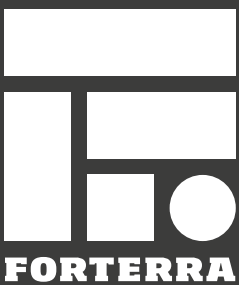




# KEEPING BRITAIN BUILDING



Forterra plc  
Annual Report  
and Accounts  
2021

# KEEPING BRITAIN BUILDING

Our purpose is clear. Whether it be supplying the bricks and blocks essential for the housing industry, designing bespoke solutions for our diverse range of customers, or creating jobs that help our communities prosper, we are keeping Britain building.



[FORTERRA.CO.UK](https://www.forterra.co.uk)

## FINANCIAL HIGHLIGHTS

### REVENUE

**£370.4M**

26.9% ▲

2020: £291.9m

### NET CASH<sup>1</sup>

**£40.9M**

155.6% ▲

2020: £16.0m

### PROFIT BEFORE TAX BEFORE EXCEPTIONAL ITEMS

**£50.7M**

191.4% ▲

2020: £17.4m

### PROFIT / (LOSS) BEFORE TAX

**£56.8M**

2020: £(5.4)M

### EARNINGS PER SHARE BEFORE EXCEPTIONAL ITEMS

**17.5p**

165.2% ▲

2020: 6.6p

1. Net cash is presented before the impact of IFRS 16.



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Note: This PDF contains interactive links when referencing page numbers, notes in the financial tables and external hyperlinks.

### OUR COMMITMENT TO SUSTAINABILITY

We are committed to an environmental and social responsibility programme which highlights our key long-term priorities and future focus areas. You can find out more about our commitment to sustainability in our Sustainability Report.

➤ See pages 42-76



### BUILT ON SOLID FOUNDATIONS

➤ Read more on page 18



### BUILDING THE LARGEST AND MOST EFFICIENT BRICK FACTORY IN EUROPE

➤ Read more on page 22



### EXPANDING OUR PRODUCT RANGE

➤ Read more on page 28



### PRODUCT INNOVATION AND DEVELOPMENT

➤ Read more on page 39

## AT A GLANCE

# GUIDED BY OUR PURPOSE

We keep Britain building, enabling the development of thriving communities and infrastructure.

### UK FOCUS

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

Our proximity to our customers and the low value-to-weight ratio of our products provides competitive advantage over imported products.

### OUR LOCATIONS

#### KEY

- ★ Head office
- Bricks (9)
- ◆ Aircrete Blocks (2)
- ▲ Bespoke Products (3)
- Aggregate Blocks/Concrete Pavers (3)

#### PEOPLE

1,800

#### MANUFACTURING FACILITIES

17



### OUR MARKETS



RESIDENTIAL NEW BUILD

Residential is at our core and the new build sector of this market is a significant portion of our business. New build rates in the UK continue to be buoyant and through our bricks, blocks and flooring product lines we provide the essential products to the majority of the country's house builders, builders' merchants and distributors; keeping Britain building.



RESIDENTIAL RM&I

The Repair, Maintenance and Improvement (RM&I) market forms an additional segment of the residential market, and we offer a range of RM&I products in support of this area, most notably our London Brick range used in extensions across the country, reduces our reliance on new build construction.



COMMERCIAL

The commercial and specification market focuses on architecturally driven projects such as schools, hospitals, stadia, offices, universities and other public buildings. We supply a wide range of products into this sector through our Bison Precast business, and the redevelopment of our Wilnecote brick factory will see an enhanced range of bricks also supplying this market.

#### REVENUE

65%



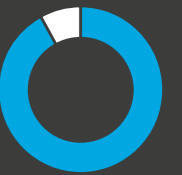
#### REVENUE

27%



#### REVENUE

8%



### OUR PRODUCTS

#### BRICKS

Our clay brick range includes the iconic London Brick, and is complemented by a comprehensive range of wire-cut, pressed, thrown and special shaped products to satisfy a variety of end-use markets.

#### BLOCKS

Our inner leaf walling products include Thermalite, a leading lightweight, thermally efficient block used within residential construction, and the Conbloc range of dense and lightweight aggregate blocks. Landscaping solutions are provided by our Formpave concrete block paving range.

#### BESPOKE PRODUCTS

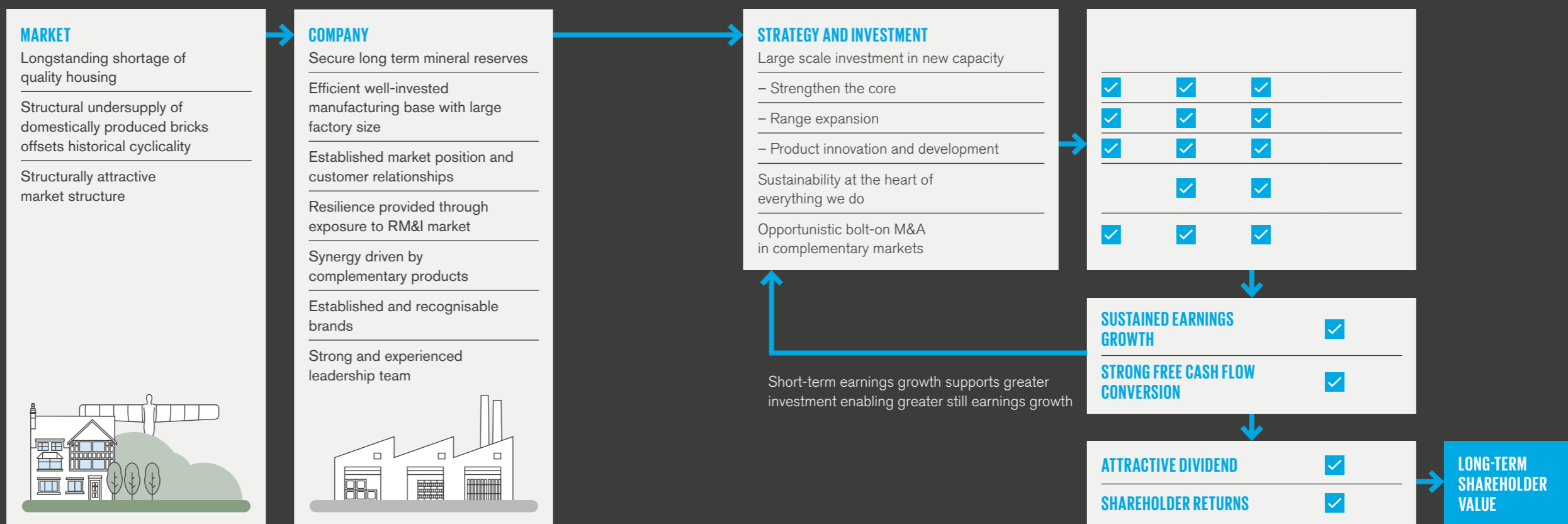
Bison Precast spearheads our bespoke products offering, providing a range of offsite manufactured concrete walling, flooring and ancillary products. Jetfloor, our insulated ground floor system leads our offering into the new build residential market.



# INVESTMENT CASE

# DELIVERING LONG-TERM SHAREHOLDER VALUE

Guided by our purpose to keep Britain building, we aim to create sustainable shareholder value and deliver value for all of our stakeholders.



## WELL-POSITIONED TO DELIVER PROFITABLE GROWTH

### ESTABLISHED LEADING MARKET POSITIONS IN CORE PRODUCTS

- Broad, complementary product range comprising clay bricks, aircrete and aggregate blocks, flooring products and more
- Unique, trusted and respected heritage brands including London Brick and Thermalite
- High barriers to entry supported by secure long-term mineral reserves
- Well-invested, efficient and profitable asset base
- Strong customer relationships enhancing order-book visibility

### LONG-TERM STRUCTURAL DEMAND AND SUPPLY FACTORS UNDERPINS MARKET GROWTH

- Market demand driven by structural, through-cycle new housing shortage and resilient RM&I markets
- Undersupply of domestically produced bricks and other key building products provides opportunity for growth and insulates from short-term market cyclicality
- Resilience through exposure to RM&I market
- Consolidated brick and block market structures
- Industry leading cost of brick production

### INVESTMENT PIPELINE TO DELIVER CAPACITY GROWTH, EFFICIENCY AND DECARBONISATION

- Two large-scale projects commissioning in 2022 and 2023 will progressively deliver significant profit and cash returns from 2023
- Further £200m pipeline of attractive projects to leverage asset base to be invested over the next decade
- Proven delivery of innovation, manufacturing excellence and productivity improvement underpins profit growth

### COMMITMENT TO SUSTAINABILITY LEADERSHIP

- Inherently sustainable and durable products
- Ambitious ESG targets to 2030 and beyond under the 'Product Planet People' framework
- 22% reduction in carbon emissions between 2010-19
- Commitment to commercially robust ESG agenda, including a further 32% carbon emissions reduction target 2019-30

### STRONG PROFITABLE GROWTH, CASH GENERATION AND DISCIPLINED CAPITAL ALLOCATION

- Strong cash conversion supports organic investment model
- Free cash flow in excess of £600m expected to be generated over the next decade
- Progressive dividend policy with payout ratio of 55% of earnings
- Balance sheet strength allows selective bolt-on acquisitions even with pipeline of investment projects
- Leverage expected to remain at or below 1x EBITDA
- Supplementary returns to shareholders as appropriate. £40 million buyback announced in January 2022

## CHAIRMAN'S STATEMENT

# A STRONG RECOVERY AND BRIGHT PROSPECTS FOR THE FUTURE



**Our growth strategy together with our clear capital allocation priorities leaves the Group well positioned to maximise shareholder value."**

**Justin Atkinson**  
Non-Executive Chairman



## INTRODUCTION

2021 saw a sustained recovery in our markets following a year which was hugely disrupted by the Covid-19 pandemic. We have experienced consistent strong demand throughout the year, however this presented its own challenges as we have had to learn to live with the pandemic, ensuring we keep our people safe, whilst continuing to operate our business and meet the needs of our customers. The year has also been characterised by significant challenges in our supply chains, along with unprecedented levels of cost inflation.

## OUR PEOPLE

I must first pass on my sincere thanks to our people who have all worked tirelessly in guiding the business through the challenges we have faced in the year. Whilst the ongoing pandemic has fortunately had very little impact on our current year results, it did significantly impact many of our colleagues and the way they had to work.

2021 has been an exceptionally busy and challenging year for all our employees. It is always pleasing to be writing this statement against a backdrop of strong market demand although we need to recognise that the strength of customer demand, coupled with very low inventory levels, alongside substantial supply chain challenges, has placed the business and its people under a great deal of pressure and I am pleased to see how everyone has worked together to meet these challenges head on.

I would also like to recognise the commitment of the majority of our employees, who did not have the opportunity to work from home and continued to come to work every day in our facilities through the restrictions. Equally, it is also important to acknowledge those who had to spend a large period of time working from home, without valuable face-to-face contact with colleagues, while in many cases again having to balance childcare and home-schooling responsibilities. It was encouraging to see the learnings taken from the previous year and that the investments in improved technology have reaped rewards, with the business able to function efficiently and without interruption throughout the lockdown period.

## RESULTS

Group revenue for the year increased by 26.9% relative to the prior year to £370.4m (2020: £291.9m) demonstrating the strength of the recovery in our markets. Profit before tax (stated before exceptional items) increased from £17.4m to £50.7m. After exceptional items profit before tax increased to £56.8m (2020: loss of £5.4m).

Earnings per share (EPS), again stated before exceptional items, was 17.5p (2020: 6.6p). Basic EPS after accounting for exceptional items was 19.9p (2020: loss of 2.6p).

The results for the year again highlight the strength of our cash generation having delivered an operating cash flow before exceptional items of £81.2m (2020: £53.9m). The Group ends the year with a strong balance sheet with net cash (stated before leases) of £40.9m (2020: £16.0m).

## STRATEGY

We have a strategy for growth which together with our clear capital allocation priorities positions the Group to deliver long-term shareholder value.

Our strategy, outlined further on page 26 is to capitalise on the United Kingdom's long-term shortage of housing supply along with a structural shortfall in the supply of the domestically manufactured building materials necessary to address the housing shortage, leveraging our extensive mineral reserves and strong market positions.

Investing for future growth we will:

- strengthen our core business, investing in new capacity to deliver growth in sales volumes along with enhanced efficiency and sustainability;
- expand our product range beyond our traditional focus of mainstream residential construction; and
- expand our product innovation and development activities.

These three pillars for growth are each supported by a current investment project. The new Desford brick factory will strengthen our core, increasing our brick production by 22% whilst also delivering market-leading levels of efficiency. Our £27m investment in our Wilnecote brick factory will afford us greater access to the attractive commercial and specification market providing a degree of diversification. Finally, our newly announced £12m investment in brick slip manufacture at our Accrington facility alongside investing a further £2-3m per annum in resourcing our business for growth, will allow us to capitalise on the growing opportunities afforded by the high-rise and modular construction markets.

## CAPITAL ALLOCATION

Our capital allocation policies are clearly stated and designed to maximise shareholder value:

- strategic organic capital investment to deliver attractive returns;
- progressive ordinary dividend distributing 55% of earnings;
- bolt-on acquisitions as suitable opportunities arise in adjacent or complementary markets; and
- supplementary shareholder returns as appropriate.

In addition to completing Desford, we are committed to investing in excess of £200m over the next decade in attractive organic investment projects offering compelling returns whilst providing enhanced shareholder returns through distributing 55% of earnings. The balance of capital will be available for either acquisitions or supplementary returns to shareholders.

## DIVIDENDS

In line with the capital allocation policy above, the Board are proposing a final 2021 dividend of 6.7p per share to be paid on 8 July 2022 to shareholders on our register at 17 June 2022. This will take the total dividend for 2021, including the interim dividend of 3.2p paid on 15 October 2021, to 9.9p (2020: 2.8p) representing 55% of earnings (2020: 45%).

## SHARE BUYBACK PROGRAMME

On 26 January 2022 the Board announced the commencement of a share buyback programme to repurchase ordinary shares of 1p each in the capital of the Company. The intention is to repurchase and cancel £40m worth of shares through 2022, with this decision taken in line with the Group's capital allocation priorities reflecting the strength of the balance sheet with reported net cash before IFRS 16 lease liabilities of £40.9m and the Board's confidence in the Group and its ongoing strength of cash generation. As at the date of announcement a sum of £5.5m had already been returned to shareholders.

## SUSTAINABILITY

We have successfully embedded sustainability at the heart of everything we do. We published our first comprehensive sustainability report within our 2020 Annual Report and I am delighted to say that this has been well received by our stakeholders.

However, we cannot relax, having set challenging carbon reduction and sustainability targets, we must ensure we deliver against these. In the last year we have progressed multiple initiatives including recently signing contracts for the construction of the solar farm which will provide us with around 70% of our electricity requirement from 2025. Alongside this, we are actively working to install renewables at our factory sites such that by 2025 we will be generating at least 10% of our electricity requirement from on-site renewables.

We are also fortunate that our sustainability goals fits hand-in-glove with our wider strategy. Every major investment we make going forward will be required to deliver a meaningful sustainability benefit. By improving the efficiency of our facilities, as demonstrated by the Desford and Wilnecote projects, which will each deliver a greater than 25% reduction in carbon intensity, we are reducing our carbon footprint as well as our cost of production. Having taken steps last year to early-adopt a number of the disclosure requirements of the Task Force on Climate Related Financial Disclosures (TCFD) we have now included the required scenario analysis which seeks to demonstrate the potential impacts different global temperature rises could have on our business.

## CHAIRMAN'S STATEMENT

CONTINUED

### BOARD AND CORPORATE GOVERNANCE

The Board remains committed to the highest standards of Corporate Governance, not only at Board level but throughout the Group. The Group continues to comply in full with the requirements of the UK Corporate Governance Code as if it were a constituent of the FTSE 250.

The Corporate Governance section of this Annual Report outlines the Board's approach to corporate governance arrangements and includes reports from each of the Committee Chairs, providing details on key matters addressed by each of the Committees during the year.

All of the Directors will be standing for re-election at the forthcoming AGM. Our s172(1) statement as required by the Companies Act is included in the Directors' Report and further information on Stakeholder Partnerships can be found on pages 40 and 41 of this Annual Report.

I am pleased to report that with the relaxation of Covid-19 restrictions the Board was able to regain its visibility in the business with each Board member completing two factory health and safety walks alongside group Board visits to five of our factories.

During the year we undertook an external evaluation of the Board and its Committees, the second time we have undertaken such an external valuation. We consciously selected a different provider to undertake this assessment ensuring we received an entirely fresh perspective. The Board found this process insightful with recommendations covering topics including succession planning and the formalising the Board's processes for reviewing past decisions. The evaluation also allowed both the Executive and Non-Executive Directors to better understand each other's thought processes on key issues and I am confident this will benefit the Board's decision-making process going forward.

### 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.

During the year we have continued the open and transparent communication that was so appreciated during the initial lockdown helping all our colleagues better understand the Company's purpose which is to Keep Britain Building.

Health and Safety remains our number one priority and our Roadmap to Zero Harm begins with focusing on behaviours including treating others as family.

### DIVERSITY

The Board is committed to furthering diversity at all levels. The Board acknowledges the recommendations of the Hampton Alexander review which recommends that 33% of the Board should be female. In addition, the Board recognises that the Financial Conduct Authority is consulting over targets for at least 40% of the Board to be female, at least one senior member of the Board to be a woman, along with at least one member of the Board to be from a non-white ethnic minority background. As a Company currently outside the FTSE 250, these requirements do not directly apply to Forterra although we do have an aspiration to adhere to governance requirements as if the Company were a member of the FTSE 250.

At present 29% of the Board are female which is assumed to approximate to 33% given the size of the Board with only seven members. One of the senior Board members is a woman and one of the Board is from a non-white ethnic minority background. Diversity covers many facets other than gender and race. The Board has a strong balance of diverse skills, knowledge, experience, and, importantly, education with the Chairman, the Chief Executive Officer and the Chief Financial Officer all having attended state schools.

### SUMMARY AND OUTLOOK

Market conditions remain highly supportive with continued demand for new housing and constrained UK manufacturing capacity driving brick imports to record levels. Order books remain strong supported by robust customer sentiment and an ongoing shortage of quality housing in the UK. Inflationary pressures continue although Management remain confident of recovering cost increases with the Group announcing further double-digit price increases effective from 1 April 2022, following on from those delivered on or before 1 January 2022.

We remain watchful as to the impacts of wider macro uncertainty and supply chain pressures as well as increases in interest rates. Approximately 70% of the Group's 2022 energy requirements have been secured, with the greatest coverage in the winter months where volatility has been historically greatest.

The construction of the new Desford brick factory remains on track with commissioning due at the end 2022, and the factory now expected to deliver a 22% effective increase in brick production output and increased incremental EBITDA of £25m from 2025. Management therefore expects the Group to achieve further progress in the coming year and beyond.

### Justin Atkinson

Non-Executive Chairman

10 March 2022

## CHIEF EXECUTIVE'S STATEMENT

# INVESTING FOR GROWTH



**Our new Desford brick factory will be the largest and most efficient in Europe and will deliver a substantial increase in our earnings."**

**Stephen Harrison**  
Chief Executive Officer



### INTRODUCTION

2021 proved to be a very different year to 2020, although one that brought with it many new challenges.

Despite this, we were pleased to see that the strong recovery in our markets which began in the summer of 2020 continued unabated through 2021. We were initially cautious that there may have been bumps in the road to recovery, particularly as the stamp duty holiday ended and changes to the Help to Buy scheme came into effect, although fortunately this did not happen, with demand for our products remaining strong throughout the year.

The ongoing Covid-19 pandemic and associated lockdown restrictions which persisted through much of the first half of the year had little impact on our results but did continue to influence the way we managed the business, with the safety and welfare of our employees remaining paramount.

Supply chain pressures mounted through the year with shortages experienced across several key inputs along with growing cost inflation which in the case of energy prices, reached unprecedented levels in the final quarter.

### 2021 RESULTS

Revenue for the year ended 31 December 2021 was £370.4m (2020: £291.9m) an increase of 26.9%. Earnings before interest, tax, depreciation and amortisation (EBITDA) as stated before exceptional items were £70.4m (2020: £37.9m). Profit before tax before exceptional items increased to £50.7m (2020: £17.4m) an increase of 191.4%.

Earnings per share (EPS) as stated before exceptional items was 17.5p (2020: 6.6p). Basic EPS after exceptional items was 19.9p (2020: 2.6p) reflecting the exceptional profit on disposal of the Swadlincote site.

# CHIEF EXECUTIVE'S STATEMENT

CONTINUED

## 2021 BUSINESS REVIEW

### BRICKS AND BLOCKS

We have a unique combination of strong market positions in both clay brick and concrete blocks.

We are also the only manufacturer of the iconic and original Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. We operate nine brick manufacturing facilities across the country with a total installed production capacity of 590 million bricks per annum. We are also a leader nationally in the aircrete block market, operating Thermalite block facilities at Newbury and Hams Hall (Warwickshire). Our aggregate block product has a leading position in the important Southeast 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.

### TRADING AND RESULT

The performance of the Brick and Block segment is characterised by strong demand and increasing costs. Brick and Block sales revenues were £298.1m, an increase of 33.6% on the prior year comparative (2020: £223.1m) and an increase of 6.8% on 2019 (2019: £279.1m). Sales volumes were well ahead of 2020 and slightly ahead of 2019, with production capacity and available inventory being the primary constraint, as market demand exceeded our ability to supply.

With demand remaining strong throughout the year and having commenced the year with minimal levels of inventory, our greatest challenge was meeting our customers' expectations. The year saw consistently strong demand from our housebuilding customers, with our initial concerns around the impact of the end of the stamp duty holiday on consumer demand proving unfounded. Repair, maintenance and improvement driven demand from our distributor customer base was also robust.

Accordingly, as a result of the above, segmental EBITDA as stated before exceptional items, totalled £70.5m (2020: £40.3m) with the EBITDA margin of 23.6% representing a significant improvement on the prior year (2020: 18.1%) although falling short of 2019 margins of 28.8%, primarily as a result of rapidly increasing costs in the second half of the year, which in the short term have not been recovered. Further details of this are provided in the Chief Financial Officer's Review.

### OPERATING COSTS

Inflationary pressures in this segment were first felt in our block's businesses, where we have the highest level of externally purchased raw materials, with the price of cement increasing significantly. Inflation was also seen across a wide range of categories as shortages of transport, and rising fuel costs pushed distribution costs upwards, along with increases in the cost of packaging and many other categories. The biggest driver, however, came from energy costs whereby, despite benefitting from our forward purchasing to limit price volatility, we, along with much of the wider economy, faced a sudden unprecedented increase in energy costs in the final quarter. In addition, the price of carbon credits which we are required to purchase under the UK Emissions Trading Scheme, also increased markedly.

Operating costs were also adversely impacted by low productivity at the old Desford factory which is nearing the end of its life and expected to close at the end of 2022. A significant kiln-related breakdown in the first half of the year led to a loss of operating efficiency and, whilst the factory operated more reliably in the second half the year, the output was still some way below its design capacity.

### PRICING

Whilst the cost inflation experienced during the year was unwelcome, we believe we are ultimately well-placed to pass on the increases in our cost base. Our pricing arrangements with customers vary by product, although many of our arrangements until now have been annual in nature. Due to the sudden and unexpected increase in costs seen in 2021 we have not fully recovered our cost inflation in the very short-term, although we remain confident of progressively recovering costs and positively influencing margins. Given the significant cost inflation seen in the raw materials required to manufacture our concrete products we increased the prices of our aggregate blocks in both the spring and autumn and we increased our Thermalite prices by 16.0% in the autumn.

With most of the raw materials sourced internally, our brick business was somewhat insulated from the worst inflationary pressures until the energy prices increased suddenly in the autumn. We elected not to further increase our brick prices in 2021, honouring our previous agreements with customers, although we were successful in securing price increases of 16.5% from 1 January 2022 for the significant majority of our customers.

The current cost environment requires us to be agile in our customer pricing and for 2022 we have amended our trading agreements to remove any commitment to annual pricing and also have reduced our obligation to give three months' notice of price increases down to one month allowing greater agility in our pricing in the face of an uncertain cost environment. We have recently announced further double-digit price increases to take effect from 1 April 2022.

	2021 £m	2020 £m	2019 £m
<b>Before exceptional items</b>			
<b>Revenue</b>	<b>298.1</b>	223.1	279.1
EBITDA before overhead allocations	<b>90.5</b>	54.9	93.0
Overhead allocations	<b>(20.0)</b>	(14.6)	(12.6)
<b>EBITDA</b>	<b>70.5</b>	40.3	80.4
<b>EBITDA margin before overhead allocations</b>	<b>30.4%</b>	24.6%	33.3%
<b>EBITDA margin after overhead allocations</b>	<b>23.6%</b>	18.1%	28.8%



### BESPOKE PRODUCTS

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 two 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 highly efficient 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 alongside 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 façades, in a variety of finishes including brick facings; and
- Red Bank chimney pots, flue systems, ridge tiles and air bricks.



**2021 has been an exceptionally busy and challenging year for all our employees and I am pleased to see how everyone has worked together to meet these challenges head on.’**

**Justin Atkinson**  
Non-Executive Chairman



## CHIEF EXECUTIVE'S STATEMENT

### CONTINUED

#### RESTRUCTURING

The largest component of the Bespoke Products segment is the Bison Precast concrete products business, comprising Bison Flooring which manufactures precast concrete flooring systems and Bison Precast which manufactures a range of bespoke precast concrete products including walls and façades.

Following the mothballing of the hollowcore factory at Swadlincote in 2020 in response to the impacts of the pandemic, in 2021 we regrettably took the decision to also close the bespoke precast concrete manufacturing facility co-located on the same site and subsequently sell the entire site. This sale returns this segment to the same footprint it occupied in 2017 prior to the Bison acquisition.

The business case for the Bison acquisition was that of a turn-around predicated on increasing the utilisation of the Swadlincote facility. Unfortunately, the market for a number of the precast concrete products manufactured at Swadlincote was materially impacted by the pandemic, and even before this, margins across the sector had been declining for several years; something that was not anticipated at the time of the acquisition. In 2020 the decision was taken to refocus flooring production at the Hoveringham site, reducing capacity and sales volumes but increasing margins through a focus on more attractive customer segments. Aligned to the decision to sell the Swadlincote facility, we decided to focus bespoke precast concrete production at a single site, Somercotes in Derbyshire, with our strategy again driven by the manufacture of smaller quantities of differentiated higher value façade solutions over commoditised grey concrete.

At the time of acquisition, we always recognised that the risks associated with returning a loss-making asset to profitability could at least in part be mitigated by the fact that the factory was located on a valuable and marketable piece of land. During the year, we sold the entire site and associated equipment for gross proceeds of £14.7m, recovering a large portion of our original purchase consideration of £20m and realising a profit of £6.1m after accounting for the costs of closure and redundancy.

For completeness, this profit recognised in 2021 follows a 2020 impairment loss of £10.2m recognised in respect of the assets and goodwill at Swadlincote. Our precast concrete businesses will continue to trade under the Bison brand.

#### TRADING AND RESULTS

Segmental turnover in the year was £76.1m (2020: £71.7m, 2019, £103.5m). Demand for our precast concrete floor beams and the flooring solutions in which they are utilised recovered strongly in the year, aligned with the recovery of the housebuilding industry. Floor beam sales volumes recovered to 88% of 2019 levels although our output is now constrained by the available production capacity. Hollowcore flooring sales volumes however were intentionally reduced by 53% relative to 2020 and 70% relative to 2019 reflecting our decision to close the Swadlincote facility and focus on maximising margin over volume. Bespoke precast output was also reduced relative to 2020, reflecting the gradual run down of the Swadlincote facility ahead of its closure in November 2021.

Segmental EBITDA, stated before exceptional items, totalled a loss of £0.1m: (2020: loss of £2.4m) after allocation of central overheads totalling £4.9m (2020: £3.6m). Presenting segment results both with and without the overhead allocation demonstrates that the segment continues to deliver a meaningful contribution to Group results.

#### OPERATING COSTS

The Bespoke Products segment was the first to experience significant cost inflation with steel used for reinforcement of our products along with the insulation used in our flooring systems suddenly rising by around 30%. Like our concrete block businesses, the Bespoke Products segment was also impacted by increases in the cost of other key inputs such as cement and transportation. Such was the level of input cost inflation experienced, we needed to increase our selling prices on multiple occasions during the year to ensure operating margins were maintained.

	2021 £m	2020 £m	2019 £m
<b>Before exceptional items</b>			
<b>Revenue</b>	<b>76.1</b>	71.7	103.5
EBITDA before overhead allocations	<b>4.8</b>	1.2	5.4
Overhead allocations	<b>(4.9)</b>	(3.6)	(3.1)
<b>EBITDA</b>	<b>(0.1)</b>	(2.4)	2.3
<b>EBITDA margin before overhead allocations</b>	<b>6.3%</b>	1.7%	5.2%
<b>EBITDA margin after overhead allocations</b>	<b>–</b>	–	2.2%



# CHIEF EXECUTIVE'S STATEMENT

CONTINUED

## OUR MARKETS

Our markets recovered strongly from the effects of the pandemic with UK clay brick demand now similar to 2019 levels. Total UK brick consumption in 2021 is estimated at 2.2bn bricks of which 422m were satisfied by imports due to a continuing shortfall in domestic production capacity.

UK housebuilding continues to fall short of Government targets with around 198,500 new build homes estimated to have been completed in Great Britain during 2021 compared to the UK target of 300,000. As demand for high-quality homes continues to exceed supply and house prices continue to rise, this creates a supportive environment for the recovery of our own cost increases.

Despite recent and ongoing investments, the UK brick market presently lacks the capacity required to meet demand with domestic production capacity of c.2.1bn clay bricks per annum, still lower than the pre-financial crisis figure of 2.6bn. Brick imports to the UK increased in 2021 to a record high of 422m bricks which equates to around 19% of market demand in 2021 with this figure higher still towards the end of the year.

The number of imported bricks increased by 6% relative to 2019 with evidence that imports are now being transported greater distances at even greater cost as supplies in nearby continental Europe tighten. We know our customers would rather buy British where possible because we can ensure provenance and quality and we can supply direct from stock, which is available for prompt delivery, and there are shorter transport distances than purchasing imported product. The UK's island geography combined with similar cost bases in Europe also provides an economic barrier to entry with the increasing cost of transportation ensuring that imported products continue to sit at a significant cost disadvantage to those manufactured domestically.

These market dynamics leave us ideally placed to substitute imports with production from our new factory at Desford which, upon commissioning at the end of 2022, we believe will be the largest brick factory in Europe offering market-leading efficiency. The housebuilding sector's present reliance on imported products also provides an incentive for further investment in domestic production capacity.

## STRATEGY AND CAPITAL ALLOCATION

Our strategy is laid out in more detail on pages 26 and 27 and can easily be articulated as three pillars that will drive sustained earnings and cash flow growth through:

- expansion of capacity, enhanced efficiency and sustainability;
- range expansion; and
- new product innovation.

This, along with our capital allocation policy which is centred on delivering compelling returns to shareholders leaves the Group well-placed to deliver long-term shareholder value.

The Group's capital allocation priorities are summarised as follows:

- strategic organic capital investment to deliver attractive returns;
- progressive ordinary dividend with the pay-out ratio increasing to 55% of earnings from 2021 onwards;
- bolt-on acquisitions as suitable opportunities arise in adjacent or complementary markets; and
- supplementary shareholder returns as appropriate.

Our consistently strong operating cash-generation coupled with a strong balance sheet with net cash of £40.9m before leases means the Group ended the year in a strong position. This allows us to deliver our strategy, investing in excess of £200m over the next decade (in addition to Desford) in ambitious organic growth projects, taking advantage of unsatisfied demand for our products whilst at the same time improving our efficiency, and reducing greenhouse gas emissions. Alongside this we have increased our dividend distribution rates whilst also commencing the return of surplus capital to our shareholders, while retaining flexibility to deliver bolt-on acquisitions should attractive opportunities arise.

## ORGANIC CAPITAL INVESTMENT

The construction of the new Desford brick factory continues to progress according to plan with commissioning expected towards the end of this year. We believe this factory will be the largest and most efficient brick factory in Europe. When

we announced this investment back in 2018 we expected the factory to increase our installed brick manufacturing capacity by 16%. However, with the old factory it will replace struggling to meet its design output and desired levels of efficiency as it reaches the end of its life, the new factory will uplift our actual production output by 22% and is now expected to deliver incremental EBITDA of £25m in 2025 up from our previous estimate of £15m. This increase is driven by the deteriorating performance of the old factory along with selling price increases having a greater beneficial impact due to the operating cost efficiency of the new factory.

During 2021 we also announced a £27m investment in our Wilnecote factory, a very different investment to Desford. Wilnecote services the architect-led commercial and specification market which includes residential, commercial, school and hospital developments a sizeable market of around 400m bricks per annum (approximately 18% of the UK brick demand) and a market segment where Forterra has historically been under-represented. This investment will expand the product range manufactured at the factory providing a degree of diversification reducing our reliance on mainstream housebuilding whilst increasing our total brick production capacity by around 1%. The factory will close in July 2022 for a period of approximately nine months, recommissioning in the second quarter of 2023 and will ultimately contribute £7m of incremental EBITDA to Group results.

We are also announcing an innovative investment in the manufacture of brick slips, or 'thin bricks' as they are sometimes known. An investment of approximately £12m at our Accrington brick factory will facilitate the manufacture of up to 48m brick slips per annum, minimising our investment through utilising an existing factory with only a small reduction in the number of bricks that will continue to be manufactured alongside the new slips. The UK market for brick slips is currently estimated at around 120m units annually with significant growth expected to be driven through growth of the modular construction market along with growing demand for firesafe façade solutions suitable for use in high-rise construction.

Brick slips also offer several sustainability benefits, reducing raw material and energy usage relative to the manufacture of traditional bricks, and with many slips currently being cut from traditional bricks, they can significantly reduce wastage. We expect to be manufacturing brick slips in late 2023 although the ramp up to full production could take a number of years as we grow our market share.

## INCREASED FOCUS ON INNOVATION

Our strategy for growth requires an increased investment in innovation. Starting in 2022, we will increase our future focused operating expenditure by an additional £2-3m per annum, resourcing our business, allowing us to enhance our product range, especially in façade solutions where we intend

to develop and expand a range of products that will establish firesafe brickwork as a cladding of choice for modular and high-rise buildings.

## HEALTH, SAFETY AND WELLBEING

Health and safety remains our number one priority with our ultimate goal being that of achieving zero harm. Whilst the pandemic has not adversely impacted our trading in the year, it continued to present a number of safety-related challenges with additional measures put in place to ensure our workplaces remained safe. We recognise the additional pressures the pandemic has placed on our people and have significantly increased the level of mental health support we are able to offer with 57 colleagues across our business qualifying as mental health first aiders.

In 2021 we increased our focus on behavioural and cultural safety launching our Roadmap to Zero Harm. Following an independent review of the effectiveness of our approach to health and safety completed in early 2020 prior to the pandemic, a follow up review was completed in the year to assess progress against the recommendations. I am pleased to say that the report concluded that progress had been made on the direction of safety strategy and leadership as evidenced by our simplified Golden Rules and the Roadmap to Zero Harm.

## SUSTAINABILITY

Sustainability has always been very important to us, as evidenced by our significant achievement of reducing our carbon emissions per tonne of production between 2010 and 2019 by 22%. Since then, we have embedded sustainability at the heart of our business and strategy. In 2021 we further reduced our carbon intensity by a further 4.5% relative to 2019.

It is important to recognise that our products are inherently sustainable, they last for well over a century and require no maintenance throughout their lifetime. The bricks used in an average family home have the same carbon footprint as driving around in an average family car for a year but will provide housing for generations over a period of around 150 years. Having said that, we are committed to reducing both our carbon footprint and our wider impact on the environment. In doing so we have set challenging targets and intend to reduce our carbon emissions per tonne of output by 32% by 2030 and are committed to achieving net zero by 2050. Today we are delivering large scale investments which will make our business more sustainable, whilst also working in partnership with a number of providers to discover how we can benefit from the game-changing emerging technologies of hydrogen and carbon capture and storage. We are pleased to have recently entered into a 15-year Power Purchase Agreement (PPA) which will see us receive around 70% of our electricity from 2025 from a dedicated solar farm, representing a c.£50m commitment to renewable energy over the period of the agreement which will also provide us with price security and stability.

### STRATEGY MODEL

1. STRENGTHEN THE CORE



2. RANGE EXPANSION



3. PRODUCT INNOVATION AND DEVELOPMENT



[Read more on page 26](#)

## Q&amp;A WITH THE CHIEF EXECUTIVE

ANSWERING OUR  
STAKEHOLDERS'  
QUESTIONS

Q.

&amp;

A.



**Q. How are the market dynamics looking ahead of Desford opening later this year?**

**A.** The residential construction market continues to be robust reflecting the shortage of quality housing in the UK and an undersupply of new homes. New construction relies on the components manufactured by Forterra. Clay bricks are the most durable, long-lasting, maintenance free and attractive façade solution providing a high-quality, firesafe finish to family homes that will last generations. The high volumes of bricks bring imported into the UK to supplement local production give us confidence that there is the need for increased domestic production capacity, with this evidenced by customers already eager to secure supply of products from the new factory for 2023.

**Q. Tell me more about the investment in brick slips?**

**A.** Brick slips provide a lightweight, yet durable and fire-safe, façade when combined with an application solution allowing high-rise or modular buildings to be clad with brick without the need for traditional trades. We expect this market to quickly grow over the coming years. Our investment represents a highly cost-effective entry into this market utilising an existing brick factory with only a small reduction in brick output.

**Q. What are your expectations for the Bespoke Products segment?**

**A.** Our precast concrete flooring products are offsite solutions enabling our customers to use modern methods of construction. Having consolidated the manufacture of this group of products back to a single site with a dedicated Managing Director, we are focused on utilising our capacity to maximise margin generation. The other key product group within Bespoke Products is building façades; an area of growth and development for the business. We feel that the financial performance of this segment has often been misunderstood, so we now present our segmental results both before and after the allocation of central overheads clearly demonstrating the contribution to Group EBITDA that this segment generates.

**Q. What will the Wilnecote investment add to the business?**

**A.** The redevelopment of our factory at Wilnecote will enable us to use the high-quality clay reserve to produce products in a more diverse range of colours and textures that will allow us a broader exposure to the architectural specification market. This modest diversification will benefit our earnings and margins and is expected to contribute £7m of incremental EBITDA from 2027.

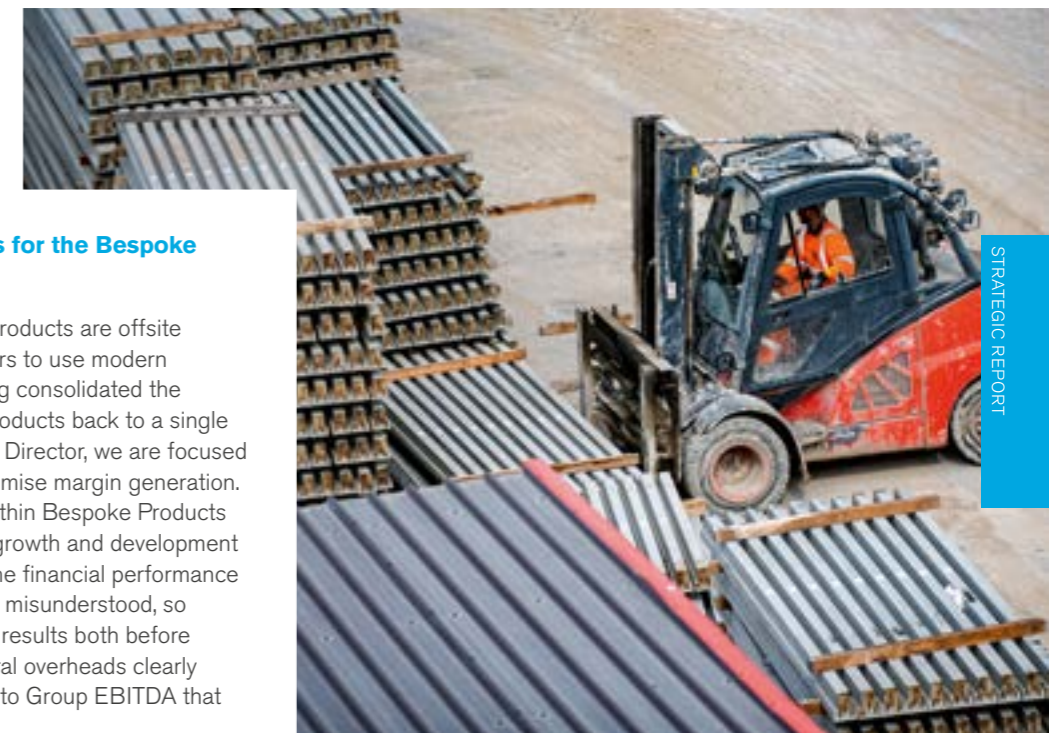
**Q. What other projects are included in the £200m pipeline of capital investment. Are they all within the brick business?**

**A.** Our revenues are split reasonably evenly between clay and concrete products. Although our first three strategic organic growth projects are within the clay product groups, our investment pipeline also includes projects within the concrete products portfolio.

**Q. Just how important is sustainability to Forterra?**

**A.** Crucial, especially the environmental element of sustainability. Forterra reduced its CO<sub>2</sub>e (Carbon dioxide equivalents) emissions by 22% between 2010-2019 and has set a bold target to further reduce emissions by 32% per tonne of production over the current decade (from a 2019 base). Our products are key to constructing attractive, high-quality, long-lasting, firesafe homes; reducing our carbon emissions enhances the case for continued use of our products.

✚ Our future sustainability focus areas are detailed further on page 43.



**Q. Instead of announcing a share buyback could you not invest even more in the business by accelerating your organic growth plans?**

**A.** Our organic growth plans are measured, ensuring we don't over-commit our management team. We need to ensure that our expansion plans are aligned to market demand as bringing too much capacity to market at the same time adds risk. The attractive investment opportunities in our pipeline are at different stages of maturity and we are working behind the scenes to progress these, with prioritisation also regularly reviewed. We are currently running two large investment projects alongside a smaller one, each of which will further grow our earnings and cash generation paving the way for further investment. We are only returning cash that we do not currently require to execute our strategy.

**Q. Did you consider M&A before announcing the share buyback?**

**A.** Our sector is heavily consolidated, meaning that obvious inexpensive M&A opportunities are infrequent. Having said that, through our strong balance sheet and available debt facilities we retain the flexibility to deliver bolt-on acquisitions should the opportunities arise.

**Q. How are you addressing the skills shortage currently impacting the UK economy?**

**A.** In common with much of the UK manufacturing sector, we have an ageing workforce. That is both a weakness and a strength as we benefit from huge knowledge and expertise. In 2021 we hired more graduates and apprentices than ever having previously joined up to the 5% Club committing to 5% of our workforce being in 'earn and learn' positions by 2025.

# KEEPING BRITAIN BUILDING



## BUILT ON SOLID FOUNDATIONS

Our mineral reserves are the foundation that our brick business is built upon, so much in fact that they give us our name. The name Forterra captures the Company's essence, giving form (For-) to the earth (-terra).

Our clay reserves are the primary raw material used in manufacturing our bricks. Each of our mainstream brick factories is located adjacent to a quarry supplying locally sourced clay directly into the manufacturing process. Sourcing material locally is sustainable and therefore preferable wherever possible as it avoids the costs and carbon emissions associated with transportation.

Our mineral reserves also provide a natural barrier reducing the threat of new entrants entering the market; the planning process to secure consent for a 'green-field' quarry and associated brick factory could take as long as 10 years. All of the new brick factories built in the UK over the last two decades have been redevelopments of existing facilities utilising established quarries.



**Our mineral reserves are the foundation that our brick business is built upon. We continuously invest in our reserves ensuring the longevity of our business."**

**Tim Darling**  
Head of Land and Minerals

We have access to over 90m tonnes of mineral reserves and resources. (The term reserves and resources refer to the level of geological certainty as to the existence and quality of the minerals with reserves representing the highest level of certainty). On average, these reserves and resources are sufficient to sustain manufacturing operations for 50 years. The majority of our minerals are owned although a small amount is secured by way of lease with a royalty payable at the point of extraction.

Our 90m tonnes of clay reserves are spread across 13 different sites both at existing factories and also at either satellite quarry sites or strategic locations which have hosted factories in the past and may do so again in the future.

In addition to our own reserves, we purchase clay from a number of external suppliers, where we do not have suitable reserves of our own or where it would neither be efficient or environmentally responsible to extract our own minerals. In 2021 over 90% of the clay we used in our manufacturing processes was sourced from our own reserves.

We are continually investing in our mineral reserves. Over the last four years we have invested over £7m in securing 18 million tonnes of additional clay reserves. We have purchased additional minerals to extend the life of our Must Farm quarry at Kings Dyke (home of the London Brick), an extension to Wilnecote's Etruria Marl reserves and also at Desford, ensuring we have a total of over 40 years' worth of material for the new factory. In addition, we are currently negotiating further mineral purchases that will support our pipeline of strategic projects.

It is not simply a case of controlling suitable mineral reserves and resources, the necessary authorisations must be put in place to allow extraction. This can be a time consuming and sometimes expensive process with our in-house experts planning many years ahead to ensure the necessary consents are in place long before we plan to extract material. We own almost 2,000 acres of land which is intended for future extraction which is predominantly used for farming until it is required.

We employ an in-house team of mineral surveyors and geologists whose job it is to attend to all mineral and property matters including the purchasing of mineral reserves, securing the necessary planning consents and other environmental authorisations, obtaining geological assessments and the managing of extraction and restoration programmes all of which combine to ensure our factories have secure supplies of raw material.

Environmental considerations are paramount in all of our mineral extraction activities. Before planning consent is granted for mineral extraction we must undertake an extensive range of appropriate environmental assessments to demonstrate that the proposed development does not give rise to negative environmental effects. Following a consultation process and determination by an elected planning committee, an approval will result in the issuing of a planning consent. This consent documents a number of conditions which must be complied with during extraction to ensure environmental impacts are controlled. Critically, the conditions also stipulate the necessary restoration scheme which will be applied to the land once extraction is complete.

Quarries represent a fantastic opportunity to further biodiversity either progressively or at the end of the mineral extraction process. Our restoration schemes invariably include the creation of landforms and water bodies that greatly increase biodiversity in comparison to intensive agricultural use. We have a unique ability to deliver an array of opportunities to both flora and fauna plus improvements to the amenity value of the locality where appropriate. In part, former quarries are also returned to agricultural productivity. We actively monitor and maintain restored areas for a number of years following their creation to ensure the best standards of restoration are achieved.

## >50 years

PRODUCTION REMAINING (ON AVERAGE)

## OUR BUSINESS MODEL

# PROVIDING THE ESSENTIAL PRODUCTS TO KEEP BRITAIN BUILDING

### OUR STRENGTHS

#### OUR PEOPLE

Their commitment, expertise and diversity are key to our success.

#### OUR FINANCIAL STRENGTH

We are focused on growing our cash flow over the long-term.

#### OUR PARTNERS

We have longstanding relationships with our partners.

#### OUR BRANDS

Our strong portfolio of brands is a key asset.

### OUR RESOURCES

#### SECURITY FROM THE GROUND

Our brick business is built upon our clay reserves. We have access to over 90m tonnes of clay which on average will sustain our manufacturing operations for 50 years.

Our mainstream brick factories are each adjacent to a quarry ensuring the raw material travels the shortest possible distance to the factory.

Our mineral reserves also act as a barrier to entry, with there being extensive hurdles to any new entrant gaining the necessary permissions to extract mineral.

Our mineral reserves represent our future and we employ a highly skilled team to oversee their development. We are continually investing to ensure we have the clay reserves to sustain and grow our business into the future.

### MANUFACTURING

#### EFFICIENCY AND SCALE

Our manufacturing facilities are the heart of our business, providing both scale and efficiency of output to support our leading market positions.

Our factories are well invested and we have committed to spending £12m each year (on average) to ensure this remains the case, and that we continue to modernise and update our manufacturing footprint.

We are also committed to a large-scale capital investment programme and expect to invest in excess of £200m on new production capacity over the next decade.

The £95m investment in our new brick production facility at Desford underlines our commitment to keeping Britain building, adding an additional 22% to Group brick production output.

### DISTRIBUTION AND SERVICE

#### DEDICATED SUPPORT

Distribution of our products on a national scale is enabled through investment in 180 specialist delivery vehicles. Our field-based commercial teams provide account management to customers, supported by a centralised support function and technical service team equipped to advise on appropriate applications of our products.

#### END-TO-END SERVICE

With many of our products, we offer further service enhancements in the form of design, specification and installation services, especially where products are of a more bespoke nature, including our offsite manufactured range of precast concrete products. This comprehensive, end-to-end service ensures we remain easy to do business with and are a trusted delivery partner.

### BUILDING SUSTAINABLE COMMUNITIES

#### RESIDENTIAL AT OUR CORE

Our products service a wide range of markets, however the majority of our output is directed towards the residential new build, and residential repair, maintenance and improvement (RM&I) markets. Our complementary range of flooring and walling products coupled with the scale to supply on a national basis sets us apart from many other manufacturers.

We enjoy strong, long-standing relationships with our customers, including major housebuilders, distributors and builders' merchants. Being agile to our customers' needs and the demands of the market are key contributors to our success.

### VALUE CREATION

We create value for a variety of stakeholders at every stage of our business model.

#### SHAREHOLDERS

A progressive dividend policy, supported by strong cash generation and a robust balance sheet.

#### EMPLOYEES

Through equity ownership, and committed investment in career and personal development to ensure our people prosper.

#### SUPPLIERS

We work collaboratively with our supply partners to ensure value is delivered throughout our supply chain.

#### COMMUNITIES

We supply the materials to build sustainable communities, creating local employment and ensuring we do business in a sustainable way.

#### CUSTOMERS

By continuously engaging with our longstanding loyal customer base, we offer industry leading customer service.

### A SUSTAINABLE APPROACH

As a responsible manufacturer, we are committed to doing business in a sustainable way. Alongside our regulatory environmental obligations, including land restoration which is often transformed to benefit local communities, we reuse our production waste, and redirect waste heat back into our production processes.

Our future sustainability focus areas are detailed further on page 43.

# KEEPING BRITAIN BUILDING



## BUILDING THE LARGEST AND MOST EFFICIENT BRICK FACTORY IN EUROPE

EXPECTED INCREASE IN GROUP BRICK  
PRODUCTION

**22%**

INVESTMENT

**£95 million**

We are investing £95m building the largest and most efficient brick factory in Europe. Commissioning is expected to begin at the end of 2022, and we expect the factory to be manufacturing 180m bricks per annum in 2024, enough to construct 25,000 new homes. This investment will allow us to provide our customers with a further 120 million domestically manufactured bricks each year, increasing our brick production output by 22%, with a product range targeted towards mainstream housebuilding. Desford will drive significant growth in our earnings with incremental EBITDA of £25m expected in 2025. At the same time as growing earnings, this market-leading factory will produce bricks with a carbon footprint approximately 25% lower than those from the old factory it replaces.



# MARKET OVERVIEW

## Residential construction market remains robust reflecting the undersupply of new homes in the UK.

### ECONOMIC OVERVIEW

The strong economic recovery seen in the second half of 2020 which followed the initial shock from Covid-19, continued throughout 2021. This was only briefly interrupted by a third national lockdown at the beginning of 2021 and as restrictions eased into the spring, the path toward recovery continued. A number of challenges emerged in the year as a result of the ongoing disruption caused by the pandemic, notably within global supply chains across nearly all sectors; however, in spite of these, UK GDP is expected to have grown by 6.5% in 2021 (per latest OBR estimates). Whilst wider economic uncertainty indirectly triggered by Covid-19 remains, further growth of 6% is also forecast for 2022, taking GDP back ahead of 2019 levels.

Buoyancy in the UK new build housing market, having returned in the summer of 2020, has continued throughout 2021. Supported in part by the stamp duty holiday but also the recovery from an extended period of market uncertainty that has manifested since the Brexit referendum in 2016. The stamp duty holiday coming to an end, and changes to the Help to Buy scheme did impact demand as initially feared.

### OUR MARKETS

Our products are used almost exclusively in construction within the UK. Demand for these products is therefore directly related to levels of UK construction activity. Levels and growth of this area are influenced by several macroeconomic factors, including general economic prosperity, Government policy, mortgage availability and interest rates. The UK construction market can be segmented between new build and repair, maintenance &

improvement (RM&I), as well as residential or non-residential; with our products predominantly being utilised within the residential construction sector.

In 2021, approximately 90% of the Group's revenue was derived from sales to residential construction applications, with large volumes of our brick, block and flooring products utilised in this area. In addition to housebuilders, the Group's customers also include builders' merchants and distributors who sell our products to a range of end-users, so a degree of estimation is inherent within these end-use figures.

On this basis, the performance of the UK housing market is of key importance, however the range of RM&I products that the business offers, most notably our London Brick range widely used in extensions across the South of England and Midlands, assists in mitigating any exposure to housing market cycles.

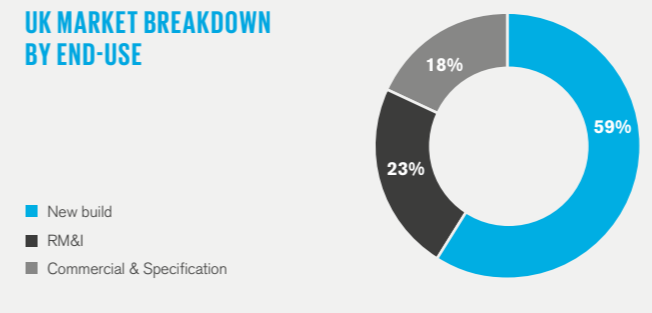
Due to the weight of our products, transport costs are high and penetration of imported bricks into the UK remains modest. Imported bricks fall into two categories; a core element of specialist, often architecturally driven products not available in the UK, and an additional level of imports that serves demand that cannot be met due to capacity constraints of the UK brick industry, where domestic production capacity remains, despite ongoing investment, below the pre-financial crisis levels of c.2.6 billion bricks per annum. This second category fluctuates depending on availability of domestically produced bricks and as such, in line with the supply chain challenges seen across the wider construction industry during 2021, has increased to c.19% of the market – a record high. This dynamic supports our new brick factory being commissioned at Desford in 2022, but also in partially offsetting the perceived cyclicality of the new build housing market with scope to further displace imports in any future market slowdown.

### UK HOUSING MARKET

The residential construction sector in the UK consists of private and public (social) housing and includes both new build and RM&I of existing properties. New build activity is generally measured by the number of housing starts and the number of housing completions, which grew 27% and 19% respectively in 2021 according to CPA estimates (5% growth and 4% contraction when compared to pre-pandemic 2019).

Increased demand seen across the latter half of 2020 has continued throughout 2021, with pandemic driven factors influencing the market, reflecting both pent-up demand and the changing needs of home buyers, such as working from home, and the desire for more outdoor space, factors that support the construction of new build property outside of the major cities. These demand trends favour houses over multi-occupancy buildings, a positive for our business given the average unit size and resultant volume of our product utilised (average three-bed detached house uses c.3x more bricks than a flat). This positive demand continues to be supported through Government agenda, with cross party acknowledgement that

### UK MARKET BREAKDOWN BY END-USE



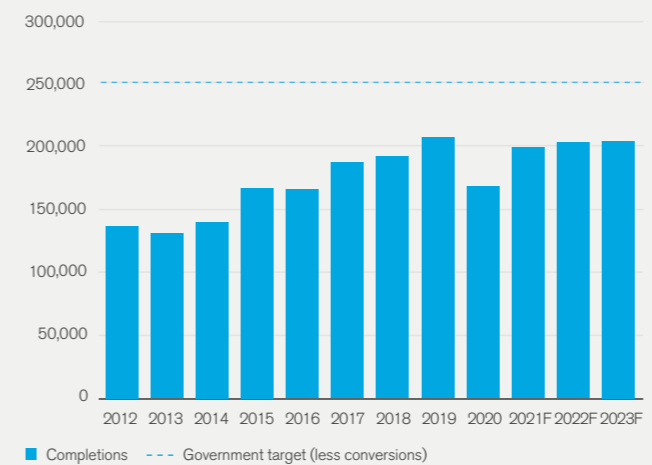
UK housebuilding continues to fall short of targeted levels. As such key policies such as Help to Buy and Government backed 95% mortgages remain in place.

These favourable dynamics lead to forecast growth, with the CPA forecasting housing output (private and public) to grow by 3% in 2022, with private housing forecast to return to 2019 levels in 2023.

### COMMERCIAL MARKET

The commercial and specification segment of the UK brick market accounts for an estimated 412 million bricks per annum, compared to a total clay brick market of c.2.4 billion. This sector focuses on architecturally-driven projects such as hospitals, schools, offices, universities, and other public buildings; and is an area of the market in which Forterra are historically underrepresented.

### HOUSING COMPLETIONS VS. GOVERNMENT TARGET



Source: CPA Winter Forecast 2021 / 2022

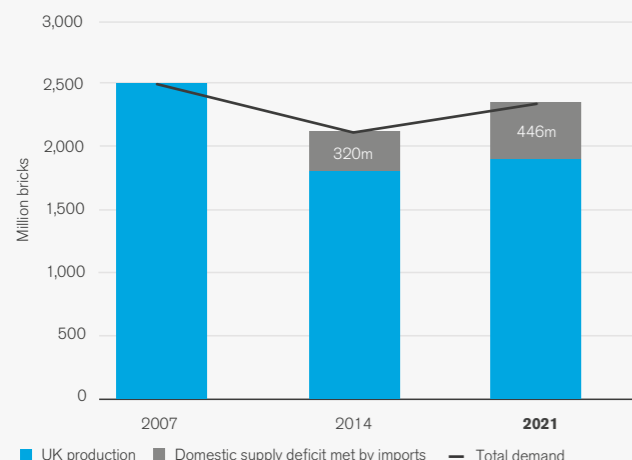
In 2021, the redevelopment of our Wilnecote plant was announced, and once recommissioned in 2023 this will allow further penetration into a market that currently utilises a significant level of imports, broadening our offering and diversifying the end-use markets that we serve.

### SUSTAINABLE BUILDINGS

There is an increasing awareness of the impact a building has on the environment, and the desire to limit this and transition towards more sustainable buildings is growing. Whilst it is important to recognise that our products are inherently sustainable, lasting for well over a century and requiring no maintenance throughout their lifetime; we can always do more. Facilitating the move to sustainable buildings through support of offsite, and modern methods of construction is key, as this continues to develop, enabling improved construction efficiency and less wastage. These products can facilitate ambitious accelerated build targets for UK construction, whilst also recognising the role of our products in supporting a lower carbon economy. Offsite construction may demand fewer traditional products such as bricks and blocks, however we continue to innovate and develop new products to serve this growing market.



