9 March 2021

2020 FULL YEAR RESULTS

Forterra plc, a leading UK producer of manufactured masonry products, announces its results for the year ended 31 December 2020.

	Before exceptional items		Statutory	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Revenue	**291.9**	380.0	**291.9**	380.0
EBITDA	**37.9**	82.7	**18.5**	78.4
Operating Profit (EBIT)	**20.8**	65.0	**1.4**	60.7
Profit/(loss) before tax	**17.4**	62.5	**(5.4)**	58.2
Earnings per share (pence)	**6.6**	25.5[1]	**(2.6)**	23.6[1]
Operating cash flow	**53.9**	64.9	**48.3**	63.8
Net cash / (debt)			**6.6**	(57.3)
Total dividend (pence)			**2.8**	4.0

1. As required by IAS 33, earnings per share for 2019 has been restated to reflect the bonus factor adjustment resulting from the 2020 equity issue (see note 8).

KEY POINTS

- Revenue down 23.2% to £291.9m; H2 recovering to 91% of 2019 comparative
- EBITDA (before exceptional items) of £37.9m; £29.7m of EBITDA generated in H2
- Exceptional items total £22.8m comprising impairment, restructuring and refinancing costs
- Operating cash flow (before exceptional items) of £53.9m, reflecting strong cash generation and disciplined working capital management
- Net cash of £16.0m (before IFRS 16 lease liabilities) following equity raise of £55m to secure funding of Desford project
- New Desford brick factory project on track following signing of major supplier contracts in early 2021
- New sustainability targets set including an 32% reduction in carbon emissions per tonne of output by 2030
- Return to dividend payments with a proposed final dividend of 2.8p, representing 45% of full year earnings

Stephen Harrison, Chief Executive Officer, commented:
"Clearly, our full year financial performance was impacted by Covid-19, notably in the first half, however our trading performance steadily improved as the year progressed. Operating cash flow benefited from disciplined working capital management and we were pleased to complete a successful equity placing and refinancing in July.

"The much-improved trading conditions seen through the second half of 2020 have continued into 2021. This trend, alongside the lengthening order books of our housebuilding customers, offer support for a continued recovery in our key markets in the first half of the year. While there is growing optimism about the end of the Covid-19 pandemic, there remains ongoing uncertainty over its continuing economic implications, which leads us to maintain a cautious outlook for the year as a whole.

"Longer term, our strong position will enable us to benefit from a sustained recovery of our key markets with a structural under supply of housing in the UK along with Government policy continuing to be supportive of home ownership, expected to continue supporting long-term demand. Our strong balance sheet, proven history of operating cash generation and the benefits to come from the Desford investment, mean that the Board believes Forterra is well placed to deliver continued growth and attractive returns to shareholders.

"I am delighted that we are also continuing to further our sustainability agenda by setting ambitious new targets which build on the progress made over the last ten years. The origins of Forterra can be traced back over 150 years and therefore we have more reason than most to ensure that we leave a strong sustainability legacy for generations to come.

"With five years having passed since our IPO and with the new Desford factory on course to further increase our cash generation from 2023 we intend to update our shareholders on the next stage of our strategy later in the year."

ENQUIRIES

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A presentation for analysts will be held today, 9 March 2021, at 10.30. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

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

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

BUSINESS REVIEW

COVID-19 RESPONSE

On 23 March 2020, almost a year from the date of this announcement, the Prime Minister addressed the nation and first asked us all to stay at home in order to protect the NHS and save lives. To ensure the safety of our employees, following collaborative discussions with both our industry peers and customers, we took the decision to cease operations in an orderly manner with production only continuing on critical infrastructure projects in full adherence to Government safety guidance.

During the first lockdown the Board and the Executive Committee worked tirelessly to respond to the rapidly developing situation. The Board and Management quickly learned to adapt to remote working and made full use of video conferencing technology to hold virtual meetings throughout the lockdown period.

Clearsighted decision making was key to our initial response to the pandemic. There was no visibility of how long the crisis may last and how severe its impacts might be. Accordingly, decisions were taken with caution front of mind. The decision to close our facilities was driven by the desire to protect our workforce although it soon became clear that whilst it would be possible to operate our facilities in a Covid secure manner, complying with all safety guidance, demand for most of our products had virtually dried up overnight.

To safeguard jobs whilst our factories were closed, approximately three quarters of our employees were furloughed under the Government's Coronavirus Job Retention Scheme. We took the difficult step of cancelling our 2019 final dividend and 2019 staff and management bonuses, which had yet to be paid, were cancelled. In addition, the Board and Executive Committee took a voluntary 20% reduction in salary for three months.

RESULTS FOR THE YEAR

Our full year financial performance was significantly impacted by the Covid-19 pandemic, particularly in the first half, with our trading performance steadily improving through the second half of the year. Operating cashflow benefited from disciplined working capital management, whilst the successful equity placing and refinancing completed in the year left the Group well positioned entering 2021.

	Statutory	Exceptional items	**Before exceptional items**	**Before exceptional items**
	2020	2020	**2020**	**2019**
	£m	£m	**£m**	**£m**
Revenue	291.9	-	**291.9**	**380.0**
EBITDA	18.5	19.4	**37.9**	**82.7**
Depreciation and amortisation	(17.1)	-	**(17.1)**	**(17.7)**
EBIT	1.4	19.4	**20.8**	**65.0**
Finance expense	(6.8)	3.4	**(3.4)**	**(2.5)**
(Loss) / profit before tax	(5.4)	22.8	**17.4**	**62.5**

Group revenue for the year was £291.9m (2019: £380.0m), a reduction of 23.2%. Brick and Block revenues fell 20.1% with Bespoke Products falling 30.7%. Earnings before interest, tax, depreciation and amortisation (EBITDA) as stated before exceptional items were £37.9m (2019: £82.7m) with our high level of fixed costs meaning that earnings and profits fell more significantly than revenue. Profit before tax, again stated before exceptional items, was £17.4m (2019: £62.5m), a fall of 72.2%.

2020 was very much a year of two halves, with the first half result reflecting the impact of the spring lockdown and the result in the second half benefiting from a strong recovery in our key markets.

The following table shows the result split between H1 and H2 with the strength of the recovery evidenced by second half revenues recovering to within 9.1% of the 2019 comparative and EBITDA in the second half being 26.1% below the second half of 2019.

	2020 H1	2019 H1		**2020 H2**	2019 H2	
	£m	£m	Variance %	**£m**	£m	Variance %
Revenue	**122.4**	193.6	(36.8%)	**169.5**	186.4	(9.1%)
EBITDA (before exceptional items)	**8.2**	42.5	(80.7%)	**29.7**	40.2	(26.1%)
(Loss)/Profit before tax (before exceptional items)	**(2.3)**	32.7	-	**19.7**	29.8	(33.9%)

Earnings per share (EPS) as stated before exceptional items was 6.6 pence (2019: 25.5p) due to the fall in trading profits along with the increase in the number of shares in issue following the placing of 28.2m shares at the beginning of July which increased the weighted average number of shares in issue, excluding those held by the Employee Benefit Trust, to 214.8m (2019: 197.9m). Basic EPS after exceptional items was a loss of 2.6 pence reflecting the exceptional impairment, restructuring and refinancing costs.

BRICKS AND BLOCKS

	Statutory 2020 £m	Statutory 2019 £m	**Before exceptional items 2020 £m**	**Before exceptional items 2019 £m**
Revenue	223.1	279.1	**223.1**	**279.1**
EBITDA	33.1	77.1	**40.3**	**80.4**
EBITDA margin			**18.1%**	**28.8%**

We operate nine brick manufacturing facilities across the country with a total production capacity of 590 million bricks per annum. We are also a leader nationally in the aircrete block market, operating from Thermalite block facilities at Newbury and Hams Hall (Warwickshire). Our aggregate block product has a leading position in the important South East and East of England markets, with well-located manufacturing facilities at Milton (Oxfordshire) and Whittlesey (Cambridgeshire). This segment also includes Formpave, the Group's concrete block paving business. Based at Coleford in Gloucestershire, Formpave manufactures a wide range of high-quality concrete block paving to suit all projects from commercial to domestic applications, including the patented Aquaflow sustainable drainage system.

Segmental revenue in the year fell 20.1%, reflecting the impact of Covid-19. Revenues fell significantly through the initial lockdown although the second lockdown in November had no impact on sales. 2020 brick despatches as reported by the Department for Business, Energy and Industrial Strategy fell 23% relative to the prior year and our own brick sales volumes followed a similar trend. Our block businesses delivered a resilient performance with sales volumes relative to the prior year falling by a lower percentage than bricks.

Selling price increases were generally agreed at the start of the year and for bricks these were sufficient to recover anticipated cost inflation although obtaining price increases in our aircrete block business was more difficult. Importantly, there was no price degradation through 2020 with prices agreed prior to the pandemic remaining firm throughout the year.

Much of the revenue shortfall was concentrated in the initial spring lockdown with sales steadily recovering through the summer and autumn such that by the end of the year, revenues were running ahead of the prior period comparative. As a reminder however, the comparator period was itself adversely impacted by the ongoing uncertainty around Brexit and the general election.

The recovery began in May, initially as tradesmen returned to work, supplied by the builders' merchants who had reopened on a click and collect basis. The Government sanctioned reopening of the property market gave housebuilders the confidence to recommence their operations, initially focusing on completing existing plots before growing market confidence supported by Government stimulus in the form of the stamp duty holiday gave them confidence to start new plots and open new sites.

Sales revenues are a primary driver of our profitability although in a manufacturing business such as ours, capacity utilisation and production levels also impact upon profitability as operating our factories at full output allows us to efficiently utilise our fixed cost base. For much of 2020 the level of uncertainty required that our strategy prioritised liquidity management with production only restarting as inventory levels necessitated. Not only does managing inventory levels benefit our working capital position but it also affords greater flexibility to avoid overstocking should there be a future softening of demand. Careful management of inventory is important as excess growth in inventory could create downward pressure on selling prices.

