27 July 2023

Resilient performance despite challenging trading conditions

Six months ended 30 June 2023

	Adjusted results*			Statutory		
	2023 £m	2022 £m	**Change**	**2023 £m**	2022 £m	**Change**
Revenue	**183.2**	222.8	(17.8)%	**183.2**	222.8	(17.8)%
EBITDA	**31.1**	46.1	(32.5)%	**30.0**	53.0	(43.4)%
EBITDA margin	**17.0%**	20.7%	(370) bps	**16.4%**	23.8%	(740) bps
Operating profit (EBIT)	**21.7**	38.1	(43.0)%	**20.6**	45.0	(54.2)%
Profit before tax (PBT)	**19.2**	37.3	(48.5)%	**18.1**	44.2	(59.0)%
Earnings per share (pence)	**7.1**	13.5	(47.4)%	**6.7**	16.0	(58.1)%
Cash flow (used in)/generated from operations	**(16.3)**	37.5	n/a	**(18.3)**	37.5	n/a
Net (debt)/cash before leases	**(50.1)**	24.1	n/a	**(50.1)**	24.1	n/a
Interim dividend (pence)	**2.4**	4.6	(47.8)%	**2.4**	4.6	(47.8)%

** Adjusted results for the Group have been presented before exceptional items (2023: expense of £3.0m, 2022: income of £2.3m) and with a weighted-average approach to carbon credit allocation (2023: reduction of £1.9m, 2022: reduction of £4.6m) relative to statutory profit as explained in Alternative Performance Measures. There is no impact on the full year results.*

H1 RESULTS

- Group revenues for the period of £183.2m, a decrease of 17.8% relative to the prior year (2022: £222.8m)
- Resilient H1 result broadly in line with management expectations delivered against a backdrop of challenging trading conditions
- Adjusted EBITDA of £31.1m (2022: £46.1m) and adjusted PBT of £19.2m (2022: £37.3m)
- Statutory EBITDA of £30.0m (2022: £53.0m) and statutory PBT of £18.1m (2022: £44.2m)
- Selling prices have remained firm despite competitive market conditions, with cost base also remaining stable
- Progressive signs of market improvement seen in May and June
- Strong and flexible balance sheet with a net debt before leases of £50.1m (2022 year end: £5.9m) which is below 1x adjusted EBITDA on a last 12 months (LTM) basis
- Interim 2023 dividend of 2.4 pence per share (2022: 4.6 pence) declared in line with established 55% pay-out ratio

KEY OPERATIONAL POINTS

- Construction of new £95m Desford brick factory almost complete; commissioning ongoing with opening event held in May 2023
- Decisive management action in response to market conditions. Howley Park brick factory mothballed, and other production reductions completed, together reducing fixed costs by £10m annually
- Restructuring commercial and support functions to save approximately £3m annually, bringing total annual fixed cost reductions to £13m
- Inventories rebuilt leaving us well placed to deliver the service levels our customers expect

OUTLOOK

- Recent guidance of a full year 2023 EBITDA with a more balanced H1/H2 split remains unchanged

Neil Ash Chief Executive Officer commented:

"We are pleased to report a resilient performance in the first half, despite the challenging trading conditions faced in our markets.

“I joined Forterra in the belief that it was a great business with a bright future. This sentiment has been confirmed in the three months since I became Chief Executive Officer. I have been impressed by the dedication, ability and depth of talent of our people, and their desire to continually improve our business. To do this we are focusing on three key areas: firstly, customer experience and commercial excellence; secondly, manufacturing excellence; and thirdly, innovation and sustainability. This focus will further strengthen our core.

“After over three years of construction at Desford, and an investment which will total £95m, we were delighted to open the largest and most efficient brick factory in Europe in May. This new factory will deliver a meaningful enhancement to Group results for years to come, through additional production capacity, improved efficiency and improved sustainability.

“During the first half we also took the opportunity to rebuild inventory levels allowing us to better serve our customers and meet their expectations. Now done, we have been unafraid to take difficult decisions to ensure our inventory levels do not continue to grow excessively and are aligned to demand.

“As we enter the second half, the outlook continues to remain uncertain due to high inflation and rising interest rates. These factors are likely to continue weighing on demand for new housing and therefore our products. So, whilst we presently see tentative signs of improving trading, we are forecasting only a modest improvement in demand in H2 and our recent guidance of a full year 2023 EBITDA with a more balanced H1/H2 split remains unchanged.

“Looking ahead, we are optimistic that the Group's results will benefit from a number of positive drivers including: the efficiency benefits of Desford; an end to customer inventory reduction; the opportunity to substitute imported bricks; stabilising energy costs with approximately 70% of our requirement for 2024 secured; and the cost benefits of our restructuring actions.

“Beyond this, as market conditions normalise, we expect to benefit from the additional capacity offered by Desford along with our other organic development projects at Wilnecote and Accrington. In addition, we have a strong pipeline of investment opportunities aimed to capitalise on the medium to long-term market fundamentals of a shortage of UK housing supply, a shortfall of domestic brick production capacity and cross-party political support for increasing housing supply.”

A presentation for analysts will be held today, 27 July 2023, at 9.00am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

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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.

SUMMARY

The Group delivered a resilient performance in the first half of 2023 against a backdrop of challenging trading conditions. Our sales volumes were in excess of 30% lower than the prior year across the majority of our product range. Having increased selling prices at the beginning of the year, our prices remain firm in a challenging and competitive market. Our cost base has stabilised and whilst inflation remains evident, this is less prevalent than previously and has been in line with our expectations. We have invested in replenishing our inventories, with stocks now at levels that will allow us to meet the service levels our customers demand allowing them to gain confidence that their needs can be served with domestically manufactured product.

OUR MARKETS

The period has seen weak market demand across our product range. This decline in demand is a result of a significant contraction in activity across both the new build housing and repair, maintenance and improvement (RM&I) sectors which directly drive demand for our products.

Figures published by the Department of Business and Trade show that domestic brick despatches were 32% lower than the prior year in the five months to May 2023, with the month of May showing signs of an improving trend. This is further evidenced by our own despatches for June, although we now expect the improvement in trading conditions in the second half to be modest.

In addition to a reduction in underlying demand, we have been impacted by our customers reducing the quantity of our products they hold in stock. It is widely understood that the availability of bricks in the UK has been constrained over much of the last decade as evidenced by the rise in imports and it is clear that our housebuilding customers in particular had increased their stock holding to guard against shortages. With the current softening of demand and with our products more readily available, we believe our customers are reducing the amount of inventory they hold. Figures published by the Department of Levelling Up, Housing and Communities support this theory, showing that private housing starts in the first quarter of 2023 were 17.8% lower than the corresponding period in 2022, a lesser decline than the fall in brick despatches in the same period.

With UK manufacturers capacity constrained in recent years, imports of bricks to the UK have risen significantly, reaching approximately 25% of UK consumption in 2022. With the substitution of imported product being key to our investment case for new production capacity, it is promising to see that brick imports fell by 42% relative to the prior year in the five-month period to the end of May, although they remain high as a percentage of total demand.

Even prior to the current decline in market activity, and against a back-drop of continuing population growth, UK housebuilding consistently fell short of Government targets with recent figures highlighting that UK net migration reached a record 606,000 people in 2022, further contributing to the long-standing housing crisis. Accordingly, the Group remains well positioned to benefit from the substantial unfulfilled demand for high quality housing which will persist long after the current short-term cyclical market weakness passes.

MANAGEMENT ACTIONS

In response to the challenging market conditions and growing inventories and with our brick production capacity increasing with the opening of the new Desford brick factory, we have acted decisively and mothballed our Howley Park brick factory which is capable of manufacturing around 50m bricks per annum, alongside other production reductions which will together reduce our fixed costs by around £10m on an annualised basis. A £3.0m exceptional cost in respect of these actions is recognised in the period.

In addition, we are implementing a restructuring of our commercial and support functions, aligning them to anticipated market demand, which we expect to save approximately £3m annually, with a restructuring cost of £1m expected to be recognised in the second half of the year.

The demand for our products for the remainder of the year will influence our production decisions. Agility is critical in times of suppressed demand so having replenished our inventories in the period we expect to limit our inventory growth in the second half of the year. We will continue to take appropriate action to ensure that our output is aligned to demand. Our strategy remains to maximise the ramp up of production at the new Desford brick factory, such that we can benefit from the market leading efficiencies it will offer once fully commissioned. If necessary, we are ready to reduce production at other facilities to limit inventory growth.