### UK DEMAND vs DOMESTIC CAPACITY



## OUR STRATEGY

# A CLEAR AND FOCUSED STRATEGY

Our strategy for growth is focused upon organic investment across three interconnected pillars allowing us to take advantage of favourable long-term market dynamics driven by a persistent under supply of housing alongside shortfalls of the domestically manufactured building products needed to deliver the quality new housing our country needs.

More information around our markets and how our strategy is designed to capitalise upon these markets is included on pages 24 and 25



### 1. STRENGTHEN THE CORE



#### Grow capacity, cost efficiency and improved sustainability

The present strength of our business lies in its core and we are committed to the protection and expansion of this core. By investing in expanding and renewing our asset base and through delivering manufacturing excellence we will increase production output, improve cost efficiency and become more sustainable, improving returns for shareholders.

#### STRATEGY IN ACTION DESFORD BRICK FACTORY

The new £95m Desford Brick factory, which will be commissioned in 2022, is the centrepiece of this pillar. Increasing our brick production by around 120m bricks per annum (or 22%) whilst delivering market-leading levels of efficiency, the new factory will provide additional bricks to our housebuilding customers with a significantly reduced carbon footprint.

### 2. RANGE EXPANSION



#### Access new higher margin market segments

Our business has traditionally been focused towards the mainstream residential construction and associated repair, maintenance and improvement market. We currently have a lesser presence in the architect-led commercial and specification market. Our strategy is to broaden our range of bricks to grow our presence in this market where customers demand the highest levels of quality, but where selling prices and margins are higher.

#### STRATEGY IN ACTION WILNECOTE BRICK FACTORY

Our £27m investment in the refurbishment of our Wilnecote factory, like Desford, will not only increase capacity but improve efficiency and sustainability, allowing us to increase the breadth of our product range we are able to offer, further allowing us to grow our market share in the attractive commercial and specification market.

### 3. PRODUCT INNOVATION AND DEVELOPMENT



#### Develop and launch new products

Our core products have not changed for many years and whilst they remain the preferred choice for traditional residential construction, there are opportunities to capture new markets by offering both existing and new customers products suitable for differing and modern methods of construction.

We are committed to the development of new product ranges with a focus on providing innovative solutions for the rapidly growing offsite and modular construction markets. In addition, our ambition is to develop solutions that will allow the beautiful, durable and firesafe clay brick to again become a cladding of choice of high-rise buildings.

#### STRATEGY IN ACTION BRICK SLIPS

Our £12m investment in a brick slip (or thin brick) manufacturing facility at our Accrington factory is a highly cost-effective investment to create the first volume brick slip manufacturing facility in the UK capable of manufacturing up to 48m slips per annum. Brick slips along with our patented SureBrick system provide a sustainable and durable cladding solution for a wide range of building types from high-rise to modular.

#### A STRATEGY ENABLED BY OUR CASH-GENERATION AND BALANCE SHEET STRENGTH

Our strategic capital investment projects form part of a 10-year investment pipeline totalling over £200m in addition to Desford across both our clay and concrete businesses.

Whereas our strategy is focused upon organic growth, should opportunities arise we will selectively look at acquisitions, although recognise that the consolidated nature of our industry is likely to limit opportunities within our core product groups.

#### SUSTAINABILITY AT THE HEART OF OUR STRATEGY

We mean it when we say sustainability is at the heart of everything we do. We recognise that our products have a significant carbon footprint, but it is important to remember that this is currently the case with all heavy building materials. Our products will provide quality homes lasting over 150 years and as such are inherently sustainable. We are committed to reducing our carbon emissions by 32% by the end of the decade and then to net zero by 2050.

Our sustainability strategy is completely aligned with our wider strategy. By investing in our factories to make them more efficient, we reduce our energy costs, our emissions and therefore our carbon compliance costs. Our strategy to develop new products also has sustainability at its core. The manufacture of brick slips will use around 25% of the raw material and energy of a traditional brick, although today many brick slips are manufactured by cutting a traditional brick, creating high levels of waste.

You can find out more about our commitment to sustainability in our Sustainability Report.

See pages 43-76

# EXPANDING OUR PRODUCT RANGE

For many years a key strength of our brick business has been our product offering into both the housebuilding and repair, maintenance and improvement market sectors. We have traditionally been underrepresented in the architect-led, commercial and specification sector. This is a significant market representing around 17% of UK brick demand and includes offices, schools, hospitals and larger residential buildings. Our £27m investment in the refurbishment of our Wilnecote factory will see an entirely new factory installed within the existing building allowing us to better service this exacting market through expansion of our product range and producing greater volumes of the famous Staffordshire blue bricks.

Our investment in modern manufacturing equipment will reduce both production costs and our carbon footprint as well as increasing factory capacity by 6m bricks per annum. Reopening in 2023, this investment is expected to deliver £7m of incremental EBITDA by 2027.

## COMMERCIAL AND SPECIFICATION MARKET

**400m bricks**

## INVESTMENT

**£27 million**

# KEEPING BRITAIN BUILDING



# KEY PERFORMANCE INDICATORS

## REVENUE (€M)



### DEFINITION

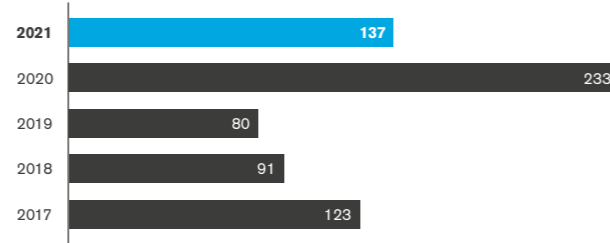
Revenue represents the sale of our products, net of rebates, discounts and value added taxes.

### PERFORMANCE

Revenue increased by 26.9% compared with 2020. This is reflective of the strong market demand throughout the year, with production capacity and available inventory being the limiting factors to further growth.



## OPERATING CASH CONVERSION (%)



### DEFINITION

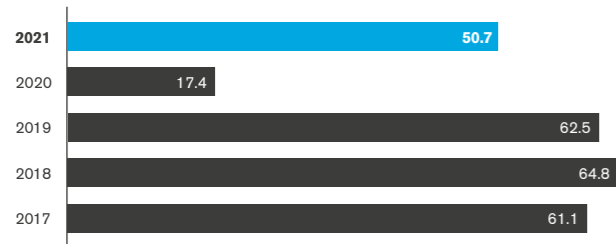
Operating cash conversion is calculated as operating cash flow before exceptional items less capital expenditure (excluding spend on the Desford project) divided by operating profit before exceptional items. We have removed the capital expenditure related to the Desford project from this KPI as this is a long-term project that will generate cash flows over a period in excess of 30 years. 2017 and 2018 are stated before the impact of IFRS 16.

### PERFORMANCE

The Group continues to be highly cash-generative, carefully managing its working capital and cash outflows.



## PROFIT BEFORE TAX BEFORE EXCEPTIONAL ITEMS (€M)



### DEFINITION

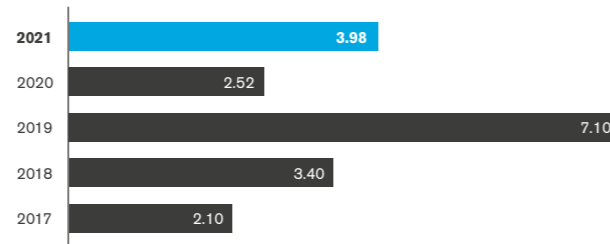
Profit before tax adjusted for exceptional items.

### PERFORMANCE

Profit before tax before exceptional items increased by 191.4% to £50.7m. As with revenue, this was driven by consistently strong demand, impacted in the second half of the year by cost inflation, which has been recovered in price increases going into 2022.



## LOST TIME INCIDENT FREQUENCY RATE



### DEFINITION

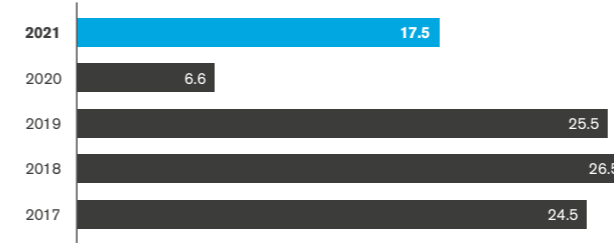
Our lost time incident frequency rate (LTIFR) is calculated using contracted working hours and is stated as the number of lost time incidents suffered per million-man hours worked.

### PERFORMANCE

Our lost time incident frequency rate was 3.98 incidents for every million-man hours worked in 2021. This was a disappointing increase on 2020, although relative to 2019 this represented a significant improvement and we are pleased to say that none of these incidents resulted in serious long-term harm.



## EPS BEFORE EXCEPTIONAL ITEMS (PENCE)



### DEFINITION

Basic earnings per share adjusted for exceptional items.

### PERFORMANCE

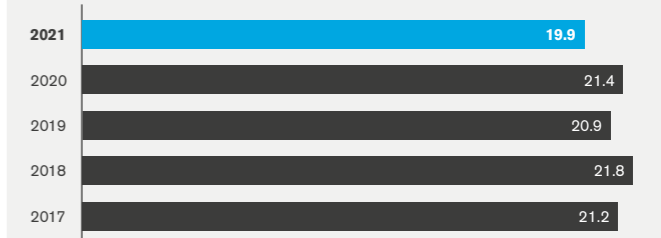
Earnings per share (EPS) before exceptional items was 17.5 pence compared with 6.6 pence in 2020, directly related to the increase in profit in the period although the average number of shares in issue was higher in 2021 than in 2020 as a result in the equity placing in mid 2020.



## CLAY CARBON INTENSITY RATIO (CO<sub>2</sub>e PER TONNE)



## CONCRETE CARBON INTENSITY RATIO (CO<sub>2</sub>e PER TONNE)



### DEFINITION

It is important to recognise that the amount of carbon we emit is directly related to the volume of product we manufacture. Intensity ratio, defined as CO<sub>2</sub>e per tonne of manufactured product, allows this. We believe the most transparent way of reporting our carbon footprint is to separately report our greenhouse gas intensity ratio (CO<sub>2</sub>e) for our clay and concrete products and that this will provide the most meaningful information from which to measure our carbon emissions over time.

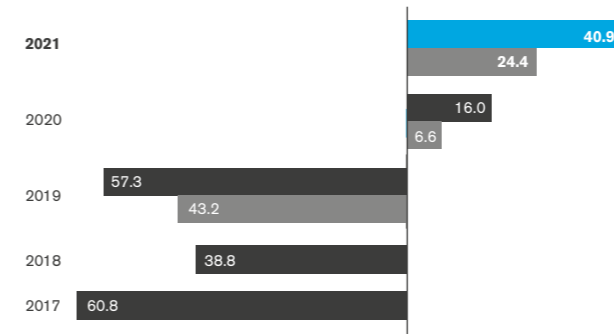
### PERFORMANCE

Carbon intensity targets were first set in 2010, and between 2010 and 2019 decreased by 22%. Since setting new challenging targets in 2020 (against a 2019 benchmark) we have reduced our overall intensity by a further 4.5%. Within this, our clay carbon intensity dropped by 6.9% and our concrete carbon intensity by 4.8%.

For more information see pages 43-76 of our Sustainability Report.



## NET CASH / (DEBT) (€M)



### DEFINITION

Net cash / (debt) comprises cash and cash equivalents less the balance of short and long-term borrowings, excluding lease liabilities.

### PERFORMANCE

As in the prior year, the Group ended the year in a net cash position, reinforcing the strength of our cash generation and the quality of earnings.



## CHIEF FINANCIAL OFFICER'S REVIEW

# DEMONSTRABLE STRENGTH OF CASH FLOW GENERATION



2021 saw a strong rebound in our markets partly countered by significant cost inflation. Again, the business delivered an excellent level of operating cash flow and ends the year with a significant cash balance."

**Ben Guyatt**  
Chief Financial Officer



## REVENUE

## £370.4M

26.9% ▲  
2020: £291.9m

## EBITDA BEFORE EXCEPTIONAL ITEMS

## £70.4M

85.6% ▲  
2020: £37.9m

## EBITDA MARGIN BEFORE EXCEPTIONAL ITEMS

## 19.0%

600bps ▲  
2020: 13.0%

## SUMMARY

Financial performance in 2021 was characterised by the continuation of the strong rebound in our markets that started in the second half of 2020, countered by significant cost inflation. Whilst the Covid-19 pandemic was never far from our thoughts, fortunately it had little impact on our results with trading unaffected throughout the year. Where appropriate, the financial results throughout this report have been compared against both 2019 and 2020, with 2019 being a more meaningful comparator due to 2020 being significantly impacted by the Covid-19 pandemic.

## REVENUE

Our revenues show a strong recovery relative to 2020, which was adversely affected by the impacts of the initial Covid-19 lockdown. Total revenue of £370.4m represents an increase of £78.5m (26.9%) on the prior year (£291.9m) and more meaningfully a decrease of £9.6m on 2019 (£380.0m).

Brick and Block revenues of £298.1m, represent an increase of 33.6% on the prior year comparative (£223.1m) and an increase of £19.0m on 2019 (£279.1m). This is reflective of the strong market demand throughout the year, with production capacity and available inventory being the limiting factors to further growth upon 2019.

## RESULTS FOR THE YEAR

	Revenue			Statutory 2021 £m	Exceptional items £m	EBITDA		
	2021 £m	2020 £m	2019 £m			Before exceptional items 2021 £m	Before exceptional items 2020 £m	Before exceptional items 2019 £m
<b>Bricks and Blocks</b>	<b>298.1</b>	223.1	279.1	<b>70.5</b>	–	<b>70.5</b>	40.3	80.4
<b>Bespoke Products</b>	<b>76.1</b>	71.7	103.5	<b>6.0</b>	(6.1)	<b>(0.1)</b>	(2.4)	2.3
<b>Intersegment elimination</b>	<b>(3.8)</b>	(2.9)	(2.6)					
<b>Group total</b>	<b>370.4</b>	291.9	380.0	<b>76.5</b>	(6.1)	<b>70.4</b>	37.9	82.7

Bespoke Products revenues of £76.1m represent an increase of 6.1% on the prior year (£71.7m) and a decrease of 26.5% on 2019 (£103.5m), this decrease primarily being driven by the restructure of the Bison business, with the Swadlincote hollowcore factory closing in mid-2020 and the co-located bespoke precast manufacturing factory closing in late 2021. This rationalisation of capacity allows us to pursue a strategy of maximising the profitability of this segment, focusing on margin improvement as opposed to volume.

With our strategy for Bespoke Products being one of focusing on margin growth over revenue, Brick and Block represents an increasing share of our overall revenue.

increase in the valuation of inventories following the significant increase in production costs during the year with quantities on hand further reducing in 2021. Industry statistics show that the UK brick industry held less than two months' stock at the end of 2021.

## OPERATING COSTS

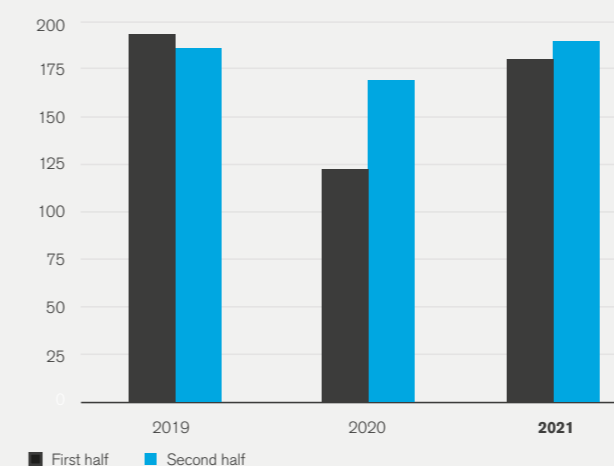
At the beginning of 2021 cost inflation was relatively benign, although by the second quarter the disruption initially triggered by the pandemic meant supply chains were struggling to cope, and prices began to rise. Initially inflation was centred upon our Bespoke Products segment with steel prices increasing by over 30% followed by similar increases in the cost of the insulation used in our flooring systems. Cost pressures intensified as the year progressed, with significant and often multiple increases in a range of commodities including cement. Transport availability also became constrained, threatening the delivery of key raw materials and pushing up the cost of delivering our own products to customers. With clay being the largest raw material input, most of which is sourced internally from our own quarries, our brick business was initially insulated from the worst inflationary pressures until significant increases were seen in energy prices in the final quarter.

## ENERGY PROCUREMENT AND COST INFLATION

Our factories are significant consumers of energy with an annual combined spend on natural gas and electricity of approaching £30m under normal circumstances. We take a risk-based approach to energy procurement and manage our exposure to market fluctuations through forward-purchasing a portion of our requirements, sometimes years in advance. Traditionally our forward-purchasing is weighted towards the winter months when energy costs are normally highest and most volatile.

We entered 2021 with around 60% of our gas and the majority of our electricity requirement for the year forward purchased at competitive prices. At this point energy prices remained low, due to the pandemic driven economic uncertainty. With continuing uncertainty as to whether the ongoing pandemic would further disrupt our demand for energy a cautious approach to committing to further purchases was adopted following the £2.5m loss incurred in exiting energy contracts in 2020 at the height of the pandemic.

## REVENUE (£M)



## OPERATIONS

With the exception of our current Desford brick factory and the Swadlincote precast concrete factory, our facilities generally operated at close to capacity during the year. We ended 2020 with very low levels of inventory and with demand consistently strong throughout 2021 there was no opportunity for replenishment. As a result, inventory levels remained extremely low throughout the year. Whilst the inventory value of £32.8m is very similar to the prior year (£33.0m), this is driven by an

# CHIEF FINANCIAL OFFICER'S REVIEW

## CONTINUED

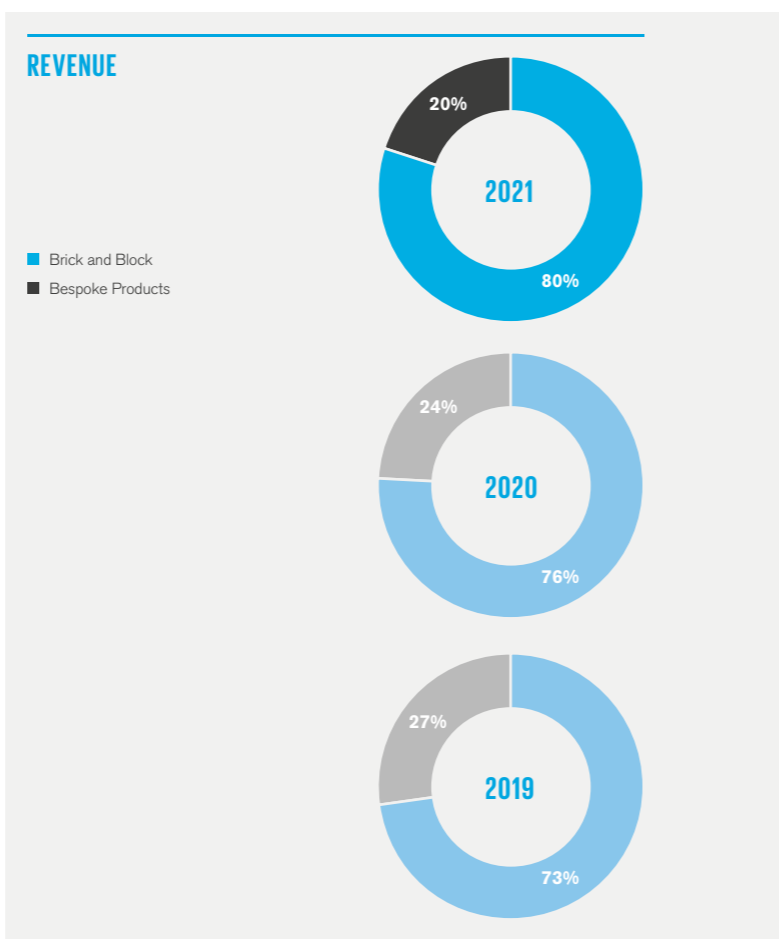
Energy prices began to rise in the summer, and the sudden sharp increase seen in the autumn was unprecedented. With prices rising to around four times historic norms, the increased cost to the business in 2021 is approximately £8m.

As explained in more detail in the CEO Review, we have recently entered into an agreement to secure around 70% of our electricity requirement from a dedicated solar farm from 2025, enhancing our sustainability credentials and providing long-term price certainty.

With clay being the largest raw material input, most of which is sourced internally from own quarries, our brick business was somewhat insulated from the worst inflationary pressures before the energy price increases. We elected not to increase our brick selling prices until 1 January 2022, honouring our customer agreements which included a requirement to give three months' notice of price increases. We have been successful in agreeing price increases of around 16% with our customers with these implemented on or before 1 January 2022.

The current inflationary environment requires us to be agile in our customer pricing; and we have amended our trading agreements to reduce the three-month notice obligation for price increases to a single month and we have recently announced further price increases to take effect from 1 April 2022.

Earnings before interest, tax, depreciation and amortisation (EBITDA) as stated before exceptional items was £70.4m (2020: £37.9m, 2019: £82.7m) with the prior year being



“**We take a risk-based approach to energy procurement and manage our exposure to market fluctuations through forward purchasing.”**

## BRICKS AND BLOCKS

	2021 £m		2020 £m		2019 £m	
	Before exceptional items £m	Statutory	Before exceptional items £m	Statutory	Before exceptional items £m	Statutory
<b>Revenue</b>	<b>298.1</b>	<b>298.1</b>	223.1	223.1	279.1	279.1
EBITDA before overhead allocations	<b>90.5</b>	<b>90.5</b>	54.9	47.7	93.0	89.7
Overhead allocations	<b>(20.0)</b>	<b>(20.0)</b>	(14.6)	(14.6)	(12.6)	(12.6)
<b>EBITDA</b>	<b>70.5</b>	<b>70.5</b>	40.3	33.1	80.4	77.1
<b>EBITDA margin before overhead allocations</b>	<b>30.4%</b>	<b>30.4%</b>	24.6%	21.4%	33.3%	32.1%
<b>EBITDA margin after overhead allocations</b>	<b>23.6%</b>	<b>23.6%</b>	18.1%	14.8%	28.8%	27.6%

## BESPOKE PRODUCTS

	2021 £m		2020 £m		2019 £m	
	Before exceptional items £m	Statutory	Before exceptional items £m	Statutory	Before exceptional items £m	Statutory
<b>Revenue</b>	<b>76.1</b>	<b>76.1</b>	71.7	71.7	103.5	103.5
EBITDA before overhead allocations	<b>4.8</b>	<b>10.9</b>	1.2	(11.0)	5.4	5.1
Overhead allocations	<b>(4.9)</b>	<b>(4.9)</b>	(3.6)	(3.6)	(3.1)	(3.1)
<b>EBITDA</b>	<b>(0.1)</b>	<b>6.0</b>	(2.4)	(14.6)	2.3	2.0
<b>EBITDA margin before overhead allocations</b>	<b>6.3%</b>	<b>14.3%</b>	1.7%	–	5.2%	4.9%
<b>EBITDA margin after overhead allocations</b>	<b>–</b>	<b>7.9%</b>	–	–	2.2%	1.9%

impacted by the pandemic. Brick and Block EBITDA before exceptional items was £70.5m (2020: £40.3m, 2019: £80.4m) and Bespoke Products a loss of £0.1m (2020: loss of £2.4m, 2019: profit of £2.3m).

Our business is managed as two divisions and we allocate our central overheads to each division based on an historic revenue driven mechanism, with central overheads allocated to Bricks and Blocks and Bespoke Products in the ratio 80%/20% respectively. In practice, the allocation of overheads to Bespoke Products exceeds the level of overheads that are directly applicable to this segment, such that if this segment was to be discontinued or divested then the saving of overheads, would in reality, be modest. Accordingly, we are now disclosing the allocation of central overheads to give greater visibility on the profitability of our segments, in particular Bespoke Products, demonstrating that this segment delivers a meaningful EBITDA contribution whilst utilising a low level of capital employed.

Recognising 2020 was heavily impacted by Covid-19, EBITDA before exceptional items for the year of £70.4m compares to a 2019 comparative of £82.7m, with margins impacted by cost inflation which in the short term was not recovered.

This is shown in the bridge overleaf which demonstrates that, with sales volumes returning to 2019 levels, once the impact of short-term unrecovered cost inflation is taken into account along with other identifiable variances, the result delivered is comparable to 2019.

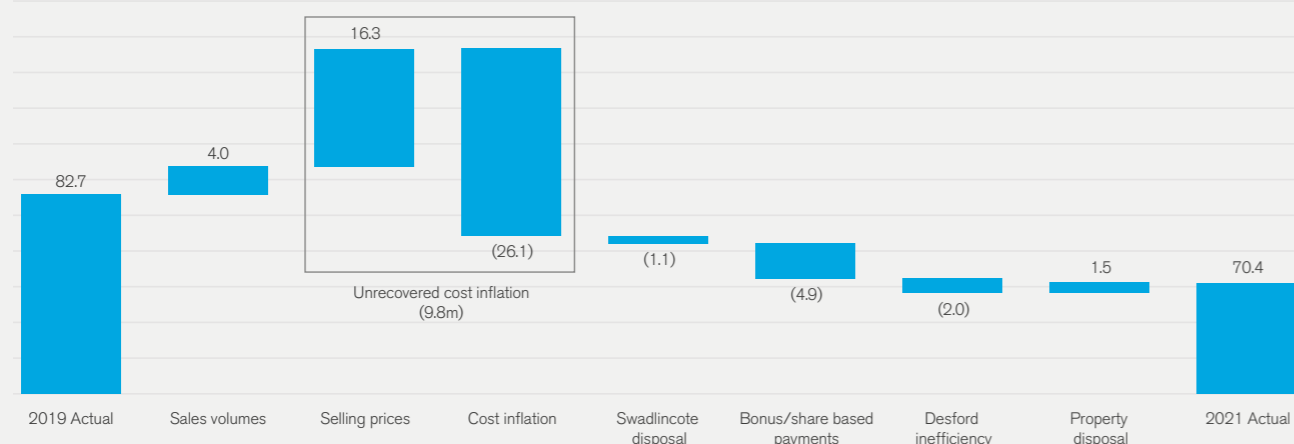
In addition, the 2021 result was impacted by operational issues at the old Desford factory which is expected to close at the end of 2022, as well as a significant increase in the bonuses due to salaried staff relative to 2019, driven by achievement of financial targets resulting in a bonus and share-based payment charge £4.9m greater than 2019. All salaried staff totalling over 400 individuals participate in the annual bonus plan.

During 2021 we sold an exhausted former quarry for proceeds of £0.1m. Although the proceeds were modest, this sale relieved the Group of its associated restoration obligations facilitating a release of £1.4m from the restoration and decommissioning provision, recognising a profit on disposal of £1.5m which is included within other operating income.

# CHIEF FINANCIAL OFFICER'S REVIEW

CONTINUED

## EBITDA (BEFORE EXCEPTIONAL ITEMS) 2019-2021 BRIDGE (£M)



## EXCEPTIONAL ITEMS

Exceptional items total a net profit of £6.1m (2020: loss of £22.8m) and relate solely to the closure and subsequent disposal of the Swadlincote facility. The sale of the facility and associated equipment realised gross sales proceeds of £14.7m, received in cash, generating a profit on disposal of £6.7m. Associated redundancy and termination costs totalling £0.6m have also been recognised within the exceptional item, reducing the profit to £6.1m. An exceptional impairment loss of £10.2m was recognised in the prior year in respect of the Swadlincote site and associated goodwill.

## FINANCE COSTS

Finance costs totalled £3.3m (2020: £3.4m excluding exceptional financing costs). Under the terms of our credit agreement, which were amended in 2020 as part of our response to the pandemic, interest was charged at a margin of LIBOR +4.00% and subsequently SONIA +4.00% until 31 December 2021. Our interest rate now reverts to a margin grid dependent on leverage with a margin of SONIA 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 credit facility.

## TAXATION

The effective tax rate (ETR) excluding exceptional items was 21.3% (2020: 18.4%). Inclusive of exceptional items the ETR was 19.8% (2020: 3.8%). The ETR is higher than the UK statutory rate of 19.0% (2020: 19.0%) due to permanent differences, mainly as a result of depreciation on non-qualifying assets, along with the impact of the increase in the UK statutory rate of corporation tax which is to increase to 25% effective from 1 April 2023, the 2021 ETR includes the impact of this rate change on deferred tax, resulting in a charge of £0.8m, adding 1.6% to the ETR.

Excluding the impact of the rate change, the 2021 ETR shows a return to our expected tax rate which tracks around 1% higher than the statutory rate. The 2020 ETR was impacted by the significant fall in profits driven by the pandemic and therefore the permanent adjustments for non-deductible items which had a bigger impact.

## EARNINGS PER SHARE

Earnings per share (EPS) as stated before exceptional items were 17.5p (2020: 6.6p). Basic EPS after exceptional items 19.9p (2020: loss of 2.6p) reflecting the exceptional profit on disposal. Earnings per share is calculated on the average number of shares in issue during the year (excluding those held by the Employee Benefit Trust (EBT)) which in 2021 was 228.1m shares (2020: 214.8m), the increase being driven by the issue of 26.8m shares in July 2020 which were not fully reflected in the 2020 weighted average.

## CASH FLOW

Operating cash flow totalled £81.2m compared to £53.9m in 2020 and £64.9m in 2019, a demonstration of the Group's ability to generate consistently strong cash flow and highlighting the quality of earnings in the year.

Payments to the Employee Benefit Trust in the year totalled £5.0m (2020: £1.0m) with payments suspended in 2020 in order to preserve cash in response to the Covid-19 pandemic. Given the strength of our balance sheet, our policy is to provide shares for settlement of our share-based employee remuneration schemes through open market purchases of shares as opposed to the issue of new share capital which would be dilutive.

The new lease liabilities primarily relate to new distribution vehicles as we renew our fleet with the latest efficient and cleaner delivery vehicles.

## CAPITAL EXPENDITURE

Capital expenditure in the year totalled £34.6m (2020: £24.9m) with strategic capital expenditure totalling £28.9m (2020: £19.5m) and maintenance capital expenditure totalling £5.7m (2020: £5.4m).

Spend on the new Desford brick factory totalled £27.2m bringing the total cumulative project spend to £59.3m with the project still on course to be completed within the £95m budget. We expect approximately £31m of the remaining spend to be incurred in 2022, with the final £5m in 2023. In addition to the spend on the Desford project, £1.7m was spent on the Wilnecote factory refurbishment project. Spend on this project in 2022 is expected to be approximately £12m with the balance of £13m in 2023.

## CASH FLOW - HIGHLIGHTS

	Before exceptional items 2021 £m	Before exceptional items 2020 £m
<b>Operating cash flow before exceptional items</b>	<b>81.2</b>	53.9
Payments made in respect of exceptional operating items	(0.6)	(5.6)
<b>Operating cash flow after exceptional operating payments</b>	<b>80.6</b>	48.3
Interest paid	(2.8)	(2.8)
Tax paid	(9.6)	(5.2)
Capital expenditure:		
– maintenance	(5.7)	(5.4)
– strategic	(28.9)	(19.5)
Dividends paid	(13.7)	–
Purchase of shares by Employee Benefit Trust	(5.0)	(1.0)
Proceeds from sale of shares by Employee Benefit Trust	1.2	0.9
Net proceeds from issue of shares	–	53.0
New lease liabilities	(12.4)	(0.6)
Other movements	(0.3)	(0.6)
Gross proceeds from sale of Swadlincote (exceptional)	14.7	–
Costs incurred in sale of Swadlincote (exceptional)	(0.3)	–
Payments made in respect of exceptional finance costs	–	(3.2)
<b>Increase in net funds</b>	<b>17.8</b>	63.9
<b>Debtor days</b>	<b>37</b>	36

## CHIEF FINANCIAL OFFICER'S REVIEW

CONTINUED

### BORROWINGS AND FACILITIES

At 31 December 2021 net cash (excluding lease liabilities) was £40.9m (2020: £16.0m). Net cash after deducting lease liabilities of £16.5m was £24.4m. These leases primarily relate to plant and equipment, in particular the fleet of heavy goods vehicles used to deliver our products to our customers.

The Group's debt facility comprises a committed revolving credit facility (RCF) of £170m extending to July 2025 with a one-year extension option having been exercised in 2021.

As at 31 December 2021 the facility was undrawn in its entirety leaving facility headroom of £170m. 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 applied until September 2021. The business has traded within these covenants throughout 2021. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times.

### DIVIDEND

Our dividend policy is that we intend to distribute 55% of our earnings. The decision, announced in 2020 to increase our pay-out ratio from 45% to 55% in 2021 was driven by the strength of our balance sheet, coupled with the Board's confidence in the strength of the Group's ability to generate cash on an ongoing basis. The Board is proposing a final dividend of 6.7p per share (2020: 2.8p) which in addition to the interim dividend of 3.2p per share paid in October (2020: nil) will bring the total dividend to 9.9p per share (2020: 2.8p). Subject to approval by shareholders, the final dividend will be paid on 8 July 2022 to shareholders on the register at 17 June 2022.

### RETURN OF CAPITAL TO SHAREHOLDERS

In January 2022 it was announced that the Group would commence a share buyback programme to repurchase ordinary shares and return £40m to shareholders during the course of 2022. This buyback is facilitated by the surplus cash held at the year-end along with the Board's confidence in the Group's prospects, in particular the strength in ongoing cash generation.

### 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 £5.8m (2020: £5.5m).

### FORWARD-LOOKING STATEMENTS

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

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

### Ben Guyatt

Chief Financial Officer

10 March 2022

## PRODUCT INNOVATION AND DEVELOPMENT

Brick slips offer a solution enabling structures, from modular to high-rise, that would not normally be finished in brick, to benefit from the beautiful, sustainable, durable, firesafe façade that only clay brick can offer. By utilising existing infrastructure we can limit our investment to a highly cost effective £12m creating what will be the UK's first large scale automated brick slip manufacturing facility at our existing Accrington brick factory. This new production line is expected to commence operation in the second half of 2023 offering an installed capacity of 48 million slips per annum.



**Developing our own slip manufacturing facility is a sustainable alternative to cutting bricks and will complement our SureBrick mechanically fixed façade solution."**

**Stephen Harrison**  
Chief Executive Officer

KEEPING  
BRITAIN BUILDING

# SECTION 172 STATEMENT ENGAGING WITH OUR STAKEHOLDERS

**We are committed to engaging with all of our stakeholders, ensuring that strong relationships are built and maintained. These relationships are core in progressing towards our strategic goals.**

Our key stakeholders are at the core of everything we do, and in overseeing the Group's strategy, found on pages 26 and 27, and the business model, found on pages 20 and 21, ensure the Board remain fully conscious of the impact of their decisions across our stakeholder group. The following details engagement across our stakeholder group, both throughout the business and at Board level.

### DIRECTORS' RESPONSIBILITIES IN ACCORDANCE WITH S172(1) OF THE COMPANIES ACT 2006

The Board consider, both individually and collectively, that they have acted in good faith to promote the success of the Company for the benefit of the Company's members as a whole in their decision-making through 2021. In making a declaration that they have fulfilled their responsibilities in this matter the Board have considered the matters detailed in s172(1) paras (a-f). The table opposite highlights examples of how the Directors have satisfied their duty under s172 across the year.

## PEOPLE

**We aim to create an engaging workplace that attracts and retains successful people**

### Aligning with our values



#### Business engagement

- Provision of regular employee updates throughout the pandemic across a number of mediums, continuing the regular podcasts that were successful during the heart of the pandemic
- Our Employee Forum has given employees the opportunity to engage directly with senior leadership, including the Board
- Regular 'town hall talk' management briefings equipped local management to disseminate information to wider the workforce on a face-to-face basis
- New 'HearMe' employee engagement survey conducted
- Ran a number of focus group sessions around the business focused on the topic of culture

#### Board engagement

- Board members undertake regular health and safety walks
- Martin Sutherland (Non-Executive Director) attends the Employee Forum held up to four times per year
- Defining culture and leading from the top is core to the Board's activities

#### Outcomes

- Launched our new intranet portal and mobile application, enabling us to stay connected to all 1,800 employees
- Successfully trained over 50 Mental Health First aiders
- Launched our 'Works to Wheels' scheme to attract internal candidates offering factory staff the opportunity to train to be large goods vehicle drivers
- Launched our simplified Golden Rules of safety and Roadmap to Zero Harm

## CUSTOMERS

**Our customers are essential to our business, and developing to continue to meet their needs is core to our success**

### Aligning with our values



#### Business engagement

- Our commercial team continually engaged directly with customers
- Our sales office formed the first point of customer contact
- Regular, often weekly, structured meetings with customer procurement teams to review forward orders, availability and any service issues

#### Board engagement

- Executive Directors regularly meet with customers
- Corporate events are held where Non-Executive Directors meet with key customers

#### Outcomes

- Subtly narrowing the product range to focus on the most popular products aiding product availability
- Developing bespoke customer housebuilder catalogues to narrow the product range, effectively increasing inventories over fewer product types and therefore improving service
- Significant uplift in customer reporting including detailed availability and delivery reports to provide customers with real time information on product deliveries
- Worked with customers to develop a joined-up approach to reducing the amount of single use plastics consumed in the packaging of our products

## SUPPLIERS

**Working collaboratively with our supply partners to ensure value is delivered throughout our supply chain**

### Aligning with our values



#### Business engagement

- Direct engagement with suppliers through the procurement team
- Increased forecasting of requirements and management of bottlenecks
- Working with supply partners to reduce inflationary impacts

#### Board engagement

- Sustainability is a key priority for the Board and as of January 2021 the Risk Committee became the Risk and Sustainability Committee
- Risks to the supply chain are regularly discussed at Risk and Sustainability Committee meetings
- The Executive Committee maintains relationships with directors of the Group's key suppliers with a focus on health, safety and wellbeing as well as sustainability matters

#### Outcomes

- Managing supply chain pressures through secondary and multiple sources of supply
- Reviewing sourcing of materials to increase transport efficiencies
- Securing additional transport capacity

## COMMUNITY AND ENVIRONMENT

**We believe in putting communities at the heart of everything we set out to achieve**

### Aligning with our values



#### Business engagement

- We engaged in regular dialogue with local communities across our manufacturing locations
- In launching the Forterra Community Fund we have been able to formalise and simplify the process by which local charities, clubs and groups can approach us seeking support
- Raised over £25,000 for charitable causes in 2021

#### Board engagement

- Board actively involved in sustainability strategy and regularly updated regarding progress in this area
- Risk and Sustainability Committee actively engaged in consideration of both transitional and physical climate risks

#### Outcomes

- Charity funding match available to employees, aiding fundraising efforts
- Brick donations made to multiple colleges aiding vocational training allowing the bricklayers of the future to train using our products
- Scenario analysis performed as part of enhanced TCFD disclosure ensuring both transitional and physical climate risks to our business are considered under various warming scenarios (see page 72 to 76)

## SHAREHOLDERS

**The core of our strategy is to create sustainable shareholder value**

### Aligning with our values



#### Business engagement

- Results presentations were delivered on release of full and half year results
- Meetings were held between management and both current and potential shareholders
- The investor relations section on our website has facilitated easy access to announcements, key dates and publications
- Our management regularly engaged with the analyst community who then disseminated research to both current and potential shareholders

#### Board engagement

- Our AGM (although held remotely due to the pandemic) enabled shareholders direct access to the Board
- Our Chairman continued to offer annual meetings to major shareholders
- The Senior Independent Director and Remuneration Committee Chair was available to meet with shareholders to discuss both general business performance and remuneration matters

#### Outcomes

- Shareholders are kept informed of Group performance
- Enhanced engagement with ESG ratings agencies including inaugural Carbon Disclosure Project (CDP) submission
- Scenario analysis performed as part of enhanced TCFD disclosure ensuring stakeholders are informed of the climate risks facing our business

### OUR VALUES



SAFETY FIRST



PEOPLE MATTER



CUSTOMER FOCUS



TRUSTED TO DELIVER



DRIVING IMPROVEMENT

# SUSTAINABILITY

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## SUSTAINABILITY REPORT INTRODUCTION



**Sustainability sits at the heart of our long-term strategy of capitalising on attractive market dynamics through investment in renewal and expansion of our manufacturing base, not only making our business more efficient but also more sustainable.”**

**Divya Seshamani**

Chairman of the Risk and Sustainability Committee

In a year where climate change gained even greater prominence in the UK through the United Nations Climate change conference (COP26) in Glasgow, 2021 has seen sustainability embedded at the heart of our business. We took a major step forward with the publication of our first comprehensive sustainability report within last year’s Annual Report and we are delighted with the positive feedback this received with the report acting as a catalyst for a significant increase in the number of sustainability focused conversations with our stakeholders.

Having set ourselves challenging sustainability targets at the beginning of 2021, our focus is now on delivering against these. With target horizons of up to 10 years, it is important to emphasise that the investments and actions we take now will deliver a tangible and sustained impact over time rather than immediately. That said, I am pleased that in 2021 our carbon emissions per tonne of production were 4.5% lower than 2019, with 2020 distorted by the effects of the pandemic.

Sustainability sits at the centre of our long-term strategy of capitalising on attractive market dynamics through investment in renewal and expansion of our manufacturing base, not only making our business more efficient but also more sustainable.

In addition, we have taken strides to better highlight the inherent sustainability and longevity of our products. Like most heavy building materials they have a significant carbon footprint, however they will last for hundreds of years, providing generations with safe, secure high-quality housing.

Along with progressing the construction of our new Desford brick factory, which will deliver market-leading levels of efficiency, we are also delivering two further investment projects both with strong sustainability credentials. The refurbishment and renewal of our Wilnecote brick factory will reduce the carbon footprint of each brick manufactured, and the construction of a brick slip manufacturing facility at our Accrington facility will allow us to bring a new sustainable product to market.

Back in 2019 we took a positive decision to purchase all of our electricity from renewable sources. Whilst an important step, at the time we recognised the limitations of this approach in that it did not add any new renewable generation capacity to the grid, something that is critical if the UK is to reach its net zero goals. Therefore, we are delighted that we have entered into an agreement with a strategic partner to construct a dedicated solar farm that will provide around 70% of our annual electricity requirement for a 15-year period commencing in 2025. In addition, we are making progress toward our commitment to produce at least 10% of our electricity requirement through on-site renewables with our facilities at Wilnecote and Desford to be among our first to be equipped with on-site solar.

At the beginning of 2021 the Board’s Risk Committee became the Risk and Sustainability Committee, a move that I feel has been successful in elevating the importance of sustainability throughout the business, with the Committee devoting a significant portion of its time to the Group’s sustainability strategy and governance thereof. The Board takes all areas of governance seriously and we have now added the climate change scenario analysis required under the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) meaning that we are fully compliant with the requirements of TCFD in the year which they have become mandatory.

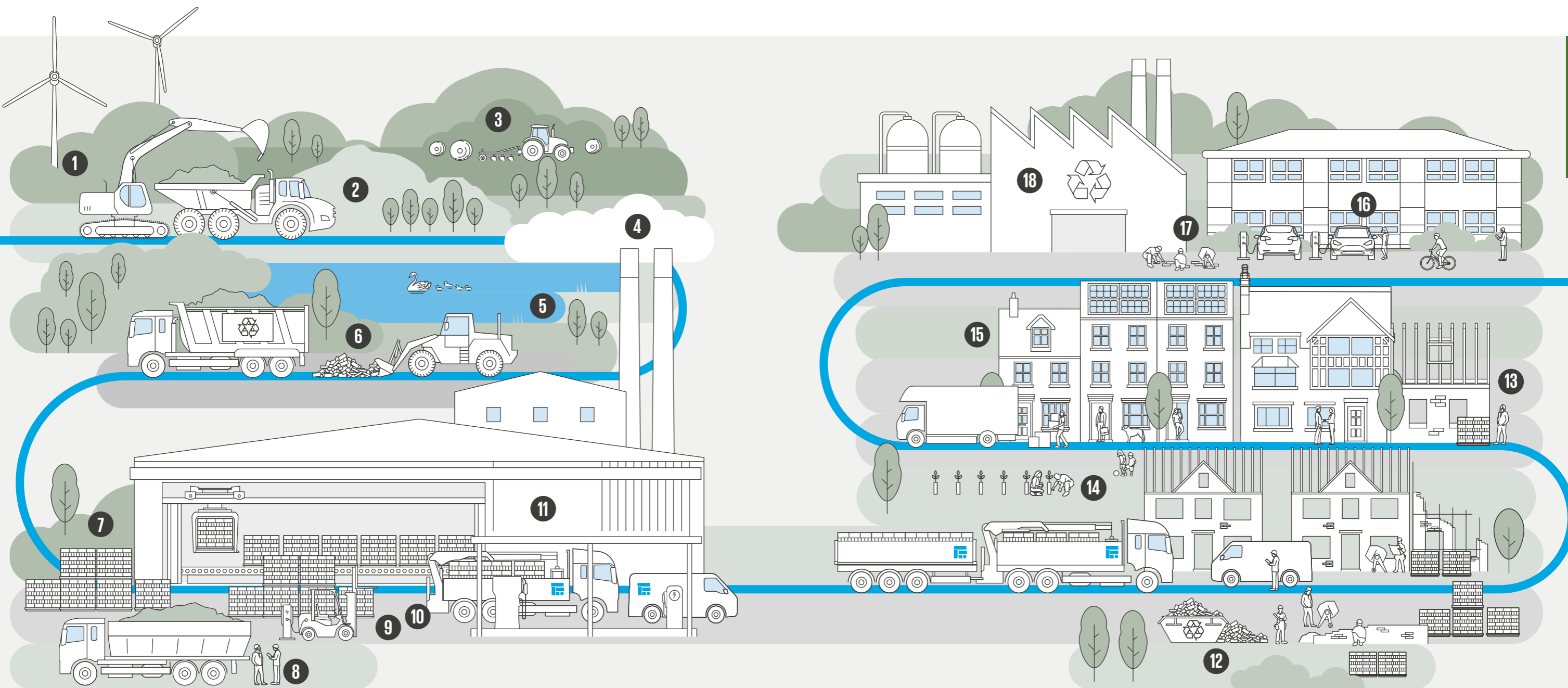
Included within this report is an overview of our key sustainability initiatives and credentials highlighting the progress made in the year, along with providing everything necessary to understand our sustainability journey. As always, we welcome feedback regarding our approach to sustainability and the appropriateness and transparency of our disclosures.

**Divya Seshamani**

Chairman of the Risk and Sustainability Committee

# SUSTAINABILITY REPORT

## OUR IMPACTS



1. 100% of our electricity came from renewable sources in 2021. We are committed to adding our own dedicated renewable generation capacity to the grid.
2. We extract clay from quarries adjacent to our brick factories.
3. When mineral extraction is complete our quarries are restored to nature or back to agricultural use.
4. Our factories and especially our kilns do emit greenhouse gases. We are investing in our business to enhance efficiency and reduce these emissions. Our strategy focuses on efficient manufacturing, allowing us to reduce our energy usage making our business more sustainable.
5. We limit our mains water usage through rainwater harvesting and recycling systems.
6. Almost all of our manufacturing process waste is recycled back into our products.
7. We are making large reductions in our use of plastic packaging.
8. We purchase raw materials from suppliers, supporting jobs in our supply chain. The vast majority of our raw materials are either obtained from our adjacent quarries or are purchased from UK suppliers.
9. We aim to invest further in electric powered mobile plant where current technology allows.
10. We are switching to the use of biodiesel (HVO) to fuel more of our mobile plant where electric power is not currently viable.
11. We are investing in delivery vehicles and cars with the latest emission-reducing engine technology.
12. At the end of their life our products are recyclable.
13. We provide products that match existing homes allowing them to be extended and repaired.
14. We are committed to biodiversity and will increase our tree planting.
15. Our products help build high-quality energy-efficient homes that last for generations.
16. We provide employment for approximately 1,800 people, playing an integral role in our local communities.
17. We are committed to training and developing both our current workforce and our workforce of tomorrow.
18. We seek to limit waste, recycling wherever possible and are now effectively a zero waste to landfill business.



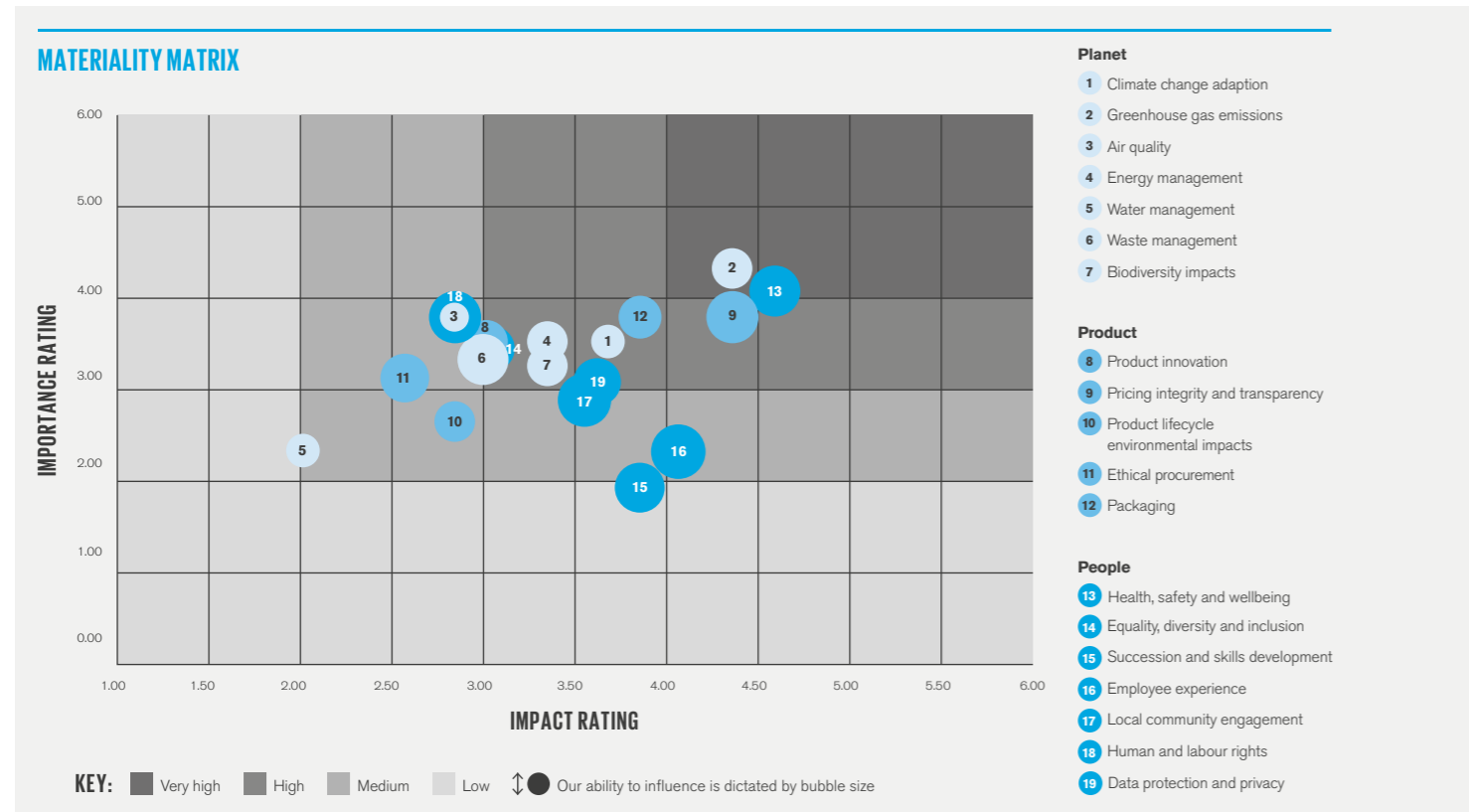
# SUSTAINABILITY REPORT MATERIALITY ASSESSMENT

## MATERIALITY ASSESSMENT PROCESS

In defining our materiality assessment we worked alongside external consultants with the intention of providing an overview of our priority sustainability topics and in turn enabling our focus and resources to be appropriately deployed in these areas. The viewpoints of key stakeholder groups were critical to the creation of this assessment, and we sought feedback and insight from multiple perspectives, including those of shareholders, local communities, employees and customers.

### Approach and process

<b>STEP 1</b> Identifying issues	We created a long list of potentially material topics through the review of sustainability reporting publications, internal policies and management insight. This was supplemented by an evaluation of relevant sustainability frameworks including the Sustainable Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI). It was important at this stage to ensure we had covered social, and governance factors alongside purely environmental impacts.
<b>STEP 2</b> Broadening and refining the scope	Our external consultants provided a broader perspective of macro sustainability topics, assessing their relevance and application to our business, such as the United Nations Sustainable Development Goals (UNSDGs). Specific feedback from shareholder meetings was also included, as well as research from relevant industry bodies.
<b>STEP 3</b> Assessment and scoring	We assessed our material topics and provided a scoring criterion based upon two factors. Firstly, the importance of the topic to stakeholders, and secondly the impact of the topic upon future business performance. Our external consultants assisted us in this process, providing a consistent framework for the basis of assessment.
<b>STEP 4</b> Prioritisation and validation	An assessment of the ability of the business to influence each topic provided further perspective to the prioritisation process and was a key further dimension brought into our analysis. The outcome of the materiality assessment was reviewed at Board level to ensure appropriate challenge, validation and alignment to the Group strategy.



Our materiality matrix above summarises the outcomes of the materiality assessment, providing a visual overview of our key topics. We recognise that the matrix contains an element of subjectivity; impact can be defined in various ways including risk of non-compliance, impact to reputation or financial implications. Equally, importance may vary between different stakeholder groups. The matrix should therefore be viewed in this context, as an indicative overview and insight to Management's perspective on the subject. Our materiality assessment was undertaken in early 2021 and was subject to a review in early 2022 with no requirement for significant changes identified.

# SUSTAINABILITY REPORT PILLARS

## OUTCOMES

The materiality matrix categorises the material topics into our sustainability reporting framework of 'Planet, Product, People'. The framework sets out a balanced approach to sustainability through these three pillars:

- the Planet pillar frames our wider environmental responsibilities, with a particular focus upon greenhouse gas emissions;
- the Product pillar focuses upon some more specific industry and Company level topics, including new product development, and the wider supply chain; and
- the People pillar highlights our social responsibility objectives, including utmost priority of ensuring health, safety and wellbeing across our business.

Collectively, our three pillars guide our future decision-making, ensuring we are successful in our overall objective of being a good neighbour and responsible employer, for generations to come.

This framework sets out our key future targets and reporting metrics within each sustainability pillar. We continue to investigate additional opportunities to contribute to sustainable development and have also linked our framework to the United Nations Sustainable Development Goals (UNSDGs) that most closely align to each pillar.

	PLANET	PRODUCT	PEOPLE
<b>Material Themes</b>	<ul style="list-style-type: none"> <li>Climate Change Adaptation</li> <li>Air Quality</li> <li>Energy Management</li> <li>Greenhouse Gas Emissions</li> <li>Waste Management</li> <li>Biodiversity</li> <li>Water Management</li> </ul>	<ul style="list-style-type: none"> <li>Product Lifecycle: Environmental Impacts</li> <li>Plastic Packaging</li> <li>Product Innovation</li> <li>Pricing Integrity and Transparency</li> <li>Ethical and Sustainable Procurement</li> </ul>	<ul style="list-style-type: none"> <li>Equality, Diversity and Inclusion</li> <li>Community and Charity Engagement</li> <li>Health, Safety and Wellbeing</li> <li>Employee Experience</li> <li>Data Protection and Privacy</li> <li>Human and Labour Rights</li> <li>Succession and Skills Development</li> </ul>
<b>Future Targets / Commitments</b>	<ul style="list-style-type: none"> <li>CO<sub>2</sub>e intensity targets (2019-2030):                             <ul style="list-style-type: none"> <li>33% reduction within clay products</li> <li>80% reduction within concrete products</li> </ul> </li> <li>Zero waste to landfill</li> <li>10% of electricity use generated from on-site renewable sources by 2025</li> <li>Climate change risk disclosure following recommendations of TCFD</li> </ul>	<ul style="list-style-type: none"> <li>10% of revenue from new and sustainable products by 2025</li> <li>Commitment to working with our suppliers to ensure they also adopt stretching reduction targets in line with our own ambitions</li> <li>Plastic packaging reduction of 50% by 2025 (from 2019 baseline)</li> </ul>	<ul style="list-style-type: none"> <li>Zero harm ambition for health and safety</li> <li>5% of employees in 'earn and learn' positions by 2025</li> <li>Annually conduct and publish employee engagement surveys</li> <li>Improved ethnic and gender diversity</li> </ul>
<b>UNSDGs</b>	<ul style="list-style-type: none"> <li>6 CLEAN WATER AND SANITATION</li> <li>7 AFFORDABLE AND CLEAN ENERGY</li> <li>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</li> <li>13 CLIMATE ACTION</li> <li>15 LIFE ON LAND</li> </ul>	<ul style="list-style-type: none"> <li>6 CLEAN WATER AND SANITATION</li> <li>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</li> <li>11 SUSTAINABLE CITIES AND COMMUNITIES</li> <li>15 LIFE ON LAND</li> </ul>	<ul style="list-style-type: none"> <li>1 NO POVERTY</li> <li>3 GOOD HEALTH AND WELLBEING</li> <li>4 QUALITY EDUCATION</li> <li>5 GENDER EQUALITY</li> <li>8 DECENT WORK AND ECONOMIC GROWTH</li> <li>10 REDUCED INEQUALITIES</li> </ul>
<b>Reporting Metrics</b>	<ul style="list-style-type: none"> <li>CO<sub>2</sub>e emissions (absolute / intensity per tonne of production)</li> <li>Air quality emissions</li> <li>Waste – % recycled / tonnes to landfill / tonnes hazardous waste generated</li> <li>Energy and water usage per tonne</li> <li>Percentage of renewable energy used off site / on-site generated</li> </ul>	<ul style="list-style-type: none"> <li>New product index (NPI)</li> <li>% of suppliers covered by internal compliance programme</li> <li>Plastic packaging used</li> </ul>	<ul style="list-style-type: none"> <li>Lost time incident frequency rate (LTIFR)</li> <li>Gender pay reporting</li> <li>Employee engagement performance score</li> <li>Percentage of employees in learning positions</li> </ul>

**KEY:** Environment, Social, Governance. Key material issues

# SUSTAINABILITY REPORT

## PILLARS

CONTINUED

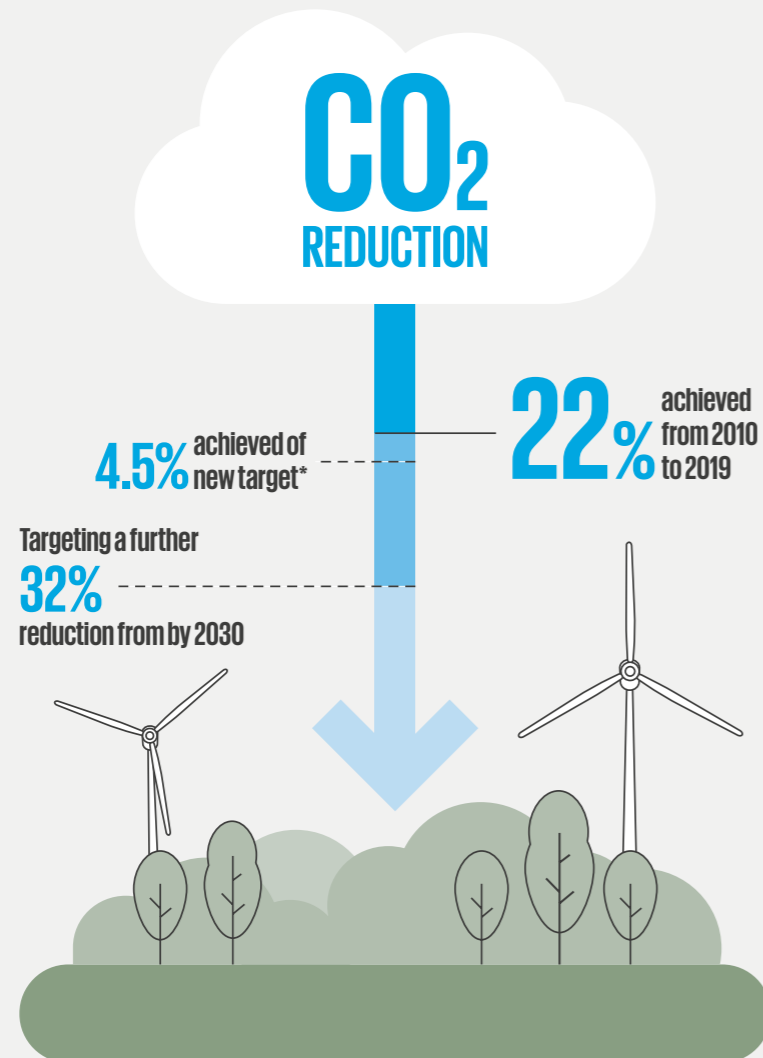
### METRICS AND TARGETS

We have considered the most appropriate metrics and targets necessary for users to understand the impacts of our business. In addition to disclosing our absolute greenhouse gas (GHG) emissions, we also provide additional disclosure showing the GHG intensity ratio for both our clay and carbon products (level of emissions per tonne of output), recognising that absolute emissions vary with the level of our production according to market demand, and as such are not a meaningful measure of our progress against our targets.

