FORTERRA plc

29th July 2021

Strong performance in Bricks and Blocks; Full Year outlook upgraded

	Six months ended 30 June					
				Change vs	Change vs	Full year
	2021	2020	2019	2020	2019	2020
	£m	£m	£m	%	%	£m
Before exceptional items*						
Revenue	180.3	122.4	193.6	47.3%	(6.9%)	291.9
EBITDA*	37.0	8.2	42.5	351.2%	(12.9%)	37.9
EBITDA margin*	20.5%	6.7%	22.0%	1380 bps	(150 bps)	13.0%
Operating profit / (loss)*	29.0	(0.8)	33.9	n/a	(14.5%)	20.8
Profit / (loss) before tax*	**27.1**	**(2.3)**	**32.7**	**n/a**	**(17.1%)**	**17.4**
Earnings per share (pence)*	**9.3**	**-**	**13.6**	**n/a**	**(31.6%)**	**6.6**
Cash flow from operations*	31.6	(4.2)	27.6	n/a	14.5%	53.9
Net funds / (debt) before leases	26.3	(68.6)	(34.5)	n/a	n/a	16.0
Dividend – interim / total (pence)	3.2	-	4.0	n/a	(20.0%)	2.8
Statutory results						
Profit / (loss) before tax	27.1	(23.3)	32.7	n/a	(17.1%)	(5.4)
Earnings per share (pence)	9.3	(10.3)	13.6	n/a	(31.6%)	(2.6)

***** There were no exceptional items in H1 2021 or H1 2019. Exceptional items totalled £21.0m in H1 2020 and £22.8m in FY 2020 and are laid out in full in note 7.

OPERATIONAL AND TRADING HIGHLIGHTS

- Strong recovery in first half trading vs. 2020, underpinned by robust demand from both the new build and the repair maintenance and improvement (RM&I) markets
- Revenues in Bricks and Blocks segment slightly ahead of 2019 levels
- Strong EBITDA recovery in Bricks and Blocks, with profits almost back to 2019 levels not withstanding operational challenges at the existing Desford brick factory
- Strong operating cash flow leads to a net funds balance (before the impact of leases) of £26.3m at period end
- Increasing signs of cost inflation although impact restricted mostly to Bespoke Products in H1

OUTLOOK

- Current favourable market outlook and trading conditions expected to continue in H2
- Order books remain strong supported by robust customer sentiment
- The Board remains positive about the fundamentals relating to the UK housing market driven by structural undersupply and supportive Government policy
- Timing of maintenance shutdowns; the impact of H2 cost inflation; and potential near-term labour and material shortages likely to result in FY outturn weighted towards H1 performance
- Modest upgrade in management's previous expectations for the full year

STRATEGY REVIEW AND CAPITAL ALLOCATION

- Focused on organic capital investment and increased returns to shareholders
- New Desford brick factory construction project progressing to timetable and budget with commissioning expected in late 2022
- £27m investment in Wilnecote brick factory in Staffordshire announced, increasing factory capacity by 20% and generating £7m of incremental EBITDA
- Dividend pay-out ratio increased from 45% to 55% of earnings effective from 2021 with interim dividend of 3.2p reflecting this change of policy

- Acquisitions as suitable opportunities arise in adjacent or complementary markets
- Supplementary shareholder returns as appropriate

Stephen Harrison Chief Executive Officer commented:

"*We saw a strong recovery over 2020 in the first half, which exceeded our expectations. This performance, primarily in Bricks and Blocks, was underpinned by robust demand across both the new build and RM&I markets. Overall, group revenue increased 47% over 2020 and, notably, revenue in Bricks and Blocks was slightly ahead of 2019 levels.*

"The current strong trading conditions appear set to continue in the second half of the year with our customer base signalling that they expect current levels of demand to continue. However, we remain watchful that ongoing economic uncertainty surrounding the longer-term impacts of the pandemic, coupled with the shorter-term effects of the present shortages of labour, materials and transport across the wider sector could potentially impact demand for our products.

"Whilst we anticipate that the result for the full year will be weighted towards the first half reflecting the timing of maintenance shutdowns, the impact of cost inflation and near-term labour and material shortages in the second half, we now anticipate a 2021 FY result modestly ahead of our previous expectations."

This announcement contains inside information for the purposes of article 7 of the Market Abuse Regulation (EU) No 596/2014.

ENQUIRIES

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A presentation for analysts will be held today, 29 July 2021, at 9.00am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

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

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

TRADING SUMMARY

Trading across the first half of the year generally exceeded management's expectations with both the new build housing and the RM&I sectors seeing consistently strong demand throughout the period.

The resurgence of Covid-19 and the extended lockdown through winter and spring did not adversely impact trading with our sales and production generally unimpeded by restrictions. Accordingly, the Group did not utilise any Covid-19 related Government assistance in the period. We successfully adapted to the requirements of trading through the pandemic with the safety and wellbeing of our workforce remaining paramount.

Revenue in the first half of £180.3m represents an increase of 47.3% over 2020 which was materially affected by the impact of the pandemic limiting its meaningfulness as a comparator. Accordingly, these results are presented alongside a 2019 comparative. Bricks and Blocks revenues were slightly ahead of 2019 levels. As expected, the revenues of the Bespoke Products have reduced relative to prior periods as a result of the closure of the Swadlincote hollowcore flooring plant last summer.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the first half of the year were £37.0m relative to £8.2m in 2020 (stated before exceptional items) and £42.5m in 2019. Group EBITDA margin of 20.5% compares to 22.0% in 2019 with operational challenges at the existing Desford brick factory along with one off costs totalling £1.0m relating to the restructuring of the Bespoke Products business impacting the result.

Profit before tax of £27.1m compares with a loss of £2.3m in 2020 (stated before exceptional items) and a profit of £32.7m in 2019.

OUTLOOK

The current strong trading conditions appear set to continue in the second half of the year with our customer base signalling that they expect current levels of demand to continue. The strong forward order books and sales rates of the housebuilders suggest that the tapering of the Stamp Duty holiday and the changes to the Help to Buy scheme do not appear to have impacted continuing demand for new homes and the Government's Mortgage Guarantee Scheme should increase the availability of finance supporting continued demand for new properties. Economic data also highlights the increase in personal savings which, when coupled with a desire for greater living space, bodes well for the RM&I market. However, we remain watchful that ongoing economic uncertainty surrounding the longer-term impacts of the pandemic coupled with the shorter-term effects of the present shortages of labour, materials and transport across the wider sector could potentially impact demand for our products.

With production generally running at full capacity and with inventory levels across the industry now at historic lows there is little opportunity to significantly increase sales volumes in the short-term.

Based on trading to date and our expectations for the second half we now anticipate a 2021 FY result modestly ahead of management's previous expectations. Furthermore, we anticipate this result will be weighted towards the first half, reflecting the timing of maintenance shutdowns, the impact of cost inflation and near-term labour and material shortages in the second half.

EARNINGS PER SHARE AND DIVIDEND

Earnings per share (EPS) of 9.3p compares to a 2020 EPS (stated before exceptional items) of nil but represents a decrease of 31.6% on a 2019 EPS of 13.6p. 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 Company issued an additional 28.2m shares in July 2020 distorting the year on year comparison of EPS.

Following a review of the Group's strategy and capital allocation the Board has increased the dividend pay-out ratio to 55% of earnings up from the previous 45% and expects to maintain a progressive policy thereafter.

In line with the new dividend policy the Board has declared an interim dividend of 3.2 pence per share. The dividend will be paid on 15 October 2021 to shareholders on the register at 24 September 2021.

