9 March 2023

Strong 2022 results, well positioned looking forward

	Before exceptional items[1]			Statutory		
	2022 £m	2021 £m	Change (%)	**2022 £m**	2021 £m	Change (%)
Revenue	**455.5**	370.4	23.0	**455.5**	370.4	23.0
EBITDA	**89.2**	70.4	26.7	**91.5**	76.5	19.6
EBITDA margin	**19.6%**	19.0%	60 bps	**20.1%**	20.7%	(60) bps
Operating profit (EBIT)	**72.7**	54.0	34.6	**75.0**	60.1	24.8
Profit before tax	**70.6**	50.7	39.3	**72.9**	56.8	28.3
Earnings per share (pence)	**26.4**	17.5	50.9	**27.2**	19.9	36.7
Cash flow from operations	**89.0**	81.2	9.6	**89.0**	80.6	10.4
Net (debt) / cash before leases				**(5.9)**	40.9	N/A
Total dividend (pence)				**14.7**	9.9	48.5

[1]Exceptional items are disclosed separately where management believe it is necessary to show an alternative measure of performance in presenting the financial results of the Group. Presenting these measures allows a consistent comparison with prior periods.

OPERATIONAL AND TRADING HIGHLIGHTS

- Resilient trading delivered strong FY22 results ahead of pre-pandemic comparator
- 2022 sales volumes broadly in line with 2021 primarily limited by capacity constraints
- Dynamic pricing model implemented to recover severe cost inflation
- Particularly strong performance from Bison flooring business doubled Bespoke Products EBITDA prior to overhead allocations
- Energy cost inflation successfully managed through active procurement strategy
- Continued strength of operating cash flow drives strong liquidity position; closing net debt of £5.9m before leases

ORGANIC INVESTMENT

- New Desford brick factory now operational with first brick despatches expected shortly
- £30m Wilnecote brick factory redevelopment commenced with recommissioning expected in Q4 2023
- Contracts signed for £12m facility to manufacture clay brick slips with first production in H1 2024
- Work continues on our pipeline of further attractive organic investment projects, supporting future growth and offering compelling returns

CAPITAL ALLOCATION

- Recommending final dividend of 10.1p, bringing total 2022 dividend to 14.7p, a c.50% increase on 2021
- Robust balance sheet with leverage target at or below 1x EBITDA providing flexibility for bolt-on acquisitions as suitable opportunities arise
- £64.2m returned to shareholders through share buyback programme and dividends in 2022 with the Board continuing to keep further returns of capital to shareholders under review
- £170m RCF extended until Jan 2027 (with further 18-month extension option) with sustainability linkage

OUTLOOK

- Based on our assumption of an underlying fall in demand of 20% relative to 2022, the Board's expectations for the Group's 2023 performance remain unchanged
- The underlying decrease in market demand is expected to be mitigated to some extent by substitution of imported bricks, although customer inventory reduction presents an additional short-term headwind, which leads us to believe that full year revenue and profitability performance will be H2 weighted
- Well-practiced in managing production capacity utilisation and cost base
- Spring new house selling season to be a key determinant of 2023 sector activity levels
- Further selling price increases successfully implemented at the beginning of 2023
- Continued confidence in attractive medium-term fundamentals of housing undersupply and a shortage of domestically produced bricks

Stephen Harrison, Chief Executive Officer, commented:

"We are pleased with our strong performance in 2022 against a backdrop of severe cost inflation.

"The short-term outlook for the UK housing market remains uncertain. We saw signs of softening demand towards the end of 2022, and this continued into 2023, partly driven by customer inventory reduction. Whilst we expect demand for our products to fall in 2023 relative to 2022, we are encouraged by falling mortgage rates and recent reports of improving reservation rates. We wait to see how our customers' spring new house selling season develops, as this will be a key determinant of demand in the current year. Against the continuing inflationary environment we have been able to implement further selling price increases at the beginning of 2023 and secure at least 80% of this year's energy requirement.

"We remain confident that Forterra is well positioned to face these uncertain times. We began this year with minimal inventory, and are well practiced in managing our production capacity utilisation and cost base. With our new Desford factory now operational, we also expect to benefit from the industry-leading efficiency this will offer, manufacturing a range of products ideally suited to displace imported bricks. Alongside this, we possess a strong balance sheet with minimal debt and have recently extended our credit facility.

"Based on our assumption of a 20% fall in underlying demand relative to 2022, mitigated to some extent by the substitution of imported bricks, the Board's expectations for the Group's 2023 performance remain unchanged. Customer inventory reduction is expected to disproportionately impact H1 performance, resulting in full year revenue and earnings being H2 weighted. In the medium-term we continue to expect to benefit from the attractive UK market fundamentals of population growth, housing undersupply, a shortage of domestically-produced bricks and an increasing focus on the quality of housing stock."

ENQUIRIES

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A presentation for analysts will be held today, 9 March 2023, at 8.30am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

Forterra is a leading UK manufacturer of essential clay and concrete building products, with a unique combination of strong market positions in clay bricks, concrete blocks and precast concrete flooring. Our heritage dates back many decades and the durability, longevity and inherent sustainability of our products is evident in the construction of buildings that last for generations; wherever you are in Britain, you won't be far from a building with a Forterra product within its fabric.

Our clay brick business combines our extensive secure mineral reserves with modern and efficient high-volume manufacturing processes to produce large quantities of extruded and soft mud bricks, primarily for the new build housing market. We are also the sole manufacturer of the iconic Fletton brick, sold under the London Brick brand, used in the original construction of nearly a quarter of England's housing stock and today used extensively by homeowners carrying out extension or improvement work. Within our concrete blocks business, we are one of the leading producers of aircrete and aggregate blocks, the former being sold under one of the sector's principal brands of Thermalite. Our precast concrete products are sold under the established Bison Precast brand, and are utilised in a wide spectrum of applications, from new build housing to commercial and infrastructure.

INTRODUCTION

In 2022 we delivered a strong financial result notwithstanding headwinds of growing economic uncertainty and rapidly rising costs. We maintained strict cost control and where necessary have successfully passed on cost inflation to our customers allowing us to deliver a result that is ahead of our 2019 pre-pandemic performance.

We have made continued progress against our strategic goals with the new Desford brick factory now operational. Delivering this transformational project in line with expectations and within the original £95m budget, against a backdrop of considerable supply chain disruption and inflationary pressure, is a credit to everyone involved in the project.

OUR MARKETS

Our markets remained resilient throughout 2022 in the face of growing economic pessimism, although we did see signs of a softening in market conditions at the end of the year, particularly in demand for our precast concrete floor beams. Total UK brick consumption in 2022 is estimated at 2.5bn bricks of which a record 570m (representing 23% of total market demand) were satisfied by imports due to a continuing shortfall in domestic production capacity.

UK housebuilding continues to fall short of Government targets with 204,061 new build homes estimated to have been completed in Great Britain during 2022, a slight increase on the 2021 total of 201,251 compared to the recently reiterated Government target of 300,000 new homes annually across the UK.

Despite current and announced capacity investments, the UK brick industry still lacks the capacity required to meet demand. Current domestic production capacity of c2.1bn clay bricks per annum, remains lower than the pre-financial crisis figure of 2.6bn, supporting the increase in brick imports seen in the year with the number of imported bricks increasing by 35% relative to 2021.

We know that our customers would rather buy British wherever possible because we can ensure provenance and quality supplied directly from stock, for prompt delivery with lower transportation costs. These market dynamics leave us ideally placed to substitute imports with production from our new brick factory at Desford. Whilst it is likely that deteriorating economic conditions will reduce demand for our products in the near term, the ability to displace imported bricks will insulate ourselves and other UK brick manufacturers from some of the fall in demand as our customers switch from imports to domestically manufactured products which are expected to become more freely available.

Many analysts and commentators following the housebuilding sector expect demand for new housing to fall in 2023. As such, we are planning and resourcing our business accordingly, for a 20% fall in underlying demand relative to 2022. This decrease is mitigated to some extent by substitution of imported bricks although, in the shorter term, the effects of customer inventory reduction will further exacerbate the fall in demand for our products. The outlook beyond 2023 is uncertain, although with customer inventory reduction primarily impacting the first half of 2023, mortgage rates now reducing and the major housebuilders reporting a steady recovery in reservation rates, we are optimistic that demand for our products will increase through 2023 and into 2024.