RESULTS FOR THE PERIOD

Our revenues reflect the significant year on year decline in sales volumes, partly offset by the price increases delivered at the beginning of this period coupled with the full year benefit of price increases delivered in 2022. Total revenue of £183.2m represents a decrease of 17.8% on the prior year (2022: £222.8m).

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for the first half of the year were £31.1m, a decrease of 32.5% relative to the same period in the prior year (2022: £46.1m). Group adjusted EBITDA margin of 17.0% compares to 20.7% in 2022 driven by weak market demand.

The effective rate of corporation tax before exceptional items in the period was 23.7% (2022: 19.7%) which is in line with expectations, reflecting the 6% increase in the rate of headline corporation tax from April 2023. Adjusted profit before tax of £19.2m compares with a 2022 profit of £37.3m. Statutory profit before tax of £18.1m compares with a 2022 profit of £44.2m.

OUTLOOK

The forward outlook remains uncertain, driven by the macro-economic headwinds of high inflation and rising interest rates that are likely to continue weighing on demand for new housing and therefore our products. Whilst we do presently see tentative signs of improving trading, only a modest improvement in demand is expected in H2 and our recent guidance of a full year 2023 EBITDA with a more balanced H1/H2 split remains unchanged.

The outlook for 2024 is particularly unclear although beyond prevailing market conditions, we are optimistic the Group's results should benefit from an end to customer inventory reduction; the efficiency benefits offered by the new Desford brick factory; the recommissioning of the Wilnecote brick factory and the efficiency benefits and range expansion it will offer; along with stabilising energy costs with approximately 70% of 2024 requirements secured; our close control of our cost base and the opportunity to substitute imported products.

Notwithstanding the market weakness in the short-term, looking further ahead, the Board remains confident that the Group remains well positioned to benefit from attractive market fundamentals of a shortage of UK housing supply, a shortfall of domestic brick production capacity and cross-party political support for increasing housing supply.

ALTERNATIVE PERFORMANCE MEASURES

The Group uses alternative performance measures (APMs) which are not defined or specified under IFRS. The Group believes that its APMs provide additional helpful information on how business performance is reported and assessed internally by management and the Board.

Adjusted results for the Group have been presented before: i) exceptional items and; ii) with a weighted average approach to the utilisation of the Group’s free allocation of carbon credits.

The statutory results consider carbon credits as being utilised on a first in, first out basis. Under this method, the Group's free allocation of carbon credits is utilised before recognising any liability to purchase further credits, which has the effect of weighting the cost of compliance into the second half of the year rather than spreading the cost more evenly across the full year in line with production.

The Group's free allocation of carbon credits is based on expected emissions over the full compliance period, which is aligned to the Group's financial year. As such, we believe a more operationally aligned method for measurement, consistent with our management reporting, is to recognise the cost of carbon compliance over the full financial year using a weighted average basis, aligned proportionately with the production that drives our carbon emissions. Accordingly, this has been presented within the adjusted results for the period.

We believe this approach provides users of the interim accounts with a more representative presentation of underlying trading performance in the first half of the year. As at 30 June 2023, the impact of this is to decrease adjusted profit before tax by £1.9m (2022: £4.6m) relative to the statutory measure. This only affects the interim results and will have no impact on the full year results.

During the period the Group incurred redundancy costs and impairment losses totalling £3.0m in respect of production rationalisations in response to weak and uncertain market demand which have been treated as exceptional items. During the prior period the Group completed the sale of an area of disused land for gross proceeds of £2.5m. A profit on disposal of £2.3m was recognised as an exceptional item in relation to this sale.

BRICKS AND BLOCKS

	Adjusted results		**Statutory**	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Revenue	**143.3**	181.0	**143.3**	181.0
EBITDA before overhead allocations	**37.1**	56.9	**36.0**	63.8
Overhead allocations	**(9.3)**	(12.6)	**(9.3)**	(12.6)
EBITDA after overhead allocations	**27.8**	44.3	**26.7**	51.2
EBITDA margin before overhead allocations	**25.9%**	31.4%	**25.1%**	35.2%
EBITDA margin after overhead allocations	**19.4%**	24.5%	**18.6%**	28.3%

The result of the Bricks and Blocks segment reflects a significant weakening of demand during the period. Industry domestic brick despatches fell by 32% relative to the prior year in the five months to May 2023 with our own despatches down by a greater percentage as a result of customer mix and our exposure to volume house building. Despatches relative to the prior year comparative were consistently down in the months of January to April although there have been signs of an improving trend in recent months.

Segmental adjusted EBITDA of £27.8m compares to £44.3m in 2022 with the 2023 H1 EBITDA margin of 19.4%, as stated after overhead allocations, falling short of the H1 2022 equivalent of 24.5% as a result of the material reduction in sales volumes.

Overhead allocations have reduced relative to 2022 due to a reduction in expected variable remuneration, being both bonuses and share-based payments, in addition to disciplined cost management.

Whilst our cost base has stabilised, we have still seen continued cost inflation although this is now less severe and remains in line with our expectations. Inputs including cement have seen continued cost increases and we agreed a pay award with our workforce which equates to around 6.5%, with the largest increases awarded to the lowest paid.

2023 also sees a well signposted increase in our energy costs relative to 2022, with 2023 expected to represent the peak in our costs. We have gained cost certainty by forward purchasing the majority of our 2023 gas and electricity requirements although this has precluded us from taking greater advantage of the current lower spot prices. Looking ahead, we have secured approximately 80% of our requirements for the second half of the year although this percentage will depend on our production levels. Our combined spend on gas and electricity in the period was £30.4m (2022: £25.4m), which also reflects an approximate 10% reduction in production relative to the prior year.

With these continuing increases in our cost base, it was necessary to implement further selling price increases at the beginning of January. The level of these price increases are specific to each product and the constituents of its cost base, as well as the period of elapsed time since the previous increase. With trading conditions being extremely competitive there was robust negotiation with our customers before these increases were agreed. We sought brick price increases averaging 10% and were successful in landing around half of this. In Aircrete block, where many prices were held through 2022, we were successful in delivering price increases of over 15%.

Notwithstanding continued weak demand and competitive trading conditions, our pricing remains firm. We have seen evidence of our competitors making production reductions, demonstrating that the industry retains its rationality. We expect to see the continued balanced deployment of new capacity in the industry with older and less efficient capacity being retired as new capacity is commissioned.

BESPOKE PRODUCTS

	Adjusted results		Statutory	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Revenue	**41.9**	44.3	**41.9**	44.3
EBITDA before overhead allocations	**5.6**	4.9	**5.6**	4.9
Overhead allocations	**(2.3)**	(3.1)	**(2.3)**	(3.1)
EBITDA after overhead allocations	**3.3**	1.8	**3.3**	1.8
EBITDA margin before overhead allocations	**13.4%**	11.1 %	**13.4%**	11.1%
EBITDA margin after overhead allocations	**7.9%**	4.1 %	**7.9%**	4.1%

Having rationalised our precast concrete assets in recent years our objective is to progressively improve our margins within this segment in order to deliver profit growth. Despite a softening of market conditions, our Bison flooring business, which is the largest component of this segment delivered an excellent performance with an adjusted segmental EBITDA before overhead allocations ahead of the previous year with a pleasing 230 bps improvement in EBITDA margin.

Revenues in the period totalled £41.9m, a decrease of £2.4m or 5.4% relative to 2022 with declining sales volumes offset by year-on-year pricing benefits. Our strategy of being more selective in the work we take on whilst maximising the utilisation of our assets continues to pay dividends. Our precast concrete flooring business has performed particularly well with current despatches only around 20% behind the prior comparative with current order intake running ahead of this. Whilst there is currently significant uncertainty as to the short-term demand outlook for all of our products, with the floor of the property being installed at the beginning of the construction process, activity in this area can be seen as a potential positive leading indicator for an improvement in brick and block demand looking forward.

Segmental adjusted EBITDA, after allocated Group overheads, totalled £3.3m: (2022: £1.8m). EBITDA margin prior to allocation of Group overheads was 13.4% compared to 11.1% in 2022. We have disclosed previously that the method of allocation of overheads places an additional burden on this segment than would be required if it was a stand-alone business. Before overhead allocation, the EBITDA contribution of £5.6m for the period represents an excellent result delivered against a challenging market backdrop and an attractive level of return on capital employed given the modest asset base of this segment.

EXCEPTIONAL ITEMS

Exceptional costs in the period total £3.0m (2022: net income of £2.3m) comprising of £2.1m of redundancy costs and an impairment charge of £0.9m associated with the mothballing of the Howley Park brick factory in response to market conditions. In the prior year, 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 associated costs of sale, profit on disposal totalled £2.3m.