UK brick industry sales volumes fell by around 23%, with our own experience mirroring this, whereas our brick production in 2020 fell by approximately 35%. As the business emerged from lockdown, sales increased more quickly than production, driving a reduction in inventories and a release of working capital. Our decision to delay the reopening of our factories was successful in managing both inventory and cashflow although this had the effect of reducing profits for the year as we were unable to fully absorb our fixed costs.

Cost inflation entering 2020 was fairly benign. Much of our energy requirement had been forward purchased during 2019 at prices which were competitive relative to prevailing rates at the time and in normal circumstances this would have allowed us to benefit from energy prices that were lower than those seen in 2019. Lockdown however resulted in an unprecedented and sudden decline in our manufacturing activity and accordingly, our consumption of energy was significantly reduced. When forward purchasing energy, we allow for a degree of production disruption, caused by a breakdown for example, but with the prolonged shutdown our production did not consume the levels of energy that had been forward-purchased; the unused energy was sold back to the market at the prevailing market rate, resulting in a one-off loss of £2.1m.

Accordingly, as a result of the disruption caused by the pandemic, EBITDA, as stated before exceptional items of £40.3m, declined £40.1m (49.9%) compared with 2019 (£80.4m), with the EBITDA margin of 18.1% representing a significant decrease on the prior year (2019: 28.8%). A strong and progressively improving performance in the second half of the year however has allowed us to deliver a result significantly ahead of that envisaged at the half year.

Our close relationships and partnerships with our customers were more important than ever throughout 2020. Responsiveness and customer service were a key priority during the year as our customers, like ourselves, sought to respond to the challenges presented by the pandemic.

During the first lockdown, with our office staff working remotely, we were able to continue to meet the needs of our customers. Despatching from stock, using our in-house fleet of delivery vehicles and with our customer service staff often using mobile phones to communicate, we remained open for business when others in our industry shut down completely. As business returned to a form of normality into the summer, we fast-tracked further investment into our communication and information technology systems such that upon the onset of the second lockdown in November, our customer service teams were able to seamlessly work from home. With customer demand during the second national lockdown far above the levels seen in the first, this allowed us to retain the highest levels of customer service and responsiveness whilst ensuring our office staff remained safe. Our investment in information technology continued with the deployment of enhanced 'case management' capability to improve customer service through better tracking of customer queries and complaints.

Delivery of our bricks and blocks is fulfilled by our own fleet of vehicles supplemented by third party hauliers. As one of the few manufacturers in our sector operating our own fleet of delivery vehicles, we believe that having ownership and control of our own specialist distribution provides us with a competitive advantage and this was demonstrated through the first lockdown. We have continued to invest in our distribution and customer service functions, with orders being placed for 60 new specialist delivery vehicles incorporating the latest safety features and low emission Euro 6 engine technology.

Away from the challenges presented by Covid-19, we continued to innovate and develop our product range. At the beginning of the year we launched our new next generation brick slip façade system, SureBrick, demonstrating our commitment to modernising and improving building standards whilst gaining access to the growing market for offsite-focused façade solutions. SureBrick is lighter than traditional masonry and simple to install, with no reliance on traditional brick laying skills. Although Covid-19 limited the growth of SureBrick in its first year, it has been specified on numerous projects to be delivered in 2021 and we expect sales of this unique solution to grow strongly.

During the year we also launched our range of waterstruck soft mud bricks manufactured at our Measham facility. Waterstruck bricks use water to release the brick from the mould rather than sand giving a unique traditional finish which replicates the aged look of reclaimed bricks.

BESPOKE PRODUCTS

	Statutory 2020 £m	Statutory 2019 £m	**Before exceptional items 2020 £m**	**Before exceptional items 2019 £m**
Revenue	71.7	103.5	**71.7**	**103.5**
EBITDA	(14.6)	2.0	**(2.4)**	**2.3**
EBITDA margin			**(3.3%)**	**2.2%**

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

Precast concrete products are designed, manufactured and shipped nationwide under the Bison Precast brand from three facilities situated in the Midlands. Our Red Bank range of terracotta and concrete chimney and roofing products are made at a single facility alongside our state-of-the-art brick factory at Measham. Our products include:

- beam and block flooring including Jetfloor, which was the UK's first suspended ground floor system to use expanded polystyrene blocks combined with a structural concrete topping to provide high levels of thermal insulation;
- hollowcore floors and associated staircases and landings which are used for upper floors of multi-family and commercial developments, with the majority of floors fitted by our in-house installations team;
- structural precast components including precast concrete walls used in applications such as hotels and prisons, and concrete beams used in the construction of building frames as well as stadia components;
- architectural precast concrete facades, in a variety of finishes including brick facings; and
- Red Bank chimney pots, flue systems, ridge tiles and air bricks.

Segment revenues fell 30.7% to £71.7m with the Bespoke Products segment and in particular Bison Precast, hardest hit by the effects of the pandemic.

As reported previously, trading conditions in the hollowcore flooring market have been deteriorating for the last few years with a steady decline in margins. One impact of the Covid-19 pandemic is that, for the foreseeable future at least, there is likely to be a reduction in demand for both new apartment blocks and office buildings, both building types that utilise hollowcore flooring in their construction.

The recent recovery in the residential construction sector has been driven by single family housing with home buyers keen to secure more space and their own gardens, reducing expected demand for flats. The lockdowns in late 2020 and early 2021 are expected to exacerbate this trend. In addition, the growth in home working is likely to lead to a reduction in demand for new urban office space, at least in the medium term. Considering this likely fall in demand, coupled with the low margins earned from the hollowcore product prior to the crisis, management acted quickly and decisively to restructure the precast concrete flooring business, reducing the cost base to ensure the business remains profitable.

Accordingly, the majority of the Covid-19 led headcount reductions made across the business have centred on the Bespoke Products segment and in particular Bison Precast, with the mothballing of the hollowcore manufacturing facility at Swadlincote and the consolidation of precast concrete flooring manufacture at the more flexible Hoveringham facility. The Swadlincote hollowcore facility is characterised by its high level of fixed costs requiring it to be operated at close to capacity in order to be profitable. The decisive action was taken to prevent this facility from become loss making and we are confident that this consolidation of production and the significant cost rationalisation it provides will mitigate the impact of falling demand.

As expected, our beam and block flooring sales, which represented approximately 44% of segmental revenues in 2019 and 47% in 2020, have been more resilient. This product commonly forms the ground floor of single-family homes and as such is a good indicator of new housing starts. Sales of these floor beams were slower to recover than bricks and blocks coming out of lockdown as housebuilders initially focused on completing existing plots ahead of starting new ones although sales recovered strongly in the final quarter.

Segmental EBITDA before exceptional items fell from £2.3m in 2019 to a loss of £2.4m although importantly, in line with expectations set at the half year, the segment did make a modest £0.5m profit at an EBITDA level in the second half of the year. When considering the results of this segment it remains important to understand that the Group's central overheads are apportioned to each of the two trading segments. The EBITDA above is stated after the allocation of £3.6m (2019: £3.1m) of Group central overheads.

Management is confident that the consolidation of production and the significant cost rationalisation it provides is sufficient to mitigate the impact of declining demand for hollowcore flooring. Our strategy will now be to maximise sales of the higher margin beam and block product whilst targeting our manufacture of hollowcore flooring on servicing key customers who purchase a wider range of products. Our expectations are for this segment to show progression in 2021.

Non-housing products however have proved to be more resilient. Working in accordance with public health guidelines, manufacturing continued throughout the initial lockdown to service key Government infrastructure projects including the new prison at Wellingborough, where we recently supplied the last of almost 5,000 bespoke precast concrete components. In addition, products continued to be manufactured and supplied into the Hinkley Point nuclear power station along with a flood defence scheme in Leeds.

Following the successful Wellingborough prison project, we are pleased to have been awarded a large order working with Lendlease on the construction of the Ministry of Justice's next new prison at Glen Parva in Leicestershire. This prison is being built to a very similar design to that at Wellingborough allowing us to leverage our experience from the initial project.

EQUITY RAISE AND REFINANCING

With construction of the new Desford factory already well advanced as the pandemic hit, with the groundworks and building structure virtually complete and around £30m spent or committed, our key priority was to secure the financing necessary to guarantee the completion of this project. Our financing strategy had been to fund this project from the free cashflow generated by the business. However, with trading cash flows severely diminished by the imposition of lockdown, without visibility as to how quickly they would recover, it was necessary to consider our options.

After thorough consideration of the options available, the Board concluded that it would be imprudent to enter into further contractual commitments on the project without certainty that finance would be available to meet these obligations. Accordingly, we acted decisively and embarked upon an equity placing which was well supported by our shareholders, raising net proceeds of £53m. In addition, with the support of our lenders, we entered into an amendment and extension of our existing credit facility extending our committed facility to July 2024. We were also able to increase the quantum of our facility by £20m to £170m providing the Group with additional security and flexibility at a time of considerable uncertainty. The terms of the refinancing also included a package of covenant relaxations which offer greater flexibility in the event of continuing severe economic dislocation, something that now appears unlikely.

EXCEPTIONAL COSTS

The actions announced to address the Group's cost base included both changes to shift patterns and adjustments to the size and structure of support functions. We consolidated the manufacture of all precast concrete flooring products at our Hoveringham facility in Nottinghamshire and mothballed our hollowcore flooring factory at Swadlincote in Derbyshire. In total, these changes as initially proposed would have led to the loss of approximately 225 jobs, primarily from our Bespoke Products division.

Whilst all job losses are regrettable, it was pleasing that the better than expected recovery of our markets through the summer meant that it was possible to subsequently reduce the actual number of job losses to approximately 160. An exceptional charge of £2.4m is recognised in respect of Group restructuring.

Exceptional financing costs comprising of arrangement fees and professional fees totalling £3.4m were incurred in respect of the refinancing of the Group's banking facilities. No costs associated with the equity placing have been charged to the Consolidated Statement of Total Comprehensive Income with transaction costs of £2.0m being deducted from the gross proceeds received and accounted for through equity.