In the medium-term, we believe that our markets will continue to benefit from attractive market fundamentals driven not only by a longstanding compounding shortage of housing in the UK but also continued population growth and increasing concern about the poor quality of much of the UK's housing stock. The recent increases in energy costs also increase the desirability of new energy efficient homes.

RESULTS FOR THE YEAR

	Statutory 2022 £m	Exceptional items[1] 2022 £m	Before exceptional items 2022 £m	Before exceptional items 2021 £m
Revenue	455.5	-	455.5	370.4
EBITDA	91.5	2.3	89.2	70.4
Depreciation and amortisation	(16.5)	-	(16.5)	(16.4)
Operating profit (EBIT)	75.0	2.3	72.7	54.0
Finance expense	(2.1)	-	(2.1)	(3.3)
Profit before tax	72.9	2.3	70.6	50.7

[1]Exceptional items are disclosed separately where management believe it is necessary to show an alternative measure of performance in presenting the financial results of the Group. Presenting these measures allows a consistent comparison with prior periods.

With sales volumes stable year on year, our revenues benefit from the essential price increases delivered on multiple occasions throughout the year. Total revenue of £455.5m represents an increase of £85.1m (23.0%) on the prior year (£370.4m). We increased the majority of our brick prices by a cumulative 50% during the year with the selling prices of other products increasing between 16% and 22%.

OPERATIONS

Our factories generally operated at close to capacity during 2022 although the Wilnecote brick factory closed for redevelopment at the end of September, and we continued to face reliability issues with the old Desford brick factory which is expected to close within the next month. In addition, we have had some plant reliability and production challenges within our Aircrete block business which adversely impacted production and accordingly sales.

Our inventory levels ended the year at record low levels. Following the strong recovery from the pandemic in the second half of 2020, until now there has not been an opportunity to replenish our inventory levels. Inventory valuation at the end of 2022 stood at £43.0m compared to £32.8m at the end of 2021. However, when the increases in input costs and the costs of production are taken into account, physical inventory quantities were lower than at the end 2021. Any slowdown in demand for our products in 2023 will facilitate a replenishment of inventories which will be necessary in order to deliver the levels of efficiency and customer service we demand of ourselves.

OPERATING COSTS

Large increases in our selling prices were necessitated by unrelenting increases in our cost base including the increasing cost of energy. The cost of energy first increased in the second half of 2021 with further rises during 2022 driven by the war in Ukraine. We have experienced unprecedented levels of direct energy cost inflation, being the price we need to pay for our gas and electricity, as well as experiencing indirect energy cost inflation as the rising cost of energy impacts many of our input categories, from cement and aggregates to steel, insulation and packaging.

The average market day ahead commodity rate for a therm of gas in the UK during 2022 was £2.10, which compares to a figure of £1.16 in 2021 and £0.35 in 2019. This highlights the level of energy cost inflation seen generally with the cost of gas having increased sixfold. We have continued to use forward purchasing to manage our exposure and to provide a degree of certainty as to our cost base.

In 2022 our combined gas and electricity spend was approximately £57m compared to £32m in 2021 and £26m in 2019. Our forward purchasing provided us with some insulation from soaring costs although we have still seen our energy spend increase by over 100% since 2019.

Whilst our forward positions allowed us to partially mitigate the cost increase in 2022, we do expect a further increase in our energy costs in 2023 as lower cost forward purchases which benefited 2022 are replaced with higher cost commitments for 2023.

We are well positioned with regard to energy procurement for 2023 with at least 80% of our energy needs now secured by forward contract, although this percentage will depend on our actual production levels.

We expect our energy costs to peak in 2023 and from 2024 expect to benefit from forward purchases that have been secured at lower rates. In addition, we will also see the first benefits of the Forterra solar farm where we have exercised an option to receive power from this facility (albeit at a higher cost) in 2024, prior to the inception of the competitively priced 15-year Power Purchase Agreement in 2025.

Due to the success of our energy procurement strategy, we did not benefit from the Government's Energy Bill Relief Scheme in 2022 and expect to receive little if any benefit in the first quarter of 2023. Beyond this, even as an energy intensive user, we expect to receive minimal, if any, benefit from the Energy Bills Discount Scheme which becomes effective in April 2023.

As well as rising gas and electricity costs, we also saw the cost of diesel fuel rise to record levels in 2022, significantly increasing the cost of operating our distribution fleet of around 180 specially equipped heavy goods vehicles and increasing the rates we pay our subcontract haulage contractors. In addition, we experienced a further increase in our fuel costs following the Government's decision to restrict the usage of red diesel and rebated biofuels, meaning that from 1 April 2022 we and our contractors were required to pay the full rate of fuel duty for fuel used in mobile plant and equipment at our factories, including the winning of clay and the handling of both raw materials and finished goods.

It is important to re-emphasise that the increases in our cost base extend well beyond the direct cost of energy. Many of our other inputs have increased significantly with the cost of cement for example, increasing by approximately 75% since the beginning of 2021.

During the year we also provided our workforce with what we believe was a generous sector leading pay award, along with additional targeted support to help the lowest paid, and it is our intention to continue to provide support to our employees by offering competitive remuneration going forward.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA as stated before exceptional items was £89.2m (2021: £70.4m). This level of profitability is ahead of the 2019 result of £82.7m albeit at a lower EBITDA margin.

Our business is managed as two divisions and we allocate our central overheads to each division based on an historic revenue driven allocation 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 also disclose the allocation of central overheads to give greater visibility of the underlying profitability of our segments, in particular Bespoke Products.

Despite the significant increase in selling prices within Bricks and Blocks our operating margins have fallen short of 2019 levels demonstrating the need to continue passing on cost increases to our customers. Bricks and Blocks EBITDA before exceptional items was £85.5m (2021: £70.5m) and Bespoke Products contributed an EBITDA before exceptional items of £3.7m (2021: loss of £0.1m). Profit before tax as stated before exceptional items was £70.6m (2021: £50.7m).

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 which will increase to approximately 675 million bricks per annum once the new Desford brick factory reaches full output. We are also a leader nationally in the aircrete block market, operating two Thermalite block facilities in the Midlands and South of England. In addition, our aggregate block business has a leading position in the important Southeast and East of England markets with two well located manufacturing facilities in this geography. This segment also includes Formpave, the Group's concrete block paving business.

Our clay reserves are the foundation that our brick business is built upon and 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. We have access to over 90 million tonnes of minerals, on average, these reserves are sufficient to sustain manufacturing operations for 50 years. The majority of our minerals are owned although a small amount are secured by way of lease with a royalty payable at the point of extraction.

TRADING AND RESULTS

The performance of the Bricks and Blocks segment is characterised by resilient demand, meaning that our sales were generally limited by production capacity, whilst rapidly increasing costs required us to adopt a dynamic approach to pricing our products.

Bricks and Blocks sales revenues were £370.2m, an increase of 24.2% on the prior year comparative (2021: £298.1m). Sales volumes were generally in line with 2021, limited by production capacity and low inventories as opposed to market demand.

Segmental EBITDA stated before exceptional items, totalled £85.5m (2021: £70.5m), an increase of 21.3%. EBITDA margin was 23.1% (2021: 23.6%) with selling price increases generally following cost increases and production challenges at the old Desford brick factory and the aircrete block business also weighing on margins.

	2022		2021	
	£m		£m	
	Before exceptional items	**Statutory**	Before exceptional items	Statutory
Revenue	**370.2**	**370.2**	298.1	298.1
EBITDA before overhead allocations	**109.5**	**111.8**	90.5	90.5
Overhead allocations	**(24.0)**	**(24.0)**	(20.0)	(20.0)
EBITDA	**85.5**	**87.8**	70.5	70.5
EBITDA margin before overhead allocations	**29.6%**	**30.2%**	30.4%	30.4%
EBITDA margin after overhead allocations	**23.1%**	**23.7%**	23.6%	23.6%

PRICING

Whilst the elevated levels of cost inflation experienced through 2022 have been unwelcome, we have demonstrated our ability to raise our own selling prices in response.

At the end of 2021 we informed our customers that we would no longer be able to offer annual pricing agreements and instead we would take a dynamic approach to pricing, we also amended our trading terms to require a single month's notice of price increases as opposed to the previous three.