Our metrics and targets were set in early 2021 and informed by the outcome of our materiality assessment which identifies the subject areas deemed most relevant to our stakeholders. In identifying further measures and targets for publication we have

also considered the requirements of the Sustainable Accounting Standards Board (SASB) standard on construction materials and have sought to comply with the disclosure requirements of this standard in as far as we believe the information provided will be useful and meaningful to our stakeholders. As with the requirements of TCFD, we will seek to enhance our disclosure of the key metrics as laid out within the SASB construction materials standard in future years.

Details of our challenging targets and commitments are laid out on page 49. Our full sustainability indicators disclosure is shown on page 70 and includes metrics covering each of our Planet, Product and People pillars, as noted on page 47, extending our disclosure beyond GHG emissions and covering key drivers and indicators relevant to all our sustainability goals.



\* 4.5% decrease in intensity vs. 2019

### OUR REPORTING

The table below summarises our defining future sustainability targets, shown under our sustainability pillars framework and reflecting our wider breadth of key performance indicators following the materiality matrix assessment.

Our wider reporting suite of data, which has been adopted in line with the SASB reporting standard for construction materials is detailed on page 70.

PILLAR: PLANET PRODUCT PEOPLE

Pillar	Topic	Target	Target year	Metric	2010	2019	2020	2021	Target
	Group CO <sub>2</sub> e emissions	27.5% reduction vs. 2019 baseline	2030	tonnes	287,726	319,296	198,921	<b>280,381</b>	231,489
	Group CO <sub>2</sub> e emissions / tonne	32% reduction vs. 2019 baseline	2030	Kg CO <sub>2</sub> e / tonne	159.0	123.4	115.3	<b>117.5</b>	83.9
	Clay products CO <sub>2</sub> e emissions / tonne	33% reduction vs. 2019 baseline	2030	Kg CO <sub>2</sub> e / tonne	330.1	255.7	237.1	<b>237.3</b>	171.3
	Concrete products CO <sub>2</sub> e emissions / tonne	80% reduction vs. 2019 baseline	2030	Kg CO <sub>2</sub> e / tonne	278	20.9	21.4	<b>19.9</b>	4.2
	Power sourced from on-site renewables	10% Group power usage	2025	%	0.0%	0.0%	0.0%	<b>0.0%</b>	10%
	Waste to landfill	Zero process waste	n/a	kg/tonne	1.92	0.16	0.03	<b>0.02</b>	0.00
	New product index	10% Group revenue	2025	%	n/a	0.6%	1.2%	<b>1.1%</b>	10%
	Plastic packaging consumed	50% reduction vs. 2019 baseline	2025	tonnes	n/a	1,951	1,050	<b>1,711</b>	976
	Health and safety – Lost time incident frequency rate (LTIFR)	Zero harm ambition	n/a	No.	4.6	7.35	2.52	<b>3.98</b>	0.00
	Membership of 'The 5% Club'	5% of employees in earn & learn positions	2025	%	n/a	3.2%	3.5%	<b>3.7%</b>	5%

# SUSTAINABILITY REPORT

## PLANET

### PLANET MATERIALITY THEMES

- 1 Climate change adaption
- 2 Greenhouse gas emissions
- 3 Air quality
- 4 Energy management
- 5 Water management
- 6 Waste management
- 7 Biodiversity impacts

**There is growing recognition that the world is in the midst of a climate emergency, driven by rising global temperatures fuelled by greenhouse gases. Extreme events including drought, fires and flooding are likely to continue to increase, with significant impacts upon communities, species and habitats.**

Our business and sector plays a crucial role in the defence against climate change. Today, our products are 'climate ready', offering flood resilience, high levels of thermal performance reducing the amount of energy required to heat and cool homes and assured durability in use spanning generations.

We recognise the ever-increasing expectations of our stakeholders, and our primary future challenge is the decarbonisation of our products to support the wider built environment aspirations of delivering zero carbon buildings.

### GREENHOUSE GAS EMISSIONS

We manufacture two broad categories of products: those made from clay and those made from concrete. These products are supplied hand in hand to our customers and are used together in building high-quality homes and buildings. However, the manufacturing processes are very different and their carbon footprints, whilst similar overall, are built up in different ways.

### ELECTRICITY PROCURED FROM RENEWABLE SOURCES

**100%**

### CARBON INTENSITY (PER TONNE OF PRODUCTION)

**117.5kg CO<sub>2</sub>e**  
(4.5%)  
2019: 123.4kg CO<sub>2</sub>e

### CLAY PRODUCTS

Clay is the primary raw material used to make bricks. The clay is typically sourced locally from our own quarries, limiting the environmental impacts of transportation to factories. The clay is ground and then formed into a brick shape using a variety of methods. The grinding and forming process uses electrical energy. At this stage bricks contain significant amounts of moisture which must be removed before they can be fired. This drying process utilises recycled heat from our kilns.

The next stage is the firing of the brick which transforms the relatively weak dried clay into strong durable bricks that will last for generations. During the firing process, the bricks are heated to temperatures of over 1,000 °C, triggering chemical reactions in the clay. Our kilns are fired by burning natural gas and the clay itself also emits carbon dioxide, which we refer to as process emissions during the chemical reaction. Once cooled, the bricks are packaged ready for despatch to our customers.

As a result of the emissions created by the burning of gas, as well as the embodied carbon released from the clay during the firing process, the majority of emissions from our clay brick manufacture fall into scope 1.

### THE SCOPE OF CARBON EMISSIONS

The Greenhouse Gas Protocol breaks emissions down into three categories:

#### Scope 1

All direct emissions from our business or under our control. This includes the fuels used in our manufacturing processes, the largest component being the gas used to fire our kilns. Also included within scope 1 are what we refer to as process emissions, produced from embodied carbon within the clay which is released in the firing process as the bricks reach very high temperatures within our kilns. The emissions from our mobile plant and our own delivery vehicles are also included here.

#### Scope 2

Indirect emissions from the electricity we purchase and use. We eliminated our scope 2 emissions by purchasing Renewable Electricity Guarantee of Origin (REGO) certificates since 2020, which ensures that our electricity has been produced from renewable sources. Therefore, we report zero scope 2 emissions.

#### Scope 3

All other indirect emissions from our activities. This includes emissions generated from the manufacture, processing and transport of the materials and products we purchase. Also included are the emissions from delivery vehicles where our products are delivered on our behalf by haulage contractors. Identifying and accurately calculating all our scope 3 emissions would be extremely difficult and there is currently no requirement to do this. We are however seeking to work with our suppliers to reduce our scope 3 emissions, the largest component of which is cement which is critical to the manufacture of our concrete products.

### CONCRETE

We make a range of concrete products, from aerated concrete blocks to precast concrete floor beams, using a number of different manufacturing techniques. Traditional concrete is made by mixing aggregates, cement, and water. It is then left to undergo a chemical reaction known as curing which can be accelerated by adding additional heat.

Our Thermalite lightweight aerated concrete blocks use pulverised fuel ash (PFA), a waste product from coal fired power stations; with power generation from coal drastically diminishing in recent years we now recycle previously landfilled ash in a process very similar to quarrying. Water, cement and other materials are mixed with the PFA. The cake, as its known, undergoes a chemical reaction and begins to cure such that it can be removed from the mould and be wire-cut into blocks. The blocks are then cooked in a high-pressure steam oven known as an autoclave, which like our brick kilns, is heated by burning natural gas. The blocks are removed from the autoclave, separated, packaged and once they have passed a strength test are ready to be supplied to our customers.

We purchase all of these raw materials, with cement having by far the largest carbon footprint. As such, the majority of the emissions from manufacturing concrete fall into scope 3.

It is important to emphasise that both our clay and concrete products contain very similar levels of overall carbon dioxide emissions per tonne of product. However, the way in which these emissions are reported within the Greenhouse Gas Protocol scopes is very different.

The majority of the emissions associated with the manufacture of clay bricks are direct emissions under our control and are therefore disclosed in scope 1. The majority of the emissions associated with the manufacture of our concrete products are indirect emissions under the control of our suppliers and included in scope 3, and therefore not disclosed in our figures.

### SCOPE 1

When reporting our emissions and setting targets to reduce these emissions it is necessary to consider our product mix. To ensure full transparency going forward, and when reviewing our past progress, we will provide emissions figures for both our clay and concrete businesses independently. The scope 3 emissions associated with our concrete manufacture (and to a lesser extent clay) are currently estimated, therefore direct comparison between our clay and concrete reported emissions is not possible.

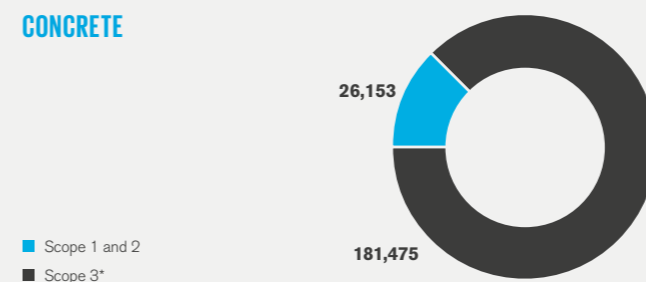
Any change in product mix in our product range between clay brick and concrete products could materially distort the comparability of our total reported scope 1 emissions year on year. Accordingly, we disclose the carbon emissions for our clay and concrete business separately providing much greater transparency on our carbon reduction progress.

It is important to recognise the amount of carbon we emit is directly related to the volume of product we manufacture.

Our key markets have historically exhibited a trend of cyclicity and as such it would not be meaningful to measure our performance solely on absolute emissions. We believe the most transparent way of reporting our carbon footprint is to separately report our greenhouse gas intensity ratio CO<sub>2</sub>e for our clay and concrete products and that this will provide the most meaningful information from which to measure the reduction in our carbon emissions over time.

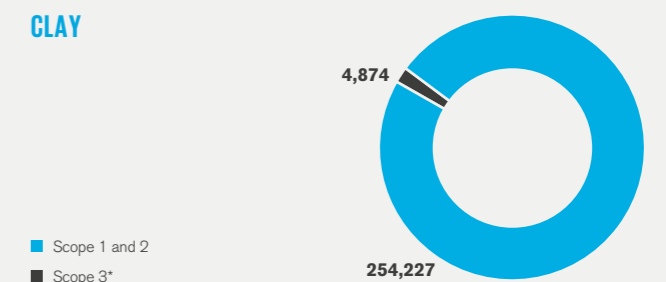
We recognise that carbon dioxide emissions are an inherent result of our manufacturing processes. The majority of our emissions are covered by the UK Emissions Trading Scheme (UKETS), The increasing cost of UKETS credits or a reduction in the number of freely allocated credits will increase our operating costs and by reducing our emissions we can deliver a reduction in these compliance costs.

### CONCRETE



\* estimate not included within our reporting.

### CLAY

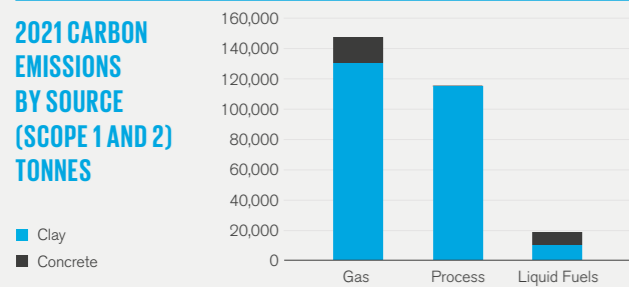


# SUSTAINABILITY REPORT

## PLANET

### CONTINUED

The graph below shows a breakdown of our 2021 scope 1 emissions by source. The largest contributors are the natural gas used to fire our kilns and from the carbon emitted from the clay during the firing process.



### OUR 2030 CARBON REDUCTION TARGETS

To build upon our substantial achievements over the past decade and in support of the UK's Net Zero Carbon ambition with the Government committing the UK to achieving net zero carbon emissions in 2050, we have set ourselves the following challenging reduction targets for 2030, covering our direct (scope 1 and 2) emissions:

- Group CO<sub>2</sub>e intensity (CO<sub>2</sub>e / tonne) – **32% reduction versus 2019 baseline** (assuming 2019 product mix)
- Clay products intensity (CO<sub>2</sub>e / tonne) – **33% reduction versus 2019 baseline**
- Concrete products intensity (CO<sub>2</sub>e / tonne) – **80% reduction versus 2019 baseline**

We set 2019 as our baseline year as the impact of the Covid-19 pandemic, which resulted in the majority of our operations ceasing production for a prolonged period, meant that 2020 did not represent the most meaningful comparator.

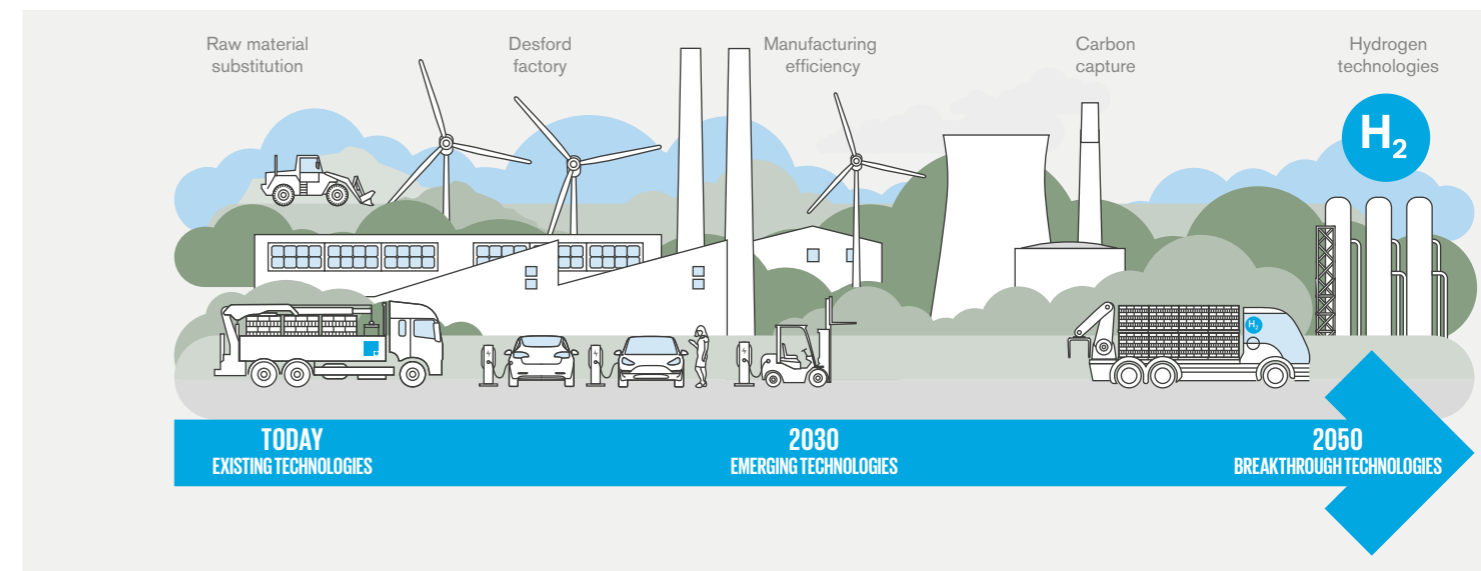
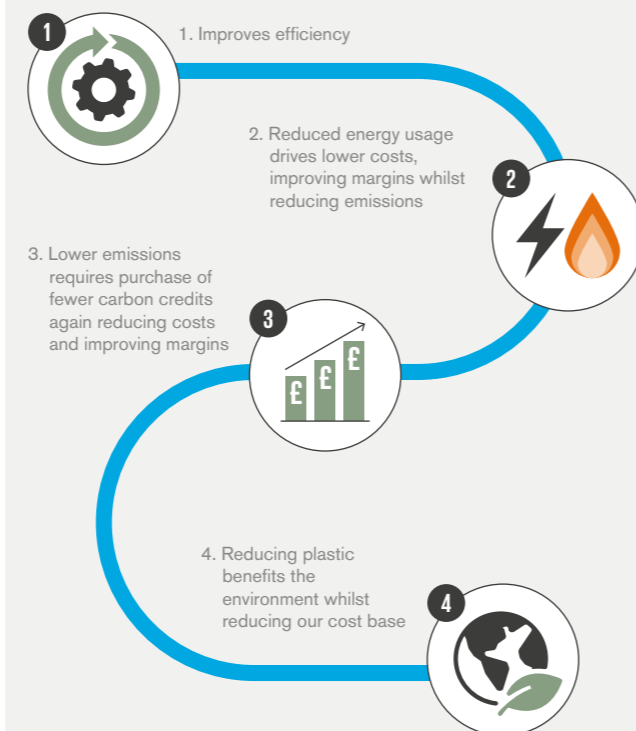
Our targets are ambitious. We will deploy both existing and new technologies over the next decade to achieve our goals, as well as closely controlling how we manage our existing operations. We do not expect to require significant capital expenditure purely to meet our sustainability targets in the coming decade. We will invest in large-scale projects, such as the Desford and Wilnecote brick factories, with these projects offering compelling financial returns in addition to demonstrable sustainability benefits. Planned investments in on-site renewable electricity generation capacity are also expected to be modest and generally included within our £12m a year of annual maintenance capital expenditure and will generate a positive financial return over their lifetime.

### INVESTING IN EFFICIENCY

Our strategy for growth is completely aligned to our sustainability strategy with our current and planned investments in new ultra-efficient modern manufacturing technology also delivering significant sustainability improvements. Using the latest production technology and control systems allow us to burn less gas, emitting less carbon and reducing the number of carbon credits we need to purchase. Modern manufacturing equipment is more energy efficient using less electricity and our factories at Wilnecote and Desford will be among our first to be equipped with on-site solar arrays to generate clean sustainable electricity.

Modern kilns require less gas and have more effective emission scrubbing technology reducing both the emission of carbon dioxide as well as other harmful emissions. The new factory at Desford will emit approximately 25% less carbon dioxide for each brick produced than the old factory it replaces. Similarly, the refurbishment of the Wilnecote factory will also reduce carbon emissions per brick by around 30%. Our strategy for growth will see an investment of over £200m in major expansion and replacement capex over the decade, with every major investment we make having a positive impact in reducing our carbon footprint. When evaluating investment opportunities going forward, sustainability improvements are a pre-requisite, we will not make investments unless they have clear and demonstrable environmental benefits.

### INVESTMENT IN NEW MANUFACTURING CAPACITY



### EMERGING TECHNOLOGIES

Whilst we are focused on the present, delivering new, more efficient manufacturing capacity alongside a number of initiatives to reduce our environmental impact in the near term, we are also thinking for the long-term.

Our industry's journey to net zero will most likely depend on technologies that are currently in their infancy. For example, hydrogen as a replacement fuel for natural gas along with carbon capture and storage. We are actively looking at how both these technologies can be used in our business.

We are planning to undertake trials to better understand how hydrogen will work as a fuel in our kilns and how this change of fuel will impact our products. By undertaking these trials in a small kiln at our Red Bank facility we can gain valuable knowledge without disrupting production. The burning of hydrogen produces a large amount of water and we will need to learn how to manage this. Our trials will cost several hundred thousand pounds to complete but this investment will provide valuable information for the future. We are also entering into exploratory discussions with potential suppliers of hydrogen as to how we could potentially connect our facilities to future hydrogen supply infrastructure.

In addition, we are exploring opportunities for carbon capture and storage and are engaging with a number of potential partners who are developing technologies; and like our hydrogen trials, we are willing to commit funding towards exploring technologies that could help us toward our target of reaching net zero by 2050. Although we should caution that at this stage many of the technologies remain at their formative stage with mainstream deployment of carbon capture in our business still many years away. We accept that we may need to devote time and resources to a number of technologies before finding one that will ultimately be both effective and economical.

### FOCUS ON RENEWABLE ENERGY

In 2020 we switched to purchasing 100% renewable electricity. Whilst this positive step reduces our scope 2 emissions to zero we always wanted to do more. For the UK to reach its net zero ambitions the electricity grid, which still relies upon significant gas and coal fired generation, needs to be decarbonised. Working with an external partner, a global leader in the management and development of solar energy projects, we have committed to purchasing around 70% of our electricity requirement from a dedicated solar farm, exceeding 200 acres in size to be situated in Nottinghamshire. This commitment approximating to £50m over 15 years from 2025 will facilitate the delivery of 60 GWh of additional solar generation capacity to the UK, enough to power 17,000 average homes. This arrangement will provide us with secure renewable energy with price certainty for a 15-year period commencing in 2025.

Alongside this, we are investing in on-site renewable electricity generation at a number of our factories in order to generate 10% of our electricity requirement from 2025. Again, this adds incremental renewable energy generation capacity whilst also providing a low-cost electricity supply avoiding the sizeable transmission charges associated with having power delivered through the grid. We were hoping to have delivered the first of these projects in 2021, although global supply chain pressures ultimately meant this wasn't possible.

# SUSTAINABILITY REPORT

## PLANET

CONTINUED

### ENERGY MANAGEMENT

As a large consumer of mains gas and electricity we are focused on maximising energy efficiency across our whole business, complementing this with a longer-term strategy on the increased adoption of alternative, renewable energy sources, and utilisation of on-site renewables.

All of our manufacturing facilities meet the requirements of the Energy Management Standard, ISO 50001, a third party audited and certified scheme recognising businesses which enhances energy management through continuous improvement and monitoring of progress. We have held this accreditation since 2015.

We adopt a number of approaches to maximise energy efficiency; from LED lighting and the installation of variable speed drives on motors, through to the recycling of waste process heat from our kilns to be utilised in other areas of the factory.

### TRANSPORT

Transportation, including our heavy goods vehicles and other company vehicles including cars, are a contributor to our overall carbon emissions totalling 12,508 tonnes in 2021 representing 4.5% of our scope 1 emissions.

Our transport fleet has increased to 188 vehicles as we prepare to increase our despatches as the new Desford brick factory comes online, as well as addressing limitations in the availability of sub-contract haulage driven by a shortage of drivers throughout the industry, along with increasing lead times for new vehicles. Increasing our fleet size does marginally increase our scope 1 emissions although this increase would be offset by a reduction in our scope 3 emissions.

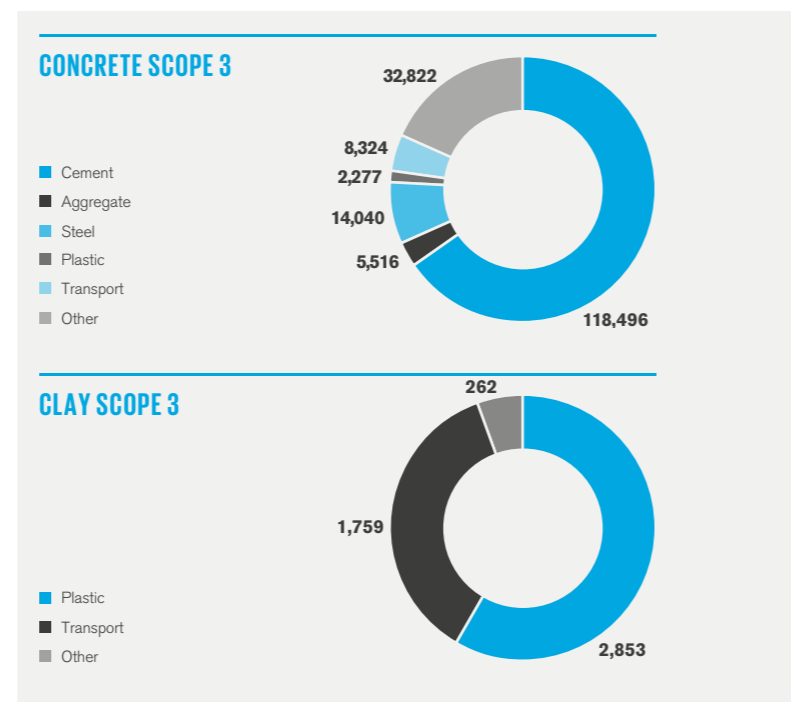
We are continuing to invest in the latest, cleanest and most efficient vehicles. Of our fleet of 188 distribution vehicles, 130 are the cleanest Euro VI vehicles and we would expect 100% of our fleet to achieve this standard by the end of 2023, with the current supply chain pressures and associated long lead times for new vehicles the primary constraint to achieving this sooner.

We continue to invest in electric and low emission vehicles, with all of our new company cars restricted to CO<sub>2</sub> emissions under 73 CO<sub>2</sub>/km, ensuring we are promoting the use of the cleanest low emission vehicles. During the year we have continued our roll-out of electric vehicle charging infrastructure across our facilities. We now have a total of 52 zero and ultra-low emission vehicles (ULEVs) in our car fleet representing 31% of the fleet, and of the new cars joining the fleet in 2021 93% were either electric or hybrid.

### OUR APPROACH TO SCOPE 3 EMISSIONS

Much of our reporting focuses on our scope 1 emissions, the direct emissions from our business or activities that are under our control. The bulk (over 95%) of our scope 3 emissions are generated by inputs to our concrete products businesses with cement being by far the largest contributor to this. It is estimated that the scope 3 emissions embodied within our cement purchases represent around 65% of our total scope 3 emissions.

Our intention is to work with our major suppliers to ensure that they have equally ambitious carbon reduction targets to ourselves. Virtually all cement is purchased from major global and UK listed cement manufacturers including HeidelbergCement AG and Breedon plc and with these companies, like ourselves, taking responsible leadership positions to reduce their own emissions. Looking ahead, sustainability will form an even greater element of our supplier selection and accreditation process with an increasing number of our suppliers being required to evidence their own ambitious carbon reduction plans in order to continue their trading relationship with ourselves.



### ENGAGEMENT

**We are proud of our progress and are keen to place our sustainability information in the public domain ensuring the highest levels of transparency as we engage with our stakeholders.**

We are committed to actively engaging with a number of sustainability disclosure bodies and rating agencies including the Carbon Disclosure Project, MSCI and Sustainalytics. Sustainability reporting and disclosure is still in its infancy and we are keen to engage with relevant agencies to ensure our sustainability strategy is clearly understood. We are also seeking to improve the awareness of sustainability and we recently ran our first Institute of Environmental Management and Assessment (IEMA) training course aimed at managers to improve their awareness of the many areas of Sustainability.

Organisation	Rating
CDP	C
MSCI	AAA
MORNINGSTAR   SUSTAINALYTICS	18.9 – Low Risk
S&P Global	Awaiting result of inaugural submission

## NET ZERO, A MARATHON NOT A SPRINT AND WHY HAVEN'T WE ANNOUNCED A 'NET ZERO' BRICK FACTORY?

Our priority is to deliver a tangible reduction in our emissions over the next decade. By 2030 we have committed to reducing our carbon intensity by 32% relative to 2019. Beyond this we have signed up to the Race to Zero formalising our ambition to reach net zero by 2050.

A key component of our decarbonisation strategy is our programme of capital investment with over £200m of investment in more efficient and greener manufacturing capacity over the next decade. This investment alongside a number of other initiatives including fuel switching will deliver a meaningful reduction in emissions.

We are also committed to researching breakthrough technologies including carbon capture and storage and hydrogen fuels which will likely provide the pathway to net zero beyond 2030.

The Commission on Climate Change (CCC) sets out a recommended strategy for the UK to reach net zero by 2050. In this report they state that "most sectors will need to reduce emissions to close to zero without offsetting". Reliance on offsetting does not reduce the burning of fossil fuels which is the primary contributor to climate change.

Our strategy focuses on maximising the investment in our own business to deliver a tangible and transparent reduction in carbon emissions. We will continue to evaluate the benefits carbon offsetting can provide and whilst it is possible that in the future there will be a need for some form of offsetting in order to reach net zero, we feel that at present we can have the greatest impact through investing to reduce our own emissions.

The last year has seen announcements of the first net zero brick manufacturing facilities in the UK. The technologies used in these facilities are comparable with those being employed in our investments at Desford, Wilnecote and Accrington and as such, these claims can only be achieved through the use of carbon offsetting. We will keep the use of carbon offsets and the developing rules around their allocation to specific projects or assets under review, although we currently believe that maximising our investment in our own business rather than purchasing offsets and allocating them to the emissions from a particular factory is the most transparent and effective way of meeting our challenging carbon reduction targets and in the longer term moving towards net zero by 2050.

# SUSTAINABILITY REPORT

## PLANET

### CONTINUED

#### AIR QUALITY

We strive to minimise emissions of air pollutants created through our manufacturing and distribution operations, complying with legislation as a minimum standard. All our operations are subject to Environmental Permitting Regulations and must operate in accordance with a permit issued by either the Environment Agency or the local authority. Each permit has at least one section focusing on emissions to air, with the regulating authority carrying out inspections to ensure compliance. In addition, the majority of our brick manufacturing facilities are required to carry out annual monitoring on the exhaust from the kiln to demonstrate compliance with any emission limits set out in the permit. Our larger sites submit a return under the UK Pollutant Release and Transfer Register.

Our brick manufacturing facilities utilise modern technologies to capture and 'scrub' emissions before their release into the atmosphere.

Our Kings Dyke brick facility is located in an air quality management area, and as a requirement of our permit we have invested in, and operate, two ambient air quality monitoring stations. Since their installation in 2008 we have operated in accordance with our permits with no breaches of air quality limits.

#### WATER MANAGEMENT

Water is key to the manufacture of our products, whether to achieve the correct plasticity of a clay brick, or to hydrate cement to produce our range of concrete products. As water becomes an increasingly scarce resource, we must ensure that we are using it as efficiently as possible, and therefore we closely monitor our usage.

Since 2010 we have reduced our water consumption per tonne of output by 20% through investments at our highest consuming sites, implementing water recycling systems as part of their production processes. A good example of this is in rainwater harvesting schemes such as at our flagship Measham brick facility, resulting in a 95% reduction in mains water usage since 2011. We will continue to report on our mains water usage per tonne of production.

A number of our sites benefit from ground water abstraction licences which further reduces our reliance on mains water. Our water management programme extends to the discharge of both surface and process water from our sites, carried out under consent from either the Environment Agency or water authority as well as the dewatering of our quarries.

#### WASTE MANAGEMENT

As a business we recognise the value of our raw material resources. Our waste quantities are extremely low relative to our production output, with large volumes of process waste streams diverted and recycled for use in other products. For example, brick waste created at our Kings Dyke London Brick factory is crushed on-site and becomes a raw material for the neighbouring aggregate block plant, and our entire aircrete block waste is recycled into use in other products in the business.

As a responsible operator we comply with all waste management legislation and apply the waste hierarchy using segregation of wastes to ensure that the most appropriate disposal routes are utilised. Virtually all our process waste is recycled within our own business, with only small quantities recycled through third party partnerships. Following recent amendments to our recycling partnership contract, we now divert all standard process waste from landfill, an achievement we look forward to continuing to honour in the future.

A notable recent project centred on the diversion of 'scrubber waste' from landfill. This waste is generated during the screening and removal of emissions from the exhaust chimneys of our brick manufacturing facilities. Representing up to 19% of our total waste, this material is now diverted from landfill following our collaboration with our waste management provider and is recycled into applications including land restoration where high alkaline soils can be neutralised by these waste streams.

Within our precast flooring products, all waste insulation (used to enhance the thermal performance of our flooring systems) is now recycled back into our suppliers' manufacturing process, removing any cost of disposal for our customers, whilst also ensuring the safe diversion from landfill.

#### BIODIVERSITY

Fragile habitats and associated biodiversity are at risk from climate change and deforestation across the globe. Within the UK, the Government has recognised our diverse range of natural landscapes and habitats, setting out a 25-year environmental plan focused on their protection and enhancement.

We are responsible for almost 2,000 acres of mineral bearing land and are therefore aware of our important role in supporting these national ambitions through the ongoing management, treatment, and final restoration of this land after these minerals have been exhausted. Our quarrying operations are covered by planning consents which include conditions for site restoration in accordance with the local mineral planning authority and taking into consideration local and wider environmental needs.

Depending on future use proposals, the quarry development will often lead to an improvement in the biodiversity value of the land involved, both during operation and when it moves into its restoration phase. The Kings Dyke nature reserve near

Peterborough is an excellent example of how exceeding the requirements of the restoration plan has provided a local community asset and enabled a diverse range of habitats to thrive.

We have identified a number of indicators to provide a framework for consideration of land use and environmental change as a result of our quarrying activities, and we support the Council for Sustainable Business Biodiversity commitment.

We recently commissioned a survey at our Wilnecote factory, to help us understand how we can maximise the ecological benefit of the woodland, which sits adjacent to the quarry. Part of the advice was to remove the smaller trees in order to promote wildlife habitats and Plant Manager, Tim Sugden decided to use these trees to create a hibernaculum, so that the flora and fauna can flourish further.

As a business we are continually looking at ways to reduce our environmental impact and we are pleased that this responsibility is shared by our employees, who actively look for opportunities to promote the importance of sustainability.



#### KINGS DYKE NATURE RESERVE

Kings Dyke Nature Reserve, near Peterborough, was established in 1999 on the site of an old London Brick clay quarry that was exhausted in the 1970s.

Developed as an educational nature reserve for schools and the local community, the site benefits from a wide range of habitats, from open water and ponds to grasslands and bare open spaces. While often regarded as a blot on the landscape, at the end of their working lives quarries can make

great nature reserves thanks to the diverse ground conditions and unique opportunity they present to create wonderfully diverse habitats for wildlife.

Today, the reserve is an important habitat for the Wall Brown butterfly whose numbers have declined in many areas. It's testament to the role of nature reserves such as Kings Dyke in enabling species such as this to not only survive but to thrive.

# SUSTAINABILITY REPORT

## PLANET

CONTINUED



### OUR COMMITMENT TO BIODIVERSITY IN ACTION

A new water quality project on the River Mease which will slash levels of dangerous pollutants has already created valuable wetland habitats for loach, bullhead, crayfish and even otters. Four acres of formerly scrub-covered farmland have been transformed by the wetland sediment trapping scheme, a kilometre from our Measham factory in Leicestershire, to help address the high levels of phosphates in the Mease.

The river, which encompasses a Site of Special Scientific Interest and Special Area of Conservation, has suffered because of the build-up of pollutants from many sources and from urban development. High levels of phosphates cause algae to bloom and reduce the levels of oxygen in the water, creating an environment where fish and other species can no longer survive. But new ponds, wetland channels and riffles which make up a wetland sediment trap are already making a noticeable difference to the water quality and reducing phosphates. Woodland and vegetation, including nine glorious old oaks, willow trees and hawthorns have also been protected and can thrive once more because of the works on the site.

The £200,000 project, funded through a planning levy paid by developers, was only feasible because of "unprecedented" collaboration and co-operation, according to the river restoration charity which led the work. The Trent Rivers Trust worked with farmers whose land borders the River Mease and the Gilwiskaw Brook, and with 7,500 cubic metres of excavated material, enough to fill three Olympic sized swimming pools being deposited within our quarry for future restoration.

# SUSTAINABILITY REPORT

## PRODUCT

### PRODUCT MATERIALITY THEMES

- 8 Product innovation
- 9 Pricing integrity and transparency
- 10 Product lifecycle environmental impacts
- 11 Ethical procurement
- 12 Packaging

### The sheer scale of product consumption in modern society has highlighted the stresses upon raw materials and natural resources, and the impact of products and packaging upon our fragile habitats.

Our goal is to minimise the environmental impacts of our products during their manufacture, installation and in use.

Our products today are inherently sustainable, providing long-lasting durability and performance with no, or minimal, maintenance requirements and are typically recyclable at the end of their life. However, there is even more that we can do.

#### PRODUCT INNOVATION

Our product innovation, and research and development programmes are centred on two key themes: to meet the adapting needs and requirements of our customers in how they build, and to support the UK's ambition to transition to a lower carbon economy.

Specific focus centres on the increasing requirement for offsite precast and masonry façade solutions, utilising modern methods of construction to improve site efficiency, reduce wastage and support ambitious national housebuilding targets to provide better standards of homes for all.

In recent years we have made significant progress in bringing new products to market. One of our key innovation goals is to return our products to applications from which they may have been lost over the years. Our façade solutions including brick faced concrete panels, our Quickwall prefabricated masonry system designed to reduce on-site waste, increase production speed and improve aesthetic quality and our Surebrick fully non-combustible, mechanically retained brick slip system all offer solutions for utilising brick as a firesafe façade of choice on buildings, including modular and high-rise applications, where traditional brick and block construction is no longer suitable. Our investment in our Accrington factory to manufacture our own brick slips is an important step on our sustainability journey. Brick slips, or thin bricks as they are also known, provide the much-loved finish of a brick façade using up to 75% less raw material and energy in their production. Currently many brick slips are manufactured by cutting the face off a traditional brick leading to high levels of wastage, so manufacturing brick slips is an inherently more sustainable approach.

Our manufacture of concrete floor beams is another area in which we are using innovation to do more with less. Within our Bison flooring business our engineers are pioneering changes in the design of some of our T-beams reducing their cross section and therefore raw material usage, including cement, by as much as 30%, saving up to 10,000 tonnes of concrete per year, without compromising on providing a product that still meets all of our customers' needs.

Whereas partnerships with suppliers, technology providers and innovators are key to reducing the carbon footprint of our own operations, forming partnerships with our customers are also key as we aim to help them meet their own sustainability goals through innovative Forterra products.

A great example of this is our support of our customer, Barratt Development's unique zero carbon concept home. Built on the University of Salford's main campus, the Z house, built using modern methods of construction, is part-funded by Government and has been developed in partnership with Forterra and over 40 other leading players in the construction sector. We are delighted to have participated in this project by supplying two of our innovative products, Quickwall and Jetslab, our prototype innovative and insulated floor system that can be assembled in a matter of hours.

SureBrick, our fully non-combustible brick slip façade system provides a ready-made solution for offsite construction needs, particularly suitable for buildings above 18 metres and where speed of construction is paramount. The system achieved full British Board of Agrément (BBA) accreditation in early 2020 and has been successfully installed upon a number of projects.

Our team of materials scientists are constantly researching alternative raw materials which could allow us to reduce our carbon footprint. Cement substitutes are a current area of focus and we are contributing to a research project along with a number of industry participants, trade bodies and academia on a project exploring the cementitious properties of waste brick as a substitute for clinker in the manufacture of cement. At present our brick manufacturing waste is used in the manufacture of our aggregate blocks; although there would be significant sustainability benefits if this waste brick could be used as a cement substitute, as cement is by the far the largest contributor to our scope 3 emissions and a major contributor to our overall emissions.

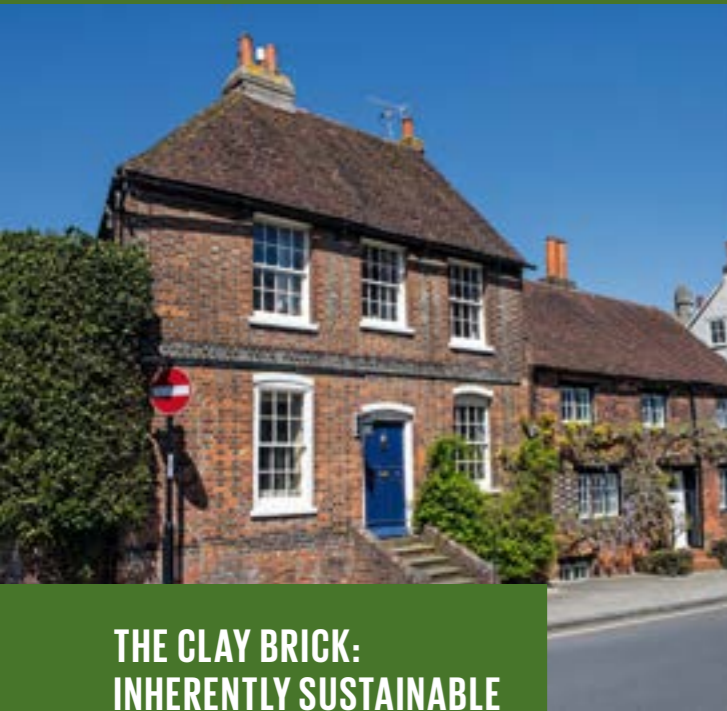
Our drive for further product innovation will continue. By 2025, we have set a target of 10% of revenues to be generated from new and sustainable products, focused upon offsite solutions, and the use of alternative raw materials where the positive impact upon our carbon footprint can be clearly demonstrated.

We recognise that we need to invest further in resource to accelerate our innovation and we have communicated our intention to increase our overhead cost by up to £3m per annum as we resource our business to devote more time to the future without compromising our day-to-day operations and customer service.

# SUSTAINABILITY REPORT

## PRODUCT

CONTINUED



### THE CLAY BRICK: INHERENTLY SUSTAINABLE

The clay brick has been used as a building material for centuries. Through improved manufacturing technologies and efficiencies, the modern brick of today is more durable and significantly less energy intensive than its predecessors, whilst also maintaining its aesthetic appeal and reputation as the nation's building material of choice.

Produced to exacting standards, the lifespan of buildings constructed from clay brick is typically greater than 100 years, literally spanning generations. There are countless notable examples of celebrated architecture in the UK's built environment which demonstrate the longevity and beauty of this most simple of materials. Many homes built in the Victorian period were built from brick and are now sought after due to their spacious interiors, robust construction and typically large gardens. To many, the beauty of these buildings has increased with age, defined by the character of the clay bricks which have gently weathered over the last century.

On a wider scale, a 2017 survey<sup>1</sup> by BRE Trust revealed over 20% of the UK's housing stock built from clay brick is over 100 years old. Many of these homes will have been adapted and extended since their initial construction, but that underlying trust in brick as the core material in these buildings remains.

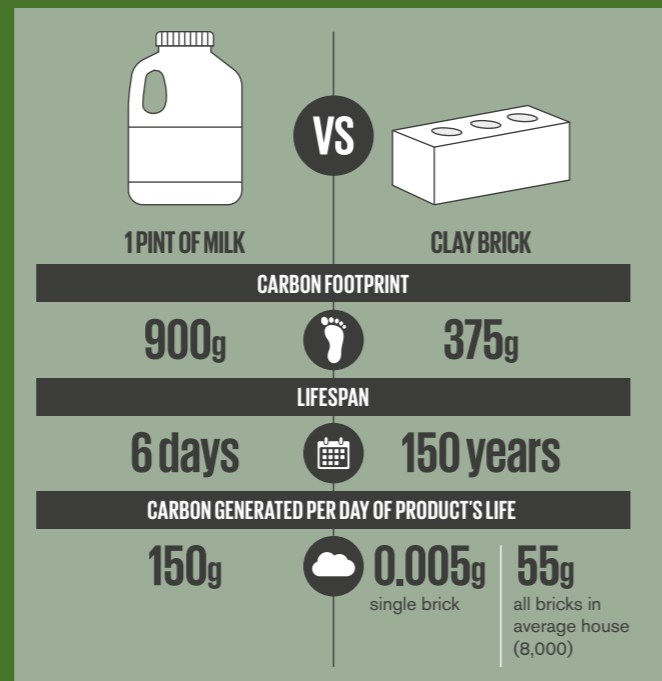
1. BRE Trust, "The Housing Stock of the United Kingdom", 2017.

The carbon footprint associated with clay brick manufacture remains significant, primarily through the use of natural gas fired kilns, and the natural chemistry of clay minerals.

Over the extensive lifetime of a clay brick-built building, the lifecycle carbon impact is remarkably low. Clay bricks also possess strong thermal mass qualities, helping minimise the impacts of more extreme weather conditions through their strong heat absorption; increasingly important as climate change increases the frequency of these conditions. During winter, bricks store heat on sunny days, slowly releasing this back to help warm the building. During the summer, heat is buffered and the interior of a brick building remains cool on the hottest days.

The longevity of brick is further complemented by the inherent quality of brick structures to require no, or minimal maintenance throughout their long lifespan, whereas alternative materials may require repeated application of protective coatings / treatments to extend their lives.

The nature of a clay brick structure makes adaptation relatively easy; parts of the structure can be removed and modified with relative ease, further enhancing the lifetime of the building. When a clay brick building does reach end of life, usually as a result of conscious demolition rather than condition, the materials can be reclaimed with the bricks themselves being reused if in good condition, or alternatively being crushed to be used as raw material within further construction applications.



### PRICING INTEGRITY AND TRANSPARENCY

We recognise that in many of our product categories our markets are characterised by a small number of large businesses, operating nationally, and enjoying large market share positions. In order to ensure the highest standards of integrity we enforce a zero-tolerance approach to any anti-competitive activity.

All relevant managers and commercial employees are required to undertake annual online compliance training on both competition law and anti-bribery, with controls in place to record correspondence and communications with competitors.

The fines that can be levied on businesses which are found to have breached competition law can reach 10% of annual turnover and businesses can face damages claims from those wronged by anticompetitive actions. The risk of such fines, even if senior management were unaware of such behaviours, mean that compliance and monitoring obligations are taken very seriously.

### ETHICAL AND SUSTAINABLE PROCUREMENT

The procurement of third party materials and services are critical to our value chain. In 2021 this expenditure totalled over £143m, including materials such as steel, timber, cement, aggregates, pulverised fuel ash (PFA) and expanded polystyrene products used in our flooring solutions. Our environmental footprint is minimised through a focus on local sourcing.

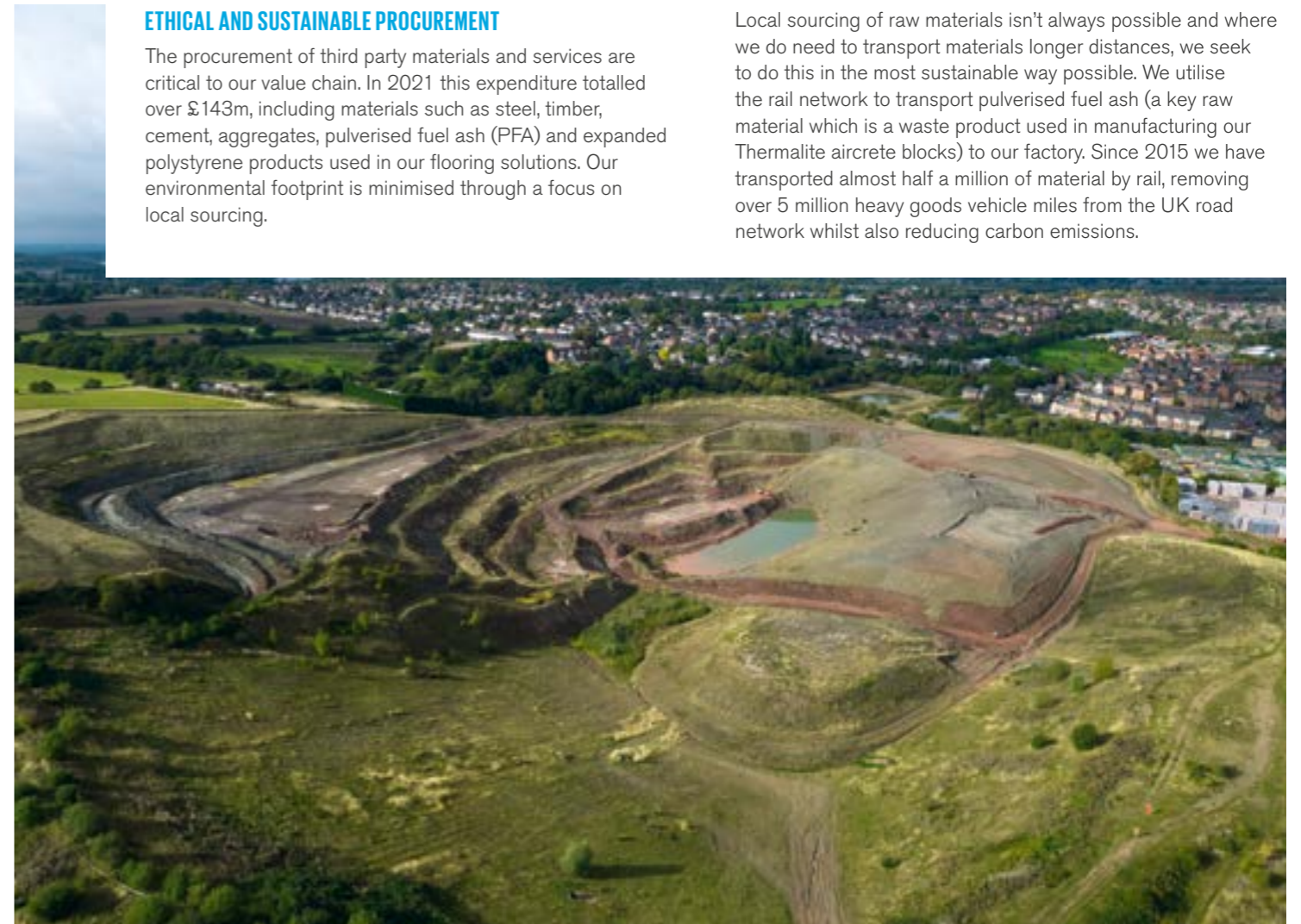
In 2021 over 80% of our materials procurement (excluding capital items) was UK sourced, minimising environmental impacts of cross border transport logistics.

Our procurement management system is ISO 14001 and ISO 9001 accredited. Compliance plays a key role within the system, covering over 1,400 suppliers' strict adherence with a range of governance topics including anti-slavery, bribery, competition law, data protection, and equal opportunities. We adopt the Ethical Trading Initiative code of practice to ensure that worker rights are protected as part of the supplier onboarding process, and this is continuously reviewed.

Larger suppliers are required to meet relevant ISO standards including ISO 9001, ISO 14001 and ISO 45001, or equivalent, for example, all timber procurement is through FSC accredited suppliers. Our Health and Safety team assists and develops suppliers' standards to help them improve their own safety procedures where necessary.

### SUSTAINABLE SOURCING

Local sourcing of raw materials isn't always possible and where we do need to transport materials longer distances, we seek to do this in the most sustainable way possible. We utilise the rail network to transport pulverised fuel ash (a key raw material which is a waste product used in manufacturing our Thermalite aircrete blocks) to our factory. Since 2015 we have transported almost half a million of material by rail, removing over 5 million heavy goods vehicle miles from the UK road network whilst also reducing carbon emissions.





# SUSTAINABILITY REPORT

## PRODUCT

CONTINUED

### PLASTIC PACKAGING

The reduction of polythene plastic packaging supplied with our products provides a huge opportunity to support the wider global environmental goal in the reduction of single use plastics, and the associated harmful impact upon natural habitats when these materials are not disposed of appropriately.

Our current packaging provides benefits including ease of product identification, stability during transportation, and ensures our products are clean, dry, and fit for installation upon construction sites.

We already minimise plastic packaging on many of our product ranges, including our aggregate blocks and specific brick ranges, and have also significantly increased the recycled content of essential plastic strapping to ensure stability. However, as a business we have generally experienced overall increases in plastic packaging, consistent with the wider trends in society across other everyday products.

Our targets in meeting this challenge are ambitious, with a commitment to reduce our total volume of plastic packaging by at least 50% by 2025, whilst also ensuring that the safety and quality credentials provided by our current packaging methods are not compromised. At present, at the majority of our brick factories, it is not possible to simply remove the plastic wrapping as the wrapping provides the back of bricks with its integrity when transported. Our Kirton factory in Nottinghamshire already has a packaging solution that allows product to be despatched without plastic wrapping with only 14% of the product despatched from this facility in 2021 being wrapped in plastic. Our efforts to upgrade our packaging equipment at other factories to facilitate despatch of bricks without plastic wrapping are progressing with an alternative machine on trial at our Accrington factory.

Both the new factories at Desford and Wilnecote will be equipped with packaging solutions that will allow bricks to be despatched without plastic wrapping whilst still giving the option to do so where customers request this for safety reasons.

To illustrate in context, this targeted annual saving of 976 tonnes of plastic per annum is the equivalent of 195 million plastic carrier bags.

To ensure consistency in customers' supply chains, we recognise that this is a topic requiring full industry engagement and collaboration, and we are engaging with customers across all our key markets to ensure our solutions meet their needs. This is not without its challenges; generally our customers' senior management are supportive of our initiative, although significant behaviour change is needed in the construction industry as changes will be required in the way our products are stored and handled with safety being of critical importance that cannot be compromised.

2025 TARGET

# 50%

reduction in plastic packaging



# SUSTAINABILITY REPORT

## PEOPLE

### PEOPLE MATERIALITY THEMES

- 13 Health, safety and wellbeing
- 14 Equality, diversity and inclusion
- 15 Skills development
- 16 Employee experience
- 17 Local community engagement
- 18 Human and labour rights
- 19 Data protection and privacy

**The Covid-19 pandemic has highlighted the responsibilities of businesses in supporting their most important asset, their people, and has stressed the critical role people play in creating economic and social value across the world.**

The pandemic has placed a toll upon everyone, but the burden has not been even across society, falling hardest on those already facing economic difficulties and the effects of social division. Now more than ever, businesses must demonstrate their support and commitment to those they employ and provide equal opportunities for people of all backgrounds to flourish. This is particularly true for the building materials sector, where there continues to be opportunity not only for employment, but the development of transferable skills.

### HEALTH, SAFETY AND WELLBEING

The continuous improvement of our health and safety performance remains our number one priority, working towards our goal of zero harm. In 2021 we launched our Road Map to Zero harm, our strategy to reduce accidents and incidents and turn our focus to our behaviours and culture within the business. This four-year plan is designed to take us on a journey to an 'interdependent' safety culture where all colleagues' mantra is 'I don't want anyone to get hurt'. We recognise that our workforce is our greatest asset, and we aim to provide a working environment that is free of accidents and ill health.

Our focus on maintaining Covid-19 controls remained in place throughout 2021 and as a result, there were no significant outbreaks within any of our facilities. We received 11 regulatory reviews of our Covid-19 control measures with no further recommendations or improvements requested, highlighting the good work completed at those sites.

Following the independent review of the effectiveness of our approach to health and safety completed in 2020, a follow-up review was completed during the year to assess progress against the recommendations. The report concluded that progress had been made upon the direction of strategy and leadership, especially on the launch of our simplified Golden Rules and Road Map to Zero Harm. The other area recognised for improvement was our Building Safety Together sessions that form our colleague engagement process for issues relating to health and safety. It also acknowledged our ongoing work to update, simplify and improve adherence to our corporate health and safety systems, which help ensure that we achieve compliance with all aspects of health and safety legislation.

During the year we achieved certification to the new ISO45001 occupational health and safety management system standard. All our facilities were internally audited to this standard and we have in place a program that ensures all facilities are externally audited every three years. Our health and safety management system was subjected to major review during 2021, with a clear focus on simplification wherever possible, alignment with best practice, and additional training materials for both Management and colleagues as appropriate. We continue to strive to ensure all relevant legislation and codes of practice are complied with at all times.

After a significant reduction in our Lost Time Incident Frequency Rate (LTIFR) in 2020, 2021 saw an increase to 3.98 incidents for every million-man hour worked (2020: 2.52). Whilst disappointing, we are pleased to say none of these incidents resulted in significant long-term harm, but our focus continues to be on improving this KPI and working towards our zero-harm strategy. Of the 30 separate business areas monitored, 21 were Lost Time Incident (LTI) free during 2021, eight have been LTI free for over five years and four for over 10 years.



# SUSTAINABILITY REPORT

## PEOPLE

CONTINUED



Our lost time incident severity rate (number of days lost per lost time incident) increased from a historic low in 2020 but was still a significant improvement on 2019. We introduced a new leading indicator for 2021, which looked at the number of operational working days without harm occurring, in addition to our other leading and lagging safety performance indicators including safety observations and near misses, all incident rate are monitored alongside regular auditing.

All facilities were tasked with creating a local safety action plan, identifying specific actions to improve safety within that facility or function. These plans were monitored via our Building Safety Together meetings, tracking progress as well as via traditional management meetings. As a result, the total number of accidents recorded across the business reduced from 171 in 2020 to 146 in the current year, which, considering the number of lost operational hours in 2020 as a result of the pandemic, is a significant improvement.

Our 2022 health and safety messaging will focus heavily on our Golden Rules, and we will also launch our formal behavioural health and safety program.

We continued to provide a range of health and safety related training, with key highlights within the year being:

- Over 100 supervisors and managers attending accident investigation training run by our insurance brokers;
- Running our own National Examining Board for Occupational Safety and Health (NEBOSH) Certificate course with six managers gaining the qualification bringing the total number qualified in our business to 60;
- Two Institute of Occupational Safety and Health Managing Safety courses run;

- Over 150 colleagues receiving one minute risk assessment training; and
- Members of our Building Safety Together committees were provided with coaching on the effective operation of the committees, to ensure effective engagement and resolution of safety actions.

Our colleagues continued to be provided with training, specifically the Institute of Occupational Safety and Health (IOSH) working safely course alongside the traditional risk assessment and standard operating procedure training.

### MENTAL HEALTH

The business significantly increased the resources and training available to all colleagues on the topic of mental health. 57 colleagues across all our facilities were qualified as mental health first aiders. The training was delivered by Mental Health First Aid England across two days and all participants were volunteers who have a passion for wellbeing.

### HEALTH AND SAFETY AWARENESS DAYS

We held our national health and safety day in September with colleagues from across the business coming together to participate in workshops designed to increase awareness on hazard spotting, personal protective equipment, mental health and risk perception along with a keynote speech on the importance of our Golden Rules.