In addition, exceptional non-cash impairment charges of £17.0m were recognised comprising £10.2m in respect of an impairment in the carrying value of the Swadlincote hollowcore facility and associated goodwill following the decision to mothball this facility. A £6.0m impairment charge was also recognised in respect of the historic goodwill balance relating to the Formpave business; this goodwill balance was generated upon HeidelbergCement AG's acquisition of Hanson plc in 2007 and was subsequently carried forward on to our balance sheet on separation from HeidelbergCement. This impairment followed a reassessment of the future discounted cashflows expected to be generated by this business. Finally, an impairment charge of £0.8m was recognised following a decision to cease use of, and replace, an IT system.

CASH FLOW BORROWINGS AND FACILITIES

As at 31 December 2020 net cash (excluding lease liabilities under IFRS 16) was £16.0m (2019: net debt of £43.2m). Net cash after deducting lease liabilities of £9.4m was £6.6m. These leases primarily relate to plant and equipment and in particular the Group's fleet of heavy goods vehicles used to deliver our products to our customers.

Following the refinancing of our borrowing facilities during the year, the Group's debt facility now comprises a committed revolving credit facility (RCF) of £170m extending to July 2024. As at 31 December 2020 a total of £15m was drawn leaving facility headroom of £155m. The Group also benefits from an uncommitted overdraft facility of £10m.

The facility is subject to covenant restrictions of Net debt / EBITDA (as measured before IFRS 16) of less than three times and interest cover of greater than four times although a package of bespoke amendments to these covenants applies until September 2021. The business has traded within these covenants throughout 2020. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times.

	2020 £m	2019 £m
Operating cash flow before exceptional items	**53.9**	64.9
Payments made in respect of exceptional items	**(5.6)**	(1.1)
Cash generated from operations after exceptional items	**48.3**	63.8
Interest paid	**(2.8)**	(2.4)
Tax paid	**(5.2)**	(8.8)
Capital expenditure:		
– maintenance	**(5.4)**	(9.9)
– strategic	**(19.5)**	(14.4)
Dividends paid	**-**	(22.0)
Purchase of shares by Employee Benefit Trust (EBT)	**(1.0)**	(9.7)
Proceeds from sale of shares by EBT	**0.9**	4.9
Net proceeds from issue of shares	**53.0**	-
Lease liabilities on adoption of IFRS 16	**-**	(14.6)
New lease liabilities	**(0.6)**	(5.4)
Other movements	**(0.6)**	-
Payments in respect of exceptional finance costs	**(3.2)**	-
Reduction/(increase) in net debt	**63.9**	(18.5)
Debtor days	**36**	40

Strong free cash flow generation is a key pillar of our investment case. The Group generated operating cash flow stated before exceptional items of £53.9m (2019: £64.9m), a decrease of 16.9% on the prior year, highlighting the effectiveness of the Group at generating cash as soon as the initial lockdown was relaxed. Cash and liquidity management has been a priority for management coming ahead of profitability for much of the year, driven by a desire to keep our employees safe, and a dramatic and sudden fall in demand for our products. Operating cash flow before exceptional items benefited from £9.9m of receipts from the Coronavirus Job Retention Scheme.

Sales in the second half of 2019 had been adversely impacted by Brexit and general election related uncertainty. This, coupled with the traditional seasonal inventory build in the first quarter of 2020 meant that we entered lockdown with relatively high levels of inventory. With the lifting of the initial lockdown, demand steadily recovered, and our focus remained upon cash and working capital management. Production was restarted at each facility only when inventory levels necessitated. The benefit of this disciplined inventory management is evidenced by a £14.8m reduction in inventory in the year or a greater decrease of £24.1m if measured from the end of March when the pandemic began.

Additionally, as lockdown commenced there were fears of a liquidity crisis within the sector with some customers initially hesitant to pay their invoices as they fell due. Fortunately, constructive dialogue backed up with strong customer relationships, coupled with the merchanting sector receiving an unexpected and timely cash injection from DIY customers purchasing building materials for cash, meant this risk was averted and customer payment patterns quickly returned to normal.

Working capital decreased by £14.3m in the year (2019: £17.2m increase) primarily as a result of a reduction of £14.8m in inventories highlighted above. Year-end debtor days were 36 compared with 40 at the end of 2019 reflecting a return to normal payment patterns.

Measures were taken to eliminate non-essential expenditure and we also cancelled the 2019 final dividend saving £15m. 2019 staff bonuses were cancelled, and the Board and Executive Committee also took a voluntary 20% reduction in pay for three months.

Whilst the Desford construction project continued, all other uncommitted capital expenditure was paused. Non-Desford capital spend in the year was £5.4m (2019: £9.9m) which, when added to the £19.5m spend on Desford in the year, resulted in a total capital expenditure of £24.9m (2019: £24.3m). As at 31 December 2020 cash spend on the project to date totalled £32.1m with a further £4.6m committed at the period end, with further commitments of approximately £47m made in January 2021. It is currently expected that cash outflows to complete the project will be £41m in 2021, £18m in 2022 with the final £4m in 2023 bringing the total spend to £95m. Our guidance for normal levels of maintenance capital expenditure remains at £12m per annum.

The equity placing detailed above raised net funds of £53.0m after fees. Exceptional cash outflows totalled £8.8m comprising restructuring costs of £5.6m and refinancing expenses of £3.2m. The cash outflows associated with the restructuring actions were completed in the year.

OTHER FINANCIAL INFORMATION

GOVERNMENT SUPPORT

At the height of the first lockdown approximately 75% of our workforce were placed on furlough, a total of approximately 1,500 people. Between March and October a total amount of £9.9m was claimed under the Coronavirus Job Retention Scheme (CJRS). All of the monies claimed were paid to our employees and the scheme was undoubtedly successful in helping us to avoid large scale redundancies as the pandemic unfolded.

The CJRS enabled us to provide all of our employees with an income through the first lockdown whilst allowing us to delay decisions on redundancies, facilitating a reduction in the final number of redundancies relative to those initially announced as our markets recovered more quickly than we originally anticipated.

The Group was confirmed as eligible for the joint HM Treasury and Bank of England Covid Corporate Financing Facility (CCFF) with an issuer limit of £175 million. The Board does not expect to draw upon this facility, which provided the Group with access to additional emergency liquidity before the refinancing was completed and the trajectory of the recovery became apparent. We also benefited from the ability to defer both direct and indirect tax payments, although by the end of the year all these amounts had been paid and the Group’s tax payments are now fully up to date.

FINANCE COSTS

Recurring finance costs for 2020 were £3.4m (2019: £2.5m). Upon the onset of the pandemic, uncertainty as to how the banking sector would deal with the crisis led the Group to draw down it’s revolving credit facility (RCF) in full. This was partially repaid on completion of the refinancing and equity placing in July.

Under the terms of the amended and restated credit agreement, interest is currently charged at a margin of LIBOR +4.00% until 31 December 2021. After this, it reverts to a margin grid dependent on leverage with a margin of LIBOR plus 1.75% applicable whilst leverage (Net debt / EBITDA, pre IFRS 16) is less than one times, increasing to a margin of 4.00% should leverage exceed 3 times. A commitment fee of 35% of the margin is payable on the unborrowed facility.

TAXATION

The effective tax rate (ETR) excluding exceptional items was 18.4% (2019: 19.5%). Inclusive of exceptional items the ETR was (3.8%) (2019 19.3%). The ETR is lower than the UK statutory rate of 19.0% (2019: 19.0%) due to the reversal of an uncertain tax provision. Excluding this, the ETR excluding exceptional items is 23% and therefore higher than the UK statutory rate due to permanent adjustments for non-deductible items such as depreciation on non-qualifying assets. The ETR excluding both exceptional items and the reversal of the uncertain tax provision is higher than the prior year ETR, before exceptional items (2019: 19.5%) as due to the significant fall in profits driven by the pandemic, the permanent adjustments for non-deductible items have a bigger impact. Assuming no changes in the UK statutory rate of corporation tax, then providing our profitability recovers, we would expect the 2021 ETR to be closer to the 2019 rate.

PENSIONS

The Group has no defined benefit pension liabilities. There is a defined contribution arrangement in place and pension costs for the year amounted to £5.5m (2019: £6.1m).

STRATEGY IMPLEMENTATION

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

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

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

There remains a long-term shortage of housing supply in the UK and Government have continued to show a desire to pursue policy aimed at stimulating housebuilding. In addition, the UK brick industry continues to lack the capacity to service expected demand without reliance on imports. With the economics of imported bricks disadvantaged by the island geography of the UK, we expect that our new Desford factory, with a proven range of bricks already popular with housebuilders, will allow us to take full advantage of this position.

The pandemic has not necessitated any changes to our long term strategy although in the short term we have prioritised the completion of the Desford brick factory project over all other strategic capital projects and we will continue to take a prudent view on liquidity management and borrowing until it is clear the worst of the pandemic is behind us.

We have clarified our strategy to incorporate our commitment to reducing the impact our business has on the environment. This is not a significant shift in strategy, more a natural evolution given that our existing strategy of modernising our manufacturing capacity to improve efficiency is entirely consistent with reducing our environmental footprint, for example by improving energy efficiency and reducing waste.

With five years having passed since our IPO and with the new Desford factory on course to further increase our cash generation from 2023, we intend to update our shareholders on the next stage of our strategy later in the year.

CAPITAL ALLOCATION

Organic Investment

The Desford factory construction project exemplifies the attractive organic investment opportunities available to the Group. Successful delivery of this project is our present priority but thereafter we have a pipeline of other attractive capital projects which we continue to develop.

Construction on the Desford site continued throughout the year although Covid-19 presented multiple challenges including adherence to social distancing requirements, travel restrictions and the insolvency of a major supplier. Nevertheless, the key contracts for the supply and installation of the manufacturing equipment were signed with an alternative supplier in January 2021 with commissioning of the factory still expected in late 2022.

When complete and operating at full capacity, which is expected to be in 2025, the Desford factory is expected to have a material benefit on Group profitability and cash generation and should deliver EBITDA in excess of £20m and EBIT of at least £16m. This would increase Group EBITDA and EBIT by in excess of £15m and £12m respectively after taking the decommissioning of the old factory into account.

Our balance sheet strength and proven capacity to generate cash will allow us to increase our investment in developing our façade offerings and expand our range of fire-safe cladding solutions suitable for offsite methods of construction.