We increased our brick prices on three occasions in 2022. We started the year with a brick price increase of c.16% effective 1 January 2022 but it was soon clear that this would be insufficient and we announced a further c.12% price increase effective 1 April. Cost inflation abated somewhat during the spring although, by the summer, a further increase in energy costs triggered another run of input cost inflation necessitating an additional 15% increase in the majority of our brick selling prices which was delivered at the beginning of October. Cumulatively, we increased our brick prices by over 50% in the year, although 2022 revenue does not reflect the full benefit of this. This was delivered alongside significant price increases on our other products during the year.

Towards the end of 2022, we again entered into pricing discussions with our customers as we sought to recover a further increase in energy costs that will feed through in 2023, with our forward purchasing strategy successfully deferring a degree of energy cost inflation from 2022 into 2023. Additionally, in common with many other companies, we anticipate further staff cost inflation in 2023.

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 in the Midlands. 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, 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.

TRADING AND RESULTS

Precast concrete flooring products represent by far the largest component of this segment by revenue and profitability. Demand for these products remained strong for most of the year although there was a noticeable softening towards the end of the year. Segmental turnover in the year was £90.1m (2021: £76.1m).

The strong segmental result was driven by the performance of the Bison flooring business, operating from the Hoveringham factory in Nottinghamshire, with this factory delivering what we believe is a record result.

Floor beam sales volumes increased 9% relative to 2021 as we maximised output from the single flooring factory. We implemented a dynamic pricing model, regularly adjusting selling prices on account of rising input costs. Segmental EBITDA stated before allocation of group overheads was £9.7m (2021: £4.8m). After an allocation of group overheads totalling £6.0m (2021: £4.9m) the segment reports an EBITDA of £3.7m (2021: loss of £0.1m) before exceptional items.

	2022		2021	
	£m		£m	
	Before exceptional items	**Statutory**	Before exceptional items	Statutory
Revenue	**90.1**	**90.1**	76.1	76.1
EBITDA before overhead allocations	**9.7**	**9.7**	4.8	10.9
Overhead allocations	**(6.0)**	**(6.0)**	(4.9)	(4.9)
EBITDA	**3.7**	**3.7**	(0.1)	6.0
EBITDA margin before overhead allocations	**10.8%**	**10.8%**	6.3%	14.3%
EBITDA margin after overhead allocations	**4.1%**	**4.1%**	–	7.9%

EXCEPTIONAL ITEMS

Exceptional items in 2022 related to the sale of surplus land for gross proceeds of £2.5m realising an exceptional profit of £2.3m. Exceptional items in the prior period totalled a profit of £6.1m and related solely to the closure and subsequent disposal of the Swadlincote precast concrete 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 were also recognised within the exceptional item, reducing the profit to £6.1m.

FINANCE COSTS

Finance costs totalled £2.1m (2021 £3.3m). Under the terms of the credit agreement, which was in place throughout 2022, interest was payable according 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. A commitment fee of 35% of the margin was payable on the unborrowed credit facility.

TAXATION

The effective tax rate (ETR) both including and excluding exceptional items was 19.3% (2021: 19.8% including and 21.3% excluding exceptional items). The ETR is slightly higher than the UK statutory rate of 19.0% (2021: 19.0%) due to the permanent impact of non-deductible items such as deprecation on non-qualifying assets, however this is reduced by the permanent benefit of the UK tax super deduction on qualifying plant and machinery expenditure as announced in the 2021 Budget. The 2021 ETR was above the statutory rate of corporation tax at 21.3% as this reflected the impact on the deferred tax liability of the rate change announcement in the 2021 Budget from 19.0% to 25.0% from April 2023.

EARNINGS PER SHARE (EPS)

EPS as stated before exceptional items were 26.4p (2021: 17.5p). Basic EPS after exceptional items were 27.2p (2021: 19.9p). EPS is calculated on the average number of shares in issue during the year (excluding those held by the Employee Benefit Trust (EBT)) which in 2022 was 216.2m shares (2021: 228.1m), the decrease being driven by the impact of the £40m share buyback which saw 15.8m shares purchased and subsequently cancelled.

DIVIDEND

Our dividend policy is to distribute 55% of our earnings. This policy is supported by the Group’s consistent cash generating ability coupled with a strong balance sheet. The Board is proposing a final dividend of 10.1p per share (2021: 6.7p) which, in addition to the interim dividend of 4.6p per share paid in October (2021: 3.2p), will bring the total dividend to 14.7p per share (2021: 9.9p). Subject to approval by shareholders, the final dividend will be paid on 7 July 2023 to shareholders on the register as at 16 June 2023.

CASH FLOW – HIGHLIGHTS

	2022 £m	2021 £m
EBITDA before exceptional items	**89.2**	70.4
Purchase and settlement of carbon credits	**(5.6)**	(6.4)
Other non-cash movement	**6.3**	7.4
Changes in working capital		
- Inventories	**(10.2)**	0.2
- Trade and other receivables	**(5.2)**	(3.4)
- Trade and other payables	**14.5**	13.0
Operating cash flow before exceptional items	**89.0**	81.2
Payments made in respect of exceptional operating items	**–**	(0.6)
Operating cash flow after exceptional operating items	**89.0**	80.6
Interest paid	**(2.4)**	(2.8)
Tax paid	**(11.0)**	(9.6)
Capital expenditure:		
– Maintenance	**(10.5)**	(5.7)
– Strategic	**(33.6)**	(28.9)
Dividends paid	**(24.2)**	(13.7)
Net cash flow from sale and purchase of shares by Employee Benefit Trust	**(11.8)**	(3.8)
Payments made to acquire own shares	**(40.3)**	–
New lease liabilities	**(6.8)**	(12.4)
Other movements	**0.8**	(0.3)
Exceptional proceeds from sale of property, plant and equipment	**2.5**	14.7
Exceptional costs incurred in sale of property, plant and equipment	**–**	(0.3)
(Decrease) / increase in net funds	**(48.3)**	17.8
Debtor days	**36**	37

Operating cash flow before exceptional items totalled £89.0m compared to £81.2m in the prior year, a repeated demonstration of the Group's ability to generate consistently strong cash flow and highlighting the quality of earnings in the year.

The movements seen in working capital are a function of the rapid cost inflation experienced in the year as our trade receivables reflect the increase in our selling prices and the working capital tied up within inventories increases due to the rising costs of production, but inventory volumes remain at record low levels.

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

Net payments to the Employee Benefit Trust (EBT) in the year totalled £11.8m (2021: £3.8m) leaving the EBT in a strong position to meet any forthcoming demand for shares in order to satisfy vesting awards under the Group's employee benefit schemes. It remains our policy to provide shares for settlement of our share-based employee reward schemes through open market purchases of shares as opposed to the issue of new share capital which would be dilutive and counter to the benefits of the share buyback.

CAPITAL EXPENDITURE

Capital expenditure in the year totalled £44.1m (2021: £34.6m) with strategic capital expenditure totalling £33.6m (2021: £28.9m) and maintenance capital expenditure totalling £10.5m (2021: £5.7m).

Spend on the new Desford brick factory totalled £26.5m bringing the total cumulative project spend to £86.1m, with the project still on course to be completed within the original £95m budget. We expect the remaining cash outflow in 2023.

We have also committed to spending approximately £2.5m installing solar panels on the new Desford brick factory roof which will generate around 16% of the factory's electricity requirement going forward providing cost effective, transmission cost free, on-site renewable energy.

In addition to the spend on the Desford project, £5.3m (2021: £1.7m) was spent on the Wilnecote factory redevelopment project. Spend on this project in 2023 is expected to be approximately £20m with the total cost expected to be around £30m.

BORROWINGS AND FACILITIES

At 31 December 2022 net debt (before leases) was £5.9m (2021: net cash of £40.9m). Net debt after deducting lease liabilities of £18.0m (2021: £16.5m) was £23.9m (2021: net cash of £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.

At the end of 2022, the Group's debt facility comprised a committed revolving credit facility (RCF) of £170m extending to July 2025. At the year-end a total of £40m was drawn on the facility leaving facility headroom of £130m. 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 leases) of less than three times and interest cover of greater than four times. The business has traded comfortably within these covenants throughout 2022. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times EBITDA.

At the beginning of 2023 we refinanced our banking facilities retaining the £170m revolving credit facility but extending the maturity date to January 2027 with an option for a further 18-month extension subject to lender consent. The margin grid has also been adjusted such that the grid commences at SONIA plus 1.65% whilst leverage remains under 0.5 times EBITDA, increasing to a margin of 2.75% should leverage exceed 2.5 times.

