external panel is connected to and supported by the internal skin. The system has gained a lot of interest and is being trialled by an important customer.

Formpave

Formpave, based at our Coleford site, designed the UK's first permeable block paving solution almost 20 years ago and continues to be a leading authority in the design and specification of sustainable urban drainage systems (SuDS) using the Group's permeable block paving.

Products sold under the Formpave brand include:

- Aquaflow SuDS, a patented filtration system that allows rainwater to be filtered and cleaned before being percolated into the ground or a patented attenuation (tanked) system allowing water to be collected and released into watercourses;
- a wide range of high quality precast concrete standard block paving to suit all projects from commercial to domestic applications, offering a selection of colours, block types and finishes, including EcoGranite, which contains up to 77% recycled content, and Chartres, which matches the stone traditionally used in certain heritage sites; and
- a range of kerbs, edging, step systems and transitions suitable for use with conventional block and permeable block paving.

The result from the business during 2018 was influenced by price discounting by major players in the market during the year which affected volumes and prices. This has now stabilised and it is anticipated that the business will progress under new management which is more closely aligned and supported by the bricks and blocks team.

Red Bank

Red Bank manufactures its products from its facility alongside the Measham brick facility, producing a wide range of chimney, roofing and flue systems. Products include fire-backs, clay and concrete flue liners (developed to meet the growing demand for flue products to suit modern efficient wood-burning, multi-fuel and gas-fired appliances), chimney pots and ridge tiles and a complete bespoke terracotta manufacturing facility to accommodate unique customer requirements.

Following the successful prior year, the business delivered a robust performance during 2018. Flue systems inquiries and sales increased during the year, though there was increased pressure in some other product areas due to competitor price discounting which required management to implement measures to counteract this. The business has relaunched its bespoke and heritage terracotta product range and had a stand at the Listed Property Show which generated a number of sales opportunities. Product development to complement the existing range continues to be an area of focus, and work is ongoing on a number of projects.

Other financial information

EPS before exceptional items

26.5p

+8.2%
2017: 24.5p

Dividend per share

10.5p

+10.5%
2017: 9.5p

"Since IPO in April 2016, the free cash flow generated has been over £175 million which has funded organic investment, the Bison acquisition and enabled a progressive dividend policy, whilst reducing debt."

Shatish Dasani
Chief Financial Officer

Exceptional items

There were no exceptional items in 2018.

Following the refinancing of the Group's borrowings facilities during 2017, the balance of the capitalised financing costs of £1.8m incurred when the previous facility was put in place at IPO was written-off and recorded as an exceptional finance cost.

Finance costs

Finance costs for 2018 were £2.3m compared with £5.2m in 2017. The prior year included the £1.8m exceptional charge described above. The underlying reduction in cost was due to the lower net debt and also the reduction in gearing to below one times EBITDA which meant that the interest rate charged on the RCF facility was at the lowest band of the grid under the agreement.

Taxation

The effective tax rate was 18.5% compared with 19.9% in 2017 (effective rate excluding exceptional items for 2017: 20.0%). The Group derives substantially all its revenue from the UK and the rate is based on the UK corporation tax rate adjusted for permanent non-deductible items such as depreciation on non-qualifying assets. The reduction in effective rate was due to a reduction in the UK statutory rate to 19% and the inclusion of prior period adjustments.

Pensions

The Group has no defined benefit pension scheme in place, with the legacy liabilities of the previous pension scheme left with the HeidelbergCement AG Group when the business was divested in 2015. There is a defined contribution arrangement in place and pension costs for the year amounted to £5.8m (2017: £5.4m), the increase due to the Bison acquisition in 2017 and increased numbers of employees participating in the scheme.

Forward looking statements

Certain statements in this annual report 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.

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

12 March 2019

Corporate Social Responsibility

Commitment to health and safety

Improving occupational health and safety standards and performance is an ongoing commitment for Forterra, as we work towards our goal of no harm in the workplace. We recognise that our workforce is our greatest asset and aim to provide a working environment that is free of accidents and ill health. To achieve this, the business strives to ensure that all relevant legislation and codes of practice are complied with and regularly monitors key performance indicators.

As reported last year, our progress on health and safety in 2017 was overshadowed by a serious injury to one of our employees at a brick manufacturing facility. The Company attended magistrates' court during 2018 and pleaded guilty to a charge of failing to ensure the safety of its employees and was fined £0.2 million. This incident provided further impetus to reinforce safety processes, training and awareness as described below.

In 2018, we successfully retained our OHSAS 18001 certification, an independent verification of our health and safety systems and their implementation, with more sites audited and scope increased from 2017. Every site was audited by our in-house health and safety auditor. We also ensure adequate arrangements are in place for the health, safety and wellbeing of visitors and members of the public that come into contact with our operational activities.

Throughout 2018 we continued our commitment to Operational Safety Tours of our sites, with each Board Director completing two planned visits, alongside the Executive Committee each attending at least two sites unannounced. The tours are designed to give an opportunity to look around the plants, identify both good and poor practice and give feedback where appropriate. This highlights our commitment to safety at the highest level and sets the tone for operational colleagues that safety is a key priority. Outputs of the tours are a regular discussion point at meetings of the Risk Committee.

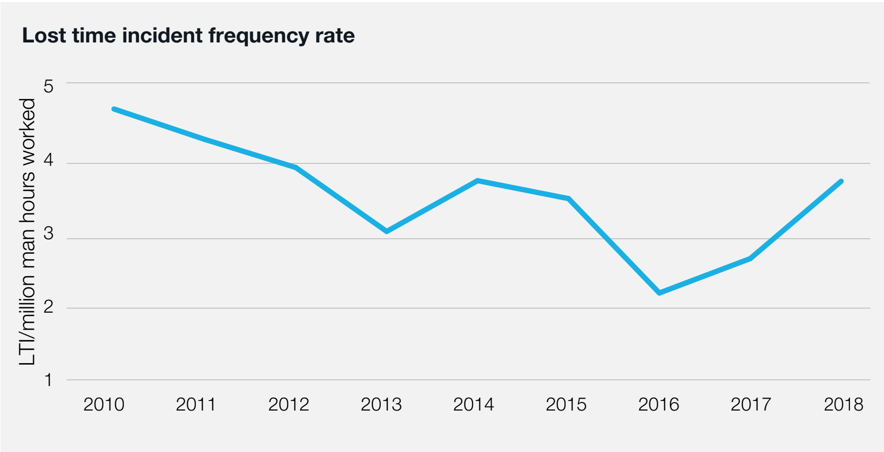
We conducted our first ever plant safety swap. Each responsible manager visited an alternative site or department to conduct a review of health and safety standards and approach, following a standard agenda. This included a site tour, formal risk assessment reviews, meetings with the local Building Safety Together (BST) committee and discussion about the safety critical rules we should all follow. The results of these sessions were tracked throughout the year and a revisit conducted in September to establish what progress had been made. This revisit highlighted that 74% of previously identified actions were closed and action plans were in place for remaining items.

Throughout 2018 we strove to identify and reduce risk further throughout the business. We revisited our operational risk assessments, creating zonal maps to ensure all areas of site were covered, and reviewed all tasks that occur within each zone. As a result, all identified high-risk activities were fully reviewed by the end of the year. We engaged an external safety consultancy to fully review our machinery safety assessments and offer guidance to further process safety improvements.

We invested in hand-arm vibration monitoring equipment to ensure we accurately track colleague exposure and that we have suitable control measures and interventions in place should exposure limits be reached. Finally, we commenced our chest x-ray programme for colleagues potentially exposed to respirable crystalline silica (RCS) in line with Health and Safety Executive (HSE) guidelines.

We continued our training commitment to ensure health and safety competence. We held two National Exam Board in Occupational Safety and Health (NEBOSH) certificate courses in house for responsible managers and senior operational staff, resulting in a further 17 members of staff attaining this qualification. Further Institute of Occupational Safety and Health (IOSH) Managing Safely courses were held for our supervisors, as well as a one-day health and safety awareness course bespoke to Forterra that was attended by 183 of our front-line managers. Operational staff are required to complete the (IOSH) Working Safely course and we focused efforts on the enhancement of Standard Operating Procedures for all tasks.

Our lost time incident frequency rate (LTIFR) was 3.4 lost time incidents for every million man hours worked in 2018, which, regrettably, is an increase compared to the previous year. Several of the lost time incidents (LTIs) recorded were of a less significant nature and did not result



in a prolonged absence from work. Two thirds of the LTIs occurred across just three sites so significant focus was, and continues to be, channelled into these sites. The integration of the acquired Bison Swadlincote site had a significant impact and accounted for a number of the LTIs recorded. Notably, no single LTI occurred across our four Block manufacturing facilities during 2018.

We ended the year with two LTI free months and will strive to maintain this progress during 2019.

During 2018 we invested significant effort in ensuring our employee engagement around health and safety was enhanced still further. Our safety engagement programme, Building Safety Together (BST), is a key platform for this communication. A common standard was introduced to BST meetings to ensure a consistent approach in each factory, and emphasis was placed on colleague issues and improvement projects at a local level. The local BST groups feed into wider business sessions to allow larger issues to be discussed and resolved, as well as provide BST Safety Leaders with access to our senior management teams.

Recognition awards

Forterra received 11 awards at the British Ceramic Confederation Awards 2018, which recognise best practice and award innovation among the Confederation's members. In addition, two colleagues were recognised for their individual contribution to improved health and safety.

Health and safety boost as new vibration monitors introduced

In what is believed to be a first for the building products industry, we have invested tens of thousands of pounds in new vibration monitoring devices to help protect employees from the risk of excessive exposure to Hand Arm Vibration (HAVS), also known as Vibration White Finger.

Almost £50,000 has been spent on HAVwear devices, plus supporting equipment, to be used by up to 400 employees, predominantly in our Bison Precast division and our aircrete block manufacturing facilities at Hams Hall and Newbury.

It is estimated that up to two million UK workers are exposed to high levels of HAVS, a condition for which there is no cure, only prevention. 300,000 people in the UK have advanced stages of the condition, which can develop after just six months. According to research carried out in 2012, 50% of all occupational industry diseases are HAVS-related.*

Head of Health and Safety Paul Humphreys said, "We are one of the first companies in our sector to introduce this system of vibration monitoring for our workforce. As well as helping to monitor safe vibration levels, this new equipment and technology will also save us time and money in how we record and monitor vibration levels in future."

The HAVwear monitoring device is worn like a watch on the wrist and measures how much vibration a user is exposed to. It alerts the operator at various exposure points about how much vibration they have received. When defined safe limits are reached, which can be adjusted depending on the user, it alerts the user of the need to stop and move to other duties.

All data is stored electronically for future reference, removing a significant paper-based administration burden. It also allows accurate management monitoring, so trends can be identified and changes made to work practices where possible.

* information from the Medical Research Council

Corporate Social Responsibility continued

Environment

Our targets 2010 – 2020	Change since 2010	Change since 2017
Reduce energy use Kwh per tonne by 10%	(5)%	10%
Reduce carbon emissions kg per tonne by 10%	(17)%	1%
Reduce our waste to landfill kg per tonne by 85%	(80)%	(45)%
Reduce our mains water consumption litres per tonne by 25%	(35)%	4%

Our approach to sustainability

We understand the importance of sustainability and the contribution the Group can make, both in how we operate our production facilities and in the benefits our products can bring to a sustainable built environment.

We rely on effective management systems to ensure we are looking after our people, protecting the environment, and making best use of natural resources. As well as providing a framework for how we manage our sites, these systems are externally audited to provide confidence to stakeholders that we operate to a high standard. Certificates for the management systems shown below are available on our website.

Our management systems

ISO 9001
Quality Management

ISO 14001
Environmental Management

BS OHSAS 18001
Health and Safety Management

ISO 50001
Energy Management

BES 6001
Responsible Sourcing of Construction Products

Our management systems require us to set objectives and targets in order to show continual improvement in key areas. We have selected a period of 2010 – 2020 to deliver these improvements, a summary of which is shown above. Each of our sites has a management programme in place to support these targets.

We continue to make significant progress against our key performance areas and, in some cases, have already achieved our 2020 targets. Capacity utilisation has a significant impact on these statistics with high levels of utilisation leading to the most efficient use of resources. However, our products are very different with very different production processes. Changing our product mix has a significant impact on these figures. For example, we significantly increased our brick production in 2018 in comparison with 2017 and with bricks having the highest energy use per tonne this has had an adverse impact on this metric.

We are on track to meet our 2020 target for waste although such are the low levels of waste sent to landfill, that a single kiln maintenance project in 2017 contributed around 20% of our total waste to landfill hence the significant reduction in 2018.

Beyond 2020

We are approaching the end of our current target period and we are starting to look towards the next leg of our journey. This is the first opportunity for us as Forterra to identify what is important to us as a business and our stakeholders and develop our future pathway.

We will use a combination of the UN Sustainable Development Goals and the Global Reporting Initiative standards to provide a framework and consult with stakeholders to carry out a materiality assessment to enable us to set our own sustainable business goals which build on our own core values. In designing our future targets we will seek to identify measurement methodologies that are less susceptible to distortion through variations in our product mix.

By applying life cycle thinking to our products and processes, we are working to reduce our environmental footprint and become less resource intensive. We take our social responsibility seriously and protect the people working on our sites to ensure they go home unharmed at the end of their shift. We also work with our local communities to ensure we are a good neighbour, for example, we are looking at quarry restoration programmes to enhance the areas surrounding our factories.

Our delivery fleet utilises modern, efficient vehicles and operates to the highest standards. Our drivers are aware of their ability to influence vehicle emissions and are measured in this respect.

Within the built environment, we provide products to help construct thermally efficient buildings that help reduce heating costs and provide a high level of comfort. We also have products to aid protection against flooding, from permeable paving systems attenuating water discharge through to flood defence systems.

Greenhouse gas (GHG) emissions

As a business, we collect direct and indirect fuel consumption data on a monthly basis. We use the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the latest 'Defra' published CO_2e emissions conversion factors to measure our GHG emissions.

Scope 1 covers our direct emissions, including fuels and raw materials. Scope 2 covers our indirect emissions such as purchased electricity. We have also reported emission intensity based on our production output (see table below).

	2018	2017	**Units**
Scope 1	**289,225**	265,797	tonnes of CO_2e
Scope 2	**20,833**	22,929	tonnes of CO_2e
Intensity Ratio	**0.125**	0.123	tonnes of CO_2e per tonne of product

The increase in scope 1 emissions is a result of increased production output and changes in the product mix produced.

Corporate Social Responsibility continued

People

Equality and diversity

As an employer of over 1,900 people, we are committed to creating and supporting a truly inclusive working environment with opportunities for all. Diversity helps our business to grow and succeed.

People are vital to the continuity, growth and success of our organisation and we work to ensure that our equal opportunities policy is applied at every stage of recruitment and selection. The shortlisting, interviewing and selection of candidates is always conducted without regard to gender, sexual orientation, marital status, race, nationality, religion or belief, disability, age, pregnancy/maternity leave or trade union membership.

Should an employee become disabled while working for Forterra, we will do everything we can to help them continue in their role. When that is not possible, we will support them with appropriate training for other suitable employment either within Forterra or elsewhere. This forms part of our commitment to ensuring Forterra is a company where discriminatory practices and behaviours are eliminated.

We are resolute in acting ethically and with integrity in all our business dealings and relationships. We implement and enforce effective systems and controls to ensure modern slavery does not take place anywhere in our own business or within our supply chain. The charts opposite show our headline gender diversity statistics. Gender Pay reporting is contained in the Annual Report on Remuneration.

The Group is aware of its obligations under the Human Rights Act and seeks to act accordingly in all aspects of its operations. In addition, the Group has policies and procedures in place covering whistleblowing, anti-bribery and corruption. The Group complies with the requirements of the Modern Slavery Act 2015 and our Modern Slavery policy and the associated statement is published on our website.

Employment programmes

Throughout 2018 we continued to invest in our apprenticeship and graduate programmes to create a workforce for the future and support internal succession planning and talent development.

Apprentices

During 2018 we recruited a further eight apprentices onto our advanced multi-skilled maintenance engineer pathway. Apprenticeships are a great way to earn while gaining the skills needed for a career. Our pathway incorporates a one-year residential course set in the heart of Birmingham, followed by three years of combined practical on the job learning at our UK facilities and formal learning with our training partner. On completing the programme, students graduate with an NVQ Level 3 Certificate and a BTEC diploma. Apprentices that excel are then given the option to complete a HNC or HND to achieve a higher apprenticeship standard or continue to study further towards a degree apprenticeship.

Forterra intends to utilise the Apprenticeship Levy to further increase the number of apprenticeship places we offer more widely throughout the business and to develop our existing workforce. During 2018 we supported a number of higher and degree apprenticeships covering disciplines such as quantity surveying, civil engineering, construction management and operational management. These programmes were specifically identified to support our colleagues' development as part of their career pathway.

Graduates

Four university leavers joined our Graduate Scheme in 2018 within the commercial, operational and engineering functions. The scheme is made up of an in-depth 12 week induction where graduates get the opportunity to spend time within all departments and facilities to understand how our business operates. They deliver a short two-month tailored project followed by three six-month secondments. As part of our graduate scheme we offer a clear career path, mentoring and tailored projects, as well as multi-disciplinary experience from factory floor to management meetings.

The scheme is underpinned by a higher apprenticeship that equips our graduates with the skills, knowledge and behaviours they will need to deliver organisational projects and lead teams in the future.

Management development programmes

During 2018 Forterra implemented a supervisor development programme for those with aspirations to take the step into their first management role. Forterra's successful management development programme for middle managers was designed for those with some previous management development training. The Institute of Leadership and Management (ILM) level 3 programme was designed to give our managers the practical tools and frameworks to bring the best out of their teams and develop their self-awareness. Forterra intends to further develop their leadership skills with an advanced leader programme and a greater offering of higher and degree leadership programmes funded via the Apprenticeship Levy.

Employee engagement

At Forterra, we are committed to taking care of our people, providing good, safe working conditions and fair pay, and supporting them in their personal and career development. We are dedicated to attracting, developing and retaining the best talent and driving high levels of motivated and engaged colleagues.

We use a range of channels across the business to ensure that the voice of our colleagues is heard. We keep our people informed about company results, major business decisions and the things that really matter to them through internal media, newsletters and functional and business updates.

We facilitate an Employee Forum that meets three times a year to discuss subject matters raised by our colleagues to their Forum Representatives. The Forum is led by the HR Director, and routinely invites business leaders to present to the forum to ensure the Group is informed of business priorities and specific actions in place to deliver those priorities.

A considerable proportion of our workforce is represented by trade unions and employee representatives, and we strive to foster positive working relationships with them. The Bricks Joint Negotiating Committee represents colleagues at most of our brick plants and meets with the brick management team four times a year. Local bodies are in place at all sites to ensure we maintain strong working relationships with all colleagues.

Our Chief Executive, Stephen Harrison, conducts annual employee briefings each spring where he visits all 18 operational sites to update colleagues on company performance and converse on subject matters of their choice.

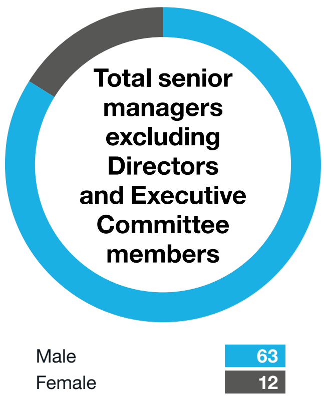
Additional communication channels include a quarterly employee newsletter, issued to all staff to keep them informed of all news from the Company. This includes financial performance, sharing the large amount of work done for charitable causes by our colleagues, and product and market updates. Additionally, a monthly briefing pack is issued to management to cascade information to all employees.

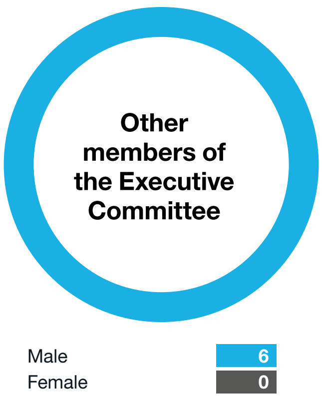
Employees are encouraged to participate in the success of the Group. The Group currently operates two all-employee share schemes: a Sharesave plan ("SAYE") under which approximately two-thirds of the Group's employees now participate, and a Share Incentive Plan under which free shares were granted to all employees working in the business at the time of the IPO in 2016.

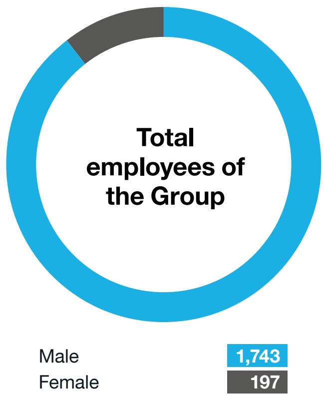
Best Practice Awards

Throughout 2018 Forterra continued with the Best Practice Awards which culminated in an awards ceremony held in January 2019. The awards are aligned to our corporate values and strategic priorities and designed to recognise, celebrate and encourage the sharing of best practice. Over 100 people from across our sites were nominated in six award categories: Health and Safety, People Management, Customer, Procurement, Community and Project.

Gender Diversity







Corporate Social Responsibility continued

Community

Building communities is at the heart of everything Forterra does. That includes establishing and maintaining close relationships with the communities local to our sites, whether that be through providing employment or making positive contributions in other ways. We are ever mindful of the impact our operations may have on those living and working nearby, which is why we have put in place formal community liaison arrangements to ensure our neighbours are able to interact with us and share their views.

Alongside raising funds for our chosen national charities, Prostate Cancer UK and CRASH, we also support many good causes within our local communities through a variety of fundraising, sponsorships, donations and voluntary activities.

We recognise that we have an important role to play within the wider community; taking the time to gain an understanding of local initiatives and what we can do to make a positive impact is very important to us. In 2018, we continued to support employee fundraising, charities and organisations that are closely aligned to our business values, as well as those which could impact the health and welfare of our employees, their families and friends.

PROSTATE CANCER UK

To raise awareness and funds for Prostate Cancer UK, Forterra hosted a seven-a-side football tournament for employees and their families, raising over £1,500.

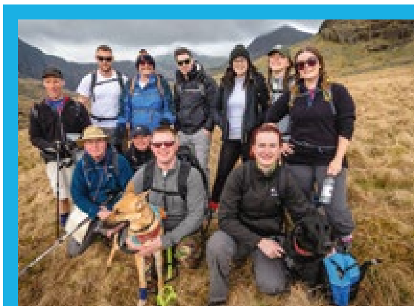
Forterra employee Jane Elliott competed in the London Landmarks half marathon and raised £590, which Forterra also charity matched.

Teams of Forterra employees, customers and suppliers took part in a charity golf tournament at Collingtree Park Golf Course in Northampton, raising £4,000 for Prostate Cancer UK.

CRASH CHARITY
Creating Places that Care for People

Forterra is a patron partner of CRASH, a unique and practical charity that assists homeless and hospice charities with a variety of construction-related projects.

Raised over £15,000



Forterra funded mountain guides, travel expenses and made a donation to support a team of 14 Forterra employees, family and friends completing a fundraising climb of Snowdon, raising £6,000.

Four Forterra employees completed the Great North Run Half Marathon raising £1,350 for Forterra's charity partner CRASH.

A team of Forterra employees took part in the annual CRASH Construction Industry Dragon Boat Challenge. In addition to the fundraising contribution from the team, the Company also sponsored the boat with a £600 donation.

Over £850

raised for the following charities:

MAKE-A-WISH. BBC Children in Need. Great Ormond Street Hospital Charity. children's air ambulance their life above all

Forterra Chief Executive Stephen Harrison took part in the Challenge Adventure Charities 2018 Cycle Challenge along with three Forterra colleagues. Taking just three days to cycle 510 miles from Rouen to Annecy in the Alps. Forterra supported with a charity match donation of £2,000 to bring the total raised to £9,000, which was shared between Mind, Cancer Research UK and The British Heart Foundation charities.

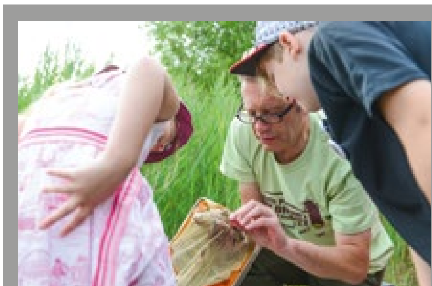
£9,000
Raised

510 miles
travelled in 3 days

As part of Cystic Fibrosis Week, Forterra employees Kelly Friel and Clare Hicks invited colleagues, friends and family to show their support through a series of fund-raising activities including a raffle, a charity quiz, bowling and cake sales. Forterra supported with a donation of £1,000, helping the team reach a total of £3,700 for Cystic Fibrosis UK.

Laura-Jane Barnell completed the Yorkshire Dales Hike and raised £400 in sponsorship towards a new mini bus for the Clervaux Trust. Forterra supported her good work with a further £1,000 donation.

Bison Area Sales Manager, Gary Bell and childhood friend Andy Price completed an astonishing 220-mile run from Lossiemouth to Ronald MacDonald House in Glasgow, in aid of Ronald MacDonald House Charities who provide free accommodation to parents when their children are hospitalised. As part of Forterra's charity match scheme, the Company donated funds bringing the total amount raised to £7,000.