EARNINGS PER SHARE AND DIVIDEND

Adjusted earnings per share (EPS) in the period of 7.1 pence represents a decrease of 47.4% relative to the 2022 equivalent EPS of 13.5 pence. EPS is calculated based on the average number of shares in issue during the period, adjusted for the shares held by the Employee Benefit Trust. The primary driver for the decline in EPS is the reduction of trading profit as a result of the current weakness in our key markets.

The Board has elected to maintain its dividend pay-out ratio of 55% of earnings. In line with this policy and based upon its expectations of full year 2023 earnings, the Board has declared an interim dividend of 2.4 pence per share with the distribution approximating to 1/3 interim, 2/3 final. The interim dividend will be paid on 13 October 2023 to shareholders on the register at 22 September 2023.

CASH FLOW, BORROWINGS AND FACILITIES

Cash used in operations before exceptional items was £16.3m in the first half of the year (2022: cash generated of £37.5m), driven by significant investment of £29.6m in inventory. At 30 June 2023 finished goods inventories totalled £55.8m, compared to £25.4m at the end of 2022. Whilst the opportunity to re-build our inventory arises from the temporary weakness in our key markets, it was always our intention to replenish our inventories after several years of operating with sub-optimal stock levels with capacity constraints precluding any build of inventory whilst demand remained strong. Increasing our stock levels to longer-term norms allows us to provide the levels of service our customers demand, offering reassurance that they can rely on us to supply high quality domestically manufactured bricks when they are needed without relying on imports.

Capital expenditure in the period totalled £15.3m with £9.2m of this relating to our three ongoing strategic projects and the remainder being business as usual maintenance capex. During the period we spent £3.7m on Desford as the commissioning of the new factory continued and the demolition of the old factory commenced, taking the total spend to £89.8m, with the project still expected to be delivered inside the £95m original budget. In addition, £5.4m was spent on the Wilnecote refurbishment bringing the total spend on this project to £12.4m. A small spend on the slips project at Accrington in the period makes up the balance.

Closing net debt (excluding lease liabilities) was £50.1m (31 December 2022: £5.9m) with the increase in borrowing attributable to a reduction in profitability, the £29.6m investment in inventory and £15.3m of capital expenditure in the period.

At the beginning of 2023 we refinanced our banking facilities, retaining the £170.0m revolving credit facility but extending the maturity date to January 2027, with an option for a further 18-month extension subject to lender consent. Borrowings on the facility at 30 June 2023 stood at £68.0m leaving headroom of £102.0m.

Our credit facility is subject to covenant restrictions of net debt/EBITDA (as measured before the impact of IFRS 16) of less than three times and interest cover of greater than four times. The business has traded comfortably within each of these covenants throughout the period with current leverage below one times on an LTM basis. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times EBITDA.

The margin grid that determines the rate of interest payable 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. At a leverage of between 0.5 and one times a margin of 1.75% is applicable and will apply in H2.

Finance expense for the period totalled £2.5m (2022: £0.8m). Interest charges in the period were calculated by applying an average margin of 1.65% above SONIA. A commitment fee of 35% of the applicable margin on unborrowed funds was also payable.

The amended facility is now linked to our sustainability targets with the opportunity to reduce 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.

STRATEGY AND CAPITAL ALLOCATION PRIORITIES

Our strategy is formed across three pillars that will drive sustained earnings and cash flow growth through:

- Strengthening the core (expansion of capacity, enhanced efficiency and sustainability)
- Range expansion
- Product innovation and development

Each of these pillars is represented by one of our current ongoing strategic capital projects at Desford, Wilnecote and Accrington respectively. This, along with our capital allocation policy which is centered on delivering compelling returns to shareholders, leaves the Group well positioned to deliver long-term shareholder value.

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

- Strategic organic capital investment to deliver attractive returns
- Progressive ordinary dividend with the pay-out ratio of 55% of earnings
- Bolt-on acquisitions as suitable opportunities arise in adjacent or complementary markets
- Supplementary shareholder returns as appropriate

Despite the present challenging market conditions, the Group continues to benefit from a strong and flexible balance sheet with leverage on an LTM basis below one times. Committed capital spend on the current strategic projects totals approximately £35m which will be spent over the next 18 months. Management currently anticipates ending the current year with net debt (before leases) of approximately £60-70m, still close to one times leverage, leaving the Group with financial flexibility looking forward.

STRATEGIC ORGANIC CAPITAL INVESTMENT

Our programme of organic investment is at the core or our strategy and in addition the new Desford brick factory, we expect to deploy in excess of £200m of capital in strategic projects over the next decade.

The construction of the new £95m Desford brick factory is almost complete and we held a successful opening event in May 2023. It is important to emphasise that the factory remains in its commissioning phase ramping up both the speed of production and increasing the range of products. We have faced some challenges in consistently replicating the existing product range, which we are overcoming. We expect this process to continue throughout 2023 and into 2024 with full run rate production of 180m bricks per annum achievable in the second half of 2024.

In this period of weaker market demand our strategy remains to fully commission Desford to maximum output as soon as possible to realise the industry leading efficiencies this facility will offer. If market conditions dictate that we need to make reductions in output elsewhere then we will not hesitate to do so.

Delivering upon the first pillar of our strategy, the new Desford brick factory will provide:

1) Additional production capacity
2) Improved efficiency reducing our unit cost of production
3) Improved sustainability credentials with a 25% reduction embedded carbon per brick relative to the old factory it replaces

Desford will manufacture a range of bricks suitable for volume housebuilding, providing an effective 22% increase in our brick production output, which we expect to deliver incremental EBITDA of £25m in the coming years, although the timing of which is now dependant on a normalised market. We remain confident that the factory is well positioned to benefit from the attractive medium to long-term fundamentals of the UK housing market with a long- term housing shortage as well as constraints on the availability of domestically produced bricks from which to construct these much-needed homes.

Our second major project, the redevelopment of our Wilnecote brick factory will provide range expansion as well as improved efficiency and sustainability along with a modest increase in capacity. This investment is now expected to cost approximately £30m. Commissioning is likely to be delayed by around six months from Q4 2023 to H1 2024 as a result of recently identified engineering challenges which were only discovered upon removal of the existing kiln, as well as other supply chain related delays. Ultimately, we expect this new factory to contribute approximately £7m of incremental annual EBITDA to Group results, the timing of which again will be influenced by the prevailing market conditions.

Whilst both projects are underpinned by our commitment to manufacturing excellence, Wilnecote represents a very different investment to Desford. Wilnecote services the architect-led commercial and specification market which includes residential, commercial, school and hospital developments; a sizeable market of around 400m bricks per annum (based on 2022 and approximately 18% of the UK brick demand) and a market segment where Forterra has historically been under-represented. This investment will expand the product range manufactured at the factory providing a degree of diversification, reducing our reliance on mainstream housebuilding whilst increasing our total brick production capacity by around 1%.

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

Manufactured 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 currently expect to manufacture our first 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 what we expect to be a developing market.

Beyond the three strategic projects detailed above, we continue to progress our pipeline of future projects both in brick and concrete products although the timing of any future announcements on these projects will be determined by a range of factors, including market conditions.

SUSTAINABILITY

Sustainability continues to grow in its importance and our focus on Planet, People and Product is central to our strategy. Between 2010 and 2019 we reduced our carbon emissions per tonne of production by 22%. Since then, we have set an ambitious target to reduce our emissions by a further 32% by 2030 and we are making demonstrable progress against this.

Whilst our primary focus during the period was our response to the challenging market conditions we presently face, we have continued to deliver on our sustainability commitments.

We continue to partner with suppliers to progress our understanding of innovative breakthrough technologies including carbon capture, alternative fuels including hydrogen, synthetic gas, and biomass and how we can benefit from each of these in our current and future factories. During the period, in a project that has been delayed by the availability of hydrogen, we successfully completed the first firing of bricks partially fuelled by hydrogen. We expect to continue these trials increasing the rate of substitution of natural gas for hydrogen. As well as focusing on alternative fuels we also continue to research alternative and more sustainable raw materials from which to manufacture our products including cement substitutes. Work is also ongoing to provide our stakeholders with greater visibility of our scope 3 emissions and we expect to provide an update on this in our 2023 sustainability report.

We are now only nine months from benefiting from our ground-breaking commitment to solar power by way of the Power Purchase Agreement that will provide c.70% of our electricity through a dedicated solar farm from 2024 albeit, with the full financial benefits being realised from 2025. Further to this, the installation of the roof-mounted solar arrays at our new Desford factory is nearing completion with these expected to generate 16% of the factory's electricity requirement. On site renewables, whilst often limited by their scale, offer further cost savings by avoiding the significant transmission costs which in the first half represent approximately 50% of the cost of electricity supplied through the grid, demonstrating how being more sustainable can also improve profitability.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the business have been appended to this interim statement and include a summary of risks emerging and an update to each of the risks recently presented in the 2022 Annual Report and Accounts.