The amended facility is now linked to our sustainability targets with the opportunity to adjust the margin by 5 bps subject to achieving annual sustainability targets covering decarbonisation, plastic reduction and increasing the number of employees in earn and learn positions.

The Board are pleased to have gained the certainty of an extended tenure of facility with a margin reduction at the bottom end of the grid leaving the Company well positioned at this time of economic uncertainty.

STRATEGY AND CAPITAL ALLOCATION

Our strategy is easily articulated as three pillars designed to provide 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;
- attractive ordinary dividend policy with a pay-out ratio of 55% of earnings;
- bolt-on acquisitions as suitable opportunities arise in adjacent or complementary markets; and
- supplementary shareholder returns as appropriate.

In addition to dividends of £24.2m, during 2022 we returned a further £40m of surplus capital to our shareholders through a share buyback programme. This was delivered alongside total capital expenditure of £44.1m, which includes spend of £33.6m on our strategic projects at Desford and Wilnecote, and an investment in further clay reserves at our strategic site at Swillington, where in due course we expect to construct a new brick factory. Despite these cash outflows we ended 2022 with a net debt (before leases) of only £5.9m (2021: net cash £40.9m), demonstrating the ongoing strength of our operating cash generation.

This balance sheet strength provides us with assurance that we are well positioned to weather any deterioration in economic conditions that we may face in the near future, whilst also giving us confidence that we can continue with our programme of capital investment. We have indicated our intention to invest over £200m (in addition to Desford) in organic growth projects offering attractive returns on invested capital over the next decade, taking advantage of unsatisfied demand for our products whilst at the same time increasing our efficiency, and reducing greenhouse gas emissions. We also retain the balance sheet flexibility to add bolt on acquisitions should appropriate opportunities arise and we continue to monitor potential opportunities. We will pursue acquisitions only where there is a clear strategic rationale and where the value aspirations of sellers are realistic.

The Board continues to keep returns of capital to shareholders under review. Near-term trading performance, driven by market demand, committed capital expenditure on strategic projects, working capital impact of inventory build and the timing of future strategic capital projects to support growth are all key to this decision-making.

ORGANIC CAPITAL INVESTMENT

Construction of the new Desford brick factory is now virtually complete with bricks being manufactured and the first despatches to customers expected in the near future. We are extremely proud to be delivering what we believe is the largest, most efficient brick factory in Europe and expect to complete the factory within its original £95m budget during a period of significant supply chain disruption and cost inflation. We would like to take this opportunity to pass on our thanks to everyone who has worked tirelessly over the last four years to deliver this project in the face of a variety of challenges, not least a global pandemic and the failure of the initially selected equipment supplier. This factory will be a fantastic asset to the business going forward providing attractive returns for many years to come.

The new factory will increase our effective brick production capacity by 22% and, with supportive market conditions, is expected to increase our EBITDA by £25m in 2025. With greater market uncertainty for the next few years, it is harder to predict the exact increase in EBITDA that the factory will deliver in the shorter-term. Should demand for our products decline for a period of time we will look to rationalise our production such that we maximise the efficiency benefits associated with the new factory and its lower cost of production. With its industry leading efficiency, we still expect the factory to materially benefit our results in the coming year and in the medium term we remain confident that the strong fundamentals of the UK housing market, coupled with the undersupply of domestically manufactured bricks, will enable the factory to at least deliver the previously communicated expected returns.

Alongside our investment at Desford, we have commenced the complete redevelopment of our smaller Wilnecote brick factory at a cost of approximately £30m, which has increased from our previous estimate of £27m. This investment will strengthen our position in the architect-led commercial and specification market which includes residential, commercial, school and hospital developments in a sizeable market of around 400m bricks per annum (approximately 18% of the UK brick demand).

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 closed at the end of September 2022 and will begin recommissioning in the final quarter of 2023.

During 2022 we also announced 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 kiln 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 recently signed contracts with the equipment supplier and we expect to be manufacturing brick slips in the first half of 2024, although the ramp up to full production could take a number of years as we increase our share of a growing market.

SUSTAINABILITY

We have made continued progress towards our sustainability goals during the year. We have clear targets including a reduction in our carbon emissions of 32% (from a 2019 baseline) by the end of the decade. In the longer term we are committed to reaching net zero and having identified the measures required to meet our medium-term targets, we have also developed an implementation roadmap to ensure that we deliver on our commitments – The Forterra Carbon Management Plan. Central to this Plan and the achievement of these reductions is our investment in new production capacity and technologies, even if our carbon emission intensity per tonne of output did increase marginally in 2022, relative to the prior year, as a result of changes in the mix of products we produced.

Our new Desford brick factory will emit 25% less carbon per brick than the old factory it replaces, and we have recently commenced the installation of roof mounted solar panels at an additional cost of around £2.5m which will provide approximately 16% of the factory's electricity requirement going forward.

During the year we also entered into a wider electricity Power Purchase Agreement that will see us secure around 70% of our electricity from a dedicated solar farm at competitive prices from 2025. It is pleasing that construction of this facility is now underway and we subsequently exercised an option to take power from this facility from April 2024.

As we strive for a lower carbon future, we are committing more time and resources to researching the innovative technologies that will ultimately help us reach our goal of becoming a net zero business by 2050. It is important to appreciate that at this stage, our decarbonisation plans beyond 2030 are not yet clearly defined and that not every initiative we pursue will ultimately be successful. Although we recognise that only through innovation, exploration and investment, will we be able to take a sector leading approach to decarbonisation.

During the year we partnered with a company offering innovative carbon capture technology and are already exploring the deployment of this technology at one of our brick factories. We are also progressing the trials of hydrogen and biomass as alternative fuels for use in our kilns. Our hydrogen trials were delayed by shortages of hydrogen in the UK but have now commenced and we believe these are some of the first trials in the UK brick industry under industrial rather than laboratory conditions.
As part of our commitment to reducing our consumption of plastic packaging by 50% by 2025 we are also now rolling out new packaging equipment across our brick factories to reduce the average amount of plastic packaging used on each pack of bricks by almost 50%.

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. 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. We are committed to a four-year zero harm strategy with our 2022 focus on health and safety behaviours and safety culture. In 2023 our attention and messaging will continue to focus on our Golden Rules and zero harm, with key topics being the responsibilities of supervisors and emphasising the importance colleagues taking time to stop and think, not rushing and cutting corners.

OUR PEOPLE

As always, it is important to recognise that our success is driven by the ongoing commitment and enthusiasm of our colleagues underpinned by the strength of both our supplier and customer relationships.

The result we have delivered this year has only been possible due to the hard work and devotion of our employees across the business whether in our factories or in our sales and back-office functions. With all of the recent macro events it is beginning to feel as if there are no longer any routine years and the Board have been impressed by how our workforce are able to continually adapt to the ever-changing challenges that they are required to face.

We appreciate the impact that the current cost of living crisis is having on our employees and that this impact disproportionately falls on the lowest paid. We continue to be a Living Wage Employer and alongside this we have taken a number of steps to assist our employees through these challenging times. We paid the majority of our workforce a one-off cost of living payment of £500 which was received just before Christmas and we also provided our entire workforce with a grocery voucher during the year.

BOARD CHANGES

Following the announcement made ahead of our 2022 AGM of Stephen Harrison's decision to stand down as Chief Executive Officer after 10 years in the role, the Board's Nomination Committee commenced a comprehensive selection process to identify a replacement.

We were therefore very pleased last November to announce Neil Ash as our next CEO who will join the Company as Chief Executive Officer Designate at the beginning of April. Neil has almost three decades' experience in the building materials sector and an impressive track record of improving performance and delivering growth at Etex, the Belgian lightweight building materials manufacturer, where he led the €2bn revenue Building Performance division. Neil's business leadership and extensive building materials sector knowledge will be invaluable in the next stages of our development and the Board looks forward to working alongside him.

The Board are grateful to Stephen Harrison for the significant contribution he has made to the business during his tenure as CEO and wish him all the best for the future after he leaves Forterra.