In addition to the national event, our entire distribution team attended local safety days held at factory sites, specifically addressing the risks that are most relevant to our delivery drivers. Topics included our in-house filmed driver safety awareness video, manual handling training, the safe strapping and loading of vehicles and a hazard perception exercise.

### EQUALITY, DIVERSITY AND INCLUSION

We remain committed to diversity and inclusion to ensure all levels of the business reflect a diverse workforce. At Board and senior leadership level we monitor evolving requirements, guidance and best practice and whilst Forterra currently sits just outside of the FTSE 250, we have always sought to operate in accordance with the corporate governance standards applicable to companies within the FTSE 250.

The Hampton Alexander Review set a target for 33% of Boards to be female, The Parker Review set a target of having one person of colour on the Board of FTSE 250 companies by 2024. At present our Board comprises seven individuals of which two (29%) are women with one member of the Board being a person of colour. Whilst the female representation on the Board falls slightly short of the target, with a fairly small Board, the percentage would move significantly with each appointment. The Board and Nomination Committee are monitoring the ongoing Financial Conduct Authority (FCA) consultation which would require that at least 40% of the Board are women and that at least one of the senior Board positions (Chair, CEO, SID or CFO) is a woman. Katherine Ines Ker currently holds the position of Senior Independent Director and as such Forterra would be compliant with this requirement. In addition, we are proud of the wider diversity across our organisation with success and progression based on merit as opposed to background, with both our CEO and CFO having attended nonselective state schools.

We recognise that a diverse workforce where all colleagues can fulfil their potential in an inclusive environment, brings unique perspectives and opportunities for the business. Senior leadership play an instrumental part in shaping that environment; to embed a culture of equality, diversity and inclusion. At the 2021 Leadership Conference a guest speaker was invited to present on this topic, increasing understanding and awareness. In 2022 they will continue to partner with us and deliver further training, ensuring all our leaders have the necessary skills to promote equality, diversity and inclusion in the workplace. Core to this remains our Diversity, Inclusion and Respect at Work Policy.

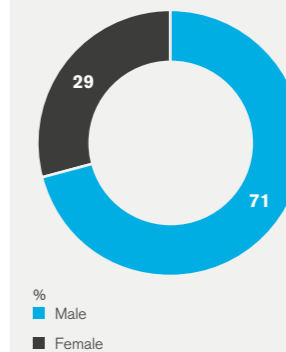
The construction industry in which we are closely connected is renowned for being very male dominated and our sector of the manufacturing industry is no different. Developing internal talent regardless of gender is paramount and in 2021 we successfully promoted a female to the role of factory manager. Diversity remains central to our annual succession planning process.

The charts opposite show our headline gender diversity statistics. Currently, 11% of our total workforce were female, with 24% of management positions (defined as direct reports to Executive Committee members) filled by females.

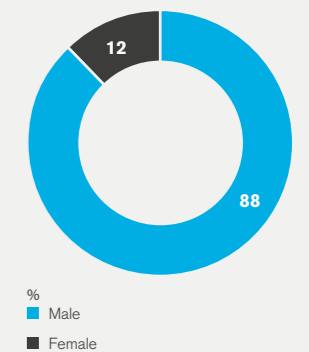
Gender Pay reporting is contained in the Annual Report under Remuneration (page 133).

### GENDER DIVERSITY

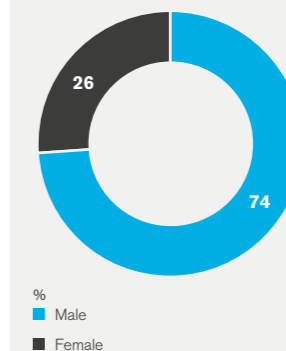
#### DIRECTORS OF THE COMPANY



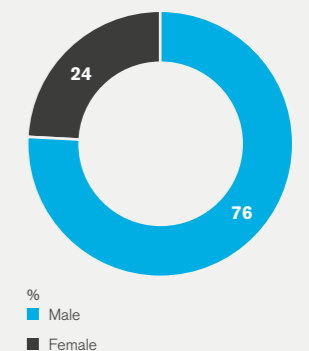
#### EXECUTIVE COMMITTEE



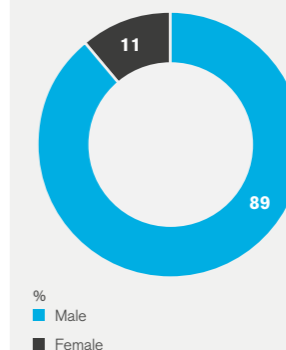
#### DIRECT REPORTS OF EXECUTIVE COMMITTEE



#### COMBINED EXECUTIVE COMMITTEE AND DIRECT REPORTS



#### ENTIRE COMPANY



# SUSTAINABILITY REPORT

## PEOPLE

### CONTINUED

#### HUMAN AND LABOUR RIGHTS

We understand our responsibility to help eliminate slavery and human trafficking, both in our business and wider supply chain. We undertake our responsibilities under the Human Rights and Modern Slavery Acts including clear Company policies and relevant declarations. Our anti-slavery policy specifically covers the role of suppliers in meeting the same standards which we set ourselves.

The Board values and appreciates the contribution made by all employees at every level and is committed to protecting and respecting human rights. Each employee is treated fairly and equally and the Company has measures in place to ensure that the Group is free from discrimination. Throughout the Group there is a zero-tolerance approach to any form of harassment or bullying, forced or involuntary labour, and child labour in any form. The Board is invested in the development of employees and has put in place measures to protect both their physical and mental wellbeing. The Group embeds its commitments to the protection of human rights through its Human Rights Policy.

We are proud to be an accredited member of the Living Wage Foundation, with a firm belief that a hard day's work deserves a fair day's pay. Our commitment to pay the real living wage to all employees is unwavering and being a recognised Living Wage employer, this will help us attract and retain employees.

#### DATA PROTECTION AND PRIVACY

The public is more aware than ever of the role businesses play in their lives through targeted use of our personal data, and all businesses are expected to act in accordance with a higher standard of transparency.

The protection and privacy of our employees', customers' and suppliers' data is of paramount importance and we fully recognise the increased risk to businesses across the world from cyber attacks using ever sophisticated means. As part of our ongoing commitment to information security, we have successfully obtained ISO 27001 accreditation via independent external audit. A key component of maintaining this international standard is the demonstration of continuous improvement and we will further invest in this area throughout 2021. This respect for others' data extends to using this information only for reasons of which they explicitly agree, as laid out within the General Data Protection Regulations (GDPR).

Unfortunately, this did not prevent us becoming victim of a cyber security issue during 2021, something that unfortunately is happening to more and more companies and which despite being detected very quickly, did lead to our systems being compromised. As soon as this became clear, we contacted the Information Commissioner and wrote to all current and former employees whose personal information could have been compromised during this breach, informing them and offering each of them a credit reference agency subscription for a year in order to monitor for potential identity theft.

#### SKILLS DEVELOPMENT

Recruitment in 2021 proved to be challenging due to the ongoing skills shortages in the UK labour market, as well as the impact of Covid-19 shifting working patterns. Of particular concern to the business was the shortage of qualified, skilled HGV drivers. To address the skills shortage, we launched our 'Works to Wheels' scheme to attract internal candidates offering factory staff the opportunity to train to be HGV drivers.

Our commitment to the 5% Club (targeting 5% of our workforce being in 'earn and learn positions' by 2025) exceeded expectations during the year. We delivered on our promise to increase our apprenticeship intake by a third, and also recruited our first female mechatronics apprentice. We also had an overwhelming response to our graduate scheme and recruited our largest ever intake of graduates in 2021. In total eight talented graduates joined the business in areas including, operations, commercial and finance. We also increased our internship placements and recruited our first intern into the newly created Research and Development function.

At the end of 2021 we had 65 employees in earn and learn positions representing 3.7% of the workforce. We will continue to increase this figure through expanding our recruitment of graduates, apprentices, internships and providing sponsored learning and development through various academic qualifications such as MBAs. Through our ongoing partnerships with approved apprenticeship training providers (locally and through Make UK, the UK Manufacturers' organisation) we commit to generating development opportunities for both current and future apprentices.

#### EMPLOYEE EXPERIENCE

Over the past two years the Covid-19 pandemic has demonstrated the importance of staying in touch with our employees and taking care of their mental health and wellbeing. In 2021, we successfully trained 57 mental health first aiders in partnership with Mental Health First Aid England. Our qualified mental health first aiders come from all spectrums of the business. We also provided £1,000 to each of our facilities to promote positive mental wellbeing.

We also launched our new intranet portal and mobile application, Mason, enabling us to stay connected to all 1,800 employees. On these platforms we promoted various topics such as our Employee Assistance Programmes and communicated our five-year strategy 'Building our future together – The next five years'. Roadshows conducted by the CEO, Stephen Harrison supported by members of the Executive Committee took place during the month of September, providing an opportunity for employees to have face-to-face interactions.

In 2021 we ran a number of focus group sessions around the business focused on the topic of culture. This was followed by a culture survey of the wider leadership team. A common theme coming from the findings is our employees want greater empowerment. Follow-up focus groups on how we can achieve greater empowerment are planned in 2022.

The Employee Forum continued to operate during the year. In July 2021, eight newly elected representatives were appointed for a four-year term. Key topics through the year included participating in a culture focus group, and advising Management on charitable giving priorities. Attending the Employee Forum meetings were CEO, Stephen Harrison, HR Director, Shahbaz Idriss, and Martin Sutherland, Non-Executive Director who provided feedback to the Board.

#### EMPLOYEE SURVEY

Our HearMe employee engagement survey was conducted in December 2021. The key themes arising out of the survey relate to employee recognition and employee development. In 2022 we will provide additional training for all first line leaders on how to conduct qualitative and meaningful conversations with their team members, acknowledging and recognising their contributions and encouraging their development.

Within the survey we also asked additional questions centred around health and safety. The results positively showed that our employees understand our Golden Rules, they feel safe at work and that Forterra lives by the core value of 'Safety First'.

We will continue to conduct regular 'pulse' surveys on specific themes such as health and safety, employee communications, and quality. The collective voice of our employees continues to be crucial in ensuring that we provide the best possible employee experience.



# SUSTAINABILITY REPORT

## PEOPLE

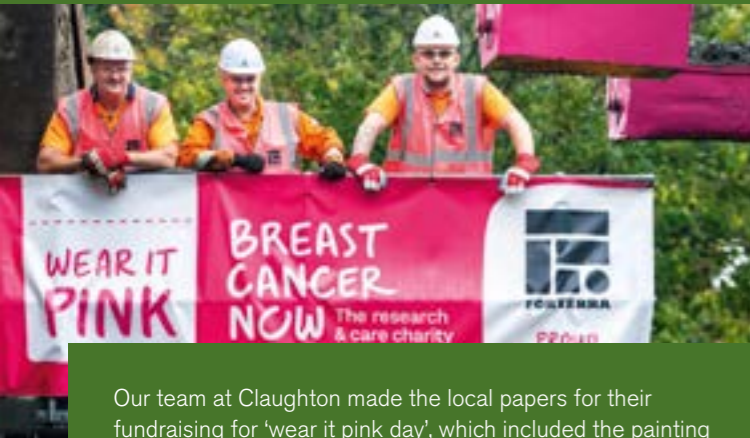
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### LOCAL COMMUNITY AND CHARITY ENGAGEMENT

The communities in which we operate are hugely important to us. They are where our past, present and future employees live. While many Forterra employees are active members of their communities, organising and participating in activities and events, we want to make it easy for local charities, clubs and groups to approach us directly for support. To facilitate this,

we have recently established the Forterra Community Fund. In launching the Forterra Community Fund we have been able to formalise and simplify the process by which local charities, clubs and groups approach us, and have launched a dedicated webpage and online application form making it easier for groups to reach out to us.

### 2021 COMMUNITY AND CHARITY ENGAGEMENT HIGHLIGHTS



Our team at Cloughton made the local papers for their fundraising for 'wear it pink day', which included the painting of the buckets on the famed aerial ropeway to help raise awareness of charity Breast Cancer Now's annual Breast Cancer awareness campaign.



We often received requests from local groups for financial support and have always made it a priority to align ourselves with them wherever we could. In 2021, for example, we contributed to the cleaning of our communities. When the Bison flooring installation team was unable to work safely due to high winds, they decided to spend their time litter picking in the local village. Similarly, the iconic 'Red Bank Corner' in Measham, named in honour of our local factory, has been given a new lease of life thanks to our donation to Measham Parish Council to fund the cleaning and renovation.



We were also delighted to make a donation of both bricks and blocks to a couple from Market Deeping, following a devastating house fire which left them homeless.



We like to promote the importance of health and safety to the community. In our industry, we are very familiar with the effectiveness of hi-vis clothing in keeping safe and so, as part of a campaign supported by road safety charity 'Brake', we donated hi-vis vests along with some hard hats and construction toys to more than 40 children who attend a pre-school close to our Northampton head office, helping them stay safe and to educate them on the importance of road safety.

# SUSTAINABILITY REPORT

## OUR REPORTING



### STREAMLINED ENERGY AND CARBON REPORTING (SECR)

We have used the operational control approach to determine our organisational boundary for emissions purposes and calculated these emissions based on the UK Government's Environmental Reporting Guidelines (2019) and emission factors from the DEFRA 2021 Green House Gas (GHG) Conversion Factors for Company Reporting. Scope 2 emissions have been reported using both the location based method of calculation and, to account for our use of renewable electricity through the purchase of REGOs, the market-based method for calculation. Our underlying energy use figure has been reported in GWh and includes fuel used in mobile plant, on-site generators, and company vehicles. All our facilities are covered by the scope of our ISO 50001 certification which we have held since 2015. This is a third party audited and certified scheme and has continual improvement at its core. We adopt a number of approaches to maximise energy efficiency; from LED lighting and the installation of variable speed drives on motors, through to the recycling of waste process heat from our kilns to power other areas of the plant.

	2019	2020	2021
<b>Scope 1 emissions (tonnes) (market based)</b>	<b>299,679</b>	<b>198,921</b>	<b>280,381</b>
<b>Scope 2 emissions (tonnes) (market based)</b>	<b>19,617</b>	<b>-</b>	<b>-</b>
<b>CO<sub>2</sub>e intensity per tonne</b>	<b>123.4</b>	<b>115.3</b>	<b>117.5</b>
Scope 1 emissions (tonnes) (location based)	299,679	198,921	280,381
Scope 2 emissions (tonnes) (location based)	19,617	13,263	15,576
CO <sub>2</sub> e intensity per tonne	123.4	122.9	124.1
<b>Total energy used GWh</b>	<b>956.3</b>	<b>698.7</b>	<b>952.8</b>


















# SUSTAINABILITY REPORT

## OUR REPORTING

CONTINUED

### GROUP SUSTAINABILITY REPORTING

The following table covers our wider sustainability metrics, which is aligned where possible to the SASB disclosure for construction materials. We will continue to review this data suite on an ongoing basis for future reporting periods.

Pillar	Topic	Metric	2019	2020	2021
Planet	Group CO <sub>2</sub> e emissions	Tonnes	319,296	198,921	<b>280,381</b>
Planet	Group CO <sub>2</sub> e emissions	 Kg CO <sub>2</sub> e / tonne	123	115	<b>118</b>
Planet	Clay products CO <sub>2</sub> e emissions	Kg CO <sub>2</sub> e / tonne	256	237	<b>237</b>
Planet	Concrete products CO <sub>2</sub> e emissions	Kg CO <sub>2</sub> e / tonne	21	21	<b>20</b>
Planet	Electricity sourced from on-site renewables	 %	–	–	<b>–</b>
Planet	Electricity from renewable sources	 %	–	100	<b>100</b>
Planet	Waste to landfill	 Kg / tonne	0.16	0.03	<b>0.02</b>
Product	New product index (revenue from new products)	% of revenue	0.6	1.2	<b>1.1</b>
Product	Plastic packaging consumed	Tonnes	1,951	1050	<b>1,711</b>
People	Health and safety – Lost time incident frequency rate (LTIFR)	 No. of accidents per million-man hours worked	7.35	2.52	<b>3.98</b>
People	Percentage of employees in 'earn and learn' positions	%	3.20	3.50	<b>3.74</b>
Planet	Carbon emissions (Scope 1 and 2)	 Tonnes	319,296	198,921	<b>280,381</b>
Planet	Carbon emissions (Scope 1)	 Tonnes	299,679	198,921	<b>280,381</b>
Planet	Ultra-low emission vehicles (cars)	% of fleet	n/a	17	<b>31</b>
Planet	Mains water (absolute)	 m <sup>3</sup>	287,101	265,508	<b>309,216</b>
Planet	Mains water (litres / tonne)	 Litres / tonne	111	154	<b>130</b>
Planet	Air quality – SO <sub>2</sub> emissions	Tonnes	5,783	3,273	<b>3,720</b>
Planet	Waste generated	 Tonnes	107,609	77,897	<b>100,611</b>
Planet	Waste recycled	 %	99.10	99.20	<b>99.96</b>
Planet	Energy consumption (absolute)	 MWh	956,266	698,655	<b>952,788</b>
Planet	Energy consumption (kWh / tonne)	 kWh / tonne	369	405	<b>399</b>
Planet	Percentage from grid electricity	 %	100	100	<b>100</b>
Planet	Hazardous waste generated	 Tonnes	88	65	<b>186</b>
Product	Percentage of suppliers covered by internal compliance system	%	85	85+	<b>85+</b>
Product	Output clay products	 Tonnes	1,129,173	751,188	<b>1,071,303</b>
Product	Output concrete products	 Tonnes	1,459,242	974,713	<b>1,314,083</b>
People	Apprentices	No.	31	26	<b>48</b>
People	Graduates	No.	7	6	<b>8</b>
People	Charitable contributions	£	41,370	48,040	<b>25,592</b>

# SUSTAINABILITY REPORT

## CLIMATE RELATED RISKS AND GOVERNANCE

### CLIMATE RELATED FINANCIAL DISCLOSURES

The Task Force on Climate Related Financial Disclosures (TCFD) has developed a suite of consistent climate related financial disclosures that are useful to investors, lenders and other stakeholders in understanding material climate related risks facing businesses. TCFD compliance is now mandatory for UK premium listed companies including Forterra. Whilst we early-adopted a number of the requirements in the prior year, we are pleased to have made the step to full compliance this year by additionally including scenario analysis highlighting how different increases in global temperatures could impact on our business.

The Task Force recommends that these climate related financial disclosures are provided in public annual filings and as such we have provided a comprehensive Sustainability Report covering the topics specified by TCFD along with others across the wider environment, social and governance (ESG) field.

The Task Force structured its recommendations around four thematic areas that represent core elements of how organisations like ours operate:

- Governance;
- Strategy;
- Risk management; and
- Metrics and targets.

### GOVERNANCE

Governance and oversight responsibility around climate related risks and opportunities ultimately sits with the Board. The Board's Risk and Sustainability Committee is already responsible for oversight of the Group's sustainability approach and includes the following within its terms of reference:

- (a) defining the level of the Group's ambitions with regard to reducing its environmental impact and addressing climate risk;
- (b) overseeing the development of the Group's sustainability policies, covering both environmental and wider social (people) matters;
- (c) setting challenging environmental targets in order to meet the Group's goals and monitoring progress against these;
- (d) monitor the Group's reporting under TCFD, Sustainable Accounting Standards Board (SASB) and other protocols as appropriate; and
- (e) ensuring that sustainability policy still satisfies its desired outcomes and evaluating Management's performance in implementing policy and achievement against the targets set.

The Risk and Sustainability Committee receives twice yearly progress updates as to the execution of the Group's sustainability strategy reviewing progress against targets. As well as receiving feedback from the Executive Directors, and members of the Executive Committee, the Head of Sustainability regularly attends Committee meetings. The Group's Head of Sustainability reports to the Strategic Projects Director, who holds day-to-day accountability for delivery of our key investments that will allow us to achieve our sustainability targets, namely, reduction of greenhouse gas emissions and reducing our use of plastic packaging. During 2021, the Group also formed a Sustainability steering group, comprising the Chief Executive Officer and Chief Financial Officer as well as a number of senior managers representing other functions of the business including strategy, finance, marketing and investor relations. The steering group meets monthly and is tasked with ensuring that the Company's Sustainability ambitions and targets are on track, and that all climate related risks are reported to the Risk and Sustainability Committee.

The Board's Audit Committee has also considered the sustainability and climate disclosures contained within this Annual Report as part of its wider consideration as to whether this Annual Report is fair, balanced and understandable, and whether it provides the necessary information for the shareholders to assess the Group's position, performance, business model and strategy.

### STRATEGY

We have a clear strategy to grow our business and create shareholder value whilst at the same time reducing our impact on the environment. Our strategy recognises that sustainability is critical in ensuring our longevity as a business. Our long-held strategic priority of Manufacturing Excellence sits hand-in-hand with our goal of reducing our impact on the environment. Increased use of modern methods of manufacturing improve efficiency, reducing both energy use and waste, reducing not only our costs but the impact we have on the environment. We have embedded challenging sustainability targets within our strategy (for more information please see our targets on page 49).

We have described in detail on pages 74 to 76 the key climate related risks that may impact upon our business in the future. We also highlight the climate related opportunities that may present themselves and where, if we are able to adapt quickly enough, we may be able to gain competitive advantage.

# SUSTAINABILITY REPORT

## CLIMATE RELATED RISKS AND GOVERNANCE

### SCENARIO ANALYSIS

#### METHODOLOGY

We have undertaken a scenario analysis exercise to better understand the possible range of risks and opportunities our business could face under different future climate forecasts. The approach consisted of two stages, the first being a qualitative analysis to identify and assess the likely risks, and the second including quantitative modelling. In line with TCFD recommendations, we examined three scenarios (+1.5°C, +2.0°C, +4.0°C above pre-industrialised levels by 2100) in order to capture the widest range of plausible impacts on our business. Both qualitative and quantitative analyses included a thorough assessment of transition and physical risks, and were modelled around the widely recognised Representative Concentration Pathways (RCPs) and Shared Socio-economic Pathways (SSPs).

During the qualitative phase, granular assumptions about the policy (Government), built environment, technological, and physical changes associated with each warming pathway were examined by a working group comprised of the respective heads of relevant business functions (Strategy, Operations, Finance, Sustainability, Marketing). The risks and opportunities identified in the qualitative phase were then transferred to the quantitative modelling in order to assess the scale of their potential impact.

The quantitative modelling was undertaken with support from a specialist corporate climate modelling consultancy, and interrogated the warming pathways, modelling impacts across four categories: Operations, Supply Chain, Demand, and Physical Effects. The outputs of this quantitative process allow us to better understand the relative impacts and opportunities arising from climate change, and a shift to a lower carbon macroeconomic model.

#### A NOTE ON WARMING PATHWAYS

We have used the Representative Concentration Pathways (RCPs) as our framework for modelling different emissions pathways and their associated impact on the climate. To explore the associated market and customer trends underpinning our commercial resilience, we have also included a view of different socioeconomic futures (known as the Shared Socioeconomic Pathways, SSPs).

#### MIDDLE OF THE ROAD ~ 2°C WARMING

The 2°C warming scenario is considered the most likely scenario, and assumes the UK remains on its current path to decarbonisation, broadly meeting its stated policy goals, with a range of adherence to targets by other nations. In specific terms, this means the UK achieves Net Zero by 2050 and meets its other environmental industrial strategy aims. The scenario assumes some demand-led growth in low carbon masonry products, driven by carbon prices inflating the cost of emissions-heavy products.

**Policy:** The UK integrates product carbon labelling across sectors in the near term, although these labels do not become mandatory until the medium term. The UK phases out coal usage completely by the mid 2020s and it establishes its first net zero industrial cluster by 2040. Building regulations stipulate that public buildings and infrastructure must meet both embodied and whole life carbon targets.

**Built environment:** Building designs become more energy efficient, helping to drive down emissions and heating costs. Demand for high thermal mass products such as bricks and blocks continues to grow accordingly. Renovation and retrofitting increase in importance as growth drivers in the medium term, especially as a response to green building regulations and rising electricity prices. As buildings become more thermally efficient, the component of embodied emissions from materials in the whole-life carbon footprint of buildings increases. This helps to drive steady demand for low carbon products and sustainable alternatives, with potential pricing premiums for the lowest emissions products.

**Technology:** The carbon intensity of the electricity grid is assumed to hit current targets, and is modelled on a linear basis to 2050. Within the building products sector, landfilled pulverised fuel ash (PFA) is being utilised as coal plants begin to shut down and in the long term, the UK's Government support package directs funds towards carbon capture, utilisation and storage (CCUS) technology, CCUS-enabled 'blue' hydrogen, and electrolytic 'green' hydrogen. Carbon-cured concrete and lighter bricks become increasingly common.

**Physical:** Physical impacts of climate change appear gradually over the period, though effects on the UK are relatively minor to 2050. These effects include having eight days per month above 25°C in summer months. Damage to UK non-residential property is expected to increase by 26% and flooding damage to facilities in UK coastal regions is expected to increase by 48%.

Factors	SSP1 – Steady path to sustainability	SSP2 – Middle of the road	SSP5 – Fossil-fuelled global growth
RCP	2.6	3.4	8.5
SSP	1	2	5
Temperature rise	1.5°C	2-2.4°C	4°C
Likelihood	Low	High	Medium
Societal response	Proactive, Orderly	Proactive, Disorderly	Reactive
Carbon price	2030: £150/tCO <sub>2</sub> e 2050: £400/tCO <sub>2</sub> e	2030: £100/tCO <sub>2</sub> e 2050: £300/tCO <sub>2</sub> e	2030: £70/tCO <sub>2</sub> e 2050: £80/tCO <sub>2</sub> e
Share of free UK ETS allowances	2030: 15%, 2050: 0%	2030: 20%, 2050: 0%	2030: 35%, 2050: 10%
Grid intensity / Energy mix	Directed away from fossil fuels, towards efficiency and renewables	Some investment in renewables but continued reliance on fossil fuels	Directed towards fossil fuels; alternative sources not actively pursued

#### STEADY PATH TO SUSTAINABILITY ~ 1.5°C WARMING

The 1.5°C pathway assumes significant proactive public and policy support for climate action, and a broadly unified global response. It assumes a wide range of factors including stronger regulatory interventions; enabling and disrupting technologies emerging sooner; and demand-led effects being more material. Rather than a predictive exercise in modelling, the scenario allows us to examine the various impacts of a faster shift towards addressing climate change.

#### FOSSIL-FUELLED GLOBAL GROWTH ~ 4°C WARMING

The 4°C warming scenario assumes that the global growth continues to be driven by fossil fuels, with limited changes to current economic models. Regulatory interventions are delayed or absent, with a broad range of achievement of national decarbonisation targets. Towards 2050, the effects of climate change become readily apparent to electorates, and rapid reactive change is effected late in the period. The pathway has limited impact on Forterra's near and medium-term operations, with significant impact in the long term.

#### RESILIENCE OF OUR STRATEGY

The scenario analysis we have undertaken has assisted in better understanding the risks and opportunities across a broad range of climate scenarios.

We would likely be subject to transition risks in a 1.5°C and 2°C warming scenario, which, if left unmitigated, would likely lead to potentially higher operational costs and lower revenues. This is especially true if demand for low carbon products rises, a Government penalty is implemented on high-carbon products, competitors are better able to access low carbon sources of energy and carbon costs rise. These financial impacts would be higher in a 1.5°C compared to a 2°C scenario as public and policy support for climate mitigation is assumed to be stronger. In order to avoid these risks, our

#### IMPLICATIONS FOR PRODUCTS (UNDER 2°C – EXAGGERATED UNDER 1.5°C AND DELAYED UNDER 4°C)

- Bricks and blocks that are manufactured at a lower carbon intensity are likely to gain popularity
- Environmental product declarations (EPDs) and lifecycle assessments are likely to become the norm as product labels become mandatory
- Products that are geared toward refurbishment are likely to gain popularity
- Products with strong thermal characteristics are likely to gain popularity as rising energy costs increase the drive for better insulation
- Production facilities that are close to CCUS cluster zones, or that have hydrogen as part of their decarbonisation plans will likely benefit from lower costs as carbon prices increase

strategy includes reducing the carbon intensity of our products and factories, as demonstrated by our targets (on page 49), and actively pursuing the opportunities outlined within this TCFD statement.

We would assume more physical risks in a 4°C warming scenario, resulting in increased cost from operational disruption. However the majority of our factories are at low risks of extreme weather events such as flooding and so the overall financial impact of these risks is considered manageable.

Our strategy will continue to respond to evolving climate risk projections, with established procedures in place to identify and escalate climate related risk as described on page 46.

# SUSTAINABILITY REPORT

## CLIMATE RELATED RISKS AND GOVERNANCE

CONTINUED

### RISK MANAGEMENT

Our wider risk management protocols are explained in detail within the risk section of this Annual Report and can be found in the Risk Management section starting on page 77.

Climate related risks are captured within our existing risk management process. We have amended our risk scanning horizon to allow the capture of longer-term climate related risks which may not have an immediately measurable financial impact. In identifying climate related risks, in accordance with the recommendations of TCFD, we have identified both the transitional risks associated with adapting our business to a lower carbon economy, along with both the longer-term acute risks associated with increasing severe weather events and the physical risks of long-term climate change such as sea level rise. As part of the wider scenario analysis work undertaken in 2021, we have further considered the time horizon of each risk under the scenarios considered, as well as including a number of opportunities not previously disclosed.

#### KEY

- Short:** 2021-2024 **R** Risk
- Mid:** 2025-2034 **O** Opportunity
- Long:** 2035-2050

Risk	Potential impact	Possible mitigation / action	Scenarios			
			1.5°C	2°C	4°C	
<b>TRANSITIONAL RISK</b>						
<b>POLICY AND LEGAL</b>						
We recognise a number of policy and legal risks that may stem from changes to existing requirements or additional requirements being imposed on our business. Each of the policy and legal risks could lead to an increase in our operating costs but can also be mitigated by continuing to operate above levels demanded by our regulators and continuing to pre-empt potential changes and seek to make reductions in our emissions.						
<b>R</b>	Enhanced or changing reporting obligations	Increased costs due to third parties who verify our emissions and compliance	Continue to operate above the levels demanded by regulators and ensure third party verification	Short	Mid	Long
<b>R</b>	New or changing legislation that may impact our existing products; potential for mandatory embodied carbon limits	Loss of market share if we fail to keep pace with changes, changes in architectural trends and difficulty in selling higher carbon products to customers with regulatory constraints; early closure of existing plants due to changes in legislation	Continue to pre-empt potential changes and make reductions in our emissions. Invest in improving carbon efficiency of production, enter partnerships for carbon capture and storage, and use of renewable energy. Communicate actions clearly to stakeholders. Undertake lifecycle assessments to provide evidence of longevity and reusability reducing embodied carbon over time	Short	Mid	Long
<b>R</b>	Exposure to litigation in relation to our past activities	Financial and reputation damage to the business	Continue to operate above the levels demanded by regulators	Long	Long	Long
<b>R</b>	Increased prices of carbon credits or reductions in the amount of 'free' allowances	Rising operational costs; reduced competitiveness against lower carbon products	Invest in improving carbon efficiency of production, partnerships for carbon capture and storage, and use of renewable energy	Short	Mid	Long
<b>R</b>	Limitations on availability of suitable fuels	Inability to source sufficient lower emission fuels to continue our manufacturing processes	Seeking to reduce our reliance on fossil fuels by procuring green electricity and also reducing our gas usage by improving efficiency and utilising hydrogen	N/A	Short	Mid
<b>R</b>	Limitations on availability of suitable raw materials	Increasing costs of materials such as PFA; increasing cost of alternative raw materials where demand increases	Establish alternative PFA supply chains; source PFA alternatives and innovate product recipes	Short	Short	Short

Risk	Potential impact	Possible mitigation / action	Scenarios			
			1.5°C	2°C	4°C	
<b>TRANSITIONAL RISK (CONTINUED)</b>						
<b>MARKET</b>						
As society continues to recognise the importance of sustainability and the risks that climate change presents, there is an expectation of a trend towards greener processes and products. The risk of failing to make changes at the expected rate can be mitigated by effectively making a case for the sustainability credentials of our existing products, whilst at the same time investing to reduce the environmental footprint of our products and supply chains, and adding further greener products to our range through innovation.						
<b>R</b>	Customers substitute our products with greener alternatives, should they exist	Reduced demand for our existing product range and a consequential closure of existing facilities	Focus on effective emissions reduction taking advantage of new market opportunities driven by demand for lower carbon products	Mid	Mid	Long
<b>R</b>	We are ineffective when investing in new technology; either in terms of achieving the desired outputs or overspending in the process	Excessive capital expenditure may be required where our investment is not right first time	Ensuring that our efforts to mitigate climate related risks are well resourced; especially in respect of providing the highest level of management support	Short	Mid	Long
<b>R</b> <b>O</b>	Broader technology innovation such as carbon capture, utilisation and storage (CCUS) and Hydrogen usage do not progress swiftly enough	Forterra unable to reach long-term emission reduction targets; loss of carbon-competitiveness to other building products	Maintain and extend approach to piloting transformational technologies in the manufacture of building products	N/A	Mid	Mid
<b>R</b>	Industrial cluster zones (net-zero industrial hubs whereby all industries in a region collectively reduce their carbon)	Forterra sites excluded from cluster zones; rising costs; reduced competitiveness	Source clay resources near clusters or other low carbon heat sources; invest in decarbonising current products or alternative products	Short	Long	Long
<b>O</b>	Thermal mass (the ability of a material to absorb, store and release heat) recognition	Architectural trends; increased demand for products; increased popularity with customers needing to reduce operational carbon emissions of buildings	Ensure thermal properties of masonry products are well communicated; clearly demonstrate energy cost savings for standard homes	Short	Mid	Mid
<b>O</b>	CCUS research	Potential for increased carbon-competitiveness; increased access to capital; increased ability to react to demand for low carbon product	Establish partnerships and pilot schemes	Mid	Mid	Long
<b>TECHNOLOGY</b>						
As greener technologies emerge or existing technologies evolve we want to ensure we are in a position where we can use the latest technologies to reduce climate related risks and make these changes effectively, something we can mitigate by continuing to engage with technology innovators and how they can help our business in its sustainability goals.						
<b>R</b>	Changing customer behaviour and additional scrutiny of higher carbon products	Reduced demand for some or all of our products if new products cause the desirability of masonry homes to decrease	Continue selling products until demand decreases; invest in sustainable technologies, energy or alternative product ranges	Short	Mid	Long
<b>R</b>	Changes in our supply chain	Operational costs increase as a result of scarce raw materials, increased energy costs or increased taxation; increasing the attractiveness of alternatives	Effectively engage with all stakeholders, specifically within the supply chain, continuing to invest where new and innovative raw material solutions can be utilised	Mid	Mid	Mid
<b>R</b>	Uncertainty in our markets and fears of economic uncertainty damaging the housing market	Changes in our revenue mix could impact profitability; our reserves of raw materials, our plant and machinery or facilities could become less valuable	Effectively making a case for the sustainability credentials of our existing products whilst ensuring we innovate in line with changing market trends and expectations	Mid	Mid	Long
<b>R</b> <b>O</b>	Prioritisation of energy efficiency over additional space in home improvement market	Core product offering becomes more difficult to sell; new products focusing on thermal properties are required to meet demand	Focus on thermal property of products should energy efficiency gain more popularity/regulatory emphasis	Mid	Long	Long
<b>R</b> <b>O</b>	Increased ESG weighting from investors	Potentially reduced access to capital	Ensure Forterra's ESG disclosures and decarbonisation plan are well communicated to investors	Short	Mid	Long
<b>R</b> <b>O</b>	Emergence of eco-brick market	Increased demand for eco products; pricing premiums for low carbon products; new revenue streams from new markets	Invest in improving carbon efficiency of production, partnerships for carbon capture and carbon curing, and use of renewable energy	Mid	N/A	N/A

# SUSTAINABILITY REPORT

## CLIMATE RELATED RISKS AND GOVERNANCE

CONTINUED

Risk	Potential impact	Possible mitigation / action	Scenarios			
			1.5°C	2°C	4°C	
<b>TRANSITIONAL RISK (CONTINUED)</b>						
<b>REPUTATION</b>						
We have developed the Forterra brand in recent years and possess a collection of product specific brands that are long established and well regarded. There is an opportunity to further strengthen these brands with a sustainability focus however if we fail to do so the reputational cost could be significant. This can be achieved through effective action on climate related matters and the increased education of the sustainability attributes of our products.						
<b>R</b>	Shifts in consumer preferences	Reduced demand for our products due to change in customer perception. Architectural trend changes; greater difficulty in selling our products compared to alternatives	Focus on reducing carbon intensity of clay bricks, whilst also building out a more sustainable alternative product range	Mid	Mid	Long
<b>R</b>	Negative perceptions of our business / sector; restrictions in access to debt and capital	Have greater difficulty in obtaining planning permissions for new capacity and struggle to attract employees. Increasing cost of equity and debt as investors and lenders switch to perceived greener investments	Fully engaging with our stakeholders and increasing the education around the sustainability credentials of our products. with a >100-year life if homes built from brick, our products are inherently sustainable	Mid	Mid	Long
<b>R</b> <b>O</b>	Competitors engage in 'greenwash' communication (communication that misleads people as to the green credentials of certain products)	Difficulty in selling products to environmentally conscious customers; reduced access to capital with ESG-driven investors	Communicate widely on industry challenges; establish industry standards for 'eco-bricks'; provide detailed decarbonisation plans to ensure credibility	N/A	Mid	Long
<b>R</b> <b>O</b>	Alternative building materials	Potential for new revenue streams; Increased access to capital; Increased ability to react to demand for low carbon products	Invest in low carbon material alternatives and increase communications spend to promote use of innovative sustainable materials	Mid	N/A	N/A
<b>O</b>	Population increase through migration	Increased demand for products	Opportunity to build more homes, ensuring materials are able to meet increasingly stringent sustainability focused building regulations	N/A	Long	Long
<b>PHYSICAL RISK</b>						
<b>ACUTE</b>						
We have seen a number of weather-related events (such as flooding) in recent years and recognise that these risks have the potential to increase in likelihood and have a greater impact in the coming years. We recognise that we cannot stop these events from occurring alone. However, we can ensure that we are better prepared for them or can mitigate their impact through suitable planning.						
<b>R</b>	Site flood risk	Increased insurance premiums; both short term and prolonged inability to operate facilities potentially causing damage that could be expensive to repair and leading to lost sales	Suitable planning, capital expenditure and preventative maintenance	N/A	N/A	Long
<b>R</b>	Increased operating temperatures	Increased operational costs for heating and cooling and/or lack of mains water	Suitable planning, capital expenditure and preventative maintenance	N/A	N/A	Long
<b>CHRONIC</b>						
We also recognise that the impact of rising sea levels over time triggered by increasing temperatures, may lead to some low-lying areas of the country becoming unsuitable for housing.						
<b>R</b> <b>O</b>	Variability in weather patterns	Loss of working days; Loss of productive days; stock shortages	Increase production during winter; new supplier partnerships in lower risk zones	N/A	N/A	Long
<b>R</b> <b>O</b>	Rising sea levels	Low-lying areas of the country becoming unsuitable for housing and driving demand for use of our product elsewhere	Ensure ability to supply at level the market demands whilst also continuing to manufacture the products we do that sacrificially address flooding issues	N/A	N/A	Long

# RISK MANAGEMENT AND KEY RISKS

## RISK MANAGEMENT FRAMEWORK

### 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 is a key priority.

In 2021 we were able to restart wider risk management, including risk management site reviews, continuing to develop the physical links between central and local management and expanding the risk conversation. Communication continues to be strong, with our risk management policy, strategy, processes, controls, reporting measures, internal reporting lines and responsibilities well established. A continued response to the impact and associated risks arising both directly and indirectly from Covid-19 and Brexit has been a primary focus during 2021, and many of the rapidly evolving business risks are attributable to this. We continue to monitor these risks and introduce mitigating controls, as appropriate, as they develop.

- Covid-19: Our markets saw strong recovery in 2021 and both we and our customers were able to continue to operate without significant interruption or Government-imposed restrictions throughout the year. Our priority was therefore to concentrate on the controllable risks such as health and safety, where we continue to follow all public health guidance.
- Availability of raw materials and energy: 2021 has seen shortages of raw materials above any seen in recent years. Impacts of both Covid-19 and Brexit have required our business to secure new supplies, draw on long-standing relationships with our suppliers and explore possible changes that can be made within the production process in order to mitigate the risk. To date, the primary risk regarding energy was that of cost. More recently the war in Ukraine has increased concerns as to the security of energy supplies and we continue to closely monitor the situation.
- Cost inflation: Cost inflation has been an increasingly significant theme throughout 2021, impacting our business across a wide range of spend categories. We have increased selling prices to recover the cost inflation and whilst we remain confident of recovering costs in the medium term, our 2021 results have been impacted by short-term under-recovery of inflation.
- Cyber: A continued introduction of mitigative actions have attempted to keep pace with a fast-moving cyber risk with the business facing a cyber attack during the year. This risk will continue to be a focus area going into 2022.

Key risks are addressed within the table on pages 79 to 85. In addition, we continue to place emphasis on identification and review of emerging risks to ensure these are identified, considered and appropriately mitigated.

Our risk management objectives remain 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.

### SUSTAINABILITY

Sustainability continues to be a core focus within our business with the increasing need to make Forterra more resilient against the potential effects of climate change, and evolving sustainability driven risks are highlighted within extensive disclosures across this Annual Report. These reflect both the impact of our operations on the environment but also the challenging targets we have set to reduce this, targeting Net Zero by 2050 in line with the Race to Zero.

The Board remains 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 summarised in this section, more expansive disclosures are provided in the Sustainability Report on pages 72 to 76. The Board's Risk and Sustainability Committee continue to provide oversight and governance over the most significant risks the business faces in the short, medium and long-term.

### REGULAR UPDATES

The Board's Risk and Sustainability Committee met four times during the year to review the key risks facing the business, receiving updates from Management to facilitate this. Below the Committee, Management met regularly as a Risk Steering Group throughout 2021. The Risk Steering Group ensures sound risk management practices are established, consistent and evidenced across key risk areas. Management set the tone from the top; promoting risk management culture through the inclusion of risk discussions in operational meetings; and challenging all levels of the business to identify risks and take appropriate steps to mitigate these.

2021 additionally saw the introduction of a specific Sustainability Working Group. Tasked with responsibility for the Group's response to climate related matters and sustainability risks therein. The Group met monthly in 2021 and reported into the Risk and Sustainability Committee across a broad range of ongoing projects.



# RISK MANAGEMENT AND KEY RISKS

## RISK MANAGEMENT FRAMEWORK

CONTINUED

### 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.

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

Management continues to monitor risk closely and put procedures in place to mitigate risks promptly wherever possible. Where the risks cannot be mitigated, Management focus on monitoring the risks and ensuring the Group maximises its resilience to the risks, should they fully emerge.

### 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.

Top down

### BOARD OF DIRECTORS

The Board (through the Risk and Sustainability Committee and Audit Committee) have:

- Received updates from Management on specific key risks
- Continued to review progress against risk management actions and internal control priorities
- Considered the effectiveness of the risk management and internal control environment
- Regularly reviewed all principal risks, heat maps and emerging risks; including the Covid-19 specific risk register used as the pandemic related risks were most significant
- Engaged with Management on Brexit, Covid-19 and internal project risks regularly

### EXECUTIVE COMMITTEE

The Executive Directors and the Risk Steering Group have:

- Met frequently to discuss the risk environment, Group risk management activity, identify risks and gaps, and appraise likelihood, impact and risk mitigation
- Actively managed the Group's crisis management response to Covid-19
- Identified risk priority areas and focused on the key risks in these areas
- Accepted risk exposure in other areas to ensure appropriate prioritisation of key risks

### RISK AND INTERNAL AUDIT

Risk and Internal Audit have:

- Followed a risk-based internal audit plan
- Supported appointed risk owners throughout the year
- Continued to track responses of monthly control self-assessments from operational control owners and closure of internal control improvement actions

### OPERATIONAL MANAGEMENT

Operational managers have:

- Taken ownership of key local risks
- Completed internal control self-assessments monthly to evidence operational controls are in place
- Escalated risks as appropriate

Bottom up

# RISK MANAGEMENT AND KEY RISKS

### KEY RISKS AND UNCERTAINTIES

OUR STRATEGIC PRIORITIES ARE:	STRENGTHEN THE CORE	RANGE EXPANSION	PRODUCT INNOVATION AND DEVELOPMENT
GROSS / NET CHANGE:	INCREASED	DECREASED	NO CHANGE
RISK APPETITE:	LOW APPETITE	BALANCED APPETITE	HIGH APPETITE

## 1. HEALTH AND SAFETY

GROSS CHANGE	NET CHANGE	LINK TO STRATEGY	RISK APPETITE

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Our key risks remain the same as prior to 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, noise, dusts and chemicals.</p> <p>Additionally, before mitigating actions, the underlying risk to employee health increased with the emergence of Covid-19, with working proximity for employees becoming an additional risk.</p>	<p>Safety remains our number one priority. We target a zero-harm environment and have robust policies in place covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review.</p> <p>At the beginning of 2021, with high levels of Covid-19 in the community, the risk to our workforce was taken extremely seriously across our business with robust adherence to all Government safety guidance. Whilst able to continue to run our factories, our offices were again closed, with investments made in technology during 2020 enabling affected employees to transition seamlessly to a home working environment once again.</p> <p>As the prevalence of Covid-19 reduced through the spring our offices were reopened, allowing our employees to return to work in a safe and socially distanced manner. The vaccination roll-out has mitigated business interruption and accordingly we have reduced the threat from Covid-19 to business operations relative to December 2020. Non-Covid-19 safety risks, however, remain unchanged.</p> <p>Our safety focus in 2022 is effective employee engagement and communication, focused on our 'Road Map to Zero Harm'.</p> <p><b>Executive sponsor: Stephen Harrison</b></p>	<p>Safety first is embedded in all decision-making and is never compromised.</p> <p>Reducing accidents and occupational ill health is critical to strategic success.</p>

## 2. SUSTAINABILITY / CLIMATE CHANGE

GROSS CHANGE	NET CHANGE	LINK TO STRATEGY	RISK APPETITE

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.</p>	<p>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 footprint of our products to be championed and better understood.</p> <p>Short-term transitional sustainability risks 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 our R&amp;D to keep pace.</p> <p>Several longer-term physical risks 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.</p> <p>A comprehensive sustainability report is included within this Annual Report (pages 42 to 76) providing detailed disclosure of the sustainability related risks faced by our business.</p> <p>Our desire to reduce our impact upon the environment sits hand-in-hand with maximising the financial performance of our business; by investing in modernising our production facilities not only do we reduce energy consumption and our CO<sub>2</sub>e emissions, but we also benefit financially from reducing the amount of energy and carbon credits we need to purchase, both of which are becoming increasingly expensive.</p> <p><b>Executive sponsor: Stephen Harrison and George Stewart</b></p>	<p>Focus from all stakeholders has been maintained from 2020 and remains a high priority for Management in the short, medium and long term.</p>

# RISK MANAGEMENT AND KEY RISKS

CONTINUED

## 3. ECONOMIC CONDITIONS

GROSS CHANGE → NET CHANGE → LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE BAL

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Demand for our products is closely correlated with residential and commercial construction activity.</p> <p>With the economy again now fully open, the risks associated with Covid-19 have receded, however we remain watchful of the potential for further economic instability and are mindful of the current cost inflation and supply shortages.</p>	<p>Understanding business performance in real-time, through our customer order book, strong relationships 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.</p> <p>Our ability to flex output and slow production if customer demand weakens was effective in 2020, although with the recovery across our key markets stronger than anticipated our factories have run at full output throughout 2021.</p> <p>The new build housing market is expected to recover to 2019 levels in the near future. There remains a shortage of housing in the UK, financing remains both affordable and available alongside continuing population growth. However, should market demand fall we would expect brick imports to reduce ahead of sales of domestically manufactured bricks as they have in prior cyclical downturns, providing some degree of insulation to the effects of a market slowdown.</p> <p>Forterra remains well-positioned to take advantage of attractive market fundamentals. Whilst current trading is strong, the pandemic driven influence on the economy has receded, however the increased geopolitical uncertainties centred around the war in Ukraine and the potential wider economic fall-out this may create is creating renewed uncertainty.</p> <p><b>Executive sponsor: Stephen Harrison</b></p>	<p>Historically, cyclicality in the construction sector means that in order to be able to benefit from periods of strong demand, there will also be periods of weaker demand where the Group's assets may not be fully utilised.</p>

## 4. GOVERNMENT ACTION AND POLICY

GROSS CHANGE → NET CHANGE → LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE BAL

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>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.</p> <p>Changes in Government support towards housebuilding could lead to a reduction in demand for our products.</p> <p>Changes to Government policy or planning regulations could therefore adversely affect Group performance.</p>	<p>We participate in trade associations, attend industry events and track policy changes which could potentially impact housebuilding and the construction sector. Such policy changes can be very broad, covering macroeconomic policy and including taxation, interest rates, mortgage availability and incentives aimed at stimulating the housing market.</p> <p>Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision-making.</p> <p>Through our participation in these trade and industry associations we ensure our views are communicated to Government and our Executive team often meet with both ministers and MPs.</p> <p>The Government have demonstrated that they remain committed to home ownership and housebuilding, evidenced by the recent launch of the Mortgage Guarantee Scheme. We consider the withdrawal of support unlikely should it risk a reduction in the supply of new high-quality homes where a significant shortfall still exists.</p> <p>Government policy around planning reform also has the potential to influence demand for our products and we remain watchful as to the significant opposition to some proposed planning reforms designed to increase the construction of new homes.</p> <p><b>Executive sponsor: Stephen Harrison</b></p>	<p>We continue to invest significantly in growth both in terms of capacity and product range. This investment is made despite our inability to control Government policy.</p> <p>Recent Government policy has been favourable in encouraging demand for our products and whilst the current market fundamentals are attractive regardless of Government policy, unfavourable policies implemented by current or future governments could adversely impact demand for our products.</p>

## 5. RESIDENTIAL SECTOR ACTIVITY LEVELS

GROSS CHANGE ↓ NET CHANGE ↓ LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE HIGH

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Residential development (both new build and repair, maintenance and improvement) contributes to the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector will affect profitability and in the longer term, strategic growth plans.</p>	<p>We closely follow the demand we are seeing from our key markets, along with market forecasts, end-user sentiment, mortgage affordability and credit availability in order to identify and respond to opportunities and risk. Group strategy focuses upon our strength in this sector whilst also continuing to strengthen our commercial offer.</p> <p>The strength of the sector's recovery from the pandemic has been reassuring, allowing us to reduce this risk.</p> <p>Government action and policy as laid out on the previous page continues to be a key determinant of demand for housing.</p> <p>The investment in the refurbishment of the Wilnecote brick factory which will focus upon the commercial and specification market will provide a degree of diversification away from residential construction.</p> <p><b>Executive sponsor: Stephen Harrison and Adam Smith</b></p>	<p>Serving the residential construction market lies at the core of our strategy.</p> <p>Whilst we will seek opportunities broaden our offering, we continue to see residential markets as core.</p> <p>Historically cyclicality in the construction sector means that in order to be able to benefit from periods of strong demand, there will also be periods of weaker demand where the Group's assets may not be fully utilised.</p>

## 6. ABILITY TO MEET CUSTOMERS DEMAND

GROSS CHANGE ↑ NET CHANGE ↑ LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE BAL

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Having sufficient inventories of our products is critical to meeting our customer's needs. Many of our product ranges are manufactured at single facilities 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.</p> <p>Maximising efficiency through utilising longer production runs necessitates higher levels of inventory to maintain customer service. If these inventories are not present, shorter and less efficient production runs will be required to maintain levels of service.</p>	<p>Stock levels continue to be low across our business. 2020 saw a significant destocking as we emerged from the pandemic which, due to continued strong demand across 2021, we have been unable to address this year, presenting a short-term risk in meeting our customers' expectations, especially if there was further growth in demand.</p> <p>Strong customer relationships and some degree of product range substitution can mitigate this risk although the ongoing pressure upon our inventories has led us to increase this risk.</p> <p>A shortage of available transport capacity could also impact our ability to deliver our products to customers, although we mitigate this risk by operating our own distribution fleet, however, the wider constraints in the haulage market appeared to have eased by the year-end.</p> <p>We are also aware of shortages of materials throughout the construction supply chain and we are watchful to the fact that if our customers cannot secure the materials and products they require from other suppliers then this may delay build programmes and impact demand for our own products.</p> <p><b>Executive sponsor: Adam Smith, Steve Jaynes and Darren Rix</b></p>	<p>Managing capacity sufficiently to prevent tying up excessive amounts of working capital in stock, but ensuring that customer demand can continue to be met is crucial to our success, a risk that has increased with the demand that has continued through 2021.</p>

# RISK MANAGEMENT AND KEY RISKS

CONTINUED

## 7. CUSTOMER RELATIONSHIPS AND REPUTATION

GROSS CHANGE ↑ NET CHANGE → LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE LOW

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>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.</p>	<p>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 longstanding relationships with our customers. Regular and frequent review meetings focus on our effectiveness in this area.</p> <p>Our service proposition during the pandemic was well-received by customers across all channels and served to strengthen these relationships, continuation of which, combined with strong communication with customers, remains paramount to our success. We are aware that a number of the current risks we face could manifest themselves in damaged relationships with customers, be it low inventories, shortages of raw materials impacting our production, or the need to pass on significant cost increases to our customers in order to protect our own margins. To mitigate these risks, we remain in constant communication with our customers ensuring they are well-informed of the challenges faced by our business and the impacts it may have on our customer service and selling prices.</p> <p><b>Executive sponsor: Adam Smith and Darren Rix</b></p>	<p>Excellent service is a core value and progress against objectives in this area is a priority for all employees. Our reputation and customer relationships are hard earned, long held and consequently of great importance, hence we have a low tolerance to risk in this area.</p>

## 8. AVAILABILITY OF RAW MATERIALS AND ENERGY

GROSS CHANGE ↑ NET CHANGE ↑ LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE BAL

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Whilst availability of raw materials can vary at times, recent shortages across both our industry and the wider economy have become more commonplace, threatening our ability to manufacture and ultimately to meet customer expectations.</p> <p>Our production processes depend on energy and fuel and should supplies of these be interrupted production would be impacted; at a time when our business is operating at full capacity there is no scope for recovering lost production.</p> <p>In the longer term these risks may be exacerbated with climate related matters impacting availability of materials, management of which has been a priority for a number of years. More recently shortages have arisen in line with the end of the Brexit transition period and the faster than expected recovery of demand following the pandemic.</p>	<p>During 2021 we have seen shortages of raw materials above those seen for many years and this has the potential to impact production.</p> <p>Where materials are in short supply we seek to limit our risk by utilising more than one supplier and by developing new sources of supply. Where possible we stockpile additional materials as we did in some cases ahead of Brexit though many of our key materials are needed in such large quantities this isn't possible.</p> <p>We regularly review our production processes to reduce reliance on materials that are in short supply and in the longer term we may seek to adjust our production processes to utilise materials which have a lesser impact on the environment.</p> <p>Security of energy supplies has not been identified as a key risk previously although recently this has become an increasing concern, exacerbated by the conflict in Ukraine.</p> <p>Shortages of gas and electricity have driven prices higher, leading to concerns that should these pressures persist, particularly in winter months, supplies to industrial users could be constrained to prioritise domestic users.</p> <p>In the longer term our focus on sustainability will see investment in factories to reduce energy consumption, and we have recently entered into a Power Purchase Agreement which will secure c.70% of our electricity needs for 15 years from 2025 through the construction of a dedicated solar farm, reducing our reliance on the grid as well as providing price certainty.</p> <p>Changes in industrial processes required to address the climate risks have impacted the availability and price of certain raw materials and we have taken action to mitigate these; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials.</p> <p>We continue to focus on ensuring supply risks are understood, forecast and where possible mitigated.</p> <p><b>Executive sponsor: Ben Guyatt, Steve Jeynes and Darren Rix</b></p>	<p>Sufficient quantities of raw materials received at the right time and at the right price are critical to Group operations. We have prioritised risk mitigation measures to bring risk-exposure and risk appetite in line, however continued pressures in this respect have resulted in an increase to risk.</p>

## 9. COST INFLATION

GROSS CHANGE ↑ NET CHANGE ↑ LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE BAL

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>We utilise a wide range of inputs in our business from raw materials to energy and labour.</p> <p>Increases to the cost of our inputs will have an adverse effect upon our margins if we are unable to pass these cost increases on to our customers.</p> <p>Sudden fluctuations in our cost base makes budgeting difficult and exposes us to risk as cost increases are unable to be passed on to customers without some time delay.</p>	<p>We seek to manage our costs by putting in place annual pricing agreements with our suppliers, although in recent times we have seen a number of these being broken.</p> <p>We aim to maintain a range of suppliers such that we avoid becoming dependent on any single supplier although like our own markets, parts of our supply chain are highly consolidated and as such alternative suppliers may be scarce.</p> <p>We also seek to manage our energy cost exposure by forward purchasing an element of our energy requirement providing price certainty. However, as happened in 2020, if our requirement for energy is lower than expected we are exposed to commodity risk and having to sell pre-purchased surplus energy back to the market at a loss.</p> <p>In recent months we have seen unprecedented increases in energy costs driven by global markets and whilst our forward purchasing has provided partial mitigation, the prices that we currently see for energy have shifted our appetite for risk in this area and it is likely we will seek greater forward coverage of our positions in future as the markets allow.</p> <p><b>Executive sponsor: Ben Guyatt</b></p>	<p>Managing cost within our supply chain is core to maintaining profitability and providing optimum value to shareholders. The unprecedented inflationary environment across this year has driven an increase in this risk. Our ability to mitigate this risk is minimal although in normal times, accepting a degree of exposure to price volatility is necessary to achieve the best terms.</p>

## 10. ATTRACTING, RETAINING AND DEVELOPING EMPLOYEES

GROSS CHANGE ↑ NET CHANGE ↑ LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE LOW

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance.</p> <p>Throughout the Covid-19 pandemic we have prioritised the increased health and safety risk for the workforce along with overall employee welfare.</p> <p>Staffing risks relating to the end of the Brexit transition period remain a concern, although a wider shortage of labour following the pandemic is of increasing concern.</p>	<p>We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans.</p> <p>The Covid-19 pandemic has focused our attention on establishing safe working practices for return to work, employee support and strong communication/employee engagement. We continue to invest in HR and payroll systems, with significant resource now in place to see this investment through to delivery.</p> <p>Challenges associated with labour shortages are presently faced across the business, in particular around the availability of engineers and drivers.</p> <p>A wider shortage of labour in the construction industry may have the impact of curtailing demand for our products as customers' build programmes are slowed by labour shortages.</p> <p><b>Executive sponsor: Shahbaz Idriss</b></p>	<p>Our people have always been pivotal to our business, and changes in the labour market resulting from Brexit and the pandemic have increased the risk associated with ensuring we attract, retain and develop our employees.</p>

## 11. INNOVATION

GROSS CHANGE → NET CHANGE → LINK TO STRATEGY [Gears, Refresh, Lightbulb] RISK APPETITE HIGH

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
<p>Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This could in turn cause revenues and margins may suffer.</p>	<p>Strong relationships with customers 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.</p> <p>New product development and related initiatives therefore continue and in announcing our strategy we are committing to further investment in research and development and there also are clear links between investment in R&amp;D and the work undertaken in relation to sustainability.</p> <p><b>Executive sponsor: Stephen Harrison</b></p>	<p>The Group is willing to invest in order to grow where the right opportunities present themselves. The high-risk appetite in this respect reflects our willingness to deploy resources to research and development without any certainty they will bear fruit.</p>

# RISK MANAGEMENT AND KEY RISKS

CONTINUED

## 12. IT INFRASTRUCTURE AND SYSTEMS

GROSS CHANGE ↑ NET CHANGE ↑ LINK TO STRATEGY [Icons] RISK APPETITE LOW

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
Disruption or interruption to IT systems could have a material adverse impact on performance and position.	<p>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 allowed us to successfully cater for strong customer demand whilst office staff continue to work remotely.</p> <p>An increase in cyber risk is evidenced by increasing instances of malicious attacks globally and has driven our continued investment and training around cyber security. We are not immune from this heightened global cyber risk and have experienced an event during the year that neither resulted in disruption to our business or significant cost.</p> <p><b>Executive sponsor: Matthew Day</b></p>	Investment in IT has been a priority in recent periods to mitigate risk. The downside to IT risks significantly outweighs any upside and our risk appetite reflects this.