GOING CONCERN

At the balance sheet date, the cash balance stood at £16.7m, with £68.0m borrowed against £170.0m of committed bank facilities, leaving undrawn facilities of £102.0m. The Group meets its working capital requirements through these cash reserves and borrowings, and closely manages working capital to ensure sufficient daily liquidity, preparing financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. The Group has operated comfortably within all its banking covenants throughout the period, with funding secured through an RCF facility extending until January 2027.

The Group continues to update internal forecasts, reflecting current economic conditions, incorporating management experience, future expectations, and sensitivity analysis. As at 30 June 2023, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of the ongoing capital projects outlined in more detail in this announcement, and will continue to have headroom in both its banking covenants and existing bank facilities. We have modelled two plausible downside scenarios which sensitise volumes and margins. In both these downside scenarios, there is headroom against our covenants and available liquidity. We have further modelled a breach scenario to assess the fall in EBITDA required to breach the covenants within the credit facility in the period to 31 December 2024, and we believe, given the reduction in EBITDA required, that the probability of such a scenario is remote. Even if such a scenario was to occur, we have identified mitigations including capex, dividend reductions and operational cost savings which we would implement.

Taking account of all reasonably possible changes in trading performance and the current financial position of the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 December 2024. The Group therefore adopts the going concern basis in preparing the Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

Certain statements in this half-yearly report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be 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.

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE INTERIM REPORT

We confirm to the best of our knowledge:

- the Condensed Consolidated set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the UK;

- the interim management report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the annual report.

By order of the Board

Neil Ash
Chief Executive Officer

Ben Guyatt
Chief Financial Officer

26 July 2023

INDEPENDENT REVIEW REPORT TO FORTERRA PLC

CONCLUSION

We have been engaged by the Company to review the Condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises Condensed Consolidated statement of total Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Changes in Cash Flows and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BASIS FOR CONCLUSION

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in Note 1, the annual financial statements of the Group will be prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

CONCLUSION RELATING TO GOING CONCERN

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

RESPONSIBILITIES OF THE DIRECTORS

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE REVIEW OF THE FINANCIAL INFORMATION

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

USE OF OUR REPORT

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Luton

26 July 2023

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED)

	Note	Six months ended 30 June		Year ended 31 December
		2023	2022	2022
		Unaudited	Unaudited	Audited
		£m	£m	£m
Revenue	6	**183.2**	222.8	455.5
Cost of sales		**(123.1)**	(136.3)	(292.9)
Gross profit		**60.1**	86.5	162.6
Distribution costs		**(24.9)**	(28.4)	(57.7)
Administrative expenses		**(14.8)**	(16.2)	(33.6)
Other operating income		**0.2**	3.1	3.7
Operating profit		**20.6**	45.0	75.0
EBITDA before exceptional items		**33.0**	50.7	89.2
Exceptional items	7	**(3.0)**	2.3	2.3
EBITDA		**30.0**	53.0	91.5
Depreciation and amortisation		**(9.4)**	(8.0)	(16.5)
Operating profit		**20.6**	45.0	75.0
Finance expense	8	**(2.5)**	(0.8)	(2.1)
Profit before tax		**18.1**	44.2	72.9
Income tax expense	9	**(4.3)**	(8.7)	(14.1)
Profit for the financial period attributable to equity shareholders		**13.8**	35.5	58.8
Other comprehensive (loss)/profit				
Effective portion of changes of cash flow hedges (net of tax impact)		**(0.8)**	–	0.8
Total comprehensive income for the period attributable to equity shareholders		**13.0**	35.5	59.6
Earnings per share:				
Basic (in pence)	10	**6.7**	16.0	27.2
Diluted (in pence)	10	**6.6**	15.8	26.8

The notes on pages 21 to 32 are an integral part of these Condensed Consolidated Financial Statements.

All results relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023 (UNAUDITED)

	Note	As at 30 June **2023** **Unaudited** **£m**	As at 30 June 2022 Unaudited £m	As at 31 December 2022 Audited £m
Assets				
Non-current assets				
Intangible assets		**18.2**	15.8	23.6
Property, plant and equipment		**245.1**	218.9	233.7
Right-of-use assets		**21.4**	16.1	18.1
		284.7	250.8	275.4
Current assets				
Inventories		**72.6**	36.3	43.0
Trade and other receivables		**61.1**	61.5	44.3
Income tax asset		**0.6**	–	–
Cash and cash equivalents		**16.7**	34.3	34.3
Derivative asset		**–**	–	0.6
		151.0	132.1	122.2
Total assets		**435.7**	382.9	397.6
Current liabilities				
Trade and other payables		**(112.3)**	(104.0)	(89.6)
Income tax liabilities		**–**	(0.8)	–
Loans and borrowings	12	**(0.3)**	(0.2)	(0.2)
Lease liabilities		**(5.2)**	(4.3)	(4.7)
Provisions for other liabilities and charges		**(7.7)**	(7.8)	(14.3)
Derivative liabilities		**(0.2)**	(0.2)	–
		(125.7)	(117.3)	(108.8)
Non-current liabilities				
Loans and borrowings	12	**(66.5)**	(10.0)	(40.0)
Lease liabilities		**(16.1)**	(11.7)	(13.3)
Provisions for other liabilities and charges		**(10.0)**	(8.9)	(10.0)
Deferred tax liabilities		**(5.9)**	(3.8)	(5.0)
		(98.5)	(34.4)	(68.3)
Total liabilities		**(224.2)**	(151.7)	(177.1)
Net assets		**211.5**	231.2	220.5
Capital and reserves attributable to equity shareholders				
Ordinary shares		**2.1**	2.2	2.1
Capital redemption reserve		**0.2**	0.1	0.2
Retained earnings		**226.4**	239.1	233.4
Cash flow hedge reserve		**(0.2)**	(0.2)	0.6
Reserve for own shares		**(17.0)**	(10.0)	(15.8)
Total equity		**211.5**	231.2	220.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED)

	Ordinary shares	Capital redemption reserve	Reserve for own share	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Current half year:							
Balance at 1 January 2023	**2.1**	**0.2**	**(15.8)**	**0.6**	**–**	**233.4**	**220.5**
Profit for the financial period	**–**	**–**	**–**	**–**	**–**	**13.8**	**13.8**
Other comprehensive loss	**–**	**–**	**–**	**(0.8)**	**–**	**–**	**(0.8)**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(0.8)**	**–**	**13.8**	**13.0**
Dividend payable	**–**	**–**	**–**	**–**	**–**	**(20.9)**	**(20.9)**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**(1.8)**	**–**	**–**	**–**	**(1.8)**
Share-based payments charge	**–**	**–**	**–**	**–**	**–**	**1.3**	**1.3**
Share-based payments exercised	**–**	**–**	**0.6**	**–**	**–**	**(0.6)**	**–**
Tax on share-based payments	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Balance at 30 June 2023	**2.1**	**0.2**	**(17.0)**	**(0.2)**	**–**	**226.4**	**211.5**

	Ordinary shares	Capital redemption reserve	Reserve for own share	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Prior half year:							
Balance at 1 January 2022	2.3	–	(4.6)	(0.2)	23.9	213.4	234.8
Profit for the financial period	–	–	–	–	–	35.5	35.5
Total comprehensive income for the period	–	–	–	–	–	35.5	35.5
Dividend payable	–	–	–	–	–	(14.5)	(14.5)
Movement in other reserves	–	–	–	–	(23.9)	23.9	–
Purchase of shares by Employee Benefit Trust	–	–	(6.3)	–	–	–	(6.3)
Proceeds from sale of shares by Employee Benefit Trust	–	–	0.4	–	–	–	0.4
Payments made to acquire own shares	(0.1)	0.1	–	–	–	(20.8)	(20.8)
Share-based payments charge	–	–	–	–	–	2.0	2.0
Share-based payments exercised	–	–	0.5	–	–	(0.5)	–
Tax on share-based payments	–	–	–	–	–	0.1	0.1
Balance at 30 June 2022	2.2	0.1	(10.0)	(0.2)	–	239.1	231.2

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED) (CONTINUED)