In July, wildlife specialist Chris Packham visited Forterra's Kings Dyke Nature Reserve as part of the first independent wildlife audit of its kind in the UK. Recording a total of 1,139 species, Kings Dyke Nature Reserve was identified as the most bio-diverse site in the UK.
– Bio Blitz 2018.

THE ROYAL BRITISH LEGION POPPY APPEAL

MACMILLAN CANCER SUPPORT

Save the Children

Over 20,000
bricks donated

Over 10,000 bricks have been donated from Forterra to colleges across the country as part of our commitment to supporting construction courses and the next generation of bricklaying students. Our bricks were used in brickwork competitions in which dozens of apprentices and NVQ students demonstrated their masonry skills.

8,000 London Bricks were donated to HMP Wayland's bricklaying course. Managed in conjunction with People Plus UK, it is an extremely effective rehabilitation learning programme which offers training and skills to enable employability.

SkillBuild delivered by CITB (Construction Industry Training Board), is the largest multi-trade competition in the UK for construction trainees and apprentices. As part of our commitment to supporting the bricklayers of the future, Forterra donated 2,600 bricks to CITB's SkillBuild bricklaying heats and finals for the second year running.

Nearly 2,000 London Bricks were donated to Selby College in Yorkshire for use in its brickwork competition in which dozens of apprentices and NVQ students demonstrated their masonry skills.

Risk Management and Key Risks

Risk management framework

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.

In previous periods, we developed an effective top-down approach to identifying and assessing key risks. During 2018 this has been complemented by a bottom-up approach to identifying and assessing operational risks; with 'local' operational risk registers being developed. Considering both the top-down and bottom-up approaches, the Board can now obtain greater assurance that principal and operational risks are being identified, evaluated, mitigated and monitored.

Regular updates

The Risk Committee have met four times during the year to review the key risks facing the business and receive updates from the Executive Directors. The Executive Directors together with other senior managers have established a Risk Steering Group, which met 10 times during the year to perform robust assessments of the risks faced and drive appropriate responses. Management promote the risk management culture by taking responsibility for the risks associated with their own business areas and the risk registers clearly identify ownership.

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.

The foundations of the internal control system are the first line controls in place across all business units. This first line of control is evidenced through monthly manager self-assessments and review controls are scheduled to recur frequently and regularly. Policies, procedures and frameworks in areas such as health and safety, compliance, quality, IT, risk management and security represent the second line of controls and Internal Audit activities represent the third line of controls.

Brexit risk

The UK's decision to exit the European Union has created significant uncertainty. This uncertainty has yet to recede as negotiations between the UK and EU have yet to reach a conclusion and the future arrangements, timeframes and economic landscape remain unclear.

The risk posed by Brexit is inherent within each of the risks that the Board has reviewed through the year and has been a focus for management since the referendum. The main risk to the business arises from any reduction in consumer confidence and its effect on the markets which the Group serves. In response, management are proactive in mitigating controllable risks; and in areas where control rests outside of the business, management seek to be up-to-date with developments and equipped to respond.

At the balance sheet date, the Brexit risk was partly mitigated by holding higher levels of raw material and critical spares, engaging with the supply chain through 2018, putting forward purchase contracts in place for the majority of the energy requirements for 2019, closely managing cash flows, retaining access to debt facilities that are substantially undrawn and tracking potential market trends by monitoring customer stock levels and planning applications.

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.

Viability statement

In accordance with provision C2.2 of the 2016 UK Corporate Governance Code, the Directors have conducted a review and assessed the prospects and viability of the Group.

Although the Directors have no reason to believe that the Group will not be viable over a longer period, the Board has chosen to conduct this review for a period of four years. The Group believes that this is an appropriate timeframe as it aligns with its strategic and financial planning horizon. This review period has increased by one year from prior assessments as the significant planned capital investment at Desford is expected to complete within this period.

The Directors have taken account of the Group's financial forecasts for the four-year period following the balance sheet date, comparing future funding requirements with committed external borrowing facilities. These external facilities are due for refinancing by July 2022, the final year of the period being considered, and the Directors have assumed that this is done on the same terms as the current facility.

The Directors confirm that they have a reasonable expectation that the Group will continue in operation, meet liabilities as they fall due and will not breach banking covenants within this period.

In support of the viability statement the Group financial forecasts have been stress-tested by estimating the potential impact of key risks. These estimates reflected the Directors' judgement as to the net potential financial impact and the likelihood of these key risks occurring.

Responsibilities and activities

Top down

Board of Directors

The Board (through the Risk Committee) have:

- Received updates from management on specific key risks
- Regularly visited Group facilities to undertake Director safety walks
- Continued to review progress against risk management actions and internal control priorities
- Considered the effectiveness of the risk management and internal control environment
- Regularly reviewed all principal risks, heat maps and emerging risks
- Reviewed and re-approved the Group risk appetite

Executive Committee

The Executive Directors and the Risk Steering Group have:

- Met frequently to discuss the risk environment, Group risk management activity, identify risks and gaps, and appraise likelihood, impact and risk mitigation
- Progressed initiatives that develop our systems of risk management
- Re-assessed risk appetite periodically
- Confirmed risk acceptance, mitigation or transfer of all risks on the Group risk register

Risk and Internal Audit

Risk and Internal Audit have:

- Followed a risk-based internal audit plan
- Co-ordinated risk management activities across the Group and supported risk owners
- Reported the responses of monthly control self-assessments from all operational control owners
- Tracked all internal control improvement activities

Operational Management

Operational managers have:

- Developed ‘local’ risk registers and have taken ownership of the risks within them
- Operated associated controls and undertook mitigating actions
- Completed internal control self-assessments monthly to evidence operational controls are in place
- Escalated risks as appropriate

Bottom up

Risk Management and Key Risks continued

The table below summarises the Group's key risks and uncertainties (not listed in order of priority) and how we respond to them.

Key risks and uncertainties

Our strategic priorities are:

1. Manufacturing excellence
2. Core product focus
3. Business expansion

Key risk and why it is relevant	Year-on-year change	Key mitigation, change and sponsor	Risk appetite	Rationale for rating	Link to strategy
1. Health, safety and environment Group employees work in manufacturing environments where heavy machinery and moving parts are present and there is a risk of serious injury. The lost time injury frequency rate is a critical KPI that is monitored at all levels in the business on an ongoing basis.	→	Health and safety remains the Group's number one priority. The Group targets a working environment that is free of accidents and ill health and has a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. 2018 saw significant progress across the Group against a number of high-profile objectives. Reinforcing the Group's commitment to health and safety and mitigating key risks previously identified. Further, the Group continued to promote longer-term hazard spots, best practice and one minute risk assessment initiatives. Disappointingly the LTIFR KPI increased despite all the progress being made. Management continue to put safety first and encourage a safety culture throughout the Group. **Executive sponsor: Stephen Harrison**	Low	The health and safety of any party involved in the Group's daily business activities is never compromised. Reducing accidents, incidents and injuries is critical to strategic success.	Manufacturing excellence
2. Economic conditions Demand for the Group's products is closely correlated with residential and commercial construction activities. These markets are expected to decline if general economic conditions decline. The risk that this will adversely affect Group performance increased following the Brexit referendum and has remained at a heightened level since.	→	The Group reviews and monitors business performance, market data and industry forecasts in detail on an ongoing basis. Business performance, the customer order book and external lead indicators are closely monitored to give the business time to respond to deteriorating market conditions. The Group is confident that costs and capacity utilisation can be effectively managed in challenging markets. The broad range of products provided by the Group through different distribution channels and the strong customer relationships built up over many years also provide some resilience. **Executive sponsor: Stephen Harrison**	Balanced	Current economic conditions are somewhat unpredictable across the Group's planning horizon. Decision making which balances the risk of economic conditions declining with other risks is essential.	Manufacturing excellence; Core product focus; Business expansion
3. 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. Changes to government policy or planning regulations could adversely affect Group performance.	→	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 has been actively trying to mitigate the short-term risks posed by Brexit. The focus to-date has specifically been on the supply chain and production management. **Executive sponsor: Stephen Harrison**	High	The Group is investing significantly for growth – in both capacity and range. Despite the current short-term political uncertainty the Group is making long-term investment as the timescales associated with adding additional capacity are significant and long-term planning is vital to achieving the Group's strategic objectives.	Manufacturing excellence; Core product focus; Business expansion
4. 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 a change in activity levels in this sector could affect our strategic growth plans.	→	The Group closely follows the demand it is seeing from this sector and market projections 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**	High	Serving the residential market lies at the core of the Group's strategy. Whilst the Group will seek opportunities to add to its commercial offer it will continue to see residential markets as core.	Manufacturing excellence; Core product focus; Business expansion

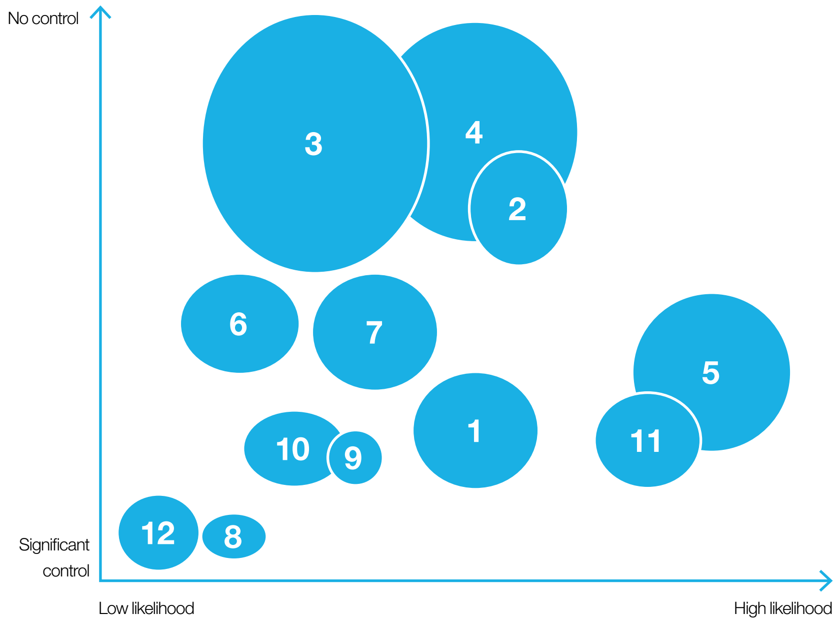
Key risk and why it is relevant	Year-on-year change	Key mitigation, change and sponsor	Risk appetite	Rationale for rating	Link to strategy
5. Product availability Some of the Group's product ranges are manufactured at a single facility. A lack of buffer stock levels, spare capacity or a breakdown could have a detrimental impact on the Group's performance and reputation.	↑	In the short-term, the Group continues to mitigate risk through efficiency initiatives, production planning and managing shutdowns. Longer term, plans are in place to add capacity by redeveloping a facility, however, increased capacity at one facility will not reduce risk in all product lines. Despite mitigating activities the Group finds itself capacity constrained in some areas at times. **Executive sponsors: George Stewart and Peter Varnsverry**	Balanced	Managing capacity sufficiently to allow it to align with projections of future demand is critical to achieving the Group's strategic priorities.	
6. 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.	→	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. Having consolidated finance and sales order systems in the year for a number of product lines, the number of queries from customers increased. Substantial progress has been made in the year resolving queries; and cash collection reflected the progress made but some remain in query and further system consolidation will be undertaken in 2019. **Executive sponsor: Adam Smith**	Low	It is a key priority to deliver excellent service to customers. The increase in production during the year, including a double-digit increase for Bricks, has enabled the Group to continue supplying customer requirements. The implementation of new systems, once completed, will further enhance this.	
7. 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 of raw materials and threats to its ability to meet customer expectations.	↓	The Group has taken a range of positive steps to ensure more consistent prices and supply of certain key raw materials. The cost and availability of pulverised fuel ash has been recognised as a specific risk in previous periods. In the year, the Group entered new supply agreements, established additional supply routes and successfully converted its Hams Hall facility to accept alternative raw materials. The Group has also evaluated options that mitigate similar risk elsewhere, assessed the Brexit threat to its supply chain and identified other raw material risks when developing local operational risk registers. **Executive sponsors: George Stewart and Peter Varnsverry**	Low	Sufficient quantities of raw materials received at the right times and at the right price are critical to Group operations. The Group has prioritised risk mitigation to bring risk and risk appetite in line.	
8. 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.	→	The Group has identified where key person dependencies and skills gaps exist and continues to develop its succession, talent acquisition, retention and training and development plans and is undertaking a project to improve its HR systems. The Group's apprentice and graduate schemes have now been in place for several years and are proving an effective approach to mitigating these risks and supporting strategic priorities. The development of local operational risk registers has given succession plans increased focus, adding 'bottom-up' recognition of the risk. **Executive sponsor: Edward Haslam**	Balanced	The Group has been investing in this area in recent years and will continue to mitigate risk in this fashion.	

Risk Management and Key Risks continued

Key risks and uncertainties continued

Key risk and why it is relevant	Year-on-year change	Key mitigation, change and sponsor	Risk appetite	Rationale for rating	Link to strategy
9. 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.		Strong relationships with customers 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. **Executive sponsor: Darren Rix**	High	Where the right opportunities present themselves the Group is willing to invest to grow. The Group has invested in people so that these opportunities can be identified where applicable.	
10. IT infrastructure and systems Disruption or interruption to IT systems could have a material adverse impact on performance and position.		The Group continues to invest in IT; having upgraded its core financial platform, invested in IT infrastructure and expertise and consolidated systems. Progress has been made in mitigating identified cyber security risks, developing a broader Information Security strategy and ongoing system consolidation. **Executive sponsor: Matthew Day**	Low	Investment across IT has been a priority in recent periods to mitigate risk. The downside to IT risks significantly outweigh any potential upside and the Group's risk appetite reflects this.	
11. 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.		The Group has made plans that will allow key centralised functions to operate in the event of business interruption and audit activities have begun to assess effectiveness. The recent short-term production problems at Desford led to further activities to reduce the risk of similar technical problems. Work to develop business continuity plans across operational facilities is ongoing and overall risk increased as inventory levels decreased for some product lines. **Executive sponsor: Shatish Dasani**	Low	Business operations have been interrupted to varying degrees in recent years and the Group is continuing to implement actions to reduce risk in this area.	
12. Financial risk management The Group's activities and financial arrangements create exposure to a number of financial risks, which could impact Group performance and position. Foreign exchange risk exists on foreign currency purchases, credit risk exists as customers may not be able to settle liabilities owing to the Group, liquidity risk could result in the Group not being able to meet obligations as they fall due and interest rate risk could result in increased finance costs.		Controls are in place to manage financial risks and take steps to reduce risks where necessary. Foreign exchange, credit, liquidity, interest rate and price risks have been managed sufficiently to mitigate the risk of potential variability to levels acceptable to management. **Executive sponsor: Shatish Dasani**	Low	Steps are taken to remove cost variability, credit risk and manage working capital closely.	

Risk heat map



Key risks

1. Health, safety and environment
2. Economic conditions
3. Government action and policy
4. Residential sector activity levels
5. Product availability
6. Customer relationships and reputation
7. Cost and availability of raw material
8. People training and development
9. Research and development
10. IT infrastructure and systems
11. Business continuity
12. Financial risk management

Control focused risk heat map

Management have prepared a heat map to illustrate potential impact, likelihood and the level of control that management have over risks alongside each other, rather than the traditional two dimensional heat map. In the control focused risk heat map above the size of the icons reflects the net impact that the risk could have (after mitigating activities have been considered), the x-axis shows net likelihood and the y-axis the degree of control that management have over a risk.

Net impact is a financial measure and net likelihood reflects the chance of the risk occurring within the next three years.

Board of Directors and Company Secretary

We have a strong and experienced leadership team


1 | Paul Lester CBE N* RK R


2 | Stephen Harrison RK


3 | Shatish Dasani RK


4 | Justin Atkinson A* N RK R

1 | Paul Lester CBE

Independent Non-Executive Chairman

Appointed 11 April 2016

Paul has over 30 years of experience at senior management or director level of businesses. Previously, Paul was Chief Executive of support services company VT Group plc, Group Managing Director of Balfour Beatty plc and Non-Executive Director of Invensys plc. Paul has held numerous Board and senior management positions at other engineering and support service companies.

Paul holds a Bachelor of Science with honours in Mechanical Engineering and a diploma in Management Studies from Nottingham Trent University. Paul is a Chartered Engineer, is Fellow of the Institution of Mechanical Engineers and is a member of Her Majesty's Major Projects Review Group. Paul was awarded a CBE in 2008.

Other Directorships

Non-Executive Chairman of Essentra plc and McCarthy and Stone plc.

Committee membership

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- RK Risk Committee
- * Denotes Committee Chairman

2 | Stephen Harrison

Chief Executive Officer

Appointed 21 January 2016

Stephen joined Hanson plc in October 2002 and held a variety of senior management roles within Hanson and the HeidelbergCement Group. Stephen was appointed Managing Director of Hanson Building Products, the predecessor to Forterra, in 2012.

Stephen studied Economics at Kingston University in London and holds a Masters in Business Administration from Cranfield School of Management.

Other Directorships

Stephen is an Officer of the Construction Products Association and a Director of the Brick Development Association.

3 | Shatish Dasani

Chief Financial Officer

Appointed 21 January 2016

Shatish has over 20 years of global experience in senior finance roles within different industries including building materials, business services, general industrial and advanced electronics. Notable appointments include Chief Financial Officer of TT Electronics plc, Group Financial Controller of De La Rue plc and Chief Financial Officer of Blue Circle South America based in Chile. Shatish has also been alternate Non-Executive Director at Camelot Group plc and Public Member at Network Rail plc.

Shatish is a Chartered Accountant and holds a Masters degree in Mathematics from Oxford University and a Master of Business Administration degree from London Business School.

Other Directorships

Shatish is a Non-Executive Director and Chair of the Audit Committee at Renew Holdings plc.

4 | Justin Atkinson

Senior Independent Non-Executive Director

Appointed 11 April 2016

Justin has over 20 years of experience at senior management or director level of businesses, including those in engineering and all types of construction, including residential and commercial markets. Between 1990 and 2015, Justin held various roles within Keller Group plc, and became Chief Operating Officer in 2003 and Chief Executive Officer in 2004 until 2015. Previously, Justin was a Financial Manager at Reuters plc and trained as a Chartered Accountant at Deloitte Haskins & Sells (Scotland) (now part of PwC).

Justin is a Chartered Accountant, holds a Bachelor degree in Accountancy from Glasgow University and the advanced management programme qualification from INSEAD. The Board have determined that Justin has recent and relevant financial experience.

Other Directorships

Senior Independent Non-Executive Director for Kier Group plc, Non-Executive Director of Sirius Real Estate Limited and James Fisher and Sons plc and member of the Audit Committee of the National Trust.

5 | Divya Seshamani

Independent Non-Executive Director

Appointed 11 April 2016

Over a career spanning 20 years Divya has experience at senior management or director level of businesses including those in infrastructure, energy, sustainability and manufacturing. Previously, Divya was an Independent Non-Executive Director at Marine Current Turbines Limited, a Council Member of the Royal Institute of International Affairs (Chatham House) and was a Partner at the global private equity house, TPG. Divya has also held investment roles at Singapore's sovereign wealth fund (GIC), Unilever Ventures and the Parthenon Group.

Divya holds a Bachelor of Arts degree and Masters of Arts degree in Politics, Philosophy and Economics from Oxford University and a Master of Business Administration degree from Harvard University.

Other Directorships

Managing Partner of Greensphere Capital LLP. Director of Greensphere Biomass 1 Limited and Duranta Energy Limited.

6 | Katherine Innes Ker

Independent Non-Executive Director

Appointed 1 September 2017

Katherine has gained extensive executive and non-executive experience across a range of sectors in a career spanning over 28 years. Katherine began her career as a city financial analyst and has since held many non-executive directorships including Colt Group SA, Fibernet plc, St Modwen Properties plc, Taylor Wimpey plc, Taylor Woodrow plc, Shed Media plc, ITV Digital plc, The Television Corporation plc, Tribal Group plc, S&U plc, Victoria plc, Marine Farms ASA, Gyrus plc, Williams Lea plc, Gigaclear plc and the Ordnance Survey.

Katherine is a Graduate of Oxford University, holding both a Masters degree in Chemistry and a Doctorate in Molecular Biophysics.

Other Directorships

Non-Executive Chairman of Mortgage Advice Bureau plc, Senior Independent Director of The Go Ahead Group plc and Non-Executive Director at Bovis Homes Group plc.

7 | Martin Sutherland

Independent Non-Executive Director

Appointed 23 May 2017

Martin has over 20 years of international experience at senior management or director level in technology and manufacturing businesses focused on the government, financial services and the telecoms markets. Martin has held the position of Chief Executive Officer at De La Rue plc since 2014. Previously he held various roles at Detica plc, becoming Managing Director in 2008 on its acquisition by BAE Systems plc. Prior to this Martin worked for Anderson Consulting and British Telecom.

Martin holds a Masters degree in Physics from Oxford University, and a Masters degree in Remote Sensing from University College and Imperial College London.

Other Directorships

Chief Executive Officer of De La Rue plc.

8 | Vince Niblett

Independent Non-Executive Director

Appointed 8 February 2019

Vince was previously a Partner at Deloitte where he held a number of senior roles including membership of the UK Board of Directors and Global Managing Director, Audit & Enterprise Risk Services before retiring in 2015.

During his career at Deloitte, he served some of the firm's most significant public company clients, working with them on commercial and strategic issues as well as providing audit services.

Vince is a Chartered Accountant and holds a Bachelor of Arts degree in Economics from Reading University.

Other Directorships

Non-Executive Director at Big Yellow Group plc.

9 | Benjamin Guyatt

Company Secretary

In addition to his role as Company Secretary, Ben is also a member of the Executive Committee and holds the role of Director of Finance. Along with financial responsibilities his role also includes corporate finance. Ben joined Hanson plc in 2006 and held a variety of senior finance and strategy roles within Hanson and HeidelbergCement. Previously Ben held financial management roles at Heath Lambert.

Ben is a Chartered Accountant and holds a Bachelor of Arts degree with honours in Accounting and Finance from the University of the West of England.

Executive Committee


1 | Stephen Harrison


2 | Shatish Dasani


3 | Benjamin Guyatt


4 | Peter Varnsverry


5 | Edward Haslam


6 | Adam Smith


7 | Darren Rix


8 | George Stewart


9 | Matthew Day

1 | Stephen Harrison

Chief Executive Officer

See Stephen Harrison's biography on page 42.

4 | Peter Varnsverry

Managing Director, Bison Precast

Peter joined Forterra in January 2019 but had previously worked with the business in interim and consulting roles. Prior to joining Forterra, Peter held senior positions in a number of businesses with manufacturing at their core including Airbus, Federal-Mogul and more recently Triumph Aerospace.

Peter has had prior experience in the precast concrete and off-site manufacturing industry as Head of Manufacturing with Laing O'Rourke and holds Masters degrees in Management and Strategic Change from Coventry and Huddersfield universities.

7 | Darren Rix

Strategy and Development Director

Darren joined Hanson plc in 2007 and held a number of senior finance roles, including Financial Controller for the Building Products and Cement divisions. From July 2015, Darren held the role of Group Controller at Forterra and was appointed Strategy and Development Director in 2017. Darren is a Chartered Management Accountant and holds a Bachelor of Arts Degree with honours in Economics from the University of Leicester.

2 | Shatish Dasani

Chief Financial Officer

See Shatish Dasani's biography on page 42.

5 | Edward Haslam

Human Resources Director

Ed joined Forterra in March 2017 as Human Resources Director. He previously held senior HR roles at Weetabix, Rolls Royce and Saint-Gobain. Ed started his career as an apprentice in the automotive industry, during which time he studied for a BA Hons in Business followed by an MA in Human Resource Management at the University of Wolverhampton.

8 | George Stewart

Operations Director

George joined Forterra in 2013 as Operations Director. Prior to that, George was UK Industrial Director for Monier Redland UK Limited, and held a number of senior operations roles, including with Nestlé UK, Smith and Nephew Medical and Motorola UK. George holds a Bachelor of Science with honours degree in Chemical and Process Engineering from the Heriot-Watt University, Edinburgh.

3 | Benjamin Guyatt

Director of Finance and Company Secretary

See Ben Guyatt's biography on page 43.

6 | Adam Smith

Commercial Director

Adam joined the Group in March 2016 as Commercial Director. Prior to that, Adam was National Sales Director at Jewson, Sales and Marketing Director at Tata Steel and held the role of Managing Director, as well as various other senior management positions, at Corus Colorsteels. Adam holds a Master of Business Administration degree from Warwick Business School and a Bachelor of Science with honours degree in Physics from Manchester University.

9 | Matthew Day

IT Director

Matthew joined Hanson plc in 2005 as IT manager for Hanson Building Products, the predecessor to Forterra. Matt then held a number of IT leadership roles within HeidelbergCement and was appointed Forterra's IT Director on the separation from HeidelbergCement in 2015. Matt has over 20 years of experience in senior IT roles with responsibility for overseeing major transformation and change programmes in sectors including manufacturing, construction and retail.

Corporate Governance Statement

Paul Lester CBE
Chairman

Introduction from the Chairman

On behalf of the Board I am pleased to present the Company's Corporate Governance Statement for the year ended 31 December 2018.