CASH FLOW, BORROWINGS AND FACILITIES

The Group continues to generate a strong level of operating cash flow, delivering £31.6m in the first half (2019: £27.6m). Working capital increased from the year end position due to the expected seasonal growth in sales although the strength of demand through the winter months prevented any meaningful replenishment of inventories with sales generally matching production.

Capital expenditure totalled £11.6m in the period with the new Desford factory accounting for the majority of this with £9.4m spent taking total project spend to £41.5m. The bulk of the project spend is now committed and we expect the timing of future cash outflows to be as follows: Second half 2021: £30.5m, 2022: £15.5m and the final £7.5m in 2023 with the project still expected to be delivered to its £95m budget.

The manufacturing equipment is being purchased from a European supplier with a significant proportion of the project spend being denominated in Euro. The Group has taken out a package of forward and option foreign exchange contracts to hedge its exposure to currency fluctuations and has applied hedge accounting.

The Group last refinanced its banking facilities in July 2020 securing an increase of facility size to £170m and an extension of the facility duration until July 2024 as well as a package of covenant variations extending to September 2021. The facility agreement included the option for the Company to request, subject to bank approval, an additional extension for a further year to July 2025. The extension was approved with the facility now committed until 1 July 2025. An arrangement fee of £0.4m was paid in respect of this extension. The credit agreement has also been amended to remove references to LIBOR with interest now calculated based on SONIA plus a small credit adjustment spread, this change will not significantly impact the interest rate payable.

Finance expense for the period totalled £1.9m inclusive of the £0.4m arrangement fee above (2020: £1.9m). In 2021 the Group will pay a margin of 4% above LIBOR / SONIA on borrowings under the facility with a commitment fee of 35% of the margin payable on unborrowed funds. From 1 January 2022 interest charges on borrowings will revert to a margin grid with a margin of 1.75% above SONIA provided that leverage remains under 1 times EBITDA. A commitment fee of 35% of the applicable margin on unborrowed funds remains payable.

BRICKS AND BLOCKS

	Six months ended 30 June			Change vs	Change vs	Full Year
	2021	**2020**	**2019**	**2020**	**2019**	**2020**
	£m	**£m**	**£m**	**%**	**%**	**£m**
Revenue	145.0	90.5	143.9	60.2%	0.8%	223.1
EBITDA	37.8	11.1	41.6	240.5%	(9.1%)	40.3
EBITDA margin	26.1%	12.3%	28.9%	1380 bps	(280 bps)	18.1%

All figures stated before exceptional items

Revenues in the first half increased by 60.2% compared to the same period last year although more meaningfully this represents an increase of 0.8% on 2019.

Brick sales volumes in the first half were slightly behind the 2019 comparator, this is in line with industry statistics published by the Department for Business, Energy and Industrial Strategy which reported UK brick despatches for the 5 months to the end of May being 3% behind the 2019 comparative.

The strength of demand across the sales channels was consistent with strong demand seen from the RM&I driven merchanting sector as well as housebuilding. Our brick sales volumes relative to 2019 have followed the same trends as the market. Aircrete block volumes relative to 2019 were slightly less robust than brick reflecting greater inventory in that supply chain at the beginning of the year although demand in recent months has strengthened as this inventory has worked through the system.

Segmental EBITDA of £37.8m compares to £11.1m in 2020 and £41.6m in 2019 with the 2021 EBITDA margin of 26.1% comparing to the 2019 margin of 28.9%. Whilst our factories have generally operated at capacity during the first half of the year the existing factory at Desford has suffered from significant reliability issues impacting the margins for the period. It is well publicised that this factory is approaching the end of its life with its replacement under construction and as such similar issues remain a risk until decommissioning in early 2023.

Our brick business faces a material increase in the cost of carbon credits with the cost of the new UK Emissions Trading Scheme credits broadly matching their European equivalents that have themselves broadly doubled in cost over the last six months. In recent months the segment has also begun seeing both cost increases and supply shortages across a range of input categories, including cement, which is used in the manufacture of both aggregate and aircrete blocks along with the cost of transport. Energy costs have also dramatically increased with gas prices having almost doubled in recent months although forward purchasing a significant proportion of our requirements in advance will mitigate much of this increase. Supply chain shortages to date have generally been mitigated through a combination of agile purchasing and amending recipe designs although we have seen some limited disruption of production caused by supply chain difficulties and this is likely to remain a risk for the rest of the year.

Modest selling price increases sufficient to recover the cost inflation anticipated at that time were secured at the beginning of the year. Much of our trade with major customers is undertaken within annual pricing agreements with the majority of the anniversaries aligning with the calendar year. Where prices can be increased to offset rising costs they have been, although there is a risk that inflation may not be fully recovered in the second half. In the longer term the Board remain confident in the business's ability to recover cost inflation.

As well as seeing cost increases, availability of transport has become a growing concern across not only the construction sector but also the wider economy. Operating our own in-house fleet of delivery vehicles provides us with a competitive advantage although as we still rely on external haulage to supplement our own vehicles, we are not immune from these pressures. In order to mitigate this risk we have recently agreed to buy 20 of our delivery vehicles at the end of their lease term. With replacement new vehicles now arriving this will allow us to increase our fleet of specialised crane equipped delivery vehicles to 175, providing a valuable uplift in capacity once the additional drivers have been recruited and trained.

BESPOKE PRODUCTS

	Six months ended 30 June			**Change vs**	**Change vs**	**Full Year**
	2021	**2020**	**2019**	**2020**	**2019**	**2020**
	£m	**£m**	**£m**	**%**	**%**	**£m**
Revenue	37.2	33.0	50.9	12.7%	(26.9%)	71.7
EBITDA	(0.8)	(2.9)	0.9	(72.4%)	n/a	(2.4)
EBITDA margin	(2.2%)	(8.8%)	1.8%	660 bps	n/a	(3.3%)

All figures stated before exceptional items.

Revenues in the period totalled £37.2m, a fall of £13.7m relative to the 2019 revenue of £50.9m. The reduction in revenue is to be expected following the closure of the hollowcore production facility at Swadlincote in the second half of last year.

Precast concrete flooring manufacture has been successfully consolidated at our Hoveringham facility which is operating in line with expectations. Sale of hollowcore have reduced as planned by around two thirds relative to 2019 with the remaining output now focused on servicing the needs of our key housebuilder customers.

Sales of our beam and block flooring solutions including the Jetfloor insulated ground floor system have performed in line with expectations with volumes recovering to approximately 85% of the 2019 levels.

Our precast concrete flooring business however, has been disproportionally impacted by the cost inflation pressures seen in the supply chain both in terms of the size of increases with the cost of steel, used for reinforcement, and the expanded polystyrene, used in our insulated flooring systems in both cases increasing by approximately 40% relatively early in the year having the biggest impact on the first half result. Additionally, this segment has also experienced materials and transport shortages consistent with bricks and blocks.

Significant price increases have been passed on to our customers although to date due to the lead times associated with agreeing and implementing price increases these have not been sufficient to fully offset the cost inflation. Until the cost of these key inputs has stabilised, which we believe is something that will occur later in the year, it is likely that there will be downward pressure on segment margins. Unfortunately, until this occurs the efficiency benefits of consolidating the flooring manufacture at Hoveringham will be offset by volatility of pricing in the supply chain.

The Bespoke Products segment and in particular the Bison precast concrete business figured significantly in the Board's review of the Group's strategy. In recent weeks we informed the workforce that following the mothballing of the Swadlincote hollowcore facility last year we had now taken a decision to also close the adjacent general precast manufacturing facility with production of these products to be consolidated at our Somercotes facility. Regrettably this will lead to the loss of around 60 jobs in the first instance although a number of new roles will be created at the Somercotes facility in due course.