	Ordinary shares	Capital redemption reserve	Reserve for own share	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Prior year:							
Balance at 1 January 2022	2.3	–	(4.6)	(0.2)	23.9	213.4	234.8
Profit for the financial 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	–	–	–	–	–	(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 payments charge	–	–	–	–	–	3.4	3.4
Share-based payments exercised	–	–	0.6	–	–	(0.6)	–
Tax on share-based payments	–	–	–	–	–	(1.0)	(1.0)
Balance at 31 December 2022	2.1	0.2	(15.8)	0.6	–	233.4	220.5

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED)

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	Unaudited	Unaudited	Audited
	£m	£m	£m
Cash flows from operating activities			
Profit before tax	**18.1**	44.2	72.9
Finance expense	**2.5**	0.8	2.1
Exceptional items	**3.0**	(2.3)	(2.3)
Operating profit before exceptional items	**23.6**	42.7	72.7
Adjustments for:			
Depreciation and amortisation	**9.4**	8.0	16.5
Loss/(profit) on disposal of property, plant and equipment and leases	**0.2**	(0.5)	(0.4)
Movement on provision	**(6.8)**	(3.8)	4.1
Purchase of carbon credits	**(3.5)**	(2.6)	(10.3)
Settlement of carbon credits	**8.3**	5.0	4.7
Share-based payments	**1.3**	2.0	3.4
Other non-cash items	**(1.0)**	0.4	(0.8)
Changes in working capital:			
Inventories	**(29.6)**	(3.5)	(10.2)
Trade and other receivables	**(16.8)**	(22.4)	(5.2)
Trade and other payables	**(1.4)**	12.2	14.5
Cash (used in)/generated from operations before exceptional items	**(16.3)**	37.5	89.0

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED)

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	Unaudited	Unaudited	Audited
	£m	£m	£m
Cash (used in)/generated from operations before exceptional items	**(16.3)**	37.5	89.0
Cash flows relating to operating exceptional items	**(2.0)**	–	–
Cash (used in)/generated from operations	**(18.3)**	37.5	89.0
Interest paid	**(2.1)**	(1.2)	(2.4)
Tax paid	**(3.6)**	(5.7)	(11.0)
Net cash (outflow)/inflow from operating activities	**(24.0)**	30.6	75.6
Cash flows from investing activities			
Purchase of property, plant and equipment	**(14.9)**	(20.1)	(42.1)
Purchase of intangible assets	**(0.4)**	(1.2)	(2.0)
Proceeds from sale of property, plant and equipment	**–**	0.3	0.4
Exceptional proceeds from sale of property, plant and equipment	**–**	2.5	2.5
Net cash used in investing activities	**(15.3)**	(18.5)	(41.2)
Cash flows from financing activities			
Repayment of lease liabilities	**(2.9)**	(2.6)	(5.3)
Dividends paid	**–**	–	(24.2)
Drawdown of borrowings	**77.0**	10.0	40.0
Repayment of borrowings	**(49.0)**	–	–
Purchase of shares by Employee Benefit Trust	**(1.8)**	(6.3)	(12.2)
Proceeds from sales of shares by Employee Benefit Trust	**–**	0.4	0.4
Payments made to acquire own shares	**–**	(20.8)	(40.3)
Financing fees	**(1.6)**	–	–
Net cash generated from/(used in) financing activities	**21.7**	(19.3)	(41.6)
Net decrease in cash and cash equivalents	**(17.6)**	(7.2)	(7.2)
Cash and cash equivalents at the beginning of the period	**34.3**	41.5	41.5
Cash and cash equivalents at the end of the period	**16.7**	34.3	34.3

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2023 (UNAUDITED)

1 GENERAL INFORMATION

Forterra plc ('Forterra' or the 'Company') and its subsidiaries (together referred to as the 'Group') are domiciled in the UK. The address of the registered office of the Company and its subsidiaries is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA. The Company is the parent of Forterra Holdings Limited and Forterra Building Products Limited, which together comprise the group (the '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.

The Condensed Consolidated Financial Statements were approved by the Board on 26 July 2023.

The Condensed Consolidated Financial Statements for the six months ended 30 June 2023 and comparative period have not been audited. The auditor has carried out a review of the financial information and their report is set out on pages 13 and 14.

These Condensed Consolidated Financial Statements are unaudited and do not constitute statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006. The auditors have carried out a review of the financial information in accordance with the guidance contained in ISRE 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Financial Statements for the year ended 31 December 2022 were approved by the Board of Directors on 10 March 2023 and delivered to the Registrar of Companies. The Auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 of the Companies Act 2006.

BASIS OF PREPARATION

The Condensed Consolidated Financial Statements for the half year ended 30 June 2023 have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority (DTR), and the requirements of UK-adopted IAS 34 Interim Financial Reporting.

The Condensed Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's Financial Statements for the year ended 31 December 2022 and any public announcements made by the Company during the interim period.
The Condensed Consolidated Financial Statements are prepared on the historical cost basis.

GOING CONCERN BASIS

At the balance sheet date, the cash balance stood at £16.7m, with £68.0m borrowed against £170.0m of committed bank facilities, leaving undrawn facilities of £102.0m. The Group meets its working capital requirements through these cash reserves and borrowings, and closely manages working capital to ensure sufficient daily liquidity, preparing financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. The Group has operated comfortably within all its banking covenants throughout the period, with funding secured through an RCF facility extending until January 2027.

The Group continues to update internal forecasts, reflecting current economic conditions, incorporating management experience, future expectations and sensitivity analysis. As at 30 June 2023, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of the ongoing capital projects outlined in more detail in this announcement, and will continue to have headroom in both its banking covenants and existing bank facilities. We have modelled two plausible downside scenarios which sensitise volumes and margins. In both these downside scenarios, there is headroom against our covenants and available liquidity. We have further modelled a breach scenario to assess the fall in EBITDA required to breach the covenants within the credit facility in the period to 31 December 2024, and we believe, given the reduction in EBITDA required, that the probability of such a scenario is remote. Even if such a scenario was to occur, we have identified mitigations including capex, dividend reductions and operational cost savings which we would implement.

Taking account of all reasonably possible changes in trading performance and the current financial position of the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 December 2024. The Group therefore adopts the going concern basis in preparing the Condensed Consolidated Financial Statements.

2 ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Consolidated Financial Statements for the year ended 31 December 2022. The accounting standards that became applicable in the period did not impact the Group's accounting policies and did not require retrospective adjustments. None of the standards which have been issued by the IASB but not yet effective are expected to have a material impact on the Group.

3 JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements of Forterra plc for the year ended 31 December 2022.

4 ALTERNATIVE PERFORMANCE MEASURES

The Group uses alternative performance measures (APMs) which are not defined or specified under IFRS. The Group believes that its APMs provide additional helpful information on how business performance is reported and assessed internally by management and the Board.

Adjusted results

Adjusted results for the Group have been presented before: i) exceptional items and; ii) with a weighted average approach to the utilisation of the Group's free allocation of carbon credits.

Accounting for carbon credits

Under the UK Emissions Trading Scheme, the Group receives an annual allocation of free carbon credits, which are used to satisfy a portion of the Groups carbon emissions liability as incurred over the compliance period, which falls in line with the accounting period of the Group. These are recorded at nil value within the Consolidated Financial Statements. As this allocation is less than the total carbon compliance liability incurred by the Group over the compliance period, additional carbon credits are purchased to satisfy the shortfall.

The liability for the shortfall is measured, up to the level of credits purchased, at the cost of the purchased credits. Where the liability to surrender carbon credits exceeds the carbon allowances purchased, the shortfall is measured at the prevailing market price and remeasured at the reporting date.

The Group's free allocation of carbon credits is based on expected emissions over the full compliance period, which is in line with the Group's financial year. As such, management believes a more operationally aligned method for measurement recognises these free allowances over the full financial year using a weighted average basis, aligned proportionately with production which drives carbon emissions, in line with management reporting. Accordingly, this has been presented within the adjusted results for the period.

The results which are presented as statutory consider carbon credits as being utilised on a first in, first out basis. Under this method, the Group's free allocation of carbon credits is utilised before recognising any liability to purchase further credits, which has the effect of weighting the cost of compliance into the second half of the year rather than spreading the cost more evenly across the full year. As at 30 June 2023, the impact of this alternative performance measure is to reduce statutory profit before tax by £1.9m (2022: £4.6m). This only affects the interim results and will have no impact on the full year results.

Exceptional items

As detailed within Note 7, Exceptional costs in the period total £3.0m (2022: net income of £2.3m) comprising of £2.1m of redundancy costs and an impairment charge of £0.9m associated with the mothballing of the Howley Park brick factory in response to market conditions. Both these exceptional items are recognised within cost of sales in the Statement of Total Comprehensive Income. In the prior year, 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 associated costs of sale, profit on disposal totalled £2.3m.