As a Board we recognise that we are accountable to our shareholders and are responsible for ensuring good corporate governance. We seek to promote consistently high standards of corporate governance throughout the Group. It is now almost three years since our 2016 listing and as Forterra matures as a listed Company, the Board has continued to enhance its internal governance and control systems. Following the changes in the composition of the Board in 2017 which followed the Lone Star exit, 2018 has been a year of stability.

I am pleased to say that Forterra has remained fully compliant with the requirements of the UK Corporate Governance Code 2016 (the Code). Forterra has continued to comply with the Code in full and has not taken advantage of the available small company exemptions.

Corporate governance requirements and best practice continue to evolve, with the publication of the revised UK Corporate Governance Code 2018 (the revised Code) which will first apply to the Company in 2019. The revised Code introduces a number of changes including those designed to foster greater Board engagement with the workforce. The Board are actively considering the steps that it will be required to take to ensure compliance with the revised Code.

During 2018 the Board commissioned an independent evaluation of its performance. The review concluded that the Board was well balanced and operating effectively. Further details are included on page 46.

I have made the decision to stand down as the Chairman of Forterra at the forthcoming AGM. Since Forterra joined the public market in 2016, the Board has set out to implement the highest standards of corporate governance throughout the Group. Justin Atkinson, currently Senior Independent Director and Chairman of the Audit Committee will succeed me as Chairman. In his current role Justin has played a leading role in establishing the internal control and governance structures appropriate to a listed company and I am sure that Justin will excel as Chairman.

As announced, Katherine Innes Ker will be stepping up to the role of Senior Independent Director and Vince Niblett, who will succeed Justin Atkinson as Chairman of the Audit Committee, has recently joined the Board. It is pleasing that the succession plans previously put in place have allowed for such a smooth transition and I am confident that I will leave a strong, capable and effective Board.

The Corporate Governance Statement, together with the reports of the Audit, Nomination, Risk and Remuneration Committees on pages 49 to 74 set out in greater detail how the principles and provisions of the Code have been fulfilled and how the Board and its Committees have fulfilled their responsibilities for ensuring that robust governance practices continue to operate across the Group.

Paul Lester CBE
Chairman

12 March 2019

Compliance with the Code

The purpose of the UK Corporate Governance Code 2016 (the Code) is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Company. The main principles of the Code set out standards of practice for the Board in relation to leadership, effectiveness, accountability, remuneration and its relationship with shareholders.

Certain provisions of the Code do not apply to smaller companies defined as those, like Forterra, outside of the FTSE 350. The Board is however committed to sustaining the highest standards of corporate governance and has previously declared its intention that Forterra be fully compliant with all of the provisions of the Code.

As at 31 December 2018 the Board believes Forterra remains fully compliant with all of the provisions of the Code.

Corporate Governance Statement continued

The Board

The Board has overall responsibility for the management of the Company in order to maximise shareholder value. The Board sets the Company's strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives. It is the role of the Board to ensure the operation of a framework of operational, financial and regulatory internal controls which enables risk to be assessed and managed.

Summary of matters reserved for the Board

The Board has a formal schedule of matters reserved for its decision which is regularly reviewed to ensure it remains appropriate which is summarised below:

- Approval of the Group's long-term objectives and commercial strategy;
- Approval of the Group's business plans, operating and capital budgets;
- Approval of the annual and interim accounts;
- Changes in the Group's capital or financing structure;
- Approval of significant transactions including acquisitions and disposals;
- Approval of the dividend policy and any changes thereto;
- Ensuring the maintenance of a sound system of internal control and risk management;
- Board appointments and succession planning and setting terms of reference for Board Committees; and
- Approval of Remuneration Policy and remuneration arrangements for the Directors and other senior management.

To assist in discharging its responsibilities, the Board is supported by specialist Committees established by the Board in compliance with the Code. The Board has established four Committees, the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. The terms of reference of each of these Committees are each reviewed on an annual basis. The Board believes each of the Committees has the necessary skills and resources to fulfil its brief and each of the Committees has access to appropriate legal and professional advice where necessary.

The Audit Committee Report on pages 49 to 52 outlines how the Board has applied the Code in respect of financial reporting and internal controls. The Risk Committee Report on pages 55 and 56 explains how the Board has applied the Code in respect of risk management. The Nomination Committee Report on pages 53 and 54 outlines the Board's approach to Board development. The Remuneration Committee Report on pages 57 to 74 provides details of the Directors' remuneration received in the year.

Day-to-day management and implementation of strategies approved by the Board is delegated to the Executive Committee which comprises nine senior managers including the two Executive Directors. Membership of the Executive Committee along with their biographies is detailed on page 44.

Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

The Code recommends that a UK listed company's Chairman be independent on appointment. The Board considers that the Chairman, Paul Lester, was independent on appointment. The Chairman's role is to ensure good corporate governance. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

Stephen Harrison, the Chief Executive Officer, assisted by the Executive Committee is responsible for the day-to-day operational and commercial management of the Group including the implementation of strategies and policies approved by the Board.

Senior Independent Director

The Code also recommends that the Board should appoint one of the independent Non-Executive Directors as the Senior Independent Non-Executive Director and Justin Atkinson has been appointed to fulfil this role. The Senior Independent Non-Executive Director is available to shareholders if they wish to discuss the governance of the Company and Justin Atkinson met with a number of major shareholders in 2018.

Re-election of Directors

The Company's Articles of Association contain certain powers of removal, appointment, election and re-election of Directors and provide that each Director should retire at the Annual General Meeting if they had been a Director at each of the two preceding Annual General Meetings and are not reappointed by the Company in general meeting at or since such meeting. A retiring Director shall be eligible for reappointment. In practice it is intended that all Executive and Non-Executive Directors will retire and put themselves forward for re-election annually at each Annual General Meeting and as such all Directors will stand for re-election at the 2019 Annual General Meeting.

On appointment, Board members, in particular the Chairman and Non-Executive Directors, disclose their other commitments and agree to allocate sufficient time as necessary to the Company in order to discharge their duties effectively. The current external commitments of the Board are shown on pages 42 and 43. Any conflicts of interest are dealt with in accordance with the Board's conflict procedures.

Board evaluation

In accordance with the provisions B.6.1 and B.6.2 of the Code, during 2018 the Board commissioned an independent evaluation of its performance led by David Mensley of Equity Communications Limited, an independent consultancy with no connection to the Company or members of the Board. The evaluation process commenced with preparatory discussions with the Chairman and the Company Secretary and then comprised of a structured interview with each Director and the Company Secretary.

The interviews focused on the following subjects:

- Strategic alignment;
- Risk management;
- Board composition;
- Succession planning;
- Individual performance and contributions;
- Board meeting conduct; and
- Board Committee effectiveness.

A detailed report was prepared which was considered by the Chairman and openly discussed by the Board.

Following this review, the Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge to allow the Board and its Committees to successfully and effectively discharge their duties and to provide effective leadership in line with the requirements of the Code. The review also allows the Board to conclude that all Directors continue to contribute effectively and demonstrate commitment.

The following items were identified by the evaluation process and the Board will consider and address these in 2019 and beyond:

- to reinforce and formalise the Board's monitoring of strategic objectives throughout the year;
- to further consider how technological advancements may impact the construction sector and how Forterra may capitalise; and
- to continue to develop and enhance the Group's crisis management preparedness.

As well as the external Board evaluation the Audit Committee also undertook an internal evaluation of its own performance.

Additionally, the Senior Independent Director separately reviewed the performance of the Chairman with the other Directors. The Chairman also met with each Director during the year to discuss their contribution to the Board along with their personal development.

Induction programme

A structured induction programme has been designed to ensure new Directors are quickly integrated into the Board and given the necessary insight and information to allow them to quickly become effective. The induction programme includes:

- Meetings with the Executive Directors, Company Secretary, members of the Executive Committee and other members of management;
- Guided visits to the Group's manufacturing facilities;
- Meetings with external advisers including, corporate brokers, auditors and remuneration consultants as appropriate; and
- Being given access to historic board papers and minutes.

Vince Niblett has recently completed the structured induction programme and has provided positive feedback.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they may have interests which conflict with those of the Company. The Board has adopted procedures as provided for in the Company's Articles of Association for authorising existing conflicts of interest and for the consideration of, and if appropriate, authorisation of new situations which may arise. The Company maintains a conflict register to be reviewed by the Nomination Committee at least annually. Currently the only situations authorised and listed on the register are the Directors holding directorships and other similar appointments in companies or organisations not connected with the Company where no conflict of interest has been identified.

Internal controls and risk management

The Board acknowledges its responsibility for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It is also responsible for maintaining sound risk and internal control systems in accordance with section C.2.2 of the Code.

The Board, in accordance with provision C.2.3 of the Code has in 2018 requested that the Internal Audit function continue to carry out ongoing review and monitoring of the Group's risk management and internal control systems covering all material controls including financial, operational and compliance controls.

The Board confirms that:

- there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group;
- the systems have been in place for the year under review and up to the date of the approval of the Annual Report and Accounts;
- they are regularly reviewed by the Board along with the Risk and the Audit Committees where appropriate; and
- the systems accord with the Financial Reporting Council (FRC) guidance on risk management, internal control and related financial business reporting.

The key risks faced by the Group together with their potential impact and mitigating actions are laid out in the Risk Management section of the Strategic Report on pages 36 to 41.

Financial and business reporting processes

The Group has in place established and comprehensive financial review processes which are both forward and backward looking. These processes allow the Board to conclude that published information including the Annual Report and Accounts, interim financial information, and preliminary financial information along with other price sensitive public reports and other published financial information taken as a whole is fair, balanced and understandable.

Corporate Governance Statement continued

These processes include:

- employing appropriately qualified and experienced professional staff;
- seeking advice from external professional advisers on complex matters where appropriate;
- formal sign-off procedures from executive management;
- tracking a range of performance indicators on a daily, weekly and monthly basis as appropriate;
- comprehensive review and where appropriate challenge, from the Executive Committee and other senior management;
- regular preparation of comprehensive budgets, forecasts and business plans and monitoring of performance against these;
- membership of trade associations providing access to industry statistics and trends;
- a transparent process to ensure full disclosure of information to the external auditors; and
- oversight provided by the Audit Committee and the Internal Audit function which ensures controls and processes are functioning as intended and that key assumptions and estimates made by Management are subjected to formal review.

Directors' and Officers' insurance

The Company maintains Directors' and Officers' liability insurance policies to cover against legal proceedings taken against its Directors and Officers acting in their capacity as such. The Company has also granted indemnities to its Directors to the extent permitted by the law in respect of liabilities incurred as a result of their office. Neither the insurance cover or the indemnities would provide any coverage in the event that a Director is proven to have acted fraudulently or dishonestly.

Shareholder engagement

The Chief Executive Officer and Chief Financial Officer meet regularly with major shareholders and work together with the joint Brokers to ensure there is effective communication with shareholders on matters such as governance and strategy. As part of the Group's investor relations programme, meetings with major shareholders are scheduled to discuss the Group's interim and full year results. The Chairman is available to meet major shareholders on request, and the Senior Independent Director is also available to meet major shareholders.

Share dealing code

The Company has adopted a code of securities dealings in relation to the ordinary shares which is based on, and is at least as rigorous as, the Model Code as previously published in the Listing Rules. The Code adopted applies to the Directors and other relevant employees of the Group.

Board meetings

It is the intention of the Board to meet on at least eight occasions a year. In 2018 the Board met on nine occasions, one of which was a designated strategy day.

The Directors regularly communicate and exchange information regardless of the timing of meetings and should the need arise, a meeting of the Directors can be convened at short notice. In addition to the scheduled meetings the Board also held a number of telephone conference calls during the year.

There were also four meetings of the Audit Committee, three meetings of the Remuneration Committee, four meetings of the Risk Committee and three meetings of the Nomination Committee held during the year under review.

The Chief Executive Officer, Chief Financial Officer and external auditor are generally invited to the Audit Committee meetings although the Committee also regularly meets with the external auditor without the presence of the Executive Directors.

The table below only includes attendance where each Director attended as a member rather than as an invitee or an observer.

The Company Secretary is also secretary to each of the Board Committees and attends meetings in this capacity.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Current Directors					
Paul Lester	9/9	N/A	4/4	3/3	3/3
Stephen Harrison	9/9	N/A	4/4	N/A	N/A
Shatish Dasani	9/9	N/A	4/4	N/A	N/A
Justin Atkinson	9/9	4/4	4/4	3/3	3/3
Divya Seshamani	9/9	4/4	4/4	N/A	3/3
Martin Sutherland	9/9	4/4	N/A	3/3	3/3
Katherine Innes Ker	9/9	4/4	N/A	3/3	3/3

Approved by the Board and signed on its behalf

Paul Lester
Chairman

12 March 2019

Audit Committee Report

Justin Atkinson
Chairman

Introduction

Dear Shareholder,

I am pleased to present the Audit Committee Report for 2018.

The role of the Audit Committee (the Committee) is to protect the interests of shareholders by ensuring the integrity of the Group's financial reporting and by monitoring the ongoing effectiveness of the Group's internal controls. The Committee is appointed by the Board and comprises Independent Non-Executive Directors and provides independent monitoring, guidance and challenge to management. We will continue to keep our activities under review to ensure that we comply with any changes in the regulatory environment.

Our Internal Audit function, which operates on a co-sourced basis with PwC, have conducted three audits in 2018 and these have been reported to the Committee along with recommendations for improvement, all of which have either been implemented or are in progress. Further details of the work undertaken by our Internal Audit function are set out on page 51.

The Board has asked the Committee to review the Group's Financial Statements contained within this Annual Report and, following its review, the Committee is able to provide assurance to the Board that they present a fair, balanced and understandable assessment of the Group's position and prospects.

The following report demonstrates how the Committee has discharged its responsibilities during the year.

Responsibilities and terms of reference

The full responsibilities of the Committee are set out in its Terms of Reference which are available on the Company's website.

The terms of reference of the Audit Committee are approved by the Board and are reviewed annually to ensure they remain appropriate.

The principal responsibilities of the Committee are to:

- monitor the integrity of the Financial Statements, half year report, and any other announcements relating to the Group's financial performance or position and to assess whether management has made appropriate estimates and judgements;
- review and challenge where necessary the consistency of and any changes to significant accounting policies;
- keep under review the adequacy and effectiveness of the Group's internal financial control and risk management systems;
- evaluate the effectiveness of the Group's Internal Audit function;
- review the effectiveness and independence of the external auditors, negotiate and agree their remuneration and to make recommendations to the Board in respect of their appointment; and
- monitor the effectiveness of the Group's procedures on whistleblowing, anti-bribery and corruption and anti-money laundering.

Audit Committee Report continued

Membership

The members of the Committee as at 31 December 2018 were as follows:

Justin Atkinson (Chairman);

Divya Seshamani;

Martin Sutherland; and

Katherine Innes Ker.

In addition, Vince Niblett joined the Committee effective from his appointment to the Board on 8 February 2019.

I will be stepping down as Chairman of the Audit Committee at the conclusion of the upcoming AGM when I take on the role of Chairman of the Board. I am delighted that Vince Niblett will be taking over as Chairman of the Committee.

Summary of activity during 2018

During 2018 the Committee formally met on four occasions. In addition to the members of the Committee, other members of the Board, including the Chief Financial Officer, the Head of Internal Audit, representatives from co-sourced internal audit service provider PwC, and the external auditor Ernst & Young may attend the meetings by invitation. The external auditor was invited to and attended each meeting of the Committee in 2018. The Company Secretary provides secretarial services to the Committee and attends meetings in this capacity.

During the year under review and to the date of this Annual Report the principal activities of the Committee were as follows:

- review of the Group's annual and half year financial statements and preliminary results announcements including review of significant financial reporting issues and matters of judgement inherent within the above;
- review of the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy;
- monitor and review the Group's internal control and risk management systems including the regular review and monitoring of the progress of improvement and enhancement actions identified;
- monitor and review the performance of the co-sourced Internal Audit function confirming that its operating charter remains appropriate;
- review of the audit reports prepared by the Internal Audit function with subsequent oversight of the implementation of recommended improvements;
- monitoring of progress against the 2018/9 internal audit programme following consideration of the risks facing the Group;
- consideration of the external auditor's 2018 audit plan including the scope of audit work and the agreement of the 2018 audit fee;
- consideration of the annual letter to those charged with governance and other reports prepared by the external auditor;
- review management's assessment of the impact of changes in financial reporting standards including IFRS 16 'Leases' on the Group;
- review and approval of the Group's tax strategy; and
- review and update of the Committee's terms of reference ensuring they remain in line with best practice.

Significant financial reporting risks and judgement areas considered

The following judgement areas and significant estimates were considered by the Committee in the review and approval of the 2018 Financial Statements:

- Restoration and decommissioning provisions

The Group makes provisions for liabilities in respect of restoration and decommissioning based upon both third-party advice and management's judgement of the appropriate level of liability likely to arise in the future. The Committee has reviewed the basis and amounts of such provisions as at 31 December 2018 and is satisfied that they are appropriately stated.

- Inventory valuation and provisioning

The Committee has critically reviewed the Group's valuation of its finished goods inventory including the level of provisions recognised against potential obsolescence. This review was informed by recent trading trends and expectations for the coming year. This allowed the Committee to concur with management's assessment that the carrying value of the Group's inventories is appropriately stated.

After reviewing management reports and consulting where necessary with the external auditor, the Committee is satisfied that the estimates adopted, and the accounting treatments applied in the preparation of the Financial Statements are appropriate.

- Impairment

The Committee has critically reviewed the processes adopted by management in assessing whether, in their judgement, any indicators of impairment existed and whether any detailed impairment testing should be undertaken. Due to the existence of intangible fixed assets or potential indicators of impairment, detailed impairment testing was carried out in respect of the Thermalite, Bison Precast and Formpave cash generating units. The Committee carefully considered the assumptions and sensitivities applied by management in undertaking the impairment testing and following its review, the Committee concurred with managements' conclusion that as at the balance sheet date there had been no impairment.

Risk management and internal controls

The Audit Committee is focused upon financial risks and controls. Operational risk management is contained within the terms of reference of the Risk Committee. The Audit Committee and the Risk Committee work closely together, and some members of the Audit Committee also serve on the Risk Committee. In addition, key members of the Internal Audit function may, by invitation, also attend meetings of the Risk Committee.

Internal audit

The Internal Audit function exists to provide the Board and management with independent assurance that internal controls and risk management processes are both appropriate and operating effectively.

Following the IPO in 2016, the Committee oversaw the introduction of a co-sourced Internal Audit function, headed by an in-house Head of Internal Audit with auditing services provided by PwC. The Committee continues to believe that this operating model is the most suitable as it combines strong internal business knowledge and understanding with a wide pool of external experience and specialist skillsets to deliver the most effective and responsive solution possible.

During 2018 the Committee reviewed audit reports prepared by the Internal Audit function covering areas, including: inventory, procurement and expenses and a review of the systems and processes in place at the Swadlincote facility acquired under the Bison acquisition in September 2017.

The Internal Audit function operates to an agreed internal audit programme which is set by the Committee after considering recommendations from the Internal Audit function as well as Executive Management. The Internal Audit function are currently mid-way through the second 18 month audit programme which commenced in early 2018 and will be completed in mid-2019. The Committee reviews the performance of the Internal Audit function on the conclusion of each 18 month programme and the next review is scheduled for mid-2019. The current audit programme has been designed to prioritise the review of key financial processes and operating units based on an assessment of inherent risk and the control environment and includes reviews covering quote to invoice, record to report, inventory, business continuity, crisis management and disaster recovery.

The Chairman of the Audit Committee regularly meets with the Head of Internal Audit. Other members of the Committee and the Board will also meet with the Head of Internal Audit on a periodic basis. The Head of Internal Audit and the co-sourced provider PwC have regular and confidential access to the Chairman of the Committee.

Committee experience and competence

The UK Corporate Governance Code requires that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which it operates.

The Board have concluded that Justin Atkinson meets the recent and relevant financial experience requirement. Justin Atkinson previously spent 25 years at Keller Group plc, the ground engineering company, latterly as Chief Executive Officer and prior to that as Chief Financial Officer. Justin is also Senior Independent Non-Executive Director and member of the Audit Committee at Kier Group plc, a Non-Executive Director and Chairman of the Audit Committee at Sirius Real Estate Limited and a Non-Executive Director and Chairman of the Audit Committee at James Fisher and Sons plc as well as being a member of the Audit Committee of the National Trust. Justin is a Chartered Accountant and has recent and relevant financial experience. The Board considers that like Justin, Vince Niblett who will replace Justin as Chairman of this Committee, also has appropriate recent and relevant financial experience having held the position of Partner at the international professional services firm Deloitte for a number of years. Vince is also Chairman of the Audit Committee at Big Yellow Group plc.

The Board also considers the wider Committee to have the required competence, skills and experience.

Governance

The effectiveness of the Committee was reviewed, both as part of the externally conducted Board and Committee evaluation detailed on page 46, as well as through a detailed internal self-assessment of its own effectiveness. Following these exercises, the Committee has concluded that it is operating effectively and is providing robust challenge to the Executive Directors and the wider business.

Fair, balanced and understandable

At the request of the Board, the Audit Committee has considered whether the 2018 Annual Report is fair, balanced and understandable and whether it provides the necessary information for the Group's shareholders to assess the Group's performance, business model and strategy.

Viability statement and going concern

Shortly before the publication of the full year financial results for 2018 the Committee undertook a detailed review of the viability statement and recommended to the Board that the Directors can justifiably state that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities over a four-year assessment period. The viability statement is included in the risk management and key risks section of the Strategic Report.

The Committee also reviewed the going concern statement included in the Directors' Report along with the underlying assessment prepared to support this statement.

External audit, auditor independence and objectivity

The Committee is responsible for making recommendations to the Board regarding the appointment, reappointment and removal of the external auditor. It keeps under review the scope of the audit, the audit findings, its cost effectiveness and the independence and objectivity of the auditor.

The Company has complied with the Competition and Markets Authority final order on mandatory tendering and the requirements of the Audit Directive (2014/56/EU). It is the Company's intention to put the audit out to tender at least once every 10 years.

The Committee receives the formal letter addressed to those charged with governance provided by the external auditors on completion of the annual external audit which summarises the key findings and observations arising from the audit along with how management have responded to these findings. In addition, the external auditors provide confidential feedback to the Committee as to how members of the management team have conducted themselves during the audit process.

Also, the Chairman of the Committee regularly meets with the external audit partner outside of the formal committee meetings.

Non-audit services policy

The Group's non-audit services policy restricts the external auditor from performing certain non-audit services in accordance with the Revised Ethical Standard 2016 issued by the Financial Reporting Council. The policy provides details of permitted, prohibited and audit-related services and requires Audit Committee approval of all anticipated non-audit fees above a de-minimis threshold. Whilst the new regulations will not formally apply until 2019, when a three-year history of audit fees will have been determined, the Group committed to applying best practice and has applied the new policy (with reference to the prior year's statutory audit fee) from the start of 2017.

The amounts paid to Ernst & Young for non-audit services during the year are disclosed in note 6 of the Financial Statements. The only non-audit service provided in the year was in respect of the review of the interim financial statements and results announcement. Ernst & Young also has its own policies and procedures in place to ensure it maintains its independence and objectivity and regularly reports to the Committee on its independence.

Whistleblowing, fraud and the Bribery Act

The Committee has reviewed and approved the Group's policies and procedures covering whistleblowing, anti-bribery and corruption including the controls in place to detect fraud and to ensure compliance with both competition and anti-bribery legislation. The Group maintains a zero-tolerance approach to breaches of this legislation and certain employees, selected using a risk-based approach, are provided with dedicated training and guidance appropriate to their roles.

The Group operates a MySafeWorkplace anonymous incident reporting system allowing employees to report any wrongdoing or concerns with confidentiality assured. There were no concerns notified to the Group that required the attention of the Committee during the year under review and up to the date of this report.

The Report of the Audit Committee has been approved by the Board and signed on its behalf by:

Justin Atkinson
Chairman of the Audit Committee

12 March 2019

Nomination Committee Report

Paul Lester CBE
Chairman

Dear Shareholder,

I am pleased to present the report of the Nomination Committee (the Committee) for 2018. The report below describes the main responsibilities of the Committee. I chair Nomination Committee meetings but would not participate when the Committee is dealing with my own appointment as Chairman.

Membership

The members of the Committee are appointed by the Board. At 31 December 2018 the members of the Committee were as follows:

Paul Lester (Chairman);

Justin Atkinson;

Divya Seshamani;

Martin Sutherland; and

Katherine Innes Ker.

In addition, Vince Niblett joined the Committee effective from his appointment to the Board on 8 February 2019.

There were three formal meetings in the year.

Responsibilities and terms of reference

The full responsibilities of the Committee are set out in its Terms of Reference which are available on the Company's website.

The terms of reference of the Nomination Committee are approved by the Board and are reviewed annually to ensure they remain appropriate.

The principal responsibilities of the Committee are as follows:

- to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and to make recommendations to the Board with regard to any changes;
- succession planning for both Executive and Non-Executive Board roles along with senior management positions; to identify and recommend to the Board for approval candidates to fill Board and senior management vacancies as they arise; and
- to make recommendations to the Board in respect of the performance of Directors standing for election or re-election in advance of the Annual General Meeting.

Nomination Committee Report continued

Activities during the year

Board composition and appointments

The Committee's primary task in the year has been to consider the succession plan for the role of Chairman once I had announced my intention to stand down after the 2019 AGM.