A provision for redundancy costs and other restructuring costs totalling £1.0m has been recognised, although by virtue of its modest size this amount is not treated as an exceptional item. In order to identify the underlying performance of the segment, this cost of £1.0m should be added back giving an underlying EBITDA of £0.2m comparing to a loss of £2.9m in 2020 (stated before exceptional items) and a profit of £0.9m in 2019. In addition, it should be remembered that this segment continues to bear an allocation of central costs which in the first half of the year totalled £2.6m.

REVIEW OF STRATEGY AND CAPITAL ALLOCATION PRIORITIES

In March we announced that the Board would review and if appropriate, refresh the Group's strategic and capital allocation priorities. As well as coinciding with the fifth anniversary of Forterra joining the public market, the timing of the review followed the unexpectedly quick recovery from the pandemic following last summer's equity placing leaving the Group in a position of strength with minimal debt.

One of the Group's key strengths has always been its ability to generate operating cash flow. The stronger than expected recovery in our markets has enabled the business to quickly return to a cash generative position and with the Desford factory expected to further enhance this cash generation in the coming years now is the ideal time to review both the Group's strategy and capital allocation policies.

The review was informed by an evaluation of the Group's current markets, how these may evolve and where new opportunities may arise, alongside a review of the current asset base and the available investment opportunities. The Group benefits from a pipeline of attractive organic growth opportunities that will drive long term shareholder value through a combination of growth in capacity and renewal of ageing assets, enhancing efficiency and sustainability or through product range enhancements. The review also considered an appraisal by the Board of inorganic growth and potential diversification opportunities recognising the attractive but consolidated markets the Group presently operates in.

In concluding the review, the Board confirms its commitment to a strategy that will take advantage of our balance sheet strength and proven track record of cash generation, to create long-term stakeholder value whilst also reducing our impact on the environment through investment in manufacturing efficiency, capacity expansion and product development, and increasing returns to shareholders.

In order to support this strategy, the Board has set capital allocation priorities as follows:

1. **Strategic organic capital investment to deliver attractive returns**
2. **Progressive ordinary dividend with the pay-out ratio increasing to 55% of earnings from 2021 onwards**
3. **Acquisitions as suitable opportunities arise in adjacent or complementary markets**
4. **Supplementary shareholder returns as appropriate**

Over the next decade we expect the Group to generate significant free cash flow that will be allocated in line with our capital allocation priorities. We anticipate deploying over £200m of capital on a pipeline of attractive organic investment projects offering compelling returns alongside providing enhanced shareholder returns via a progressive dividend policy that will distribute 55% of earnings. The balance of capital will be available for either acquisitions or supplementary returns to shareholders.

In delivering the above we expect leverage (excluding leases) to be maintained at or below 1.0 times EBITDA except in the short-term when it may increase to around 1.5 times to fund specific projects or acquisitions.

In addition, we will increase our investment into research & product development, focusing on enhancing our product range, especially offsite façade solutions, along with technologies to support the reduction of carbon emissions across the Group. In due course this investment shall amount to an additional £2m-£3m annually with the Group expanding its technical and other central functions to support a greater focus on product and process innovation.

STRATEGIC ORGANIC CAPITAL INVESTMENT

Our present focus is the completion of the new Desford factory which will deliver an extra 90m bricks per annum increasing our brick production capacity by 16% with market leading efficiency generating at least £15m of incremental EBITDA by 2025. At the end of this year we expect to have spent around £70m (c.75%) of the £95m budget and with negligible net debt forecast for the end of the year, availability of capital is no constraint to further investment in the business.

We are currently progressing a pipeline of attractive organic investment projects across our bricks and blocks business each offering compelling returns. Over the next decade we expect to be able to deploy over £200m of capital on projects that offer returns significantly above the Group's cost of capital through:

- Growth in production capacity
- Renewal of existing capacity improving manufacturing efficiency, reducing both energy use and greenhouse gas emissions driving improved operating margins
- Extension of our product range facilitating greater access to wider aspects of the construction market
- Improved customer experience

Large scale manufacturing investments require detailed planning and design and where mineral reserves are involved the timescales can be even longer. These investments will range in size from £5m to £50-70m and will be spread over the next decade. Projects will be evaluated against a number of performance criteria with availability of management resource also influencing the timing of project deployment.

In addition, maintenance capital expenditure of approximately £12m a year will continue to be focussed on replacing and upgrading plant & equipment to deliver efficiency and safety improvements as well as supporting our mid-term sustainability priorities of reducing emissions and our use of plastic packaging.

Today we are announcing a new investment of approximately £27m in our Wilnecote brick factory, modernising this facility to produce a wider range of high-end bricks targeted at the commercial and specification market whilst bringing the factory up to the latest standards of efficiency and sustainability.

We believe the anticipated strategic capital investments coupled with the annual £12m maintenance capital spend will leave us well placed to meet our 2030 sustainability targets including a further 32% reduction in carbon emissions although as we reach the end of this decade and beyond into the 2030's the costs of deploying breakthrough technologies such as hydrogen fired kilns and carbon capture remain uncertain.

WILNECOTE BRICK FACTORY INVESTMENT

The Wilnecote factory in Staffordshire was opened in 1991, and this investment will secure the future of the factory for years to come and will include a new kiln, dryers and handling equipment allowing the factory to produce a wider range of high specification products including greater numbers of the famous Staffordshire blue bricks. The investment will increase the production capacity of the factory by approximately 20% or 6m bricks per annum.

The commercial and specification market, supplying bricks into a range of larger projects including residential, commercial, schools and hospitals is a sizeable market representing around 400m bricks per annum (approximately 17% of the UK brick market). It is a market where Forterra has traditionally been underrepresented with this project providing a degree of diversification reducing reliance upon mainstream housebuilding.

Unlike the Desford project where the old factory remains operational throughout the construction project, the Wilnecote factory will close for a period of 9 months in 2022 to allow the construction work to be undertaken resulting in a short-term reduction in 2022 EBITDA of around £2.5m. The factory is expected to be recommissioned at the end of 2022 and is ultimately expected to deliver incremental EBITDA of approximately £7m by 2027 as well as securing the existing profits averaging around £2.5m per annum which would be threatened without this investment. The capital spend is expected to be phased as follows, with £2m to be spent in 2021, £12m in 2022 and £13m in 2023.

PROGRESSIVE ORDINARY DIVIDEND

The strength of our balance sheet coupled with the forthcoming incremental cash generation of the Desford project allows the Board to immediately increase the dividend pay-out ratio to 55% of earnings up from the previous 45%. Increasing the dividend allows shareholders to benefit from the current and future cash generation of the business without compromising our ability to deploy capital within the business to deliver long term stakeholder value.

ACQUISITIONS AND SUPPLEMENTARY RETURNS

Although the consolidated nature of both our sector and those of the most attractive adjacent markets affords a limited pool of acquisition opportunities, where we can add significant value or deliver meaningful synergies, we will continue to be open to acquisition opportunities. However, should suitable acquisition opportunities not be forthcoming, surplus cash will be returned to shareholders.

STRATEGIC REVIEW OF BISON PRECAST AND NEW PRODUCT DEVELOPMENT

The future strategy and direction of the Bison business unit formed a key part of the Board's strategy review.

The precast concrete flooring operation now centred at our Hoveringham facility remains a core element of our strategy. The customers for this product are predominantly the national housebuilders providing a strong customer overlap with the Bricks and Blocks segment. There are also procurement and technical synergies between this business and our Bricks and Blocks business. Following an internal reorganisation, the management of the flooring business has been separated from the bespoke precast concrete operations with Darren Rix, formerly Strategy and Development Director, recently appointed to the new role of Managing Director Bison Flooring with a clear goal of delivering margin improvement in this business unit.