Dividends

We recognise the importance of dividends to our shareholders and the decision to cancel the 2019 dividend reflected our priority at that time of preserving liquidity. No interim dividend was declared during 2020 although in light of the improvement in trading in the second half of the year, and also in recognition of the strength of the balance sheet at the year end, the Board is recommending a 2020 final dividend of 2.8p per share. This dividend represents 45% of earnings before exceptional items in line with our existing dividend policy in place prior to the pandemic.

Subject to approval by shareholders, the final dividend will be paid on 9 July 2021 to shareholders on the register at 18 June 2021.

Acquisitions

Whilst recognising that the consolidated nature of our key markets may limit acquisition opportunities, we will continue to evaluate potential acquisitions which strengthen our existing market positions, expand our product range or enable us to address complementary markets. We will only pursue those opportunities where the strategic rationale can be demonstrated and where financial hurdles set by the Board can be met.

SUSTAINABILITY

We have always taken our obligations to protect the environment seriously and have made consistent efforts to reduce our environmental footprint making our business more sustainable. We are pleased to include our first detailed sustainability report within our forthcoming 2020 Annual Report which will provide additional disclosure and transparency as to our impact on the environment and our future sustainability targets and goals.

Whilst the manufacture of our products does impact upon the environment, we have a clear strategy to reduce this impact. Similar impacts are associated with the majority of heavy building products and the challenges we face are shared across the wider industry. It is important to consider not only the environmental impacts of building high quality homes, but also the environmental benefits from operating and maintaining these homes for generations.

Over the past decade we have already delivered a sizeable reduction in our carbon with a reduction in CO2 emissions per tonne of production of 27%. We have also virtually eliminated the sending of waste to landfill with the vast majority of our waste now recycled.

Whilst we are proud of our achievements over the last ten years, we know that a much greater effort will be required going forward. We are now committing to reducing our Scope 1 and 2 CO2 emissions (per tonne of production) from our brick manufacture by 33% over the next decade with an even greater decrease of 80% in our concrete businesses. If our product mix remains unchanged then this will deliver an overall reduction in our carbon emissions of 32% per tonne of production by 2030. In addition to this we are committing to significantly reducing the amount of plastic packaging we supply with our products by 50% over the next five years.

Our ambition to decarbonise our business is a 40-year journey which started in 2010 and will gain pace in the next decade. Our targets for 2030 can be achieved through deployment of both existing technologies and those that are on the near horizon. In the longer term we are committed to, in collaboration with others, researching, developing and deploying new and emerging technologies driving our ambition to reach net zero by 2050.

Within our comprehensive Sustainability Report we shall include extensive disclosures recommended by the Task Force on Climate Related Financial Disclosure (TCFD) and also the Sustainable Accounting Standards Board (SASB) covering the environmental impacts of our business and how we plan to reduce these impacts looking forward.

We also recognise that Sustainability extends well beyond carbon reduction with our sustainability report providing more information as to our commitments to our people and the communities in which we operate.

HEALTH AND SAFETY

The need to ensure the health, safety and wellbeing of our people has never been more important. Our Health and Safety team have worked relentlessly throughout the year to support our operations, ensuring we are able to operate our business safely and in compliance with all Covid-19 safety regulations.

Away from the pandemic, we have continued to strive towards making our business a safer place to work. We are pleased to record a significant reduction in our lost time incident frequency rate, (LTIFR) this statistic measures the number of incidents relative to the number of hours worked so is not distorted by the reduction in working hours caused by the pandemic. Each of our brick and block factories ended the year free of lost time incidents which was a massive achievement although unfortunately we did see a number of relatively minor incidents involving our in-house distribution function and addressing this will be a 2021 priority. Whilst the fall in lost time accidents is welcome, we must not become complacent as there is much more work to do as we endeavour towards a working environment free from harm.

Last year we reported that our Risk Committee had commissioned an independent review into the effectiveness of the Group's approach to health and safety. This review found that health and safety is the number one priority at Forterra although opportunities to enhance our strategic safety communications, providing clearer messaging and greater strategic direction aligned to our vision for zero harm were identified. Actions to address the findings of this review have been prioritised during the year and will be front and centre of our health and safety strategy looking ahead.

PEOPLE

The contribution made by our employees has never been more critical than over the last year. The dedication, resilience and flexibility displayed by our workforce has been central to overcoming the challenges presented by the pandemic. The kindness of our employees has extended far beyond their place of work and we would like to recognise the efforts of those who helped others during this most difficult of years. Our employees have given their time, in many cases whilst furloughed, to a range of good causes within their local communities including volunteering in the NHS, entertaining children and helping the elderly and vulnerable.

We continue to do the right thing for our employees. During the year we received accreditation from the Living Wage Foundation under which we have committed to paying each and every one of our employees a rate of pay above that specified by Government national living wage. We will now pay all our employees at least the real living wage which is independently calculated based on what people need to earn in order to support a reasonable standard of living.

We continue to invest in the retention and development of our people. We have made a bold commitment to increase the recruitment and training of young people through our decision to join the 5 Percent Club, a club comprised of leading employers, which exists to help its members increase the number, quality and range of earn and learn positions in their businesses. By joining this club, we are aspiring to have five percent of our workforce in earn and learn positions, including apprentices, sponsored students and graduates in five years' time.

In recognition of the Forterra brand's fifth birthday and the approaching fifth anniversary of our admission to the London Stock Exchange we are pleased to report that, as we did upon our IPO five years ago, in early 2021 we have granted a further £500 worth of shares to each of our employees. This is consistent with our strategy of encouraging employee share ownership which we believe contributes to enhancing employee engagement.

CORPORATE CULTURE

The Board is aware of its responsibility to foster a corporate culture based upon strong leadership and transparency, ensuring we do business responsibly, adhering to the highest ethical standards, whilst minimising the impact our business has on the environment.

Communication with our employees has been a key priority this year with unprecedented levels of uncertainty and events developing quickly. Traditional methods of communicating were made more challenging with many of our people away from work for a prolonged period. Management have made every effort to ensure we kept employees up to date with developments, explaining how events may affect them. Stephen Harrison's weekly podcasts were eagerly awaited and based on the feedback received, very much appreciated.

BOARD CHANGES

The Board has remained unchanged following Ben Guyatt's appointment to the Board as CFO on 1 January 2020. The Board are pleased with Ben's transition into the role and with a long history with the business, Ben was well placed to deal with the challenges of 2020. In addition, we have made further progress in improving the gender diversity of the management team with Shahbaz Idriss becoming the first female member of the Executive Committee when she joined the Group as Human Resources Director.

SUMMARY AND OUTLOOK

Our full year financial performance was impacted by Covid-19, notably in the first half, however our trading performance steadily improved as the year progressed. Operating cashflow benefited from disciplined working capital management and we were pleased to complete a successful equity placing and refinancing in July.

The much-improved trading conditions seen through the second half of 2020 have continued into 2021. This trend, alongside the lengthening order books of our housebuilding customers, offer support for a continued recovery in our key markets in the first half of the year. While there is growing optimism about the end of the Covid-19 pandemic, there remains ongoing uncertainty over its continuing economic implications, which leads us to maintain a cautious outlook for the year as a whole.

Longer term, our strong position will enable us to benefit from a sustained recovery of our key markets with a structural under supply of housing in the UK along with Government policy continuing to be supportive of home ownership, expected to continue supporting long-term demand. Our strong balance sheet, proven history of operating cash generation and the benefits to come from the Desford investment, mean that the Board believes Forterra is well placed to deliver continued growth and attractive returns to shareholders.

With five years having passed since our IPO and with the new Desford factory on course to further increase our cash generation from 2023 we intend to update our shareholders on the next stage of our strategy later in the year.

GOING CONCERN & VIABILITY STATEMENT

At the balance sheet date the cash balance stood at £31.5m with £15.0m borrowed against £170.0m of available borrowing facilities leaving headroom of £155m. The Group meets its working capital requirements through these cash reserves and borrowings; with no dependence on government grants at the year end. The Group closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. In spring 2020, responding to potential short to medium term liquidity needs identified in the financial forecasts and stress tests prepared at that time, the Group secured a refinancing of its existing bank facilities by way of amendment and restatement of existing documentation on 7 July 2020. The amended and restated facility provided (i) an extended maturity by two years to July 2024; (ii) an increase in the facility of £20 million to £170 million; and (iii) a package of covenant relaxations. Along with this refinancing, the Group carried out a placing of new ordinary shares of £0.01 each in its share capital to raise gross proceeds of £55.0m on 1 July 2020.

We have modelled financial scenarios for the 12-month period from the date that the financial statements are signed that reflect the uncertainty of the Covid-19 pandemic continuing to impact performance of both the Brick and Block and Bespoke Products divisions. These financial scenarios also stress-test the Group's resilience. Sales volumes are adjusted in each scenario as this variable is considered the most sensitive at present; with the shape of recovery differing from lower sales levels over a prolonged period to further sharp shocks without notable recovery. Each scenario is tested to determine if there are covenant breaches at each forthcoming covenant test date review. The most severe but plausible downside scenario reflects 2021 sales volumes falling 18% below 2019 levels and beginning to recover 13% of this in 2022. 2019 has been used as the reference period in developing these scenarios rather than 2020, given the volatility in 2020 and the lack of a normal seasonal pattern of sales and production.

All of the sensitivity analysis were modelled over the period to 31 March 2022 (going concern review period) to support the going concern assessment. These same models have also been extended through to December 2024 to support the Directors' viability assessment. In all the scenarios modelled, the Group had significant headroom in both its banking covenants and existing bank facilities.

Covid-19 safe working practices remain firmly in place and the business has been able to continue, uninterrupted, since operations restarted in summer 2020. Although the majority of factories closed during the first lockdown, neither the second nor third lockdown affected the continuation of operations. With operations continuing after fully reopening in summer 2020 the recovery has been sustained and as such Management are confident that i) the severe stress test scenarios are unlikely and ii) the further mitigation that could be applied in a stress scenario would see the business remain resilient in any case.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to March 2022. The Group therefore adopts the going concern basis in preparing this preliminary announcement.