The Committee and Board strongly believed that Justin Atkinson was the best candidate to succeed myself as Chairman. Justin Atkinson has had a successful career as a public company executive, firstly as CFO and then CEO. Since retiring from Executive management Justin has served as an Independent Non-Executive Director on the Boards of a number of listed companies in addition to Forterra, leaving him well placed to step up to the role of Chairman. Whilst remaining independent Justin has gained an extensive insight into the business of Forterra and the industry generally over the last three years and as such the Board unanimously agreed that he was the ideal candidate for the role of Chairman. No external selection process was launched but counsel was sought from several leading search and selection firms to confirm the Committee's view that shareholders would see Justin as an appropriate and highly credible Chairman.

Following the decision to announce Justin Atkinson's appointment as Chairman elect, the Committee then considered the roles of Senior Independent Director and Chairman of the Audit Committee respectively. The Committee recommended to the Board and the Board unanimously approved that Katherine Innes Ker be appointed as Senior Independent Director at the conclusion of the 2019 AGM, a role in which she has gained extensive experience at a number of listed companies. Again, no external selection process was launched for this appointment although as with Justin Atkinson's appointment leading search and selection firms were consulted.

Other than indicating a willingness to accept the appointment if it was offered, Justin Atkinson did not participate in the discussions around his appointment as Chairman elect and similarly Katherine Innes Ker did not participate in discussions around her proposed appointment as Senior Independent Director.

The internal appointments then created a vacancy for an Independent Non-Executive Director possessing recent and relevant financial experience.

A comprehensive search and selection process were undertaken by MWM Consulting, an independent external executive search consultancy with no other connection to the Company, to identify candidates with the required specific skills and experiences.

Following the conclusion of this process which included the interviewing of a number of prospective candidates and after careful consideration, in early 2019 the Committee recommended that Vince Niblett be appointed to the Board. Vince brings a wealth of experience gained in public practice working for Deloitte and I am sure he will make a positive contribution to the Board.

Executive skills and succession planning

The Committee also reviewed the succession planning in place for Executive Directors and other senior executives gaining comfort that there are no current or anticipated future skills shortages that could threaten the success of the Group.

The Committee also reviewed the Board effectiveness evaluation, further information on which is included on page 46.

Diversity and equality

The Group has an Equality and Diversity policy and is committed to encouraging diversity across the business. The Group has not set specific gender targets as it is believed that all appointments should be based on merit. At the end of the year, the Board contained two female members (representing 29%) and 10% of the Group's total workforce is female. This figure is reflective of the nature of the business and the industry in which the Group operates.

Paul Lester CBE
Chairman of the Nomination Committee

12 March 2019

Risk Committee Report

Divya Seshamani
Chairman

Dear Shareholder,

I am pleased to present the report of the Risk Committee for 2018. The purpose of the Committee is to assist the Board in ensuring that all risks, including health, safety, environmental, operational and commercial are managed effectively and proactively throughout the Group.

Responsibilities and terms of reference

The Board elected to establish a dedicated Risk Committee in addition to the Audit Committee to ensure that the management of more operationally focused risks, of which health and safety is of paramount importance, get sufficient and detailed Board level consideration.

The Committee operates under terms of reference approved by the Board which are summarised as follows:

- review health and safety policy considering whether it complies with legislation and best practice and recommending improvements as appropriate;
- implement changes in health and safety policy as necessary;
- review the effectiveness of risk management processes in determining whether all risks are being identified, evaluated, monitored and managed appropriately;
- review of the Group risk register and consider its appropriateness and completeness along with reviewing the appropriateness of the mitigating actions being taken; and
- review the effectiveness of the Group's risk management functions including health and safety ensuring that sufficient resources are devoted to this area and that these resources are appropriately skilled.

The full terms of reference are available on the Company's website.

Membership

As at 31 December 2018 the members of the Committee were as follows:

Divya Seshamani (Chairman);

Paul Lester;

Justin Atkinson;

Stephen Harrison; and

Shatish Dasani.

In addition, Vince Niblett joined the Committee effective from his appointment to the Board on 8 February 2019.

In addition to the Committee members, other members of the management team with responsibilities covering health and safety, environmental compliance, commercial and operations functions along with representatives of the Internal Audit function regularly attend and actively contribute to meetings.

Risk Committee Report continued

Risk Committee activity

During 2018 the Committee met on four occasions and the activities of the Committee were as follows:

- consideration of health and safety policy and practices against developments in best practice;
- review of health and safety incidents along with management's response to these incidents, identifying key learnings and identifying further improvements that can be made to existing practices;
- consideration of the safety culture within the business, actively considering and reviewing the progress of management's efforts to enhance the safety culture and awareness of risk throughout all levels of the business;
- reviewing the outcomes of the safety walks undertaken by members of the Board during the year;
- evaluating the effectiveness of the Group's central health and safety function;
- receiving updates from management on specific key risks, mitigation measures and consideration of changes in key risks over the year;
- continued review and approval of the risk appetite of the Group;
- consideration of the cyber security risks faced by Group and the progress in mitigating these risks;
- review of Executive Managements' initiatives to enhance the awareness of risk management at all levels throughout the business;
- receiving updates from the Risks Steering Group, a group consisting of Executive's and senior managers who meet regularly to focus on risk management matters; and
- holding a brain storming session to identify potential black swan risks which are have the potential to impact the business but which, by virtue of their unexpected nature, may not have been previously considered.

Further information regarding the risks faced by the Group is included in the risk management section of Strategic Report on pages 36 to 41.

Health and safety site visits

Each member of the Board undertook at least two safety focused site visits at the Group's operating facilities during the year where they took the opportunity to engage directly with employees on matters relating to health, safety and well-being. The Committee considers the feedback from each of these visits and regularly reviews progress against identified actions. These safety visits have been well received by our employees and demonstrate the Board's commitment towards visible felt leadership. Each member of the Board has again committed to undertaking at least two safety walks during the course of 2019. In addition, consistent with the objective of fostering a greater awareness of, and responsibility for risk management at an operating site level, the safety visits to be undertaken in 2019 will also consider wider site-specific risks and mitigations without diminishing the importance placed on health and safety.

Divya Seshamani
Chairman of the Risk Committee

12 March 2019

Remuneration Committee Report

Katherine Innes Ker
Chairman

Dear Shareholder,

I am pleased to present, on behalf of the Board, the 2018 Remuneration Report.

Our Remuneration Policy was designed with the objective to allow the Group to attract, retain, motivate and develop the best talent and to align the interests of the Executive Directors, senior management and employees with the strategic goals of the Group and the long-term interests of our shareholders. Alongside this, our Remuneration Policy is designed to support a culture of high achievement and delivery with appropriate reward for high performance without incentivising the taking of unnecessary risks and to be both transparent and understandable.

No changes will be made this year to the Remuneration Policy which was approved by shareholders at our 2017 AGM receiving in excess of 99.9% of the votes cast. Our Remuneration Policy can be found on pages 59 to 65 of this report.

Membership

The members of the Committee as at 31 December 2018 were as follows

Katherine Innes Ker (Chairman);

Paul Lester;

Justin Atkinson; and

Martin Sutherland.

In addition, Vince Niblett joined the Committee effective from his appointment to the Board on 8 February 2019.

Structure of the report

Chairman's Annual Statement, pages 57 and 58

Remuneration Policy, pages 59 to 65

Annual Report on Remuneration, pages 66 to 74

Remuneration Committee activity

The Remuneration Committee operates under terms of reference approved by the Board, a copy of which is available on the Company's website. During 2018 and to the date of this report the key activities of the Committee are laid out below with full details set out in the relevant sections of this report.

2019 pay decisions

In line with the Remuneration Policy, the Committee considered the base salaries of the Executive Directors and awarded 2.5% increases to both Stephen Harrison and Shatish Dasani. In line with the increases awarded to the salaried employees of the Group.

Chairman's fee

In line with the increases awarded to the salaried employees of the Group and the award made to the Executive Directors, the Committee agreed to increase the fee payable to the Chairman by 2.5%.

2018 performance and reward

The 2018 bonus outcomes reflect the Company's strong financial performance during the year and fulfilment of personal objectives.

Remuneration Committee Report continued

Despite several headwinds the Group has delivered a good overall performance during the year and the Executive Directors' bonus awards reflect this performance and also recognise the achievement made in a number of other areas including demonstrable progress in delivering the Group's strategic objectives including the announcement of the proposed new factory at Desford and the integration of the Bison acquisition into the business.

The profit before tax of £64.8m was just above the mid-point of the range between the lower threshold of £61.0m and the maximum target of £68.0m thus resulting in the Executive Directors' being awarded 54% of the maximum for this element of their bonus. When added to the achievement against personal objectives Stephen Harrison, Chief Executive Officer (CEO) earned 61% of his maximum potential annual bonus in 2018 and Shatish Dasani, Chief Financial Officer (CFO) earned 58% of his maximum potential annual bonus in 2018.

Performance Share Plan awards

The 2018 grant of awards under the Performance Share Plan (PSP) was increased in accordance with the Remuneration Policy to 150% of salary for Stephen Harrison and 125% of salary for Shatish Dasani. The levels of grant were increased from the previous levels of 125% and 100% respectively. Increasing the award level means that Directors' interests remain aligned to those of shareholders through an appropriate weighting of long-term variable share-based remuneration and ensures that their remuneration remains competitive and acts as an effective retention tool.

No change was made to the performance measures. Half of the awards will vest based on the Group's earnings per share (EPS) performance over the three-year period and half will vest subject to the Company's total shareholder return (TSR) performance against an unweighted index of comparator companies. All awards are subject to malus and clawback provisions and a two-year holding period on vesting will apply.

In 2016, prior to the IPO, the EPS performance condition was set at a threshold average annual growth in EPS over a three-year period of 8%, at which 25% of the award to which the EPS performance condition applies would vest. At an average annual growth rate of 15% the awards subject to the EPS condition would vest in full.

In 2017 the Committee reviewed the threshold and maximum EPS targets applying to the awards granted in that year in light of management's expectations and analysts' long-term growth forecasts for the Company and the industry and it was decided to reduce the threshold to 5% average annual growth at which 25% of the awards subject to an EPS condition would vest with a maximum of 9% at which 100% of the awards subject to the EPS condition would vest.

Following the review of these conditions in 2018 ahead of granting the 2018 awards it was agreed, after again reviewing management's expectations along with analysts' long-term growth forecasts for the Company and the industry, to leave the threshold target (at which 25% of the award would vest) at 5% whilst increasing the maximum EPS target (the level at which 100% of the awards subject to an EPS condition would vest) to 11%.

The Committee do not envisage adjusting the targets in 2019 and expect the 2019 awards under the PSP to be granted with the same EPS targets as in 2018.

No PSP awards vested in the year as the first awards were granted in 2016 and will vest in 2019 although the vesting criteria of the part of the award subject to an EPS performance condition can be measured as at 31 December 2018 and as such is included in the 2018 single figure total of remuneration disclosed in this report.

In addition, the Committee approved the granting of share awards to Stephen Harrison and Shatish Dasani under the terms of the Deferred Annual Bonus Plan in respect of the deferral of an element of the 2017 bonus in line with the Remuneration Policy.

Employee incentivisation and reward

Forterra are committed to the provision of an inclusive working environment and ensuring the fair reward of all employees, regardless of seniority across the business. In addition to the Executive Directors and senior management the Committee considers wider workforce remuneration and conditions.

The Committee also continued its commitment to encouraging employee ownership by approving the offer and subsequent grant of share options under the Forterra Sharesave Plan. There was a strong uptake of this offer from employees such that around two-thirds of our workforce are now saving by investing in the Forterra Sharesave Plan.

This year we have added further content to this report providing more information in respect of wider workforce remuneration including disclosures related to gender pay reporting.

The Committee is also actively considering the requirements of the revised UK Corporate Governance Code as well as the updated guidance from institutional investors and representative bodies which will apply to accounting periods beginning on or after 1 January 2019 and which the Group will report against in the 2019 Annual Report and Accounts. The new Code introduces requirements for remuneration committees to take into account wider employee remuneration and related policies when setting executive remuneration, something that this Committee already does. The Committee is also actively discussing how best to engage with the workforce on the subject of executive remuneration. The new Code also requires the remuneration committees to exercise discretion in remuneration decisions rather than rely solely on formulaic calculations. Again, this is something that this Committee already does, with the rules of the various share incentive and bonus schemes already allowing for this.

Shareholder engagement

We take a keen interest in our shareholders' views on executive remuneration and welcome any feedback on the Remuneration Committee Report.

This Remuneration Committee Report will be subject to an advisory vote at the 2019 AGM. Our goal has been to be clear and transparent in the presentation of this report and I look forward to your support on this resolution.

Katherine Innes Ker
Chairman of the Remuneration Committee

12 March 2019

Notes:

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code and the Listing Rules.

Remuneration Committee Report
Remuneration Policy

Summary of Remuneration Policy

Policy overview

The Remuneration Committee has responsibility for determining the remuneration of the Chairman, Executive and Non-Executive Directors and other senior management. The Committee's terms of reference are available on the Company's website.

The Company's Remuneration Policy has been designed based on the following key principles:

- to promote the long-term success of the Group, with stretching performance targets which are rigorously applied;
- to provide appropriate alignment between the Group's strategic goals, shareholder returns and executive reward; and
- to have a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Group's performance.

The remuneration arrangements have been structured with due consideration of the UK Corporate Governance Code and both best practice and market practice for UK listed companies.

The Remuneration Policy for Directors

The following table summarises the key aspects of the Company's Remuneration Policy for Executive and Non-Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Salary	Salary is a fixed payment that reflects an individual's experience and role and may be increased to reflect capability and performance. To recruit and retain executives.	Salaries are paid monthly and are normally reviewed annually with changes effective from 1 January but by exception may be reviewed more frequently if the Committee determines this is appropriate. In reviewing salaries, the Committee considers: • remuneration practices within the Group; • market benchmarks based on companies of broadly comparable size and/or operating in similar sectors; • role, competence and performance; and • the general increase awarded to salaried employees. Higher increases may be awarded to new Executive Directors who were hired at below market rates but with the intention to move to a market competitive rate over time, subject to individual performance.	It is anticipated that salaries will generally be increased in line with increases awarded to salaried employees. However, in certain situations such as where there has been an increase in the scope, responsibility or complexity of the role or there has been a significant change in the size, value or complexity of the Group increases may be higher to remain market competitive.	Individual and Group performance is taken into account when determining the annual increase. The rationale for any such increase will be disclosed in the Annual Report on Remuneration.

Remuneration Committee Report
Remuneration Policy *continued*

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Benefits	The Company's aim is to offer competitive and cost-effective benefits valued by participants and to help recruit and retain executives.	A range of benefits are provided to Executive Directors that may include a company car (or car allowance), private medical and permanent health insurance, business travel insurance and life assurance/death in service cover. Relocation (or other related expenses) and tax equalisation arrangements may be offered as appropriate to ensure Directors are no worse or better off in a case of relocation. Any reasonable business related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit. Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.	The cost of providing market competitive benefits may vary from year to year depending on the cost to the Company from third party providers. The Committee will continue to monitor the cost of benefits to ensure that the overall benefit costs do not increase by more than the Committee considers appropriate in the circumstances.	No performance metrics apply.
Pension	To provide a market-competitive cost-effective contribution towards post-retirement benefits.	Executive Directors receive a contribution towards their retirement provision which may be paid as a contribution to a personal pension scheme or a cash allowance in lieu of pension or a mix of both.	The Company contribution to retirement allowances is up to 10% of salary.	No performance metrics apply.
Annual bonus	The purpose of the Annual Bonus Plan is to incentivise Executive Directors to achieve annual financial and/or strategic targets. Bonus deferral provides a retention mechanism and provides further alignment with shareholders' interests.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set around the start of the year. The Committee aims to set out in the Annual Report on Remuneration: The nature of the targets and their weighting for the forthcoming financial year and details of the performance conditions, the weightings and targets applied and the level of achievement against these targets for the financial year being reported on. The first 10% of salary is payable in cash. Up to half of any remainder of the bonus may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply. In line with good practice, recovery and withholding provisions apply (see note 1). An additional payment (in the form of cash or shares) may be made in respect of shares that vest to reflect the value of dividends that would have been paid on those shares during the vesting period.	The maximum opportunity under the annual bonus scheme is 100% of salary. Bonus starts to be earned at the threshold level (up to 25% of the maximum depending on the performance metric).	The bonus may be based on the achievement of an appropriate mix of challenging financial, operational or strategic measures. Typically, financial measures will account for the majority of the bonus opportunity and may include measures such as profit or cash flow. Other financial measures that support the key short-term priorities of the business may be used. The targets applying to financial metrics will take into account the internal plan and external expectations of the business at the time they are set. If operational, individual or strategic measures are included, where possible a performance range will be set although this will depend on the measure chosen. The measures, targets and weightings may be varied by the Committee year on year based on the Company's strategic priorities at the time (see note 2).

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Long-term incentives	The Performance Share Plan (PSP) incentivises Executive Directors and selected senior management to deliver sustained performance over the long-term. The Plan also acts as a method of retaining key management over the medium-term. Aligns the interests of the Executive Directors and shareholders and assists Executive Directors in building up a substantial shareholding.	Awards are granted annually in the form of nominal or nil cost options under the PSP and vest after no less than three years. Stretching performance conditions measured over a period of three years determine the extent to which awards vest. A holding period may apply to vested PSP awards under which Executive Directors will be required to retain the net of tax number of vested awards for at least two years from the date of vesting. In exceptional circumstances, the Committee may, at its discretion, allow participants to sell or dispose of some or all of these vested shares before the end of the holding period. Details of performance conditions for grants made in the year will be set out in the Annual Report on Remuneration. Award levels are reviewed annually (subject to the PSP individual limits) taking into account matters such as market practice, overall remuneration, the performance of the Company and the Executive Director being made the award. In line with good practice, recovery and withholding provisions may apply (see note 1). Dividends may accrue based on the value of dividends paid during the three-year vesting period and two-year holding period (if applicable).	The maximum annual award under the PSP that may be granted to an individual in any financial year is 200% of salary in normal circumstances (250% of salary in exceptional circumstances). The Committee expects to retain the current grant levels of 150% of salary for the CEO and 125% of salary for the CFO and these will be kept under review over the life of the policy. For each measure, up to 25% of the relevant part of the award would vest for achieving the threshold level of performance, normally increasing on a straight-line basis to 100% for achieving maximum performance.	Vesting is based on the achievement of one or more challenging performance targets set by the Remuneration Committee at the time of grant and measured over a three – year period. Measures may include EPS growth (or another financial metric) or TSR. TSR will apply for at least part of each award under the life of this policy. In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long-term business plan and external expectations. The Committee retains the flexibility to vary the mix of metrics for each year's award in light of the business priorities at the time or to introduce new measures to support the long-term business strategy (see note 3).

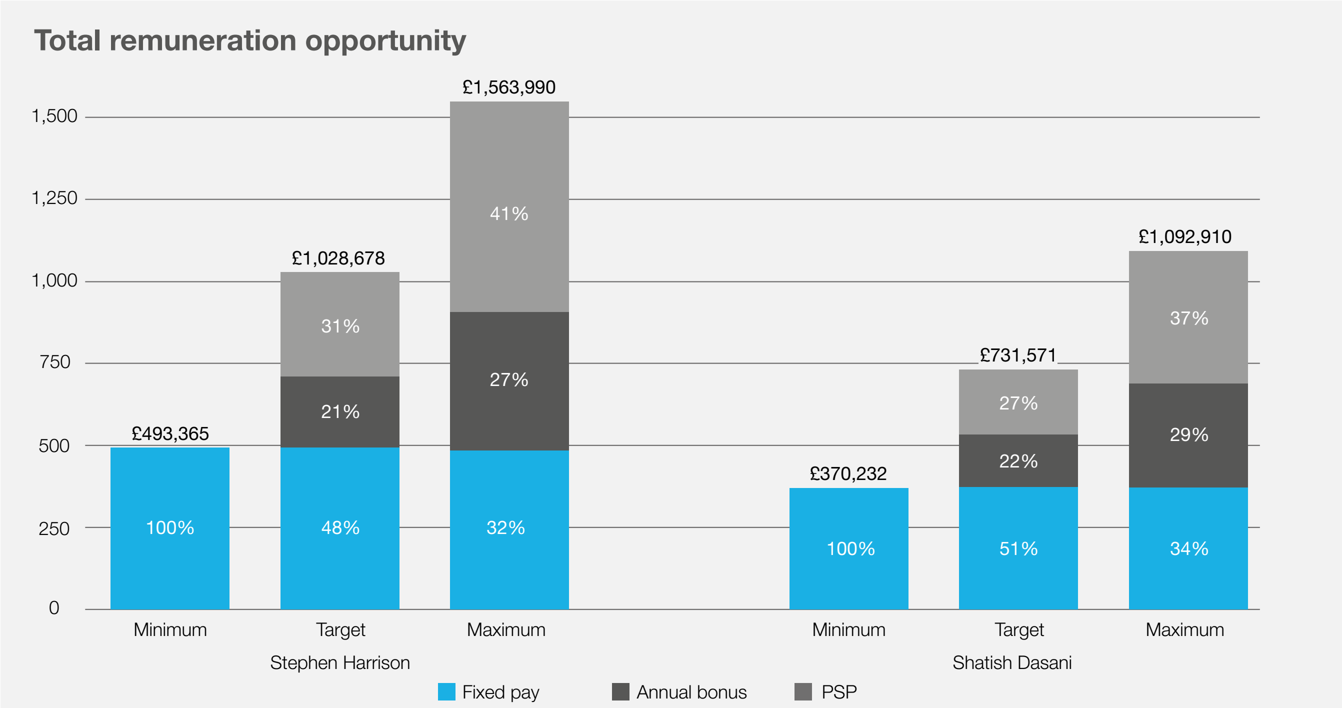
Remuneration Committee Report
Remuneration Policy *continued*

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
All-employee share plans	To increase alignment between employees and shareholders in a tax efficient manner.	All-employee share schemes may be operated. Current schemes include: • Sharesave Plan; • Share Incentive Plan (SIP); • Other HMRC approved all-employee schemes may be introduced at the Committee's discretion.	Consistent with prevailing HMRC limits.	No performance metrics apply.
Share ownership policy	To align interests of management and shareholders and promote a long-term approach to performance and risk management.	Executive Directors are required to build up a shareholding in the Company equal to 200% of salary. Half of the net of tax number of vested PSP and DABP awards are expected to be retained until the guideline is met. The value of vested but unexercised awards subject to a two-year holding period will count towards the guideline on a net of tax basis.	Not applicable.	No performance metrics apply.
Non-Executive Directors' fees	To attract and retain high quality and experienced Non-Executive Directors.	The fees of the Non-Executive Directors are set by the Board and the Chairman's fee is set by the Committee (the Chairman does not take part in any discussion regarding his own fees). Fees are reviewed periodically. Non-Executive Directors receive a fee for carrying out their duties, together with additional fees for those who chair other Board Committees and the Senior Independent Director. The Chairman and Non-Executive Directors are entitled to reimbursement of reasonable business related expenses (including any tax thereon). They do not participate in any incentive arrangements and they do not receive a pension contribution. The level of fees reflects the time commitment and responsibility of their respective roles.	Details of current fees are set out in the Annual Report on Remuneration. As set out in the Company's Articles of Association, the total fees paid to Non-Executive Directors must not exceed £1 million a year or any higher amount agreed by ordinary resolution at a general meeting.	No performance metrics apply.

Note 1: **Recovery and withholding provisions.** Recovery and withholding provisions apply to the Annual Bonus Plan, the DABP and the PSP. If, within three years of the payment of a bonus, grant of a deferred bonus award and/or vesting of a PSP award, it transpires that payment or vesting should not have occurred as a result of a material misstatement, error in calculation or gross misconduct has been discovered, the payment or vesting can be recovered or withheld, in part or in full, as appropriate.

Note 2: **Annual bonus performance metrics.** The annual bonus measures are reviewed annually and reflect key financial, strategic and operational priorities of the Group. Stretching financial targets are set by the Committee by taking account of the Company's business plan and external expectations. For 2019, these are based on profit and strategic objectives reflecting the short-term priorities of the Group. The target ranges set at the start of the financial year are deemed to be commercially sensitive. Actual targets, performance achieved and the awards made will be published at the end of the performance period so shareholders can assess payout levels.

Note 3: **Performance Share Plan metrics.** For 2019 awards the performance conditions will be EPS growth and relative TSR. The use of relative TSR provides a measure of the long-term success of the Company relative to appropriate peer comparators. EPS growth is a measure of the overall profitability of the business for investors over the long-term and therefore helps align the interests of management with shareholders.



Notes:

- Minimum is equivalent to fixed pay which comprises salary levels applying for 2019, the value of benefits in 2018 and a 10% pension contribution.
- Target comprises fixed pay plus the value of the on target bonus at 50% of the maximum bonus opportunity (100% of salary) plus the value of the on target level of vesting under the PSP which is taken to be 50% of the expected 2019 grant level.
- Maximum comprises fixed pay plus maximum bonus plus the maximum value of the PSP (equal to 100% of the face value of the award at grant using the 2019 grant policy of 150% of salary for the CEO and 125% of salary for the CFO).
- In line with the currently applicable regulations, no share price appreciation has been assumed for the PSP award.

Service contracts and letters of appointment

Service contracts and letters of appointment are available for inspection at the Company's registered office.