We have today announced that Gina Jardine will be appointed to the Board on 3 April 2023 as an Independent Non-Executive Director. Gina is an experienced HR professional with an extensive career within global building materials and mining companies. Most recently Gina held the position of Chief Human Resources Officer at FTSE 100 building materials business CRH plc, prior to this she was Chief Human Resources Officer at Canadian listed Kinross Gold Corporation and held a number of senior HR roles at FTSE 100 listed mining group, Rio Tinto plc.

Through her experience and significant knowledge, obtained in some of the largest global corporates, Gina will complement the existing skillsets of our Board. Her addition will also help with succession planning for the Non-Executive Directors, given that several are expected to step down in 2025-26.

The Board is committed to furthering diversity at all levels and it acknowledges the recommendations of the Hampton Alexander review which recommends that 33% of the Board should be female. In addition, the Financial Conduct Authority guidance is that at least 40% of the Board be female. As a company currently outside the FTSE 250, these recommendations do not directly apply to Forterra although we retain our consistently held aspiration to adhere to best practice governance requirements as if the Company were a member of the FTSE 250.

Following Gina's appointment our Board composition will be 38% female. In addition, one of the senior Board members is a female and one of the Board is from a non-white ethnic minority background. In totality the Board believes that the skills, knowledge, experience, educational background and upbringing of individual Board members bring a diverse contribution to the debate and discussion around the Board table.

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.

Our purpose is to manufacture and supply the building products required to Keep Britain Building. Our culture is underpinned by our values which are laid out in our Annual Report. Adherence to these values is fundamental to the success of the business.

Health and Safety remains our number one priority and the Board is determined to lead by example in ensuring that everyone in our business is under no doubt as to our commitment to zero harm. To this end, the Board continued to ensure it remains highly visible in the business with each Director completing two factory health and safety walks alongside full Board visits to four of our factories during the year.

OUTLOOK

The short-term outlook for the UK housing market remains uncertain. We saw signs of softening demand towards the end of 2022, and this has continued into early 2023, partly driven by customer inventory reduction.

Whilst we are currently planning for underlying demand for our products to fall by 20% in 2023 relative to 2022, we are encouraged by falling mortgage rates and recent reports of improving reservation rates. We wait to see how our customers' spring new house selling season develops with the outcome of this likely to be a key determinant of demand for our products in the current year.

Against the continuing inflationary environment, we have been able to implement further selling price increases at the beginning of 2023 and we have also secured at least 80% of this year's energy requirement.

We remain confident that Forterra is well positioned to face these uncertain times. With our new Desford brick factory now operational, we also expect to benefit from the industry-leading efficiency this will offer, manufacturing a range of products ideally suited to displace imported bricks. We begin the year with minimal inventory, and are well practiced in managing our capacity utilisation and cost base. Alongside this, we retain a strong balance sheet with minimal debt and have recently extended our credit facility.

Based on our assumption of an underlying 20% fall in demand relative to 2022 the Board's expectations for the Group's 2023 performance remain unchanged. Customer inventory reduction is expected to disproportionately impact H1 performance, resulting in full year revenue and earnings being H2 weighted. In the medium-term we continue to expect to benefit from the attractive UK market fundamentals of population growth, housing undersupply, lack of domestic brick production capacity and an increasing focus on the quality of housing stock.

GOING CONCERN

At the balance sheet date, the cash balance stood at £34.3m with an undrawn balance of £130m available against the Group's £170m Revolving Credit Facility (RCF) which now extends to January 2027. 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.

The Group have modelled financial scenarios for the period to 31 March 2024, including both plausible downside and reverse stress test, reflecting both macroeconomic and industry-specific projections. It has been determined that the circumstances necessary to create either a cash shortfall or a breach of the covenants under the Group's credit facility would need to be so severe, that in the opinion of the Board there is no reasonably plausible likelihood of these occurring.

Should a scenario occur which is even more severe than the Board presently considers plausible, there are further mitigations available to the Board including cost reduction, reducing or delaying capital expenditure and curtailment in the quantum of dividend distributions.

Taking account of all reasonably plausible changes in trading performance, the current financial position of the Group, and the mitigations available 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 2024. The Group therefore adopts the going concern basis in preparing these preliminary financial statements.

FORWARD LOOKING STATEMENTS

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements of the Group, which have been prepared in accordance with 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 announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Stephen Harrison
Chief Executive Officer
9 March 2023

Ben Guyatt
Chief Financial Officer

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**2022 £m**	2021 £m
Revenue	3	**455.5**	370.4
Cost of sales		**(292.9)**	(240.7)
Gross profit		**162.6**	129.7
Distribution costs		**(57.7)**	(51.2)
Administrative expenses		**(33.6)**	(27.4)
Other operating income		**3.7**	9.0
Operating profit		**75.0**	60.1

EBITDA before exceptional items		**89.2**	70.4
Exceptional items	4	**2.3**	6.1
EBITDA		**91.5**	76.5
Depreciation and amortisation		**(16.5)**	(16.4)
Operating profit		**75.0**	60.1

Finance expense	5	**(2.1)**	(3.3)
Profit before tax		**72.9**	56.8
Income tax expense	6	**(14.1)**	(11.3)
Profit for the year attributable to equity shareholders		**58.8**	45.5
Other comprehensive income / (loss)			
Effective portion of changes in cash flow hedges		**0.8**	(0.2)
Total comprehensive income for the year attributable to equity shareholders		**59.6**	45.3
Earnings per share		**Pence**	Pence
Basic earnings per share	8	**27.2**	19.9
Diluted earnings per share	8	**26.8**	19.7

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2022

	Note	**2022 £m**	2021 £m
Assets			
Non-current assets			
Intangible assets		**23.6**	17.7
Property, plant and equipment		**233.7**	201.4
Right-of-use assets		**18.1**	16.5
		275.4	235.6
Current assets			
Inventories		**43.0**	32.8
Trade and other receivables		**44.3**	39.1
Income tax asset		**–**	1.0
Cash and cash equivalents		**34.3**	41.5
Derivative asset		**0.6**	–
		122.2	114.4
Total assets		**397.6**	350.0
Current liabilities			
Trade and other payables		**(89.6)**	(75.6)
Loans and borrowings	9	**(0.2)**	(0.6)
Lease liabilities		**(4.7)**	(4.5)
Provisions for other liabilities and charges		**(14.3)**	(9.9)
Derivative liability		**–**	(0.2)
		(108.8)	(90.8)
Non-current liabilities			
Loans and borrowings	9	**(40.0)**	–
Lease liabilities		**(13.3)**	(12.0)
Provisions for other liabilities and charges		**(10.0)**	(9.7)
Deferred tax liabilities		**(5.0)**	(2.7)
		(68.3)	(24.4)
Total liabilities		**(177.1)**	(115.2)
Net assets		**220.5**	234.8
Capital and reserves attributable to equity shareholders			
Ordinary shares		**2.1**	2.3
Retained earnings		**233.4**	213.4
Cash flow hedge reserve		**0.6**	(0.2)
Other reserve		**–**	23.9
Reserve for own shares		**(15.8)**	(4.6)
Capital redemption reserve		**0.2**	–
Total equity		**220.5**	234.8

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	**2022 £m**	2021 £m
Cash flows from operating activities			
Profit before tax		**72.9**	56.8
– Finance expense	5	**2.1**	3.3
– Exceptional items	4	**(2.3)**	(6.1)
Operating profit before exceptional items		**72.7**	54.0
Adjustments for:			
– Depreciation and amortisation		**16.5**	16.4
– Profit on disposal of property, plant and equipment and leases		**(0.4)**	(1.5)
– Movement on provisions		**4.1**	6.4
– Purchase of carbon credits		**(10.3)**	(6.4)
– Settlement of carbon credits		**4.7**	–
– Share-based payments		**3.4**	2.5
– Other non-cash items		**(0.8)**	–
Changes in working capital:			
– Inventories		**(10.2)**	0.2
– Trade and other receivables		**(5.2)**	(3.4)
– Trade and other payables		**14.5**	13.0
Cash generated from operations before exceptional items		**89.0**	81.2
Cash flows relating to operating exceptional items		**–**	(0.6)
Cash generated from operations		**89.0**	80.6
Interest paid		**(2.4)**	(2.8)
Tax paid		**(11.0)**	(9.6)
Net cash inflow from operating activities		**75.6**	68.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(42.1)**	(33.0)
Purchase of intangible assets		**(2.0)**	(1.6)
Proceeds from sale of property, plant and equipment		**0.4**	0.2
Exceptional proceeds from sale of property, plant and equipment		**2.5**	14.7
Exceptional costs incurred in the sale of property, plant and equipment		**–**	(0.3)
Net cash used in investing activities		**(41.2)**	(20.0)
Cash flows from financing activities			
Repayment of lease liabilities		**(5.3)**	(5.3)
Dividends paid	7	**(24.2)**	(13.7)
Drawdown of borrowings		**40.0**	5.0
Repayment of borrowings		**–**	(20.0)
Purchase of shares by Employee Benefit Trust		**(12.2)**	(5.0)
Proceeds from sales of shares by Employee Benefit Trust		**0.4**	1.2
Payments made to acquire own shares		**(40.3)**	–
Financing fees		–	(0.4)
Net cash used in financing activities		**(41.6)**	(38.2)