Reconciliation of alternative performance measures to statutory results are as follows:

Six months ended 30 June 2023	**Adjusted results**	**Exceptional items**	**Carbon accounting**	**Statutory results**
	£m	**£m**	**£m**	**£m**
Revenue	**183.2**	**–**	**–**	**183.2**
EBITDA	**31.1**	**(3.0)**	**1.9**	**30.0**
EBITDA margin	**17.0%**			**16.4%**
Operating profit (EBIT)	**21.7**	**(3.0)**	**1.9**	**20.6**
Profit before tax	**19.2**	**(3.0)**	**1.9**	**18.1**

Six months ended 30 June 2022	**Adjusted results**	**Exceptional items**	**Carbon accounting**	**Statutory results**
	£m	**£m**	**£m**	**£m**
Revenue	222.8	–	–	222.8
EBITDA	46.1	2.3	4.6	53.0
EBITDA margin	20.7%			23.8%
Operating profit (EBIT)	38.1	2.3	4.6	45.0
Profit before tax	37.3	2.3	4.6	44.2

BRICKS & BLOCKS

Six months ended 30 June 2023	**Adjusted results**	**Exceptional items**	**Carbon accounting**	**Statutory results**
	£m	**£m**	**£m**	**£m**
Revenue	**143.3**	**–**	**–**	**143.3**
EBITDA	**27.8**	**(3.0)**	**1.9**	**26.7**
EBITDA margin	**19.4%**			**18.6%**

Six months ended 30 June 2022	**Adjusted results**	**Exceptional items**	**Carbon accounting**	**Statutory results**
	£m	**£m**	**£m**	**£m**
Revenue	181.0	–	–	181.0
EBITDA	44.3	2.3	4.6	51.2
EBITDA margin	24.5%			28.3%

BESPOKE PRODUCTS

The Bespoke Products segment did not contain exceptional items in either the period ended 30 June 2023 or 30 June 2022. Further, it is not captured under UK ETS and is therefore not affected by accounting treatment for carbon credits. As such, there is no difference between the Statutory and Adjusted results for this segment.

5 SEASONALITY OF OPERATIONS

The Group is typically subject to seasonality consistent with the general construction market, with stronger volumes witnessed across the spring and summer months when conditions are more favourable. The accounting policy adopted for the treatment of carbon credits also has a seasonal impact on the business with a higher compliance cost recognised in the second half of the year, as explained in Note 4. Adjusted results have been presented as an alternative performance measure to remove this variation.

6 SEGMENTAL REPORTING

Management has determined the operating segments based on the management reports reviewed by the Executive Committee (comprising the executive team responsible for the day-to-day running of the business) that are used to assess both performance and strategic decisions. Management has identified that the Executive Committee is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

The Executive Committee considers the business to be split into three operating segments: Bricks, Blocks and Bespoke Products.

The principal activity of the operating segments are:

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

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

The Bespoke Products range includes precast concrete, 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 condensed consolidated income statement 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 complimentary building products. Substantially all revenue recognised in the Condensed Consolidated Financial Statements arose from contracts with external customers within the UK.

SEGMENTAL REVENUE AND RESULTS:

	Six months ended 30 June 2023		
	Bricks & Blocks	**Bespoke Products**	**Total**
	£m	**£m**	**£m**
Segment revenue	**143.3**	**41.9**	**185.2**
Intercompany eliminations			**(2.0)**
Revenue			**183.2**
EBITDA before exceptional items	**29.7**	**3.3**	**33.0**
Depreciation and amortisation	**(8.6)**	**(0.8)**	**(9.4)**
Operating profit before exceptional items	**21.1**	**2.5**	**23.6**
Exceptional items	**(3.0)**	**–**	**(3.0)**
Operating profit	**18.1**	**2.5**	**20.6**
Net finance expense			**(2.5)**
Profit before tax			**18.1**

SEGMENTAL ASSETS:

	As at 30 June 2023		
	Bricks & Blocks	**Bespoke Products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	**233.1**	**12.0**	**245.1**
Intangible assets	**15.9**	**2.3**	**18.2**
Right-of-use assets	**20.9**	**0.5**	**21.4**
Inventories	**68.0**	**4.6**	**72.6**
Segment assets	**337.9**	**19.4**	**357.3**
Unallocated assets			**78.4**
Total assets			**435.7**

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

OTHER SEGMENTAL INFORMATION:

	Six months ended 30 June 2023		
	Bricks & Blocks	**Bespoke Products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	**16.7**	**1.2**	**17.9**
Intangible asset additions	**3.5**	**0.4**	**3.9**
Right-of-use asset additions	**6.1**	**0.1**	**6.2**

SEGMENTAL REVENUE AND RESULTS:

	Six months ended 30 June 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£m
Segment revenue	181.0	44.3	225.3
Intercompany eliminations			(2.5)
Revenue			222.8
EBITDA before exceptional items	48.9	1.8	50.7
Depreciation and amortisation	(7.5)	(0.5)	(8.0)
Operating profit before exceptional item	41.4	1.3	42.7
Exceptional items	2.3	–	2.3
Operating profit	43.7	1.3	45.0
Net finance expense			(0.8)
Profit before tax			44.2

SEGMENTAL ASSETS:

	As at 30 June 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£m
Property, plant and equipment	205.7	13.2	218.9
Intangible assets	14.2	1.6	15.8
Right-of-use assets	15.3	0.8	16.1
Inventories	31.5	4.8	36.3
Segment assets	266.7	20.4	287.1
Unallocated assets			95.8
Total assets			382.9

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

OTHER SEGMENTAL INFORMATION:

	Six months ended 30 June 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£m
Property, plant and equipment additions	19.0	2.8	21.8
Intangible asset additions	3.1	0.6	3.7
Right-of-use asset additions	2.0	0.1	2.1

SEGMENTAL REVENUE AND RESULTS:	Year ended 31 December 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£m
Segment 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	2.3	–	2.3
Operating profit	72.8	2.2	75.0
Net finance expense			(2.1)
Profit before tax			72.9

SEGMENTAL ASSETS:	As at 31 December 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£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:	Year ended 31 December 2022		
	Bricks & Blocks	Bespoke Products	Total
	£m	£m	£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

7 EXCEPTIONAL ITEMS

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	£m	£m	£m
Mothballing of Howley Park	**(3.0)**	–	–
Sale of disused land	**–**	2.3	2.3
	(3.0)	2.3	2.3

Exceptional items 2023

During the year, the Group announced the mothballing of its Howley Park brick factory. Redundancy costs of £2.1m and an impairment of tangible fixed assets of £0.9m have been recognised in these financial statements as a result of this action.

Exceptional items 2022

In 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 associated costs of sale, profit on disposal totalled £2.3m.

8 FINANCE EXPENSE

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	£m	£m	£m
Interest payable on loans and borrowings	**2.2**	0.6	1.6
Interest payable on lease liabilities	**0.3**	0.2	0.4
Other finance expense	**–**	–	0.1
	2.5	0.8	2.1

9 TAXATION

The Group recorded a tax charge of £4.3m (2022: charge of £8.7m) on pre-tax profit of £18.1m (2022: profit of £44.2m) for the six months ended 30 June 2023. This results in an effective tax rate (ETR) of 23.6% (2022: 19.7%) including the impact of the change in rate of corporation tax from 19% to 25% in April 2023, and therefore the increase in the deferred tax rate.

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	£m	£m	£m
Profit before taxation	**18.1**	44.2	72.9
Expected tax charge	**4.3**	8.4	13.9
Expenses not deductible for tax purposes	**–**	0.1	(0.3)
Effect of prior period adjustments	**–**	–	0.2
Effect of change on deferred tax rate	**–**	0.2	0.3
Income tax expense	**4.3**	8.7	14.1

The UK main rate of corporation tax has increased from 19% to 25% with effect from 1 April 2023. The expected tax charge is calculated using the statutory tax rate of 23.5% (2022: 19%) for current tax. Deferred tax is calculated at 25% being the rate at which the provision is expected to reverse.