Service contracts

The service contracts for the Executive Directors are terminable by either the Company or the Executive on 12 months' notice. The Company can terminate either Executive Director's service contract by payment of a cash sum in lieu of notice equivalent to the base salary and the cost that would have been incurred in providing the Executive Director with contractual benefits for any unexpired portion of the notice period (or alternatively the Company can choose to continue providing the contractual benefits). The payment in lieu may be paid as one lump sum or in monthly equal instalments over the notice period. If the Company chooses to pay in instalments the Executive Directors are obliged to seek alternative income over the relevant period and the payment of each monthly instalment will be reduced by the amount of such income earned. There are no enhanced provisions on a change of control.

At the discretion of the Committee, a contribution to reasonable outplacement costs in the event of termination of employment due to redundancy may also be made. The Committee also retains the ability to reimburse reasonable legal costs incurred in connection with a termination of employment and may make a payment for any statutory entitlements or to settle or compromise claims in connection with a termination of employment of any existing or future Executive Director as necessary. Relevant details will be provided in the Annual Report on Remuneration should such circumstances apply.

The table on page 64 sets out, for variable pay elements, the Company's policy on payment for loss of office in respect of Executive Directors. In general, treatment will depend on the circumstances of departure and in particular whether a leaver is a 'good leaver'. Good leaver reasons include:

- death;
- injury;
- retirement;
- disability;
- redundancy;
- the employing company being sold outside the Group; or
- other circumstances at the discretion of the Committee.

In any other circumstance, the leaver will be treated as a 'bad leaver'.

Remuneration Committee Report
Remuneration Policy continued

Policy on payment for loss of office

Element	Treatment
Annual Bonus Plan	No automatic or contractual right to bonus payment. Good leavers: a pro-rata bonus may become payable at the normal payment date for the period of employment and based on full-year performance. With rationale set out in the Annual Report on Remuneration. Bad leavers: no bonus is payable for the year of cessation. Discretions: • To determine whether to pro-rate the bonus for time. It is the Committee's normal policy to pro-rate for time, however, there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.
Deferred Annual Bonus Plan	Good leaver: all deferred shares vest at the date of cessation. Bad leavers: awards lapse. Discretions: • To vest deferred shares at the end of the original deferral period or to defer vesting in connection with a potential clawback event.
Performance Share Plan	Good leaver: awards vest at normal vesting date and pro-rated for time and tested for performance in respect of each subsisting PSP award. Bad leaver: awards lapse. Discretions: • To vest and measure performance over the original performance period or vest and measure performance at the date of cessation or to defer vesting in connection with a potential clawback event. • To determine whether to pro-rate the maximum number of shares for the time from the date of grant to the date of cessation (the Committee may need to round up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.

Change of control

The Committee's policy on the vesting of incentives on a change of control is summarised below:

Element	Treatment
Annual Bonus Plan	Pro-rated for time and performance to the date of the change of control.
Deferred Annual Bonus Plan	Subsisting DABP awards will vest on a change of control.
Performance Share Plan	The number of shares subject to existing PSP awards will vest on a change of control pro-rated for time and performance to the date of the change of control. Discretions: • To determine whether to pro-rate the maximum number of shares from the time from the date of grant to the date of the change of control (the Committee may round-up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate.

Letters of appointment

The Chairman and the Non-Executive Directors have letters of appointment and are subject to annual re-election at the AGM. The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company on not less than 30 days' notice or immediately in the event that the appointment is terminated by the shareholders (or where shareholder approval is required but not forthcoming).

Approach to recruitment and promotions

The recruitment package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy. Currently, this would facilitate a maximum annual bonus payment of no more than 100% of salary and PSP award of up to 200% of salary (other than in exceptional circumstances (including recruitment) where up to 250% of salary may be made).

On recruitment, salary may (but need not necessarily) be set below the normal market rate, with phased increases as the Executive Director gains experience. The rate of salary should be set so as to reflect the individual's experience and skills.

In addition, on recruitment the Company may compensate for amounts foregone from a previous employer (using LR 9.4.2R if necessary) taking into account the quantum foregone and, as far as reasonably practicable, the extent to which performance conditions apply, the form of award and the time left to vesting.

For an internal appointment, any variable pay element awarded in respect of their prior role should be allowed to payout according to its outstanding terms. Any other ongoing remuneration obligations existing prior to appointment may continue, provided that, if they are outside the approved policy, they are put to shareholders for approval at the earliest opportunity.

For all appointments, the Committee may agree that the Company will meet appropriate relocation costs.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved Remuneration Policy in force at that time.

Policy on external appointments

Subject to Board approval, Executive Directors are permitted to take on a single paid non-executive position with an unconnected company and to retain their fees in respect of such position. Where appropriate details of outside directorships held by the Executive Directors and any fees that they received are provided in the Annual Report on Remuneration. Stephen Harrison holds outside appointments held in the capacity of representing the Group on trade associations and similar bodies and receives no remuneration. Shatish Dasani held no external appointments in 2018 although was appointed as a Non-Executive Director of Renew Holdings plc from February 2019, a role for which a fee is receivable.

How the views of shareholders and employees are taken into account

In setting the remuneration for the Executive Directors the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates on employee remuneration within the Group as necessary.

During 2018 the Chairman of the Committee also wrote to major shareholders keeping them informed as to the ongoing application of the Remuneration Policy.

Remuneration Committee Report
Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ending 31 December 2019

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2019 is set out below:

Base salary

Executive Directors' salaries were reviewed in January 2019 and the Committee agreed to increase Executive Directors' salaries by 2.5% in line with the general increase awarded to salaried staff. The increases took effect from 1 January 2019.

	2019	2018	% Increase
Stephen Harrison	**£428,250**	£417,800	2.50%
Shatish Dasani	**£321,190**	£313,350	2.50%

Pension and benefits

The Committee intends that the implementation of its policy in relation to pension and benefits will be in line with the policy disclosed on page 60 of this report. The Executive Directors receive a retirement allowance equal to 10% of salary which is in line with the Company pension contribution available to all employees subject to the employee making a specified level of employee pension contribution.

Annual bonus

The maximum annual bonus for the year ending 31 December 2019 will be 100% of salary for Executive Directors. Awards will be determined based on a combination of the Group's financial results, being profit before tax (70%) and strategic/personal performance (30%).

The specific financial targets for 2019 are considered commercially sensitive. However, the Committee intends to disclose these retrospectively in next year's Annual Report on Remuneration along with details as to their achievement to the extent that they do not remain commercially sensitive. The strategic objectives for 2019 are also considered commercially sensitive. Stretching targets aligned to the Group's strategy have been set.

In determining the level of any bonus award to be deferred into shares under the Deferred Annual Bonus Plan the first 10% of salary of any bonus and 50% of any further bonus earned will be paid in cash with the balance deferred in shares for three years.

Performance Share Plan (PSP)

The Committee intends to make awards under the PSP to Executive Directors during the 2019 financial year. Consistent with the previous year and the Policy, these awards will be at 150% of salary for the Chief Executive Officer and 125% of salary for the Chief Financial Officer. No changes will be made to the performance measures. Half of the awards will vest by reference to the Company's earnings per share (EPS) performance over the three-year period and the remaining half will vest subject to the Groups' total shareholder return (TSR) performance against an unweighted index of comparator companies. The EPS performance targets to be applied to the 2019 awards were assessed with regard to management and analysts' consensus forecasts. At a threshold of 5% annual growth in EPS for the three years from 2019-2021, 25% of the awards to which the EPS performance conditions are to apply would vest, and at 11% annual growth in EPS, the awards would vest in full. Awards will be subject to clawback/malus provisions and a two-year holding period on vested shares will apply.

Fees for Chairman and Non-Executive Directors

The Company's approach to Non-Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the chairmanship of Board Committees. A summary of current fees is shown below:

	2019	2018	% Increase
Non-Executive Chairman	**£143,500**	£140,000	2.50%
Non-Executive Director base fee	**£52,480**	£51,200	2.50%
Additional fees:			
Senior Independent Director	**£10,000**	£10,000	–
Audit Committee Chairman	**£7,000**	£7,000	–
Remuneration Committee Chairman	**£7,000**	£7,000	–
Risk Committee Chairman	**£4,000**	£4,000	–

The increase in the Chairman's fee and Non-Executive Director base fee of 2.5% is equal to the increase awarded to the Group's salaried employees. The fees payable to the Chairman and the Non-Executive Directors are reviewed on an annual basis, such review will not necessarily lead to an increase.

Single total figure of remuneration (audited)

Executive Directors (audited)

	Period	Salary and fees	Taxable benefits[1]	Pension/ retirement allowance	Annual bonus[2]	Long-term incentives[3]	Total
Stephen Harrison	**2018**	**£417,800**	**£22,290**	**£41,780**	**£252,767**	**£125,007**	**£859,644**
	2017	£408,000	£18,692	£40,800	£294,984	–	£762,476
Shatish Dasani	**2018**	**£313,350**	**£16,923**	**£31,335**	**£182,055**	**£75,005**	**£618,668**
	2017	£306,000	£14,938	£30,600	£240,516	–	£592,054

1 Taxable benefits in the year comprised a company car/allowance and private medical insurance.

2 Details of the bonus targets and their level of satisfaction and resulting bonus earned are set out below. The figures above include amounts of £105,493 (2017: £127,092) for Stephen Harrison and £75,360 (2017: £104,958) for Shatish Dasani which are to be deferred into shares under the rules of the DABP.

3 The first award under the Performance Share Plan was made in 2016 and is due to vest in 2019. Further details are laid out below.

Pension entitlements (audited)

The Group operates a defined contribution personal pension plan. Both Executive Directors receive a 10% retirement allowance which they may use to make contributions into the Group personal pension scheme should they wish. The Group does not operate a defined benefit pension scheme. Details of the value of pension contributions received in the year under review are provided in the pensions column of the single total figure of remuneration table.

Annual bonus (audited)

The 2018 bonus awards payable to the Executive Directors were agreed by the Committee having reviewed the Company's results. Detail of the targets used to determine bonus entitlements and to the extent that they have been satisfied are shown below. These figures are shown in the single figure table above.

					Percentage of maximum value achieved	Percentage of maximum value achieved	Bonus value achieved	
	Weighting	Threshold performance required	Actual performance achieved	Maximum performance required	Stephen Harrison[2]	Shatish Dasani[3]	Stephen Harrison[2]	Shatish Dasani[3]
PBT (before exceptional items)[1]	70%	£61.0m	£64.8m	£68.0m	54%	54%	£158,762	£119,071
Strategic objectives	30%		See table overleaf		75%	67%	£94,005	£62,984
Total (% of maximum)	100%				61%	58%		
Total (£)							£252,767	£182,055

1 Under the terms of the 2018 Annual Bonus Plan, bonus is earned on achieving the threshold PBT before exceptional items performance target increasing on a linear basis to 100% if the maximum performance is achieved.

2 Maximum bonus opportunity of 100% of salary. Bonus payment based on 2018 base salary of £417,800.

3 Maximum bonus opportunity of 100% of salary. Bonus payment based on 2018 base salary of £313,350.

Long-term incentives (audited)

The 2016 PSP awards have a vesting date of 26 April 2019 although the vesting criteria of the part of the award subject to an EPS performance condition can now be measured and as such is included in the 2018 single figure total of remuneration shown above.

PSP award	Performance condition	Threshold annual EPS growth (25% vesting)	Maximum annual EPS growth (100% vesting)	Actual annual EPS growth	% vesting
2016	EPS growth	8%	15%	9.1%	36.9%

PSP award	Performance condition	Weighting	% vesting (max 100%)	Date of end of performance period	Date of vesting	Share price of vesting[1]		Total shares vesting[2]	Estimated value of vesting shares
2016	EPS growth	50%	36.9%	31 December 2018	26 April 2019	£2.27	Stephen Harrison	55,006	£125,007
							Shatish Dasani	33,004	£75,005

1 As the share price on vesting is not yet known the value of the shares to be received is calculated using the average share price for the dealing days in the last three months of the financial year (1 October 2018 to 31 December 2018) of £2.27. This will be restated in next year's Annual Report and Accounts to reflect the actual share price on vesting on 26 April 2019.

2 Includes dividend equivalent shares calculated based on the dividends that would have been paid on the vesting shares during the vesting period.

The percentage vesting outcome relating to the TSR performance condition (representing 50% of the awards granted) will be measured on 26 April 2019.

Remuneration Committee Report
Annual Report on Remuneration continued

Strategic objectives

The strategic objectives comprising 30% of the overall bonus opportunity and their achievement are set out in full below. An outline of the objectives and the extent to which they were achieved are provided below.

	Objectives	Assessment of achievement	% of maximum bonus payable
Stephen Harrison	Objectives linked to: Delivery of strategic actions; driving an improvement in safety culture; delivering improved productivity through continuous improvement and accelerating product development especially in the area of off-site precast concrete walling solutions	Partially achieved: Demonstrable progress has been made in furthering the implementation of the Group's strategy with the announcement of the plans for the new brick factory at Desford which is awaiting planning permission. Tangible progress has been made in developing the Group's range of precast walling products. Significant efforts have been made to improve the safety culture inherent within the business although unfortunately this has not yet been noticeable in the Lost Time Incident Frequency Rate KPI. Productivity improvement measures continue to be implemented although the kiln issues experienced at Desford adversely impacted overall productivity.	75%
Shatish Dasani	Objectives linked to: Delivery of strategic actions; driving an improvement in safety culture; implementation of new ERP system and leading the development of the finance and IT functions	Partially achieved: Demonstrable progress has been made in furthering the implementation of the Group's strategy with the announcement of the plans for the new brick factory at Desford which is awaiting planning permission. Significant efforts have been made to improve the safety culture inherent within the business although unfortunately this has not yet been noticeable in the Lost Time Incident Frequency Rate KPI. The implementation of the Group's new ERP system achieved a number of key milestones during the year and is running effectively in parts of the business although the full implementation has been delayed slightly and will be completed in early 2019. The finance and IT functions have continued to operate effectively and have made progress in delivering efficiency by deploying and utilising new technologies.	67%

The first 10% of salary is payable in cash. Up to half of any remainder of the bonus may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply. A full breakdown of the bonus and payments and share award deferral is set out below:

	Bonus total	Paid in cash	Paid in shares
Stephen Harrison	£252,767	£147,274	£105,493
Shatish Dasani	£182,055	£106,695	£75,360

Single total figure of remuneration (audited)

Non-Executive Directors (audited)

The table below sets out the single total figure for remuneration and breakdown for each Non-Executive Director.

	Period	Fees	Total	Roles
Paul Lester[1]	**2018**	**£140,000**	**£140,000**	Non-Executive Chairman
	2017	£135,137	£135,137	
Justin Atkinson	**2018**	**£68,200**	**£68,200**	Senior Independent Non-Executive Director
	2017	£67,000	£67,000	
Divya Seshamani	**2018**	**£55,200**	**£55,200**	Independent Non-Executive Director
	2017	£54,000	£54,000	
Martin Sutherland[2]	**2018**	**£51,200**	**£51,200**	Independent Non-Executive Director
	2017	£30,513	£30,513	
Katherine Innes Ker[3]	**2018**	**£58,200**	**£58,200**	Independent Non-Executive Director
	2017	£18,129	£18,129	

1 In the prior year in addition to the Chairman's fee, Paul Lester received a fee for chairing the Remuneration Committee for the period to 16 October 2017.

2 Martin Sutherland was appointed on 23 May 2017.

3 Katherine Innes Ker was appointed on 1 September 2017 and was appointed Chairman of the Remuneration Committee from 17 October 2017.

Performance Share Plan awards made during the year

On 28 March 2018 the following awards were granted to Executive Directors.

	Type of award	Basis of award granted	Share price used to determine no of options granted[1]	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Stephen Harrison	Nominal (1p) cost option	150% of salary of £417,800	£2.99	209,599	£626,701	25%	Three financial years to 31 December 2020 for the EPS element and three years to 28 March 2021 for the TSR element
Shatish Dasani	Nominal (1p) cost option	125% of salary of £313,350	£2.99	130,999	£391,687	25%	Three financial years to 31 December 2020 for the EPS element and three years to 28 March 2021 for the TSR element

1 The number of options was determined using a share price of £2.99 being an amount equal to the average mid-market closing price for the five days prior to grant.

The performance condition for these awards is set out below:

Performance condition	% of award subject to condition	Annual growth in EPS	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a 2017 EPS of 24.5p	50%	<5% per annum	0%
		5% per annum	25%
		11% per annum or above	100%
Company's total shareholder return (TSR) against Index TSR	50%	<Index TSR	0%
		At Index TSR	25%
		Index TSR plus 25 percentage points	100%
Straight-line vesting in between the performance points			

The Index comprises the following companies: Kingspan Group plc, Howden Joinery Group plc, Breedon Group plc, Ibstock plc, Marshalls plc, Polypipe Group plc, Tyman plc, Volution Group plc, Low & Bonar plc and Eurocell plc.

Awards are subject to malus and clawback provisions and a two-year holding period will apply.

Remuneration Committee Report
Annual Report on Remuneration continued

Deferred Annual Bonus Plan awards made during the year

On 28 March 2018 the following awards were granted to Executive Directors.

	Type of award	Value of 2017 bonus to be converted into shares	Share price used to determine no. of options granted	Number of shares over which award was granted
Stephen Harrison	Nominal (1p) cost option	£127,092	£3.014	42,167
Shatish Dasani	Nominal (1p) cost option	£104,958	£3.014	34,823

Directors' shareholding and share interests

Share ownership plays a key role in the alignment of our Executive Directors with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in Forterra. Where an Executive Director does not meet this guideline then they are required to retain at least 50% of the net of tax vested shares under the Company's share plans until the guideline is met. The number of shares held by the Directors as at 31 December 2018 are as follows:

	Shareholding requirement (% salary)	Current shareholding (% salary)[1]	Beneficially owned[2]	Deferred Shares not subject to performance conditions[3]	Unvested PSP (nominal cost options subject to performance conditions)[4]	Unvested DABP (nominal cost options not subject to performance conditions)[5]	Outstanding Sharesave awards[6]	Shareholding requirement met
Executive Directors								
Stephen Harrison	200%	14%	26,711	277	728,910	85,723	13,333	No
Shatish Dasani	200%	81%	112,783	277	442,586	67,490	13,333	No
Non-Executive Directors								
Paul Lester	n/a	–	30,555	–	–	–	–	n/a
Justin Atkinson	n/a	–	25,000	–	–	–	–	n/a
Divya Seshamani	n/a	–	5,556	–	–	–	–	n/a
Martin Sutherland	n/a	–	7,500	–	–	–	–	n/a
Katherine Innes Ker	n/a	–	–	–	–	–	–	n/a

1 As at 31 December 2018. This is based on a closing share price of £2.26 and the year end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.

2 Includes shares owned by connected persons.

3 This relates to shares awarded granted under the Forterra All-Employee Share Incentive Plan (SIP).

4 This relates to PSP awards granted in the form of nominal (1p) cost options and subject to performance criteria.

5 This relates to DABP awards relating to the partial deferral of the 2016 and 2017 annual bonus granted in the form of nominal (1p) cost options which are not subject to performance criteria.

6 Sharesave grants made under the Forterra Sharesave Plan on 24 October 2016 with an exercise price of £1.35 (awarded at a 20% discount to the share price at the date of launch). The earliest date the options can be exercised is 1 December 2019.

Between 31 December 2018 and the date of this report there were no changes in the shareholdings outlined in the above table.

Summary of share option awards

The table summarises each of the Executive Directors long-term share awards and the changes that have taken place in the year:

Executive	Type of award	Date granted	At 1 January 2018	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2018
Stephen Harrison	PSP	Mar-18	–	209,599	–	–	**209,599**
	PSP	Apr-17	241,534	–	–	–	**241,534**
	PSP	May-16	277,777	–	–	–	**277,777**
	DABP	Mar-18	–	42,167	–	–	**42,167**
	DABP	Mar-17	43,556	–	–	–	**43,556**
	SAYE	Oct 16	13,333	–	–	–	**13,333**
Total							**827,966**
Shatish Dasani	PSP	Mar-18	–	130,999	–	–	**130,999**
	PSP	Apr-17	144,921	–	–	–	**144,921**
	PSP	May-16	166,666	–	–	–	**166,666**
	DABP	Mar-18	–	34,823	–	–	**34,823**
	DABP	Mar-17	32,667	–	–	–	**32,667**
	SAYE	Oct 16	13,333	–	–	–	**13,333**
Total							**523,409**

PSP awards granted in 2017 are subject to the performance conditions below.

Performance condition	% of award subject to condition	Annual growth in EPS	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a pro-forma 2016 EPS of 21.5p	50%	<5% per annum 5% per annum 9% per annum or above	0% 25% 100%
Company's total shareholder return (TSR) against Index TSR	50%	<Index TSR At Index TSR Index TSR plus 25 percentage points	0% 25% 100%
Straight-line vesting in between the performance points			

PSP awards granted in 2016 are subject to the performance conditions below.

Performance condition	% of award subject to condition	Annual growth in EPS	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a pro-forma 2015 EPS of 20.4p	50%	<8% per annum 8% per annum 15% per annum or above	0% 25% 100%
Company's total shareholder return (TSR) against Index TSR	50%	<Index TSR At Index TSR Index TSR plus 25 percentage points	0% 25% 100%
Straight-line vesting in between the performance points			

The index of comparable companies against which the TSR is measured for both 2016 and 2017 awards is the same as the 2018 awards.

Payments to past Directors/payments for loss of office (audited)

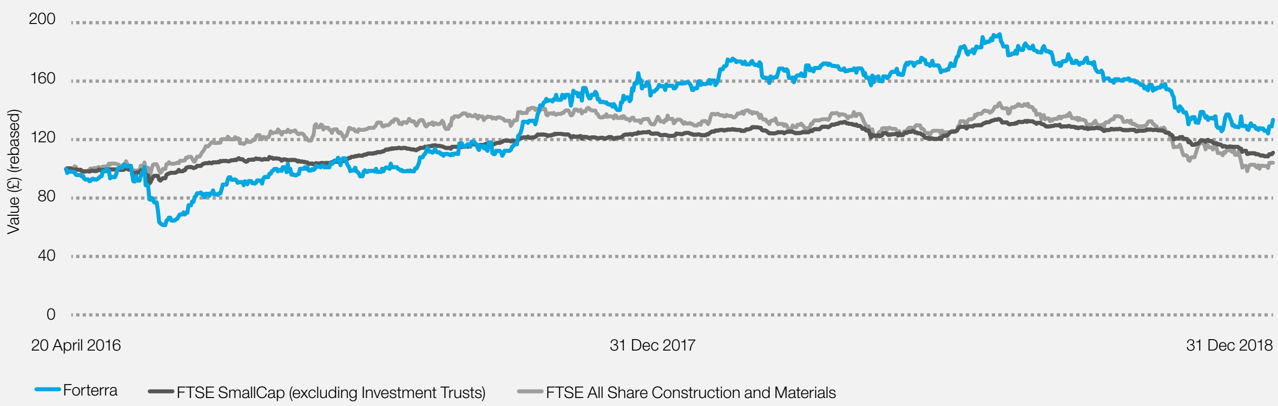
There were no such payments in the year.

Performance graph

The graph overleaf illustrates the Company's Total Shareholder Return (TSR) performance relative to the constituents of the FTSE Small Cap index excluding investment companies and against the FTSE All-Share Construction and Materials index both of which the Company is a constituent of, from the start of conditional share dealing on 20 April 2016. The graph shows performance of a hypothetical £100 invested and its performance over that period.

Remuneration Committee Report
Annual Report on Remuneration continued

Total shareholder return



This graph shows the value, by 31 December 2018, of £100 invested in Forterra plc on 20 April 2016, compared with the value of £100 invested in the FTSE SmallCap (excl. Investment Trusts) and FTSE All Share Construction and Materials Indices on a daily basis.

Chief Executive Officer's remuneration history

The table below sets out the total Chief Executive Officer's remuneration for 2018, together with the percentage of maximum annual bonus awarded in that year. A summary of remuneration paid will be provided and built up over time until 10 years of data is shown.

Chief Executive Officer	**2018**	2017	2016
Single total figure	**859,644**	£762,476	£985,806[1]
Annual bonus (% of maximum)	**60.5%**	72.0%	50.25%
PSP award (% of maximum)	**36.9%[2]**	–	–

1 Includes a one off bonus agreed prior to IPO of £400,000.

2 Relates to element of 2016 PSP award subject to an EPS growth performance measure with a measurement period ending 31 December 2018.

Change in Chief Executive Officer's remuneration compared with employees

	Change 2017 to 2018		
	Salary change	Benefits change	Annual bonus
Chief Executive Officer	2.4%	19.2%[1]	(14.3%)
Average for all employees	2.6%	–	(10.1%)[2]

1 The increase in Stephen Harrison's benefits was a result of a change in his company car.

2 Decrease in annual bonus calculated for salaried employees only and includes a degree of estimation in respect of employee 2018 bonuses not finalised at the date of this report.

Chief Executive Officer pay ratio

The CEO to average employee pay ratio in 2018 was 20.6 times. This is measured as the ratio of the CEO single figure pay earned in the year to average (mean) employee pay. The Remuneration Committee is steadfastly committed to ensuring that the reward of the CEO and other senior executives is commensurate with performance. Accordingly, as laid out graphically in the Remuneration Policy, a significant element of the Chief Executive's total pay is variable and is determined based on the performance of the Company and is dependent on share price performance.