Alongside the flooring products, the Bison Precast business also encompasses a wider bespoke precast operation manufacturing a wide range of precast concrete products including walls, culverts, bridge and stadia components. These products are bespoke in nature and made to order. In recent years, this part of the business has operated from two facilities, one at Swadlincote situated alongside the mothballed hollowcore facility and another at Somercotes in Derbyshire.

Significant progress has been made in focusing upon added value products over commoditised grey concrete where margins have been under growing pressure. Our strategy, supported by the increase in our research and development spend outlined above, is to focus our Somercotes manufacturing capacity on the development of a wide range of façade products which offer a modular product into the fast-growing off-site manufacturing segment. This encompasses both our range of heavy precast concrete products such as brick faced concrete sandwich panels but also our SureBrick mechanically fixed brick slip façade system and the Quickwall glued masonry solution. These products offer durable, firesafe solutions for a wide range of buildings, including high rise and modular, which is an area Forterra has historically had little involvement in.

Focusing on a smaller range of higher value products will necessitate a reduction in the required production capacity and manpower and as such we have now taken the decision to close the general precast facility at Swadlincote.

In light of the above, the Board has concluded that shareholder value will be maximised by either utilising the Swadlincote site, a valuable and marketable land asset, for an alternative purpose or through seeking a disposal which has the potential to generate significant value.

SUSTAINABILITY

We published our first comprehensive sustainability report within our 2020 Annual Report and Accounts highlighting our significant achievement to date in reducing our carbon emissions per tonne by 20% over the last decade. Building upon this we are now targeting a further 32% reduction in our emissions over the next decade. Additionally, by targeting a 50% reduction in our use of plastic packaging by 2025 we are taking a leadership role in removing plastic packaging from our building products; something we hope will be replicated across the industry and beyond.

Our sustainability targets and our long-term strategy are aligned. By investing in modern efficient manufacturing capacity we will not only increase production capacity and reduce operating cost but also meaningfully reduce our impact on the environment. Our new Desford factory will reduce the embodied carbon in each brick by around 30% relative to the old factory it replaces. Similarly, the investment we have announced today in our Wilnecote factory will bring this facility up to modern standards including a packaging line that will eliminate the current need for plastic wrapping.

During the period we concluded some work on reducing the embodied carbon of our precast concrete offering in our Bespoke Precast business. This work was sponsored by Innovate UK and included some of our key partners including the Ministry of Justice. The output from this work gives us the opportunity to offer a finished product with significantly lower embodied carbon for future Bespoke projects and is potentially applicable across our entire range of concrete products. This project is to be closely followed by another Innovate UK sponsored project that helps Forterra continue on our carbon reduction journey.

We are continuing to work towards securing our own large-scale renewable electricity generation capacity. We already source 100% of our electricity requirement from renewable sources through our purchase of Renewable Energy Guarantee of Origin (REGO) certificates although we recognise the additional benefit we can bring to society by investing in our own dedicated renewable generation capacity either on our own sites or remotely through an offsite Power Purchase Agreement (PPA) where we would partner with a developer to deliver a renewable electricity generation scheme.

We are currently evaluating a number of potential opportunities including equipping the new Desford factory and other factories with their own on-site solar farms. Unfortunately, our efforts to deploy wind turbines on our factory sites are presently hindered by Government policy which restricts the construction of new land-based wind generation capacity.

We have already made progress towards our commitment of reducing plastic packaging by 50% over the next 5 years. Driving engagement across the industry we are gaining customer support to change methods of working to allow this to happen. We have started this journey by making demonstrable progress at our Kirton brick factory which is leading this change such that in June 2021, only 17% of the bricks despatched from this factory were wrapped in plastic. In the coming months and years we will be making changes to our packaging across our other sites.

We are trialling the use of hydrogenated vegetable oil (HVO) as an alternate fuel to replace the diesel used in both our mobile plant and road going distribution vehicles. HVO is a synthetic bio-fuel produced from vegetable oils or animal fats eliminating up to 90% of Co2 emissions associated with diesel as well as reducing emissions of other pollutants. Whereas ultimately our ambition is to transition to electric vehicles, battery technology is not yet sufficiently developed to power heavy plant or distribution vehicles so HVO presents the opportunity to accelerate progress in the shorter term.

During the second half of the year we intend to commence an ambitious trial to gain a greater understanding of the potential of hydrogen to replace natural gas in firing our kilns. This trial will take place at our Red Bank factory which sits alongside our Measham brick facility. Whilst the prospect of using hydrogen as a fuel in our largest kilns is still some distance away, the trial will provide valuable insight as to how the ceramic firing process will respond to hydrogen fuel and how the moisture generated by burning hydrogen can be extracted from the kiln.

Following the publication of our sustainability report we have seen an even greater level of shareholder engagement on sustainability topics and we are pleased that the report has been so well received. In addition, we have stepped up our engagement with the sustainability rating agencies and have also recently completed our first submission to the Carbon Disclosure Project.

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 2020 Annual Report and Accounts.

GOING CONCERN

At the balance sheet date the cash balance stood at £31.8m with £5.0m borrowed against £170.0m of available facilities leaving headroom of £165.0m. 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.

In May 2021, the Group extended its RCF facility by one year, utilising an option included in the facility agreement, and securing funding until 1 July 2025. This is further detailed within note 12 to the accounts.

The Group continues to update internal forecasts regularly, reflecting current economic conditions, incorporating management experience, future expectations and scenarios. As at 30 June 2021, restrictions in place due to Covid-19 have not affected the continuation of operations, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of both the Desford and Wilnecote capital projects and will continue to have significant headroom in both its banking covenants and existing bank facilities. We have modelled a financial scenario to assess the fall in EBITDA required to breach the covenants on the financing facility and we believe that probability of such a situation whereby the Group breaches its covenants is highly remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 July 2022. 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

Stephen Harrison
Chief Executive Officer

Ben Guyatt
Chief Financial Officer

29 July 2021

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 2021 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 Cash Flows and related notes 1 - 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 2021 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 and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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 IFRSs. 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.

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

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 statement in the half-yearly financial report. Our conclusion, is 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 and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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

29 July 2021

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2021 (UNAUDITED)

	Note	Six months ended 30 June 2021 Unaudited £m	Six months ended 30 June 2020 Unaudited £m	Year ended 31 December 2020 Audited £m
Revenue	6	180.3	122.4	291.9
Cost of sales		(113.2)	(112.5)	(225.8)
Gross profit		**67.1**	**9.9**	**66.1**
Distribution costs		(24.5)	(17.5)	(44.1)
Administrative expenses		(13.9)	(13.9)	(20.8)
Other operating income		0.3	0.1	0.2
Operating profit / (loss)		**29.0**	**(21.4)**	**1.4**
EBITDA before exceptional items		**37.0**	**8.2**	**37.9**
Exceptional items	7	-	(20.6)	(19.4)
EBITDA		**37.0**	**(12.4)**	**18.5**
Depreciation and amortisation		(8.0)	(9.0)	(17.1)
Operating profit / (loss)		**29.0**	**(21.4)**	**1.4**
Finance expense before exceptional items		**(1.9)**	**(1.5)**	**(3.4)**
Exceptional finance expense	7	-	(0.4)	(3.4)
Finance expense	8	(1.9)	(1.9)	(6.8)
Profit / (loss) before tax		**27.1**	**(23.3)**	**(5.4)**
Income tax (expense) / credit	9	(5.8)	2.8	(0.2)
Profit / (loss) for the financial period attributable to equity shareholders		**21.3**	**(20.5)**	**(5.6)**
Other comprehensive loss				
Effective portion of changes of cash flow hedges		(0.2)	-	-
Total comprehensive income / (loss) for the period attributable to equity shareholders		**21.1**	**(20.5)**	**(5.6)**
Earnings / (loss) per share:				
Basic (in pence per share)	10	9.3	(10.3)	(2.6)
Diluted (in pence per share)	10	9.3	(10.3)	(2.6)