## 13. BUSINESS CONTINUITY

GROSS CHANGE ↓ NET CHANGE → LINK TO STRATEGY [Icons] RISK APPETITE LOW

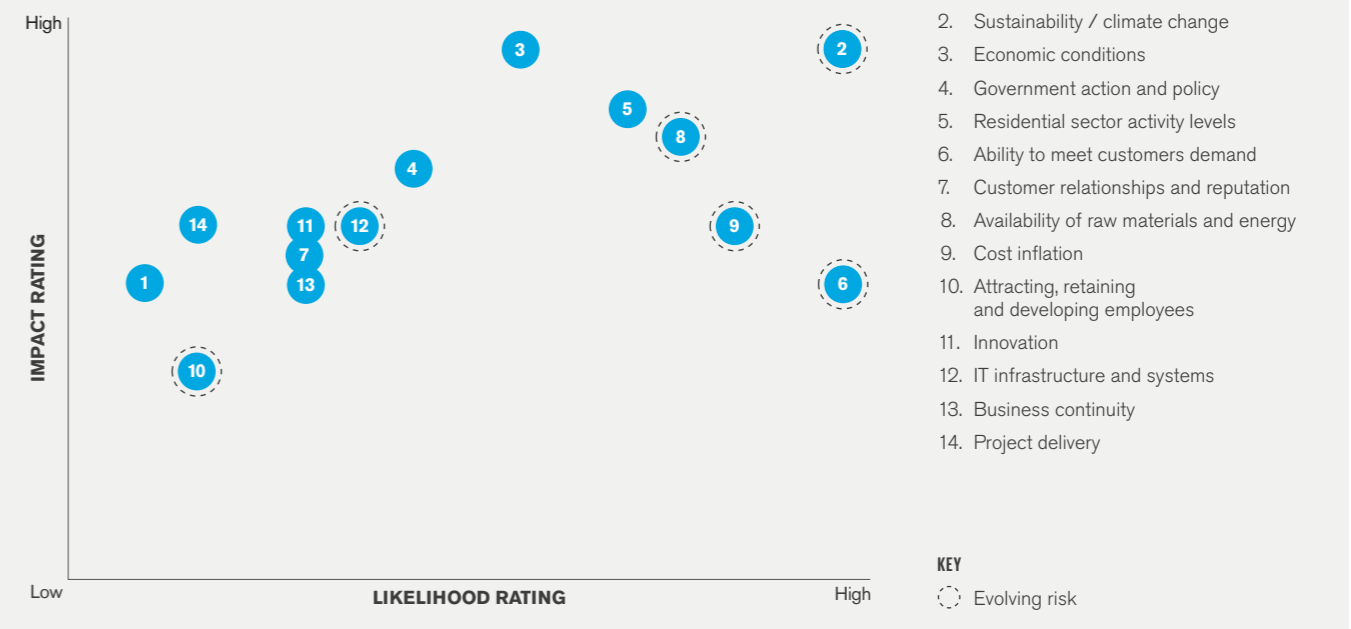
Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	<p>Having made plans to allow key centralised functions to continue to operate in the event of business interruption, we were able to establish remote working capability effectively as the Covid-19 pandemic developed. These capabilities have been retained through 2021 with the business able to continue operating with minimal disruption.</p> <p>With the pandemic seemingly receding and with the wider economy reopening we see the risk of business disruption as a result of Covid-19 diminishing and have reduced this risk accordingly. Non Covid-19 related disruption risks remain unchanged although some greater resilience is provided by the now tried and tested ability of office staff to work from home.</p> <p>Where a scenario without a pre- envisaged plan is faced, our business continuity policy allows managers to apply clear principles to develop plans quickly in response to emerging events.</p> <p>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.</p> <p>Loss of one of our operating facilities through fire or other catastrophe would impact upon production and our ability to meet customer demand. Working with our insurers and risk advisors we undertake regular factory risk assessments addressing recommendations as appropriate. We accept it is not possible to mitigate all the risks we face in this area and as such we have a comprehensive package of insurance cover including both property damage and business interruption policies.</p> <p><b>Executive sponsor: Stephen Harrison</b></p>	Using business continuity plans in response to the pandemic represents a useful test rather than a desktop exercise. However, with the pandemic seemingly receding and with the wider economy reopening we see the risk of business disruption as a result of Covid-19 diminishing and have reduced this risk accordingly.

## 14. PROJECT DELIVERY

GROSS CHANGE ↑ NET CHANGE → LINK TO STRATEGY [Icons] RISK APPETITE LOW

Principal risk and why it is relevant	Key mitigation, change and sponsor	Rationale for appetite
This risk was recognised for the first time in 2020 in recognition of the scale and complexity of the Desford construction project. We have now announced an extensive programme of capital investment within our business over the next decade which will see a number of large projects to add production capacity.	<p>The Desford brick factory represents the largest capital investment that we have made. Following the signing of contracts with a new equipment supplier in early 2021, the project has progressed to schedule. The ongoing pandemic has had little impact in this respect during 2021 however with manufacturing equipment being supplied by a European supplier, Management have remained watchful of travel restrictions and any potential corresponding delays.</p> <p>Management closely monitors the project for potential challenges, cost over-runs and delays and acts 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.</p> <p>With the announcement of the Wilnecote factory redevelopment project, Management recognise the additional risks posed by running two concurrent major projects. To mitigate, separate project management structures are in place for respective projects and where common suppliers are involved procedures are in place to ensure they retain sufficient capacity to deliver on both projects without significant risk.</p> <p>We recognise that we will need to increase the resources in our business to support multiple major expansion projects, and recruitment of this resource has commenced.</p> <p><b>Executive sponsor: George Stewart</b></p>	Management and the Board are closely monitoring the new Desford build project. External project management expertise has been engaged on this project from the outset, following best practice and ensuring Management are up to date. Announcement of the Wilnecote project and concurrent nature of this project is reflected in the increased risk rating.

### RISK HEAT MAP



### RISK HEAT MAP REFLECTING EVOLVING NATURE OF CERTAIN RISKS

Recognising that impact and likelihood are equally important when assessing risk, the chart above demonstrates both of these characteristics. Net impact is a financial measure of severity and net likelihood reflects the chance of the risk occurring within the next three years. Given the risk environment that we are currently operating in, we have additionally highlighted those risks deemed to be evolving.

# RISK MANAGEMENT AND KEY RISKS

CONTINUED

## VIABILITY STATEMENT

In accordance with the provisions of The UK Corporate Governance Code 2018 the Board have assessed the prospects of the Company in order to develop a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due. The Board have reviewed the Company's position and principal risks over a period of four years commencing from the year-end date in order to form this expectation. The Board believe that this is an appropriate timeframe to consider as it aligns with its strategic and financial planning horizon, the completion and timeline to full financial contribution of new Desford brick factory and the maturity of the Group's credit facilities which are in place until 2025. In making this statement, the Board have considered the principal risks facing the Group, as detailed within the Risk Management and Key Risks section of the Annual Report on pages 79 to 85, as well as the climate related risks as detailed on pages 74 to 76 of the Sustainability Report.

The Board have reviewed the Group's financial forecasts and any consequential future funding requirements against committed external borrowing facilities regularly to confirm ongoing viability. The scenarios modelled include a base case and two severe but plausible downside scenarios which have been modelled using Management's experience of the business, including the impact of the 2008 global financial crisis and more recently, the impact of the pandemic. In addition, the Group has performed reverse stress tests to better understand the headroom available before financial covenants begin to be breached.

Assumptions underpinning these scenarios include:

- Should these scenarios occur, the Group would adjust its short-term strategy and take further cost-mitigation measures above those already considered in order to preserve cash;
- That the Group will be able to, as detailed within both the Risk Management and Key Risks section (pages 79 to 85) and the Sustainability Report (pages 43 to 76), effectively mitigate risks using existing or available measures;
- The Desford brick factory will complete in line with current timelines, moving to a full financial contribution in 2025; and
- The Group will be likely to refinance on similar terms before the facility matures in 2025.

Scenario 1 models a downturn in market demand, where volumes reduce by 21% and selling prices reduce by 5% versus the budget for 2022, recovering half of this in 2023 and the remainder in 2024. This scenario allows for the consideration of several of the Group's key risks occurring, with potential contributing factors that include Government policy, economic downturn, a change in residential sector activity levels or new product development in the sector.

Scenario 2 models an increase in variable costs, without the ability to increase selling prices to mitigate this. As in scenario 1, the scenario considers the occurrence of key Group risks, including economic downturn, cost inflation and raw material availability. In this scenario cost inflation on variable costs is increased by 19% in 2022, compounded by a further increase of 19% in 2023, which is then maintained in 2024.

Within each scenario, 1 and 2, certain mitigations are also modelled to alleviate a breach of covenant.

Management are comfortable confirming that the Group remains viable, as each scenario, though plausible, is felt to be remote. Additionally there remains the option to flex the cost base where downside scenarios are faced, as previously proven through the mothballing of factories, along with measures taken during recent Covid-19 lockdown. The Directors can confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period of assessment.

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GOVERNANCE



# BOARD OF DIRECTORS

## JUSTIN ATKINSON

Non-Executive Chairman



R  
RK  
N\*

### Appointment

Justin Atkinson joined the Board on 11 April 2016 and was appointed as Chairman in May 2019.

### Skills, experience and qualifications

Justin has a proven track record of driving performance with over 30 years of experience at senior management or director level of businesses, across a range of disciplines, including engineering and construction. Justin provides the Board with strong leadership skills having spent 11 years as Chief Executive Officer of Keller Group plc the international ground engineering contractor, having previously served as Chief Financial Officer and Chief Operating Officer. Over the past six years Justin has also gained a wealth of Non-Executive Director experience. Justin trained as a Chartered Accountant at Deloitte Haskins & Sells (Scotland) (now part of PwC). Justin is a Chartered Accountant, holds a Bachelor's degree in Accountancy from Glasgow University and the advanced management programme qualification from INSEAD.

### Other Directorships

Senior Non-Executive Director of Kier Group plc, Non-Executive Director of James Fisher and Sons plc.

## BEN GUYATT

Chief Financial Officer



RK

### Appointment

Ben Guyatt was appointed to the Board on 1 January 2020 and prior to this, served as Director of Finance and Company Secretary.

### Skills, experience and qualifications

Prior to his appointment as CFO, Ben held the role of Director of Finance and Company Secretary, playing a key role in the separation of the business from HeidelbergCement and the subsequent listing on the London Stock Exchange. Drawing upon his extensive experience with the business and financial acumen, Ben keeps the Board updated enabling informed decision-making. Ben joined Hanson plc in 2006 and held a variety of senior finance and strategy roles within Hanson and HeidelbergCement. Previously Ben held financial management roles at insurance broker, Heath Lambert. Ben is a Chartered Accountant and holds a Bachelor of Arts degree with honours in Accounting and Finance from the University of the West of England.

## VINCE NIBLETT

Independent  
Non-Executive Director



A\*  
R  
N  
RK

### Appointment

Vince Niblett was appointed to the Board on 8 February 2019 as an Independent Non-Executive Director.

### Skills, experience and qualifications

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

During his career at Deloitte, he served some of the firm's most significant public company clients, working with them on commercial and strategic issues as well as providing audit services. Vince uses his significant financial experience to both guide and challenge the Board on important decisions as well as offering advice on governance and compliance matters.

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

### Other Directorships

Non-Executive Director at Big Yellow Group plc and Non-Executive Director at Target Healthcare Reit plc.

## DIVYA SESHAMANI

Independent  
Non-Executive Director



A  
R  
N  
RK\*

### Appointment

Divya Seshamani was appointed to the Board as an Independent Non-Executive Director on 11 April 2016.

### Skills, experience and qualifications

Divya has over 20 years of experience at partner, senior management or director level in sustainable infrastructure, energy and manufacturing, with organisations like Singapore's sovereign wealth fund (GIC) and TPG (the global Private Equity firm), where she was Partner. She is currently Managing Partner of Greensphere Capital LLP, a sustainable investment private equity firm. Divya has a particular strength in environment and sustainability and has been appointed by the Secretary of State to Her Majesty's Government Council of Sustainable Business where she leads the Net-Zero Carbon Initiative. Divya holds a Bachelor of Arts degree in Politics, Philosophy and Economics from Oxford University and a Master of Business Administration degree from Harvard University.

### Other Directorships

Non-Executive Director at Airspan Network Holdings Inc.

## STEPHEN HARRISON

Chief Executive Officer



RK

### Appointment

Stephen Harrison was appointed Chief Executive of Forterra plc in April 2016.

### Skills, experience and qualifications

He successfully steered the business through a divestment process from former owner HeidelbergCement into private equity ownership in 2015 and led the IPO onto the London Stock Exchange as a listed company in 2016.

Stephen brings extensive sector experience and leadership skills to the Board. Before his current role, Stephen held a variety of senior management roles within the construction products industry for more than a decade supplying the infrastructure, commercial and residential construction markets. Stephen was appointed as Managing Director of Hanson Building Products, the predecessor to Forterra in 2012, having joined Hanson plc in 2002.

Stephen studied Economics at Kingston University in London and holds an MBA from Cranfield School of Management. He has served as a Non-Executive Director of several key construction sector trade associations.

## KATHERINE INNES KER

Senior Independent  
Non-Executive Director



A  
R\*  
N  
RK

### Appointment

Katherine Innes Ker was appointed to the Board on 1 September 2017 as an Independent Non-Executive Director and was appointed as Senior Independent Non-Executive Director in May 2019.

### Skills, experience and qualifications

Katherine has gained extensive executive and non-executive experience across a range of sectors in a career spanning over 30 years. Katherine began her business career as a city financial analyst and has since held many non-executive directorships with a particular wealth of experience in the housebuilding sector. Katherine was a Non-Executive Director of Taylor Woodrow / Taylor Wimpey for 10 years and subsequently of St Modwen Properties. She is currently a Non-Executive Director of Vistry Group plc. This experience allows Katherine to provide valuable insight into our markets from a customer perspective. Katherine has over 20 years' experience as a Chair of Remuneration Committee, and as a Senior Independent Director. Katherine is a Graduate of Oxford University, holding a Masters degree in Chemistry and a Doctorate in Molecular Biophysics.

### Other Directorships

Non-Executive Chairman of Mortgage Advice Bureau plc, Non-Executive Director at Vistry Group plc and Non-Executive Director at Ground Rents Income Fund plc.

## MARTIN SUTHERLAND

Independent  
Non-Executive Director



A  
R  
N  
RK

### Appointment

Martin Sutherland was appointed to the Board on 23 May 2017 as an Independent Non-Executive Director.

### Skills, experience and qualifications

Martin has over 20 years of international experience at senior management or director level in technology and manufacturing businesses focused on the government and commercial sectors. Martin is currently the Chief Executive officer of Reliance acsn Ltd who are specialists in IT security management. He held the position of Chief Executive Officer at De La Rue plc from 2014 to 2019. Previously he held various roles at Detica plc, becoming Managing Director in 2008 on its acquisition by BAE Systems plc, Andersen Consulting and British Telecom. Martin brings his experience as a CEO in both public and private companies to Board discussions on operational and strategic matters, as well as providing practical advice based on his expertise in the application of technology. As the Non-Executive Director responsible for employee engagement he attends and feeds back from the Employee Forum. Martin holds a Masters degree in Physics from Oxford University, and a Masters degree in Remote Sensing from University College and Imperial College London.

## ASHLEY THOMPSON

Company Secretary



### Appointment

Ashley Thompson was appointed to the position of Company Secretary on 1 January 2020.

### Skills, experience and qualifications

Ashley qualified as a solicitor in the corporate team of Freshfields Bruckhaus Deringer and then moved in-house before joining Forterra as the Company Solicitor in 2015. Before becoming a solicitor, Ashley has previously worked in the petrochemical industry as an engineer and within manufacturing at Triumph Motorcycles and then as a Detective Constable. Ashley holds a Bachelor of Engineering degree and a Masters in Law.

### COMMITTEE MEMBERSHIP

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

## EXECUTIVE COMMITTEE



### STEPHEN HARRISON

Chief Executive Officer

See Stephen Harrison's biography on page 88.



### BEN GUYATT

Chief Financial Officer

See Ben Guyatt's biography on page 88.



### MATTHEW DAY

IT Director

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



### SHAHBAZ IDRIS

HR Director

Shahbaz joined Forterra in 2020. She was previously Global Senior Vice President Human Resources at GKN Driveline. Before joining GKN, she also held senior roles at Federal Mogul Corporation. Shahbaz has over 25 years' HR experience, gained primarily within the automotive, manufacturing and engineering industries. Shahbaz holds a BA (Hons) from Wolverhampton University, a Masters degree from Coventry University and is a member of the Chartered Institute of Personnel & Development.



### DARREN RIX

Managing Director - Bison Precast

Darren joined Hanson plc in 2007 and held a number of senior finance roles, including Financial Controller for the Building Products and Cement divisions. Darren previously held the role of Group Controller at Forterra and was appointed Strategy and Development Director in 2017 before becoming Managing Director - Bison Flooring, in 2021. In 2022 Darren was appointed to take responsibility for all Bison Precast operations. Darren is a Chartered Management Accountant and holds a Bachelor of Arts Degree with honours in Economics from the University of Leicester.



### ADAM SMITH

Commercial Director

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



### GEORGE STEWART

Strategic Projects Director

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



### STEVE JEYNES

Production Director

Steve joined Forterra in 2014, initially as Factory Manager at our Kings Dyke London Brick factory. After this he held the position of Senior Operations Manager for bricks for five years before being promoted to Production Director and joining the Executive Committee in March 2022. Prior to joining Forterra, Steve was Head of Operations at Hargreaves Services and prior to this he held manufacturing and engineering roles in the UK and internationally with Nippon Electric Glass and BP Exploration. Steve holds a Bachelor of Science with honours degree from the Open University and a Bachelor of Psychology from UNITAR International University in Malaysia.

## CORPORATE GOVERNANCE STATEMENT CHAIRMAN'S INTRODUCTION



**Good corporate governance is essential for the long-term success of Forterra and for safeguarding the interests of our stakeholders. I have set out in this statement how we conduct governance at Forterra and the principal activities of the Board and its Committees for the year ended 31 December 2021."**

**Justin Atkinson**

Non-Executive Chairman

### INTRODUCTION FROM THE CHAIRMAN

The Board operates in accordance with The UK Corporate Governance Code 2018 (the Code) which was issued by the Financial Reporting Council and which is available on their website: [www.frc.org.uk](http://www.frc.org.uk). Forterra has embedded best practice governance throughout the business and is committed to delivering long-term sustainable value to our stakeholders whilst complying with the requirements of the Code.

The Corporate Governance Statement, together with the reports of the Nomination, Audit, Risk and Sustainability and Remuneration Committees on pages 102 to 135 set out in greater detail how the principles and provisions of the Code have been fulfilled and how the Board and its Committees have discharged their responsibilities for ensuring robust governance practices operate across the Group.

### BOARD PRIORITIES IN 2021

The Board has fulfilled a wide range of tasks and responsibilities in line with its terms of reference and in accordance with the matters reserved for the Board. A particular focus area during the year was the refreshing of the Group's strategy and capital allocation priorities, with the outcomes of this published at the time of our interim results and which are reiterated in this Annual Report. The Board also approved a £27m investment in the refurbishment of the Wilnecote brick factory and supported by the Risk and Sustainability Committee, spent an increased amount of time considering the Group's sustainability initiatives.

### BOARD PRIORITIES FOR 2022

- Strategy – in 2021 the Board announced the deployment of over £200m on capital projects over the next 10 years which will offer returns significantly above the Group's cost of capital. The Board will evaluate and challenge any specific capital projects, taking into account cost, capacity, and sustainability along with any associated risk;
- Capital allocation - the Board recently approved a £40m share buyback programme which has already commenced. The Board will continue to ensure the Group maintains the financial discipline to ensure that the programme can continue throughout the year until met, notwithstanding the other financial commitments of the Group;
- Desford – the new Desford brick factory is due to be commissioned at the end of 2022 and will be the largest and most modern brick factory in Europe bringing much needed additional brick capacity to the Group. The Board will provide oversight to this important project to ensure that it is delivered on time, to budget and producing product to the required specification;
- Succession planning – as identified in the external Board evaluation, the Board recognises the need to maintain an effective succession plan for both Board and senior management positions and in so doing recognises its commitment to diversity and a fair representation of society; and
- Sustainability – the Board provides oversight to ensure the challenging new targets as set in the prior year are met; monitoring the Groups progress whilst also considering reporting requirements and any emerging technologies.

# CORPORATE GOVERNANCE STATEMENT

## CHAIRMAN'S INTRODUCTION

### CONTINUED

#### SUSTAINABILITY

Sustainability is critical in ensuring our longevity as a business and underpins all elements of our strategy; and we recognise the importance placed on sustainability by our stakeholders. Alongside investing in more sustainable and efficient manufacturing capacity, we have also strengthened our Governance around sustainability matters through the broadening of the terms of reference of our Board's Risk Committee with it becoming the Risk and Sustainability Committee at the beginning of 2021.

Our sustainability progress during the year is laid out in our comprehensive sustainability report included on pages 43 to 76. Our first Sustainability Report, which was included in last year's Annual Report, was well received by stakeholders facilitating a number of open and productive conversations between Management and our stakeholders as to the Group's sustainability strategy and achievements to date. Within this year's Sustainability Report we now include the scenario-based climate modelling required by the Task Force on Climate Related Financial Disclosure (TCFD) which whilst subjective in its nature, helps to identify how rising temperatures could possibly impact our business in the future along with identifying opportunities to potentially capitalise upon our changing climate.

#### BOARD EFFECTIVENESS

We monitor Board effectiveness in accordance with the requirements of the Code and conducted an externally facilitated Board effectiveness review in 2021. This review concluded that the Board is cohesive and continues to operate effectively. Further details of this review and its findings are explained within this Report on pages 99 and 100.

#### COVID-19

The continuing Covid-19 pandemic and associated lockdown restrictions, which continued through much of the first half of the year, had little impact upon our trading but did continue to impact on the way we managed the business. For the most part, our Board meetings were held in person although during the lockdown period at the beginning of the year these were again held online and unfortunately, for the second year running, our AGM was held behind closed doors.

#### CULTURE

The Board sets the culture of the business and leads by example. These behaviours are filtered down through to the Executive Committee and their direct reports to become embedded within the business as evidenced, for example, in our Safety First approach, 'Golden Rules' and core values.

To monitor our culture within the business, and to ensure compliance with the Code, Martin Sutherland has continued as the designated Non-Executive Director responsible for employee engagement attending meetings of the Employee Forum and reporting back to the Board following each meeting. The Forum meets quarterly to discuss subject matters raised by our colleagues to their forum constituency representatives including the Company's culture, operational and health and safety issues as well as topics including choosing a charity for the business to support, and mental health awareness.

#### DIVERSITY

The Board remains committed to furthering all aspects of diversity throughout the organisation and further information is included within this Corporate Governance Statement on pages 99 and 100.

#### Justin Atkinson

Chairman

10 March 2022

#### COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

The Code focuses on the application of principles and supporting provisions that emphasise the value of good corporate governance to long-term sustainable success. The relationship between companies, shareholders and stakeholders are critical to this, as is a focus on culture through alignment of purpose, strategy, integrity and diversity.

Certain provisions of the Code do not apply to smaller companies defined as those, like Forterra, outside of the FTSE 250. The Board is, however, committed to sustaining the higher standards of corporate governance and the application of these principles, provisions and outcomes achieved are disclosed in the Annual Report as required for companies with a UK premium listing. The Board confirms that throughout the year ended 31 December 2021, and as at the date of this report, Forterra plc has complied with all relevant provisions set out in the Code.

The key components of the Code are:

##### 1. BOARD LEADERSHIP AND COMPANY PURPOSE

Led by an experienced Chair, supported by a decisive and diverse Board with a broad range of experience setting the values, culture and purpose which are embedded across the business.

Engagement with shareholders and stakeholders enables the Board to understand their views and promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society, particularly regarding sustainability and our road map to Net Zero.

##### 2. DIVISION OF RESPONSIBILITIES

The Board has an appropriate mix of executive and non-executive directors for balanced decision-making with clear lines of communication to receive accurate and timely information to make informed decisions.

There is a clear division of responsibilities between the leadership of the Board and the executive leadership of the business, and the Non-Executive Directors have sufficient time to meet their Board responsibilities.

#### 3. COMPOSITION, SUCCESSION AND EVALUATION

The Board and its Committees have a combination of skills, experience, and knowledge to discharge their duties, and undergo an annual evaluation as to their effectiveness.

Succession planning remains high on the agenda for the Nomination Committee whilst acknowledging the increased focus to promote diversity of gender, social and ethnic backgrounds and how effectively members work together to achieve objectives.

#### 4. AUDIT, RISK AND INTERNAL CONTROL

The Board has a structured oversight of the internal and external audit function through the establishment of the Audit Committee whose work is covered in more detail on pages 104 to 108.

The Board has also established a separate Risk and Sustainability Committee which monitors the Company's risk register with a focus on emerging risks.

#### 5. REMUNERATION

The Remuneration Committee aligns executive remuneration to the Company's purpose and values by setting clear objectives which are linked with the successful delivery of the company's long-term strategy including environmental, social and governance factors which is covered in more detail on pages 112 to 135. The Committee also has the discretion to override formulaic outcomes to remuneration calculations.

The Remuneration Committee has also appointed new remuneration advisors, Willis Towers Watson who are independent of both the Company and the individual Directors, to assist the Committee in making informed remuneration decisions.



# CORPORATE GOVERNANCE STATEMENT

## 1. BOARD LEADERSHIP AND COMPANY PURPOSE

### PROMOTING LONG-TERM SUSTAINABLE SUCCESS

The Board is responsible for successfully leading the Group in delivering long-term sustainable value to shareholders and for making a positive contribution to wider society. The Board establishes the Company's purpose, values and strategic objectives and ensures that sufficient financial and human resources are in place for the Group to meet its objectives. The Board ensures that a framework of effective controls are in place to enable risk to be assessed and managed.

### MONITORING CULTURE

The Board ensures that the Group's culture aligns with the Company's purpose, values and strategy and that Directors lead by example in promoting the right culture. The Board monitors culture through feedback from the Employee Forum, discussions with employees during site visits and evaluation of employee survey results.

### STAKEHOLDER ENGAGEMENT

Board members engage with stakeholders directly to ensure that the Group is meeting its responsibilities towards them. This engagement with stakeholders allows any matters of concern to be raised and addressed by the Board. Stakeholders not only include shareholders but our workforce (many of whom are also shareholders), lenders, suppliers, customers and the communities in which we operate.

### ADDRESSING STAKEHOLDER CONCERNS IN BOARD DECISION MAKING

In performing their duties under S172(1) of the Companies Act 2006, the Directors give careful consideration to any concerns which the Group's key stakeholders may have, and how these matters are factored into decisions and proposals requiring Board approval.

### ENGAGING WITH SHAREHOLDERS

The Chief Executive Officer and Chief Financial Officer meet regularly with major shareholders and work together with The Joint Brokers to ensure there is effective communication with shareholders on matters such as governance, strategy, and sustainability.

As part of the Group's investor relations programme, meetings with major shareholders are scheduled to discuss the Group's interim and full year results. The Brokers obtain feedback from these meetings and this is considered by the Board allowing all Board members to gain a better appreciation of shareholder views and expectations.

The Chairman wrote to major shareholders in the year offering to meet them and held a number of virtual meetings covering topics including corporate governance, capital allocation and sustainability. The Chairman and Senior Independent Non-Executive Director are always available to meet major shareholders on request.

Although Covid-19 has changed the way in which we interact with our shareholders, engagement has been fully maintained with results presentations delivered virtually and subsequent investor roadshows held using video conferencing. In addition, investor conferences, events which facilitate engagement with large numbers of current and potential shareholders in a short period of time, have also been attended remotely.

Factory tours are provided for major institutional shareholders who express an interest in visiting our facilities and we hope to be able to show more shareholders our progress on the new Desford brick factory in the coming year.

### ENGAGING WITH EMPLOYEES

Engagement with our employees is an area which we have continued to develop throughout the year, enabled directly via the Employee Forum which met four times in 2021. Martin Sutherland is the Non-Executive Director designated with responsibility for understanding the views of the workforce and attends meetings of the Employee Forum in this capacity. The Chief Executive Officer and other members of the management team have continued to present regular podcasts to keep employees updated especially during the period where many were working from home or without access to normal information streams.

In partnership with Gallup, we launched our HearMe employee survey. The key themes arising from the responses to the survey relate to employee recognition and development, particularly at a line manager level. In 2022 we will train all first line leaders on how to conduct qualitative and meaningful conversations with their team members, acknowledging and recognising their contributions and encouraging their development.

Within the survey we also asked additional questions centred around health and safety. The results positively showed that our employees understand Forterra's Golden Rules, they feel safe at work and Forterra lives by the core value of 'Safety First'.

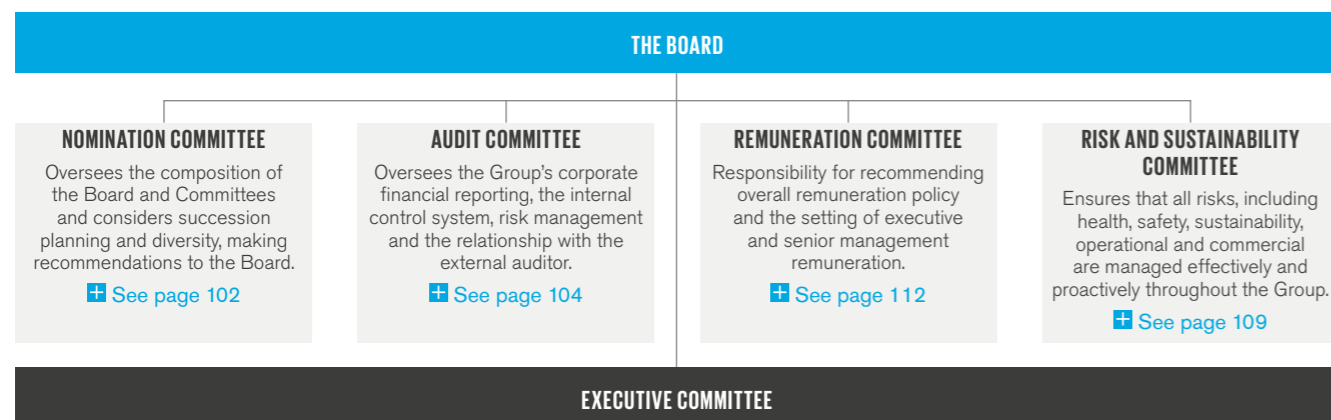
Details of how the Group engages with all of its stakeholders is shown on pages 40 and 41 alongside the Directors' statement in relation to their statutory duty in accordance with S172 (1) of the Companies Act, however engagement specifically at Board level is detailed in the below table:

Stakeholder	Key concerns	Board engagement
<b>Employees</b>	<ul style="list-style-type: none"> <li>Health, safety, and wellbeing</li> <li>Culture, equality, and diversity</li> <li>Talent development</li> </ul>	<ul style="list-style-type: none"> <li>Board members undertake regular health and safety walks</li> <li>Martin Sutherland attends the Employee Forum meeting up to four times per year</li> <li>Defining culture and leading from the top is core to the Board's activities</li> <li>The Board considers the results of employee engagement surveys</li> <li>The Board meets with senior managers at Board Meetings and working dinners</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>Customer service and satisfaction</li> <li>New product development</li> </ul>	<ul style="list-style-type: none"> <li>The Executive Directors regularly meet with customers</li> <li>Corporate events are held where Non-Executive Directors meet with key customers</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>Sustainable and ethical sourcing</li> <li>Maintaining supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Sustainability is a key priority for the Board and delivering against the challenging targets set in 2020</li> <li>Risks to the supply chain such as availability of raw materials and cost inflation including increased energy costs are regularly discussed at Risk and Sustainability Committee meetings</li> </ul>
<b>Community</b>	<ul style="list-style-type: none"> <li>Being a good neighbour</li> </ul>	<ul style="list-style-type: none"> <li>Delivering against the sustainability targets approved by the Board which will improve the environment we live in</li> </ul>
<b>Shareholders and Lenders</b>	<ul style="list-style-type: none"> <li>Group performance</li> <li>ESG matters</li> <li>Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Executive Directors, along with the Chairman and Senior Independent Director regularly meet with large shareholders and lenders</li> <li>A full Sustainability Report is included within this Annual Report</li> </ul>



# CORPORATE GOVERNANCE STATEMENT

## 2. DIVISION OF RESPONSIBILITIES



### DIVISION OF RESPONSIBILITIES

There is a clear division of responsibilities between the roles of Chairman and Chief Executive Officer and these roles are not exercised by the same individual. The Chairman, Justin Atkinson, leads the Board and is responsible for its overall effectiveness. The Chairman sets the Board's agenda, encourages the Directors to contribute openly to debate and ensures the Directors receive accurate, timely and clear information via the Company Secretary to stimulate this debate. The Chief Executive Officer, Stephen Harrison, is responsible for the day-to-day operational and commercial management of the Group including embedding the purpose, values and strategic objectives established by the Board. Stephen is assisted in these duties by the Chief Financial Officer, Ben Guyatt who is responsible for the Group's financial matters along with the Executive Committee.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-Executive Directors are not involved in the day-to-day running of the business and as such are able to provide an external perspective alongside sound judgement and objectivity. Non-Executive Directors receive a fixed level of remuneration for their services and do not benefit from variable remuneration based on Company performance.

Given the size of the Company and its Board, it is thought appropriate and beneficial that each Non-Executive Director sits on each Committee. This better allows the Non-Executive Directors to effectively fulfil their responsibilities in providing constructive challenge, strategic guidance, specialist advice and holding Executive Management to account for both the Group's and their own personal performance. All Non-Executive Directors have the required time to devote to Forterra with the Chairman regularly keeping this under review.

### SENIOR INDEPENDENT DIRECTOR

The Board has identified one of the Independent Non-Executive Directors, Katherine Innes-Ker, as the Senior Independent Non-Executive Director.

In the Senior Independent Non-Executive Director role, Katherine Innes Ker provides a sounding board for the Chairman, serves as an intermediary for the other Directors and also meets the other Independent Non-Executive Directors without the Chairman present to appraise the Chairman's performance.

The Senior Independent Non-Executive Director is available to shareholders if they wish to meet to discuss any matters related to the Group.

### COMPANY SECRETARY

Ashley Thompson the Company Secretary works closely with and supports the Chairman, and the Chairs of the Board Committees in setting agendas and planning meetings ensuring efficient distribution of the complete, accurate and timely information necessary to facilitate Board and Committee discussion. He also advises the Board and Management on all matters relating to corporate governance and is responsible for the management of the AGM.

### INDEPENDENCE OF THE BOARD

The Company recognises the importance of its Non-Executive Directors remaining independent throughout their appointment, as it enables them to provide objective advice and guidance to the Executive Directors and Senior Management.

In considering the independence of each Non-Executive Director, the Board has taken into consideration the guidance provided by the Code, and as such, considers all Non-Executive Directors to be independent in accordance with Provision 10 of such Code, as they each:

- have not been employed by the Company or Group;
- have no material business relationship with the Company or Group;
- do not participate in the Company's employee share plans or pension scheme;
- have not received additional remuneration beyond the Director's fee reported in this Annual Report;
- have no close family ties with any of the Company's Directors, Executive Management, or advisers;
- have no significant links with other Directors through involvement in other companies;
- do not represent a significant shareholder; and
- have not served on the Board for more than nine years from the date of their first appointment.

### SUMMARY OF MATTERS RESERVED FOR THE BOARD

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

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

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

The Nomination Committee Report on pages 102 and 103 outlines the Board's approach to succession planning. The Audit Committee Report on pages 104 to 108 outlines how the Board has applied the Code in respect of financial reporting and internal controls. The Risk and Sustainability Committee Report on pages 109 to 111 explains how the Board has applied the Code in respect of risk management. The Remuneration Committee Report on pages 112 to 135 provides details of the Directors' remuneration received in the year.

Day-to-day management and implementation of strategies approved by the Board is delegated to the Executive Committee which comprises eight senior managers including the two Executive Directors. Membership of the Executive Committee along with biographies is detailed on page 90.

### CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they may have interests which conflict with those of the Company. The Board has adopted procedures as provided for in the Company's Articles of Association for considering and if appropriate, authorising any potential conflicts of interest and for the consideration of, and if appropriate, authorisation of new situations which may arise.

The Company maintains a conflict register which is reviewed at every Board meeting. Currently the only situations authorised and listed on the register are the Directors holding directorships and other similar appointments in companies or organisations not connected with the Company where no conflict of interest has been identified.

# CORPORATE GOVERNANCE STATEMENT

## 2. DIVISION OF RESPONSIBILITIES

CONTINUED

### BOARD MEETINGS

It is the intention of the Board to meet on at least eight occasions a year. In 2021 the Board met on eight scheduled occasions.

The Directors regularly communicate and exchange information regardless of the timing of meetings and should the need arise, a meeting of the Directors can be convened at short notice. In addition to the scheduled meetings the Board also held a number of updates and briefings by telephone and / or video conference during the year mainly in response to the demands of the pandemic.

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

The table below only includes attendance where each Director attended as a member. The Chair, Chief Executive Officer and Chief Financial Officer also attended certain Committee meetings, or parts thereof, as invitees.

Attendance	Board	Risk and			Nomination Committee
		Audit Committee	Sustainability Committee	Remuneration Committee	
Justin Atkinson	8/8	N/A	4/4	3/3	2/2
Stephen Harrison	8/8	N/A	4/4	N/A	N/A
Ben Guyatt	8/8	N/A	4/4	N/A	N/A
Katherine Innes Ker	8/8	4/4	4/4	3/3	2/2
Vince Niblett	8/8	4/4	4/4	3/3	2/2
Divya Seshamani	8/8	4/4	4/4	3/3	2/2
Martin Sutherland	8/8	4/4	4/4	3/3	2/2

Note: The Company Secretary was secretary to each Committee and attended every meeting in this capacity.

# CORPORATE GOVERNANCE STATEMENT

## 3. COMPOSITION, SUCCESSION AND EVALUATION

### BOARD EVALUATION

We conducted an external Board evaluation in 2021 in accordance with the Code, which is a requirement every three years, with the last one having taken place in 2018. The evaluation was led by Clare Chalmers of Clare Chalmers Limited, an independent consultancy with no connection to either the Company or members of the Board. The Board determined that in order for the evaluation to provide an entirely fresh perspective, a different external provider to the one used previously should be engaged.

The evaluation process commenced with preparatory sessions with the Chairman and the Company Secretary followed by interviews with each member of the Board along with the Company Secretary and also with the members of the Executive Committee. These interviews were carried out in a structured manner in order to obtain the participant's perspective on the Board, the information provided to the Board and their Board level interactions.

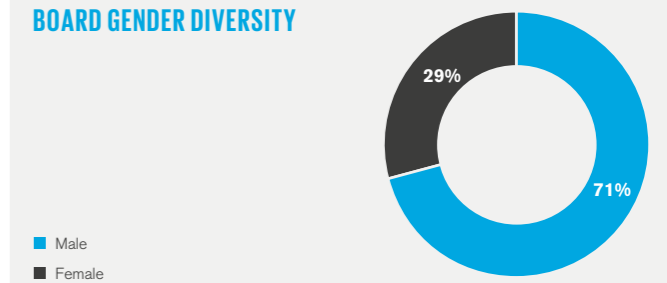
The review also included within its scope an evaluation of the effectiveness of the Board's Committees and Clare Chalmers received a selection of Board and Committee papers. She also attended Board and Committee meetings as an observer. The draft report summarising the findings of the review was first shared with the Chairman and the Chief Executive and then the final report was presented and discussed at a Board meeting which Clare Chalmers attended to provide further context and to openly discuss the outcomes with the Board.

The review concluded that the Board operates effectively, collegiately and with strong relationships between Directors. The Executive Directors were felt to be open and transparent, and the review allowed both the Executive and Non-Executive Directors' to better understand each other's thought processes and requirements of each other in the making of key decisions. The Board was recognised as giving shareholder views a lot of focus with their interests evidently taken into account in making strategic decisions. The review also identified that the level of Board visibility in the business was significantly higher than that observed in many similar companies with the Board conducting regular site visits and safety walks noted as a positive aspect of the Board's work.

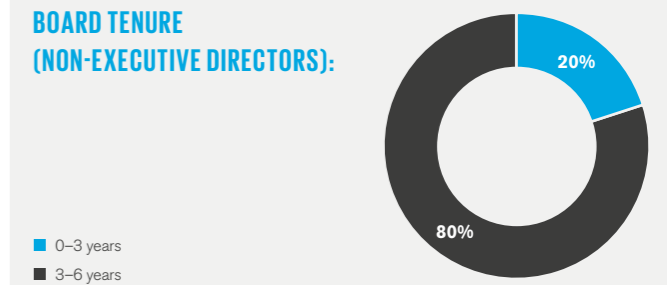
The evaluation identified certain areas for development including the following recommendations:

- To formalise a more strategic approach to planning ahead for future appointments both to ensure there are options for key Board roles, and to avoid several Non-Executive Directors stepping down at around the same time, given current tenures. A skills and diversity matrix should be put in place to take account of current and future skills and governance requirements;

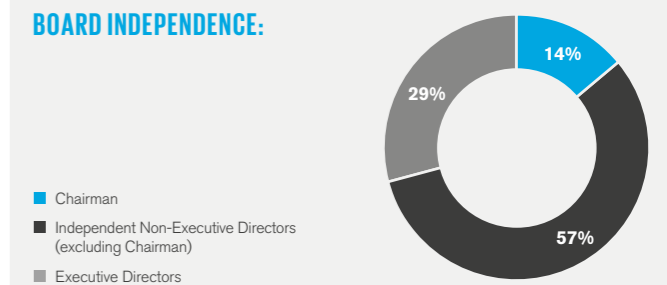
### BOARD GENDER DIVERSITY



### BOARD TENURE (NON-EXECUTIVE DIRECTORS):



### BOARD INDEPENDENCE:



- To clarify the preferred approach to capital allocation and the amount of risk the Board is prepared to take to grow the business;
- To ensure the Board focuses more on the enablers of future success and less on past performances;
- To establish a more formal structured training and development programme for Directors, identifying individual and collective ongoing needs;
- To formalise the Board's process for reviewing past decisions ensuring that where things don't always go to plan, lessons are learned; and
- To consider initiatives to further strengthen and help embed a unified corporate culture across all of the Company's manufacturing facilities.

## CORPORATE GOVERNANCE STATEMENT

### 3. COMPOSITION, SUCCESSION AND EVALUATION

CONTINUED

The Board is able to conclude that it continues to understand its strengths and weaknesses and will address the suggestions from the external evaluation. Notwithstanding these suggestions, the Board can also conclude that its composition and that of its Committees is appropriate, procedures in place are effective, responsibilities are divided clearly, and that the Directors have the skills, experience, independence and knowledge to allow the Board and its Committees to successfully and effectively discharge their duties.

During the year the Senior Independent Non-Executive Director met the other Non-Executive Directors without the Chairman being present; and the Chairman met at least once with each Director on a one-to-one basis. These meetings allowed a full discussion of each Board member's contribution, any feedback from the Board evaluation process and a focus on personal development.

#### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association contain certain powers of removal, appointment, election and re-election of Directors and provide that each Director should retire at the Annual General Meeting if they had been a Director at each of the two preceding Annual General Meetings and are not re-appointed by the Company in general meeting at or since such meeting. A retiring Director shall be eligible for re-appointment. In practice it is intended that all Executive and Non-Executive Directors will retire and put themselves forward for re-election annually at each Annual General Meeting and as such all Directors will stand for re-election at the 2022 Annual General Meeting.

On appointment, Board members disclose their other commitments and agree to allocate sufficient time as necessary to the Company in order to discharge their duties effectively. The current disclosable external commitments of the Board are shown on pages 88 and 89. Any conflicts of interest are dealt with in accordance with the Board's conflict procedures, however this situation has not arisen this year.

#### INDUCTION

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

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

There were no changes to the Board during 2021 and therefore no inductions were required during this period.

#### BOARD DIVERSITY

The Board is committed to furthering diversity at all levels. The Board acknowledges the recommendations of the Hampton Alexander review which recommends that 33% of the Board should be female. In addition, the Board recognises that the Financial Conduct Authority is consulting over targets for at least 40% of the Board to be female, at least one senior member of the Board to be a woman, along with at least one member of the Board to be from a non-white ethnic minority background. As a Company currently outside the FTSE 250, these requirements do not directly apply to Forterra although we do have an aspiration to adhere to governance requirements as if the Company were a member of the FTSE 250.

At present 29% of the Board are female which is assumed to approximate to 33% given the size of the Board with only seven members. One of the senior Board members is a woman and one of the Board is from a non-white ethnic minority background. Diversity covers many facets other than gender and race. The Board has a strong balance of diverse skills, knowledge, experience, and, importantly, education with the Chairman, the Chief Executive Officer and the Chief Financial Officer all having attended state schools.

The Hampton Alexander review also recommends that 33% of senior managers (defined as Executive Committee and their direct reports) should be female. Within Forterra this figure currently stands at 24%.

Gender diversity is a wider issue within our industry. Presently only 11% of our employees are female with many of our roles especially those which are factory based, traditionally being less popular with women and we remain committed to further improvement of our diversity statistics with diversity and awareness training provided to managers during the year although we will continue to recruit based upon capability.

The Company does not presently track statistics of ethnicity.

## CORPORATE GOVERNANCE STATEMENT

### 4. RISK MANAGEMENT

#### INTERNAL CONTROLS AND RISK MANAGEMENT

The Board acknowledges its responsibility under Principle O of the Code for establishing procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks it is willing to take to achieve its long-term strategic objectives.

The Board requested that the Internal Audit function carry out an annual review of the effectiveness of the Group's risk management and internal control systems. This monitoring and review process covered all material controls including financial, operational and compliance controls.

The Board confirms that:

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

The key risks faced by the Group together with their potential impact and mitigating actions are laid out in the Risk Management section of the Strategic Report on pages 77 to 86.

#### DIRECTORS' AND OFFICERS' INSURANCE

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

#### SHARE DEALING CODE

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

Approved by the Board and signed on its behalf:

**Justin Atkinson**  
Chairman

10 March 2022

# NOMINATION COMMITTEE REPORT



**This year we have focused our efforts towards succession planning and getting to better know the senior managers within the business.”**

**Justin Atkinson**

Non-Executive Chairman

## MEMBERSHIP

The members of the Committee are appointed by the Board. At 31 December 2021 the members of the Committee were as follows:

Justin Atkinson (Chairman);

Katherine Innes Ker;

Divya Seshamani;

Martin Sutherland; and

Vince Niblett.

## DEAR SHAREHOLDER,

I am pleased to present the report of the Nomination Committee (the Committee) for 2021. The content below describes the main responsibilities of the Committee. I chair Nomination Committee meetings but would not participate in a meeting when the Committee is dealing with my own position as Chairman.

## RESPONSIBILITIES

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

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

The principal responsibilities of the Committee are as follows:

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

## ACTIVITIES DURING THE YEAR

The Committee has two standing meetings a year. There were no further meetings necessary during the year as there were no changes to the composition of the Board in the year.

In January, the Committee discussed the structure and size of the Board and reviewed in detail the Non-Executives' other appointments to ensure that they had sufficient time to devote to Forterra. The Committee also reviewed the Executive Committee and each member's departmental structure to identify for the purpose of succession planning, future potential candidates for the Executive Committee and how those candidates could develop into the role over time with the appropriate training and support.

In September the Committee discussed each Board member's tenure and the impact this has on succession planning. The Committee discussed gender diversity in more detail and the recently announced Financial Conduct Authority consultation paper and the potential impact this may have on the Company. In addition, the Committee also considered feedback received from our shareholders on this topic. The Committee reviewed medium-term succession planning for the Executive Directors, including considering Management who were thought to be of high potential talent or who could step up over various time periods.

At both meetings, the Committee reviewed the composition of the Board to ensure that it was appropriate and relevant to the Group in both structure and size, including having the skills and knowledge to deliver the agreed strategy.

Further to the board effectiveness exercise noted in the Corporate Governance Statement on page 92, it was suggested that a more formal strategic approach to planning ahead for future appointments could be made. It was also suggested that a skills and diversity matrix should be put in place to take account of current and future skills and governance requirements. Both of these areas will be an area of targeted focus for 2022.

## EXECUTIVE SKILLS AND SUCCESSION PLANNING

A key role of the Committee is ensuring the effectiveness of the Board and its ability to deliver long-term success for the business. Included in this is the continual review of the skills, experience, independence, and knowledge required to ensure the right individuals are in place to support the Company's continued progression and effective implementation of the Group's strategy. As described above, the executive succession plan is monitored by the Committee, alongside the development initiatives to identify and nurture future leaders for the business.



## DIVERSITY AND EQUALITY

The Group has an Equality and Diversity Policy and is committed to encouraging diversity across the business at all levels and to being inclusive. At the end of the year, the Board contained two female Directors (representing 29% of the Board) which compares to 11% of the Group's total workforce being female. Whilst the latter figure is reflective of the nature of the business and the industry in which the Group operates, we are committed to try and address this imbalance in line with the expectations of our stakeholders.

**Justin Atkinson**

Chairman of the Nomination Committee

10 March 2022

# AUDIT COMMITTEE REPORT



**The Committee is closely monitoring the progression of the UK Government consultation on Restoring Trust in Audit and Corporate Reporting so as to determine any potential future impact upon the Group and any additional obligations this may place on the Board and Committee."**

**Vince Niblett**  
Chairman

## MEMBERSHIP

The members of the Committee as at 31 December 2021 were as follows:

Vince Niblett (Chairman);  
Katherine Innes Ker;  
Divya Seshamani; and  
Martin Sutherland.

## DEAR SHAREHOLDER,

I am pleased to present my Audit Committee Report for the year ended 31 December 2021.

The Audit Committee (the Committee) has been delegated responsibility by the Board for protecting the interests of shareholders. Key features of the Committee terms of reference are detailed below; these terms allow the Committee to meet the needs of shareholders and the requirements of the Corporate Governance Code:

- satisfying itself on the integrity of all financial reports;
- ensuring that financial reporting presents a fair, balanced, and understandable assessment of the Group's position and prospects;
- establishing formal and transparent policies and procedures to ensure the independence and effectiveness of both internal and external audit; and
- establishing procedures that manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Group is willing to take in pursuit of its long-term objectives.

The Internal Audit function, which operates on a co-sourced basis with PwC, have conducted audits across 2021 and these have been reported to the Committee along with recommendations for improvement. All of these recommendations have been accepted and have either been implemented or are in progress. Further details of the work undertaken by our Internal Audit function are set out on page 107.

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

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

## RESPONSIBILITIES

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

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

The principal responsibilities of the Committee are to:

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

## ACTIVITIES DURING THE YEAR

During 2021 the Committee formally met on four occasions. In addition to the members of the Committee, other members of the Board, including the Chief Financial Officer, the Head of Internal Audit, representatives from co-sourced internal audit service provider PwC, and the external auditor Ernst & Young joined the Committee meetings by invitation. The external auditor was invited to and attended each meeting of the Committee in 2021. The Company Secretary provided secretarial services to the Committee and attended meetings in this capacity.

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

- review of the Group's annual and half-year financial statements and preliminary results' announcements including review of significant financial reporting issues and matters of judgement inherent within the above;
- review of the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy;
- monitor and review the Group's internal control and risk management systems including the regular review and monitoring of the progress of improvement and enhancement actions identified;
- monitoring of progress against 2021 internal audit programme, following consideration of the risks facing the Group;
- setting of the 2022 internal audit programme;
- review the Internal Audit Function's review of the effectiveness of the Group's risk management and internal control systems and to provide assurance to the Board;
- monitor and review the performance of the co-sourced Internal Audit function confirming that its operating charter remains appropriate;
- review of the audit reports prepared by the Internal Audit function with subsequent oversight of the implementation of recommended improvements;
- review the impact of any changes in financial reporting standards;
- review and approval of the Group's tax strategy;
- review and update of the Committee's terms of reference ensuring they remain in line with best practice;
- consideration of the external auditor's 2021 audit plan including the scope of audit work and the agreement of the 2021 audit fee;
- consideration of the annual letter to those charged with governance and other reports prepared by the external auditor; and
- consideration of the UK Government's Restoring Trust in Audit and Corporate Reporting Consultation and understanding of the implications this may have on the Group and Committee going forward.

# AUDIT COMMITTEE REPORT

## CONTINUED

### SIGNIFICANT FINANCIAL REPORTING RISKS AND JUDGEMENT AREAS CONSIDERED

The following significant risk and judgement areas were considered by the Committee in the review and approval of the 2021 Financial Statements:

#### REVENUE RECOGNITION

The Group recognises revenue when performance obligations are met, which may differ for different products and under different agreements. Under all arrangements the Committee is satisfied that the point that control passes to the customer has been suitably considered and reflected. In addition to this, a number of contracts also contain volume driven rebate mechanisms. The Committee has reviewed the Group's policies and procedures covering the recognition of revenue and the recording of rebate obligations and is satisfied that the balances as at 31 December 2021 are appropriately recorded.

#### RESTORATION AND DECOMMISSIONING PROVISIONS

The Group makes provisions for liabilities in respect of restoration and decommissioning based upon both third-party advice and Management's judgement of the appropriate level of liability likely to arise in the future. The Committee has reviewed the basis and amounts of such provisions as at 31 December 2021 and is satisfied that they are appropriately stated.

#### INVENTORY VALUATION AND PROVISIONING

The Committee has critically reviewed the Group's valuation of its finished goods inventory including the level of provisions recognised against potential obsolescence. This allowed the Committee to concur with Management's assessment that the carrying value of the Group's inventories is appropriately stated.

#### IMPAIRMENT

The Committee has critically reviewed the processes adopted by Management in assessing whether, in their judgement, any indicators of impairment existed and whether any detailed impairment testing should be undertaken. As such, Management reviewed performance against a number of criteria before determining where full impairment assessments were required. The Committee have carefully considered these reviews and associated impairment assessments as well as the assumptions and sensitivities applied by Management in undertaking the impairment testing. Following this review, the Committee concurred with Management's conclusion that no impairments should be recognised due to continued profitable trading. After reviewing management reports and consulting where necessary with the external auditor, the Committee is satisfied that the estimates adopted, and the accounting treatments applied in the preparation of the Financial Statements are appropriate.

### EXCEPTIONAL ITEMS

The scale and nature of the Swadlincote sale in 2021 has led to this profit on disposal, along with the associated redundancy costs, being classified as exceptional when presented in the financial statements. The Committee has been able to critically review the classification of this profit and conclude that the presentation is appropriate.

### RISK MANAGEMENT AND INTERNAL CONTROLS

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

In order to allow the Board to discharge its obligations with regard to Principle O of the revised Code the Board requested that the Internal Audit function carry out an annual review of the effectiveness of the Group's risk management and internal control systems. This monitoring and review process covered all material controls including financial, operational and compliance controls. The Audit Committee reviewed the findings of this review and is able to confirm to the Board that:

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

### INTERNAL AUDIT

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

A co-sourced Internal Audit function is in place, this is headed by an in-house Head of Internal Audit and supplemented by auditing resource and expertise from PwC where required. The Committee continues to believe that this operating model is the most suitable as it combines strong internal business knowledge and understanding with a wide pool of external experience and specialist skillsets to deliver the most effective and responsive solution possible.

The Internal Audit programme runs on a 12-month programme, coterminous with the year-end. During 2021 the function performed work covering areas, including: key financial controls within Bison Precast, controls around energy procurement and management, the success of control improvements within the Group's primary accounting system and assurance workshops. The outcomes of these were presented to the Audit Committee as reports. In addition, the Internal Audit function presented an overview of the possible outcomes following the UK Government's Restoring Trust in Audit and Corporate Reporting Consultation, facilitating discussion and consideration by the Committee.

The Internal Audit function operates to an agreed internal audit programme which is set by the Committee after considering recommendations from the Internal Audit function as well as Executive Management. Internal audit programmes are designed following an assessment of risk and materiality. The Internal Audit function also retains the ability to bring in independent specialists to assist with audit work where more specialist knowledge and understanding is required.

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

### COMMITTEE EXPERIENCE AND COMPETENCE

Provision 24 of the revised Code requires that the Board should satisfy itself that at least one member of the Audit Committee has recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which it operates.

The Board have concluded that Vince Niblett meets the recent and relevant financial experience requirement. Vince Niblett was previously a Partner at international professional services firm Deloitte, where he held a number of senior roles including membership of the UK Board of Directors and Global Managing Director, Audit & Enterprise Risk Services before retiring in 2015. Vince is a Chartered Accountant and also a Non-Executive Director and Chairman of the Audit Committee at Big Yellow Group plc and Target Healthcare REIT.

The Board also considers the wider Committee to have the required competence, skills, and experience and that it is operating effectively and is providing robust challenge to the Executive Directors and the wider business.

### FINANCIAL AND BUSINESS REPORTING PROCESSES

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

These processes include:

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

## AUDIT COMMITTEE REPORT

CONTINUED

### RESTORING TRUST IN AUDIT AND CORPORATE REPORTING CONSULTATION

The Committee is closely monitoring the progression of the UK Government consultation on Restoring Trust in Audit and Corporate Reporting so as to determine any potential future impact upon the Group and any additional obligations this may place on the Board and Committee. The Internal Audit function have held early discussions so as to quantify the level of work that may be required depending on the final outcome of the consultation, and the management are in the process of ensuring the Group control framework is improved, defined, and subject to regular testing. The Committee recognise that the outcome of the exercise, even with uncertainties surrounding the consultation outcome, will strengthen and continue to embed a strong control environment across the Group, and should it be required, equip the Directors to make any annual attestation on the effectiveness of the Group's internal controls over financial reporting that may be required in the future.

### FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Audit Committee has considered whether the 2021 Annual Report is fair, balanced and understandable and whether it provides the necessary information for the Group's shareholders to assess the Group's position, performance, business model and strategy.

### VIABILITY STATEMENT AND GOING CONCERN

Ahead of the publication of the full year financial results for 2021, the Committee undertook a detailed review of the prospects of the Group to ensure ongoing viability. A viability statement was prepared and scenarios modelled which carefully considered recovery from the pandemic to support a recommendation to the Board that the Directors can justifiably state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities to the end of 2025. The viability statement is included in the risk management and key risks section of the Strategic Report.

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

### EXTERNAL AUDIT, AUDITOR INDEPENDENCE AND OBJECTIVITY

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

The Company has complied with the Competition and Markets Authority final order on mandatory tendering and the requirements of the Audit Directive (2014/56/EU). It is the Company's intention to put the audit out to tender at least once every 10 years. Ernst and Young have held the appointment as Auditor since the Company was incorporated in 2016.

The Group's policy is to rotate the lead audit partner very five years. Anup Sodhi was appointed as audit partner in 2021.

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

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

### NON-AUDIT SERVICES POLICY

The Group's non-audit services policy restricts the external auditor from performing certain non-audit services in accordance with the Revised Ethical Standard 2016 issued by the Financial Reporting Council. The Revised Ethical Standard 2019 introduced further restrictions on services not closely linked to the audit, law or regulation and the Group is in compliance with these regulations.

The amounts paid to Ernst & Young for non-audit services during the year are disclosed in note 5 of the Financial Statements. The only non-audit service provided in the year was in respect of the review of the interim financial statements and results announcement. Ernst & Young also has its own policies and procedures in place to ensure it maintains its independence and objectivity and regularly reports to the Committee on its independence.

### WHISTLEBLOWING, FRAUD AND THE BRIBERY ACT

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

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

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

#### Vince Niblett

Chairman of the Audit Committee

10 March 2022

## RISK AND SUSTAINABILITY COMMITTEE REPORT



**At the beginning of 2021 the Committee's remit was expanded to cover sustainability ensuring this important subject and the complex risks that it presents receive sufficient Board attention."**

**Divya Seshamani**

Chairman

### MEMBERSHIP

As at 31 December 2021 the members of the Committee were as follows:

Divya Seshamani (Chairman);

Justin Atkinson;

Stephen Harrison;

Ben Guyatt;

Katherine Innes Ker;

Vince Niblett; and

Martin Sutherland.

### DEAR SHAREHOLDER,

I am pleased to present the report of the Risk and Sustainability Committee for 2021. The purpose of the Committee is to assist the Board in ensuring that all key business risks, including health and safety, sustainability, operational and commercial are identified in a timely manner and managed effectively and proactively throughout the Group.

### RESPONSIBILITIES

The Board elected to establish a dedicated Committee in addition to the Audit Committee to ensure that the management of more operationally focused risks, of which health and safety is of paramount importance benefited from sufficient and detailed Board level consideration. At the beginning of 2021 the Committee's remit was expanded to cover sustainability ensuring this important subject and the complex risks that it presents receive sufficient Board attention.

Working in conjunction with the Audit Committee, the role of the Committee is to assist the Board in fulfilling its oversight responsibilities ensuring the Group properly identifies and manages the key risks it faces. The Committee operates under terms of reference approved by the Board which are summarised as follows:

#### RISK MANAGEMENT

- define and continually review the Group's appetite for risk;
- review the effectiveness of risk management processes in determining whether all risks are being identified, evaluated, monitored, and managed appropriately;
- review of the Group risk register and consider its appropriateness and completeness along with reviewing the appropriateness of the mitigating actions being taken; and
- consider emerging risks which have the potential to impact the business.

#### HEALTH AND SAFETY

- review health and safety policy, considering whether it complies with legislation and best practice and recommend improvements as appropriate;
- implement changes in health and safety policy as necessary; and
- review the effectiveness of the Group's Risk Management function including Health and Safety, ensuring that sufficient resources are devoted to this area and that these resources are appropriately skilled.



# RISK AND SUSTAINABILITY COMMITTEE REPORT

## CONTINUED

### SUSTAINABILITY

- oversee the development of the Group's sustainability policies;
- define the level of the Group's ambitions with regard to reducing environmental impact and addressing climate related risk;
- setting of challenging environmental targets and monitor progress against these;
- monitor the Group's reporting required by the TCFD and other protocols as appropriate; and
- ensure that the Group's sustainability policy still satisfies its desired outcomes and monitor achievement against the targets set.

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

### ACTIVITIES DURING THE YEAR

The key areas of the Risk and Sustainability Committee attention in 2021 are set out further below:

Meeting on four occasions during the year with two of these meetings each focused on health and safety and sustainability related risks with wider risk management topics also addressed across each of the meetings.

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

### RISK MANAGEMENT

Risk management activity in the year was focused on identifying and responding to emerging risks with the direct risks of the Covid-19 pandemic giving way to the wider supply chain risks triggered, at least in part, by the wider global effects of the pandemic. The Committee considered the likely implications and potential mitigations of key supply chain risks both in terms of increasing cost and constrained supply. The Committee also considered the risks associated with energy supplies along with the Group's appetite for such risk, given that the sudden and unprecedented increases in energy prices dramatically alter the risk / reward dynamics associated with forward purchasing energy going forward. Managing the risks around current and future energy supplies is also closely related to the sustainability topics addressed by the Committee during the year.

In reviewing emerging risks and Management responses to a rapidly changing risk environment it was clear that efforts to embed risk management throughout the business in recent years had better equipped the business to identify and respond to the rapidly emerging threats posed by the fast-evolving market and supply chain conditions. Management however have had to take care to effectively prioritise rapidly emerging risks without neglecting other pre-existing / known risks, and the Committee's continued review of the Group's register provide assurance that all risks continue to be afforded proper attention.

Further information regarding the risks faced by the Group is included in the Risk Management section of Strategic Report on pages 77 to 86.

### HEALTH SAFETY AND WELLBEING

Health and Safety remains our number one priority and accordingly continued to be an area of significant focus for the Committee during the year. The Committee considered and provided input into the Group's health and safety strategy which in the year saw a greater focus on safety behaviours and culture with the launch of the four-year Road Map to Zero Harm along with our new simplified golden rules.

In 2019 the Committee commissioned an independent review into the effectiveness of the Group's approach to health and safety and this report was received in early 2020. This review identified that at times safety messaging was found to lack strategic direction. The recommendations of this report included clear roles and responsibilities and to focus on delivery of a clear programme of change and a consistent message to our workforce. During the year, the independent reviewer returned to review our progress against the actions. Whilst progress was somewhat delayed by the pandemic and associated lockdown in 2020, the report concluded that significant progress had been made on improving the direction of safety strategy and leadership through the launch of the simplified Golden Rules and the Road Map to Zero Harm.

In addition, the Committee carried out the following health and safety related duties in the year:

- considered health and safety policy and practices against developments in best practice;
- reviewed health and safety incidents along with Management's response to these incidents, identifying key learnings and further improvements that can be made to existing practices;
- reviewed the outcomes of the safety walks undertaken by members of the Board during the year; and
- evaluated the effectiveness of the Group's Health and Safety function.

### SUSTAINABILITY

Sustainability became part of the Committee's terms of reference from the beginning of the year. The Committee has seamlessly adapted to its new responsibilities with two of its four meetings in the year being sustainability focused with these meetings also being attended by the Group's Sustainability Manager. The Committee has undertaken the following sustainability related tasks during the year:

- reviewing and approving the Group's first comprehensive sustainability report which was published in the 2020 Annual Report and has received positive feedback from stakeholders;
- considering and helping to define the Group's long term electricity supply strategy evaluating the risks and benefits of investing in renewable energy generation and specifically the Power Purchase Agreement (PPA); which will provide around 70% of the Company's electricity requirement from a dedicated solar farm from 2025;
- receiving updates regarding the Group's progress on sustainability initiatives including proposals for on-site renewable generation and reduction of plastic packaging which the Board saw first-hand during a visit to our Accrington factory in October; and
- reviewing the Group's sustainability and climate reporting and disclosure including considering the approach to the scenario-based modelling required by TCFD.

### HEALTH AND SAFETY WALKS

Throughout 2020, the Covid-19 pandemic and the factory closures it enforced along with the need to minimise unnecessary contact, limited the Board's ability to engage in visible felt leadership with the workforce, something that is seen as critical in positively influencing culture from the top.

During 2021 the Board was able to recommence its programme of safety walks with each Board member expected to undertake at least two safety focused site visits, 'safety walks', at the Group's operating facilities, although these were necessarily condensed into the second half of the year due to the restrictions in place for much of the first half. During these visits the Directors' take the opportunity to engage directly and informally with employees on matters relating to Health, Safety and Wellbeing. The Committee considers the feedback from each of these safety walks and regularly reviews progress against identified actions.

These safety walks have been well received by our employees and demonstrate the Board's commitment towards visible felt leadership. In addition, consistent with the objective of fostering a greater awareness of, and responsibility for risk management at an operating site level, the visits also consider wider site-specific risks and mitigations without diminishing the importance placed on Health and Safety.

### Divya Seshamani

Chairman of the Risk and Sustainability Committee

10 March 2022

# REMUNERATION COMMITTEE REPORT



**Our Remuneration Policy is designed to align the interests of the Executive Directors, senior management and employees with the strategic goals of the Group and the long-term interests of our shareholders.”**

**Katherine Innes Ker**  
Chairman

## MEMBERSHIP

The members of the Committee as at 31 December 2021 were as follows:

Katherine Innes Ker (Chairman);  
Justin Atkinson;  
Martin Sutherland;  
Divya Seshamani; and  
Vince Niblett.

## STRUCTURE OF THE REPORT

- Remuneration Committee Report, pages 112 to 135
- Remuneration at a Glance, page 115
- Summary of Remuneration Policy, pages 116 to 123
- Annual Report on Remuneration, pages 124 to 135

## DEAR SHAREHOLDER,

I am pleased to present, on behalf of the Board, the 2021 Directors' Remuneration Report.

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

The Policy was approved by Shareholders at the 2020 AGM and received 95.68% of the votes in favour. Full details of the Policy can be found on pages 116 to 123.

The Committee are comfortable that the Policy has operated as intended during the year and that no changes are necessary. The Policy shall continue to apply until the 2023 AGM at which point the Committee shall review its contents and table the Policy, including any revisions, for Shareholder approval.

The Committee operates under terms of reference approved by the Board, a copy of which is available on the Company's website. During 2021 and to the date of this report, the key activities of the Committee are laid out below with full details set out in the relevant sections of this report.

## 2021 OVERVIEW

Whilst the year started with a third national lockdown which lasted until March, all of the Group's facilities continued operating and robust demand for our products enabled a strong performance. Despite the headwinds faced in 2021 from increasing cost inflation, the Group delivered a good overall performance during the year. The Executive Directors' bonus awards reflect this performance and also recognises the achievement made in delivering against the Group's strategy and capital allocation priorities.

Good progress was made towards delivering the new Desford brick factory in line with the timetable and budget. The refurbishment of the Wilnecote brick factory that was announced during the year, is also progressing in line with expectations and the investment in brick slip manufacturing at our Accrington facility further demonstrates the progress in delivering our strategy.

## 2021 SALARY AND FEES

No salary increases had been awarded at the start of the year, but an undertaking was given to review this in June. Accordingly, in view of the strong performance of the business, salaries were reviewed at the half year with an increase of 2% awarded across the Group, effective 1 July 2021, with a 1% increase backdated to 1 January 2021. The base salaries of the Chief

Executive Officer, Stephen Harrison, Chief Financial Officer, Ben Guyatt, the Chairman's fee, and Non-Executive Directors' base fee, were increased in accordance with the arrangements applied to the workforce as a whole.

Following changes to the terms of reference of the Risk Committee at the beginning of 2021 to include sustainability, it was renamed the Risk and Sustainability Committee. The Remuneration Committee determined that in light of the increased remit, the fee received by Divya Seshamani for chairing this Committee should increase from £4,000 to £7,000 per annum effective 1st July 2021. This brings the fee into line with those received by the chairs of both the Audit and Remuneration Committees.

## 2021 ANNUAL BONUS

The 2021 bonus outcomes reflect the Company's strong financial performance during the year and fulfilment of personal objectives.

The profit before tax (PBT) of £50.7m exceeded the maximum target of £46.5m and was also well ahead of expectations at the start of the year, driven by the strength of recovery from the pandemic resulting in the Executive Directors' being awarded 100% of the maximum for profit related element of their bonus. When added to the achievement against personal objectives, Stephen Harrison, Chief Executive Officer (CEO) earned 97.81% of his maximum potential annual bonus for 2021 and Ben Guyatt, Chief Financial Officer (CFO) earned 97.25% of his maximum potential annual bonus for 2021.

No adjustments or discretion has been applied the formulaic outcome for the 2021 annual bonus.

## PERFORMANCE SHARE PLAN AWARDS (PSP) VESTING IN 2021

The 2018 PSP award was due to vest in March 2021. This award was granted with half of the award subject to an earnings per share (EPS) performance condition measured over three financial years and the other half subject to a total shareholder return (TSR) performance condition measured over three years from grant. Both the EPS and TSR performance conditions were not met and therefore the 2018 PSP awards did not vest.

The 2019 PSP award is due to vest in March 2022. Half of the award is subject to an EPS condition measured over three financial years. As the EPS condition has not been met, this element of the award will not vest in March 2022 and accordingly no value is included in the single figure of remuneration for the year ended 31 December 2021. The outcome of the other half of the award, which is subject to a relative TSR condition measured over three years from grant, will not be known until the vesting date of 29 March 2022. The value will be included in next year's single figure remuneration should it vest.

## PERFORMANCE SHARE PLAN (PSP) AWARDS GRANTED DURING THE YEAR 2021

The 2021 grant of awards under the PSP was made in accordance with the Policy at 150% of salary for Stephen Harrison and 125% of salary for Ben Guyatt. The award ensures that Directors' interests remain aligned to those of Shareholders through an appropriate weighting of long-term variable share-based remuneration and provides the opportunity to receive competitive rewards of stretching performance goals. For this award the Committee agreed a change to the group of companies against which the Total Shareholder Return (TSR) performance is measured and is now measured against the constituents of the FTSE 250 index excluding investment trusts. Previously the performance metric was based on a basket of twenty industry and sector peer group companies.

## 2022 OVERVIEW

### 2022 SALARY AND FEES

In line with the Policy, the Committee considered the base salaries of the Executive Directors, Stephen Harrison (CEO) and Ben Guyatt (CFO) and awarded a 3% increase effective 1 January 2022. This was in line with the increases awarded to the salaried employees of the Group. The Executive Directors' also determined that the fee payable to the Non-Executive Directors should also increase by 3%, although additional fees payable for chairing committees and other responsibilities remained unchanged.

### CHAIRMAN'S FEE

In line with the increases awarded to the salaried employees of the Group, the Committee recommended that the fee payable to Chairman was increased by 3% effective 1 January 2022.

### 2022 ANNUAL BONUS

The Committee reviewed the operation of the Annual Bonus Plan during the year. The objective is to achieve a balance between financial performance and, through a clear link with objectives and reward, ensure that the right behaviours are being driven. It was agreed that financial performance and personal business objectives continue to form the basis of the 2022 annual bonus.

The following metrics and weighting will apply for the 2022 annual bonus:

- 75% of maximum opportunity: profit before tax
- 25% of maximum opportunity: non-financial / strategic objectives.

# REMUNERATION COMMITTEE REPORT

CONTINUED

The threshold has been set at a level above the actual achieved PBT for 2021, with a significant stretch to the maximum opportunity. These will be reported retrospectively following the end of the performance period, as the targets are currently considered to be commercially sensitive. These targets reflect the continued strength of the Group's key markets and current trading conditions.

## 2022 PERFORMANCE SHARE PLAN (PSP) AWARDS

Grant levels for the 2022 PSP will be in line with the prior year at 150% of salary for Stephen Harrison (CEO) and 125% of salary for Ben Guyatt (CFO).

The performance targets to be applied to the 2022 PSP awards are disclosed within this Report. The awards are structured in the same way as the 2021 awards with half of the awards to be granted subject to an EPS performance condition and the other half subject to a TSR performance condition.

The Committee have given due consideration to the range of the EPS growth targets having considered the Group's strategic forecasts and in particular, expected returns from the major capital projects at Desford and Wilnecote. The EPS targets are not directly comparable with those relating to the 2021 grant where the base year was the Covid-19 impacted 2020. The range also reflects the ongoing £40m share buyback which will benefit EPS going forward as well as the forthcoming increase in the headline rate of UK Corporation tax which will have the effect of reducing EPS.

In respect of the portion of the award subject to a TSR performance condition the index comprises the unweighted FTSE 250 participants (excluding investment trusts). This is unchanged from 2021.

The Committee continues to consider the inclusion of a sustainability based performance target within future PSP awards, although recognises that the selection of an appropriate performance measure that rewards the long-term actions necessary to deliver meaningful long-term decarbonisation but which is also objectively measurable over the 3 year term of our PSP awards is complex. For this reason the Committee will not add a sustainability-based performance measure to the 2022 PSP awards but will continue to review this ahead of our Remuneration Policy being put forward for binding shareholder vote at the 2023 AGM.

## EMPLOYEE INCENTIVISATION AND REWARD

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

We have included further content to this report providing more information in respect of wider workforce remuneration including disclosures related to gender pay reporting.

## SHARE INCENTIVE PLAN (SIP)

In order to recognise the commitment of our employees and encourage greater employee engagement and share ownership, to mark the fifth anniversary of our IPO, a second free award of shares under SIP, to the value of £500 each was awarded to all serving employees on 10 February 2021.

## SHARESAVE PLAN

The Committee also continued its commitment to encouraging employee share ownership by approving the offer and subsequent grant of share options under the Forterra Sharesave Plan. There was continued uptake of this offer from employees such that over half of our workforce continue to save by investing in the Forterra Sharesave Plan.

## SHAREHOLDER ENGAGEMENT

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

This Remuneration Committee Report will be subject to an advisory vote at the 2022 AGM. Our goal has been to be clear and transparent in the presentation of this report and I look forward to your support on this resolution.

## Katherine Innes Ker

Chairman of the Remuneration Committee

10 March 2022

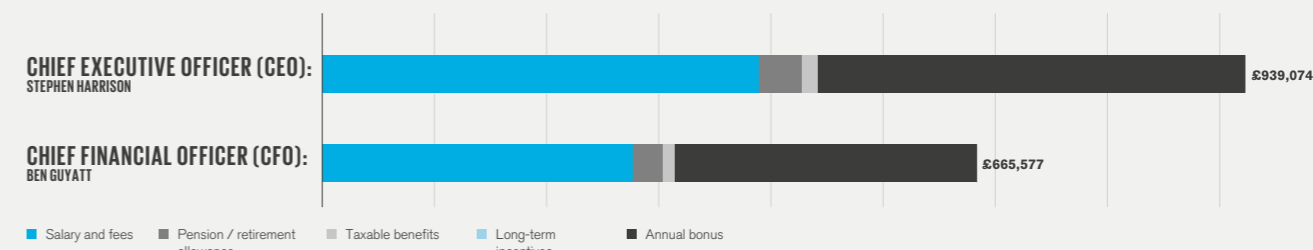
Note:

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

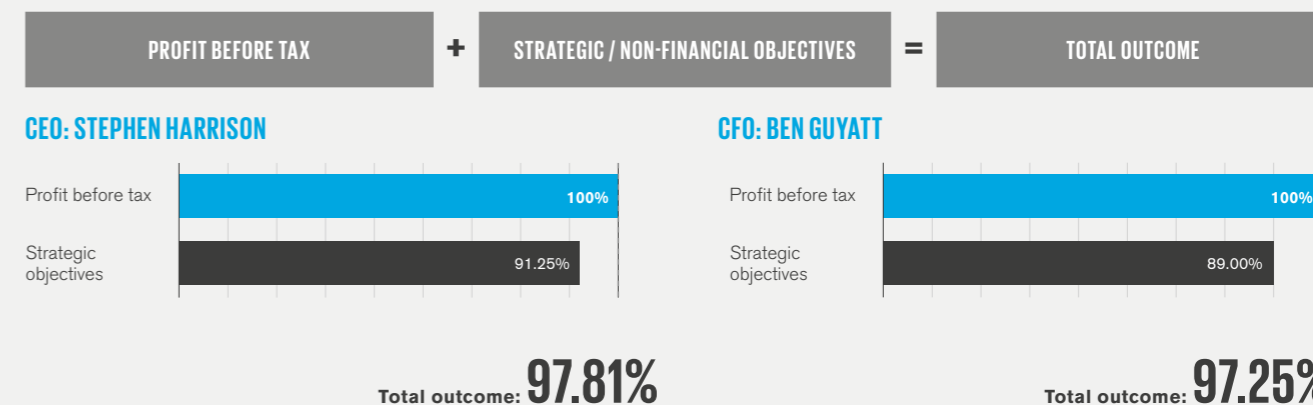
# REMUNERATION COMMITTEE REPORT

## REMUNERATION AT A GLANCE

### SINGLE TOTAL FIGURE OF REMUNERATION



### ANNUAL BONUS

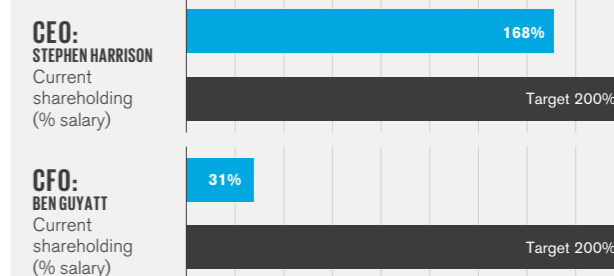


### PERFORMANCE SHARE PLAN (PSP)



### DIRECTORS' SHAREHOLDINGS

Share ownership plays a key role in aligning the interests of our Executive Directors with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in Forterra.



# REMUNERATION COMMITTEE REPORT

## SUMMARY OF REMUNERATION POLICY

### INTRODUCTION

This Directors' Remuneration Policy provides an overview of the Company's policy on Directors' pay that was applied in 2021 and will continue to apply until the 2023 AGM. It sets out the pay structures that the Company will operate and summarises the approach that the Committee will adopt in certain circumstances such as the recruitment of new Directors and / or the making of any payments for loss of office.

### POLICY OVERVIEW

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

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

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

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

Factor	How our remuneration policy aligns
<b>Clarity</b> Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	<ul style="list-style-type: none"> <li>Martin Sutherland remains the designated Non-Executive Director to represent the views of employees to the Board, and when appropriate this will include decisions on remuneration across the business. This is facilitated through the existing Employee Forum.</li> <li>We proactively consult our shareholders on any changes to the Remuneration Policy and seek their views.</li> </ul>
<b>Simplicity</b> Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	<ul style="list-style-type: none"> <li>The Remuneration Policy includes a single annual bonus plan and a single long-term incentive plan (the Performance Share Plan) which are clearly communicated.</li> <li>The rationale for each element of the policy is clearly explained in the Remuneration Policy tables.</li> </ul>
<b>Risk</b> Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	<ul style="list-style-type: none"> <li>The Committee has discretion to override formulaic out-turn of performance incentives and scale back if it considers it appropriate to do so.</li> <li>Awards made under long-term incentive plans are subject to malus and clawback provisions.</li> <li>Post-vesting holding periods and shareholding requirements align the interests of management and shareholders and promote a long-term approach to performance and risk management.</li> <li>Performance metrics are aligned with the Company's strategy, incentivising delivery of sustained performance over the long-term.</li> <li>Defined limits are set on the maximum awards which can be earned.</li> </ul>
<b>Predictability</b> The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	<ul style="list-style-type: none"> <li>The Remuneration Policy sets out potential levels of vesting available for varying degrees of performance.</li> <li>The Remuneration Report illustrates the total remuneration opportunity for Executive Directors under various performance scenarios.</li> <li>There is full and transparent retrospective disclosure of targets within the Remuneration Report and the degree to which long-term incentive awards were achieved.</li> </ul>
<b>Proportionality</b> The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	<ul style="list-style-type: none"> <li>The Committee retains the flexibility to vary the mix of metrics for long-term incentive plans, considering the business priorities at the time, or to introduce new measures to support the long-term business strategy.</li> <li>The use of post-vesting holding periods and long-term incentive plans ensure focus on sustained performance over the long-term.</li> <li>The Committee has discretion to override formulaic out-turn of performance incentives and scale back if it considers it appropriate to do so to ensure poor performance is not rewarded.</li> </ul>
<b>Alignment to culture</b> Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	<ul style="list-style-type: none"> <li>The performance objectives applying to the incentives are aligned with the Company's strategy which in turn is supported by Company values.</li> <li>The Remuneration Policy places a focus on share ownership through shareholding requirements and incentive plans, incentivising delivery of sustained, long-term performance in the Company.</li> </ul>

### THE REMUNERATION POLICY FOR DIRECTORS

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

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
<b>Salary</b>	Salary is a fixed payment that reflects an individual's experience and role and may be increased to reflect capability and performance. To recruit and retain executives.	Salaries are paid monthly and are normally reviewed annually with changes effective from 1 January but by exception may be reviewed more frequently if the Committee determines this is appropriate. In reviewing salaries, the Committee considers: <ul style="list-style-type: none"> <li>remuneration practices within the Group;</li> <li>market benchmarks based on companies of broadly comparable size and / or operating in similar sectors;</li> <li>role, competence and performance; and</li> <li>the general increase awarded to salaried employees.</li> </ul> Higher increases may be awarded to new Executive Directors who were hired at below market rates but with the intention to move to a market competitive rate over time, subject to individual performance.	It is anticipated that salaries will generally be increased in line with increases awarded to salaried employees. However, in certain situations such as where there has been an increase in the scope, responsibility or complexity of the role or there has been a significant change in the size, value or complexity of the Group, increases may be higher to remain market competitive.	Individual and Group performance is taken into account when determining the annual increase. The rationale for any such increase will be disclosed in the Annual Report on Remuneration.
<b>Benefits</b>	The Company's aim is to offer competitive and cost-effective benefits valued by participants and to help recruit and retain executives.	A range of benefits are provided to Executive Directors that may include a company car (or car allowance), private medical and permanent health insurance, business travel insurance and life assurance / death in service cover. Relocation (or other related expenses) and tax equalisation arrangements may be offered as appropriate to ensure Directors are no worse or better off in a case of relocation. Any reasonable business-related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit. Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.	The cost of providing market competitive benefits may vary from year-to-year depending on the cost to the Company from third party providers. The Committee will continue to monitor the cost of benefits to ensure that the overall benefit costs do not increase by more than the Committee considers appropriate in the circumstances.	No performance metrics apply.
<b>Pension</b>	To provide a market-competitive cost-effective contribution towards post-retirement benefits.	Executive Directors receive a contribution towards their retirement provision which may be paid as a contribution to a personal pension scheme or a cash allowance in lieu of pension or a mix of both.	The Company contribution to retirement allowances is up to 10% of salary, which is aligned to that offered to all employees.	No performance metrics apply.

# REMUNERATION COMMITTEE REPORT

## SUMMARY OF REMUNERATION POLICY

CONTINUED

### THE REMUNERATION POLICY FOR DIRECTORS CONTINUED

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
<b>Annual bonus</b>	<p>Annual Bonus Plan is to incentivise Executive Directors to achieve annual financial and / or strategic targets.</p> <p>Bonus deferral provides a retention mechanism and provides further alignment with shareholders' interests.</p>	<p>Bonus payments are determined by the Committee after the year-end, based on performance against the targets set around the start of the year.</p> <p>The Committee aims to set out in the Annual Report on Remuneration the nature of the targets and their weighting for the forthcoming financial year and details of the performance conditions, the weightings and targets applied and the level of achievement against these targets for the financial year being reported on.</p> <p>The first 10% of salary is payable in cash. Up to half of any remainder of the bonus may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply.</p> <p>In line with good practice, recovery and withholding provisions apply (see note 1).</p> <p>An additional payment (in the form of cash or shares) may be made in respect of shares that vest to reflect the value of dividends that would have been paid on those shares during the vesting period.</p>	<p>The maximum opportunity under the annual bonus scheme is 100% of salary.</p> <p>Bonus starts to be earned at the threshold level (up to 25% of the maximum depending on the performance metric).</p>	<p>The bonus may be based on the achievement of an appropriate mix of challenging financial, operational or strategic measures.</p> <p>Typically, financial measures will account for the majority of the bonus opportunity and may include measures such as profit or cash flow. Other financial measures that support the key short-term priorities of the business may be used. The targets applying to financial metrics will take into account the internal plan and external expectations of the business at the time they are set.</p> <p>If operational, individual or strategic measures are included, where possible a performance range will be set although this will depend on the measure chosen.</p> <p>The measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic priorities at the time (see note 2).</p> <p>The payment of any bonus is at the absolute discretion of the Committee which may scale-back the formulaic out-turn of the bonus if it considers it appropriate to do so.</p>
<b>Long-term incentives</b>	<p>The Performance Share Plan (PSP) incentivises Executive Directors and selected senior management to deliver sustained performance over the long term.</p> <p>The Plan also acts as a method of retaining key management over the medium-term.</p> <p>Aligns the interests of the Executive Directors and shareholders and assists Executive Directors in building up a substantial shareholding.</p>	<p>Awards are granted annually in the form of nominal or nil cost options under the PSP and vest after no less than three years.</p> <p>Stretching performance conditions measured over a period of three years determine the extent to which awards vest.</p> <p>A holding period may apply to vested PSP awards under which Executive Directors will be required to retain the net of tax number of vested awards for at least two years from the date of vesting. In exceptional circumstances, the Committee may, at its discretion, allow participants to sell or dispose of some or all of these vested shares before the end of the holding period.</p> <p>Details of performance conditions for grants made in the year will be set out in the Annual Report on Remuneration.</p> <p>Award levels are reviewed annually (subject to the PSP individual limits) taking into account matters such as market practice, overall remuneration, the performance of the Company and the Executive Director being made the award.</p> <p>In line with good practice, recovery and withholding provisions may apply (see note 1).</p> <p>Dividends may accrue based on the value of dividends paid during the three-year vesting period and two-year holding period (if applicable).</p>	<p>The maximum annual award under the PSP that may be granted to an individual in any financial year is 200% of salary in normal circumstances (250% of salary in exceptional circumstances).</p> <p>The Committee expects to retain the current grant levels of 150% of salary for the CEO and 125% of salary for the CFO and these will be kept under review over the life of the policy.</p> <p>For each measure, up to 25% of the relevant part of the award would vest for achieving the threshold level of performance, normally increasing on a straight-line basis to 100% for achieving maximum performance.</p>	<p>Vesting is based on the achievement of one or more challenging performance targets set by the Remuneration Committee at the time of grant and measured over a three-year period.</p> <p>Measures may include EPS growth (or another financial metric) or TSR. TSR will apply for at least part of each award under the life of this policy.</p> <p>In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long-term business plan and external expectations.</p> <p>The Committee retains the flexibility to vary the mix of metrics for each year's award in light of the business priorities at the time or to introduce new measures to support the long-term business strategy (see note 3).</p> <p>In respect of awards granted in 2020 and beyond, the Committee has the discretion to override the formulaic out-turn of the award and scale-back if appropriate to do so.</p>

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
<b>All-employee share plans</b>	To increase alignment between employees and shareholders in a tax efficient manner.	<p>All-employee share schemes may be operated.</p> <p>Current schemes include:</p> <ul style="list-style-type: none"> <li>• Sharesave Plan (SAYE);</li> <li>• Share Incentive Plan (SIP); and</li> <li>• Other HMRC approved all-employee schemes may be introduced at the Committee's discretion.</li> </ul>	Consistent with prevailing HMRC limits.	No performance metrics apply.
<b>Share ownership policy</b>	To align interests of Management and shareholders and promote a long-term approach to performance and risk Management.	<p><b>In-post</b></p> <p>Executive Directors are required to build up a shareholding in the Company equal to 200% of salary. Half of the net of tax number of vested PSP and DABP awards are expected to be retained until the guideline is met.</p> <p>The value of vested but unexercised awards subject to a two-year holding period will count towards the guideline on a net of tax basis.</p> <p><b>Post-cessation</b></p> <p>Leavers will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure for one year post-cessation, reducing to 50% of their in-post share ownership requirements for the second year.</p> <p>Shares acquired by or granted to an Executive Director prior to 1 January 2020 will not be counted towards the requirement. Shares purchased by an Executive Director, along with shares granted or acquired prior to appointment to the Board will also not be counted towards the requirement.</p>	Not applicable.	No performance metrics apply.
<b>Non-Executive Directors' fees</b>	To attract and retain high-quality and experienced Non-Executive Directors.	<p>The fees of the Non-Executive Directors are set by the Board and the Chairman's fee is set by the Committee (the Chairman does not take part in any discussion regarding his own fees). Fees are reviewed periodically.</p> <p>Non-Executive Directors receive a fee for carrying out their duties. Additional fees may be payable in relation to extra responsibilities undertaken such as chairing a Board Committee and / or a Senior Independent Director or other designated Non-Executive Director role.</p> <p>The Chairman and Non-Executive Directors are entitled to reimbursement of reasonable business-related expenses (including any tax thereon). They do not participate in any incentive arrangements and they do not receive a pension contribution.</p> <p>The level of fees reflects the time commitment and responsibility of their respective roles.</p>	<p>Details of current fees are set out in the Annual Report on Remuneration.</p> <p>As set out in the Company's Articles of Association, the total fees paid to Non-Executive Directors must not exceed £1 million a year or any higher amount agreed by ordinary resolution at a general meeting.</p>	No performance metrics apply.

Note 1: **Recovery and withholding provisions.** Recovery and withholding provisions apply to the Annual Bonus Plan, the DABP and the PSP. If, within three years of the payment of a bonus, grant of a deferred bonus award and / or vesting of a PSP award, it transpires that payment or vesting should not have occurred as a result of a material misstatement, error in calculation, gross misconduct has been discovered, corporate failure, material damage to the Company's reputation, failure of risk management, or any other circumstances that the Board considers to have a similar nature or effect the payment or vesting can be recovered or withheld, in part or in full, as appropriate.

Note 2: **Annual bonus performance metrics.** The annual bonus measures are reviewed annually and reflect key financial, strategic and operational priorities of the Group. Stretching financial targets are set by the Committee by taking account of the Company's business plan and external expectations. For 2022, it is intended that these will be based on profit and non-financial / strategic objectives reflecting the short-term priorities of the Group.

Note 3: **Performance Share Plan metrics.** For 2022 awards the performance condition will be relative TSR and EPS. The use of relative TSR provides a measure of the long-term success of the Company relative to appropriate peer or index comparators. EPS growth is a measure of the overall profitability of the business for investors over the longer term and therefore helps align the interests of management with shareholders.

# REMUNERATION COMMITTEE REPORT

## SUMMARY OF REMUNERATION POLICY

CONTINUED

### INCENTIVE PLAN DISCRETIONS

The Committee will operate the Annual Bonus Plan, including the Deferred Annual Bonus Plan, and the Performance Share Plan according to their respective rules and summarised in the policy set out on previous pages. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include, but are not limited to, the following:

- who participates in the plan;
- the timing of grant and / or payment;
- the size of an award and / or payment;
- the choice of performance measures and targets for each incentive plan in accordance with the policy set out on previous pages and the rules of each plan;
- the ability to vary any performance conditions if circumstances occur which cause the Remuneration Committee to determine that the original conditions have ceased to be appropriate provided that any change is fair and reasonable and in the Committee's opinion, not materially less difficult to satisfy than the original condition;
- discretion to override formulaic outcomes and scale-back outcomes under the annual bonus and PSP;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction; and
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

### REMUNERATION POLICY FOR OTHER EMPLOYEES

The policy described above applies specifically to the Company's Executive and Non-Executive Directors and is designed with regard to the policy for employees across the Group as a whole. The Company aims to apply similar principles to the design of the remuneration arrangements for all employees. Executive Directors are entitled to receive a similar package of benefits and participate in the pension plan at the same level as other employees. However, differences do exist between the Company's policy for the remuneration of the Executive Directors and its approach to the payment of employees generally, reflecting market practice and different levels of seniority:

- there are differences in salary levels and in the levels of potential reward depending on seniority and responsibility, although a key reference point for executive salary increases is the average increase across the general workforce;
- a lower level of maximum annual bonus opportunity (or zero bonus opportunity) may apply to employees;
- performance metrics attached to the annual bonus may differ to reflect the precise roles and responsibilities of the employee; and
- participation in the PSP is limited to the Executive Directors and certain selected senior employees.

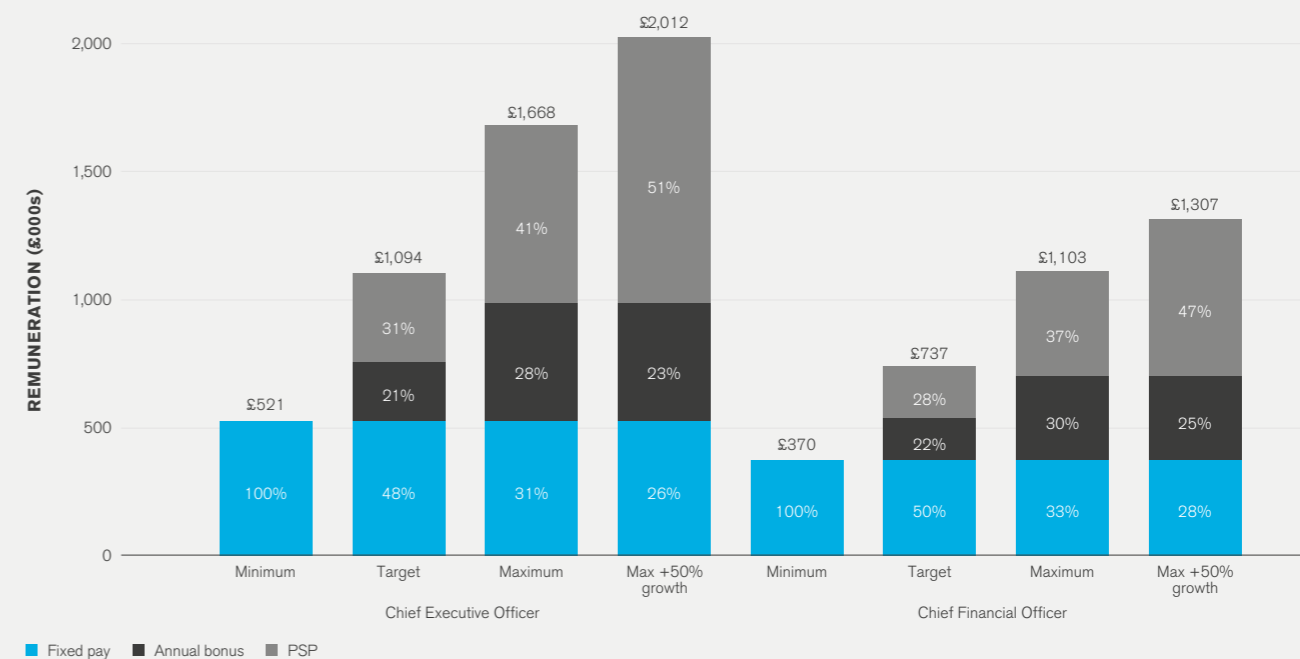
In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of employee. They also reflect that, in the case of the Executive Directors and selected senior employees, a greater emphasis is placed on performance related pay reflecting their influence over the Company's performance.

### HOW THE VIEWS OF SHAREHOLDERS AND EMPLOYEES ARE TAKEN INTO ACCOUNT

In setting the remuneration for the Executive Directors, the Committee takes note of the overall approach to reward for employees in the Group, and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates on employee remuneration within the Group as necessary. In line with the UK Corporate Governance Code, Martin Sutherland remains the designated Non-Executive Director to represent the views of employees to the Board, and when appropriate this will include decisions on remuneration across the business. This is facilitated through the Employee Forum.

### ILLUSTRATIONS OF APPLICATION OF REMUNERATION POLICY

#### TOTAL REMUNERATION OPPORTUNITY



Notes:

- Minimum is equivalent to fixed pay which comprises salary levels applying for 2022, the value of benefits in 2021 and a 10% pension contribution.
- Target comprises fixed pay plus the value of the on-target bonus at 50% of the maximum bonus opportunity (100% of salary) plus the value of the on-target level of vesting under the PSP which is taken to be 50% of the expected 2022 grant level.
- Maximum comprises fixed pay plus maximum bonus plus the maximum value of the PSP (equal to 100% of the face value of the award at grant using the 2022 grant policy of 150% of salary for the CEO and 125% of salary for the CFO).
- Maximum + 50% share price growth comprising fixed pay plus maximum bonus plus the maximum value of the PSP at a 50% higher share price than when the PSP award was granted.

### SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

#### SERVICE CONTRACTS

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

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

# REMUNERATION COMMITTEE REPORT

## SUMMARY OF REMUNERATION POLICY

### CONTINUED

#### SERVICE CONTRACTS CONTINUED

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

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

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

#### POLICY ON PAYMENT FOR LOSS OF OFFICE

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

Element	Treatment
<b>Annual Bonus Plan</b>	<p>No automatic or contractual right to bonus payment.</p> <p>Good leavers: a pro-rata bonus may become payable at the normal payment date for the period of employment and based on full-year performance. With rationale set out in the Annual Report on Remuneration.</p> <p>Bad leavers: no bonus is payable for the year of cessation.</p> <p>Discretions:</p> <ul style="list-style-type: none"> <li>▪ To determine whether to pro-rate the bonus for time. It is the Committee's normal policy to pro-rate for time, however, there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.</li> </ul>
<b>Deferred Annual Bonus Plan</b>	<p>Good leaver: all deferred shares vest at the date of cessation.</p> <p>Bad leavers: awards lapse.</p> <p>Discretions:</p> <ul style="list-style-type: none"> <li>▪ To vest deferred shares at the end of the original deferral period or to defer vesting in connection with a potential clawback event.</li> </ul>
<b>Performance Share Plan</b>	<p>Good leaver: awards vest at normal vesting date and pro-rated for time and tested for performance in respect of each subsisting PSP award.</p> <p>Bad leaver: awards lapse.</p> <p>Discretions:</p> <ul style="list-style-type: none"> <li>▪ To vest and measure performance over the original performance period or vest and measure performance at the date of cessation or to defer vesting in connection with a potential clawback event.</li> <li>▪ To determine whether to pro-rate the maximum number of shares for the time from the date of grant to the date of cessation (the Committee may need to round up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.</li> </ul>
<b>Shareholding requirements</b>	<ul style="list-style-type: none"> <li>▪ All leavers will be required to hold the lower of 100% of their in-post share ownership requirement or their actual holding on departure for one-year post-cessation, reducing to 50% of their in-post share ownership requirements for the second year. Shares acquired by or granted to an Executive Director prior to 1 January 2020 will not be counted towards the requirement. Shares purchased by an Executive Director along with any shares granted or acquired prior to appointment to the Board, will also not be counted towards the requirement.</li> </ul>

#### CHANGE OF CONTROL

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

Element	Treatment
Annual Bonus Plan	Pro-rated for time and performance to the date of the change of control.
Deferred Annual Bonus Plan	Subsisting DABP awards will vest on a change of control.
Performance Share Plan	<p>The number of shares subject to existing PSP awards will vest on a change of control pro-rated for time and performance to the date of the change of control.</p> <p>Discretions:</p> <ul style="list-style-type: none"> <li>▪ To determine whether to pro-rate the maximum number of shares from the time from the date of grant to the date of the change of control (the Committee may round-up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate.</li> </ul>

#### LETTERS OF APPOINTMENT

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

#### APPROACH TO RECRUITMENT AND PROMOTIONS

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

On recruitment, salary may (but need not necessarily) be set below the normal market rate, with phased increases as the Executive Director gains experience. The rate of salary should be set so as to reflect the individual's experience and skills. The pension offered to new Executive Directors will be set in line with the current policy and in alignment with the majority of employees in the Group.

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

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

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

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

#### POLICY ON EXTERNAL APPOINTMENTS

Subject to Board approval, Executive Directors are permitted to take on a single paid non-executive position with an unconnected company and to retain their fees in respect of such position. Where appropriate, details of outside directorships held by the Executive Directors and any fees that they received are provided in the Annual Report on Remuneration. Stephen Harrison holds outside appointments held in the capacity of representing the Group on trade associations and similar bodies and receives no remuneration in respect of these.

#### LEGACY ARRANGEMENTS

For the avoidance of doubt, any remuneration or loss of office payments that are not in line with this policy may be made if the terms were agreed before the approval of this policy, including those disclosed in the Prospectus. In addition, authority is given to the Company to honour any commitments entered into at a time when the relevant employee was not a Director of the Company.

# REMUNERATION COMMITTEE REPORT

## ANNUAL REPORT ON REMUNERATION

### SINGLE FIGURE OF REMUNERATION (AUDITED)

#### EXECUTIVE DIRECTORS

Executive Directors	Period	Fixed			Variable		Total	Total fixed remuneration	Total variable remuneration
		Salary and fees <sup>4</sup>	Taxable benefits <sup>1</sup>	Retirement allowance	Annual bonus <sup>2</sup>	Long-term incentives <sup>3</sup>			
Stephen Harrison	2021	£443,373	£15,555	£44,337	£435,809	–	£939,074	£503,265	£435,809
	2020	£414,979	£22,678	£43,682	–	£267,350	£748,689	£481,339	£267,350
Ben Guyatt	2021	£314,650	£11,957	£31,465	£307,505	–	£665,577	£358,072	£307,505
	2020	£294,500	£12,369	£31,000	–	£46,785	£384,654	£337,869	£46,785

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

2. Details of the bonus targets and their level of satisfaction and resulting bonus earned are set out below. No bonuses were paid to Executive Directors' in relation to 2020.

3. The long-term incentives reported against 2021 comprises the total amount vested under the TSR condition of the 2018 PSP grant which vested on 28 March 2021 and the EPS condition of the 2019 PSP condition which is calculated over the three year reporting period to 31 December 2021 and is therefore known at the year-end date. Both these performance conditions vested at nil.

4. In April, May and June 2020, the Executive Directors voluntarily waived 20% of their fee in recognition of the salary reductions experienced by employees placed on furlough.

#### BASE SALARY (AUDITED)

No salary increases had been awarded at the start of the year, but an undertaking was given to review this in June 2021. Accordingly, in view of the strong performance of the business, salaries were reviewed at the half year and an increase of 2% was awarded across the Group, effective 1 July 2021, with a 1% increase backdated to 1 January 2021. The base salaries of the Chief Executive Officer, Stephen Harrison and the Chief Financial Officer, Ben Guyatt were increased by the same percentages.

#### PENSION AND BENEFITS (AUDITED)

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

A range of benefits are provided to the Executive Directors including a company car (or car allowance), private medical, permanent health insurance and life assurance / death in service cover.

#### ANNUAL BONUS (AUDITED)

2021 annual bonus entitlement is calculated as follows: 75% based on Company PBT and 25% individual performance against strategic objectives.

#### ASSESSMENT AGAINST BONUS OBJECTIVES

The 2021 bonus awards payable to the Executive Directors were agreed by the Committee having reviewed the Company's results. Details of the targets used to determine bonus entitlements and to the extent that they have been satisfied are shown below. These figures are shown in the single figure table at the top of this page.

Bonus payments are calculated on closing 2021 salaries following the 2% increase awarded to the Executive Directors in the year, Stephen Harrison's closing 2021 salary was £445,556 and Ben Guyatt's £316,200.

Detailed performance assessment of the financial targets is provided in the table below.

	Weighting	Threshold performance required	Actual performance achieved	Maximum performance required	Percentage of maximum value achieved		Bonus £ value achieved	
					Stephen Harrison	Ben Guyatt	Stephen Harrison	Ben Guyatt
PBT (before exceptional items)	75%	£27.35m	£50.7m	£46.5m	100.00%	100.00%	£334,167	£237,150
Strategic objectives	25%				91.25%	89.00%	£101,642	£70,355
Total (% of maximum)	100%				97.81%	97.25%		
<b>Total</b>							<b>£435,809</b>	<b>£307,505</b>

### STRATEGIC OBJECTIVES

The strategic objectives comprising 25% of the overall bonus opportunity and their achievement are set out in full below.

Element	Objectives	Assessment of Achievement	% of maximum bonus payable in respect of strategic objectives
<b>Stephen Harrison</b>	Objectives linked to: Delivery of long-term strategy including Desford brick factory investment; definition of capital allocation priorities; improvement of behavioural safety and definition of, and subsequent delivery of demonstrable progress towards the Group's sustainability targets.	Desford project running to budget and timetable. Capital allocation priorities communicated to shareholders and well received with clarity on returns of capital to shareholders provided in early 2022. Investment projects at Wilnecote and Accrington announced. Comprehensive ESG strategy defined and included in 2021 Annual Report with demonstrable progress in a number of areas. Roadmap to Zero Harm launched.	91.25%
<b>Ben Guyatt</b>	Objectives linked to: Delivery of long-term strategy including the Desford brick factory investment; definition of capital allocation priorities; and definition of, and subsequent delivery of demonstrable progress towards the achievement of the Group's sustainability targets.	Desford project running to budget and timetable. Capital allocation priorities communicated to shareholders and well received with clarity on returns of capital to shareholders provided in early 2022. Investment projects at Wilnecote and Accrington announced. Comprehensive ESG strategy defined and included in 2021 Annual Report with demonstrable progress in a number of areas.	89.00%

There was a high degree of commonality between Stephen Harrison and Ben Guyatt's objectives, with both heavily focused on the delivery of strategy, defining capital allocation priorities and delivering progress towards challenging sustainability targets. However, these differed within the remit of each individual's role in line with their financial and operation priorities.

When calculating the element of any bonus to be deferred into shares, the first 10% of salary is payable in cash. Up to half of any remainder may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply. The Committee have reviewed this formulaic outcome and are satisfied that no further discretionary adjustment is required.

A full breakdown of the bonus and payments and share award deferral is set out below:

	Bonus total	Paid in cash	Paid in shares
Stephen Harrison	£435,809	£240,182	£195,627
Ben Guyatt	£307,505	£169,563	£137,942



# REMUNERATION COMMITTEE REPORT

## ANNUAL REPORT ON REMUNERATION

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### LONG-TERM INCENTIVES (AUDITED)

#### 2018 PERFORMANCE SHARE PLAN

The 2018 PSP awards vested on 28 March 2021. The TSR element of this award is included in this year's single figure table, however this vested at nil. The EPS condition for this award was measurable over a three-year performance period to 31 December 2020 and was previously reported in the 2020 Annual Report and Accounts.

	2018 PSP Performance condition	Weighting	% vesting (max. 100%)	Date of end of performance period	Date of vesting	Share price on vesting	Total shares vesting	Value of vesting shares
Stephen Harrison	EPS growth	50%	0.00%	31-Dec-20	28-Mar-21	£2.87	–	–
	Dividend equivalent on EPS						–	–
	Total Shareholder Return	50%	0.00%	28-Mar-21	28-Mar-21	£2.87	–	–
	Dividend equivalent on TSR						–	–
	<b>Total</b>		<b>0.00%</b>				<b>–</b>	<b>–</b>
Ben Guyatt	EPS growth	50%	0.00%	31-Dec-20	28-Mar-21	£2.87	–	–
	Dividend equivalent on EPS						–	–
	Total Shareholder Return	50%	0.00%	28-Mar-21	28-Mar-21	£2.87	–	–
	Dividend equivalent on TSR						–	–
	<b>Total</b>		<b>0.00%</b>				<b>–</b>	<b>–</b>

Performance condition	% of award subject to condition	Growth	% of PSP award which will vest
Annual growth in basic EPS before exceptional items over a pro-forma 2017 EPS of 24.5p	50%	<5% per annum 5% per annum 11% per annum or above	0% 25% 100%
Company's total TSR against Index TSR	50%	< Index TSR At Index TSR Index TSR plus 25 percentage points	0% 25% 100%

Vesting is measured on a straight-line basis between the above performance points.

#### 2019 PERFORMANCE SHARE PLAN

The 2019 PSP awards have a vesting date of 29 March 2022, although the vesting criteria of the part of the award subject to an EPS performance condition can now be measured and as such is included in the 2021 Single Figure Table shown on page 124, along with the 2018 PSP award TSR vesting value. Due to the EPS for the 2019 PSP vesting at nil, no amount has been included.

	2019 PSP Performance Condition	Weighting	% vesting (max. 100%)	Date of end of performance period	Date of vesting	Share price at end of performance period	Total shares vesting	Value of vesting shares
Stephen Harrison	EPS Growth	50%	<b>0.00%</b>	31-Dec-21	29-Mar-22	£2.76	–	–
Ben Guyatt	EPS Growth	50%	<b>0.00%</b>	31-Dec-21	29-Mar-22	£2.76	–	–

Performance condition	% of award subject to condition	Growth	% of PSP award which will vest
Annual growth in basic EBP before exceptional items over a pro-forma 2018 EPS of 26.5p	50%	<5% per annum 5% per annum 11% per annum or above	0% 25% 100%
Company's total TSR against Index TSR	50%	< Index TSR At Index TSR Index TSR plus 25 percentage points	0% 25% 100%

Vesting is measured on a straight-line basis between the above performance points.

The index for both the 2018 and 2019 PSP awards comprised the following companies: Kingspan Group plc, Howden Joinery Group plc, Breedon Group plc, Ibstock plc, Marshalls plc, Polypipe Group plc, Tyman plc, Volution Group plc, Low & Boner plc and Eurocell plc.

### NON-EXECUTIVE DIRECTORS (AUDITED)

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

	Roles	Period	Fees <sup>1</sup>	Total
Justin Atkinson	Non-Executive Chairman	<b>2021</b>	<b>£148,566</b>	<b>£148,566</b>
		2020	£139,051	£139,051
Divya Seshamani <sup>2</sup>	Independent Non-Executive Director	<b>2021</b>	<b>£59,845</b>	<b>£59,845</b>
		2020	£54,653	£54,653
Martin Sutherland	Independent Non-Executive Director	<b>2021</b>	<b>£54,333</b>	<b>£54,333</b>
		2020	£50,853	£50,853
Katherine Innes Ker	Senior Independent Non-Executive Director	<b>2021</b>	<b>£71,446</b>	<b>£71,446</b>
		2020	£67,003	£67,003
Vince Niblett <sup>2</sup>	Independent Non-Executive Director	<b>2021</b>	<b>£61,359</b>	<b>£61,359</b>
		2020	£57,502	£57,502

1. In April, May and June 2020, the Chairman and Non-Executive Directors voluntarily waived 20% of their fee in recognition of the salary reductions experienced by employees placed on furlough.

2. Overpayments of £1,918 and £2,018 were erroneously made to Divya Seshamani and Vince Niblett respectively in the prior year. Both balances were repaid in full in February 2021 and the amounts are excluded from the figures above.

### PERFORMANCE SHARE PLAN AWARDS MADE DURING THE YEAR

On 30 April 2021 the following awards were granted to Executive Directors.

	Type of award	Basis of award granted <sup>1</sup>	Share price used to determine no. of options granted	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Stephen Harrison	Nominal (1p) cost option	150% of salary of £436,820	£2.95	222,112	£655,230	25%	Three years to 30 April 2024
Ben Guyatt	Nominal (1p) cost option	125% of salary of £310,000	£2.95	131,356	£387,500	25%	Three years to 30 April 2024

1. The number of options granted was calculated using the salary in place for each Executive Director at the date of grant on 30 April 2021.

Performance condition	% of award subject to condition	Growth	% of PSP award which will vest
Absolute EPS (before exceptional items) reported for the year ended 31 December 2023	50%	< 18.2p Equal to 18.2p 23.5p or above	0% 25% 100%
Company's total TSR against Index TSR – measured at 31 December 2023	50%	< Median Median Upper quartile or above	0% 25% 100%

Vesting is measure on a straight-line basis between the above performance points.

1. The number of options was determined using a share price of £2.95 being an amount equal to the average mid-market closing price for the five days prior to grant.

The Index comprises the unweighted FTSE 250 participants (excluding investment trusts).

### DEFERRED ANNUAL BONUS PLAN AWARDS MADE DURING THE YEAR

No awards were made to Executive Directors under the Deferred Annual Bonus Plan during 2021.

# REMUNERATION COMMITTEE REPORT

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### DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

Share ownership plays a key role in the alignment of our Executive Directors with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in Forterra. Where an Executive Director does not meet this guideline, then they are required to retain at least 50% of the net of tax vested shares under the Company's share plans until the guideline is met. The number of shares held by the Directors as at 31 December 2021 are as follows.

	Shareholding requirement (% salary)	Current shareholding (% salary) <sup>1</sup>	Beneficially owned <sup>2</sup>	Deferred shares not subject to performance conditions <sup>3</sup>	Unvested PSP (nominal cost options subject to performance conditions) <sup>4</sup>	Vested PSP (nominal cost options not subject to performance conditions)	Unvested DABP (nominal cost options not subject to performance conditions) <sup>5</sup>	Outstanding Sharesave awards <sup>6</sup>	Shareholding requirement met
<b>Executive Directors</b>									
Stephen Harrison	200%	168%	266,262	461	790,794	–	35,652	12,080	No
Ben Guyatt	200%	31%	35,217	461	384,265	–	–	12,080	No
<b>Non-Executive Directors</b>									
Justin Atkinson	n/a	–	35,256	–	–	–	–	–	n/a
Divya Seshamani	n/a	–	7,538	–	–	–	–	–	n/a
Martin Sutherland	n/a	–	10,064	–	–	–	–	–	n/a
Katherine Innes Ker	n/a	–	3,564	–	–	–	–	–	n/a
Vince Niblett	n/a	–	11,946	–	–	–	–	–	n/a

1. As at 31 December 2021. This is based on a closing share price of £2.76 and the year-end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.

2. Includes shares owned by connected persons.

3. This relates to shares awarded granted under the Forterra All-Employee Share Incentive Plan (SIP) and does not include dividend shares accrued on the free share awards. The balance includes the free share awards May 2016 of 277 shares, and the free share award from 2021 of 184 shares.

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

5. This relates to DABP awards relating to the partial deferral of the 2019 annual bonus granted in the form of nominal (1p) cost options which are not subject to performance criteria.

6. During 2020, grants were made under the 2020 Sharesave Scheme with an exercise price of £1.49, resulting in a 20% discount at grant date and an exercise date of 1 December 2023.