	2018	2017
Ratio of CEO single figure total remuneration to average employee remuneration	**20.6**	19.1

The Committee is currently considering the further disclosures that will be required in this area from 2019.

The increase in the reported ratio in 2018 compared to the comparative figure is a result of the inclusion of an amount of £125,007 in respect of the vesting of the 2016 PSP awards as further explained in the notes to the single total figure of remuneration table on page 67.

Gender pay reporting

Forterra plc welcomes the UK Government's commitment to address the national gender pay gap. We firmly believe that all employees should have the opportunity to succeed and be rewarded regardless of their gender, and we are committed to ensuring our policies and practices adopt fair and equal principles when it comes to all aspects of diversity and inclusion.

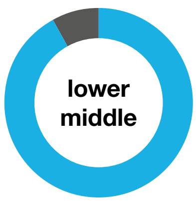
Our Gender Pay Reporting statistics (adhering to reporting guidelines) for the year ended April 2018 are as follows:

	2018		2017	
A woman's hourly rate is:	18.0% lower (mean)	23.0% lower (median)	19.27% lower (mean)	21.89% lower (median)
A woman's bonus pay is:	44.1% lower (mean)	35.3% lower (median)	66.82% lower (mean)	67.62% lower (median)
Within each gender, those who receive bonus (%):	61% of men	80% of women	61% of men	91% of women

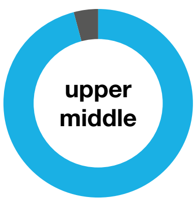
The gender pay split within each quartile (%):

2018

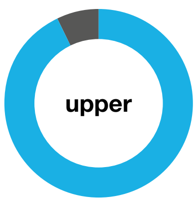
Male	77
Female	23



Male	92
Female	8

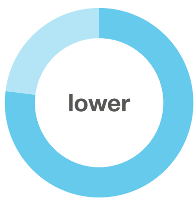


Male	96
Female	4



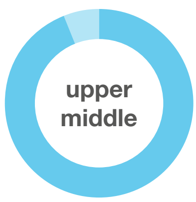
Male	93
Female	7

2017

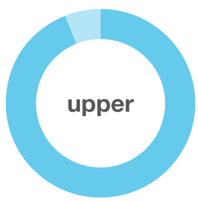


Male	75
Female	25

Male	95
Female	5



Male	94
Female	6



Male	94
Female	6

Remuneration Committee Report Annual Report on Remuneration continued

Relative importance of total spend on pay

The following table shows the Company's actual spend on pay for all employees compared to distributions to shareholders in 2018.

	Disbursements from profit	
	2018 £m	2017 £m
Total spend on pay, including Directors	**94.2**	80.9
Distributions to shareholders by way of dividend	**19.3**[1]	13.8[2]

1 Final 2017 dividend of £0.064 per share paid in July 2018 and interim dividend of £0.033 per share paid in October 2018.

2 Final 2016 dividend of £0.038 per share paid in July 2017 and interim dividend of £0.031 per share paid in October 2017.

It is recognised that the statistics suggest a significant gender pay gap and it is important to stress that Forterra operates recruitment policies and salary and bonus structures that are entirely gender neutral and Forterra's Remuneration Policy is based on the principle of equal pay for equal work and as such the reported gender pay gap is a consequence of a gender imbalance by role type.

We recognise that the industries in which we operate have historically attracted a higher proportion of males to females. As many other companies are finding, a heavy skew towards one gender has an impact on the calculations we are required to report. We therefore believe it is important to look at this topic through a variety of lenses to ensure that we are monitoring for equality.

Further information on Forterra's approach to diversity in the workplace can be found in the Corporate Social Responsibility section of this Annual Report on page 32.

Cascade of incentives

The remit of the Remuneration Committee includes not only the remuneration of the Executive Directors but also the members of the Executive Committee. In making remuneration decisions in respect of the Executive Directors and senior management the Committee also monitors and considers the remuneration of the wider workforce to ensure that pay is fair throughout the Group.

Level	Participation in PSP	Participation in Bonus	Participation in SAYE/SIP[2]
Executive Directors	✓	✓	✓
Executive Committee	✓	✓	✓
Senior managers	✓	✓	✓
Managers		✓	✓
Employees		✓[1]	✓

1 All salaried staff participate in the Forterra staff bonus scheme. Arrangements for hourly paid staff vary by facilities with a number of facilities offering production related bonuses as part of a total remuneration package. Other facilities may have a higher level of base pay and no bonus arrangements.

2 The Share Incentive Plan (SIP) was offered to all employees in employment at the date of the IPO in April 2016.

Advisers to the Remuneration Committee

The Remuneration Committee has access to independent advice where it considers it appropriate. The Committee seeks advice relating to executive remuneration from New Bridge Street (NBS), part of Aon plc. Aon plc also provides other remuneration and benefits services to the Group and the Committee is satisfied that no conflict of interest exists in the provision of these services.

The Committee is satisfied that the advice received by NBS in relation to executive remuneration matters during the year was objective and independent. NBS is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial. The fees paid to NBS during the year totalled £21,365.

Statement of shareholder voting

A high level of shareholder support was received for our Remuneration Report at our 2017 AGM as summarised below:

	Votes for	Votes against	Votes withheld
An advisory vote on the approval of the 2017 Annual Report on Remuneration	161,159,985 (> 99.99%)	2,049 (< 0.01%)	3,035

Approval

This Remuneration Committee Report, comprising the Annual Statement, Remuneration Policy Summary and Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Katherine Innes Ker
Chairman of the Remuneration Committee

12 March 2019

Directors' Report

The Directors present their report for the financial year ended 31 December 2018. The information required by the Listing Rules (DTR 4.1.8R) is contained in the Strategic Report and the Directors' Report. Forterra plc is incorporated in England and Wales with company number 09963666.

Cross references to other sections of the Annual Report and Accounts

The following information that would otherwise be presented in this Directors' Report is included in other appropriate sections of this Annual Report and Accounts.

Subject matter	Section and page reference
Likely future developments in the business	Strategic Report, pages 5 and 6
Risk management	Strategic Report, pages 36 to 41
Financial instruments	Consolidated Financial Statements, pages 103 and 104
Employee engagement, diversity and inclusivity	Strategic Report, pages 32 and 33
Greenhouse gas emissions	Strategic Report, page 31

The following disclosures required under LR 9.8.4R can be found elsewhere in the Annual Report as laid out below:

Subject matter	Section and page reference
Long-term incentive schemes	Annual Report on Remuneration, page 67

Directors

The Directors of the Company who served during the year and to the date of this report are listed on pages 42 and 43. Details of the Directors' interests in the share capital of the Company are set out in the Annual Report on Remuneration on page 70.

Dividends

An interim dividend of 3.3 pence per ordinary share was paid on 11 October 2018 to those shareholders on the register on 21 September 2018. Subject to securing shareholder approval at the 2019 AGM, the Directors are proposing a final dividend for the financial year ended 31 December 2018 of 7.2 pence per ordinary share, this brings the total dividend for the year to 10.5 pence. If approved at the AGM, payment of the final dividend will be made to shareholders registered at the close of business on 14 June 2019 and will be paid on 4 July 2019.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by the shareholders at the first Annual General Meeting following their appointment. In practice however, all Directors are expected to retire and seek re-election on an annual basis.

The Board of Directors may exercise all of the powers of the Company subject to the provisions of relevant laws and the Company's Memorandum and Articles of Association. These include specific provisions and restrictions regarding the Company's ability to borrow money and to issue and repurchase shares.

The Articles of Association may be amended in accordance with the provisions of the Companies Act 2006 by way of a special resolution of the Company's shareholders.

Share capital and control

Details of the Company's share capital are included within note 26 of the Consolidated Financial Statements on page 106.

As at 31 December 2018 there were 200,442,068 ordinary shares of 1p nominal value in issue. The Company has one class of shares, ordinary shares of 1p nominal value, which carry equal rights to dividends, voting and return of capital on winding up of the Company. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights other than those prescribed by law, nor is the Company aware of any arrangement which may result in restrictions on the transfer of securities or voting rights nor any arrangement whereby a shareholder has waived or agreed to wave dividends.

The Company has established two separate employee benefit trusts for the purposes of satisfying awards under the Company's share-based incentive schemes. The Company has established a Trust in connection with the Group's Share Incentive Plan (SIP) which holds ordinary shares in trust for the benefit of employees of the Group. The Trustees of the SIP Trust may vote in respect of Forterra shares held in the Trust but only as instructed by participants in the SIP in accordance with the deed and rules governing the scheme. The Trustees will not otherwise vote in respect of the shares held in the SIP Trust.

The Employee Benefit Trust (EBT) has been established to satisfy future awards vesting under the Performance Share Plan (PSP), the Deferred Annual Bonus Plan (DABP) and the Sharesave Scheme. As at 31 December 2018 the EBT held a total of 2,041,938 shares in the Company.

Directors' Report continued

Substantial shareholdings

At 31 December 2018 the Company in accordance with the Disclosure Guidance and Transparency Rules has been notified of the following interests of greater than 3% in its ordinary share capital. This information is correct at the date of notification and it should be noted that these holdings may have changed since they were notified to the Company.

Name of shareholder	Number of shares disclosed	% interest in voting rights	Nature of holding
Investec Asset Management Ltd	20,032,842	9.99	Indirect
Aberforth Partners LLP	11,515,223	5.74	Indirect
J P Morgan Asset Management (UK) Limited	10,087,168	5.03	Indirect
J O Hambro Capital Management Limited	10,029,158	5.00	Indirect
Polar Capital LLP	9,885,621	4.93	Direct
GLG Partners LP	8,092,748	4.04	Direct
Woodford Investment Management Limited	6,674,721	3.33	Direct

Information provided to the Company in accordance with the Disclosure Guidance and Transparency Rules is publicly available via the Regulatory News Service and on the Company's website.

Significant agreements (change of control)

The Company's committed credit facilities as described in note 20 of the Consolidated Financial Statements on page 102 are subject to provisions that require the mandatory prepayment of the facilities on a change of control. For this purpose, a change of control is defined as any person or group of persons acting in concert gaining direct or indirect control of the Company. For the purposes of this definition, control of the Company means the holding beneficially (directly or indirectly) of the issued share capital of the Company having the right to cast more than 30% of the votes capable of being cast in general meetings of the Company.

There are no agreements between the Group and its Directors and employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) in the event of a takeover bid.

Post balance sheet events

There have been no significant events affecting the Group since the end of the year. Details of developments in the year under review are contained within the Strategic Report.

Political donations

The Group made no donations during the year to any political party or other political organisation.

Going concern

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 this Annual Report and Consolidated Accounts.

The Directors are also required to provide a broader assessment of viability over a longer period which can be found on page 36.

In making the going concern statement and the viability statement the Directors have taken into account the Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014.

Statement of disclosure of information to the auditor

Each Director of the Company confirms that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each of the Directors has taken all the steps they ought to have taken individually as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The 2019 AGM will be held on Monday 20 May 2019. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

Approved by the Board and signed on its behalf by:

Benjamin Guyatt
Company Secretary

12 March 2019

Statement of Directors' Responsibilities

The Directors are required by the Companies Act 2006 to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and applicable law.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Consolidated and Company Financial Statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group and the Company, and which enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that 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 Group's and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are set out on pages 42 and 43 confirm that, to the best of their knowledge:

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

Approved by the Board and signed on its behalf by:

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

12 March 2019

Independent Auditors' Report to the members of Forterra plc

Opinion

In our opinion:

- Forterra plc's Consolidated Financial Statements and Company Financial Statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Forterra plc which comprise:

Group	Company
Consolidated Balance Sheet as at 31 December 2018	Company Balance Sheet as at 31 December 2018
Consolidated Statement of Total Comprehensive Income for the year then ended	Company Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 12 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Consolidated Financial Statements is the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 36 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 36 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 88 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 36 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition and accounting for customer rebates. • Management override of Restoration and Decommissioning provision.
Audit scope	• We performed a full scope audit of the complete financial information for the main trading component and full scope audit procedures for the plc company. • The components where we performed full or specific audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of £3.2m which represents 5% of Profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (Revenue net of rebates £367.5 million, prior year comparative £331.0 million) and accounting for rebates. Refer to Accounting policies (page 89); and Note 4 of the Consolidated Financial Statements (pages 94 to 96) There is a risk of inappropriate revenue recognition through revenue being recorded in the wrong period or through inappropriate manual journals posted to revenue. There is a risk customer rebates could be incorrectly recorded resulting in the understatement of the associated expense and accrual.	**Revenue recognition** We have understood the accounting for revenue recognition which included identifying key controls over the revenue process. We performed data analytics techniques over the full amount of revenue recognised in the year through to invoice settlement. Where the process did not follow our expectations, we investigated and tested these entries to ensure their validity by agreeing back to source documentation. We have tested journal entries to revenue, applying a number of parameters designed to identify and test entries that were not in accordance with our expectations. This included analysing and selecting journals for testing due to size, preparer or being manually posted. We verified the journals to originating documentation to confirm that the entries were valid. We have tested a statistical sample of revenue transactions throughout the period to ensure they met the IFRS revenue recognition criteria and traced them to source documentation making sure they were appropriately recorded. In addition we have obtained management's assessment of the impact IFRS 15 and performed independent testing to verify the assumptions made. We inspected the financial impact of transactions around the period end and tested a sample of transactions to source documentation to ensure they were recorded in the correct period. **Accounting for rebates** We performed data analytics across the full population of rebates postings from rebate expense recognition to settlement. Postings that did not follow our expectations were tested to underlying support to confirm their validity. We selected a statistical sample of customer rebates for significant customers, and confirmed the expense, payment and expected accrual at year end through to direct confirmation from customers and recalculated the rebates. Where we did not receive direct confirmation we performed alternative procedures to recalculate the rebate expense and provision recognised by validating the underlying sales data, confirming this to audited evidence and the rebates rate used in the calculation to contract. We also performed year on year analysis to understand and investigate the material changes in the provision and expense. To determine the completeness of the rebates, we assessed the aged debtors, post period end credit notes, testing the release of rebates to the P&L and review of old accruals held for evidence of any unrecorded amounts. We also made enquires of management.	Based on our procedures we have identified no instances of incorrect revenue recognition or rebates recognised and the amounts have been recognised in line with IFRS 15.
	We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.	

Independent Auditors' Report to the members of Forterra plc
continued

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Management override of the Restoration and Decommissioning provision (£11.1 million, prior year comparatives £11.5 million)	We have obtained the group accounting policy, management's accounting paper and supporting analysis setting out the accounting treatment applied in preparing the calculation of the Restoration and Decommissioning provision (including the underlying assumptions) and walking through key controls within the process.	The assumptions used in the valuation of the Restoration and Decommissioning provision are considered materially correct and within an acceptable range.
Refer to the Audit Committee Report (page 50); Accounting policies (page 93); and Note 24 of the Consolidated Financial Statements (page 105) The Restoration and Decommissioning provision is subject to a high degree of subjectivity as to determine the estimated future cash outflows involves significant management judgements in relation to inflation rates and the appropriate discount rate to use.	Our valuation specialists have independently evaluated the discount and inflation rates used by management. Our analysis produced a range of appropriate outcomes for both of the assumptions when benchmarked against market data. We concluded that management's assumptions were within an acceptable range. We obtained management's cost calculation of the Restoration and Decommissioning provision for each site, which is based on an independent third party consultant's assessment. We assessed the appropriateness of the methodology used which included holding calls with management's consultants, confirming its compliance with IFRS and the appropriateness of the cost calculated. We have also performed hindsight analysis to compare the provision to sites which have been decommissioned to assess the appropriateness of the provision. Where differences have been identified we have investigated and obtained evidence for the differences to support the final assumptions used. We have previously agreed the useful lives used in the calculation to third party surveys of the level of mineral reserves held at each site. Using this information we have compared the year on year movement, where a material movement has occurred we have obtained evidence to support the change in the year.	Based on our procedures, we have identified no instances of inappropriate management override of the Restoration and Decommissioning provision.
	We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we have selected the three components, which represent the principal business units within the Group.

Of the three components, we performed an audit of the complete financial information (full scope components) for two of them. For the other component we have performed review procedures over the accounts within that component.

The components where we performed audit procedures accounted for 100% (2017: 100%) of the Group's Profit before tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets.

For the current year, the full scope components contributed 100% (2017: 100%) of the Group's adjusted Profit before tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets.

The remaining component represents 0% of the Group's Profit before tax. For this component, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.2 million (2017: £3.1 million), which is 5% (2017: 5%) of Profit before tax.

We determined materiality for the Company to be £1.5 million (2017: £1.5 million), which is 0.5% of Total assets (2017: 0.5%).

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be set at 75% (2017: 75%) of our planning materiality, namely £2.4m (2017: £2.3m). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the audit, which indicates a lower risk of misstatements.

Audit work of the components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.4m to £1.9m (2017: £2.3m to £1.8m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.16m (2017: £0.15m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 77, including Strategic Report, set out on pages 1 to 41, governance, set out on pages 42 to 77 and additional information set out on page 116, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If based on the work performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 51 –** the statement given by the Directors that they consider 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 Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 49 –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 45 –** the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditors’ Report to the members of Forterra plc continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion: the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company’s corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors’ Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Responsibilities of Directors

As explained more fully in the Directors’ Responsibilities Statement set out on page 77, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit.

Strategic Report
Governance
Financial Statements
Additional Information

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how Forterra plc is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, divisional management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were re-appointed as auditors by the Company at the AGM on 22 May 2018 and the engagement letter was signed on 12 August 2016 and amended on 22 February 2018 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ending 31 December 2016 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely 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 this report, or for the opinions we have formed.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

12 March 2019

1 The maintenance and integrity of the Forterra plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Total Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Revenue	4	**367.5**	331.0
Cost of sales		**(230.2)**	(196.8)
Gross profit		**137.3**	134.2
Distribution costs		**(51.8)**	(48.9)
Administrative expenses		**(20.1)**	(21.2)
Other operating income	7	**1.7**	0.4
Operating profit	5	**67.1**	64.5
EBITDA		**78.8**	75.4
Depreciation and amortisation	14,15	**(11.7)**	(10.9)
Operating profit		**67.1**	64.5
Finance expense before exceptional items		**(2.3)**	(3.4)
Exceptional finance items	9	**–**	(1.8)
Net finance expense	10	**(2.3)**	(5.2)
Profit before tax		**64.8**	59.3
Income tax expense	11	**(12.0)**	(11.8)
Profit for the year attributable to equity shareholders		**52.8**	47.5
Total comprehensive income for the year attributable to equity shareholders		**52.8**	47.5
Earnings per share		**Pence**	**Pence**
Basic earnings per share	13	**26.5**	23.8
Diluted earnings per share	13	**26.1**	23.4

Consolidated Balance Sheet

At 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	14	**17.3**	15.8
Property, plant and equipment	15	**170.5**	165.2
		187.8	181.0
Current assets			
Inventories	16	**37.4**	36.3
Trade and other receivables	17	**37.9**	33.0
Cash and cash equivalents	18	**26.0**	29.0
		101.3	98.3
Total assets		**289.1**	279.3
Current liabilities			
Trade and other payables	19	**(72.0)**	(61.2)
Current tax liabilities		**(3.9)**	(5.8)
Loans and borrowings	20	**(0.3)**	(0.4)
Provisions for other liabilities and charges	24	**(4.2)**	(7.9)
		(80.4)	(75.3)
Non-current liabilities			
Loans and borrowings	20	**(64.5)**	(89.4)
Provisions for other liabilities and charges	24	**(8.4)**	(9.1)
Deferred tax liabilities	25	**(1.6)**	(0.8)
		(74.5)	(99.3)
Total liabilities		**(154.9)**	(174.6)
Net assets		**134.2**	104.7
Capital and reserves attributable to equity shareholders			
Ordinary shares	26	**2.0**	2.0
Retained earnings		**138.0**	102.7
Reserve for own shares	26	**(5.8)**	–
Total equity		**134.2**	104.7

The notes on pages 88 to 109 are an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors on 12 March 2019 and signed on their behalf by:

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Operating profit		**67.1**	64.5
Adjustments for:			
– Depreciation and amortisation	14,15	**11.7**	10.9
– Non-cash movement on provisions	24	**(2.3)**	3.1
– Share-based payments	28	**2.1**	1.5
– Other non-cash items		**(1.3)**	–
– Profit on sale of property, plant and equipment	7	**(0.2)**	(0.4)
Changes in working capital:			
– Inventories		**(1.1)**	3.0
– Trade and other receivables		**(4.9)**	(1.4)
– Trade and other payables		**10.9**	9.5
– Cash movement on provisions		**(2.2)**	(0.5)
Cash generated from operations		**79.8**	90.2
Interest paid		**(2.2)**	(3.3)
Tax paid		**(11.8)**	(9.3)
Net cash generated from operating activities		**65.8**	77.6
Cash flows from investing activities			
Cash outflow on business combinations		**–**	(20.0)
Purchase of property, plant and equipment		**(16.5)**	(9.0)
Purchase of intangible assets		**(2.1)**	(1.8)
Proceeds from sale of property, plant and equipment		**0.2**	0.6
Net cash used in investing activities		**(18.4)**	(30.2)
Cash flows from financing activities			
Dividends paid	12	**(19.3)**	(13.8)
Drawdown of borrowings		**–**	100.0
Repayment of borrowings		**(25.0)**	(160.0)
Finance arrangement fees paid		**–**	(0.8)
Equity shares acquired by Employee Benefit Trust		**(6.1)**	–
Net cash used in financing activities		**(50.4)**	(74.6)
Net decrease in cash and cash equivalents		**(3.0)**	(27.2)
Cash and cash equivalents at the beginning of the period		**29.0**	56.2
Cash and cash equivalents at the end of the period	18	**26.0**	29.0

Consolidated Statement of Changes In Equity

For the year ended 31 December 2018

	Note	Share capital £m	Reserve for own shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017		2.0	–	67.2	69.2
Total comprehensive income for the year		–	–	47.5	47.5
Dividends paid		–	–	(13.8)	(13.8)
Share-based payments charge		–	–	1.2	1.2
Tax on share-based payments		–	–	0.6	0.6
Balance at 31 December 2017		**2.0**	**–**	**102.7**	**104.7**
Total comprehensive income for the year		–	–	52.8	52.8
Dividends paid	12	–	–	(19.3)	(19.3)
Own shares purchased		–	(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	25	–	–	(0.3)	(0.3)
Balance at 31 December 2018		**2.0**	**(5.8)**	**138.0**	**134.2**

Notes to the Financial Statements

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.

The Consolidated Financial Statements of the Group for the year ended 31 December 2018 were approved for issue by the Board of Directors on 12 March 2019.

2 Summary of significant accounting policies

(a) Basis of preparation

The accounting policies used in the preparation of the Consolidated Financial Statements of the Group are set out below. These accounting policies have been used consistently in all material respects across the periods presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are presented in Pounds Sterling and all values are rounded to the nearest hundred thousand unless otherwise indicated.

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

(b) 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 Consolidated Financial Statements.

Further, the Group sets out on pages 21 and 22 of its Strategic Report the financial position, performance, cash flows and borrowing facilities and on page 36 its viability statement. In addition, note 23 to the Consolidated Financial Statements includes the Group's objectives, policies and procedures for financial risk management, including details of exposure and response to foreign exchange, interest rate, credit and liquidity risks.

(c) New standards, amendments and interpretations

The accounting policies adopted in the preparation of the Consolidated Financial Statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2017, except as disclosed below.

The following new standards became applicable in the reporting period:

- IFRS 9 – Financial Instruments (effective 1 January 2018)

IFRS 9 makes changes to accounting for financial instruments in the areas of classification and measurement, impairment and hedge accounting. The Group's financial instruments have been assessed against the new criteria of a business model test and cash flow test at the date of initial application.

As a result, the classification of trade and other receivables changed from loans and receivables at 31 December 2017 to Debt instruments at amortised cost at 1 January 2018. There is no other impact on the classification and measurement of financial instruments for the Group as a result of IFRS 9 and hedge accounting is not applied.

IFRS 9 replaces the incurred credit loss impairment model for financial assets in IAS 39 with an expected credit loss model. This has no impact on the Group financial statements due to the short-term nature of receivables.

- IFRS 15 – Revenue from contracts with customers (effective 1 January 2018)

During 2017 a detailed review of contracts was carried out to identify and analyse the impact of IFRS 15 on the Group. A further review has been carried out in 2018 and reconfirmed that, whilst contracts in the Bespoke Products segment reflect that products are typically made to measure or custom orders, the timing of the transfer of control is consistent across segments. Therefore, revenue recognition and profit before tax are not impacted by the implementation of IFRS 15.

The following new standard has been issued but is not yet effective and therefore has not been applied in these financial statements.