The notes on pages 19 to 29 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 2021 (UNAUDITED)

	Note	As at 30 June 2021 Unaudited £m	As at 30 June 2020 Unaudited £m	As at 31 December 2020 Audited £m
Assets				
Non-current assets				
Intangible assets		11.3	11.3	11.0
Property, plant and equipment		193.9	182.7	187.1
Right-of-use assets		14.9	11.2	9.0
		220.1	**205.2**	**207.1**
Current assets				
Inventories		35.0	44.2	33.0
Trade and other receivables		55.0	38.5	35.7
Income tax asset		1.1	2.9	0.6
Cash and cash equivalents		31.8	81.9	31.5
		122.9	**167.5**	**100.8**
Total assets		**343.0**	**372.7**	**307.9**
Current liabilities				
Trade and other payables		(83.6)	(60.8)	(63.8)
Loans and borrowings	12	(0.5)	(0.7)	(0.5)
Lease liabilities		(4.2)	(4.4)	(3.4)
Provisions for other liabilities and charges		(7.6)	(4.2)	(5.0)
Derivative financial liability		(0.2)	-	-
		(96.1)	**(70.1)**	**(72.7)**
Non-current liabilities				
Loans and borrowings	12	(5.0)	(149.8)	(15.0)
Lease liabilities		(10.8)	(7.3)	(6.0)
Provisions for other liabilities and charges		(9.2)	(8.1)	(9.2)
Deferred tax liabilities		(2.0)	(1.9)	(0.9)
		(27.0)	**(167.1)**	**(31.1)**
Total liabilities		**(123.1)**	**(237.2)**	**(103.8)**
Net assets		**219.9**	**135.5**	**204.1**
Capital and reserves attributable to equity shareholders				
Ordinary shares		2.3	2.0	2.3
Retained earnings		179.5	136.3	162.3
Cash flow hedge reserve		(0.2)	-	-
Other reserve		39.7	-	41.5
Reserve for own shares		(1.4)	(2.8)	(2.0)
Total equity		**219.9**	**135.5**	**204.1**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2021 (UNAUDITED)

	Share capital	Reserve for own shares	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
Current half year:						
Balance at 1 January 2021	**2.3**	**(2.0)**	**-**	**41.5**	**162.3**	**204.1**
Profit for the financial period	-	-	-	-	21.3	21.3
Other comprehensive loss	-	-	(0.2)	-	-	(0.2)
Dividend payable	-	-	-	-	(6.4)	(6.4)
Movement in other reserves	-	-	-	(1.8)	1.8	-
Purchase of shares by EBT	-	(1.4)	-	-	-	(1.4)
Proceeds from sale of shares by EBT	-	0.9	-	-	-	0.9
Share-based payments charge	-	-	-	-	1.2	1.2
Share-based payments exercised	-	1.1	-	-	(1.1)	-
Tax on share-based payments	-	-	-	-	0.4	0.4
Balance at 30 June 2021	**2.3**	**(1.4)**	**(0.2)**	**39.7**	**179.5**	**219.9**
Prior half year:						
Balance at 1 January 2020	**2.0**	**(3.6)**	**-**	**-**	**157.8**	**156.2**
Total comprehensive loss for the financial period	-	-	-	-	(20.5)	(20.5)
Purchase of shares by EBT	-	(0.8)	-	-	-	(0.8)
Proceeds from sale of shares by EBT	-	0.7	-	-	-	0.7
Share-based payments charge	-	-	-	-	0.5	0.5
Share-based payments exercised	-	0.9	-	-	(0.9)	-
Tax on share-based payments	-	-	-	-	(0.6)	(0.6)
Balance at 30 June 2020	**2.0**	**(2.8)**	**-**	**-**	**136.3**	**135.5**
Prior year:						
Balance at 1 January 2020	**2.0**	**(3.6)**	**-**	**-**	**157.8**	**156.2**
Total comprehensive loss for the year	-	-	-	-	(5.6)	(5.6)
Issue of shares	0.3	-	-	41.5	11.2	53.0
Purchase of shares by EBT	-	(1.0)	-	-	-	(1.0)
Proceeds from sale of shares by EBT	-	0.9	-	-	-	0.9
Share-based payments charge	-	-	-	-	0.8	0.8
Share-based payments exercised	-	1.7	-	-	(1.7)	-
Tax on share-based payments	-	-	-	-	(0.2)	(0.2)
Balance at 31 December 2020	**2.3**	**(2.0)**	**-**	**41.5**	**162.3**	**204.1**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2021 (UNAUDITED)

	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited	Unaudited	Audited
	£m	£m	£m
Cash flows from operating activities			
Operating profit / (loss) before exceptional items	29.0	(0.8)	20.8
Adjustments for:			
Depreciation and amortisation	8.0	9.0	17.1
Movement on provisions	2.6	(0.1)	1.7
Share-based payments	1.2	0.5	0.9
Profit on disposal of property, plant and equipment	0.4	-	-
Other non-cash items	-	0.1	(0.9)
Changes in working capital:			
Inventories	(2.0)	3.6	14.8
Trade and other receivables	(19.3)	1.9	4.6
Trade and other payables	11.7	(18.4)	(5.1)
Cash generated / (outflow) from operations before exceptional items	**31.6**	**(4.2)**	**53.9**
Cash flows relating to exceptional items	-	(0.6)	(5.6)
Cash generated / (outflow) from operations	**31.6**	**(4.8)**	**48.3**
Interest paid	(1.5)	(0.7)	(2.8)
Tax paid	(4.8)	(4.1)	(5.2)
Net cash inflow / (outflow) from operating activities	**25.3**	**(9.6)**	**40.3**
Cash flows from investing activities			
Purchase of property, plant and equipment	(10.9)	(11.9)	(23.5)
Purchase of intangible assets	(0.7)	(0.3)	(1.4)
Net cash used in investing activities	**(11.6)**	**(12.2)**	**(24.9)**
Cash flows from financing activities			
Reduction in lease liabilities	(2.5)	(2.8)	(5.2)
Drawdown of borrowings	5.0	80.0	80.0
Repayment of borrowings	(15.0)	-	(135.0)
Financing fees paid	(0.4)	-	-
Purchase of shares by Employee Benefit Trust (EBT)	(1.4)	(0.8)	(1.0)
Proceeds from sale of shares by EBT	0.9	0.7	0.9
Proceeds from share issue	-	-	55.0
Transaction costs on share issue	-	-	(2.0)
Exceptional finance payments	-	-	(3.2)
Net cash (used in) / generated from financing activities	**(13.4)**	**77.1**	**(10.5)**
Net increase in cash and cash equivalents	**0.3**	**55.3**	**4.9**
Cash and cash equivalents at beginning of the period	31.5	26.6	26.6
Cash and cash equivalents at the end of the period	**31.8**	**81.9**	**31.5**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2021 (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 29 July 2021.

The condensed consolidated financial statements for the six months ended 30 June 2021 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 to 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 2020 were approved by the Board of Directors on 9 March 2021 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 (iii) did not contain a statement under section 498 of the Companies Act 2006.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the half year ended 30 June 2021 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 2020 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 £31.8m with £5.0m borrowed against £170.0m of available facilities leaving headroom of £165.0m. 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.