FORWARD LOOKING STATEMENTS

Certain statements in this announcement are forward looking. Although the Group believes that the expectations reflected in these forward -looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements of the Group, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and with international financial reporting standards adopted pursuant to Regulation (EC) No 16/06/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Stephen Harrison
Chief Executive Officer
9 March 2021

Ben Guyatt
Chief Financial Officer

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	**2020 £m**	2019 £m
Revenue		**291.9**	380.0
Cost of sales		**(225.8)**	(243.8)
Gross profit		**66.1**	136.2
Distribution costs		**(44.1)**	(54.4)
Administrative expenses		**(20.8)**	(21.8)
Other operating income		**0.2**	0.7
Operating profit		**1.4**	60.7

EBITDA before exceptional items		**37.9**	82.7
Exceptional items	4	**(19.4)**	(4.3)
EBITDA		**18.5**	78.4
Depreciation and amortisation		**(17.1)**	(17.7)
Operating profit		**1.4**	60.7

Finance expense before exceptional items		**(3.4)**	(2.5)
Exceptional finance expense	4	**(3.4)**	–
Finance expense	5	**(6.8)**	(2.5)

(Loss)/profit before tax		**(5.4)**	58.2
Income tax expense	6	**(0.2)**	(11.4)
(Loss)/profit for the year attributable to equity shareholders		**(5.6)**	46.8
Total comprehensive (loss)/income for the year attributable to equity shareholders		**(5.6)**	46.8

(Loss)/earnings per share		**Pence**	(Restated) Pence
Basic earnings per share	8	**(2.6)**	23.6
Diluted earnings per share	8	**(2.6)**	23.6

As required by IAS 33, earnings per share for 2019 has been restated to reflect the bonus factor adjustment resulting from the 2020 equity issue (see note 8).

CONSOLIDATED BALANCE SHEET

At 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Intangible assets		**11.0**	18.2
Property, plant and equipment		**187.1**	182.6
Right-of-use assets		**9.0**	13.7
		207.1	214.5
Current assets			
Inventories		**33.0**	47.8
Trade and other receivables		**35.7**	40.4
Income tax asset		**0.6**	–
Cash and cash equivalents		**31.5**	26.6
		100.8	114.8
Total assets		**307.9**	329.3
Current liabilities			
Trade and other payables		**(63.8)**	(71.5)
Income tax liabilities		–	(3.5)
Loans and borrowings	9	**(0.5)**	(0.1)
Lease liabilities		**(3.4)**	(5.1)
Provisions for other liabilities and charges		**(5.0)**	(4.3)
		(72.7)	(84.5)
Non-current liabilities			
Loans and borrowings	9	**(15.0)**	(69.7)
Lease liabilities		**(6.0)**	(9.0)
Provisions for other liabilities and charges		**(9.2)**	(8.1)
Deferred tax liabilities		**(0.9)**	(1.8)
		(31.1)	(88.6)
Total liabilities		**(103.8)**	(173.1)
Net assets		**204.1**	156.2
Capital and reserves attributable to equity shareholders			
Ordinary shares	11	**2.3**	2.0
Retained earnings		**162.3**	157.8
Other reserves		**41.5**	–
Reserve for own shares		**(2.0)**	(3.6)
Total equity		**204.1**	156.2

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit before exceptional items		**20.8**	65.0
Adjustments for:			
– Depreciation and amortisation		**17.1**	17.7
– Movement on provisions		**1.7**	(0.3)
– Share-based payments		**0.9**	1.3
– Other non-cash items		**(0.9)**	(1.6)
Changes in working capital:			
– Inventories		**14.8**	(10.4)
– Trade and other receivables		**4.6**	(2.9)
– Trade and other payables		**(5.1)**	(3.9)
Cash generated from operations before exceptional items		**53.9**	64.9
Cash flows relating to exceptional items		**(5.6)**	(1.1)
Cash generated from operations		**48.3**	63.8
Interest paid		**(2.8)**	(2.4)
Tax paid		**(5.2)**	(8.8)
Net cash inflow from operating activities		**40.3**	52.6
Cash flows from investing activities			
Purchase of property, plant and equipment		**(23.5)**	(22.5)
Purchase of intangible assets		**(1.4)**	(1.8)
Net cash used in investing activities		**(24.9)**	(24.3)
Cash flows from financing activities			
Reduction in lease liabilities		**(5.2)**	(5.9)
Dividends paid	7	**–**	(22.0)
Drawdown of borrowings		**80.0**	17.0
Repayment of borrowings		**(135.0)**	(12.0)
Purchase of shares by Employee Benefit Trust		**(1.0)**	(9.7)
Proceeds from sales of shares by Employee Benefit Trust		**0.9**	4.9
Proceeds from share issue		**55.0**	–
Transaction costs on share issue		**(2.0)**	–
Exceptional finance payments		**(3.2)**	–
Net cash used in financing activities		**(10.5)**	(27.7)
Net increase in cash and cash equivalents		**4.9**	0.6
Cash and cash equivalents at the beginning of the period		**26.6**	26.0
Cash and cash equivalents at the end of the period		**31.5**	26.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Note	Share capital £m	Reserve for own shares £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 1 January 2019		**2.0**	**(5.8)**	**–**	**137.4**	**133.6**
Total comprehensive income for the year		–	–	–	46.8	46.8
Dividend paid	7	–	–	–	(22.0)	(22.0)
Purchase of shares by Employee Benefit Trust		–	(9.7)	–	–	(9.7)
Proceeds from sale of shares by Employee Benefit Trust		–	4.9	–	–	4.9
Share-based payments charge		–	–	–	1.5	1.5
Share-based payments exercised		–	7.0	–	(7.0)	–
Tax on share-based payments		–	–	–	1.1	1.1
Balance at 31 December 2019		**2.0**	**(3.6)**	**–**	**157.8**	**156.2**
Total comprehensive income for the year		–	–	–	(5.6)	(5.6)
Dividend payable	7	–	–	–	–	–
Issue of shares	11	0.3	–	41.5	11.2	53.0
Purchase of shares by Employee Benefit Trust		–	(1.0)	–	–	(1.0)
Proceeds from sale of shares by Employee Benefit Trust		–	0.9	–	–	0.9
Share-based payments charge		–	–	–	0.8	0.8
Share-based payments exercised		–	1.7	–	(1.7)	–
Tax on share-based payments		–	–	–	(0.2)	(0.2)
Balance at 31 December 2020		**2.3**	**(2.0)**	**41.5**	**162.3**	**204.1**

The other reserve amount of £41.5m is net of £2.0m in relation to transaction costs associated with the share issue as detailed within note 11.

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.

2 Basis of preparation

The preliminary results for the year ended 31 December 2020 have been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 9 March 2021. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published by the end of April 2021. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

This preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 16/06/2002 as it applies in the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. Whilst the financial information included in this preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. This preliminary announcement constitutes a dissemination announcement in accordance with Section 6.3 of the Disclosures and Transparency Rules (DTR).

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the Consolidated Financial Statements for the year ending 31 December 2020. Copies of the Annual Report for the year ended 31 December 2020 will be mailed to those shareholders who have opted to receive them by the end of April 2021 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

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

Going concern

At the balance sheet date the cash balance stood at £31.5m with £15.0m borrowed against £170.0m of available borrowing facilities leaving headroom of £155m. The Group meets its working capital requirements through these cash reserves and borrowings; with no dependence on government grants at the year end. The Group closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. In spring 2020, responding to potential short to medium term liquidity needs identified in the financial forecasts and stress tests prepared at that time, the Group secured a refinancing of its existing bank facilities by way of amendment and restatement of existing documentation on 7 July 2020. The amended and restated facility provided (i) an extended maturity by two years to July 2024; (ii) an increase in the facility of £20 million to £170 million; and (iii) a package of covenant relaxations. Along with this refinancing, the Group carried out a placing of new ordinary shares of £0.01 each in its share capital to raise gross proceeds of £55.0m on 1 July 2020.

We have modelled financial scenarios for the 12-month period from the date that the financial statements are signed that reflect the uncertainty of the Covid-19 pandemic continuing to impact performance of both the Brick and Block and Bespoke Products divisions. These financial scenarios also stress-test the Group's resilience. Sales volumes are adjusted in each scenario as this variable is considered the most sensitive at present; with the shape of recovery differing from lower sales levels over a prolonged period to further sharp shocks without notable recovery. Each scenario is tested to determine if there are covenant breaches at each forthcoming covenant test date review. The most severe but plausible downside scenario reflects 2021 sales volumes falling 18% below 2019 levels and beginning to recover 13% of this in 2022. 2019 has been used as the reference period in developing these scenarios rather than 2020, given the volatility in 2020 and the lack of a normal seasonal pattern of sales and production.

All of the sensitivity analysis were modelled over the period to 31 March 2022 (going concern review period) to support the going concern assessment. These same models have also been extended through to December 2024 to support the Directors' viability assessment. In all the scenarios modelled, the Group had significant headroom in both its banking covenants and existing bank facilities.

Covid-19 safe working practices remain firmly in place and the business has been able to continue, uninterrupted, since operations restarted in summer 2020. Although the majority of factories closed during the first lockdown, neither the second nor third lockdown affected the continuation of operations. With operations continuing after fully reopening in summer 2020 the recovery has been sustained and as such Management are confident that i) the severe stress test scenarios are unlikely and ii) the further mitigation that could be applied in a stress scenario would see the business remain resilient in any case.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to March 2022. The Group therefore adopts the going concern basis in preparing this preliminary announcement.

New standards, amendments and interpretations

The accounting policies adopted in the preparation of the preliminary financial statements are consistent with those followed in the preparation of the Consolidated Financial Statements for the year ended 31 December 2019. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3 Segmental reporting

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

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

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

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

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

Costs which are incurred on behalf of both segments are held at the centre and these, together with general administrative expenses, are allocated to the segments for reporting purposes using a split of 80% Bricks and Blocks and 20% Bespoke Products. Management considers that this is an appropriate basis for the allocation.