Net cash (decrease) / increase in cash and cash equivalents	**(7.2)**	10.0
Cash and cash equivalents at the beginning of the period	**41.5**	31.5
Cash and cash equivalents at the end of the period	**34.3**	41.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Ordinary shares	Capital redemption reserve	Reserve for own shares	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
Balance as at 1 January 2021		2.3	–	(2.0)	–	41.5	162.3	204.1
Profit for the year		–	–	–	–	–	45.5	45.5
Other comprehensive loss		–	–	–	(0.2)	–	–	(0.2)
Total comprehensive (loss) / income for the year		–	–	–	(0.2)	–	45.5	45.3
Dividend paid	7	–	–	–	–	–	(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 payment charge		–	–	–	–	–	2.5	2.5
Share-based payment exercised		–	–	1.2	–	–	(1.2)	–
Tax on share-based payments		–	–	–	–	–	0.4	0.4
Balance as at 31 December 2021		2.3	–	(4.6)	(0.2)	23.9	213.4	234.8
Profit for the year		**–**	**–**	**–**	**–**	**–**	**58.8**	**58.8**
Other comprehensive income		**–**	**–**	**–**	**0.8**	**–**	**–**	**0.8**
Total comprehensive income for the year		**–**	**–**	**–**	**0.8**	**–**	**58.8**	**59.6**
Dividend paid	7	**–**	**–**	**–**	**–**	–	**(24.2)**	**(24.2)**
Movement in other reserves		**–**	**–**	**–**	**–**	**(23.9)**	**23.9**	**–**
Purchase of shares by Employee Benefit Trust		**–**	**–**	**(12.2)**	**–**	**–**	**–**	**(12.2)**
Proceeds from sale of shares by Employee Benefit Trust		**–**	**–**	**0.4**	**–**	**–**	**–**	**0.4**
Payments made to acquire own shares		**(0.2)**	**0.2**	**–**	**–**	**–**	**(40.3)**	**(40.3)**
Share-based payment charge		**–**	**–**	**–**	**–**	**–**	**3.4**	**3.4**
Share-based payment exercised		**–**	**–**	**0.6**	**–**	**–**	**(0.6)**	**–**
Tax on share-based payments		**–**	**–**	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Balance as at 31 December 2022		**2.1**	**0.2**	**(15.8)**	**0.6**	**–**	**233.4**	**220.5**

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.

2. Basis of preparation

The preliminary results for the year ended 31 December 2022 have been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 9 March 2023. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published in April 2023. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the consolidated financial statements for the year ending 31 December 2022. Copies of the Annual Report for the year ended 31 December 2022 will be mailed to those shareholders who have opted to receive them by the end of April 2023 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

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

Going concern

At the balance sheet date, the cash balance stood at £34.3m with an undrawn balance of £130m available against the Group's £170m Revolving Credit Facility (RCF) which now extends to January 2027. 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.

The Group have modelled financial scenarios for the period to 31 March 2024, including both plausible downside and reverse stress test, reflecting both macroeconomic and industry-specific projections. It has been determined that the circumstances necessary to create either a cash shortfall or a breach of the covenants under the Group's credit facility would need to be so severe, that in the opinion of the Board there is no reasonably plausible likelihood of these occurring.

Should a scenario occur which is even more severe than the Board presently considers plausible, there are further mitigations available to the Board including cost reduction, reducing or delaying capital expenditure and curtailment in the quantum of dividend distributions.

Taking account of all reasonably plausible changes in trading performance, the current financial position of the Group, and the mitigations available 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 2024. The Group therefore adopts the going concern basis in preparing these preliminary financial statements.

3. Segmental reporting

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

The Executive Committee considers the business to be split into 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; and
- 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.

Segmental revenue and results

		2022		
	Note	**Bricks and Blocks £m**	**Bespoke Products £m**	**Total £m**
Segmental revenue		**370.2**	**90.1**	**460.3**
Intercompany eliminations				**(4.8)**
Revenue				**455.5**
EBITDA before exceptional items		**85.5**	**3.7**	**89.2**
Depreciation and amortisation		**(15.0)**	**(1.5)**	**(16.5)**
Operating profit before exceptional items		**70.5**	**2.2**	**72.7**
Exceptional items	4	**2.3**	**–**	**2.3**
Operating profit		**72.8**	**2.2**	**75.0**
Finance expense	5			**(2.1)**
Profit before tax				**72.9**

Segmental assets

	2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Property, plant and equipment	**222.6**	**11.1**	**233.7**
Intangible assets	**21.7**	**1.9**	**23.6**
Right-of-use assets	**17.6**	**0.5**	**18.1**
Inventories	**36.8**	**6.2**	**43.0**
Segment assets	**298.7**	**19.7**	**318.4**
Unallocated assets			**79.2**
Total assets			**397.6**

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, cash and cash equivalents and derivative assets are centrally controlled and unallocated.

Other segmental information

	2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Property, plant and equipment additions	**40.2**	**1.2**	**41.4**
Intangible asset additions	**11.4**	**1.1**	**12.5**
Right-of-use asset additions	**6.6**	**0.2**	**6.8**

Customers representing 10% or greater of revenues

	2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Customer A	**49.6**	**1.9**	**51.5**
Customer B	**43.7**	**1.1**	**44.8**

Segmental revenue and results

	Note	2021 Bricks and Blocks £m	Bespoke Products £m	Total £m
Segmental revenue		298.1	76.1	374.2
Intercompany eliminations				(3.8)
Revenue				370.4
EBITDA before exceptional items		70.5	(0.1)	70.4
Depreciation and amortisation		(14.7)	(1.7)	(16.4)
Operating profit / (loss) before exceptional items		55.8	(1.8)	54.0
Exceptional items	4	–	6.1	6.1
Operating profit		55.8	4.3	60.1
Finance expense	5			(3.3)
Profit before tax				56.8

Segmental assets

	2021 Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	190.5	10.9	201.4
Intangible assets	16.6	1.1	17.7
Right-of-use assets	15.5	1.0	16.5
Inventories	28.6	4.2	32.8
Segment assets	251.2	17.2	268.4
Unallocated assets			81.6
Total assets			350.0

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, cash and cash equivalents and derivative assets are centrally controlled and unallocated.

Other segmental information

	2021 Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	31.2	0.7	31.9
Intangible asset additions	7.6	0.4	8.0
Right-of-use asset additions	12.1	0.3	12.4

Customers representing 10% or greater of revenues

	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. Exceptional items

	2022 £m	2021 £m
Closure and sale of Swadlincote factory	**–**	6.1
Sale of disused land	**2.3**	–
	2.3	6.1

2022 exceptional items
On 7 March 2022 the Group completed the sale of an area of disused land for total proceeds of £2.5m. Taking into account asset net book values and the associated costs of sale, the profit on disposal totalled £2.3m.

2021 exceptional items
In 2021 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 was 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 was disclosed as an exceptional item in 2021. The total recognised gain of £6.1m was 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.

Presentation of exceptional items
The £2.3m profit on disposal of disused land in 2022, and the £6.7m profit on sale of land and buildings at the Swadlincote site in 2021 are presented within other operating income in the Statement of Total Comprehensive Income for each year. Redundancy costs of £0.6m incurred in 2021 in relation to the Swadlincote factory closure are presented in cost of sales within the Statement of Total Comprehensive Income.

2022 tax on exceptional items
The sale of the disused land and the Swadlincote factory both gave rise to a chargeable gain subject to corporation tax and the redundancy costs incurred in relation to the closure and sale of Swadlincote were tax deductible.