In May 2021, the Group extended its RCF facility by one year, utilising an option included in the facility agreement, and securing funding until 1 July 2025. This is further detailed within note 12 to the accounts.

The Group continues to update internal forecasts regularly, reflecting current economic conditions, incorporating management experience, future expectations and scenarios. As at 30 June 2021, restrictions in place due to Covid-19 have not affected the continuation of operations, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of both the Desford and Wilnecote capital projects and will continue to have significant headroom in both its banking covenants and existing bank facilities. We have modelled a financial scenario to assess the fall in EBITDA required to breach the covenants on the financing facility and we believe that probability of such a situation whereby the Group breaches its covenants is highly remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 July 2022. The Group therefore adopts the going concern basis in preparing the condensed consolidated financial statements.

3. 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 annual consolidated Financial Statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendment includes a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. The Group has taken advantage of this in transitioning from interest rates calculated using LIBOR to SONIA on its Revolving Credit Facility. The change has not significantly impacted the interest rate payable, with LIBOR and SONIA being regarded as economically equivalent.

Further reliefs regarding hedge designation and hedge documentation had no impact on the condensed consolidated financial statements of the Group.

Derivative Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to foreign currency risks, to manage the financial risks arising from the business activities and the financing of those activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes.

Hedging

The Group uses derivative financial instruments, in particular forward foreign exchange options, to manage the financial risks arising from business activities and financing of those activities. In March 2021, the Group designated a cash flow hedge for plant and machinery purchases denominated in Euros for the new Desford factory, which includes both a forward contract and an option. The forecast payments are expected to occur in stages over the remaining construction timeline of the project.

4. 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 2020.

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.

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 statement of total comprehensive income is all attributable to the principal activity of the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complimentary building products.

Substantially all revenue recognised in the condensed consolidated statement of comprehensive income arose from contracts with external customers within the UK.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2021 (UNAUDITED)

Segment revenue and results:

	Six months ended 30 June 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	145.0	37.2	182.2
Intercompany eliminations	-	-	(1.9)
Revenue			**180.3**
EBITDA before exceptional items	**37.8**	**(0.8)**	**37.0**
Depreciation and amortisation	(7.2)	(0.8)	(8.0)
Operating profit / (loss)	**30.6**	**(1.6)**	**29.0**
Net finance expense			(1.9)
Profit before tax			**27.1**

Segment assets:

	As at 30 June 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	175.4	18.5	193.9
Intangible assets	10.3	1.0	11.3
Right-of-use assets	13.8	1.1	14.9
Inventories	30.3	4.7	35.0
Segment assets	229.8	25.3	255.1
Unallocated assets			87.9
Total assets			**343.0**

Other segment information:

	As at 30 June 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	11.8	0.5	12.3
Intangible asset additions	0.7	0.2	0.9
Right-of-use asset additions	8.1	-	8.1

Segment revenue and results:

	Six months ended 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	90.5	33.0	123.5
Intercompany eliminations			(1.1)
Revenue			**(122.4)**
EBITDA before exceptional items	**11.1**	**(2.9)**	**8.2**
Depreciation and amortisation	(7.5)	(1.5)	(9.0)
Operating profit / (loss) before exceptional items	**3.6**	**(4.4)**	**(0.8)**
Allocated exceptional items	(7.7)	(12.5)	(20.2)
Unallocated exceptional items			(0.4)
Operating loss			**(21.4)**
Net finance expense			(1.9)
Loss before tax			**(23.3)**

Segment assets:

	As at 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	163.1	19.6	182.7
Intangible assets	10.5	0.8	11.3
Right-of-use assets	9.6	1.6	11.2
Inventories	39.0	5.2	44.2
Segment assets	222.2	27.2	249.4
Unallocated assets			121.8
Total assets			**371.2**

Other segment information:

	As at 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	13.9	1.0	14.9
Intangible asset additions	0.6	0.1	0.7
Right-of-use asset additions	0.2	0.2	0.4

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2021 (UNAUDITED)

Segment revenue and results:

	Year ended 31 December 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	223.1	71.7	294.8
Intercompany eliminations			(2.9)
Revenue			**291.9**
EBITDA before exceptional items	**40.3**	**(2.4)**	**37.9**
Depreciation and amortisation	(14.8)	(2.3)	(17.1)
Operating profit / (loss) before exceptional items	**25.5**	**(4.7)**	**20.8**
Exceptional items	(7.2)	(12.2)	(19.4)
Operating profit / (loss)	**18.3**	**(16.9)**	**1.4**
Net finance expense			(3.4)
Exceptional finance expense			(3.4)
Loss before tax			**(5.4)**

Segment assets:

	As at 31 December 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	168.3	18.8	187.1
Intangible assets	10.2	0.8	11.0
Right-of-use assets	7.5	1.5	9.0
Inventories	29.1	3.9	33.0
Segment assets	215.1	25.0	240.1
Unallocated assets			67.8
Total assets			**307.9**

Other segment information:

	As at 31 December 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	22.6	1.3	23.9
Intangible asset additions	1.2	0.3	1.5
Right-of-use asset additions	0.3	0.3	0.6

7. EXCEPTIONAL ITEMS

	Six months ended 30 June		Year ended 31 December
	2021	**2020**	**2020**
	£m	**£m**	**£m**
Exceptional operating costs:			
Restructuring costs	-	(4.4)	(2.4)
Asset impairment charges	-	(16.2)	(17.0)
	-	(20.6)	(19.4)
Exceptional finance expense:			
Debt refinancing costs	-	(0.4)	(3.4)
	-	(0.4)	(3.4)
Exceptional items	-	(21.0)	(22.8)

The Group did not incur exceptional expenses in the first six months of 2021.

2020 exceptional items

Restructuring costs totalling £2.4m were incurred in 2020 as a result of changes announced to address the Group's cost base, including both changes to shift patterns and adjustments to the size and structure of support functions. The year end number reflected a decrease from £4.4m at 30 June 2020 as the number of planned redundancies and associated estimated cost was reduced.

Additionally, following the Covid-19 pandemic management's immediate priorities were reassessed and a £17.0m impairment was charged against assets in business areas with more challenging market conditions and weaker margins. These fully wrote-off the carrying value of goodwill within the business, wrote down assets associated with hollowcore production at the mothballed facility in Swadlincote and wrote-off an IT system.

Finally, on 7 July 2020 the Group refinanced its existing banking facilities. Costs of £3.4m associated with this refinancing were recognised as an exceptional item.

8. NET FINANCE EXPENSE

	Six months ended 30 June		Year ended 31 December
	2021	**2020**	**2020**
	£m	**£m**	**£m**
Interest payable on external borrowings	(1.3)	(1.3)	(2.9)
Interest payable on lease liabilities	(0.2)	(0.2)	(0.3)
Other finance expense	(0.4)	-	(0.2)
Exceptional finance expense	-	(0.4)	(3.4)
	(1.9)	(1.9)	(6.8)

Finance expense for the period totalled £1.9m inclusive of a £0.4m arrangement fee (2020: £1.9m).

For 2021 the Group will pay a margin of 4% above LIBOR / SONIA on borrowings under the facility with a commitment fee of 35% of the margin payable on unborrowed funds. From 1 January 2022 interest charges on borrowings will revert to a margin grid with a margin of 1.75% above SONIA provided that leverage remains under 1 times EBITDA. A commitment fee of 35% of the applicable margin on unborrowed funds will remain payable.