2 Summary of significant accounting policies continued

- IFRS 16 – Leases (effective 1 January 2019)

The new leasing standard, IFRS 16, will be effective from 1 January 2019 and will have a significant effect on the Consolidated Group Balance Sheet due to leases of premises, land, fleet vehicles, cars and plant. Under the new standard a lessee will recognise, in its Consolidated Statement of Financial Position, a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease expense within the Consolidated Statement of Total Comprehensive Income will also be affected and, whilst the total charge will remain the same over the lease period, the cost recognised in the Consolidated Statement of Total Comprehensive Income in earlier years will be higher. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group will use the modified retrospective transition method on adoption. Under this, the asset is calculated as if IFRS 16 had always been applied, however the liability is calculated as if all leases start on 1 January 2019, which will result in no change to comparative numbers but an adjustment within the reserves of the Group. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has assessed the impact that initial application of IFRS 16 will have on its Consolidated Financial Statements and has estimated that the total transition adjustment at 1 January 2019 will be as follows:

- Recognition of a right of use asset and lease liability, both in the region of £14m-£18m; and
- No significant impact to profit before tax for the year ending 31 December 2019; with an increase in EBITDA of approximately £6m offset by a similar increase in interest and depreciation.

Notwithstanding the above, the actual impacts of adopting the standard on 1 January 2019 may change because:

- The Group is in the process of finalising the testing and assessment of the controls over collection of all the necessary information in relation to lease contracts, required for the application of IFRS 16;
- The Group is still refining its impact assessment calculations specifically in relation to the judgement around lease extensions, renewal and terminations and the determination of the appropriate rate to discount the lease payment; and
- The new accounting policies are subject to change until the Group presents its first Consolidated Financial Statements that include the date of initial application.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(d) Basis of consolidation

The Group controls an entity when it is exposed to, or has rights to, variable returns and has the ability to affect those returns through its power over the entity. A subsidiary is an entity over which the Group has control. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

(e) Foreign currency translation

The presentational currency of the Group is Pounds Sterling; the currency of the primary economic environment in which the Group operates.

Foreign currency transactions are translated into the presentational currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at period end, are recognised in the Group's Consolidated Statement of Total Comprehensive Income.

(f) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts for goods supplied, net of rebates, discounts, returns and value added taxes. The Group recognises revenue when performance obligations are met, as follows:

- Bricks and Blocks – When the goods are delivered.
- Bespoke products – For supply contracts, when the goods are delivered, and for supply and fit contracts, when goods are delivered and installed.
- Bill and hold arrangements – When the customer obtains control of the goods.
- The Group provides volume-based rebates to certain customers, typically on an annual basis. Revenue is recognised net of rebates paid or accrued.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

(g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Executive Committee which has been identified as the chief operating decision maker.

(h) Exceptional items

The Group presents as exceptional items on the face of the Consolidated Statement of Total Comprehensive Income, those material items of income and expense, which, because of the nature and 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.

(i) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset, costs attributable to bringing the asset to working condition for intended use, the initial estimate of any decommissioning obligation and associated changes to those estimates. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate assets.

Subsequent costs are included in the asset's carrying value where they meet the recognition criteria.

Assets are derecognised on disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of an asset and are recognised in the Consolidated Statement of Total Comprehensive Income. Where no future economic benefit is expected from the use of an asset, a provision is made against its carrying value in accordance with IAS 37.

Land and assets under construction are not depreciated. For the other categories of property, plant and equipment, depreciation is charged to cost of sales within the Consolidated Statement of Total Comprehensive Income on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of assets are as follows:

- Freehold buildings – 40 years
- Leasehold buildings – Shorter of the useful life and the lease term
- Plant and machinery – 4 to 25 years

Depreciation ceases where plant and machinery ordinarily used in production is idle as a result of the temporary cessation of production at a facility. Where assets are idle for any other reason depreciation continues to be charged in line with the requirements of IAS 16.

Asset residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount of an asset is written down if it is in excess of recoverable amount.

Repairs and maintenance expenses do not meet the recognition criteria and are recognised as an expense in the Consolidated Statement of Total Comprehensive Income.

(j) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of businesses, trade and assets where consideration paid exceeds the fair value at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs). Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of fair value less costs to sell and value in use. Any impairment is recognised immediately as an expense in the Consolidated Statement of Total Comprehensive Income and is not subsequently reversed.

(ii) Brand

Intangible assets are not amortised if they have an indefinite useful life but are tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

(iii) Other intangible assets

Other intangibles consists of clay rights, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. All other intangible assets have finite lives and are carried at cost less accumulated amortisation. Amortisation for all intangible assets, including those internally generated, is charged to administrative expenses within the Consolidated Statement of Total Comprehensive Income on a straight-line basis over the estimated useful lives of the assets. These can be up to five years for software and up to 30 years for other intangibles.

2 Summary of significant accounting policies continued

(iv) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility to complete the development so that the asset will be available for use or sale;
- The intention to complete and an ability and intention to use or sell the asset;
- That the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to reliably measure development expenditure.

(k) Financial instruments

The Group determines the classification of financial assets and financial liabilities at initial recognition.

Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward looking data. Such allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

The principal financial assets and liabilities of the Group are as follows:

(i) Trade and other receivables (excluding prepayments)

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. All trade receivables are expected to be settled in one year or less.

Trade receivables are reported net of an allowance for expected credit losses. Losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. Expected loss allowances are recorded in a separate provision account with the loss being recognised within administrative expenses in the Consolidated Statement of Total Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) Trade and other payables (excluding statutory non-financial liabilities)

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost using the effective interest method.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits.

(iv) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense.

(v) Derivative financial instruments

The Group uses derivative financial instruments, in particular forward foreign exchange contracts and options, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes. No derivatives have been designated as hedges in the periods presented.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any costs expected to be incurred in production and sale. The Group applies an inventory provision for damaged, obsolete, excess and slow-moving inventory.

Raw materials are measured at the weighted average cost. This method perpetually applies a cost weighting to obtain an average cost of purchased inventory and inventory on hand in proportion to quantity.

Finished goods are measured at standard cost. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

(m) Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle that obligation and the amount can be reliably measured. If the effect is material the provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The change in provisions due to passage of time is recognised as a net finance expense.

Provisions for rebates are included in accrued liabilities and other payables.

Provisions are not made for future operating losses.

Notes to the Financial Statements continued

2 Summary of significant accounting policies continued

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(o) Operating leases

Leases in which a significant portion of the risk and reward is not transferred to the Group are classified as operating leases. The total rentals payable under operating leases are charged to the Consolidated Statement of Total Comprehensive Income on an accrual basis over the lease term. Operating lease incentives, which primarily include rent-free periods, are capitalised and released to the rental expense within the Consolidated Statement of Total Comprehensive Income over the lease term. The Group has no finance leases.

(p) Net finance expense

Finance expense

Finance expense comprises interest payable on borrowings from external and related parties, direct issue costs, foreign exchange losses and unwinding of discount on long-term provisions. Finance expense is recognised in the Consolidated Statement of Total Comprehensive Income as it accrues using the effective interest method.

Finance income

Finance income comprises interest receivable on funds invested and foreign exchange gains.

(q) Current and deferred income tax

Income tax for the periods presented comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Total Comprehensive Income, unless it relates to items recognised directly in equity.

The current income tax charge is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(r) Employee benefits

The Group operates a defined contribution pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when due.

(s) Share-based payments

The Group operates a number of equity-settled share-based payment plans. The fair value of the employee services received in exchange for the grant of shares or options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of shares or options granted. At each balance sheet date the Group revises its estimates of the number of shares or options that are expected to vest and recognises the impact of the revision on original estimates, if any, in the Consolidated Statement of Total Comprehensive Income, with a corresponding adjustment to equity.

(t) Own shares held by employee benefit trust

The Group has established two separate employee benefit trusts for the purposes of satisfying awards under the Group's share-based incentive schemes. Shares in the Group acquired by the trusts are deducted from equity until shares are cancelled, reissued or disposed.

3 Significant accounting estimates and judgements

The preparation of the Consolidated Financial Statement under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

(a) Accounting estimates

(i) Provisions

Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value, management reference information from the Bank of England when making such estimates.

Management do not engage third party experts to estimate these rates as historic and forecast information has shown that the two rates often move in tandem and therefore do not cause a material net impact. If the rates did not move in tandem and the spread between them increased by 0.5% the value of provisions could change by c.£1.4m.

Provisions for product liability or other legal claims, restructuring, and carbon emissions obligations are all made based on the best estimate of the likely committed cash outflow, using relevant information available at the reporting date.

Management engage third party valuation experts, as appropriate, when material and complex estimates are required.

(b) Accounting judgements

(i) Inventory valuation and provisioning

Inventory carrying value is stated after recognising inventory provisions. The calculation of provisions for the potential inventory obsolescence requires a degree of commercial judgement when determining saleability and price of certain finished goods.

(ii) Impairment of intangible assets

The Group evaluates its intangible assets with finite lives for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant under-performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. Where there is evidence of diminution in value, the intangible asset is reviewed to assess whether the recoverable amount exceeds the carrying value. Assets not subject to amortisation including goodwill and brands are tested annually for impairment, as discussed in note 14.

The recoverable amount is defined as the higher of fair value less costs to sell and value in use, which in turn is the present value of the future cash flows expected to be derived from the asset. The estimate of value in use, and hence the outcome of the impairment test, is sensitive to the assumptions made about the revenue growth, EBITDA margin, the long-term growth rate of the relevant market, and the discount rate considered appropriate to reflect the time value of money and any risks specific to the asset that are not reflected in the cash flows.

Notes to the Financial Statements continued

4 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 three 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 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.

The Bespoke Products range includes precast concrete (now marketed under the 'Bison Precast' brand), permeable paving, 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, including permeable paving and 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, have been allocated to the segments for reporting purposes using long-term average sales reporting. Management considers that a split of the 75% Bricks and Blocks and 25% Bespoke Products should be applied as the growth of Bespoke Products through the Bison acquisition has not resulted in additional central costs being incurred. Management considers that this is an appropriate basis for the allocation.

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

		2018		
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		**269.4**	**100.3**	**369.7**
Intersegment eliminations				**(2.2)**
Revenue				**367.5**
EBITDA		**75.8**	**3.0**	**78.8**
Depreciation and amortisation	14,15	**(9.4)**	**(2.3)**	**(11.7)**
Operating profit		**66.4**	**0.7**	**67.1**
Net finance expense	10			**(2.3)**
Profit before tax				**64.8**

For the purpose of monitoring segment performance, finance expenses are not allocated to segments.

Segment assets

		2018		
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	15	**136.9**	**33.6**	**170.5**
Intangible assets	14	**9.2**	**8.1**	**17.3**
Inventories	16	**29.7**	**7.7**	**37.4**
Segment assets		**175.8**	**49.4**	**225.2**
Unallocated assets				**63.9**
Total assets				**289.1**

4 Segmental reporting continued

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

	Note	2018 Bricks and Blocks £m	2018 Bespoke Products £m	2018 Total £m
Property, plant and equipment additions	15	**15.3**	**1.3**	**16.6**
Intangible asset additions	14	**1.6**	**0.6**	**2.2**

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

	2018 Bricks and Blocks £m	2018 Bespoke Products £m	2018 Total £m
Customer A	**46.0**	**2.7**	**48.7**
Customer B	**33.9**	**2.3**	**36.2**

Segment revenue and results

	Note	2017 Bricks and Blocks £m	2017 Bespoke Products £m	2017 Total £m
Segment revenue		**249.5**	**83.6**	**333.1**
Intersegment eliminations				(2.1)
Revenue				**331.0**
EBITDA		**69.1**	**6.3**	**75.4**
Depreciation and amortisation	14,15	(9.6)	(1.3)	(10.9)
Operating profit		**59.5**	**5.0**	**64.5**
Finance expense before exceptional items				(3.4)
Exceptional finance items	9			(1.8)
Net finance expense	10			(5.2)
Profit before tax				**59.3**

For the purpose of monitoring segment performance, exceptional items and finance expenses are not allocated to segments.

Segment assets

	Note	2017 Bricks and Blocks £m	2017 Bespoke Products £m	2017 Total £m
Property, plant and equipment	15	130.7	34.5	165.2
Intangible assets	14	8.1	7.7	15.8
Inventories	16	30.5	5.8	36.3
Segment assets		**169.3**	**48.0**	**217.3**
Unallocated assets				**62.0**
Total assets				**279.3**

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.

Notes to the Financial Statements continued

4 Segmental reporting continued

Other segment information

	Note	2017 Bricks and Blocks £m	2017 Bespoke Products £m	2017 Total £m
Property, plant and equipment additions	15	7.3	1.4	8.7
Property, plant and equipment acquired	15	–	20.0	20.0
Intangible asset additions	14	1.1	0.3	1.4
Intangibles assets acquired	14	–	1.2	1.2

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

	2017 Bricks and Blocks £m	2017 Bespoke Products £m	2017 Total £m
Customer A	40.1	2.4	42.5
Customer B	31.0	4.4	35.4

5 Operating profit

Profit from operations is stated after charging:

	Note	**2018 £m**	2017 £m
Depreciation and amortisation	14,15	**(11.7)**	(10.9)
Operating lease expense		**(8.2)**	(6.8)
Share-based payments	28	**(2.1)**	(1.5)

6 Auditor remuneration

	2018 £m	2017 £m
Audit services		
Fees payable for the audit of the Company and Consolidated Financial Statements	**(0.1)**	(0.1)
Fees payable for the audit of the subsidiary Financial Statements	**(0.2)**	(0.2)
	(0.3)	(0.3)

7 Other operating income

	2018 £m	2017 £m
Profit on sale of property, plant and equipment	**0.2**	0.4
Other income	**1.5**	–
	1.7	0.4

The other income balance contains amounts relating to rental income, revenue from waste contracts and operating cost movements in the Group's restoration and decommissioning provisions.

8 Employment costs

Employment costs for the Group during the year

	2018 £m	2017 £m
Wages and salaries	**(79.1)**	(67.5)
Pension costs	**(5.8)**	(5.4)
Social security costs	**(7.2)**	(6.5)
Share-based payments	**(2.1)**	(1.5)
	(94.2)	(80.9)

The total share-based payments cost in the year includes national insurance contributions of £0.2m (2017: £0.3m).

Average number of employees

	2018	2017
Administration	**225**	203
Production and distribution	**1,680**	1,462
	1,905	1,665

The increase in employment costs and average number of employees is primarily due to the Bison acquisition, which completed in the second half of 2017.

Pension costs

Throughout the period under review the Group provided pension benefits to employees through defined contribution schemes and by way of a retirement allowance to some members of the senior management.

9 Exceptional items

	2018 £m	2017 £m
Exceptional finance expenses		
IPO capitalised financing costs written off	**–**	(1.8)
	–	(1.8)

Following the refinancing of the Group's borrowing facility during 2017, the balance of the capitalised financing cost incurred when the previous facility was put in place at IPO was written-off. There were no exceptional items in 2018.

10 Net finance expense

	2018 £m	2017 £m
Interest payable on external borrowings	**(2.2)**	(3.4)
IPO capitalised financing costs written off	**–**	(1.8)
Other finance expense	**(0.1)**	–
	(2.3)	(5.2)

11 Taxation

	Note	2018 £m	2017 £m
Current tax			
UK corporation tax on profit for the year		**(11.7)**	(11.4)
Prior year adjustment on UK corporation tax		**0.2**	0.2
Total current tax		**(11.5)**	(11.2)
Origination and reversal of temporary differences	25	**(0.7)**	(0.5)
Effect of change in tax rates	25	**0.1**	0.1
Effect of prior period adjustments	25	**0.1**	(0.2)
Total deferred tax		**(0.5)**	(0.6)
Income tax expense		**(12.0)**	(11.8)

Notes to the Financial Statements continued

11 Taxation continued

	2018 £m	2017 £m
Profit on ordinary activities before tax	**64.8**	59.3
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19.0% (2017: 19.25%)	**(12.3)**	(11.4)
Effects of:		
Change in tax rate	**0.1**	0.1
Expenses not deductible for tax purposes	**(0.1)**	(0.5)
Prior period adjustments	**0.3**	–
Income tax expense	**(12.0)**	(11.8)

The main rate of UK corporation tax for 2018 is 19.0%, which was effective from 1 April 2017.

12 Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 3.3p per share (2017: 3.1p)	**(6.6)**	(6.2)
Final dividend of 6.4p per share in respect of prior year (2017: 3.8p)	**(12.7)**	(7.6)
	(19.3)	(13.8)

The Directors are proposing a final dividend for 2018 of 7.2p per share, making a total payment for the year of 10.5p (2017: 9.5p).

The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the Consolidated Financial Statements.

13 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS reflects the effect of the conversion of dilutive options.

	Note	2018 £m	2017 £m
Operating profit for the year		**67.1**	64.5
Finance charge	10	**(2.3)**	(5.2)
Profit before taxation		**64.8**	59.3
Tax charge	11	**(12.0)**	(11.8)
Profit for the year		**52.8**	47.5
Weighted average number of shares (millions)		**199.2**	200.0
Effect of share incentive awards and options (millions)		**3.1**	2.9
Diluted weighted average number of ordinary shares (millions)		**202.3**	202.9

	2018	2017
Earnings per share:		
Basic (in pence)	**26.5**	23.8
Diluted (in pence)	**26.1**	23.4
Earnings per share before exceptional items (in pence)	**26.5**	24.5

EPS before exceptional items is presented as an additional performance measure and is calculated by excluding the exceptional charge of £1.8m in 2017 and the associated tax effect.

14 Intangible assets

	Goodwill £m	Brand £m	Other intangibles £m	Total £m
Cost				
At 1 January 2018	**406.5**	**11.1**	**16.3**	**433.9**
Additions	**–**	**–**	**2.2**	**2.2**
Disposals	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2018	**406.5**	**11.1**	**17.9**	**435.5**
Accumulated amortisation and impairment				
At 1 January 2018	**(399.7)**	**(4.7)**	**(13.7)**	**(418.1)**
Charge for the year	**–**	**–**	**(0.6)**	**(0.6)**
Disposals	**–**	**–**	**0.5**	**0.5**
At 31 December 2018	**(399.7)**	**(4.7)**	**(13.8)**	**(418.2)**
Net book value at 31 December 2018	**6.8**	**6.4**	**4.1**	**17.3**
Net book value at 1 January 2018	**6.8**	**6.4**	**2.6**	**15.8**

	Goodwill £m	Brand £m	Other intangibles £m	Total £m
Cost				
At 1 January 2017	405.7	10.7	15.0	431.4
Additions	–	–	1.4	1.4
Assets acquired on business combination	0.8	0.4	–	1.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2017	406.5	11.1	16.3	433.9
Accumulated amortisation and impairment				
At 1 January 2017	(399.7)	(4.7)	(13.3)	(417.7)
Charge for the year	–	–	(0.5)	(0.5)
Disposals	–	–	0.1	0.1
Impairment charge	–	–	–	–
At 31 December 2017	(399.7)	(4.7)	(13.7)	(418.1)
Net book value at 31 December 2017	6.8	6.4	2.6	15.8
Net book value at 1 January 2017	6.0	6.0	1.7	13.7

The carrying value of goodwill relates to the trades of Formpave and Bison Precast, CGUs within the Bespoke Products reportable segment. The brand category comprises the acquired Thermalite and Bison Precast brands, components of the Bricks and Blocks and Bespoke Products reportable segments respectively. The other intangibles category consists of clay rights, carbon emission credits, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. Additions in the period relate to costs incurred upgrading Group IT systems.

Impairment of intangible assets

(i) Goodwill and Intangible assets with indefinite useful lives

The goodwill balance of £6.8m (2017: £6.8m) relates to the Formpave and Bison Precast CGUs allocated to the Bespoke products reportable segment. Intangible assets with indefinite useful lives consist of the Thermalite brand which is allocated to the Aircrete blocks CGUs within the Brick and Block reportable segment and the Bison Precast brand which is allocated to the Bespoke products segment when undertaking annual impairment tests. The Group estimates recoverable amount using a value in use model by projecting pre-tax cash flows over the estimated useful life. The key assumptions underpinning the recoverable amount of the goodwill are forecast revenue, EBITDA margin, capital expenditure and discount rate.

The forecast revenues and EBITDA in the models are based on management's past experience and future expectations of performance. Maintenance CAPEX is based on planned levels in the short-term and recent trends in the longer-term. A pre-tax discount rate, 12.5% in 2018 (2017: 10.4%) has been derived from a WACC calculation and benchmarked against similar organisations operating within the sector and used to discount cash flows. Short-term growth rates vary by CGU and are based on management's past experience and expectations of future market performance. These growth rates were between 4% and 12.5% in 2018 (2017: 2.5% and 5.3%), the increase in the higher end of the range in 2018 reflects investment in both Thermalite and Bison.

Notes to the Financial Statements continued

14 Intangible assets continued

Terminal growth rates of 2% for 2018 (2017: 2%), is consistent across CGUs and reflect management's past experience, expectations of future market performance, longer-term industry forecasts and inflationary expectations. Management consider that it is not reasonably possible for assumptions to change so significantly as to eliminate headroom in each of the years presented.

Included in software is £0.2m (2017: £0.3m) of own work capitalised.

The recoverable amounts in respect of goodwill and indefinite life intangibles, as assessed by management using the above assumptions, is greater than the carrying amount and therefore no impairment has been recognised in 2018 (2017: £nil). Management consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate headroom in each of the years presented in these Consolidated Financial Statements.

15 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2018	**134.1**	**238.8**	**372.9**
Asset reclasses	**0.5**	**(0.5)**	**–**
Additions	**6.8**	**9.8**	**16.6**
Disposals	**–**	**(16.7)**	**(16.7)**
Changes in the value of decommissioning assets	**(0.2)**	**–**	**(0.2)**
At 31 December 2018	**141.2**	**231.4**	**372.6**
Accumulated depreciation and impairment			
At 1 January 2018	**(47.4)**	**(160.3)**	**(207.7)**
Asset reclasses	**(0.4)**	**0.4**	**–**
Charge for the year	**(2.1)**	**(9.0)**	**(11.1)**
Disposals	**–**	**16.6**	**16.6**
Changes in the value of decommissioning assets	**0.1**	**–**	**0.1**
At 31 December 2018	**(49.8)**	**(152.3)**	**(202.1)**
Net book value at 31 December 2018	**91.4**	**79.1**	**170.5**
Net book value at 1 January 2018	**86.7**	**78.5**	**165.2**

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2017	124.2	226.1	350.3
Additions	1.0	7.7	8.7
Assets acquired on business combination	9.9	10.1	20.0
Disposals	(0.8)	(5.1)	(5.9)
Changes in the value of decommissioning assets	(0.2)	–	(0.2)
At 31 December 2017	134.1	238.8	372.9
Accumulated depreciation and impairment			
At 1 January 2017	(46.3)	(156.8)	(203.1)
Charge for the year	(2.1)	(8.3)	(10.4)
Disposals	0.8	4.8	5.6
Changes in the value of decommissioning assets	0.2	–	0.2
At 31 December 2017	(47.4)	(160.3)	(207.7)
Net book value at 31 December 2017	86.7	78.5	165.2
Net book value at 1 January 2017	77.9	69.3	147.2

15 Property, plant and equipment continued

Land and buildings comprise sites used for administration, distribution, manufacturing and mineral extraction. Each asset is used to generate operating cash flows and rates of depreciation reflect this use.

Quarries and manufacturing facilities are classified under land and buildings. Quarrying enables manufacturing and is not carried out for any other economic purpose. The two are therefore not considered to be distinct.

Included within property, plant and equipment are assets under the course of construction of £3.4m (2017: £1.6m), comprising £0.4m (2017: £nil) for land and buildings and £3.0m (2017: £1.6m) for plant and machinery.

16 Inventories

	2018 £m	2017 £m
Raw materials	**5.6**	4.5
Work in progress	**1.9**	1.7
Finished goods	**28.2**	29.1
Other inventory	**1.7**	1.0
	37.4	36.3

Costs relating to raw materials and consumables included in cost of sales during the year totalled £76.1m (2017: £69.8m). Employment expenses within cost of sales totalled £66.5m (2017: £56.0m).

Write downs of inventories recognised as an expense in the year were £1.0m (2017: £1.7m). Reversals of previous inventory write downs in the period were £1.3m (2017: £2.1m).

There is no significant difference between the replacement cost of inventories and their carrying amounts.

17 Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**35.6**	31.7
Other receivables	**0.7**	0.2
Prepayments	**1.6**	1.1
	37.9	33.0

The ageing profile of trade receivables is:

	2018 £m	2017 £m
Trade receivables not yet due	**23.7**	26.2
1 to 30 days past due	**7.6**	3.9
31 to 60 days past due	**1.8**	1.0
61 to 90 days past due	**0.9**	0.3
Over 90 days past due	**1.6**	0.3
	35.6	31.7

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for. These balances relate to customers who have no recent history of default and whose debts are considered to be recoverable. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Provisions for impairment are calculated by reviewing lifetime expected credit losses using historic and forward looking data on credit risk. An analysis of provision movement is as follows:

	2018 £m	2017 £m
Balance at the beginning of the year	**1.0**	0.8
Income statement charge	**–**	0.2
Written off	**–**	–
	1.0	1.0

Notes to the Financial Statements continued

18 Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**26.0**	29.0
	26.0	29.0

Cash at bank and in hand is held in Pounds Sterling and Euros. As at 31 December 2018, £0.1m was held in Euros (2017: £1.8m), the remaining £25.9m (2017: £27.2m) was held in Pounds Sterling.