5. Finance expense

	Note	2022 £m	2021 £m
Interest payable on external borrowings		**1.6**	2.6
Interest payable on lease liabilities		**0.4**	0.3
Other finance expense		**0.1**	0.4
		2.1	3.3

6. Taxation

	2022 £m	2021 £m
Current tax		
UK corporation tax on profit for the year	**(12.3)**	(9.1)
Prior year adjustment on UK corporation tax	**(0.5)**	–
Total current tax	**(12.8)**	(9.1)
Origination and reversal of temporary differences	**(1.3)**	(1.4)
Effect of change in tax rates	**(0.3)**	(0.8)
Effect of prior period adjustments	**0.3**	–
Total deferred tax	**(1.3)**	(2.2)
Income tax expense	**(14.1)**	(11.3)

	2022 £m	2021 £m
Current tax		
Profit before taxation	**72.9**	56.8
Expected tax charge	**(13.9)**	(10.8)
Expenses not deductible for tax purposes	**0.3**	0.3
Effect of prior period adjustments	**(0.2)**	–
Impact of change in deferred tax rate	**(0.3)**	(0.8)
Income tax expense	**(14.1)**	(11.3)

The expected tax charge is calculated using the statutory tax rate of 19% (2021: 19%) for current tax. Deferred tax is calculated at the rate at which the provision is expected to reverse.

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. There has been no change in the Finance Bill 2022.

7. Dividends

	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 4.6p per share (2021: 3.2p)	**9.6**	6.3
Final dividend of 6.7p per share in respect of prior year (2021: 2.8p)	**14.6**	7.4
	24.2	13.7

The Directors are proposing a final dividend for 2022 of 10.1p per share, making a total payment for the year of 14.7p (2021: 9.9p). This is subject to approval by the shareholders at the AGM and has not been included as a liability in the Consolidated Financial Statements.

8. Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has 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**	
	Note	**£m 2022**	2021 £m	**2022 £m**	2021 £m
Operating profit for the year		**72.7**	54.0	**75.0**	60.1
Finance expense	5	**(2.1)**	(3.3)	**(2.1)**	(3.3)
Profit before taxation		**70.6**	50.7	**72.9**	56.8
Income tax expense	6	**(13.6)**	(10.8)	**(14.1)**	(11.3)
Profit for the year		**57.0**	39.9	**58.8**	45.5
Weighted average number of shares (millions)		**216.2**	228.1	**216.2**	228.1
Effect of share incentive awards and options (millions)		**3.2**	2.3	**3.2**	2.3
Diluted weighted average number of ordinary shares (millions)		**219.4**	230.4	**219.4**	230.4
Earnings per share					
Basic (in pence)		**26.4**	17.5	**27.2**	19.9
Diluted (in pence)		**26.0**	17.3	**26.8**	19.7

9. Loans and borrowings

	2022 £m	2021 £m
Current loans and borrowings		
Interest	**0.2**	0.6
Non-current loans and borrowings		
Revolving credit facility	**40.0**	–
	40.2	0.6

The Group refinanced its banking facilities in July 2020, securing a facility of £170m until July 2024. The facility agreement included the option for the Group to request, subject to bank approval, an additional extension for a further year to July 2025. The extension was approved, with the facility then committed until 1 July 2025. The interest rate under this facility is calculated based on SONIA plus a margin adjustment spread.

In January 2023 the Group subsequently completed a refinancing of its existing banking facilities. The facility remains at £170m until January 2027 with an extension option, subject to bank approval, extending the facility to June 2028. The interest rate is calculated using SONIA plus a margin and the credit spread adjustment has been removed. A new rachet has been added to the margin grid at the bottom end giving a 10bps reduction when leverage is 0.5:1 making the lowest level of margin 1.65%, extending to a margin of 2.75% when leverage exceeds 2.5:1. An arrangement fee of £1.5m was paid in 2023 respect of this refinancing.

The amended loan facility is now sustainability linked and subject to a margin adjustment of 5 bps if the annual sustainability targets are met. There has also been a change to the lenders with Santander being replaced by Sabadell and Virgin Money (Clydesdale Bank plc).

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

10. Net (debt) / cash

	2022 £m	2021 £m
Cash and cash equivalents	**34.3**	41.5
Loans and borrowings	**(40.2)**	(0.6)
Lease liabilities	**(18.0)**	(16.5)
Net (debt) / cash	**(23.9)**	24.4

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

	2022 £m	2021 £m
Cash flow generated from operations before exceptional items	**89.0**	81.2
Payments made in respect of exceptional operating items	**–**	(0.6)
Operating cash flow after exceptional items	**89.0**	80.6
Interest paid	**(2.4)**	(2.8)
Tax paid	**(11.0)**	(9.6)
Net cash used in investing activities	**(41.2)**	(20.0)
Dividends paid	**(24.2)**	(13.7)
Purchase of shares by Employee Benefit Trust	**(12.2)**	(5.0)
Proceeds from sale of shares by Employee Benefit Trust	**0.4**	1.2
New lease liabilities	**(6.8)**	(12.4)
Purchase of own shares	**(40.3)**	–
Other financing movement	**0.4**	(0.5)
(Increase) / decrease in net debt	**(48.3)**	17.8
Net cash at the start of the period	**24.4**	6.6
Net (debt) / cash at the end of the period	**(23.9)**	24.4

11. 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.

	2022 £m	2021 £m
Emoluments including taxable benefits	**(3.4)**	(3.2)
Share-based payments	**(1.4)**	(0.8)
Pension and other post-employment benefits	**(0.2)**	(0.3)
	(5.0)	(4.3)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within the Annual Report and Accounts to be published in April 2023.

12. Post balance sheet events

In January 2023 the Group completed on a refinancing of its existing banking facilities. Details of this are disclosed within note 9.

RISK MANAGEMENT AND KEY RISKS

Overview

Effective risk management is critical to successfully meeting our strategic objectives and delivering long-term value to our shareholders. Instilling a risk management culture at the core of everything we do is a key priority. Our risk management policy, strategy, processes, reporting measures, internal reporting lines and responsibilities are well established. 2022 has brought a number of challenges and as a business we are faced with a broad spectrum of existing and new risks, of which both the deterioration of the macro-economic climate, and continued energy price volatility since the Russia Ukraine conflict started in February 2022, are particularly noteworthy.

We continue to monitor these risks along with a host of other rapidly evolving business risks; introducing mitigating controls as appropriate, as they develop.

- New build residential sector activity levels: As a result of the increased macro-economic uncertainty, driven by political instability in the third quarter and the swift and significant interest rate changes that followed, we have seen demand in the new build housing market start to slow as 2022 has come to an end. We are well versed in operating in a downturn as shown during the global financial crisis and more recently in response to the Covid-19 pandemic and will ensure our operations are managed accordingly. Present economic uncertainty aside, we continue to operate in a market characterised by structural undersupply of housing with historical low inventory levels and record brick imports entering the country.
- Cost inflation and volatility: Cost inflation has been a key challenge throughout the last 12-18 months, impacting our business across a wide range of spend categories. We have increased selling prices to recover this cost inflation however remain watchful of volatility in key areas such as energy. Although we benefit from having secured over 80% of our energy requirement for the year ahead, we continue to monitor the longer-term risk and the associated geopolitical drivers.

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 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 disclosure in our upcoming 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 is committed to compliance with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) and comprehensive disclosure on both short and long-term climate risks are included in our Sustainability Report within our upcoming Annual Report. 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.

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.

KEY RISKS AND UNCERTAINTIES

*Where Stephen Harrison is listed in the below as Executive Sponsor, this will transition to CEO Designate, Neil Ash, in due course.