9. TAXATION

The Group recorded a tax charge of £5.8m (2020: credit of £2.8m) on pre-tax profit of £27.1m (2020: loss of £23.3m) for the 6 months to 30 June. This results in an effective tax rate (ETR) of 21.3% (2020: 12.0%) 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
	2021	2020	2020
	£m	£m	£m
Profit / (loss) before taxation	27.1	(23.3)	(5.4)
Expected tax charge / (credit)	5.1	(4.4)	(1.0)
Expenses not deductible for tax purposes	0.2	2.1	0.5
Impairment of goodwill not deductible for tax purposes	-	-	1.2
Reversal of uncertain tax provision	-	(0.7)	-
Impact of change in deferred tax rate	0.5	0.2	0.2
Effect of prior period adjustments	-	-	(0.7)
Total tax charge / (credit) for the period	5.8	(2.8)	0.2
Effective tax rate	21.3%	12.0%	3.8%

The tax charge for the interim period is an estimate based on the expected full year effective tax rate.

In the March 2021 Budget, the Chancellor of the Exchequer confirmed an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023. The Finance Bill 2021 had its third reading on 24 May 2021 and is now considered substantively enacted.

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
	2021 Basic	2020 Basic	2020 Basic
	£m	£m	£m
Operating profit / (loss) for the period	29.0	(21.4)	1.4
Net finance expense	(1.9)	(1.9)	(6.8)
Profit / (loss) before taxation	27.1	(23.3)	(5.4)
Tax (expense) / credit	(5.8)	2.8	(0.2)
Profit / (loss) for the period	**21.3**	**(20.5)**	**(5.6)**
Weighted average number of ordinary shares in issue (millions)	228.6	199.7	214.8
Effect of share incentive awards and options (millions)	1.3	0.3	0.2
Diluted weighted average number of ordinary shares (millions)	229.9	200.0	215.0

Earnings / (loss) per share			
Basic (in pence)	9.3	(10.3)	(2.6)
Diluted (in pence)	9.3	(10.3)	(2.6)
Basic earnings per share before exceptional items (in pence)	9.3	-	6.6

Earnings per share (EPS) before exceptional items is presented as an additional performance measure for the prior year and is calculated by excluding exceptional costs and the associated tax effect. There were no exceptional costs in the current year.

11. DIVIDENDS

A dividend of 2.8 pence per share that relates to the period ending 31 December 2020 was paid on 4 July 2021, making a total distribution of 2.8 pence per share for 2020.

An interim dividend of 3.2 pence per share (2020: nil pence per share) has been declared by the Board and will be paid on 15 October 2021 to shareholders on the register at 24 September 2021. This interim dividend has not been recognised as a liability at 30 June 2021. It will be recognised in shareholders equity in the financial statements for the year ended 31 December 2021.

12. LOANS AND BORROWINGS

	As at 30 June		As at 31 December
	2021	**2020**	**2020**
	£m	**£m**	**£m**
Non-current loans and borrowings:			
External bank loans - principal	5.0	150.0	15.0
- unamortised debt issue costs	-	(0.2)	-
	5.0	**149.8**	**15.0**
Current loans and borrowings:			
- interest	0.5	0.7	0.5
	0.5	**0.7**	**0.5**
	5.5	**150.5**	**15.5**

The Group last refinanced its banking facilities in July 2020 securing an increase of facility size to £170m and an extension of the facility duration until July 2024 as well as a package of covenant variations extending to September 2021. The facility agreement included the option for the Company to request, subject to bank approval, an additional extension for a further year to July 2025. The extension was approved, with the facility now committed until 1 July 2025. An arrangement fee of £0.4m was paid in respect of this extension which is detailed within note 8. The credit agreement has also been amended to remove references to LIBOR with interest now calculated based on SONIA plus a small credit adjustment spread. This change will not significantly impact the interest rate payable.

13. NET DEBT

	As at 30 June 2021 £m	As at 30 June 2020 £m	As at 31 December 2020 £m
Cash and cash equivalents	31.8	81.9	31.5
Loans and borrowings	(5.5)	(150.5)	(15.5)
Lease liabilities	(15.0)	(11.7)	(9.4)
Net funds / (debt)	**11.3**	**(80.3)**	**6.6**

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

	Six months ended 30 June 2021 £m	Six months ended 30 June 2020 £m	Year ended 31 December 2020 £m
Operating cash flow before exceptional items	**31.6**	**(4.2)**	**53.9**
Payments made in respect of exceptional items	-	(0.6)	(5.6)
Operating cash flow after exceptional items	**31.6**	**(4.8)**	**48.3**
Interest paid	(1.5)	(0.7)	(2.8)
Tax paid	(4.8)	(4.1)	(5.2)
Net cash flow from investing activities	(11.6)	(12.2)	(24.9)
Dividends paid	-	-	-
Purchase of shares by Employee Benefit Trust	(1.4)	(0.8)	(1.0)
Proceeds from sale of shares by Employee Benefit Trust	0.9	0.7	0.9
Proceeds from issue of shares	-	-	55.0
Transaction costs on share issue	-	-	(2.0)
New lease liabilities	(8.1)	(0.4)	(0.6)
Cash payments made in respect of exceptional finance costs	-	-	(3.2)
Other movements	(0.4)	(0.7)	(0.6)
Decrease in net debt	4.7	(23.0)	63.9
Net funds / (debt) at the start of the period	6.6	(57.3)	(57.3)
Net funds / (debt) at the end of the period	**11.3**	**(80.3)**	**6.6**

14. SHARE-BASED PAYMENTS

In April 2021, 758,708 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 50%.

In addition, a total of 314,259 deferred free shares were awarded to all employees in service at 5 February 2021 which vest three years after the date of grant dependent upon service conditions being met. These awards were satisfied with market purchased shares which at 30 June 2021 are held by the Employee Benefit Trust on behalf of the Group's employees.

15. RELATED PARTY TRANSACTIONS

The Group has had no transactions with related parties in the periods ending 30 June 2020, 31 December 2020 and 30 June 2021.

16. POST BALANCE SHEET EVENTS

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

RISK MANAGEMENT AND KEY RISKS

OVERVIEW

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

We took strides last year in improving our level of risk awareness throughout the business and this has continued into 2021 with risk management fundamentals now embedded in more management processes. The Covid-19 pandemic was characterised by fast moving and unprecedented events necessitated greater risk management awareness and as the pandemic begins to subside we will ensure we retain our enhanced risk management processes going forward applying our learnings to a host of more business as usual risks including cyber security and raw material supply.

Although our business continued to trade normally through the winter lockdown in accordance with all Covid related regulation, there was undoubtedly some disruption to the way we were able to run our business. Travel between our facilities was limited to essential travel only and as such the regular risk management site reviews and visits were not able to restart until the late spring.

In our 2020 Annual Report we highlighted our approach to dealing with the risks associated with climate change. We recognise whilst we have made demonstrable progress over the last ten years, we are currently on a journey that will take us another 30 years or so as the UK strives to reach net zero by 2050. In our annual report we have set challenging targets for the next decade and we are focused on achieving these although progress against these targets is unlikely to be linear.

In response to a need for a much greater focus on sustainability risks, from 1 January 2021 the Board's Risk Committee became the Risk and Sustainability Committee, providing the necessary Board level oversight and governance over the most significant risks the business faces in the short, medium and long term. This change has worked well in the first half of the year with the Committee fully engaged in the preparation and publication of our extensive inaugural sustainability report which was included within the 2020 Annual Report. The Committee has also received regular updates on our progress towards delivering on our sustainability commitments including the sustainability driven research and development activities which are currently being undertaken, more information is included on page 9.

RISK MANAGEMENT OBJECTIVES

In summary, our risk management objectives are to:

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

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

KEY RISKS

Key risks are determined by applying a standard methodology to all risks, considering the potential impact and likelihood of a risk event occurring, before then, considering the mitigating actions in place, their effectiveness, their potential to be breached and the severity and likelihood of the risk that remains. This is a robust but straightforward system for identifying, assessing and managing key risks in a consistent and appropriate manner.