19 Trade and other payables

	2018 £m	2017 £m
Trade payables	**38.9**	30.0
Payroll tax and other statutory liabilities	**6.8**	7.5
Accrued liabilities and other payables	**26.3**	23.7
	72.0	61.2

20 Loans and borrowings

	2018 £m	2017 £m
Non-current loans and borrowings:		
External bank loans – Principal	**65.0**	90.0
– Unamortised debt issue costs	**(0.5)**	(0.6)
	64.5	89.4
Current loans and borrowings:		
External bank loans – Interest	**0.3**	0.4
	0.3	0.4
	64.8	89.8

On 26 July 2017 the Group refinanced, repaying amounts outstanding under existing facilities and entering into a committed £150m revolving credit facility with a group of leading banks. This facility was extended by a year over the previous facility and is in place until July 2022. An accordion facility of £50m was also agreed.

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.

A reconciliation of liabilities arising within loans and borrowings has been detailed below:

	2017	Cash flow	Interest charged	Amortisation of issue costs	2018
Non-current loans and borrowings:					
– Revolving credit facility	90.0	(25.0)	–	–	**65.0**
– Unamortised debt issue costs	(0.6)	–	–	0.1	**(0.5)**
Current loans and borrowings:					
– Interest	0.4	(2.2)	2.1	–	**0.3**
	89.8	(27.2)	2.1	0.1	**64.8**

21 Net debt

The analysis of net debt is as follows:

	2018 £m	2017 £m
Cash and cash equivalents	**26.0**	29.0
External borrowings	**(64.8)**	(89.8)
	(38.8)	(60.8)

22 Reconciliation of net cash flow to net debt

	2018 £m	2017 £m
Net cash inflow from operating activities	**65.8**	77.6
Net cash outflow from investing activities	**(18.4)**	(30.2)
Dividends paid	**(19.3)**	(13.8)
Equity shares acquired by Employee Benefit Trust	**(6.1)**	–
Other movements	**–**	(2.1)
Decrease in net debt	**22.0**	31.5
Net debt at the start of the period	**(60.8)**	(92.3)
Net debt at the end of the period	**(38.8)**	(60.8)

23 Financial instruments

	2018 £m	2017 £m
Financial assets at amortised cost		
Cash and cash equivalents	**26.0**	29.0
Trade and other receivables (excluding prepayments)	**36.3**	31.9
	62.3	60.9

	2018 £m	2017 £m
Financial liabilities at amortised cost		
Trade and other payables (excluding non-financial liabilities)	**65.2**	53.7
Loans and borrowings	**64.8**	89.8
	130.0	143.5

The financial assets of the Group, cash and cash equivalents and trade and other receivables are derived directly from operations. For financial liabilities of the Group, trade and other payables are also derived directly from operations, however loans and borrowings and derivative liabilities are arranged periodically to finance operating and investing activities.

Capital management

The Group manages capital (being loans and borrowings, cash and cash equivalents and equity) to ensure a sufficiently strong capital base to support the Group remaining a going concern, maintain investor and creditor confidence, provide a basis for future development of the business and maximise the return to stakeholders.

The Group manages its loans and borrowings to ensure continuity of funding. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

In managing capital the Group may purchase own shares on the open market. These purchases meet the Group's obligation to employees under the Group's share-based payment schemes.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2017 and 31 December 2018.

Financial risk management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to periodically manage risks if it is judged to be prudent. The risk management framework governing the management of these and all other business risks is set by the Board.

Foreign exchange risk

The functional and presentational currency of the Group is Pounds Sterling although some transactions are executed in Euros and US Dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against Pounds Sterling. Foreign currency exposure is centrally managed by the Group Treasury function using forward foreign exchange contracts and currency options. The principles of hedge accounting are not applied.

23 Financial instruments continued

Principal rate of exchange: Euro/Sterling

	2018	2017
Period end	**1.11**	1.12
Average	**1.13**	1.14

Interest rate risk

The Group has secured borrowings from a group of leading banks under a revolving credit facility. These facilities allow the Group to meet short, medium and long-term financing requirements at a margin over LIBOR. The Group manages interest risk on an ongoing basis and reviews options available to hedge part of the variable rate risk.

A sensitivity analysis has been performed based on the exposure to interest rates at the balance sheet date. Based on the borrowings drawn down in 2018, a 1.0% increase or decrease in interest rates, with all other variables held constant, would increase or decrease profit before tax for the year ended 31 December 2018 by £0.9m.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents) and credit exposure to customers through trade and other receivables. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are impaired when there is no reasonable expectation of recovery.

Credit risk associated with trade receivables results from normal commercial operations. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Trade and other receivables are stated net of management estimated bad debt impairments. Impairments in the period were less than £0.1m (2017: less than £0.1m).

To dilute and mitigate the financial credit risk associated with cash balances the Group deposits cash and cash equivalents with multiple highly rated counterparties.

Liquidity risk

The Group's borrowing facilities are available to ensure that there is sufficient liquidity to exceed maximum forecast cash flow requirements in all reasonably possible circumstances. The Group monitors cash flow on a weekly basis to ensure that headroom exists within current agreed facilities and updates the Executive Committee on liquidity and the sources of cash flow performance and forecasts at Executive Committee meetings.

The maturity profile of contractual undiscounted cash outflows, including expected interest payments, which are payable under financial liabilities at the balance sheet date is set out below:

2018	**Less than one year £m**	**One to two years £m**	**Two to three years £m**	**Three to four years £m**	**Four to five years £m**	**Total £m**
Trade and other payables (excluding non-financial liabilities)	**65.2**	**–**	**–**	**–**	**–**	**65.2**
Loans and borrowings	**1.7**	**1.8**	**1.7**	**66.0**	**–**	**71.2**
	66.9	**1.8**	**1.7**	**66.0**	**–**	**136.4**

2017	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Total £m
Trade and other payables (excluding non-financial liabilities)	53.7	–	–	–	–	53.7
Loans and borrowings	2.1	2.1	2.1	2.1	91.2	99.6
	55.8	2.1	2.1	2.1	91.2	153.3

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

24 Provisions

	Restoration and Decommissioning £m	Other £m	Total £m
At 1 January 2018	**11.5**	**5.5**	**17.0**
Charged/(credited) to the Consolidated Statement of Total Comprehensive Income:			
Additional provisions	**1.2**	**0.5**	**1.7**
Release of provisions	**(1.6)**	**(2.4)**	**(4.0)**
Utilised amounts	**(0.1)**	**(2.1)**	**(2.2)**
Unwind of discount	**0.1**	**–**	**0.1**
At 31 December 2018	**11.1**	**1.5**	**12.6**

Analysed as:

	2018 £m	2017 £m
Non-current	**8.4**	9.1
Current	**4.2**	7.9
	12.6	17.0

All non-current provisions are discounted at a rate of 2.65% (2017: 2.65%).

The total provisions balance is made up of provisions for restoration and decommissioning, carbon emissions, dilapidation, defective materials, restructuring and legal provisions.

Non-cash movements on provisions, as disclosed within the Consolidated Statement of Cash Flows, is the sum of additional provisions and release of provisions in the period.

Restoration and Decommissioning

The Group is required to restore quarrying sites to a state agreed with the planning authorities after extraction of raw materials ceases, and to decommission manufacturing facilities that have been constructed. Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform any necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value. Management reference information from the Bank of England when making such estimates. These provisions are discounted by applying a discount rate that reflects the passage of time. Estimates are revised annually and in the case of decommissioning provisions are adjusted against the asset to which the provision relates, which is then subject to an impairment assessment. Future costs are expected to be incurred over the useful life of the sites, which is a period of up to 62 years.

The impact of changes in discount rate and inflation rates on the provision at year end was £nil (2017: £nil).

Notes to the Financial Statements continued

25 Deferred tax

The analysis of deferred tax liabilities is as follows:

	2018 £m	2017 £m
Deferred tax liabilities to be incurred after more than 12 months	**1.6**	0.8
	1.6	0.8

The movement in deferred tax assets/(liabilities) is as follows:

	Fixed assets £m	Provisions £m	Intangible assets £m	Share-based payments £m	Land £m	Total £m
Deferred tax assets/(liabilities):						
At 1 January 2017	(0.7)	1.8	(0.7)	0.1	(0.1)	0.4
Effect of prior period adjustment	(0.1)	–	–	(0.1)	–	(0.2)
(Charged)/credited to Consolidated Statement of Total Comprehensive Income	(0.8)	0.1	–	0.2	–	(0.5)
Effect of changes in tax rates	0.1	–	–	–	–	0.1
Other movement	(0.1)	0.1	–	–	–	–
Tax on items taken directly to equity	–	–	–	0.6	–	0.6
Deferred tax recognised on business combination	(1.2)	–	–	–	–	(1.2)
At 31 December 2017	(2.8)	2.0	(0.7)	0.8	(0.1)	(0.8)
Effect of prior period adjustment	**0.1**	**–**	**–**	**–**	**–**	**0.1**
(Charged)/credited to Consolidated Statement of Total Comprehensive Income	**(0.8)**	**(0.2)**	**–**	**0.3**	**–**	**(0.7)**
Effect of changes in tax rates	**0.1**	**–**	**–**	**–**	**–**	**0.1**
Tax on items taken directly to equity	**–**	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Deferred tax recognised on business combination	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2018	**(3.4)**	**1.8**	**(0.7)**	**0.8**	**(0.1)**	**(1.6)**

Deferred tax is calculated on temporary differences between the tax base of assets and liabilities and their carrying amounts, using the corporation tax rate applicable to the timing of their reversal.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

26 Share capital

Called up issued and fully paid ordinary shares

	2018 £m	2017 £m
Allotted, called up and fully paid		
200,442,068 ordinary shares of £0.01 each	**2.0**	2.0
	2.0	2.0

Reserve for own shares

Own shares represent the cost of Forterra plc shares purchased in the market and held by employee benefit trusts to satisfy the future exercise of options under the Group's share option schemes. At 31 December 2018, two trusts were in place and consolidated within the Group Financial Statements.

The first trust holds 401,903 ordinary shares (2017: 408,828), issued in 2016 at nominal value in respect of the free share award made to all employees in service at 25 May 2016. There is no monetary impact of these shares to the Consolidated Statement of Changes in Equity in the periods presented.

The second trust holds 2,041,938 (2017: 3,773) shares at an average cost of 279p per share (2017: 265p). The market value of these shares at 31 December 2018 was £4.6m (2017: less than £0.1m). These shares are reflected within the Reserve for own shares within the Consolidated Statement of Changes in Equity.

27 Commitments and contingencies

The Group's total commitments under non-cancellable operating leases is set out below:

	2018 £m	2017 £m
Land and buildings		
Within one year	**0.7**	0.7
Between one and five years	**2.6**	2.8
After five years	**4.9**	5.3
	8.2	8.8
Other		
Within one year	**6.5**	6.6
Between one and five years	**7.9**	12.9
After five years	**–**	0.3
	14.4	19.8

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2018 £m	2017 £m
Property, plant and equipment	**4.4**	2.1
Intangible assets	**–**	0.3

Other commitments include the Group's leased distribution fleet, company vehicles and plant and machinery.

28 Share-based payment arrangements

Total cost of share schemes:

	2018 £m	2017 £m
Share Incentive Plan (SIP)	**0.2**	0.3
Performance Share Plan (PSP)	**0.9**	0.4
Deferred Annual Bonus Plan (DABP)	**0.1**	0.2
Sharesave Plan (SAYE)	**0.9**	0.6
	2.1	1.5

The total cost of share schemes in the year includes national insurance contributions of £0.2m (2017: £0.3m).

Summary of share option and share award arrangements

The Group offers a number of share option and share awards and options to its employees, all of which are equity-settled (although the rules of the PSP and DABP allow for cash settlement in exceptional circumstances).

Share awards

Share Incentive Plan (SIP)

On 25 May 2016, 442,068, deferred free shares were awarded to all employees in service at this date. Shares to the value of £500 were issued which vest three years after the date of grant subject to a three-year service condition. Each share had a fair value at the grant date of £1.78 and is held by an employee benefit trust on behalf of the Group's employees.

Share options

Performance Share Plan (PSP)

Performance based awards granted to the Executive Directors and designated senior management which vest three years after the date of grant at 1p per share. The total number of shares vesting is dependent upon both service conditions being met and the performance of the Group over the three year period. Performance is subject to TSR and EPS conditions, each weighted 50%. In addition to this, a holding period applies to vested PSP awards for the Executive Directors of Forterra plc, under which they are required to retain the number of vested awards, net of tax, for at least two years from the date of vesting.

Deferred Annual Bonus Plan (DABP)

Following the Group's IPO, deferred annual bonus awards were granted to designated senior management which vested in April 2018 dependent on a two year service condition being met.

Notes to the Financial Statements continued

28 Share-based payment arrangements continued

Additionally, a portion of the Executive Directors' annual bonus award is deferred into shares under a DABP, with a deferral period of three years. These awards are accrued as a bonus in the year to which they relate and are converted into deferred share awards after the year end. During 2018, £0.4m has been removed from accruals and recognised directly within equity to reflect grants made under this scheme in relation to 2016 and 2017 bonuses. At 31 December 2018, an amount of £0.2m (2017: £0.2m) has been recorded in accruals for the award relating to the bonus earned for the year ending 31 December 2018.

Sharesave (SAYE)

HM Revenue and Customs approved scheme available to all employees with new schemes offered in 2016, 2017 and 2018. Employees make monthly contributions of up to £500 per month into a linked savings account and these may be exchanged three years from each grant date for shares at an option price discounted by 20% from the offer date.

The aggregate number of share awards outstanding for the Group is shown below:

	PSP Number of options	DABP Number of options	SAYE Number of options
Outstanding at 1 January 2017	595,889	167,544	4,703,044
Awards granted	660,124	76,223	1,299,743
Awards exercised	–	–	(1,777)
Awards lapsed/forfeited	–	–	(177,999)
Outstanding at 31 December 2017	1,256,013	243,767	5,823,011
Awards granted	658,599	76,990	891,902
Awards exercised	–	(105,030)	(10,994)
Awards lapsed/forfeited	(67,164)	–	(329,134)
Outstanding at 31 December 2018	1,847,448	215,727	6,374,785

Share options outstanding at the end of the year have the following vesting dates:

	2018
PSP	
26 April 2019	**584,837**
15 April 2020	**639,652**
28 March 2021	**622,959**
DABP	
26 April 2018	**62,514**
15 March 2020	**76,223**
14 March 2021	**76,990**
SAYE	
1 December 2019	**4,346,968**
1 December 2020	**1,151,021**
1 December 2021	**876,796**

28 Share-based payment arrangements continued

The fair value per option granted in year has been calculated using the following assumptions:

	2018			
	PSP (Performance and service condition) 28 March 2018	**PSP** (Executive Directors holding period) 28 March 2018	**DABP** (Service condition) 28 March 2018	**SAYE** (Service condition) 4 October 2018
Option pricing model	Monte Carlo & Black-Scholes	Chaffe	Black-Scholes	Black-Scholes
Share price on grant date (p)	301.50	301.50	302.00	262.00
Exercise price (p)	1.00	–	1.00	218.00
Expected volatility	29.16%	29.93%	29.90%	29.51%
Vesting period (years)	3.0	2.0	2.96	3.16
Expected option life to exercise	3.0	2.0	2.96	3.41
Expected dividend yield	–	–	–	3.70%
Risk free interest rate	0.88%	1.12%	0.88%	0.92%
Fair value per option (p)	239.50[1]	220.50[1]	301.00	58.00

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. The measures of volatility used by the Group in its pricing model during both years has been derived as the median volatility of companies within the comparator index that have been listed for the commensurate length of time.

1 Average fair value for the TSR and EPS conditions for the Performance Share Plan.

29 Related party transactions

Transactions with related parties

	2018 £m	2017 £m
Purchases from related parties	**–**	(1.0)

The Group was under the control of Lone Star Funds and its affiliates up until 25 April 2017. On this date, Lone Star completed the sell-down of its shareholding and Forterra plc was no longer under the control of an ultimate controlling party.

Until 25 April 2017, related parties were entities under common ownership of Lone Star Funds. All related party transactions and balances were undertaken in the normal course of business and on an arm's length basis.

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 Directors of the Group's subsidiary companies fall within this category.

	2018 £m	2017 £m
Emoluments including taxable benefits	**(2.8)**	(2.6)
Share-based payments	**(0.7)**	(0.5)
Pension and other post-employment benefits	**(0.2)**	(0.2)
	(3.7)	(3.3)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within pages 66 to 74.

Company Balance Sheet

At 31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investment in subsidiary	6	**305.6**	304.2
Deferred tax asset	7	**0.2**	0.1
		305.8	304.3
Current assets			
Amounts due from Group undertakings	8	**17.8**	19.2
Total assets		**323.6**	323.5
Current liabilities			
Creditors – amounts falling due within one year	9	**(0.4)**	(0.4)
Amounts due to Group undertakings	9	**(41.5)**	(18.5)
		(41.9)	(18.9)
Net current (liabilities)/assets		**(24.1)**	0.3
Total assets less current liabilities		**281.7**	304.6
Net assets		**281.7**	304.6
Capital and reserves			
Ordinary shares	10	**2.0**	2.0
Reserve for own shares	10	**(5.8)**	–
Retained earnings		**285.5**	302.6
Total equity		**281.7**	304.6

As permitted by section 408 of the Companies Act 2006, an entity profit or loss account is not included as part of the published Financial Statements of Forterra plc. The Company profit for the financial year ended 31 December 2018 was £0.1m (2017: £14.0m).

The notes on pages 112 to 114 are an integral part of these Financial Statements.

Approved by the Board of Directors on 12 March 2019 and signed on their behalf by:

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £m	Reserve for own shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017	**2.0**	–	**301.1**	**303.1**
Total comprehensive profit for the year	–	–	14.0	14.0
Dividends paid	–	–	(13.8)	(13.8)
Tax on share-based payments	–	–	0.1	0.1
Share-based payments charge	–	–	1.2	1.2
Balance at 31 December 2017	**2.0**	**–**	**302.6**	**304.6**
Total comprehensive profit for the year	–	–	0.1	0.1
Dividends paid	–	–	(19.3)	(19.3)
Own shares purchased	–	(6.1)	–	(6.1)
Share-based payments charge	–	–	2.4	2.4
Share-based payments exercised	–	0.3	(0.3)	–
Balance at 31 December 2018	**2.0**	**(5.8)**	**285.5**	**281.7**

Notes to the Company Financial Statements

1. General background

Forterra plc is a public limited company which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The registered office is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA.

2. Accounting policies

Basis of preparation

The separate Company Statements have been prepared in accordance with applicable accounting standards, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ('FRS 102') and the Companies Act 2006.

As permitted by section 408 of the Companies Act 2006, an entity profit or loss account is not included as part of the published Financial Statements of Forterra plc. The Company profit for the financial year ended 31 December 2018 was £0.1m (2017: £14.0m).

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The Financial Statements are presented in Pounds Sterling, rounded to the nearest hundred thousand and are prepared under the historical cost convention.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the Financial Statements are signed. The Company therefore adopts the going concern basis in preparing its Financial Statements.

(a) Investments

Investments are included in the balance sheet at the deemed cost of acquisition upon the Group restructure. Where appropriate, a provision is made for any impairment.

Capital contributions arising where subsidiary employees are awarded share options to be settled over the Company's equity result in increases to the cost of investment.

(b) Taxation

Charges for income tax are based on earnings for the period and take account of deferred taxation on timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

(c) Financial instruments

The Company determines the classification of financial assets and financial liabilities at initial recognition. The principal financial assets and liabilities of the Company are as follows:

(i) Financial assets

Basic financial assets, including trade and other receivables and amounts due from Group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method and assessed for objective evidence of impairment or impairment reversal at the end of each reporting period.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards of ownership of the asset are transferred.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and amounts due to Group undertakings and related parties are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where the debt is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other payables and loans are subsequently carried at amortised cost, using the effective interest rate method.

(d) Share-based payments

The Company operates a number of equity-settled share-based compensation plans, under which the Company receive services from the Executive Directors in exchange for equity instruments granted by the Company. The services received and corresponding increase in equity are measured at the fair value of the equity instruments granted, on the date granted. The Company also compensates certain key management and other employees for services provided to Forterra Building Products Limited. The services provided are recognised as an increase in the cost of investment in subsidiaries and a corresponding increase in equity; which is measured at the fair value of the equity instruments granted, on the date granted.

2. Accounting policies continued

The cost of the equity-settled transactions are subsequently recognised over the vesting period, which ends at the date that the plan participant becomes fully entitled to the award. Fair values are determined using appropriate pricing models by external valuers. At the end of each reporting period the Company revises its estimates of the number of awards that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss account, with a corresponding adjustment to equity.

Further details regarding the share-based payment schemes are set out in note 28 to the Consolidated Financial Statements.

(e) Own shares held by employee benefit trust

The Company has established two separate employee benefit trusts for the purposes of satisfying awards under share-based incentive schemes. Shares in the Company acquired by the trusts are deducted from equity until shares are cancelled, reissued or disposed.

(f) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(g) Related parties

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Financial Statements.

3. Significant accounting judgements and estimates

Impairment of investments

The Directors periodically review investments for possible impairment when events or changes in circumstances indicate, in managements' judgement, that the carrying amount of an asset may not be recoverable. The Company did not record any impairment charges during the period ended 31 December 2018.

4. Employee information

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests are set out in the Annual Report on Remuneration on pages 66 to 74 and includes the amounts received or receivable by each Director in the period. The long-term incentives, as detailed on page 67, were recognised in the Company profit and loss account as an expense over the three-year period to which the awards relate. The Company recognised a charge of £0.5m (2017: £0.3m) in relation to share-based payments for the period.

5. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 3.3p per share (2017: 3.1p)	**(6.6)**	(6.2)
Final dividend of 6.4p per share in respect of prior year (2017: 3.8p)	**(12.7)**	(7.6)
	(19.3)	(13.8)

The Directors are proposing a final dividend for 2018 of 7.2p per share, making a total payment for the year of 10.5p (2017: 9.5p).

The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the Consolidated Financial Statements.

6. Investment in subsidiary

	2018 £m	2017 £m
Balance as at 1 January	**304.2**	303.0
Capital contribution relating to share-based payments	**1.4**	1.2
Balance as at 31 December	**305.6**	304.2

Notes to the Company Financial Statements continued

6. Investment in subsidiary continued

The companies in which the Company has an interest at the year end are shown below:

Name of Company	Country of incorporation	Holding	Nature of holding	% of class held
Forterra Holdings Limited	England & Wales	Ordinary £0.01	Direct	100%
Forterra Building Products Limited	England & Wales	Ordinary £0.01	Indirect	100%

The address of the registered office of both Forterra Holdings Limited and Forterra Buildings Products Limited is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA.

7. Deferred tax

	2018 £m	2017 £m
Deferred tax assets		
Deferred tax assets to be recovered after more than 12 months	**0.2**	0.1
	0.2	0.1

8. Current assets

	2018 £m	2017 £m
Amounts due from Group undertakings	**17.8**	19.2
	17.8	19.2

Amounts due from Group undertakings are non-interest bearing, unsecured and repayable on demand.

9. Current and non-current liabilities

	2018 £m	2017 £m
Amounts due to Group undertakings	**41.5**	18.5
Creditors – amounts falling due within one year	**0.4**	0.4
	41.9	18.9

Amounts owed to Group undertakings are non-interest bearing, unsecured and repayable on demand.

10. Capital and reserves

	2018		2017	
	Number	£m	Number	£m
Ordinary shares of £0.01 each	**200,442,068**	**2.0**	200,442,068	2.0
	200,442,068	**2.0**	200,442,068	2.0

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Movements in the share capital and reserve for own shares are set out in note 26 of the Consolidated Financial Statements.

11. Related party transactions

The Company is exempt from disclosing related party transactions with companies that are wholly owned within the Group. Transactions with related parties which are not wholly owned are disclosed within note 29 to the Consolidated Financial Statements.

Remuneration to key management personnel has been disclosed within note 29 to the Consolidated Financial Statements.

12. Controlling party

As of 25 April 2017, Forterra plc was no longer under the control of an ultimate controlling party. Prior to this date, the ultimate controlling party of Forterra plc was Lone Star Funds.

Group Five-Year Summary

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**367.5**	331.0	294.5	290.2	268.1
EBITDA (before exceptional items)	**78.8**	75.4	70.6	70.5	54.6
Operating profit (before exceptional items)	**67.1**	64.5	60.2	61.1	45.2
PBT (before exceptional items)	**64.8**	61.1	46.0	33.8	40.0
Profit before tax (statutory)	**64.8**	59.3	37.1	22.2	33.4
Operating cash flow (before exceptional items)	**79.8**	90.2	69.8	53.8	52.8
Net debt	**38.8**	60.8	92.3		
Pro-forma earnings per share (pence)	**26.5**	24.5	21.0	20.6	
Dividend per share (pence)	**10.5**	9.5	5.8		

Net debt, EPS and Dividend per share are not presented for earlier years as the Group had a significantly different debt and ownership structure prior to the IPO in 2016.

Additional Information

Financial Calendar and Other Shareholder Information

Calendar

The following dates have been announced:

2019 Annual General Meeting and Trading update	20 May 2019
Payment of final 2018 dividend	4 July 2019
2019 Interim results announcement	30 July 2019

Group Advisers

Registrars

Link Asset Services

Statutory Auditor

Ernst & Young LLP

Brokers

Deutsche Bank

Numis Securities Ltd

Bankers

HSBC Bank plc

The Royal Bank of Scotland plc

Santander UK plc

Lloyds Bank plc

The Bank of Ireland

Financial PR

FTI Consulting

Company Information

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Company number 09963666

Registered and Corporate Office

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