### SUMMARY OF SHARE OPTION AWARDS

	Type of award	Date granted	At 1 January 2020	Awarded during the year	Vested during the year	Lapsed / cancelled during the year	At 31 December 2021
Stephen Harrison	PSP	Apr-21	–	222,112	–	–	<b>222,112</b>
	PSP	Sep-20	344,858	–	–	–	<b>344,858</b>
	PSP	Mar-19	223,824	–	–	–	<b>223,824</b>
	PSP	Mar-18	209,599	–	–	(209,599)	<b>–</b>
	DABP	Mar-19	35,652	–	–	–	<b>35,652</b>
	DABP	Mar-18	42,167	–	(42,167)	–	<b>–</b>
	SAYE	Oct-20	12,080	–	–	–	<b>12,080</b>
<b>Total</b>							<b>838,526</b>
Ben Guyatt	PSP	Apr-21	–	131,356	–	–	<b>131,356</b>
	PSP	Sep-20	203,947	–	–	–	<b>203,947</b>
	PSP	Mar-19	48,962	–	–	–	<b>48,962</b>
	PSP	Mar-18	45,850	–	–	(45,850)	<b>–</b>
	SAYE	Oct-20	12,080	–	–	–	<b>12,080</b>
<b>Total</b>							<b>396,345</b>

PSP awards granted in 2020 are subject to following the performance conditions.

Performance condition	% of award subject to condition	Growth	% of PSP award which will vest
Company's total TSR against Index TSR	100%	< Index TSR	0%
		At Index TSR	25%
		Index TSR plus 25 percentage points	100%

Vesting is measured on a straight-line basis between the above performance points.

The index comprises the following companies: Barratt Developments, Bellway, Berkeley Group Holdings, Countryside Properties, Crest Nicolson Holdings, Grafton Group, Grainger, Howdon Joinery Group, Ibstock, Kingspan Group, Marshalls, Michelmersh Brick Holdings, Persimmon, Polypipe Group, Redrow, SIG, St. Mowden Properties, Taylor Wimpey, Travis Perkins and Vistry Group.

### PAYMENTS TO PAST DIRECTORS / PAYMENTS FOR LOSS OF OFFICE (AUDITED)

There were no payments to past directors or for loss of office during 2021.

### IMPLEMENTATION OF THE REMUNERATION POLICY FOR THE YEAR ENDING 31 DECEMBER 2022

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2022 is set out below:

#### BASE SALARY

The 2022 review of Executive Directors' and all employees' salaries took place in January 2022 and a 3.0% increase has been applied in line with the general increase awarded to all salaried staff. The increases took effect from 1 January 2022.

	2022	2021 <sup>1</sup>	% Increase
Stephen Harrison	<b>£458,923</b>	£445,556	3.0%
Ben Guyatt	<b>£325,690</b>	£316,200	3.0%

1. 2021 base salary is stated as the salary in place at the 31 December 2021, which includes the 2% pay increase awarded in July 2021.

#### PENSION AND BENEFITS

The Committee intends that the implementation of its policy in relation to pension and benefits will be in line with the Policy disclosed on page 117 of this report and as detailed on page 124 for the year ended 31 December 2021.

#### ANNUAL BONUS

The maximum annual bonus for the year ending 31 December 2022 will be 100% of salary for Executive Directors. Awards will be determined based on a combination of the Group's financial results, being profit before tax (75%) and strategic performance (25%).

The specific financial targets were confirmed in early 2022. These are considered commercially sensitive. However, the Committee intends to disclose these retrospectively in next year's Annual Report on Remuneration along with details as to their achievement to the extent that they do not remain commercially sensitive. The strategic objectives for 2022 are also considered commercially sensitive. Stretching targets aligned to the Group's strategy have been set.

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

#### PERFORMANCE SHARE PLAN (PSP)

The Committee expects to grant 2022 awards under the PSP in March 2022. Half of the awards shall be subject to a stretching EPS performance condition which reflects the Board's aspirations for growth supported by the investments in the brick factories at Wilnecote and Desford. The other half of the awards will be subject to a TSR performance condition with the comparator group being the unweighted FTSE 250 participants (excluding investment trusts).

The Committee continues to consider the inclusion of a sustainability-based performance target within future PSP awards although recognises that the selection of an appropriate performance measure that rewards the long-term actions necessary to deliver meaningful long-term decarbonisation but which is also objectively measurable over the three-year term of our PSP awards is complex. For this reason the Committee will not add a sustainability-based performance measure to the 2022 PSP awards but will continue to review this ahead of our Remuneration Policy being put forward for binding shareholder vote at the 2023 AGM.

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The Committee expects to grant 2022 PSP awards as follows:

	Type of award	Basis of award granted <sup>1</sup>	Vesting determined by performance over
Stephen Harrison	Nominal (1p) cost option	150% of salary of £458,923	Three years to March 2025
Ben Guyatt	Nominal (1p) cost option	125% of salary of £325,686	Three years to March 2025

Performance condition	% of award subject to condition	Growth	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a 2021 EPS of 17.5p	50%	< 11%	0%
		Equal to 11%	25%
		26% or above	100%
Company's total TSR against TSR of index members - measured at 31 December 2024	50%	< Median	0%
		Median	25%
		Upper quartile or above	100%

Vesting is measured on a straight-line basis between the above performance points.

1. The number of options will be determined using a share price equal to mid-market closing price for the five days prior to grant.

The Committee have given due consideration to the range of the EPS growth targets having considered the Group's strategic forecasts and in particular, expected returns from the major capital projects at Desford and Wilnecote, both of which expected to create significant shareholder value. The Committee acknowledges that the target range is a wide one, and believe that this is appropriate given the Board's growth expectations and that it sufficiently stretching with the threshold annual growth of 11% being greater than any previous (non-pandemic impacted) year. The targets are not directly comparable with those relating to the 2021 grant of awards, where the base year was the Covid-19 impacted 2020. The range also reflects the ongoing £40m share buyback which will benefit EPS going forward as well as the 6% increase in the headline rate of UK Corporation tax which will have the effect of reducing EPS.

In respect of the portion of the award subject to a TSR performance condition the index comprises the unweighted FTSE 250 participants (excluding investment trusts). This is unchanged from 2021.

### FEES FOR CHAIRMAN AND NON-EXECUTIVE DIRECTORS

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

	2022	2021 <sup>1</sup>	% Increase
Non-Executive Chairman	<b>£153,780</b>	£149,297	3.0%
Non-Executive Director base fee	<b>£56,240</b>	£54,601	3.0%
Additional fees:			
Senior Independent Director	<b>£10,000</b>	£10,000	–
Audit Committee Chairman	<b>£7,000</b>	£7,000	–
Remuneration Committee Chairman	<b>£7,000</b>	£7,000	–
Risk and Sustainability Committee Chairman <sup>2</sup>	<b>£7,000</b>	£4,000	75.0%

1. 2021 base salary is stated as the salary in place at the 31 December 2021, which includes the 2% pay increase awarded in July 2021.

2. Following changes to the terms of reference of the Risk Committee at the beginning of 2021 to include sustainability, it subsequently renamed the Risk and Sustainability Committee with effect from 1st July 2021. The Remuneration Committee determined that in light of the increased remit, the fee received by Divya Seshamani for chairing this Committee should increase from £4,000 to £7,000 per annum effective 1st July 2021. This brings the fee into line with those received by the chairs of both the Audit and Remuneration Committees.

The 2022 review of Chairman's fee and Non-Executive Director base fee took place in January 2022. The increase of 3.0% is in line with the general increase award to all salaried staff. The fees payable to the Chairman and the Non-Executive Directors are reviewed on an annual basis, such review will not necessarily lead to an increase.

### CHIEF EXECUTIVE OFFICER'S REMUNERATION HISTORY

The table below sets out the total Chief Executive Officer's remuneration for 2021, together with the percentage of maximum annual bonus awarded in that year. A summary of remuneration paid will be provided and built up over time until 10 years of data is shown.

Chief Executive Officer	2021	2020	2019	2018	2017	2016
Single total figure	<b>£939,074</b>	£748,689	£1,052,599	£893,054	£762,476	£985,806 <sup>4</sup>
Annual bonus (% of maximum)	<b>97.81%</b>	–	–	60.50%	72.00%	50.25%
PSP vesting (% of maximum)	<b>–</b>	45.00% <sup>3</sup>	72.00% <sup>2</sup>	36.90% <sup>1</sup>	–	–

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

2. Relates to the element of 2017 PSP award subject to an EPS growth performance measure with a measurement period ending 31 December 2019 and the element of the 2016 PSP award subject to the TSR measure with the period ending 26 April 2019.

3. Relates to the average of 2018 PSP award subject to an EPS growth performance measure with a measurement period ending 31 December 2020 and the element of the 2017 PSP award subject to the TSR measure with the period ending 26 April 2019.

4. Includes one-off bonus agreed prior to IPO of £400,000.

### CHANGE IN EXECUTIVE & NON-EXECUTIVE DIRECTORS REMUNERATION COMPARED WITH EMPLOYEES

The Committee ensures that the Executive Directors' remuneration outcomes remain appropriate and consistent with the wider workforce. The pay awards and bonus outcomes in the year are consistent with the wider workforce.

	Changes 2020 to 2021			Changes 2019 to 2020		
	Base salary change <sup>2</sup>	Benefits change	Annual bonus	Base salary change <sup>2</sup>	Benefits change	Annual bonus
Stephen Harrison (CEO)	6.8%	(9.7)%	100.00% <sup>1</sup>	(3.1)%	–	–
Ben Guyatt (CFO) <sup>4</sup>	6.8%	0.1%	100.00% <sup>1</sup>	–	–	–
Martin Sutherland (NED)	6.8%	–	–	(3.1)%	–	–
Katherine Innes Ker (NED)	6.8%	–	–	(3.1)%	–	–
Justin Atkinson (NED)	6.8%	–	–	(3.1)%	–	–
Vince Niblett (NED)	6.8%	–	–	(3.1)%	–	–
Divya Seshamani (NED)	6.8%	–	–	(3.1)%	–	–
Average for all other employees <sup>3</sup>	1.5%	4.8%	215.9%	2.05%	–	100% <sup>5</sup>

1. No bonus was payable to Ben Guyatt or Stephen Harrison in 2020. The bonus for 2021 is therefore presented as a 100% increase.

2. The percentage presented is calculated using base salary considering the three month voluntary deduction in salary of 20% taken by the Executive and Non-Executive Directors during 2020 due to the Covid-19 pandemic.

3. The average base salary increase for all other employees is based on the average increase awarded in 2020 and 2021 and does not include the impact of furlough.

4. Ben Guyatt was appointed as Chief Financial Officer on 1 January 2020 and therefore no movement was presented in the table in relation to his remuneration for the period 2019 to 2020.

5. No bonus was payable in 2019. The bonus in for 2020 for the average employee is therefore presented as a 100% increase.

### PERFORMANCE GRAPH

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

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### TOTAL SHAREHOLDER RETURN



This graph shows the value, by 31 December 2021, of £100 invested in Forterra plc on 20 April 2016, compared with the value of £100 invested in the FTSE SmallCap (excl. Investment Trusts) and the FTSE All Share Construction & Materials on a daily basis. The other points plotted are the values at intervening financial year-ends.

### CHIEF EXECUTIVE OFFICER PAY RATIO

The CEO to average employee pay ratio in 2021 was 22.6 times. This is measured as the ratio of the CEO single figure pay earned in the year to average (mean) employee pay. The Remuneration Committee is steadfastly committed to ensuring that the reward of the CEO and other senior executives is commensurate with performance. Accordingly, as laid out graphically in the Remuneration Policy, a significant element of the Chief Executive's total pay is variable and is determined based on the performance of the Company and is dependent on share price performance.

	2021	2020
Ratio of CEO single figure total remuneration to average employee remuneration	<b>23:1</b>	19:1

The Regulations require us to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table, to that of the median, 25th and 75th percentile total remuneration of full-time equivalent UK employees.

The table below shows the relevant data for Forterra's employees for 2021, calculated using Option B as set out in the legislation.

Year	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
<b>2021</b>	<b>Option B</b>	<b>27:1</b>	<b>24:1</b>	<b>21:1</b>
2020	Option B	19:1	19:1	18:1

Pay details for the individuals whose 2021 remuneration is at the median, 25th percentile and 75th percentile amongst UK based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£443,373	£28,839	£31,768	£42,797
Total pay and benefits	£939,074	£34,659	£38,925	£44,430

The median, 25th percentile and 75th percentile employees used to determine the above ratios were identified by using gender pay gap data and full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and long-term incentives) of all UK based employees of the Group as at 31 December 2021 (i.e. Option B) under the Regulations. The Committee selected this calculation methodology as it was felt to produce the most consistent result.

### GENDER PAY REPORTING

Following the impact of the Covid-19 in 2020 when the initial lockdown resulted in the majority of our factories temporarily ceasing production and over 1,500 employees being placed on furlough, 2021 saw the business return to full production. As a consequence the April 2020 Gender Pay Reporting was unrepresentative, as 75% of the workforce were on furlough leave making year-on-year comparisons difficult. Forterra continues to be committed to ensuring its policies and practices adopt fair and equal principles when it comes to all aspects of diversity and inclusion. On that basis it is more meaningful to compare 2021 Gender Pay Reporting data against 2019 Gender Pay Reporting data.

Our Gender Pay Reporting statistics (adhering to reporting guidelines) for the year ended April 2021 are as follows:

#### 2021 MANDATORY METRICS

From the following table, 2021 results show that versus males, a woman's:

- mean hourly rate is 12.1% lower;
- median hourly rate is 21.6% lower;
- mean bonus pay is 66.2% lower; and
- median bonus pay is 70.0% lower.

Metric <sup>1,2</sup>	2021	2020 <sup>3</sup>	2019
Mean gender pay gap (%)	<b>11.4%</b>	7.8%	17.7%
Median gender pay gap (%)	<b>21.6%</b>	7.6%	19.7%
Mean gender bonus gap (%)	<b>66.2%</b>	46.7%	54.6%
Median gender bonus gap (%)	<b>70.0%</b>	59.2%	56.0%

1. The mean and median gender pay gap has been calculated using April 2021 pay, allowances, bonuses, share exercises, recognition awards and other relevant metrics.

2. Executive and Non-Executive Directors are excluded from the gender pay gap report as they are employed by Forterra plc and not Forterra Building Products Ltd.

3. 2020 Gender Pay Gap report not representative due to employees being placed on furlough.

The mean Gender Pay gap has improved by 6.3% in 2021 compared to 2019.

Consideration should be given that whilst 2020 was a difficult year financially, in recognition of our employees remaining committed and helping us achieve a better than expected performance in the second half of 2020, a discretionary bonus was awarded in March 2021 to salaried employees. Whilst the profit element was not achieved, employees were awarded half of the maximum bonus potential linked to their personal objectives. This equated to 12.5% of salary, underpinned by a maximum of £500 or £1000 payment depending on grade. In contrast, production bonuses continued to be earned at normal levels as production returned to full capacity; by nature of the industry the majority of manufacturing operatives in Forterra are male and who will have received a production bonus, resulting in a mean gender bonus gap of 66.2%.

Metric <sup>1</sup>	2021	2020	2019
Male employees receiving bonus (%)	<b>48.6%</b>	70.7%	63.0%
Female employees receiving bonus (%)	<b>32.2%</b>	81.8%	90.0%

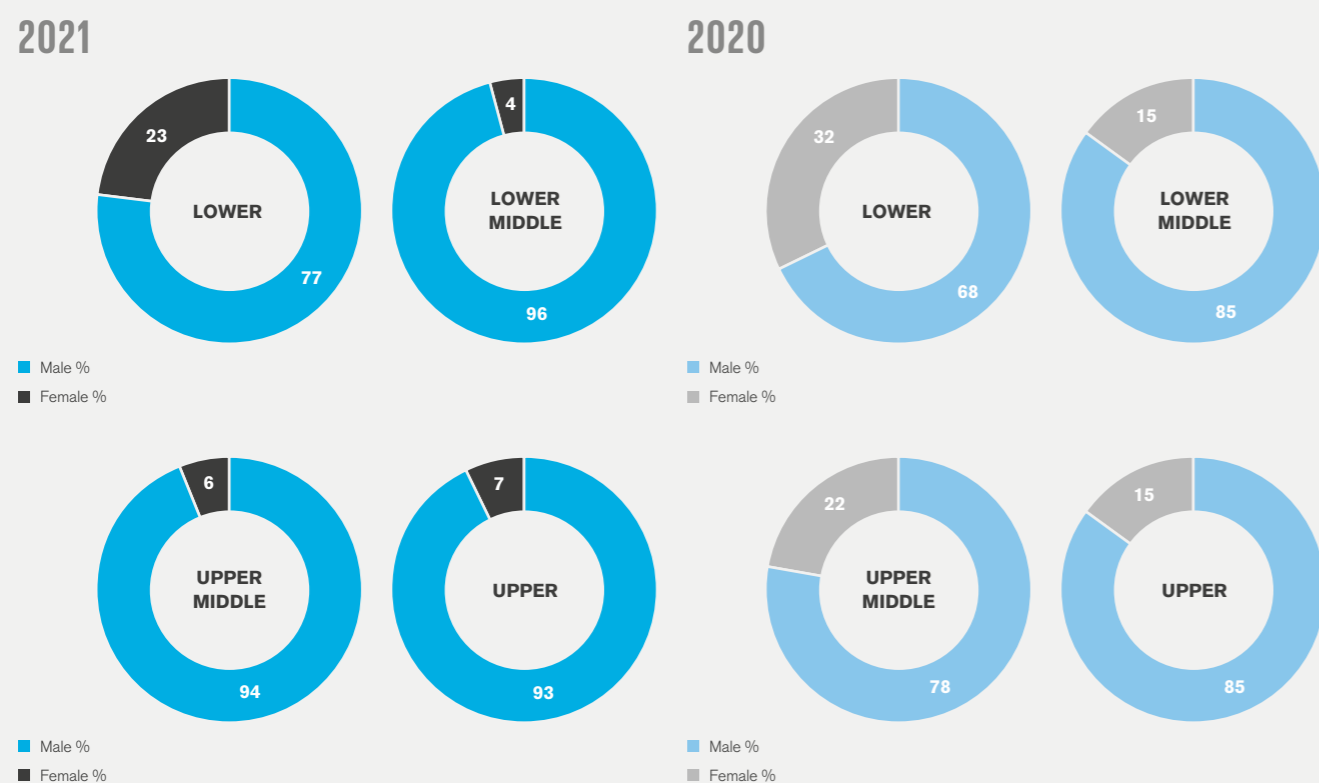
1. The mean and median gender pay gap has been calculated using April 2020 to March 2021 bonuses, share exercises, recognition awards and other relevant metrics.

# REMUNERATION COMMITTEE REPORT

## ANNUAL REPORT ON REMUNERATION

CONTINUED

### THE GENDER PAY SPLIT WITHIN EACH QUARTILE (%):



### RELATIVE IMPORTANCE OF TOTAL SPEND ON PAY

The following table shows the Company's actual spend on pay for all employees compared to distributions to shareholders in 2021.

	Disbursements from profit	
	2021 £m	2020 £m
Total spend on pay, including Directors	96.8	90.1 <sup>2</sup>
Distributions to shareholders by way of dividend	13.7 <sup>1</sup>	–

1. Final 2020 dividend of £0.028 per share paid in July 2021 and interim dividend of £0.032 per share paid in October 2021.

2. The balance for total spend on pay, including Directors is presented gross of proceeds received under the Coronavirus Job Retention Scheme of £9.9m.

### CASCADE OF INCENTIVES

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

Level	Participation in PSP	Participation in Bonus	Participation in SAYE
Executive Directors	✓	✓	✓
Executive Committee	✓	✓	✓
Senior Managers	✓	✓	✓
Managers		✓	✓
Employees		✓ <sup>1</sup>	✓

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

### ADVISERS TO THE REMUNERATION COMMITTEE

The Remuneration Committee has access to independent advice where it considers it appropriate. During the year, the Committee sought advice from Alvarez & Marsal Taxand UK LLP (A&M) and Willis Towers Watson Ltd. Willis Towers Watson Ltd also provides other remuneration and benefits services to the Group and the Committee is satisfied no conflict of interest exists in the provision of these services.

The Committee is satisfied that the advice received by Willis Towers Watson Ltd and A&M in relation to executive remuneration matters during the year was objective and independent. Both Willis Towers Watson Ltd and A&M are members of the Remuneration Consultants Group and abide by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial. The fees paid to Willis Towers Watson and A&M during the year totalled £7,687 and £37,602 respectively.

### STATEMENT OF SHAREHOLDER VOTING

A high level of shareholder support was received for our Remuneration Report at our 2021 AGM, as summarised below:

	Votes for	Votes against	Votes withheld
An advisory vote on the approval of the 2021 Annual Report on Remuneration	193,615,684 (99.76%)	474,777 (0.24%)	1,007,020

### APPROVAL

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

Signed on behalf of the Board of Directors.

### Katherine Innes Ker

Chair of the Remuneration Committee

10 March 2022

# DIRECTORS' REPORT

The Directors present their report for the financial year ended 31 December 2021. The information required by the Listing Rules (DTR 4.1.8R) is contained in the Strategic Report and the Directors' Report. Forterra plc is incorporated in England and Wales with company number 09963666.

## NON-FINANCIAL INFORMATION STATEMENT

The following information that would otherwise be presented in this Directors' Report is included in other appropriate sections of this Annual Report and Accounts. The table below additionally identifies the pages of this Annual Report where we discuss the information required to comply with the Non-Financial Reporting Regulations set out in sections 414CA and 414CB of the Companies Act 2006.

Subject matter	Section and page reference
Likely future developments in the business	Strategic Report, pages 26 and 27
Risk management	Strategic Report, pages 77 to 86
Financial instruments	Consolidated Financial Statements, pages 174 to 176
Employees	Strategic Report, pages 40, 63 to 68 and Governance, page 95
Environmental issues	Strategic Report, pages 42 to 62
Non-financial KPIs	Strategic Report, pages 30 and 31
Social matters	Strategic Report, pages 40, 42 to 76
Human rights	Strategic Report, page 66
Anti-bribery and corruption	Strategic Report, page 61, and Governance, page 108
Research and development activities	Strategic Report, pages 26 and 27

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

Subject matter	Section and page reference
Directors' long-term incentive schemes	Annual Report on Remuneration, pages 124 to 135

## DIVIDENDS

An interim dividend was paid to on 15 October 2021 to shareholders on the register at 24 September 2021. Subject to securing shareholder approval at the 2021 AGM, the Directors are proposing a final dividend for the financial year ended 31 December 2021 of 6.7p per ordinary share, this brings the total dividend for the year to 9.9p. If approved at the AGM, payment of the final dividend will be made to shareholders registered at the close of business on 17 June 2022 and will be paid on 8 July 2022.

## DIRECTORS

The Directors of the Company who served during the year and to the date of this report are listed on pages 88 and 89. Details of the Directors' interests in the share capital of the Company are set out on page 128 of the Annual Report on Remuneration.

## ARTICLES OF ASSOCIATION

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

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

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

## SHARE CAPITAL AND CONTROL

Details of the Company's share capital are included within note 24 of the Consolidated Financial Statements on page 178 and 179.

As at 31 December 2021 there were 228,647,196 ordinary shares of 1p nominal value in issue. The Company has one class of shares, ordinary shares of 1p nominal value, which carry equal rights to dividends, voting and return of capital on winding up of the Company. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights

other than those prescribed by law, nor is the Company aware of any arrangement which may result in restrictions on the transfer of securities or voting rights nor any arrangement whereby a shareholder has waived or agreed to waive dividends.

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

The Company has also established The Employee Benefit Trust (EBT) to satisfy awards vesting under the Performance Share Plan (PSP), the Deferred Annual Bonus Plan (DABP) and the Sharesave Scheme. On 28 September 2021 the EBT announced a planned programme of share purchases, acquiring 400,000 ordinary shares of 1p per month. As at 31 December 2021 the EBT held a total of 1,358,593 shares in the Company, with a nominal value of 13,585p and at a weighted average purchase consideration of 283p per share.

## SUBSTANTIAL SHAREHOLDINGS

At 31 December 2021 the Company, in accordance with the Disclosure Guidance and Transparency Rules, has been notified of the following interests of greater than 3% in its ordinary share capital. This information is correct at the date of notification and it should be noted that these holdings may have changed since they were notified to the Company.

	Nature of holding	31 December 2021		10 March 2022	
		Number of shares disclosed	% interest in voting rights	Number of shares disclosed	% interest in voting rights
Vulcan Value Partners	Indirect	28,508,672	12.47	28,508,672	12.47
Mondrian Investment Partners	Indirect	12,102,837	5.29	12,102,837	5.29
AXA Investment Mgrs	Indirect	11,317,222	4.95	11,317,222	4.95
Aberforth Partners	Indirect	10,961,931	4.79	10,961,931	4.79
MFS Investment Mgt	Indirect	10,550,158	4.61	10,550,158	4.61
Jupiter Asset Mgt	Indirect	10,340,000	4.52	10,340,000	4.52
Lansdowne Partners	Indirect	10,043,585	4.39	22,802,737	10.00
Fidelity Worldwide Investment	Indirect	9,651,383	4.22	9,651,383	4.22

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

## SIGNIFICANT AGREEMENTS (CHANGE OF CONTROL)

The Company's committed credit facilities as described in note 19 of the Consolidated Financial Statements on page 173 are subject to provisions that require the mandatory prepayment of the facilities on a change of control. For this purpose, a change of control is defined as any person or group of persons acting in concert gaining direct or indirect control of the Company. For the purposes of this definition, control of the Company means the holding beneficially (directly or indirectly) of the issued share capital of the Company having the right to cast more than 30% of the votes capable of being cast in general meetings of the Company.

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

## POST BALANCE SHEET EVENTS

On 26 January 2022 the Company announced a share buyback programme, which commenced 27 January 2022. The aggregate purchase price of all Ordinary Shares acquired under the first tranche of this programme will be no more than £40 million (excluding stamp duty and expenses) and any Ordinary Shares purchased under this programme will be cancelled immediately. In the period from 26 January 2022 to 8 March 2022 (the last practicable date prior to the date of this document), the Company purchased and cancelled 2,258,335 ordinary shares.

On 7 March 2022 the Group completed the sale of an area of disused land for total proceeds of £2.5m. Profit on disposal is expected to total c.£2.3m which will be recognised in the year ended 31 December 2022.

## DIRECTORS' REPORT

### CONTINUED

On 9 March 2022 the Group entered into a 15-year Power Purchase Agreement (PPA) for a dedicated solar farm, which is expected to provide 70% of the Group's electricity from 2025, representing a c.£50m commitment to renewable energy over the period of the agreement.

### POLITICAL DONATIONS

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

### GOING CONCERN

The Group sets out on pages 30 and 31 of its Strategic Report the financial position, performance, cash flows and borrowing facilities and on page 86 its Viability Statement. In addition, note 21 to the Consolidated Financial Statements includes the Group's objectives, policies and procedures for financial risk management, including details of exposure and response to foreign exchange, interest rate, credit and liquidity risks.

At the balance sheet date, the cash balance stood at £41.5m with available undrawn borrowings of £170m available in the form of a Revolving Credit Facility (RCF). The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term. During the year the Group agreed a one year extension to the RCF, which now expires in July 2025.

The Board have elected to return surplus capital to shareholders. On 26 January 2022 the Group announced it was commencing a share buyback programme to repurchase ordinary shares of 1p each in the capital of the Company, the aggregate purchase price of the shares is expected to be £40m with this cash outflow occurring in 2022. The decision to undertake the share buyback was taken based on a detailed consideration of the capital requirements of the Group along with the current liquidity position and expected future cash generation. The Board considers it is returning a prudent level of cash to shareholders which reflects the strong cash generative ability of the Group.

The Group have modelled financial scenarios for the period to 31 March 2023, reflecting both macroeconomic and industry-specific projections. These have been modelled as a base case, and two severe but plausible downside scenarios. Each scenario is tested to determine if there is a cash shortfall or there are covenant breaches at each forthcoming covenant test date review. The severe but plausible downside scenarios reflect a downturn in market demand in one scenario and an increase in variable costs in the other scenario.

Scenarios were modelled over the period to 31 March 2023 (going concern review period) to support the going concern assessment. In all the scenarios modelled, and considering mitigative actions available, the Group had headroom in both its banking covenants and existing bank facilities.

With manufacturing operations continuing at capacity since fully reopening in summer 2020, the recovery to date has been sustained, and as such Management are confident that i) the severe but plausible scenarios are unlikely and ii) the mitigations in the form of cost reduction, reducing or delaying capital expenditure and a reduction or curtailment in the quantum of either dividend distributions or the execution of the share buyback that could be applied in such a scenario would see the Group remain resilient.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group and the post balance sheet share buyback the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 March 2023. The Group therefore adopts the going concern basis in preparing its Consolidated Financial Statements.

### STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITOR

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

### ANNUAL GENERAL MEETING

The 2022 AGM will be held on 24 May 2022. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

Approved by the Board and signed on its behalf by:

#### Ashley Thompson

Company Secretary

10 March 2022

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- in respect of the Consolidated Financial Statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- in respect of the Company Financial Statements, state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS (and in respect of the Company Financial Statements, FRS 102) are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are set out on pages 88 and 89 confirm that, to the best of their knowledge:

- the Consolidated Financial Statements of the Group, which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained within this document includes a fair review of the development and performance of the business and the position of the Group together with a description of principal risks and uncertainties that the Group faces.

Approved by the Board and signed on its behalf by:

#### Stephen Harrison

Chief Executive Officer

#### Ben Guyatt

Chief Financial Officer

10 March 2022

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA PLC

## OPINION

In our opinion:

- Forterra plc's Consolidated Financial Statements and Parent Company Financial Statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Forterra plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent company
Consolidated Balance Sheet as at 31 December 2021	Balance Sheet as at 31 December 2021
Consolidated Statement of Comprehensive Income for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 - 13 to the Financial Statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year then ended	
Related notes 1 - 28 to the Financial Statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and UK adopted International Accounting Standards. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our Report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENCE

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

## CONCLUSIONS RELATING TO GOING CONCERN

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of Management's going concern assessment process by performing our walkthrough of the group's financial statement close process to assess as to whether it was appropriate.
- We performed a review of all borrowing and other financing facilities included in the cash forecasts and covenant calculations. This included obtaining evidence of the terms of the bank loan facilities and assessing their continued availability to the Group through the going concern period and reviewed the forecast covenants compliance.
- We obtained Management's going concern assessment, including the cash forecast and covenant calculations for the going concern period which covers a period up to 31 March 2023. The Group has modelled base case and severe but plausible scenarios in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the performance and liquidity of the Group. These are explained on page 138 in the Directors' report and on pages 153 to 154 in the summary of significant accounting policies notes.
- We tested the clerical accuracy of the model used to prepare the Group's going concern assessment.
- Using our understanding of the business, we evaluated and challenged the appropriateness of the forecasting method by considering past historical accuracy of Management's forecasting and comparison of actual results in the subsequent period with the forecasts.
- We have tested the main assumptions that included trading volumes and underlying EBITDA in each modelled scenario by comparing them with Group's historical performance, economic and industry forecasts.
- We performed reverse stress testing to assess the reduction in EBITDA at which it would be likely to eliminate liquidity headroom or breach RCF covenants.
- We also reviewed the Group's and Parent Company's going concern disclosures included in the Annual Report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period up to 31 March 2023.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA PLC

CONTINUED

## OVERVIEW OF OUR AUDIT APPROACH

<b>Audit scope</b>	<p>The Group comprises of three components which represent the principal business units. We performed a full scope audit of the complete financial information for the main trading component and full scope audit procedures for the Parent Company. For the other remaining component, we have performed review procedures.</p> <p>The components where we performed full audit procedures accounted for 100% of profit before taxation and exceptional items, 100% of revenue and 100% of total assets.</p>
<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>Revenue recognition</li> <li>Impairment of tangible and intangible assets</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>Overall group materiality of £2.5m which represents 5% of profit before tax and exceptional items</li> </ul>

## AN OVERVIEW OF THE SCOPE OF THE PARENT COMPANY AND GROUP AUDITS

### TAILORING THE SCOPE

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

In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Financial Statements, we selected three components (2020: three components) which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information ('full scope components') for two of them (2020: two components). For the other component we have performed review procedures over the specific accounts within that component.

The reporting components where we performed audit procedures accounted for 100% (2020: 100%) of the Group's profit before tax and exceptional items, 100% (2020: 100%) of the Group's revenue and 100% (2020: 100%) of the Group's total assets.

The remaining component did not contribute to the Group's profit before tax and exceptional items, revenue or total assets. For this component, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Consolidated Financial Statements.

### INVOLVEMENT WITH COMPONENT TEAMS

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

### CLIMATE CHANGE

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined the most significant future impacts from climate change on its operations and these are explained on pages 72 and 73 in the Sustainability Report and on pages 74 to 76 in the principal risks and uncertainties, which form part of the 'Other information,' rather than the audited Financial Statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated. Our audit effort in considering climate change was focused on the adequacy of the Group's disclosures in the Financial Statements and conclusion that no issues were identified that would impact the carrying values of assets with indefinite and long lives or have any other impact on the Consolidated Financial Statements for the Group. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Group have stated their commitment to achieve net zero emissions by 2050 in support of the UK's Net Zero Carbon ambition, the Group are currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these Financial Statements.

## KEY AUDIT MATTERS

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue recognition (Revenue net of rebates £370.4 million, PY comparative £291.9 million)</b></p> <p>Refer to the Audit Committee Report (page 106); Accounting policies (page 155); and Note 2 of the consolidated financial statements (page 155).</p> <p>We believe that there may be an incentive for Management to manipulate revenue. There is a risk that Management may override controls to overstate revenue by recording fictitious revenue transactions through inappropriate manual journals posted to revenue.</p>	<p>We have understood the accounting for revenue recognition which included identifying key controls over the process and reviewing the revenue recognition policy. We also assessed that the policy for all revenue streams is in compliance with IFRS 15, the revenue accounting standard.</p> <p>We performed data analytic techniques over the full amount of revenue recognised in the year agreeing these to receivables and cash. Where the process did not follow our expectations, we investigated and tested a sample of transactions to ensure their validity by agreeing back to source documentation.</p> <p>We have tested a sample of journal entries posted to revenue throughout the year that were not in accordance with our expectations. We identified such journal entries by applying a number of parameters. This included analysing and selecting journals for testing due to size, preparer or being manually posted. We verified the journals to originating documentation to confirm that the entries were valid.</p> <p>We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.</p>	<p>Based on our procedures we have confirmed that the revenue recognised is materially correct and the revenue has been recognised in accordance with IFRS 15.</p>

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA PLC

CONTINUED

## KEY AUDIT MATTERS CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Impairment of tangible and intangible assets</b></p> <p><b>At 31 December 2021 property, plant and equipment totalled £201.4m (2020: £187.1m) and intangible assets were £17.7m (2020: £11.0m).</b></p> <p>Refer to the Audit Committee Report (page 106); and Note 2 of the consolidated financial statements (page 156).</p> <p>Tangible and intangibles assets are maintained between 15 identified cash generating units (CGUs). The CGUs which are allocated intangible assets with indefinite useful lives are subject to annual impairment tests and remaining CGUs are assessed for indicators of impairment annually.</p> <p>Significant judgment is required in identifying the indicators for impairment and forecasting the estimated cash flows, the future growth rates and WACC where appropriate.</p> <p>As such, there is a risk that the identified CGUs may not achieve the anticipated business performance to support their carrying value and therefore the value of these assets could be overstated.</p>	<p>We assessed whether Management's identification of cash generating units was in accordance with IAS 36 - Impairment of Assets.</p> <p>We understood the methodology applied by Management in performing its impairment test for each of the relevant CGUs and walked through the key controls over the process.</p> <p>We obtained Management's assessment for each CGU determining whether there are any indicators of impairment on any CGUs such as underperformance against budget and long payback periods (total assets divided by actual EBITDA). We have challenged the identified indicators of impairment using market data and our own knowledge of the business to confirm the completeness of the identified indicators of impairment.</p> <p>We tested the clerical accuracy of the VIUs models for the CGUs which have been identified as having indicators of impairment or have indefinite useful live intangible assets.</p> <p>We have assessed whether Management's basis for allocation of overheads to each CGU is appropriate and in accordance with IAS 36.</p> <p>We obtained Management's value in use calculation for the CGUs which have been identified as having indicators of impairment or having indefinite useful live intangible assets and challenged Management's assumptions by obtaining market data and other available evidence to determine whether the assumptions for the estimated cash flows and the future growth rates are reasonable.</p> <p>We engaged EY specialists to assess the appropriateness of the WACC used and calculated an appropriate range based on their independent assessment to compare to Management's calculation.</p> <p>We performed a reverse stress test to ascertain the extent of reduction in performance that would result in an impairment.</p> <p>We reviewed the disclosures in the Financial Statements for compliance with IAS 36 requirements.</p> <p>We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.</p>	<p>We conclude that:</p> <ul style="list-style-type: none"> <li>our assessment of the risks of material misstatement remain appropriate;</li> <li>we have identified no evidence of Management bias in the impairment assessment;</li> <li>for the assets where Management's impairment assessment did not result in an impairment charge, the assessment was accurate; and</li> <li>key assumptions are appropriately disclosed.</li> <li>Based on the findings from our audit procedures we are satisfied that no impairment charges are required in accordance with the requirements of with IAS 36.</li> </ul>

In the prior year, our auditor's report included a key audit matter in relation estimation of decommissioning and restoration provision. In the current year, this has been excluded from key audit matters as our prior experience reflects that the variables used in the calculation of the provision including cost, useful lives, inflation and discount rate, do not change materially and are consistently applied year-on-year, with limited judgement required. As such this was not considered a key audit matter in the current year.

## OUR APPLICATION OF MATERIALITY

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

### MATERIALITY

**The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.** Materiality provides a basis for determining the nature and extent of our audit procedures. We determined materiality for the Group to be £2.5m million (2020: £2.7 million), which is 5% (2020: 1%) of profit before tax and exceptional items (2020: Revenue) of the Group. In determining the basis of our materiality, we considered the relevant performance measures that are focused on by the main users of the Consolidated Financial Statements. In the prior year, the Group was impacted by the Covid-19 pandemic. As the business has substantially recovered from the adverse effects of Covid-19 and has achieved a profit before tax (compared to a loss before tax in the prior year), we believe it is the most relevant performance measure to the users of the Consolidated Financial Statements.

We determined materiality for the Parent Company to be £1.5 million (2020: £1.7 million), which is 0.5% (2020: 0.5%) of total assets.

### PERFORMANCE MATERIALITY

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £1.9m (2020: £2m). We have set performance materiality at this percentage due to our understanding of the Group and Parent Company and our past experience with the audit, which indicates a lower risk of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.1m to £1.9m (2020: £1.3m to £2.3m).

## REPORTING THRESHOLD

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.13m (2020: £0.14m), which is set at 5% of final materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

## OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on pages 4 to 191 including the Strategic Report set out on pages 4 to 86, Governance, set out on pages 88 to 139 and additional information set out on page 191, other than the Financial Statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report.

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

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

We have nothing to report in this regard.

## OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA PLC

## CONTINUED

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### CORPORATE GOVERNANCE STATEMENT

We have reviewed the Directors' Statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 138;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 86;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 138;
- Directors' statement on fair, balanced and understandable set out on page 108;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 110;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 77 and 78; and;
- The section describing the work of the Audit Committee set out on page 105.

### RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statement set out on page 139, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

### EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant that are directly relevant to the specific assertions in the Financial Statements are those that relate to the reporting frameworks (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain

significant laws and regulations which may have an effect in the determination of the amounts and disclosures in the Financial Statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety, environmental laws and data protection. We understood how Forterra plc is complying with those frameworks by making enquiries of Management, Internal Audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies where appropriate.

- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by meeting with Management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and the risk of Management override of controls to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter, and detect fraud; and how Senior Management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures, as mentioned in the key audit matters section for revenue recognition included testing manual journals and were designed to provide reasonable assurance that the Financial Statements were free from fraud or error.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations to the extent that this could result in a material misstatement to the Financial Statements. Our procedures involved understanding the process and controls to identify non-compliance, identifying journals indicating large or unusual transactions, enquiries of legal counsel, Group Management, internal audit, divisional Management, performing an analysis of announcements on these matters, understanding the fact pattern in each case and documenting the positions taken by Management.

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

### OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- Following the recommendation from the Audit Committee we were re-appointed by the Company at the AGM on 18th May 2021. The engagement letter was signed on 8 March 2021 to audit the Financial Statements for the year ending 31 December 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ending 31 December 2016 to 31 December 2021.
- The Audit Opinion is consistent with the additional report to the Audit Committee.

### USE OF OUR REPORT

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Anup Sodhi (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,  
Statutory Auditor Luton

10 March 2022

# CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £m	2020 £m
Revenue	4	370.4	291.9
Cost of sales		(240.7)	(225.8)
<b>Gross profit</b>		<b>129.7</b>	66.1
Distribution costs		(51.2)	(44.1)
Administrative expenses		(27.4)	(20.8)
Other operating income	6	9.0	0.2
<b>Operating profit</b>	5	<b>60.1</b>	1.4
<b>EBITDA before exceptional items</b>		<b>70.4</b>	37.9
Exceptional operating items	8	6.1	(19.4)
<b>EBITDA</b>		<b>76.5</b>	18.5
Depreciation and amortisation	13, 14, 25	(16.4)	(17.1)
<b>Operating profit</b>		<b>60.1</b>	1.4
Finance expense before exceptional items	9	(3.3)	(3.4)
Exceptional finance expense	8, 9	–	(3.4)
Finance expense	9	(3.3)	(6.8)
<b>Profit / (loss) before tax</b>		<b>56.8</b>	(5.4)
Income tax expense	10	(11.3)	(0.2)
<b>Profit / (loss) for the year attributable to equity shareholders</b>		<b>45.5</b>	(5.6)
<b>Other comprehensive loss</b>			
Effective portion of changes of cash flow hedges		(0.2)	–
<b>Total comprehensive income / (loss) for the year attributable to equity shareholders</b>		<b>45.3</b>	(5.6)
<b>Earnings / (loss) per share</b>		<b>Pence</b>	<b>Pence</b>
Basic earnings per share	12	19.9	(2.6)
Diluted earnings per share	12	19.7	(2.6)

# CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2021

	Note	2021 £m	2020 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	13	17.7	11.0
Property, plant and equipment	14	201.4	187.1
Right-of-use assets	25	16.5	9.0
		<b>235.6</b>	207.1
<b>Current assets</b>			
Inventories	15	32.8	33.0
Trade and other receivables	16	39.1	35.7
Income tax asset		1.0	0.6
Cash and cash equivalents	17	41.5	31.5
		<b>114.4</b>	100.8
<b>Total assets</b>		<b>350.0</b>	307.9
<b>Current liabilities</b>			
Trade and other payables	18	(75.6)	(63.8)
Loans and borrowings	19	(0.6)	(0.5)
Lease liabilities	25	(4.5)	(3.4)
Provisions for other liabilities and charges	22	(9.9)	(5.0)
Derivative liability	21	(0.2)	–
		<b>(90.8)</b>	(72.7)
<b>Non-current liabilities</b>			
Loans and borrowings	19	–	(15.0)
Lease liabilities	25	(12.0)	(6.0)
Provisions for other liabilities and charges	22	(9.7)	(9.2)
Deferred tax liabilities	23	(2.7)	(0.9)
		<b>(24.4)</b>	(31.1)
<b>Total liabilities</b>		<b>(115.2)</b>	(103.8)
<b>Net assets</b>		<b>234.8</b>	204.1
<b>Capital and reserves attributable to equity shareholders</b>			
Ordinary shares	24	2.3	2.3
Retained earnings		213.4	162.3
Cash flow hedge reserve		(0.2)	–
Other reserve	24	23.9	41.5
Reserve for own shares	24	(4.6)	(2.0)
<b>Total equity</b>		<b>234.8</b>	204.1

The notes on pages 153 to 183 are an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors on 10 March 2022 and signed on their behalf by:

**Stephen Harrison**  
Chief Executive Officer

**Ben Guyatt**  
Chief Financial Officer

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £m	2020 £m
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>		<b>56.8</b>	(5.4)
– Finance expense before exceptional items	9	<b>3.3</b>	3.4
– Exceptional items	8	<b>(6.1)</b>	22.8
<b>Operating profit before exceptional items</b>		<b>54.0</b>	20.8
Adjustments for:			
– Depreciation and amortisation	13,14, 25	<b>16.4</b>	17.1
– Profit on disposal of fixed assets		<b>(1.5)</b>	–
– Movement on provisions		<b>6.4</b>	1.7
– Purchase of carbon credits		<b>(6.4)</b>	–
– Share-based payments	26	<b>2.5</b>	0.9
– Other non-cash items		<b>–</b>	(0.9)
Changes in working capital:			
– Inventories		<b>0.2</b>	14.8
– Trade and other receivables		<b>(3.4)</b>	4.6
– Trade and other payables		<b>13.0</b>	(5.1)
<b>Cash generated from operations before exceptional items</b>		<b>81.2</b>	53.9

	Note	2021 £m	2020 £m
<b>Cash generated from operations before exceptional items</b>		<b>81.2</b>	53.9
Cash flows relating to operating exceptional items		<b>(0.6)</b>	(5.6)
<b>Cash generated from operations</b>		<b>80.6</b>	48.3
Interest paid		<b>(2.8)</b>	(2.8)
Tax paid		<b>(9.6)</b>	(5.2)
<b>Net cash inflow from operating activities</b>		<b>68.2</b>	40.3
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(33.0)</b>	(23.5)
Purchase of intangible assets		<b>(1.6)</b>	(1.4)
Proceeds from sale of property, plant and equipment		<b>0.2</b>	–
Exceptional proceeds from sale of property, plant and equipment		<b>14.7</b>	–
Exceptional costs incurred in sale of property, plant and equipment		<b>(0.3)</b>	–
<b>Net cash used in investing activities</b>		<b>(20.0)</b>	(24.9)
<b>Cash flows from financing activities</b>			
Reduction in lease liabilities		<b>(5.3)</b>	(5.2)
Dividends paid	11	<b>(13.7)</b>	–
Drawdown of borrowings		<b>5.0</b>	80.0
Repayment of borrowings		<b>(20.0)</b>	(135.0)
Purchase of shares by Employee Benefit Trust		<b>(5.0)</b>	(1.0)
Proceeds from sales of shares by Employee Benefit Trust		<b>1.2</b>	0.9
Proceeds from share issue		<b>–</b>	55.0
Transaction costs on share issue		<b>–</b>	(2.0)
Financing fees		<b>(0.4)</b>	–
Exceptional finance payments		<b>–</b>	(3.2)
<b>Net cash used in financing activities</b>		<b>(38.2)</b>	(10.5)
<b>Net increase in cash and cash equivalents</b>		<b>10.0</b>	4.9
Cash and cash equivalents at the beginning of the period		<b>31.5</b>	26.6
<b>Cash and cash equivalents at the end of the period</b>	17	<b>41.5</b>	31.5

Note: The cash flow presentation has been amended in the current year to include a reconciliation from profit before tax through to operating profit before exceptional items.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital £m	Reserve for own shares £m	Cash flow hedge reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2020</b>		<b>2.0</b>	<b>(3.6)</b>	<b>–</b>	<b>–</b>	<b>157.8</b>	<b>156.2</b>
Total comprehensive loss for the year		–	–	–	–	(5.6)	(5.6)
Dividend paid	11	–	–	–	–	–	–
Issue of shares	24	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	23	–	–	–	–	(0.2)	(0.2)
<b>Balance at 31 December 2020</b>		<b>2.3</b>	<b>(2.0)</b>	<b>–</b>	<b>41.5</b>	<b>162.3</b>	<b>204.1</b>
Profit for the year		–	–	–	–	45.5	45.5
Other comprehensive loss		–	–	(0.2)	–	–	(0.2)
<b>Total comprehensive (loss) / income for the year</b>		<b>–</b>	<b>–</b>	<b>(0.2)</b>	<b>–</b>	<b>45.5</b>	<b>45.3</b>
Dividend paid	11	–	–	–	–	(13.7)	(13.7)
Movement in other reserves		–	–	–	(17.6)	17.6	–
Purchase of shares by Employee Benefit Trust		–	(5.0)	–	–	–	(5.0)
Proceeds from sale of shares by Employee Benefit Trust		–	1.2	–	–	–	1.2
Share-based payments charge		–	–	–	–	2.5	2.5
Share-based payments exercised		–	1.2	–	–	(1.2)	–
Tax on share-based payments	23	–	–	–	–	0.4	0.4
<b>Balance at 31 December 2021</b>		<b>2.3</b>	<b>(4.6)</b>	<b>(0.2)</b>	<b>23.9</b>	<b>213.4</b>	<b>234.8</b>

# 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, NN4 5EA. The Company is the parent of Forterra Holdings Limited and Forterra Building Products Limited, which together comprise the Group. The principal activity of the Group is the manufacture and sale of bricks, dense and lightweight blocks, precast concrete, concrete block paving and other complementary building products.

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

The Consolidated Financial Statements of the Group for the year ended 31 December 2021 were approved for issue by the Board of Directors on 10 March 2022.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

The accounting policies used in the preparation of the Consolidated Financial Statements of the Group are set out below. These accounting policies have been used consistently in all material respects across the periods presented. The Consolidated Financial Statements have been prepared in accordance with UK-adopted international accounting standards. The Consolidated Financial Statements are presented in Pounds Sterling and all values are rounded to the nearest hundred thousand unless otherwise indicated.

In preparing the Consolidated Financial Statements Management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. In assessing the impact of climate change on these Consolidated Financial Statements, the key areas that could be impacted are impairment of tangible and intangible assets and viability assessment. Given the profitability and short payback period of the cash generating units (CGUs), no issues were identified that would impact the carrying values of such tangible and intangible assets. In terms of viability assessment, given the cash generation and facilities available, no significant issues were identified that would impact viability over the forecast period.

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

### (B) GOING CONCERN

The Group sets out on pages 32 to 38 of its Strategic Report the financial position, performance, cash flows and borrowing facilities and on page 86 its Viability Statement. In addition, note 21 to the Consolidated Financial Statements includes the Group's objectives, policies and procedures for financial risk management, including details of exposure and response to foreign exchange, interest rate, credit and liquidity risks.

At the balance sheet date, the cash balance stood at £41.5m with available undrawn borrowings of £170m available in the form of a Revolving Credit Facility (RCF). The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term. During the year the Group agreed a one year extension to the RCF, which now expires in July 2025.

The Board have elected to return surplus capital to shareholders. On 26 January 2022 the Group announced it was commencing a share buyback programme to repurchase ordinary shares of 1p each in the capital of the Company, the aggregate purchase price of the shares is expected to be £40m with this cash outflow occurring in 2022. The decision to undertake the share buyback was taken based on a detailed consideration of the capital requirements of the Group along with the current liquidity position and expected future cash generation. The Board considers it is returning a prudent level of cash to shareholders which reflects the strong cash generative ability of the Group.

The Group have modelled financial scenarios for the period to 31 March 2023, reflecting both macroeconomic and industry-specific projections. These have been modelled as a base case, and two severe but plausible downside scenarios. Each scenario is tested to determine if there is a cash shortfall or there are covenant breaches at each forthcoming covenant test date review. The severe but plausible downside scenarios reflect a downturn in market demand in one scenario and an increase in variable costs in the other scenario.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (B) GOING CONCERN (CONTINUED)

Scenarios were modelled over the period to 31 March 2023 (going concern review period) to support the going concern assessment. In all the scenarios modelled, and considering mitigative actions available, the Group had headroom in both its banking covenants and existing bank facilities.

With manufacturing operations continuing at capacity since fully reopening in summer 2020, the recovery to date has been sustained, and as such Management are confident that i) the severe but plausible scenarios are unlikely and ii) the mitigations in the form of cost reduction, reducing or delaying capital expenditure and a reduction or curtailment in the quantum of either dividend distributions or the execution of the share buyback that could be applied in such a scenario would see the Group remain resilient.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group and the post balance sheet share buyback the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 March 2023. The Group therefore adopts the going concern basis in preparing these Consolidated Financial Statements.

#### (C) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Consolidated Financial Statements for the year ended 31 December 2020, except for the adoption of new standards effective as at 1 January 2021, the impact of which is described below.

At the date of approval of these Consolidated Financial Statements there were a number of standards, amendments and interpretations that have been published and are effective for accounting periods beginning on or after 1 January 2022. The Group are currently assessing any potential impact of amendments to IAS 12 (Deferred Tax related to Assets and Liabilities arising from a Single Transaction) however no others are expected to have a material impact on the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

#### (I) INTEREST RATE BENCHMARK REFORM – PHASE 2: AMENDMENTS TO IFRS 9, IAS 39, IFRS 7, IFRS 4 AND IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendment includes a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. The Group has taken advantage of this in transitioning from interest rates calculated using LIBOR to SONIA on its Revolving Credit Facility. The change has not significantly impacted the interest rate payable, with LIBOR and SONIA being regarded as economically equivalent. Further reliefs regarding hedge designation and hedge documentation had no impact on the Consolidated Financial Statements of the Group.

#### (D) BASIS OF CONSOLIDATION

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

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

#### (E) FOREIGN CURRENCY TRANSLATION

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (F) REVENUE

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

- Bricks and Blocks – On delivery of goods.
- Bespoke Products – On delivery of goods, or, for supply and fit contracts, on delivery and installation. Delivery and installation are construed as two separate performance obligations however the pattern of installation is in a manner that the obligation is satisfied at the same time as the delivery of products, thus there is no time lag between the two performance obligations and hence revenue is recognised on installation.
- Bill and hold arrangements, for both reporting segments – When the customer obtains control of the goods, which arises when facts and circumstances indicate that control has passed and when all of the following criteria are met: (i) the reason for the arrangement is substantive; (ii) the product has been identified separately as belonging to the customer; (iii) the product is ready for delivery in accordance with the terms of the arrangement; and (iv) the Group does not have the ability to use the product or sell the product to another customer.

The Group provides volume-based rebates to certain customers, typically on an annual basis. Revenue is recognised net of rebates paid or accrued. In total £19.9m has been deducted from revenue in relation to rebates in the year.

#### (G) SEGMENT REPORTING

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

#### (H) EXCEPTIONAL ITEMS

The Group presents as exceptional items on the face of the Consolidated Statement of Total Comprehensive Income, those material items of income and expense, which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the period.

#### (I) PROPERTY, PLANT AND EQUIPMENT

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

Assets are derecognised on disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of an asset and are recognised in the Consolidated Statement of Total Comprehensive Income. Where estimated future economic benefit falls below the carrying value of an asset or group of assets, the asset is impaired.

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

- Buildings: up to 40 years
- Plant and machinery: 4 to 25 years

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (J) INTANGIBLE ASSETS

##### (I) GOODWILL

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

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

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

##### (II) BRAND

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

##### (III) OTHER INTANGIBLE ASSETS

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

- Software: up to 7 years
- Clay rights: up to 12 years
- Merchant relationships: up to 8 years

##### (IV) IMPAIRMENT OF INTANGIBLE ASSETS

The Group continues to evaluate tangible and intangible assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Judgements have remained consistent with prior periods.

The recoverable amount is defined as the higher of fair value less costs to sell and value in use, which in turn is the present value of the future cash flows expected to be derived from the asset. The estimate of value in use, and hence the outcome of the impairment test, is sensitive to assumptions and changes in assumptions. Notable changes in assumed revenue growth and the WACC discount rate are sensitive when modelling cash flows across the short-medium term planning horizon.

Management sensitise value in use models to assess the level of sensitivity to each assumption. Within each model, accounting for reasonably possible changes in assumptions such as a 1% increase in discount rate, decrease in long-term growth rates, or a 10% fall in annual EBITDA does not eliminate headroom.

##### (V) RESEARCH AND DEVELOPMENT COSTS

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (K) LEASES

The Group leases various premises, land, fleet vehicles, cars and plant and equipment. With the exception of land and property leases, contracts are typically made for fixed periods of 2 to 7 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Lease assets are recognised as a right-of-use asset, with a corresponding liability also recognised at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

##### (I) LEASE LIABILITIES

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities for the Group include the net present value of fixed lease payments due over the lease term. The Group remeasures lease liabilities if there is a change in the cash flows resulting in a change in index or rate used to determine lease payments.

Lease payments are discounted using the interest rate implicit in the lease if readily available. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Payments made in relation to lease interest charges are presented within interest paid within cash flows from operating activities in the Consolidated Statement of Cash Flows. Principal lease repayments made are recognised within cash flows from financing activities.

##### (II) RIGHT-OF-USE ASSETS

Right-of-use assets for the Group are measured at cost. This is determined as the initial measurement of the lease liability and the balance of any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the asset. At the date of transition this ranged as follows:

- Land and buildings: 8 – 14 years
- Plant, fleet and motor vehicles: 2 – 7 years

##### (III) SHORT-TERM LEASES AND LEASES OF LOW VALUE ASSETS

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Low-value assets comprise tools, IT-equipment and small items of office equipment. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Consolidated Statement of Total Comprehensive Income and presented within cash flows from operating activities within the Consolidated Statement of Cash Flows.

##### (L) FINANCIAL INSTRUMENTS

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

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

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

##### (I) TRADE AND OTHER RECEIVABLES (EXCLUDING PREPAYMENTS)

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (II) TRADE AND OTHER PAYABLES (EXCLUDING STATUTORY NON-FINANCIAL LIABILITIES)

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

#### (III) CASH AND CASH EQUIVALENTS

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

#### (IV) LOANS AND BORROWINGS

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

#### (V) DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, in particular forward foreign exchange contracts and options, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

#### (VI) CASH FLOW HEDGES

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, the effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the Consolidated Statement of Total Comprehensive Income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The ineffective portion relating to the forward currency contracts is recognised as other expense. The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in Other Comprehensive Income and accumulated in a separate component of equity under cost of hedging reserve. The amounts accumulated in Other Comprehensive Income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. For any other cash flow hedges, the amount accumulated in Other Comprehensive Income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in Other Comprehensive Income remains in accumulated Other Comprehensive Income if the hedged future cash flows are still expected to occur. Otherwise, the amount is immediately reclassified to profit or loss as a reclassification adjustment. Once the hedged cash flow occurs, any amount remaining in accumulated Other Comprehensive Income is accounted for depending on the nature of the underlying transaction as described above.

#### (M) INVENTORIES

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (N) PROVISIONS

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

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

Provisions are not made for future operating losses.

#### (O) SHARE CAPITAL

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

#### (P) NET FINANCE EXPENSE

##### FINANCE EXPENSE

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

##### FINANCE INCOME

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

#### (Q) CURRENT AND DEFERRED INCOME TAX

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

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

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

#### (R) EMPLOYEE BENEFITS

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

#### (S) SHARE-BASED PAYMENTS

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

#### (T) OWN SHARES HELD BY EMPLOYEE BENEFIT TRUST

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

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### (U) GOVERNMENT GRANTS

In prior year the Group participated in the Government's Coronavirus Job Retention Scheme (CJRS) to mitigate cash outflows. Participation in this scheme allowed the Group to reclaim an element of employee pay from the Government, offsetting the gross cost. The Group took advantage of an option under IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) to recognise the offset of the reclaimed amount under CJRS against the associated expenditure. The Group did not participate in the scheme at any point during 2021 and as at both 31 December 2020 and 31 December 2021, no balance remained in trade and other receivables on the Consolidated Statement of Financial Position as due under the CJRS. There are no unfulfilled conditions attached to the Group's participation in CJRS.