1. HEALTH AND SAFETY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts and noise, dusts and chemicals.	Safety remains our number one priority. We target an accident-free environment and have robust policies in place covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. Our safety focus in 2022 was effective employee engagement and communication centred on our "Road Map to Zero Harm" and in the period we have delivered a programme of behavioural safety awareness training emphasising the importance of our safety Golden Rules. Our 2023 health and safety messaging will continue to focus heavily on our Golden Rules and Zero Harm, with the key topics being supervisory management of health and safety standards and colleagues taking time to stop, not rush and cut corners. **Executive sponsor: Stephen Harrison***	
2. SUSTAINABILITY / CLIMATE CHANGE	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.	We recognise the positive impact that our products have on the built environment across their lifespan and are keen for the durability, longevity and lower lifecycle carbon footprint of our products to be championed and better understood. 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 research and development (R&D) to keep pace. 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. A comprehensive sustainability report is included within our upcoming Annual Report, providing detailed disclosure of the sustainability related risks faced by our business. 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_2 emissions, but we also benefit financially from reducing the amount of energy and carbon credits we need to purchase, both of which having increased in cost significantly this year. **Executive sponsor: Stephen Harrison* and George Stewart**	

3. ECONOMIC CONDITIONS	Gross change: Increase	Net change: Increase
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Demand for our products is closely correlated with residential and commercial construction activity. Since housing demand has slowed across the second half of 2022, we remain watchful of further deterioration in the wider macro-economic environment.	Understanding business performance in real-time, through our customer order book, strong relationships across the building sector, and a range of internal and external leading indicators, help to inform management and ensure that the business has time to respond to changing market conditions. The housing market has slowed in the second half of the year; driven by Government economic policy which resulted in significant increases in borrowing costs and accordingly affordability. This impact on affordability and consumer confidence has impacted short term demand for housing and as such management have increased the risk that demand for our products may fall as a result. There does however remain a shortage of housing in the UK, financing remains available (though now more expensive) and the population continues to grow. Our ability to flex output and slow production when customer demand weakens has been effective in the past; and where market demand may fall we would expect brick imports to reduce ahead of sales of domestically manufactured bricks providing some degree of insulation to the effects of a market slowdown. **Executive sponsor: Stephen Harrison***	
4. GOVERNMENT ACTION AND POLICY	Gross change: Increase	Net change: Increase
Principal risk and why it is relevant	Key mitigation, change and sponsor	
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. Changes in Government support towards housebuilding could lead to a reduction in demand for our products. Changes to Government policy or planning regulations could therefore adversely affect Group performance.	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 macro-economic policy and including taxation, interest rates, mortgage availability and incentives aimed at stimulating the housing market. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision-making. 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 MP's. The September 2022 mini budget demonstrated how quickly the financial markets can react to changes in government policy and how this can correspondingly impact the housing market. Lack of quality housing remains a key political issue and as such we anticipate current and future governments will continue to incentivise construction of new homes, even if different political ideologies demand different models of home ownership. Higher levels of home ownership support a reduced reliance on the state in old age, the Government remains committed to supporting increased home ownership through the Mortgage Guarantee Scheme and we expect broader support to continue should it's withdrawal risk a reduction in the supply of new high-quality homes where a significant shortfall still exists. **Executive sponsor: Stephen Harrison***	

5. RESIDENTIAL SECTOR ACTIVITY LEVELS	Gross change: Increase	Net change: Increase
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Residential development (both new build and repair, maintenance and improvement) contributes 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.	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. All the major housebuilders have highlighted a slowdown in activity in the sector across the second half of 2022, driven primarily by a weakening economy and fiscal policy triggering steep rises in interest rates. The investment in the redevelopment of the Wilnecote brick factory which will focus upon the commercial and specification market will provide a degree of diversification away from residential construction. **Executive sponsor: Stephen Harrison* and Adam Smith**	
6. ABILITY TO MEET CUSTOMER DEMAND	Gross change: Reduced	Net change: Reduced
Principal risk and why it is relevant	Key mitigation, change and sponsor	
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. Maximising efficiency through utilising longer production runs necessitate 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.	Stock levels continued to be at record lows across our business throughout 2022. We saw a significant destocking as we emerged from the pandemic which, due to continued strong demand thereafter, we have been unable to address, presenting a short-term risk in meeting our customers' expectations. With an expected reduction in demand in 2023 we anticipate that we will be able to replenish our inventories, reducing the risk in this area. A combination of the commissioning of the new Desford brick factory and the additional production capacity this will provide, as well as the recent deterioration in the economic environment, will most likely reduce this pressure on our ability to service our customers effectively and therefore lead to a reduction in this risk. **Executive sponsor: Adam Smith, Steve Jeynes and Darren Rix**	

7. CUSTOMER RELATIONSHIPS AND REPUTATION	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Significant revenues are generated from sales to a number of key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.	One of our strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products, we seek to develop our long-standing relationships with our customers. Regular and frequent review meetings focus on our effectiveness in this area. The high inflation market we are presently operating in could manifest itself in damaged relationships with customers if 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 are not managed correctly. This risk was increased in 2021 and remains at that heightened level. 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. **Executive sponsor: Adam Smith and Darren Rix**	
8. SUPPLY CHAIN: AVAILABILITY OF RAW MATERIALS AND ENERGY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Whilst availability of raw materials can vary at times, shortages across both our industry and the wider economy have become more commonplace, threatening our ability to manufacture and ultimately to meet customer expectations. Our production processes depend on energy and fuel and should supplies of these be interrupted production would be impacted. 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.	During the current period we have seen shortages of raw materials marginally ease whilst remaining an area of significant risk. The exception to this easing is the energy market, which has been continually volatile since the Russian invasion of Ukraine in February 2022. Shortages of gas and electricity have driven prices higher leading to concerns that should these pressures persist, particularly in winter months, whilst unlikely, supplies could be interrupted. 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. 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. 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 the next 15 years through the construction of a dedicated solar farm, reducing our reliance on grid capacity (though still supplied through the grid) as well as providing price certainty. Changes in industrial processes required to address climate risks have impacted the availability and price of certain raw materials and we have taken action to	

	mitigate theses; sourcing from alternate suppliers or making adjustments that allow us to work with alternative raw materials. We continue to focus on ensuring supply risks are understood, forecast and where possible mitigated. **Executive sponsor: Ben Guyatt, Steve Jeynes and Darren Rix**	
9. COST INFLATION	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We utilise a wide range of inputs in our business from raw materials to energy and labour. 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. 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.	We seek to manage our costs by putting in place annual pricing agreements with our suppliers, although in recent times we have seen many suppliers being unable to offer this certainty. We aim to maintain a group 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. 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, potentially at a loss. In 2022 we have seen unprecedented increases in energy costs, 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. **Executive sponsor: Ben Guyatt**	
10. ATTRACTING, RETAINING AND DEVELOPING EMPLOYEES	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. A national shortage of labour has manifested following the pandemic on top of a market that was already adjusting to the impact of the Brexit transition period.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. Challenges associated with labour shortages are presently faced across the business in particular around the availability of engineers. 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. Employee support, strong communication and employee engagement remain focus areas and we continue to invest in HR and payroll systems, with significant resource now in place to see this investment through to delivery. **Executive sponsor: Shahbaz Idriss**	

11. INNOVATION	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This in turn could cause revenues and margins to suffer.	Strong relationships with customers as well as independently administered customer surveys and market research ensures 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 R&D. New product development and related initiatives therefore continue and we are committed to investing in research and development with clear links between this area and the work undertaken in relation to sustainability. **Executive sponsor: Stephen Harrison***	
12. IT INFRASTRUCTURE AND SYSTEMS	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years. The cyber security event experienced by the business in 2021, which resulted in some data loss but no interruption to trading, was an example of the increase in cyber risk that has driven our continued investment and training around cyber security and the risk remains at this heightened level. **Executive sponsor: Matthew Day**	
13. BUSINESS CONTINUITY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Performance is dependent on key functions operating continuously and uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and the business may suffer financially.	We have established remote working capabilities that enable the business to continue operating with minimal disruption. Where a scenario without a pre-envisaged plan is faced, managers are able to apply clear principles to develop plans quickly in response to emerging events. 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. 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. **Executive sponsor: Stephen Harrison* and Ben Guyatt**	

14. PROJECT DELIVERY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
This risk was originally recognised in light of the scale and complexity of the Desford construction project, however we have since announced an extensive programme of capital investment within our business over the next decade, which will see a number of large projects adding to production capacity.	The new Desford brick factory represents the largest capital investment that we have ever made and the project has continued to progress to schedule with the factory now operational, with the first despatches to customers expected shortly. Beyond this, we have a pipeline of further investment, including the Wilnecote brick factory redevelopment, and management closely monitor all major expansion projects for potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. As further projects are announced, management recognise the additional risks posed by running 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. We recognise the need to support multiple major expansion projects with dedicated resource, and have a designated Strategic Projects Director role in place sitting on our Executive Committee. **Executive sponsor: George Stewart**	