10 EARNINGS PER SHARE

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

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	£m	£m	£m
Operating profit for the year	**20.6**	45.0	75.0
Finance expense	**(2.5)**	(0.8)	(2.1)
Profit before taxation	**18.1**	44.2	72.9
Income tax expense	**(4.3)**	(8.7)	(14.1)
Profit for the year	**13.8**	35.5	58.8
Weighted average number of shares (millions)	**206.4**	222.1	216.2
Effect of share incentive awards and options (millions)	**2.0**	2.5	3.2
Diluted weighted average number of shares (millions)	**208.4**	224.6	219.4
Earnings per share:			
Basic (in pence)	**6.7**	16.0	27.2
Diluted (in pence)	**6.6**	15.8	26.8
Adjusted basic earnings per share (in pence)	**7.1**	13.5	26.2

Adjusted earnings per share (EPS) is presented as an additional performance measure and is calculated by excluding exceptional cost of £3.0m (HY 2022: net income of £2.3m, FY 2022: net income of £2.3m) (Note 7), the effect of accounting for carbon credit liabilities on a weighted average basis of £1.9m (HY 2022: £4.6m, FY 2022: £nil) (Note 4) and the associated tax increase of £0.3m (HY 2022: reduction of £1.4m, FY 2022: reduction of £0.4m).

11 DIVIDENDS

A dividend of 10.1 pence per share that relates to the period ending 31 December 2022 was paid on 7 July 2023, making a total distribution of 14.7 pence per share for 2022.

An interim dividend of 2.4 pence per share (2022: 4.6 pence per share) has been declared by the Board and will be paid on 13 October 2023 to shareholders on the register as at 22 September 2023. This interim dividend has not been recognised as a liability as at 30 June 2023. It will be recognised in shareholders equity in the Consolidated Financial Statements for the year ended 31 December 2023.

12 LOANS AND BORROWINGS

	As at 30 June		As at 31 December
	2023	2022	2022
	£m	£m	£m
Current loans and borrowings:			
- Interest	**0.3**	0.2	0.2
Non-current loans and borrowings:			
- Unamortised debt issue costs	**(1.5)**	–	–
- Revolving credit facility	**68.0**	10.0	40.0
	66.8	10.2	40.2

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

On 30 January 2023 the Group completed on 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 or margin 1.65% extending at a margin of 2.75% when leverage exceeds 2.5:1. Arrangement fees of £1.8m were paid in 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 Banco De 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.

13 NET (DEBT)/CASH

	As at 30 June		As at 31 December
	2023	2022	2022
	£m	£m	£m
Cash and cash equivalents	**16.7**	34.3	34.3
Loans and borrowings	**(66.8)**	(10.2)	(40.2)
Lease liabilities	**(21.3)**	(16.0)	(18.0)
Net (debt)/cash	**(71.4)**	8.1	(23.9)

RECONCILIATION OF NET CASH FLOW TO NET (DEBT)/CASH

	Six months ended 30 June		Year ended 31 December
	2023	2022	2022
	£m	£m	£m
Operating cash flow before exceptional items	**(16.3)**	37.5	89.0
Payments made in respect of exceptional items	**(2.0)**	–	–
Operating cash flow	**(18.3)**	37.5	89.0
Interest paid	**(2.1)**	(1.2)	(2.4)
Tax paid	**(3.6)**	(5.7)	(11.0)
Net cash outflow from investing activities	**(15.3)**	(18.5)	(41.2)
Dividends paid	**–**	–	(24.2)
Purchase of shares by Employee Benefit Trust	**(1.8)**	(6.3)	(12.2)
Proceeds from sale of shares by Employee Benefit Trust	**–**	0.4	0.4
New lease liabilities	**(6.2)**	(2.1)	(6.8)
Payments made to acquire own shares	**–**	(20.8)	(40.3)
Other movements	**(0.2)**	0.4	0.4
Increase in net debt	**(47.5)**	(16.3)	(48.3)
Net (debt)/cash at the start of the period	**(23.9)**	24.4	24.4
Net (debt)/cash at the end of the period	**(71.4)**	8.1	(23.9)

Capital expenditure commitments for which no provision has been made were £42.6m as at 30 June 2023.

14 SHARE-BASED PAYMENTS

On 03 April 2023, 1,416,395 share awards were granted under the Performance Share Plan (PSP) to the Executive Directors, other members of the Executive Committee and designated senior management which vest three years after the date of grant at an exercise price of 1 pence per share. The total number of shares vesting is dependent upon both service conditions being met and the performance of the Group over the three-year period. Performance is subject to both TSR and EPS conditions, each weighted 40%, with the remaining 20% determined by sustainability-based targets of decarbonisation and a reduction in the use of plastic packaging.

On 16 March 2023, a grant of 153,528 was granted to the Executive Directors under the Group Deferred Annual Bonus Plan. These awards represent the deferral into ordinary shares of part of the Executive Directors' 2022 bonus entitlements under the rules of the Scheme and will vest after three years subject to service conditions. Upon Stephen Harrison leaving the business in May 2023, all open shares held by him under DABP awards vested immediately in full.

15 RELATED PARTY TRANSACTIONS

The Group has had no transactions with related parties in the periods ending 30 June 2023, 31 December 2022 and 30 June 2022.

16 POST BALANCE SHEET EVENTS

No events have occurred since the balance sheet date that would merit separate disclosure.

PRINCIPAL RISKS AND UNCERTAINITIES

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.

Faced with a host of macro-economic risks of which persistent core inflation and the associated increases to interest rates are currently the most visible, we remain watchful of the impacts to our core markets and shorter-term demand for our products.

We continue to monitor this alongside numerous other rapidly evolving business risks; implementing mitigating controls and actions as appropriate. Details of our principal key risks are shown further in the table below.

Our risk management objectives remain to:

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

Sustainability

Sustainability continues to be a core focus within our business with the increasing need to make Forterra more resilient against the potential effects of climate change, and evolving sustainability driven risks are highlighted within the extensive disclosure in our most recent 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. 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.

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

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

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

Risk appetite

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

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

1. HEALTH AND SAFETY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts, noise, dusts and chemicals.	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 2023 continues to be around effective employee engagement and communication focused on our Golden Rules and Zero Harm. In the period we have delivered a further programme of behavioural safety awareness training emphasising the importance of our safety related golden rules.	**Gross change** No change **Net change** No change	Safety first is embedded in all decision making and is never compromised. Reducing accidents and ill-health is critical to strategic success.

2. SUSTAINABILITY / CLIMATE CHANGE

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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 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 last Annual Report and is also available as a separate document, 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 Co2 emissions, but we also benefit financially from reducing the amount of energy and carbon credits we need to purchase, both of which are becoming increasingly expensive.	**Gross change** No change **Net change** No change	Focus from all stakeholders has been maintained in 2023 and sustainability remains a high priority for management in the short, medium and long-term.

3. ECONOMIC CONDITIONS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
Demand for our products is closely correlated with residential and commercial construction activity. Changes in the wider macro-economic environment can have significant impact in this respect and we monitor these closely as a result.	Understanding business performance in real-time, through our customer order book, strong relationships across the building sector, and a range of internal and external lead indicators, help to inform management and ensure that the business has time to respond to changing market conditions. Whilst the deterioration of macro-economic conditions and associated rising interest rates has impacted the current demand for new homes, we continue to operate in a market characterised by a structural undersupply of housing driven by continuing population growth and significant brick imports entering the country. As demand falls we expect brick imports to reduce ahead of sales of domestically manufactured bricks as they have in prior cyclical downturns, providing some degree of insulation from the effects of a market slowdown. Our ability to flex output and slow production when customer demand weakens was effective in 2020, and in May of 2023 we took the decision to mothball our Howley Park brick factory and implemented other production reductions in order to align our output to the demand levels we are currently seeing. Accepting the cyclical nature of the new housing and the repair maintenance and improvement markets, Forterra remains well positioned to take advantage of attractive market fundamentals in the medium to long-term.	**Gross change** Increase **Net change** Increase	Macro-economic conditions have deteriorated since the September 2022 mini budget and demand for our products has fallen as a result. Management will continue to consider this risk when making strategic decisions.

RISK MANAGEMENT AND KEY RISKS

4. GOVERNMENT ACTION AND POLICY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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 management often meet with both ministers and MP's. Government have demonstrated that they remain committed to home ownership and housebuilding and this cross-party political agenda has been evidenced by positive statements around future house building from both major parties in recent times. Recent changes in monetary policy and the rapid associated increase to interest rates has had a significant impact on mortgage affordability, an additional challenge in a period that has also seen the end of the Help-to-Buy scheme. We therefore consider a lack of broader support in the longer term unlikely should it risk a reduction in the supply of new high-quality homes where a significant shortfall still exists. Government policy around planning reform also has the potential to influence demand for our products and we remain watchful as to any potential changes in this area and their impact on the construction of new homes.	**Gross change** Increase **Net change** Increase	We continue to invest significantly in growth – in terms of both capacity and range. This investment is made despite the uncertainty presented by changes made to Government incentives such as Help-to-Buy as the timescales associated with adding additional capacity are significant and long-term planning is vital to achieving our strategic objectives. The impact of recent changes to monetary policy have lead to this risk being increased at June 2023.