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

			2020	
	Note	**Bricks and Blocks £m**	**Bespoke Products £m**	**Total £m**
Segment revenue		223.1	71.7	294.8
Intercompany eliminations				(2.9)
Revenue				**291.9**
EBITDA before exceptional items		**40.3**	**(2.4)**	**37.9**
Depreciation and amortisation		(14.8)	(2.3)	(17.1)
Operating profit/(loss) before exceptional items		25.5	(4.7)	20.8
Allocated exceptional items		(7.2)	(12.2)	(19.4)
Operating profit/(loss)		**18.3**	**(16.9)**	**1.4**
Net finance expense	5			(3.4)
Exceptional finance expense	5			(3.4)
Loss before tax				**(5.4)**

Segment assets

		2020	
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Property, plant and equipment	168.3	18.8	187.1
Intangible assets	10.2	0.8	11.0
Right-of-use assets	7.5	1.5	9.0
Inventories	29.1	3.9	33.0
Segment assets	**215.1**	**25.0**	**240.1**
Unallocated assets			67.8
Total assets			**307.9**

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

Other segment information

	2020		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	22.6	1.3	23.9
Intangible asset additions	1.2	0.3	1.5
Right-of-use assets additions	0.3	0.3	0.6

Customers representing 10% or greater of revenues were as follows

	2020		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	30.3	1.6	31.9
Customer B	28.1	1.5	29.6

Segment revenue and results

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

Segment assets

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

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

Other segment information

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

Customers representing 10% or greater of revenues were as follows

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

4 Exceptional costs

	2020	2019
	£m	£m
Exceptional operating costs		
Restructuring costs	**(2.4)**	(3.6)
Aborted transaction costs	**–**	(0.7)
Asset impairment charges	**(17.0)**	–
	(19.4)	(4.3)
Exceptional finance costs		
Debt refinancing costs	**(3.4)**	–
	(3.4)	–
Total exceptional costs	**(22.8)**	(4.3)

Restructuring costs totalling £2.4m have been incurred as a result of changes announced to address the Group's cost base, including both changes to shift patterns and adjustments to the size and structure of support functions.

Following the Covid-19 pandemic management's immediate priorities were reassessed and a £17.0m impairment has been charged against assets in business areas with more challenging market conditions and weaker margins. These fully write-off the carrying value of goodwill within the business, write down assets associated with hollowcore production at the mothballed facility in Swadlincote and write-off an IT system. The Goodwill impairments (£6.8m) substantially relate to the £6.0m of goodwill that had been recognised on the historic acquisition of Hanson plc by HeidelbergCement AG in 2007. This is recognised within the Brick and Block segment as the Goodwill had been allocated to the Formpave business and forecast profitability for Formpave following Covid-19 could no longer support a carrying value that included this £6.0m of goodwill.

The remaining £0.8m of goodwill relates to the acquisition of the Swadlincote facility in 2017 and is recognised within the Bespoke products segment. Further to a period of declining margins, markets for Swadlincote manufactured products are expected to be significantly weaker following the Covid-19 pandemic. Accordingly, goodwill of £0.8m has been impaired along with a £9.4m impairment relating to idle assets at the Swadlincote facility. There is no value in use for the foreseeable future following the decision to mothball this facility in response to the Covid-19 pandemic.

The remaining £0.8m relates to the write down of an IT system following a decision to cease use of and replace. £0.7m of this is shown as an impairment within intangible assets and the remainder within provisions as an onerous contract.

The impairment of goodwill results from an expected decrease in future cash flows in perpetuity and an increase in the WACC rate (weighted average cost of capital) used to discount these cash flows. Both the decreased cashflows and increased WACC rate have been triggered by Covid-19. Similarly, a decision to mothball the hollowcore production facility at Swadlincote results from a weaker outlook for this market since the onset of the Covid-19 pandemic. This decision to mothball triggers an impairment of assets as there are no expected cashflows from production of hollowcore at Swadlincote for the next 4-5 years. However, management remain confident in the long-term prospects of the Group and the business model as a whole.

On 7 July 2020 the Group refinanced its existing banking facilities. Costs of £3.4m associated with this refinancing are recognised as an exceptional item, further details of which can be found in note 9.

Aborted transaction costs of £0.7m were incurred in the second half of 2019 in respect of an acquisition which was not completed.

Exceptional costs incurred by the Group are presented within the following line items in the Consolidated Statement of Comprehensive Income:

	Cost of sales £m	Distribution costs £m	Administrative expenses £m	Finance expenses £m	Total £m
2020					
Total before exceptional items	(207.8)	(44.0)	(19.5)	(3.4)	(274.7)
Exceptional items					
Restructuring costs	(1.8)	(0.1)	(0.5)	–	(2.4)
Impairment costs	(16.2)	–	(0.8)	–	(17.0)
Debt refinancing costs	–	–	–	(3.4)	(3.4)
Statutory Balance	**(225.8)**	**(44.1)**	**(20.8)**	**(6.8)**	**(297.5)**
2019					
Total before exceptional items	(240.8)	(54.3)	(20.6)	(2.5)	(318.2)
Exceptional items					
Restructuring costs	(3.0)	(0.1)	(0.5)	–	(3.6)
Aborted transaction costs	–	–	(0.7)	–	(0.7)
Statutory Balance	**(243.8)**	**(54.4)**	**(21.8)**	**(2.5)**	**(322.5)**

Tax on exceptional items

Restructuring and refinancing costs recognised have been treated as tax deductible. The aborted transaction costs and impairment charges on goodwill, property, plant and equipment and land and buildings are not tax deductible. The property, plant and equipment impairment give rise to a deferred tax credit such that they are not tax rate impacting, however the impairment of goodwill and nonqualifying land and buildings impact the effective tax rate.

5 Net Finance Expense

	2020 £m	2019 £m
Interest payable on external borrowings	**(2.9)**	(2.0)
Interest payable on lease liabilities	**(0.3)**	(0.4)
Other finance expense	**(0.2)**	(0.1)
Exceptional finance expense	**(3.4)**	–
	(6.8)	(2.5)

The Group drew down on its revolving credit facility in its entirety from mid-March to the period end, securing cash in response to the Covid-19 pandemic, but resulting in higher interest charges.

On 7 July 2020 the Group refinanced its existing banking facilities. £3.4m of costs associated with this refinancing have been incurred and are recognised as exceptional items.

6 Taxation

	2020 £m	2019 £m
Current tax		
UK corporation tax on profit for the year	**(1.8)**	(9.4)
Prior year adjustment on UK corporation tax	**0.5**	(0.5)
Total current tax	**(1.3)**	(9.9)
Origination and reversal of temporary differences	**1.2**	(2.0)
Effect of change in tax rates	**(0.2)**	–
Effect of prior period adjustments	**0.1**	0.5
Total deferred tax	**1.1**	(1.5)
Income tax expense	**(0.2)**	(11.4)

	2020 £m	2019 £m
Tax credit		
(Loss)/Profit before taxation	**(5.4)**	58.2
Expected tax credit	**1.0**	(11.1)
Expenses not deductible for tax purposes	**(0.5)**	(0.3)
Impairment of goodwill not deductible for tax purposes	**(1.2)**	–
Reversal of uncertain tax provision	**(0.2)**	–
Impact of change on deferred tax rate	**0.7**	–
Income tax expense	**(0.2)**	(11.4)

The main rate of UK corporation tax for 2020 is 19.0%, which was effective from 1 April 2017. The UK corporation tax rate was due to reduce to 17.0% from 1 April 2020 however this was amended in the Finance Bill 2020 and the UK corporation tax rate remains at 19.0%. As a result, the relevant deferred tax balances have been remeasured. This is reflected in the effect of change in tax rate.

7 Dividends

	2020	2019
	£m	£m
Amounts recognised as distributions to equity holders in the year:		
Nil interim dividend per share (2019: 4.0p)	**–**	(7.8)
Nil final dividend per share in respect of prior year (2019: 7.2p)	**–**	(14.2)
	–	(22.0)

The Directors are proposing a final dividend for 2020 of 2.8p per share, making a total payment for the year of 2.8p (2019: 4.0p). The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in these preliminary financial statements.

8 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year. Earnings per share before exceptional items is presented as an additional performance measure to provide an additional a year-on-year comparison excluding the impact exceptional items as detailed within note 4, and their associated tax impact.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has three types of dilutive potential ordinary shares, being: those share options granted to employees under the share save scheme where the exercise price is less than the average market price of the Company's ordinary shares during the year; unvested shares granted under the Deferred Annual Bonus Plan and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

Basic and diluted earnings per share figures for the comparative periods have been restated and adjusted for the bonus factor of 1.01 to reflect the bonus share element of the July 2020 equity raise in accordance with IAS 33 Earnings per Share. Amounts as originally stated at 31 December 2019 were 23.8p basic and 23.7p diluted earnings per share and 25.6p basic earnings per share before exceptional items.

		Before exceptional items		**Statutory**	
			Restated		Restated
		2020	2019	**2020**	2019
		£m	£m	**£m**	£m
Operating profit for the year		**20.8**	65.0	**1.4**	60.7
Net finance expense	5	**(3.4)**	(2.5)	**(6.8)**	(2.5)
Profit/(loss) before taxation		**17.4**	62.5	**(5.4)**	58.2
Tax charge	6	**(3.2)**	(12.1)	**(0.2)**	(11.4)
Profit/(loss) for the year		**14.2**	50.4	**(5.6)**	46.8
Weighted average number of shares (millions)		**214.8**	197.9	**214.8**	197.9
Effect of share incentive awards and options (millions)		0.2	0.8	**0.2**	0.8
Diluted weighted average number of ordinary shares (millions)		**215.0**	198.7	**215.0**	198.7
Earnings per share:					
Basic (in pence)		**6.6**	25.5	**(2.6)**	23.6
Diluted (in pence)		**6.6**	25.4	**(2.6)**	23.6

9 Loans and borrowings

			2020 £m	2019 £m
Non-current loans and borrowings				
External bank loans	– principal		**15.0**	70.0
	– unamortised debt issue costs		**–**	(0.3)
			15.0	69.7
Current loans and borrowings				
	– interest		**0.5**	0.1
			0.5	0.1
			15.5	69.8

In July 2020 the Group completed a refinancing of its debt facilities, whereby the revolving credit facility of £150m which had been due to expire in July 2022 was increased to £170m, with expiry extended to July 2024. The refinancing was accounted for as an extinguishment of the existing liability and the recognition of a new financial liability. As a result, exceptional finance costs of £3.4m have been recognised within the Consolidated Statement of Comprehensive Income, representing £0.2m of unamortised debt issue costs at the date of extinguishment, and £3.2m of accelerated refinancing fees.