Additionally, during 2020 the Group also participated in the Government's VAT deferment scheme which allowed the Group to delay VAT payments that would fall due between 20 March 2020 and June 2020 until 31 March 2021. At the 31 December 2020, no balance remained within trade and other payables in the Consolidated Statement of Financial Position as due under this scheme and the company has not participated in the scheme during 2021. There are no unfulfilled conditions attached to the Group's participation in the VAT deferment scheme.

#### (V) ACCOUNTING FOR CARBON CREDITS

The EU Emissions Trading Scheme (EU ETS) has been in operation since 1 January 2005, with the Group operating under the established EU ETS carbon pricing system since that date. Since 1 January 2021, following Brexit, the UK Government has established a UK Emissions Trading Scheme (UK ETS) to replace the EU ETS with the Group's factories now operating under the UK ETS carbon pricing system. Purchased carbon credits are recorded at cost within intangible assets. A liability is recognised based on the level of emissions recorded in the relevant compliance period. Up to the level of allowances held, the liability is measured at the cost of purchase. Where the liability to surrender carbon credits exceeds the carbon allowances held, the provision is recognised for the shortfall measured at the prevailing market price and remeasured at the reporting date. Subsequent movements in the provision are recognised in the Statement of Total Comprehensive Income.

The carbon allowance intangible asset is surrendered at the end of the compliance period reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised. Due to the nature of carbon credits purchases being to satisfy obligations incurred through the Group's operations, the purchased balance is included in cash flows from operating activities within the Consolidated Statement of Cash Flows.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### (A) ACCOUNTING ESTIMATES

##### (I) PROVISIONS

Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seeks specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. These experts undertake site visits in years where scoping identifies there is a change in operations in the year which could suggest a change in these estimates, or at sites that have not been visited recently. Desktop reviews are undertaken to inform the estimates for other sites. If the cost estimates increased by 10% the value of provisions could change by c.£1.1m. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Changes to these useful lives do not have a significant impact on the provision.

The estimation of inflation and discount rates is also considered to be judgemental and can have a significant impact on net present value. Management reference information from the Bank of England when making such estimates. If the discount or inflation rate were changed and the spread between them increased by 1% the value of provisions could change by c.£2.6m.

Provisions for product liability, legal claims and carbon emissions obligations are all made based on the best estimate of the likely committed cash outflow, using relevant information available at the reporting date. Management engages third party valuation experts, as appropriate, when material and complex estimates are required.

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

#### (B) ACCOUNTING JUDGEMENTS

##### (I) INVENTORY VALUATION AND PROVISIONING

Inventory carrying value is stated after recognising inventory provisions. The accounting for potential inventory obsolescence is assessed with reference to the capping. The capping provision uses past sales data, with manual adjustments for new products to calculate the provision. This requires a degree of commercial judgement when determining saleability and price of certain finished goods.

##### (II) EXCEPTIONAL ITEMS

Exceptional items are disclosed separately in the Consolidated Financial Statements where Management believes it is necessary to show an alternative measure of performance in presenting the financial results of the Group. Management assesses the nature, size and incidence of items when judging what should be disclosed separately. In the current year, Management considers the closure and subsequent sale of the Swadlincote facility to meet this criterion, and in 2020, the restructuring, impairment charges and refinancing costs that were incurred. Exceptional items are further detailed in note 8.

### 4. SEGMENTAL REPORTING

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

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

- Bricks: Manufacture and sale of bricks to the construction sector
- Blocks: Manufacture and sale of concrete blocks 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.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 4. SEGMENTAL REPORTING CONTINUED

#### SEGMENT REVENUE AND RESULTS

	Note	2021		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		298.1	76.1	374.2
Intercompany eliminations				(3.8)
<b>Revenue</b>				<b>370.4</b>
<b>EBITDA before exceptional items</b>		<b>70.5</b>	<b>(0.1)</b>	<b>70.4</b>
Depreciation and amortisation	13, 14, 25	(14.7)	(1.7)	(16.4)
<b>Operating profit before exceptional items</b>		<b>55.8</b>	<b>(1.8)</b>	<b>54.0</b>
Exceptional items		–	6.1	6.1
<b>Operating profit</b>		<b>55.8</b>	<b>4.3</b>	<b>60.1</b>
Net finance expense	9			(3.3)
<b>Profit before tax</b>				<b>56.8</b>

#### SEGMENT ASSETS

	Note	2021		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	14	190.5	10.9	201.4
Intangible assets	13	16.6	1.1	17.7
Right-of-use assets	25	15.5	1.0	16.5
Inventories	15	28.6	4.2	32.8
<b>Segment assets</b>		<b>251.2</b>	<b>17.2</b>	<b>268.4</b>
Unallocated assets				81.6
<b>Total assets</b>				<b>350.0</b>

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 assets and cash and cash equivalents are centrally controlled and unallocated.

#### OTHER SEGMENT INFORMATION

	Note	2021		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	14	31.2	0.7	31.9
Intangible asset additions	13	7.6	0.4	8.0
Right-of-use assets additions	25	12.1	0.3	12.4

#### CUSTOMERS REPRESENTING 10% OR GREATER OF REVENUES WERE AS FOLLOWS:

		2021		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A		41.7	1.3	43.0
Customer B		35.9	2.0	37.9

### 4. SEGMENTAL REPORTING CONTINUED

#### SEGMENT REVENUE AND RESULTS

	Note	2020		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		223.1	71.7	294.8
Intercompany eliminations				(2.9)
<b>Revenue</b>				<b>291.9</b>
<b>EBITDA before exceptional items</b>		<b>40.3</b>	<b>(2.4)</b>	<b>37.9</b>
Depreciation and amortisation	13, 14, 25	(14.8)	(2.3)	(17.1)
<b>Operating profit / (loss) before exceptional items</b>		<b>25.5</b>	<b>(4.7)</b>	<b>20.8</b>
Exceptional items		(7.2)	(12.2)	(19.4)
<b>Operating profit / (loss)</b>		<b>18.3</b>	<b>(16.9)</b>	<b>1.4</b>
Net finance expense	9			(3.4)
Exceptional finance expense	8, 9			(3.4)
<b>Loss before tax</b>				<b>(5.4)</b>

#### SEGMENT ASSETS

	Note	2020		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	14	168.3	18.8	187.1
Intangible assets	13	10.2	0.8	11.0
Right-of-use assets	25	7.5	1.5	9.0
Inventories	15	29.1	3.9	33.0
<b>Segment assets</b>		<b>215.1</b>	<b>25.0</b>	<b>240.1</b>
Unallocated assets				67.8
<b>Total assets</b>				<b>307.9</b>

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

	Note	2020		
		Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	14	22.6	1.3	23.9
Intangible asset additions	13	1.2	0.3	1.5
Right-of-use asset additions	25	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

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 5. OPERATING PROFIT

PROFIT FROM OPERATIONS IS STATED AFTER CHARGING:

	Note	2021 £m	2020 £m
Depreciation and amortisation	13, 14, 25	(16.4)	(17.1)
Government grants received through Coronavirus Job Retention Scheme (CJRS)		–	9.9
Lease expense	25	(3.3)	(1.7)
Share-based payments	26	(2.5)	(0.9)

Depreciation and amortisation in the current year includes depreciation on right-of-use assets recognised through IFRS 16. Lease expenses relate to short-term leases and leases of low-value assets outside of the scope of IFRS 16, as detailed within note 25.

#### AUDITOR REMUNERATION

	2021 £m	2020 £m
Audit services:		
Fees payable for the audit of the Company and Consolidated Financial Statements	(0.1)	(0.1)
Fees payable for the audit of the subsidiary Financial Statements	(0.3)	(0.3)
	(0.4)	(0.4)

### 6. OTHER OPERATING INCOME

	Note	2021 £m	2020 £m
Profit on sale of property, plant and equipment		1.5	–
Exceptional profit on sale of Swadlincote factory	8	6.7	–
Other income		0.8	0.2
		9.0	0.2

The other income balance contains amounts relating to rental income and revenue from waste contracts.

### 7. EMPLOYMENT COSTS

EMPLOYMENT COSTS FOR THE GROUP DURING THE YEAR

	Note	2021 £m	2020 £m
Wages and salaries		(80.9)	(66.7)
Pension costs		(5.8)	(5.5)
Social security costs		(7.6)	(7.1)
Share-based payments	26	(2.5)	(0.9)
		(96.8)	(80.2)

The total share-based payment cost in the year includes national insurance contributions of £0.1m (2020: £0.1m).

The above total for 2020 employment costs includes an offset of £9.9m which was claimed under the Coronavirus Job Retention Scheme (CJRS). No amount was claimed under the scheme in 2021.

#### AVERAGE NUMBER OF EMPLOYEES

	2021 Number	2020 Number
Administration	192	213
Production and distribution	1,600	1,672
	1,792	1,885

The decrease in the number of employees in the period is due to of the closure of the Swadlincote factory.

### 7. EMPLOYMENT COSTS CONTINUED

#### PENSION COSTS

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

### 8. EXCEPTIONAL ITEMS

	2021 £m	2020 £m
<b>Exceptional operating items</b>		
Restructuring costs	–	(2.4)
Closure and sale of Swadlincote factory	6.1	–
Asset impairment charges	–	(17.0)
	6.1	(19.4)
<b>Exceptional finance items</b>		
Debt refinancing costs	–	(3.4)
	–	(3.4)
<b>Total exceptional items</b>	<b>6.1</b>	<b>(22.8)</b>

#### 2021 EXCEPTIONAL ITEMS

In the current year the Group announced the closure of the bespoke precast concrete factory at Swadlincote. This followed the decision made by Management to mothball the hollowcore facility co-located at the site in 2020, the impairment charge for which is recognised as an exceptional item in 2020. Following the announcement of closure, the site was subsequently sold in 2021.

In line with the treatment of the closure of the hollowcore production facility in 2020, the second stage of this site closure and subsequent sale has been disclosed as an exceptional item in 2021. The total recognised gain of £6.1m can be broken down into a profit on sale of the land and buildings and plant and machinery at the site of £6.7m, combined with associated redundancy costs of £0.6m. Within the profit on sale, the Group received gross sales proceeds of £14.7m relating to the sale of the facility and associated equipment.

#### 2020 EXCEPTIONAL ITEMS

Restructuring costs totalling £2.4m were incurred in 2020 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 was charged against assets in business areas with more challenging market conditions and weaker margins. This fully wrote-down the carrying value of goodwill within the business, wrote-down assets associated with hollowcore production at the mothballed facility in Swadlincote and wrote-off an IT system. The Goodwill impairments (£6.8m) substantially related to £6.0m of goodwill that had been recognised on the historic acquisition of Hanson plc by HeidelbergCement AG in 2007 attached to the Formpave site. Formpave following Covid-19 could no longer support a carrying value that included this £6.0m of goodwill.

The remaining £0.8m of goodwill related to the acquisition of the Swadlincote facility in 2017 and was recognised within the Bespoke Products segment. Goodwill of £0.8m was impaired along with a £9.4m impairment relating to idle assets at the Swadlincote facility. There was no value in use for the foreseeable future following the decision to mothball the hollowcore facility in response to the Covid-19 pandemic.

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

Further to the above, on 7 July 2020 the Group refinanced its existing banking facilities. Costs of £3.4m associated with this refinancing were recognised as an exceptional item.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 8. EXCEPTIONAL ITEMS CONTINUED

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 costs £m	Other operating income £m	Finance expense £m	Total £m
<b>2021</b>						
Total before exceptional items	(240.1)	(51.2)	(27.4)	2.3	(3.3)	(319.7)
<b>Exceptional items</b>						
Closure and sale of Swadlincote	(0.6)	–	–	6.7	–	6.1
<b>Statutory total</b>	<b>(240.7)</b>	<b>(51.2)</b>	<b>(27.4)</b>	<b>9.0</b>	<b>(3.3)</b>	<b>(313.6)</b>
<b>2020</b>						
Total before exceptional items	(207.8)	(44.0)	(19.5)	0.2	(3.4)	(274.5)
<b>Exceptional items</b>						
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)
<b>Statutory total</b>	<b>(225.8)</b>	<b>(44.1)</b>	<b>(20.8)</b>	<b>0.2</b>	<b>(6.8)</b>	<b>(297.3)</b>

#### 2021 TAX ON EXCEPTIONAL ITEMS

The sale of the land and buildings at Swadlincote gave rise to a chargeable gain subject to corporation tax. The redundancy costs incurred are tax deductible.

#### 2020 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 gives rise to a deferred tax credit such that they are not tax rate impacting, however the impairment of goodwill and non-qualifying land and buildings impact the effective tax rate.

### 9. FINANCE EXPENSE

	Note	2021 £m	2020 £m
Interest payable on external borrowings		(2.6)	(2.9)
Interest payable on lease liabilities	25	(0.3)	(0.3)
Other finance expense		(0.4)	(0.2)
Exceptional finance expense	8	–	(3.4)
		<b>(3.3)</b>	<b>(6.8)</b>

In 2020, the Group drew down on its revolving credit facility in its entirety from mid-March, securing cash in response to the Covid-19 pandemic, but resulting in higher interest charges. At the 31 December 2020, £15.0m remained drawn down under the facility which was repaid in full during 2021. The interest payable as presented in the Consolidated Financial Statements for 2021 relates to the commitment fee charged during the period.

### 10. TAXATION

	Note	2021 £m	2020 £m
<b>Current tax</b>			
UK corporation tax on profit for the year		(9.1)	(1.8)
Prior year adjustment on UK corporation tax		–	0.5
<b>Total current tax</b>		<b>(9.1)</b>	<b>(1.3)</b>
Origination and reversal of temporary differences	23	(1.4)	1.2
Effect of change in tax rates	23	(0.8)	(0.2)
Effect of prior period adjustments	23	–	0.1
<b>Total deferred tax</b>		<b>(2.2)</b>	<b>1.1</b>
<b>Income tax expense</b>		<b>(11.3)</b>	<b>(0.2)</b>
		<b>2021 £m</b>	<b>2020 £m</b>
Profit / (loss) before taxation		56.8	(5.4)
Expected tax (charge) / credit		(10.8)	1.0
Expenses not deductible for tax purposes		0.3	(0.5)
Impairment of goodwill not deductible for tax purposes		–	(1.2)
Reversal of uncertain tax provision		–	(0.2)
Impact of change on deferred tax rate		(0.8)	0.7
<b>Income tax expense</b>		<b>(11.3)</b>	<b>(0.2)</b>

In the March 2021 Budget, the Chancellor of the Exchequer confirmed an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023. The Finance Bill 2021 had its third reading on 24 May 2021 and is now enacted.

### 11. DIVIDENDS

	2021 £m	2020 £m
<b>Amounts recognised as distributions to equity holders in the year</b>		
Interim dividend of 3.2p per share (2020: nil)	(6.3)	–
Final dividend of 2.8p per share in respect of prior year (2020: nil)	(7.4)	–
	<b>(13.7)</b>	<b>–</b>

The Directors are proposing a final dividend for 2021 of 6.7p per share, making a total payment for the year of 9.9p (2020: 2.8p). This is subject to approval by the shareholders at the AGM and has not been included as a liability in the Consolidated Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 12. EARNINGS / (LOSS) 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 alternative performance measure to provide an additional year-on-year comparison excluding the impact exceptional items as detailed within note 8, 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 four types of dilutive potential ordinary shares, being: those share options granted to employees under the Sharesave 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; unvested shares granted under the Share Incentive Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

	Before exceptional items		Statutory	
	2021 £m	2020 £m	2021 £m	2020 £m
Operating profit for the year	54.0	20.8	60.1	1.4
Finance expense	9 (3.3)	(3.4)	(3.3)	(6.8)
<b>Profit / (loss) before taxation</b>	<b>50.7</b>	17.4	<b>56.8</b>	(5.4)
Income tax expense	10 (10.8)	(3.2)	(11.3)	(0.2)
<b>Profit / (loss) for the year</b>	<b>39.9</b>	14.2	<b>45.5</b>	(5.6)
Weighted average number of shares (millions)	228.1	214.8	228.1	214.8
Effect of share incentive awards and options (millions)	2.3	0.2	2.3	0.2
Diluted weighted average number of ordinary shares (millions)	230.4	215.0	230.4	215.0
<b>EARNINGS / (LOSS) PER SHARE:</b>				
Basic (in pence)	17.5	6.6	19.9	(2.6)
Diluted (in pence)	17.3	6.6	19.7	(2.6)

### 13. INTANGIBLE ASSETS

	Goodwill £m	Brand £m	Other intangibles £m	Total £m
<b>Cost</b>				
At 1 January 2021	406.5	11.1	21.1	438.7
Additions	–	–	8.0	8.0
Disposals	(0.8)	–	(0.7)	(1.5)
At 31 December 2021	405.7	11.1	28.4	445.2
<b>Accumulated amortisation and impairment</b>				
At 1 January 2021	(406.5)	(4.7)	(16.5)	(427.7)
Charge for the year	–	–	(1.3)	(1.3)
Disposals	0.8	–	0.7	1.5
At 31 December 2021	(405.7)	(4.7)	(17.1)	(427.5)
<b>Net book value at 31 December 2021</b>	<b>–</b>	<b>6.4</b>	<b>11.3</b>	<b>17.7</b>
Net book value at 1 January 2021	–	6.4	4.6	11.0
<b>Cost</b>				
At 1 January 2020	406.5	11.1	19.6	437.2
Additions	–	–	1.5	1.5
Disposals	–	–	–	–
At 31 December 2020	406.5	11.1	21.1	438.7
<b>Accumulated amortisation and impairment</b>				
At 1 January 2020	(399.7)	(4.7)	(14.6)	(419.0)
Charge for the year	–	–	(1.2)	(1.2)
Disposals	–	–	–	–
Asset impairment	(6.8)	–	(0.7)	(7.5)
At 31 December 2020	(406.5)	(4.7)	(16.5)	(427.7)
<b>Net book value at 31 December 2020</b>	<b>–</b>	<b>6.4</b>	<b>4.6</b>	<b>11.0</b>
Net book value at 1 January 2020	6.8	6.4	5.0	18.2

All goodwill was impaired and fully written-down in 2020 and impairment charges allocated to the appropriate business segments. The Group no longer hold a carrying value for goodwill.

The brand category comprises the acquired Thermalite and Bison Precast brands, components of the Bricks and Blocks and Bespoke Products reportable segments respectively.

The other intangibles category consists of purchases carbon credits, clay rights, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. Additions in the period largely relate the purchase of carbon allowances, with smaller additions incurred in upgrading Group IT systems. An impairment was recognised in 2020 in relation to a portion of the Group's capitalised software assets.

Carbon credits have been purchased to satisfy compliance obligations of the Group, and whilst there is no obligation to utilise this within the next twelve months; a proportion of the year-end balance is expected to be surrendered within 2022. Due to the nature of carbon credits being part of the Group's operating activities, the purchased balance is included in cash flows from operating activities within the Consolidated Statement of Cash Flows.

Included in software additions is £0.1m (2020: £0.1m) of own work capitalised.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 13. INTANGIBLE ASSETS CONTINUED

#### IMPAIRMENT OF INTANGIBLE ASSETS

##### GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

As stated on the previous page, the Group no longer holds any carrying value associated with goodwill. Other intangible assets with indefinite useful lives consist of the Thermalite brand which is allocated to the Aircrete blocks CGUs within the Brick and Block reportable segment and the Bison Precast brand which is allocated to the Bespoke Products segment. These are subject to annual impairment tests. The Group estimates recoverable amount using a value in use model by projecting pre-tax cash flows over the estimated useful life. The key assumptions underpinning recoverable amounts are forecast revenue, EBITDA margin, capital expenditure and the discount rate. The forecast revenues and EBITDA in the models are based on Management's past experience and future expectations of performance. Maintenance CAPEX is based on planned levels in the short-term and recent trends in the longer-term. A pre-tax discount rate of 11.25% in 2021 (2020: 12.7%) has been derived from a WACC calculation and benchmarked against similar organisations operating within the sector and used to discount cash flows. Short-term growth rates vary by CGU between (5.4)% and 11.4% and are based on Management's past experience and expectations of future market performance. These compare growth rates at 31 December 2020 of between 3% and 14%.

Terminal growth rates of 2% for 2021 (2020: 2%), is consistent across CGUs and reflect Management's past experience, expectations of future market performance, longer-term industry forecasts and inflationary expectations.

The recoverable amounts in respect of indefinite life intangibles, as assessed by Management using the above assumptions, is greater than the carrying amount and therefore no impairment has been recognised in 2021 (2020: £6.8m).

### 14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and machinery £m	Total £m
<b>Cost</b>			
At 1 January 2021	177.1	241.9	419.0
Asset reclass	0.5	(0.5)	–
Additions	6.1	25.8	31.9
Disposals	(10.7)	(11.7)	(22.4)
Changes in the value of decommissioning assets	0.3	–	0.3
At 31 December 2021	173.3	255.5	428.8
<b>Accumulated depreciation and impairment</b>			
At 1 January 2021	(56.9)	(175.0)	(231.9)
Charge for the year	(2.0)	(8.2)	(10.2)
Disposals	3.9	10.8	14.7
At 31 December 2021	(55.0)	(172.4)	(227.4)
<b>Net book value at 31 December 2021</b>	<b>118.3</b>	<b>83.1</b>	<b>201.4</b>
Net book value at 1 January 2021	120.2	66.9	187.1

### 14. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land and buildings £m	Plant and machinery £m	Total £m
<b>Cost</b>			
At 1 January 2020	156.2	238.7	394.9
Additions	20.2	3.7	23.9
Disposals	–	(0.5)	(0.5)
Changes in the value of decommissioning assets	0.7	–	0.7
At 31 December 2020	177.1	241.9	419.0
<b>Accumulated depreciation and impairment</b>			
At 1 January 2020	(51.9)	(160.4)	(212.3)
Charge for the year	(2.3)	(8.4)	(10.7)
Disposals	–	0.5	0.5
Asset impairment	(2.7)	(6.7)	(9.4)
At 31 December 2020	(56.9)	(175.0)	(231.9)
<b>Net book value at 31 December 2020</b>	<b>120.2</b>	<b>66.9</b>	<b>187.1</b>
Net book value at 1 January 2020	104.3	78.3	182.6

Land and buildings comprise sites used for administration, distribution, manufacturing and mineral extraction. Each asset is used to generate operating cash flows and rates of depreciation reflect this use.

Quarries and manufacturing facilities are classified under land and buildings. Quarrying enables manufacturing and is not carried out for any other economic purpose. The two are therefore not considered to be distinct.

Included within property, plant and equipment are assets under the course of construction of £65.2m (2020: £37.4m), comprising £40.4m (2020: £34.4m) for land and buildings and £24.8m (2020: £3.0m) for plant and machinery. At year-end a total of £39.3m (2020: £34.0m) within land and buildings and £20.6m (2020: £nil) within plant and machinery related to the new factory at Desford.

#### IMPAIRMENT OF TANGIBLE ASSETS

The impairment of tangible assets is determined by the Group in line with the process disclosed in note 13. This process has not led to any impairments within 2021.

In the prior year, land and buildings and plant and machinery associated with activities at the Bison Precast facility at Swadlincote was impaired as the Group reassessed its manufacturing footprint and reduced production of hollowcore flooring products; following the initial impact of the Covid-19 pandemic. Following Management's decision, land and buildings at the facility were not being fully utilised in generating cash flows in the near-term and surplus assets were written-down to reflect fair value less costs to sell. This resulted in an impairment charge in 2020 to land and buildings of £2.7m and plant and machinery £6.7m.

Subsequent to this decision, in 2021 Management made the decision to cease remaining production at the Swadlincote factory and sell the site. As a result, all Swadlincote site assets have been disposed of and a profit on sale of £6.7m has been recognised, as detailed within exceptional items in note 8.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 15. INVENTORIES

	2021 £m	2020 £m
Raw materials	8.4	8.1
Work in progress	1.8	1.5
Finished goods	19.8	21.2
Other inventory	2.8	2.2
	<b>32.8</b>	33.0

Costs relating to raw materials and consumables included in cost of sales during the year was £76.8m (2020: £58.4m). Employment expenses within cost of sales totalled £64.4m (2020: £54.4m).

Write-downs of inventories recognised as an expense in the year were £3.5m (2020: £1.9m). Reversals of previous inventory write-downs in the period were £2.9m (2020: £2.3m). There is no significant difference between the replacement cost of inventories and their carrying amounts.

### 16. TRADE AND OTHER RECEIVABLES

	2021 £m	2020 £m
Trade receivables	35.4	33.0
Other receivables	1.0	1.0
Prepayments	2.7	1.7
	<b>39.1</b>	35.7

#### THE AGEING PROFILE OF TRADE RECEIVABLES IS:

	2021 £m	2020 £m
Trade receivables not yet due	25.8	24.5
1 to 30 days past due	6.9	4.9
31 to 60 days past due	1.1	0.9
61 to 90 days past due	0.5	1.0
Over 90 days past due	1.1	1.7
	<b>35.4</b>	33.0

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for.

These balances relate to customers who have no recent history of default and whose debts are considered to be recoverable.

Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Provisions for impairment are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. An analysis of the provision movement is as follows:

	2021 £m	2020 £m
Balance at the beginning of the year	1.0	0.7
Statement of Comprehensive Income charge	–	0.4
Written off	–	(0.1)
	<b>1.0</b>	1.0

### 17. CASH AND CASH EQUIVALENTS

	2021 £m	2020 £m
Cash at bank and in hand	41.5	31.5

Cash at bank and in hand is held in Pounds Sterling and Euros. As at 31 December 2021, £0.1m was held in Euros (2020: £nil).

### 18. TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Trade payables	40.6	32.7
Payroll tax and other statutory liabilities	7.6	8.0
Accrued liabilities and other payables	27.4	23.1
	<b>75.6</b>	63.8

### 19. LOANS AND BORROWINGS

	2021 £m	2020 £m
<b>Non-current loans and borrowings</b>		
– Revolving credit facility	–	15.0
<b>Current loans and borrowings</b>		
– Interest	0.6	0.5
	<b>0.6</b>	15.5

The Group last refinanced its banking facilities in July 2020 securing a facility size of £170m in place until July 2024 as well as a package of covenant variations extending to September 2021. The facility agreement included the option for the Company to request, subject to bank approval, an additional extension for a further year to July 2025. The extension was approved, with the facility now committed until 1 July 2025. An arrangement fee of £0.3m was paid in respect of this extension which is included within other finance expenses within note 9. The credit agreement has also been amended to remove references to LIBOR with interest now calculated based on SONIA plus a small credit adjustment spread. This change does not significantly impact the interest rate payable.

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

A reconciliation of liabilities arising from financing activities has been detailed below:

	2020 £m	Cash flow £m	Interest charge £m	Facility fee £m	2021 £m
<b>Non-current loans and borrowings</b>					
– Revolving credit facility	15.0	(15.0)	–	–	–
<b>Current loans and borrowings</b>					
– Interest	0.5	(2.8)	2.6	0.3	0.6
	<b>15.5</b>	<b>(17.8)</b>	<b>2.6</b>	<b>0.3</b>	<b>0.6</b>



# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 20. NET CASH

#### THE ANALYSIS OF NET CASH IS AS FOLLOWS:

	Note	2021 £m	2020 £m
Cash and cash equivalents	17	41.5	31.5
Loans and borrowings	19	(0.6)	(15.5)
Lease liabilities	25	(16.5)	(9.4)
<b>Net cash</b>		<b>24.4</b>	6.6

#### RECONCILIATION OF NET CASH FLOW TO NET CASH

	2021 £m	2020 £m
<b>Cash flow generated from operations before exceptional items</b>	<b>81.2</b>	53.9
Payments made in respect of exceptional operating items	(0.6)	(5.6)
<b>Operating cash flow after exceptional items</b>	<b>80.6</b>	48.3
Interest paid	(2.8)	(2.8)
Tax paid	(9.6)	(5.2)
Net cash flow from investing activities	(20.0)	(24.9)
Dividends paid	(13.7)	–
Exceptional finance payments	–	(3.2)
Purchase of shares by Employee Benefit Trust	(5.0)	(1.0)
Proceeds from sale of shares by Employee Benefit Trust	1.2	0.9
Proceeds from issue of shares	–	55.0
Transaction costs on share issue	–	(2.0)
New lease liabilities	(12.4)	(0.6)
Other financing movement	(0.5)	(0.6)
Increase in net cash	17.8	63.9
Net cash / debt at the start of the period	6.6	(57.3)
<b>Net cash at the end of the period</b>	<b>24.4</b>	6.6

### 21. FINANCIAL INSTRUMENTS

	Note	2021 £m	2020 £m
<b>Financial assets at amortised cost</b>			
Cash and cash equivalents	17	41.5	31.5
Trade and other receivables (excluding prepayments)	16	36.4	34.0
		<b>77.9</b>	65.5

	Note	2021 £m	2020 £m
<b>Financial liabilities at amortised cost</b>			
Trade and other payables (excluding non-financial liabilities)	18	68.0	55.8
Loans and borrowings	19	0.6	15.5
Lease liabilities	25	16.5	9.4
Derivative liabilities		(0.2)	–
		<b>84.9</b>	80.7

### 21. FINANCIAL INSTRUMENTS CONTINUED

The financial assets of the Group, cash and cash equivalents and trade and other receivables are derived directly from operations. For financial liabilities of the Group, trade and other payables are also derived directly from operations, however loans and borrowings, lease liabilities and derivative liabilities are arranged periodically to finance operating and investing activities.

All financial assets and liabilities are held at amortised cost, with the exception of derivative liabilities which are held at fair value.

#### CAPITAL MANAGEMENT

The Group manages capital (being loans and borrowings, cash and cash equivalents and equity) to ensure a sufficiently strong capital base to support the Group remaining a going concern, maintain investor and creditor confidence, provide a basis for future development of the business and maximise the return to stakeholders.

The Group manages its loans and borrowings to ensure continuity of funding. A key objective is to ensure compliance with the covenants set out in the Group's bank facility agreements.

In managing capital the Group may purchase its own shares on the open market. These purchases meet the Group's obligation to employees under the Group's share-based payment schemes.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2020 and 31 December 2021.

#### FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to periodically manage risks if it is judged to be prudent. The risk management framework governing the management of these and all other business risks is set by the Board.

#### FOREIGN EXCHANGE RISK

The functional and presentational currency of the Group is Pounds Sterling although some transactions are executed in Euros and US Dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against Pounds Sterling. Foreign currency exposure is centrally managed by the Group Treasury function using forward foreign exchange contracts and currency options.

#### PRINCIPAL RATE OF EXCHANGE: EURO / STERLING

	2021 £m	2020 £m
Period end	1.19	1.12
Average	1.16	1.13

In the current year the Group has entered into both foreign forward contracts and options over purchases of equipment for its Desford facility, the payments for which are denominated in euro. At 31 December 2021 a total of €8.0m was undrawn under forward contracts, and €9.8m under option. The contracts have staggered maturity dates within the next 15 months.

The Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. The fair value of the cash flow hedges in place at 31 December 2021 is £0.2m (2020: £nil) which is adjusted against the cash flow hedge reserve. During the year £0.2m (2020: £nil) has been recognised in Other Comprehensive Income for the year.

#### INTEREST RATE RISK

The Group has secured its borrowings from a group of leading banks under a revolving credit facility. These facilities allow the Group to meet short, medium and long-term financing requirements at a margin over SONIA. The Group manages interest risk on an ongoing basis and reviews options available to hedge part of the variable rate risk.

A sensitivity analysis has been performed based on the exposure to interest rates at the balance sheet date. Based on the borrowings drawn down in 2021, a 1.0% increase or decrease in interest rates, with all other variables held constant, would not increase or decrease profit before taxation for the year ended 31 December 2021.

#### CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents) and credit exposure to customers

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 21. FINANCIAL INSTRUMENTS CONTINUED

through trade and other receivables. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are impaired when there is no reasonable expectation of recovery.

To dilute and mitigate the financial credit risk associated with cash balances the Group deposits cash and cash equivalents with multiple highly rated counterparties.

Credit risk associated with trade receivables results from normal commercial operations. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Trade and other receivables are stated net of Management estimated expected credit losses.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low. Impairments in the period were less than £0.1m (2020: less than £0.1m).

#### LIQUIDITY RISK

The Group's borrowing facilities are available to ensure that there is sufficient liquidity to exceed maximum forecast cash flow requirements in all reasonably possible circumstances. The Group monitors cash flow on a weekly basis to ensure that headroom exists within current agreed facilities and updates the Executive Committee on liquidity and the sources of cash flow performance and forecasts.

The maturity profile of contractual undiscounted cash outflows, including expected interest payments, which are payable under financial liabilities at the balance sheet date is set out below:

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Greater than five years £m	Total £m
<b>2021</b>							
Trade and other payables (excluding non-financial liabilities)	68.0	–	–	–	–	–	68.0
Loans and borrowings	0.6	1.0	1.1	1.1	1.1	1.0	5.9
Lease liabilities	4.9	3.6	2.6	1.9	1.8	2.9	17.7
	<b>73.5</b>	<b>4.6</b>	<b>3.7</b>	<b>3.0</b>	<b>2.9</b>	<b>3.9</b>	<b>91.6</b>
	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Greater than five years £m	Total £m
<b>2020</b>							
Trade and other payables (excluding non-financial liabilities)	55.8	–	–	–	–	–	55.8
Loans and borrowings	2.8	1.2	1.2	1.2	15.6	–	22.0
Lease liabilities	3.6	2.5	1.6	0.8	0.3	1.4	10.2
	<b>62.2</b>	<b>3.7</b>	<b>2.8</b>	<b>2.0</b>	<b>15.9</b>	<b>1.4</b>	<b>88.0</b>

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

### 22. PROVISIONS

	Restoration and Decommissioning £m	Other £m	Carbon Credits £m	Total £m
At 1 January 2021	12.4	1.8	–	14.2
Charged / (credited) to the Consolidated Statement of Total Comprehensive Income:				
– Additional provisions	0.5	1.4	6.0	7.9
– Release of provisions	(1.4)	(0.5)	–	(1.9)
– Utilised amounts	–	(0.6)	–	(0.6)
– Unwind of discount	–	–	–	–
<b>At 31 December 2021</b>	<b>11.5</b>	<b>2.1</b>	<b>6.0</b>	<b>19.6</b>

#### ANALYSED AS:

	2021 £m	2020 £m
Non-current	9.7	9.2
Current	9.9	5.0
	<b>19.6</b>	<b>14.2</b>

The other provisions balance is made up of provisions for onerous contracts, lease dilapidations and product.

Non-current provisions are discounted at a rate of 2.3% (2020: 2.3%).

The unwind of discount in the period is shown as a finance expense.

#### RESTORATION AND DECOMMISSIONING

The Group is required to restore quarrying sites to a state agreed with the planning authorities after extraction of raw materials ceases, and to decommission manufacturing facilities that have been constructed. Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seeks specialist input from third party experts to estimate the cost to perform any necessary remediation work at the reporting date. These experts undertake site visits in years where scoping identifies there is a change in operations in the year which could suggest a change in these estimates, or at sites that have not been visited recently. Desktop reviews are undertaken to inform the estimates for other sites.

The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value. Management reference information from the Bank of England when making such estimates. These provisions are discounted by applying a discount rate that reflects the passage of time. Estimates are revised annually and in the case of decommissioning provisions are adjusted against the asset to which the provision relates, which is then subject to an impairment assessment. Future costs are expected to be incurred over the useful life of the sites, which is a period of up to 82 years.

In the current year the Group sold an exhausted former quarry for proceeds of £0.1m. This sale released the Group any restoration obligation attached to the quarry, resulting in a release of £1.4m in the restoration provision. The total profit on disposal of £1.5m has been presented within other operating income for the year.

The following table shows the timeline in which undiscounted costs in relation to the restoration and decommissioning provision are expected to become current:

	Current £m	1 to 20 years £m	21 to 40 years £m	40 years plus £m	Total £m
<b>2021</b>					
Restoration and decommissioning	1.9	2.1	5.4	3.0	12.4

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 23. DEFERRED TAX

#### THE ANALYSIS OF DEFERRED TAX LIABILITIES IS AS FOLLOWS:

	2021 £m	2020 £m
Deferred tax liabilities to be incurred after more than 12 months	(2.7)	(0.9)

The movement in deferred tax assets / (liabilities) is as follows:

	Fixed assets £m	Provisions £m	Intangible assets £m	Share-based payments £m	Land £m	IFRS 16 transitional adjustment £m	Total £m
At 1 January 2020	(3.9)	2.0	(0.7)	0.8	(0.1)	0.1	(1.8)
Effect of prior period adjustment (Charged) / credited to Consolidated Statement of Total Comprehensive Income	(0.1)	0.2	–	–	–	–	0.1
Effect of changes in tax rates	(0.5)	0.3	(0.1)	0.1	–	–	(0.2)
Other movements	(0.1)	0.1	–	–	–	–	–
Tax on items taken directly to equity	–	–	–	(0.2)	–	–	(0.2)
At 31 December 2020 (Charged) / credited to Consolidated Statement of Total Comprehensive Income	(3.5)	2.8	(0.8)	0.6	(0.1)	0.1	(0.9)
Effect of changes in tax rates	(1.2)	(0.3)	–	0.1	–	–	(1.4)
Tax on items taken directly to equity	(1.5)	0.7	(0.2)	0.3	(0.1)	–	(0.8)
At 31 December 2021	(6.2)	3.2	(1.0)	1.4	(0.2)	0.1	(2.7)

Deferred tax is calculated on temporary differences between the tax base of assets and liabilities and their carrying amounts, using the corporation tax rate applicable to the timing of their reversal.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

### 24. SHARE CAPITAL AND OTHER RESERVES

#### SHARE CAPITAL

Called up issued and fully paid ordinary shares.

	2021 Number	2021 £m	2020 Number	2020 £m
<b>Allotted, called up and fully paid 1p ordinary shares</b>				
At start of year	228,647,196	2.3	200,442,068	2.0
Issued during year	–	–	28,205,128	0.3
At end of year	228,647,196	2.3	228,647,196	2.3

During the prior 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. During 2021 a balance of £17.6m (2020: £11.2m) has become distributable and is presented within retained earnings, leaving a total other reserve balance of £23.9m (2020: £41.5m) at 31 December 2021.

### 24. SHARE CAPITAL AND OTHER RESERVES CONTINUED

#### RESERVE FOR OWN SHARES

Own shares represent the cost of Forterra plc shares purchased in the market and held by employee benefit trusts to satisfy the future exercise of options under the Group's share option schemes. At 31 December 2021, two Trusts were in place and consolidated within the Consolidated Financial Statements.

The first Trust holds 488,698 ordinary shares (2020: 224,610), relating to shares granted under two free share awards. The first of these was granted on 25 May 2016, the second 10 February 2021. Shares granted under the 2016 award were issued by the Company and as such there was no monetary impact of these to the Consolidated Statement of Changes in Equity. A total of 291,483 shares were purchased by the Company in granting the 2021 award which were purchased by the Trust at an average cost of 276p per share, which is reflected in the reserve for own shares within the Consolidated Statement of Changes in Equity. The market value of these purchased shares at 31 December 2021 was £0.8m.

The second Trust holds 1,358,593 (2020: 686,177) shares at an average cost of 283p per share (2020: 286p). The market value of these shares at 31 December 2021 was £3.7m (2020: £1.7m). These shares are reflected within the reserve for own shares within the Consolidated Statement of Changes in Equity.

### 25. LEASES

The Group leases various premises, land, fleet vehicles, cars and plant and equipment. With the exception of land and property leases, contracts are typically made for fixed periods of 3 to 5 years. Lease terms are negotiated on an individual basis, and terms and conditions can vary.

In addition, the Group also leases machinery on short-term leases (less than 12 months) and office equipment of low financial value. These leases are recognised on a straight-line basis as an expense in the Consolidated Statement of Comprehensive Income.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings £m	Plant and machinery £m	Total £m
At 1 January 2020	3.6	10.1	13.7
Additions	–	0.6	0.6
Disposals	–	(0.1)	(0.1)
Depreciation expense	(0.6)	(4.6)	(5.2)
At 1 January 2021	3.0	6.0	9.0
Additions	–	12.4	12.4
Depreciation expense	(0.6)	(4.3)	(4.9)
At 31 December 2021	2.4	14.1	16.5

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021 £m	2020 £m
At 1 January	(9.4)	(14.1)
New leases	(12.4)	(0.6)
Interest	(0.3)	(0.3)
Payments	5.6	5.5
Disposals	–	0.1
At 31 December	(16.5)	(9.4)
Current	(4.5)	(3.4)
Non-current	(12.0)	(6.0)

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 25. LEASES CONTINUED

The following are the amounts recognised in profit or loss:

	2021 £m	2020 £m
Depreciation expense of right-of-use assets	4.9	5.2
Interest expense on lease liabilities	0.3	0.3
Expense relating to short-term leases	3.3	1.7
	<b>8.5</b>	7.2

Leases of low financial value for the year ended 31 December 2021 were less than £0.1m (2020: less than £0.1m).

During the years ended 31 December 2021 and 31 December 2020, the Group did not hold any lease contracts with variable payment terms.

The Group has several land and property lease contracts that include termination options, known as 'break clauses'. These options are negotiated by Management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these clauses are reasonably certain to be exercised.

At 31 December 2021, the Group has determined it is unlikely any break clause would be exercised, and full lease terms have been considered within the present value calculations.

A reconciliation of liabilities arising from financing activities in relation to leases has been detailed below:

	£m	Cash flow	Interest charge	New lease liabilities	Lease disposals	£m
<b>2021</b>	<b>9.4</b>	<b>(5.6)</b>	<b>0.3</b>	<b>12.4</b>	<b>–</b>	<b>16.5</b>
2020	14.1	(5.5)	0.3	0.6	(0.1)	9.4

### 26 SHARE-BASED PAYMENT ARRANGEMENTS

Total cost of share schemes:

	2021 £m	2020 £m
Share Incentive Plan (SIP)	0.2	–
Performance Share Plan (PSP)	1.0	0.5
Sharesave Plan (SAYE)	1.3	0.4
	<b>2.5</b>	0.9

The total cost of share schemes in the year includes national insurance contributions of £0.1m (2020: £0.1m).

#### SUMMARY OF SHARE OPTION AND SHARE AWARD ARRANGEMENTS

The Group operates a number of share schemes for the benefit of employees, all of which are equity-settled (although the rules of the PSP and DABP allow for cash settlement in exceptional circumstances).

#### SHARE AWARDS

##### SHARE INCENTIVE PLAN (SIP)

On 25 May 2016, 442,068, deferred free shares were awarded to all employees in service at this date. Shares to the value of £500 were issued which vested in May 2019, three years after the date of grant, subject to a three-year service condition. Further to this, on 10 February 2021, an additional £500 award was made to all serving employees, subject to the same service condition as in 2016. A total of 314,075 shares were granted under this award.

Unexercised shares are held by the Employee Benefit Trust on behalf of the Group's employees and detailed within Note 24.

### 26. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

#### SHARE OPTIONS

##### PERFORMANCE SHARE PLAN (PSP)

Performance based awards granted to the Executive Directors and designated senior management which vest three years after the date of grant at 1p per share. The total number of shares vesting is dependent upon both service conditions being met and the performance of the Group over the three-year period. Performance is subject to TSR and EPS conditions for all awards except 2020, each weighted 50%. The only performance condition attached to the PSP granted in 2020 is TSR. In addition to this, a holding period applies to vested PSP awards for the Executive Directors of Forterra plc, under which they are required to retain the number of vested awards, net of tax, for at least two years from the date of vesting.

##### DEFERRED ANNUAL BONUS PLAN (DABP)

Following the Group's IPO, deferred annual bonus awards were granted to designated senior management which vested in April 2018 dependent on a two-year service condition being met.

Additionally, a portion of the Executive Directors' annual bonus award is deferred into shares under a DABP, with a deferral period of three years. These awards are accrued as a bonus in the year to which they relate and are converted into deferred share awards after the year-end. No new DABP scheme was awarded within 2021 (2020: £nil).

##### SHARESAVE (SAYE)

HM Revenue and Customs approved scheme available to all employees with schemes offered annually since 2016. Employees make monthly contributions of up to £500 per month into a linked savings account and these may be exchanged three years from each grant date for shares at an option price discounted by 20% from the offer date.

The aggregate number of share awards outstanding for the Group is shown below:

	PSP Number of options	DABP Number of options	SAYE Number of options
Outstanding at 1 January 2020	1,827,044	249,273	4,349,175
Awards granted	1,075,278	–	5,927,340
Awards exercised	(132,799)	(136,514)	(613,833)
Awards lapsed / forfeited	(244,130)	–	(2,236,537)
Outstanding at 1 January 2021	<b>2,525,393</b>	<b>112,759</b>	<b>7,426,145</b>
Awards granted	<b>758,708</b>	<b>–</b>	<b>978,177</b>
Awards exercised	<b>(237,042)</b>	<b>(77,107)</b>	<b>(541,310)</b>
Awards lapsed / forfeited	<b>(564,418)</b>	<b>–</b>	<b>(658,397)</b>
<b>Outstanding at 31 December 2021</b>	<b>2,482,641</b>	<b>35,652</b>	<b>7,204,615</b>

Options were exercised on a regular basis throughout the year. The average share price during the year was 278p.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 26. SHARE-BASED PAYMENT ARRANGEMENTS CONTINUED

Share options outstanding at the end of the year have the following vesting dates:

	2021 Number of options
<b>PSP</b>	
26 April 2019	22,816
15 April 2020	37,203
29 March 2022	599,689
17 September 2023	1,064,225
30 April 2024	758,708
<b>DABP</b>	
12 March 2022	35,652
<b>SAYE</b>	
1 December 2021	223,380
1 December 2022	547,298
1 December 2023	5,481,470
1 December 2024	952,467

The weighted average remaining contractual life of share options outstanding at 31 December 2021 was 1.7 years. The exercise price for share options outstanding ranged from 1p to 238p.

The fair value per option granted in year has been calculated using the following assumptions:

	PSP (Performance and service condition)	SAYE (Service condition)
Date of grant	30/04/2021	06/10/2021
Option pricing model	Monte Carlo	Black-Scholes
Share price on grant date (p)	292.00	302.00
Exercise price (p)	1.00	238.00
Expected volatility	46.10%	45.20%
Vesting period (years)	3.00	3.15
Expected option life to exercise	3.00	3.40
Expected dividend yield	–	1.51%
Risk-free interest rate	0.21%	0.51%
Fair value per option (p)	248.50	113.00

Fair value per option under the PSP is calculated as the average for the TSR and EPS conditions.

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. The measures of volatility used by the Group in its pricing model has been derived as the median volatility of companies within the comparator index that have been listed for the commensurate length of time.

### 27. 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.

	2021 £m	2020 £m
Emoluments including taxable benefits	(3.2)	(2.0)
Share-based payments	(0.8)	(0.4)
Pension and other post-employment benefits	(0.3)	(0.2)
	(4.3)	(2.6)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within pages 124 to 135.

### 28. POST BALANCE SHEET EVENTS

On 26 January 2022 the Company announced a share buyback programme, which commenced 27 January 2022. The aggregate purchase price of all Ordinary Shares acquired under the first tranche of this programme will be no more than £40 million (excluding stamp duty and expenses) and any Ordinary Shares purchased under this programme will be cancelled immediately. In the period from 26 January 2022 to 8 March 2022 (the last practicable date prior to the date of this document), the Company purchased and cancelled 2,258,335 ordinary shares.

On 7 March 2022 the Group completed the sale of an area of disused land for total proceeds of £2.5m. Profit on disposal is expected to total c.£2.3m which will be recognised in the year ended 31 December 2022.

On 9 March 2022 the Group entered into a 15-year Power Purchase Agreement (PPA) for a dedicated solar farm, which is expected to provide 70% of the Group's electricity from 2025, representing a c.£50m commitment to renewable energy over the period of the agreement.

## COMPANY BALANCE SHEET

AT 31 DECEMBER 2021

	Note	2021 £m	2020 £m
<b>Fixed assets</b>			
Investment in subsidiary	6	309.4	307.4
Deferred tax asset	7	0.3	0.3
		<b>309.7</b>	307.7
<b>Current assets</b>			
Amounts due from Group undertakings	8	27.4	44.4
<b>Total assets</b>		<b>337.1</b>	352.1
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	9	(0.3)	(0.5)
		<b>(0.3)</b>	(0.5)
<b>Net current assets</b>		<b>27.1</b>	43.9
<b>Total assets less current liabilities</b>		<b>336.8</b>	351.6
<b>Net assets</b>			
		<b>336.8</b>	351.6
<b>Capital and reserves</b>			
Ordinary shares	10	2.3	2.3
Own share reserve	10	(4.6)	(2.0)
Other reserve		23.9	41.5
Retained earnings		315.2	309.8
<b>Total equity</b>		<b>336.8</b>	351.6

As permitted by section 408 of the Companies Act 2006, an entity profit or loss account is not included as part of the published Financial Statements of Forterra plc. The Company profit for the financial year ended 31 December 2021 was £0.2m (2020: £0.5m).

The notes on pages 186 to 189 are an integral part of these Financial Statements.

Approved by the Board of Directors on 10 March 2022 and signed on their behalf by:

**Stephen Harrison**                      **Ben Guyatt**  
Chief Executive Officer              Chief Financial Officer

## COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital £m	Reserve for own shares £m	Other reserve £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2020</b>	<b>2.0</b>	<b>(3.6)</b>	<b>–</b>	<b>299.2</b>	<b>297.6</b>
Total comprehensive profit for the year	–	–	–	0.5	0.5
Dividends paid	–	–	–	–	–
Issue of shares	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 exercised	–	1.7	–	(1.7)	–
Share-based payments charge	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	(0.2)	(0.2)
<b>Balance at 31 December 2020</b>	<b>2.3</b>	<b>(2.0)</b>	<b>41.5</b>	<b>309.8</b>	<b>351.6</b>
Total comprehensive profit for the year	–	–	–	0.2	0.2
Dividends paid	–	–	–	(13.7)	(13.7)
Movement in other reserves	–	–	(17.6)	17.6	–
Purchase of shares by Employee Benefit Trust	–	(5.0)	–	–	(5.0)
Proceeds from sale of shares by Employee Benefit Trust	–	1.2	–	–	1.2
Share-based payments exercised	–	1.2	–	(1.2)	–
Share-based payments charge	–	–	–	2.5	2.5
<b>Balance at 31 December 2021</b>	<b>2.3</b>	<b>(4.6)</b>	<b>23.9</b>	<b>315.2</b>	<b>336.8</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. GENERAL BACKGROUND

Forterra plc is a public limited company which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The registered office is 5 Grange Park Court, Roman Way, Northampton, NN4 5EA.

## 2. ACCOUNTING POLICIES

### BASIS OF PREPARATION

The separate Company Statements have been prepared in accordance with applicable accounting standards, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ('FRS 102') and the Companies Act 2006.

As permitted by section 408 of the Companies Act 2006, an entity profit or loss account is not included as part of the published Financial Statements of Forterra plc. The Company profit for the financial year ended 31 December 2021 was £0.2m (2020: £0.5m).

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The Financial Statements are presented in Pounds Sterling, rounded to the nearest hundred thousand and are prepared under the historical cost convention.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the Financial Statements are signed. The Company therefore adopts the going concern basis in preparing its Financial Statements.

### (A) INVESTMENTS

Investments are included in the balance sheet at the deemed cost of acquisition upon the Group restructure. Where appropriate, a provision is made for any impairment.

Capital contributions arising where subsidiary employees are awarded share options to be settled over the Company's equity result in increases to the cost of investment.

### (B) TAXATION

Charges for income tax are based on earnings for the period and take account of deferred taxation on timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

### (C) FINANCIAL INSTRUMENTS

The Company determines the classification of financial assets and financial liabilities at initial recognition. The principal financial assets and liabilities of the Company are as follows:

#### (I) FINANCIAL ASSETS

Basic financial assets, including trade and other receivables and amounts due from Group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method and assessed for objective evidence of impairment or impairment reversal at the end of each reporting period.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards of ownership of the asset are transferred.

## 2. ACCOUNTING POLICIES CONTINUED

### (II) FINANCIAL LIABILITIES

Basic financial liabilities, including trade and other payables and amounts due to Group undertakings and related parties are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where the debt is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other payables and loans are subsequently carried at amortised cost, using the effective interest rate method.

### (D) SHARE-BASED PAYMENTS

The Company operates a number of equity-settled share-based compensation plans, under which the Company receive services from the Executive Directors in exchange for equity instruments granted by the Company. The services received and corresponding increase in equity are measured at the fair value of the equity instruments granted, on the date granted. The Company also compensates certain key management and other employees for services provided to Forterra Building Products Limited. The services provided are recognised as an increase in the cost of investment in subsidiaries and a corresponding increase in equity; which is measured at the fair value of the equity instruments granted, on the date granted.

The cost of the equity-settled transactions are subsequently recognised over the vesting period, which ends at the date that the plan participant becomes fully entitled to the award. Fair values are determined using appropriate pricing models by external valuers. At the end of each reporting period the Company revises its estimates of the number of awards that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss account, with a corresponding adjustment to equity.

Further details regarding the share-based payment schemes are set out in note 26 to the Consolidated Financial Statements.

### (E) OWN SHARES HELD BY EMPLOYEE BENEFIT TRUST

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

### (F) SHARE CAPITAL

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

### (G) RELATED PARTIES

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Financial Statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### IMPAIRMENT OF INVESTMENTS

The Directors periodically review investments for possible impairment when events or changes in circumstances indicate, in Management's judgement, that the carrying amount of an asset may not be recoverable. The Company did not record any impairment charges during the period ended 31 December 2021.

## 4. EMPLOYEE INFORMATION

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests are set out in the Annual Report on Remuneration on pages 124 to 135 and includes the amounts received or receivable by each Director in the period. The long-term incentives as detailed on page 126 were recognised in the Company profit and loss account as an expense over the three-year period to which the awards relate. The Company recognised a charge of £0.5m (2020: £0.3m) in relation to share-based payments for the period.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## CONTINUED

### 5. DIVIDENDS

	2021 £m	2020 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend of 3.2p per share (2020: nil)	(6.3)	–
Final dividend of 2.8p per share in respect of prior year (2020: nil)	(7.4)	–
	<b>(13.7)</b>	–

The Directors are proposing a final dividend for 2021 of 6.7p per share, making a total for the year of 9.9p (2020:2.8p).

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

### 6. INVESTMENT IN SUBSIDIARY

	2021 £m	2020 £m
Balance as at 1 January	307.4	306.8
Capital contribution relating to share-based payments	2.0	0.6
Balance as at 31 December	<b>309.4</b>	307.4

The companies in which the Company has an interest at the year-end are shown below:

Name of Company	Country of incorporation	Holding	Nature of holding	% of class held
Forterra Holdings Limited	England & Wales	Ordinary £0.01	Direct	100%
Forterra Building Products Limited	England & Wales	Ordinary £0.01	Indirect	100%

The address of the registered office of both Forterra Holdings Limited and Forterra Buildings Products Limited is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA.

### 7. DEFERRED TAX

	2021 £m	2020 £m
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	0.3	0.3

### 8. CURRENT ASSETS

	2021 £m	2020 £m
Amounts due from Group undertakings	<b>27.4</b>	44.4

Amounts due from Group undertakings are non-interest bearing, unsecured and repayable on demand.

### 9. CURRENT AND NON-CURRENT LIABILITIES

	2021 £m	2020 £m
Creditors – amounts falling due within one year	<b>0.3</b>	0.5

Amounts owed to Group undertakings are non-interest bearing, unsecured and repayable on demand.

### 10. CAPITAL AND RESERVES

	2021		2020	
	Number	£m	Number	£m
Ordinary shares of £0.01 each	<b>228,647,196</b>	<b>2.3</b>	228,647,196	2.3

The Ordinary Shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Movements in the share capital and reserve for own shares are set out in note 24 of the Consolidated Financial Statements.

### 11. RELATED PARTY TRANSACTIONS

The Company is exempt from disclosing related party transactions with companies that are wholly owned within the Group. Transactions with related parties which are not wholly owned are disclosed within note 27 to the Consolidated Financial Statements. Remuneration to key management personnel has been disclosed within note 27 to the Consolidated Financial Statements.

### 12. CONTROLLING PARTY

Forterra plc is not under the control of an ultimate controlling party.

### 13. POST BALANCE SHEET EVENTS

On 26 January 2022 the Company announced a share buyback programme, which commenced 27 January 2022. The aggregate purchase price of all Ordinary Shares acquired under the first tranche of this programme will be no more than £40 million (excluding stamp duty and expenses) and any Ordinary Shares purchased under this programme will be cancelled immediately. In the period from 26 January 2022 to 8 March 2022 (the last practicable date prior to the date of this document), the Company purchased and cancelled 2,258,335 ordinary shares.



## GROUP FIVE-YEAR SUMMARY

Five year summary	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	<b>370.4</b>	291.9	380.0	367.5	331.0
EBITDA (before exceptional items)	<b>70.4</b>	37.9	82.7	78.8	75.4
Operating profit (before exceptional items)	<b>54.0</b>	20.8	65.0	67.1	64.5
PBT (before exceptional items)	<b>50.7</b>	17.4	62.5	64.8	61.1
Profit / (loss) before tax (statutory)	<b>56.8</b>	(5.4)	58.2	64.8	59.3
Operating cash flow (before exceptional items)	<b>81.2</b>	53.9	64.9	79.8	90.2
Net cash / (debt) (before leases)	<b>40.9</b>	16.0	(43.2)	(38.8)	(60.8)
Earnings per share (before exceptional items)	<b>17.5</b>	6.6	25.5	26.5	24.5
Dividend per share (pence)	<b>9.9</b>	2.8	4.0	10.5	9.5

## ADDITIONAL INFORMATION FINANCIAL CALENDAR AND OTHER SHAREHOLDER INFORMATION

### CALENDAR

The following dates have been announced:

2021 Annual General Meeting	24 May 2022
Payment of final 2021 dividend	8 July 2022
2022 Interim results announcement	28 July 2022

### GROUP ADVISERS

#### REGISTRARS

Link Asset Services

#### STATUTORY AUDITOR

Ernst & Young LLP

#### BROKERS

Deutsche Bank

Numis Securities Ltd

#### BANKERS

HSBC Bank plc

National Westminster Bank plc

Santander UK plc

Bank of Ireland Group plc

#### FINANCIAL PR

FTI Consulting

#### COMPANY INFORMATION

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Company number 09963666

#### REGISTERED AND CORPORATE OFFICE

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## NOTES

Designed and produced by Radley Yeldar [www.ry.com](http://www.ry.com)

Printed by Park Communications on FSC® certified paper. Park works to the EMAS standard and its Environmental Management System is certified to ISO 14001.

This publication has been manufactured using 100% offshore wind electricity sourced from UK wind 100% of the inks used are vegetable oil based (or HP Indigo ElectroInk which comply with EC Regulation 1907/2006 (REACH)), 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy.

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