5. RESIDENTIAL SECTOR ACTIVITY LEVELS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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.	Government action and policy as laid out above continues to be a key determinant of demand for housing. 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. The impact of increasing interest rates and the wider macroeconomy on this sector has been notable and we remain watchful as to how demand levels will materialise across the remainder of 2023. The investment in the refurbishment of the Wilnecote brick factory which will focus upon the commercial and specification market will provide a degree of diversification away from residential construction.	**Gross change** Increase **Net change** Increase	Serving the residential construction market lies at the core of our strategy. Whilst we will seek opportunities to broaden our offering, we continue to see residential markets as core.

6. INVENTORY MANAGEMENT

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
Ensuring sufficient inventories of our products is critical to meeting our customer's needs, though this should not be at the expense of excessive tied up working capital. Many of our product ranges are manufactured at single facilities where maximising efficiency through utilising longer production runs necessitates higher levels of inventory to maintain customer service. If these inventories are not present, shorter and less efficient production runs will be required to maintain levels of service. Where excessive inventory starts to be built, Management must ensure that production is aligned to forecast demand.	After a long period of historically low stock levels commencing in 2020 with significant destocking as we emerged from the pandemic, the recent softening in demand has allowed these stocks to be replenished. Strong customer relationships and some degree of product range substitution have historically mitigated the risk of inventory levels being too low, and now that levels are growing these relationships remain key, ensuring that visibility of our customers' needs and demand levels can accurately be matched to our production levels. Where demand does fall, we have historically demonstrated our ability to flex capacity effectively, ensuring optimum efficiency and utilisation of our operational footprint. This has been further exemplified in the period with the mothballing of our Howley Park brick production facility, reducing our fixed cost base whilst ensuring our customers' needs can still be met.	**Gross change** Decrease **Net change** Decrease	Managing capacity sufficiently to prevent tying up excessive amounts of working capital in stock but ensuring that customer demand can continue to be met are crucial to our success. This risk increased during 2021 and has now been reducing as a result of the present softening of demand.

7. CUSTOMER RELATIONSHIPS AND REPUTATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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. Having sought to strengthen these relationships across all channels through recent periods of high demand, strong communication with customers in combination with these relationships remains paramount to our success as a number of additional factors prevail. In a softening demand environment, an inability to maintain these relationships could manifest itself in loss of market share, and if not managed correctly, be detrimental in the longer term in periods of stronger demand. To mitigate these risks we remain in constant communication with our customers ensuring they are well informed of the challenges faced by our business. We remain particularly conscious of potential impacts on our customer service and selling prices as we aim to retain our margins in a time where our customers are also facing challenging conditions.	**Gross change** No change **Net change** No change	Customer focus is a core value and progress against objectives in this area is a priority for all employees. Continued demand seen through 2021 and 2022 led to an increase in this risk, which in a softening market remain equally heightened in 2023.

8. SUPPLY CHAIN: AVAILABILITY OF RAW MATERIALS AND ENERGY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
Whilst availability of raw materials can vary at times, recent shortages across both our industry and the wider economy threaten 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.	Shortages seen in recent years have eased in the current period against a backdrop of wider macro-economic uncertainty and softening demand for a number of products. Ensuring supply remains key however, and 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 will seek to adjust our production processes to utilise materials which have a lesser impact on the environment. This easing of supply chain concerns includes the energy market, which despite the continuation of the Russia Ukraine conflict has seen pricing ease, albeit not back to historical levels with our forward purchasing meaning that 2023 energy costs are expected to represent a peak. Given the political instability seen in key energy markets, shortages of gas and electricity and their impact on pricing, particularly in winter months, remain a key consideration for management. In the longer term our focus on sustainability will see investment in factories to reduce energy consumption, and we have entered into a Power Purchase Agreement (PPA) 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 these; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials. We continue to focus on ensuring supply risks are understood, forecast and where possible mitigated.	**Gross change** Decrease **Net change** Decrease	Sufficient energy supply and quantities of raw materials received at the right time and at the right price are critical to Group operations. We have prioritised risk mitigation to bring risk-exposure and risk appetite in line. In light of our proactive approach to hedging price exposure in the energy markets and an easing of volatility in this area, this risk has been reduced as at June 2023.

9. COST INFLATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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 of higher inflation this has become far more dynamic across our supply chains. We aim to maintain a range of suppliers such that we avoid becoming dependent on any single supplier although like our own markets, parts of our supply chain are highly consolidated and as such alternative suppliers may be scarce. We also seek to manage our energy cost exposure by forward purchasing an element 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. The unprecedented increases in energy costs driven by global markets and the invasion of Ukraine in 2022 have eased in 2023, however whilst our forward purchasing provided partial mitigation, the prices seen across that period ultimately shifted our appetite for risk in this area and we continue to seek greater forward coverage of our positions as the markets allow.	**Gross change** Decrease **Net change** Decrease	Managing cost within our supply chain is core to maintaining profitability and providing optimum value to shareholders. The unprecedented inflationary environment, particularly with respect to energy, has eased across 2023 and led to a decrease in this risk.

10. ATTRACTING, RETAINING AND DEVELOPING EMPLOYEES

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. We continue to focus on safe working practices, employee support and strong communication / employee engagement, investing in HR and payroll systems, with significant resource now in place to see this investment through to delivery. Challenges associated with labour shortages are presently faced across the business in particular around the availability of engineers.	**Gross change** No change **Net change** No change	Our people have always been pivotal to our business, and we must remain cautious of the previously increased risk associated with ensuring we attract, retain and develop our employees.

11. INNOVATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This could in turn cause revenues and margins to suffer.	Strong relationships with customers as well as independently administered customer surveys ensure that we understand current and future demand. Close ties between the strategy, operations and commercial functions ensure that the Group focuses on the right areas of research and development. In a period of softer demand for our core products, providing innovative products for both our core markets and the wider construction market is of increased importance and we strive to ensure that we are in a position to do so. New product development and related initiatives therefore continue and we continue to commit to further investment in research and development with clear links between investment in R&D and the work undertaken in relation to sustainability.	**Gross change** No change **Net change** No change	The Group is willing to invest in order to grow where the right opportunities present themselves. We have invested in the appropriate skills so that opportunities can be identified and progressed, and we are committed to deploying R&D to reduce the environmental footprint of our operations.

12. IT INFRASTRUCTURE AND SYSTEMS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
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, maintaining ISO 27001 Information Security accreditation since 2019. This investment has further allowed our office staff to work remotely where required whilst continuing to effectively service our customers. This risk was increased in 2021 as a result of a significant cyber security breach. We continue to increase our resilience in this area, ensuring that our people understand their role in any attempt to compromise our cyber security and regular training and tests are carried out as such.	**Gross change** No change **Net change** No change	Investment in IT has been a priority in recent periods to mitigate risk. The downside to IT risks significantly outweigh any upside and our risk appetite reflects this. Our assessment of the risk in this area remains unchanged.

13. BUSINESS CONTINUITY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Having made plans to allow key centralised functions to continue to operate in the event of business interruption, remote working capabilities have been maintained and continually strengthened since significant utilisation across the pandemic ensuring the business is able to continue operating with minimal disruption. Wider disruption risk remains unchanged although some greater resilience is provided by the now tried and tested ability of office staff to work from home. Where a scenario without a pre-envisaged plan is faced, our business continuity policy allows managers to apply clear principles to develop plans quickly in response to emerging events. 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.	**Gross change** No change **Net change** No change	Using business continuity plans in response to the pandemic provides real life evidence as opposed to a desktop exercise. In 2023, this risk remains unchanged.

14. PROJECT DELIVERY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 22	Rationale for rating
We have an extensive program of capital investment ongoing within our business over the next decade which will see a number of large projects to add production capacity. Ensuring these projects are delivered as intended is essential to the future success of the business.	The Desford brick factory represents the largest capital investment that we have ever made, with commissioning currently ongoing with the current focus on increasing output and replicating the product range. Management closely monitor all three current strategic projects for potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. It is likely that unexpected engineering challenges coupled with supplier delays will delay the recommissioning of the new Wilnecote factory into 2024 with management actively liaising with suppliers to ensure delays are mitigated wherever possible. 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 that we will need to increase the resources in our business to support multiple major expansion projects, exemplified by the creation of a designated Technical Projects Director role sitting on our Executive Committee.	**Gross change** Increase **Net change** Increase	Management and the Board are closely monitoring expansion projects at Desford, Wilnecote and Accrington. External project management expertise has been engaged on Desford from the outset recognising learning from previous major projects.