Within the refinancing the Group were able to secure variations to the financial covenants for the period up to and including 30 September 2021, including:

- Interest cover - minimum interest cover of 3 times (EBITDA: Net finance Charges) for test periods September 2020, June 2021 and September 2021, with no testing in December 2020 and March 2021. For test periods following September 2021 the level returns to 4 times to be tested semi-annually.
- Maximum leverage level has been increased to 4.75 times EBITDA tested quarterly up to and including June 2021, with the exception of March 2021 when it will not be tested. The level for September 2021 is set at 4 times, after which the rate reverts to the pre-refinancing level of 3 times to be tested semi-annually.
- A quarterly minimum liquidity covenant has been introduced for the period up to and including September 2021 in which minimum liquidity (cash plus undrawn facilities) is to be no less than £20m, unless leverage at the previous test date exceeds 4 times EBITDA in which case liquidity will be no less than £35m until leverage at the next test is calculated.
- If leverage is greater than 3 times EBITDA there are restrictions on dividends, other equity distributions and acquisitions.

For the purposes of the financial covenants described above, EBITDA is calculated on a pre IFRS 16 basis.

The facility is secured by fixed charges over the shares of Forterra Building Products Limited and Forterra Holdings Limited.

10 Net cash/(debt)

The analysis of net cash/(debt) is as follows:

		2020 £m	2019 £m
Cash and cash equivalents		**31.5**	26.6
Loans and borrowings	9	**(15.5)**	(69.8)
Lease liabilities		**(9.4)**	(14.1)
Net cash/(debt)		**6.6**	(57.3)

Reconciliation of net cash flow to net cash/(debt)

	2020 £m	2019 £m
Operating cash flow before exceptional items	**53.9**	64.9
Payments made in respect of exceptional operating items	**(5.6)**	(1.1)
Operating cash flow after exceptional items	**48.3**	63.8
Interest paid	**(2.8)**	(2.4)
Tax paid	**(5.2)**	(8.8)
Net cash flow from investing activities	**(24.9)**	(24.3)
Dividends paid	**–**	(22.0)
Purchase of shares by Employee Benefit Trust	**(1.0)**	(9.7)
Proceeds from sale of shares by Employee Benefit Trust	**0.9**	4.9
Proceeds from issue of shares	**55.0**	–
Transaction costs on share issue	**(2.0)**	–
Lease liabilities recognised on adoption of IFRS 16	**–**	(14.6)
New lease liabilities	**(0.6)**	(5.4)
Cash payments made in respect of exceptional finance items	**(3.2)**	–
Other financing movement	**(0.6)**	–
Decrease/(increase) in net debt	**63.9**	(18.5)
Net debt at the start of the period	**(57.3)**	(38.8)
Net cash/(debt) at the end of the period	**6.6**	(57.3)

11 Share capital and other reserves

	2020 Number	**2020 £m**	2019 Number	2019 £m
Allotted, called up and fully paid 1p ordinary shares				
At start of year	**200,442,068**	**2.0**	200,442,068	2.0
Issued in year	**28,205,128**	**0.3**	–	–
At end of year	**228,647,196**	**2.3**	200,442,068	2.0

During the year the Group raised net proceeds of £53.0m via an equity raise (consisting of £55.0m of gross proceeds less transaction costs incurred on issue of £2.0m). There was no tax impact on the fees. The placing was undertaken using a cash box structure. As a result, the Group was able to take relief under section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to retained earnings as an other reserve. The net proceeds of £53.0m were immediately passed to Forterra Buildings Products Ltd by way of an intercompany loan and as such were not immediately distributable. The reserves qualify as distributable on settlement of inter-company funding arrangements. At the year-end a balance of £11.2m has been included as distributable and is presented within retained earnings.

12 Related party transactions

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors of the Company and the Directors of the Group's subsidiary companies fall within this category.

	2020	2019
	£m	£m
Emoluments including taxable benefits	**(2.0)**	(2.4)
Share-based payments	**(0.4)**	(0.5)
Pension and other post-employment benefits	**(0.2)**	(0.2)
	(2.6)	(3.1)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within the Annual Report and Accounts to be published in April 2021.

RISK MANAGEMENT AND KEY RISKS

OVERVIEW

Effective risk management is critical to successfully meeting our strategic objectives and delivering long-term value to our shareholders. Instilling a risk management culture at the core of everything we do continues to be a key priority. Our risk management policy, risk management strategy, processes, reporting measures, internal reporting lines and responsibilities are all well-established and all worked well as we responded to the Covid-19 pandemic.

Risk awareness throughout the business has continued to improve during the last year. There have been more conversations about risk management, at all levels than ever before. A wider management group have engaged with risk identification and mitigation and the business has benefited from greater proactivity with our people communicating more effectively and collaborating with each other.

Responding to the impacts and associated risks of Covid-19 and Brexit has been the primary focus during 2020. In 2021 we expect a return to wider risk management, monitoring systemic risks and focusing most on the most rapidly evolving business risks. We will also see a restart of regular risk management site reviews and visits as these have been paused through 2020. By re-establishing physical links between central and local management and expanding the risk conversation we will continue our risk management journey, benefiting from the lessons learnt in 2020, further developing risk management controls and ensuring a greater level of consistency across the Group.

We have identified an increasing need to make Forterra more resilient against the potential effects of climate change, evolving environmental risks and in response to shareholder feedback, we have provided extensive new disclosure regarding the impact of our operations on the environment and how we have set challenging targets to reduce our environmental footprint.

Sustainability risks would previously only have been included in our annual report disclosure where they presented a risk within the next three years. We have now expanded our disclosure to include risks where their impact may not manifest within this short term. By extending our risk horizon scanning we are now able to give greater emphasis to longer term climate related risks.

The Board is committed to implementing the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) and whilst both short and long-term climate risks are now summarised in this section, more expansive disclosures are provided within the Annual Report and Accounts to be published in April 2021.

In response to a need for a much greater focus on sustainability risks, from 1 January 2021 the Board’s Risk Committee has become the Risk and Sustainability Committee, providing the necessary Board level oversight and governance over some of the most significant risks the business faces in the short, medium and long term.

RISK MANAGEMENT OBJECTIVES

In summary, our risk management objectives are to:

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

In the year Management were able to effectively use risk management procedures, tools and controls to respond rapidly to newly emerging risks, bring these risks under control and continue to demonstrate our values: safety first, people matter, customer focus, trusted to deliver and driving improvement. Procedures, tools and controls developed most notably around emerging risks. The Covid-19 pandemic has placed a greater emphasis on emerging risks than before and enhanced review procedures have been developed to ensure that: i) newly emerging risks are considered separately but equally to other key risks and ii) the speed/velocity that these risks are emerging is appropriately considered.

REGULAR UPDATES

The Board's Risk Committee met four times during the year to review the key risks facing the business and they received updates from Management to facilitate this. The forward plan of activities that was set for the Risk Committee (and also managements' Risk Steering Group (RSG)) was subject to change in the year, reflecting the need for fluidity in responding to the pandemic. Over and above the scheduled meetings of the Risk Committee, frequent updates were provided to members of the Committee, through additional calls and by way of risk management updates being tabled at the regular Board meetings. A crisis management risk register was developed specifically for COVID19 risks and regularly updated. Frequent Covid-19 specific updates ensured that the Risk Committee were well informed throughout 2020 allowing it to fulfil its responsibilities. Similarly, employees at all levels were kept up to date throughout the year on the key risks the Group faced.

KEY RISKS

Key risks are determined by applying a standard methodology to all risks, considering the potential impact and likelihood of a risk event occurring, before then, considering the mitigating actions in place, their effectiveness, their potential to be breached and the severity and likelihood of the 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.

COVID-19 RISK

Despite the strong recovery in trading following the initial lockdown in spring 2020 some uncertainty remains. The Group and its customers have been able to continue to operate since the initial lockdown without significant interruption or government-imposed restrictions and there is growing confidence that the ongoing impact of the pandemic will not mirror the severe impacts seen in spring 2020. Management therefore concentrate on the controllable risks such as health and safety, where we continue to follow all public health guidance as soon as it is published.

BREXIT RISK

Although the end of the transition period for Brexit has now passed, some uncertainty remains. Management have worked to mitigate the risks they have identified, most notably around people and supply chain, but some indirect market risks remain and we cannot fully mitigate the impact of these risks. For example, a deterioration in the UK housing market will always have an impact on Group performance.

RISK APPETITE

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

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

KEY RISKS AND UNCERTAINTIES

Principal risk and why it is relevant	Key mitigation, change and sponsor	Gross Risk +/- from Dec-19
1. Health and safety Our key risks remain the same as before the emergence of Covid-19. We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts and noise, dusts and chemicals. However, before mitigating actions, the underlying risk to employee health has increased with the emergence of Covid-19. We have continually followed government guidelines but our employees previously worked in close proximity to each other at times and the emergence of Covid-19 saw proximity become an additional risk requiring mitigation through changes in operating procedures to facilitate social distancing or through use of personal protective equipment (PPE) in both office and manufacturing environments.	Safety remains our number one priority. We target an accident free environment and have a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. A fall in our accident rate in 2020 has been pleasing but Management remain vigilant against complacency. Management responded quickly to the emergence of COVID-19, establishing remote working procedures and the necessary systems to facilitate this as part of our business continuity response before introducing safe working practices for social distancing in the workplace. Initially, arrangements for social distancing were made at manufacturing facilities servicing essential Government projects, these were then replicated elsewhere before production restarted and employees returned to office environments. Supporting this restart an Employee Covid Code of Conduct was agreed that sets clear expectations around personal behaviours and return to work inductions were conducted to mitigate additional Covid-19 risks. As guidance and regulations evolve Management have responded and clear and effective channels of communication have been an important mechanism for ensuring employees remain up to date on changes made. The resurgence of Covid-19 in Q4 was recognised early. Management responded and switched from encouraging staff back to their normal places of work to promoting working from home arrangements where possible. Employees continue to be reminded that existing safety risks remain and controls to mitigate these are maintained and consistently operated. This is important as strong customer demand has meant that we are busy. Following alternate working practices whilst maintaining high levels of output increases risk if controls are not maintained. **Executive sponsor: Stephen Harrison**	Increased
2. Sustainability / Climate change We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.	We recognise the positive impact that our products have on the built environment across their lifespan and are keen for the durability, longevity and lower lifecycle carbon cost of our products to be reported and better understood. At the same time, we are now publishing further information to allow stakeholders to better understand the impact our business has upon the environment. At the beginning of 2021 we amended the terms of reference for the Risk Committee to extend its responsibilities to specifically cover sustainability and climate risks. In the short-term there are a number of transitional sustainability risks. These include increasing regulatory burden or cost, an inability to adapt our business model to keep pace with new regulation or customer preferences changing more quickly than anticipated or too quickly for R&D to keep pace. There are also longer-term physical risks which could have a material impact on the business. These risks include more severe weather impacts such as flooding and potentially changes to the design of buildings in order to adapt to different climatic conditions. Existing sustainability targets ran from 2010 through to 2020. As this period has now come to an end we have defined our forward looking sustainability strategy and goals and have set new targets which fit well into an environment where climate-related risks and sustainability are reflected more highly in stakeholder priorities than they were when targets were last set in 2010. **Executive sponsor: Stephen Harrison**	Increased

3. Economic conditions Demand for our products is closely correlated with residential and commercial construction activities. The emergence of Covid-19 saw customer demand fall in late March before slowly rebuilding. Whilst demand has recovered substantially in H2 2020 we remain watchful of both immediate and longer-term changes in demand resulting from Covid-19 and Brexit.	Understanding business performance in real-time, the customer order book, strong relationships with customers and other participants across the building sector, and a range of internal and external lead indicators help to inform management and ensure that the business has time to respond to changing market conditions. We have flexed costs and capacity effectively in 2020 and can slow production if customer demand weakens in the near-term. 2020 has seen a significant destocking in some parts of our business which presents a risk to our ability to meet all customer requests if there is a rapid improvement in economic conditions. Budgeted production output in 2021 is driven by estimates of 2021 demand but the shape of the recovery from Covid-19 and the full impact of Brexit remain uncertain. There is wide recognition that the housing market will recover over the medium term. There remains a shortage of housing in the UK, available financing and favourable population growth. We continue to expect brick imports to reduce ahead of sales of domestically manufactured bricks in a downturn scenario, as they have in prior cyclical downturns. Forterra is well positioned to take advantage of attractive market fundamentals to continue delivering shareholder value. **Executive sponsor: Stephen Harrison**	Increased
4. Government action and policy The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding policy, investment in public housing and availability of finance. Proximity to the end of the current phase of Help to Buy and temporarily reduced rates of Stamp Duty Land Tax may be temporarily stimulating demand ahead of June 2021 and may see demand for our products fall or change after this date if they are not replaced or extended. The Housing Infrastructure Fund could also have an impact. Changes to Government policy or planning regulations could adversely affect Group performance.	We participate in trade associations, attend industry events and track any policy changes which potentially impact housebuilding and the construction sector more broadly. Such policy changes can be very broad, covering macro-economic policy including taxation, interest rates and mortgage availability and incentives aimed at stimulating the housing market. We also carefully monitor the impact that large infrastructure projects have on the availability of labour and materials, environmental policy and the impact of policy on the availability of labour in the UK construction market. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision making. We worked to actively mitigate the short-term risks posed by Brexit through 2019 and H2 2020. Whilst no immediate impact has been seen in early 2021. Management will remain watchful for detrimental impacts on the wider economy. The impact of Covid-19 was notable in H1 2020, before strong recovery from May onwards. Although management remain very confident in the long-term fundamentals of its markets some caution remains in the near term. The end of the stamp duty holiday coupled with the tapering of help-to-buy could see weaker demand whilst the longer-term economic impacts of Covid-19 and Brexit could also weigh on the economy. Covid-19 was not visible as a major risk back in December 2019 and the virus along with forthcoming changes to Government stimulus aimed at protecting the housing market have increased risk in this area. However, Government have demonstrated that they remain committed to housebuilding and Management consider the withdrawal of support is unlikely where economic uncertainty remains high **Executive sponsor: Stephen Harrison**	Increased

5. Residential sector activity levels Residential development (both new build construction and repair, maintenance and improvement) contribute the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector affect profitability and strategic growth plans.	We closely follow the demand for our products we are seeing from this sector, market projections, sentiment, mortgage affordability, and credit availability in order to identify and respond to opportunities and risk. Group strategy focuses on our strength in this sector, but we also continue to work to strengthen our offer in other sectors too. Government action and policy as laid out above continues to be a key determinant of demand for housing with Covid-19 potentially increasing the ability of Government policy to influence activity levels. **Executive sponsor: Stephen Harrison**	Increased
6. Product availability Many of our product ranges are manufactured at single facilities and where there are low buffer stock levels and high capacity utilisation. A breakdown can cause product shortages and have a detrimental impact on performance and reputation.	We currently have low stock levels in a number of areas. Demand continuing to exceed expectations could prevent a restocking, as could periods of short staffing resulting from the ongoing impact of the Covid-19 pandemic. Strong customer relationships and some degree of product range substitution can mitigate this risk, business precautions that decrease the rate of potential Covid-19 infection and allow critical activities to continue are also now well established. However, despite these mitigants there remains heightened risk as plants are expected to run at capacity to effectively restock. **Executive sponsors: George Stewart and Peter Varnsverry**	Increased
7. Customer relationships and reputation Significant revenues are generated from sales to a number of key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.	One of our 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, we seek to develop our long-standing relationships with major customers and replicate these with newer customers. Regular and frequent review meetings focus on our effectiveness in this area and external expertise has been engaged to support these appraisals. Business continuity plans were quickly and smoothly implemented as the pandemic gathered pace allowing good customer service levels to continue. These were supported by the external sales team, the customer's primary contact, continuing to work remotely throughout the lockdown period; allowing customers to obtain immediate answers in the more dynamic environment. This service proposition has been well received by customers across all channels and strengthened relationships further. **Executive sponsor: Adam Smith and Peter Varnsverry**	Decreased
8. Cost and availability of raw material Availability of raw materials can vary at times and where shortages exist, we are susceptible to significant increases in price and threats to our ability to meet customer expectations. Many of these risks are associated with sustainability and climate change and have been a management priority for a number of years. Other risks in the same area have arisen more recently through the Covid-19 pandemic and as the end of the Brexit transition period neared.	We continue to focus on ensuring inflationary pressures are understood, forecast and impact mitigated. In addition to price, we continue to assess whether there is continuity of supply for certain key raw materials and mitigate these risks too. Climate change has impacted availability and the price of certain raw materials in recent periods and we have taken action to mitigate the risks; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials. Although we own much of the raw material we use to manufacture our products, Management continue to recognise a number of long-term supply risks. Focus on these risks has been maintained through the period to ensure risks in these areas are mitigated. **Executive sponsors: George Stewart and Peter Varnsverry**	Static

9. People training and development We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. During the Covid-19 pandemic management have prioritised the health and safety of the workforce, clear and regular communication and overall employee welfare. Staffing risks related to the end of the Brexit transition period have also been a priority in 2020.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. Through the Covid-19 pandemic our people strategy increasingly focused on managing furlough leave arrangements, establishing safe working practices for return to work, employee support and strong communication/employee engagement. Staff have remained well-informed and the Group was been able to re-start operations effectively as a result. On resumption of business in H2 2020 Management continued to invest in HR and payroll systems, and although the pandemic impacted the ongoing systems implementation project suitable resource is now in place to see this investment through to delivery of strategic plans in full in relation to people. Staffing risks related to our European workers have not been realised but Management are cautious about closing these risks out immediately. **Executive sponsor: Shahbaz Idriss**	Increased
10. Innovation Demand for the products that we manufacture may decline if we fail to respond to market developments and revenues and margins may suffer.	Strong relationships with customers and independently administered customer surveys ensure that we understand 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. New product development and other development initiatives continue and there are clear links between investment in R&D and the work undertaken in relation to sustainability. **Executive sponsor: Darren Rix**	Increased
11. IT infrastructure and systems Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years, attaining ISO 27001 Information Security accreditation in 2019. Further investment in 2020 in new telephony and communication systems has allowed us to cater for strong demand whilst office staff worked remotely in Q4. Increased cyber risk is evidenced by increasing instances of malicious attacks globally and has encouraged continued investment in cyber security **Executive sponsor: Matthew Day**	Static
12. Business continuity Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	We made plans to allow key centralised functions to continue to operate in the event of business interruption in prior years and were able to establish remote working capability effectively as the Covid-19 pandemic developed in Q1 2020 and recurred in Q4 2020. Plans at operational facilities that focused on continuity of despatch were also in place and effective and we move forward with proven capability for mobilising people and procedures. We consider climate related risks when developing business continuity plans and have learnt lessons from weather related events in recent years which inform these plans. Our Business Continuity policy allows managers to apply clear principles to develop plans quickly in other areas, where a scenario without a pre-prepared plan is faced. **Executive sponsor: Ben Guyatt**	Increased

13. Project delivery This is a new risk recognised for the first time in 2020 in recognition of the scale and complexity of the Desford construction project. There are many risks to our ability to successfully deliver plans at present due to the impact of the Covid-19 pandemic.	The Desford brick factory represents the largest capital investment that we have ever made. This project has continued through the pandemic but it is not immune to the risks that the pandemic presents, either during the build project or with regards to the impact of the pandemic on the market that we will be operating in after the completion of the build. In 2020 a major supplier suffered financial difficulties and whilst contracts have now been signed with a replacement supplier, this highlights a single supplier risk which still exists. Should Covid-19 driven restrictions on travel continue into summer 2021 this could cause further delays to the project Management closely monitor the project for signs of potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. Lessons have been learnt from the construction of the Measham brick factory which was completed in 2009 and with dedicated project management in place and groundworks largely complete, notable risks have already been mitigated. **Executive sponsor: George Stewart**	Increased