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

COVID-19 RISK

Since the initial lockdown ended in the summer of 2020 our business and markets have generally been resilient to the impacts of the pandemic with production and sales continuing broadly as normal through the first half of 2021. Management therefore continue to concentrate on the controllable risks such as health and safety, where we continue to follow all public health guidance to ensure our working environment remains as safe as possible.

BREXIT RISK

Although the end of the transition period for Brexit has now passed, some uncertainty remains. Accurately assessing Brexit risk and its impacts has been clouded by the impacts of Covid-19 meaning that the impact of Brexit on the economy may have been masked. Management have worked to mitigate the risks they have identified, most notably around people and supply chain, but some indirect market risks remain and we cannot fully mitigate the impact of these risks. For example, any future deterioration in the UK housing market will always have an impact on Group performance.

RISK APPETITE

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

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

KEY RISKS AND UNCERTAINTIES

Principal risk and why it is relevant	**Key mitigation, change and sponsor**	**Gross Risk +/- from Dec-20**
1. Health and safety Our key risks remain the same as before the emergence of Covid-19. We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts and noise, dusts and chemicals. Additionally, before mitigating actions, the underlying risk to employee health increased with the emergence of Covid-19, with working proximity for employees becoming an additional risk.	Safety remains our number one priority. We target an accident free environment and have a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. At the beginning of 2021, with high levels of Covid-19 in the community, the Covid-19 risk to our workforce was taken extremely seriously across our business with continued robust adherence to all Government safety guidance. Whilst able to continue to run our factories, our offices were again closed, with those employees continuing to work seamlessly from home, facilitated by our investments in technology in 2020. As the prevalence of Covid-19 diminished through the spring we reopened our offices allowing those who wish to do so the opportunity of returning to work in a safe and socially distanced manner. As the vaccination roll out reduces the threat from Covid-19 to business operations our assessed health and safety risk has reduced relative to Dec 20. Non Covid-19 safety risks however remain unchanged. Our safety focus in 2021 is effective employee engagement and communication focused on our "Road Map to Zero Harm". **Executive sponsor: Stephen Harrison**	Reduced
2. Sustainability / Climate change We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.	We recognise the positive impact that our products have on the built environment across their lifespan and are keen for the durability, longevity and lower lifecycle carbon cost of our products to be 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 R&D to keep pace. In addition, there are also longer-term physical risks which could have a material impact on the business. These risks include more severe weather impacts such as flooding and potentially changes to the design of buildings in order to adapt to different climatic conditions. Our 2020 Annual Report includes a comprehensive sustainability report allowing stakeholders to better understand the impact our business has upon the environment and at the beginning of 2021 we have amended the terms of reference of Risk Committee to extend its responsibilities to specifically cover sustainability and climate risks. **Executive sponsor: Stephen Harrison**	Static

3. Economic conditions Demand for our products is closely correlated with residential and commercial construction activities. The emergence of Covid-19 in the Spring of 2020 saw a dramatic fall in customer demand, however the recovery has been stronger than initially expected with subsequent lockdowns having little impact on trading. With the economy now fully open, the risk associated with Covid-19 seems to be receding, however we remain watchful for changes in economic conditions driven by either the longer-term impacts of Covid-19 or Brexit.	Understanding business performance in real-time, our customer order book, strong relationships with customers and other participants across the building sector, and a range of internal and external lead indicators help to inform management and ensure that the business has time to respond to changing market conditions. Our ability to flex costs and slow production if customer demand weakens was effective in 2020, although with the recovery in our key markets being stronger than anticipated our factories have run at full output since October. There is wide recognition that the housing market will recover over the medium-term. There remains a shortage of housing in the UK, available financing and favourable population growth. Should market demand fall we would expect brick imports to reduce ahead of sales of domestically manufactured bricks as they have in prior cyclical downturns providing some degree of insulation to the effects of a market slowdown. Forterra remains well positioned to take advantage of attractive market fundamentals to continue delivering shareholder value. Whilst current trading is strong this risk relative to the end of last year reduced, however we remain cautious as the shape of the wider recovery from Covid-19 and the full impact of Brexit remain uncertain. **Executive sponsor: Stephen Harrison**	Reduced
4. Government action and policy The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding policy, investment in public housing and availability of finance. Proximity to the end of the current phase of Help to Buy and temporarily reduced rates of Stamp Duty Land Tax may have temporarily stimulating demand ahead of June 2021 and may see demand for our products fall or change after this date. Changes to Government policy or planning regulations could adversely affect Group performance.	We participate in trade associations, attend industry events and track any policy changes which potentially impact housebuilding and the construction sector more broadly. Such policy changes can be very broad, covering macro-economic policy including taxation, interest rates and mortgage availability and incentives aimed at stimulating the housing market. We also carefully monitor the impact that large infrastructure projects have on the availability of labour and materials, environmental policy and the impact of policy on the availability of labour in the UK construction market. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision making. We have continued to work to actively mitigate the short-term risks posed by Brexit. Whilst no immediate impact has been seen, we remain watchful for detrimental impacts on the wider economy. Although management remain very confident in the long-term fundamentals of our markets some caution remains in the near term. The end of the stamp duty holiday coupled with the tapering of help-to-buy could potentially see weaker demand whilst the longer-term economic impacts of Covid-19 and Brexit could also weigh on the economy. Government however have demonstrated that they remain committed to home ownership and housebuilding, with this evidenced by the recent launch of the Mortgage Guarantee Scheme, and we consider the withdrawal of support is	Static

	unlikely where economic uncertainty remains high. Government policy around planning reform also has the potential to influence demand for our products and we remain watchful as to the significant opposition to some proposed planning reforms designed to increase the construction of new homes. **Executive sponsor: Stephen Harrison**	
5. Residential sector activity levels Residential development (both new build construction and repair, maintenance and improvement) contribute the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector affect profitability and strategic growth plans.	We closely follow the demand we are seeing from this sector, along with market projections, sentiment, mortgage affordability and credit availability in order to identify and respond to opportunities and risk. Group strategy focuses on our strength in this sector whilst also continuing to strengthen our commercial offer. The strength of the sector's recovery from the pandemic has been reassuring allowing us to reduce this risk although we retain a degree of caution driven continuing uncertainty regarding the longer-term impacts of the pandemic. Government action and policy as laid out above continues to be a key determinant of demand for housing. **Executive sponsor: Stephen Harrison**	Reduced
6. Product availability Many of our product ranges are manufactured at single facilities and where there are low buffer stock levels and high capacity utilisation. A breakdown can cause product shortages and have a detrimental impact on performance and reputation.	Stock levels continue to be low in a number of areas. 2020 saw a significant destocking in some parts of our business which due to continued strong demand we have been unable to address in 2021, presenting a short-term risk in meeting our customer expectations, especially if there was further growth in demand. Strong customer relationships and some degree of product range substitution can mitigate this risk although we have increased this risk given the strength of trading through the winter and spring which has prevented us from restocking. We are also aware of shortages of materials throughout the construction supply chain caused by the disruption of the Covid-19 pandemic and the swift recovery in construction output. We remain mindful that if our customers cannot secure the required materials and products from other suppliers then this may delay build programmes and impact demand for our own products. **Executive sponsors: George Stewart and Darren Rix**	Increased
7. Customer relationships and reputation Significant revenues are generated from sales to a number of key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.	One of our strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products, we seek to develop our long-standing relationships with major customers and replicate these with newer customers. Regular and frequent review meetings focus on our effectiveness in this area and external expertise has been engaged to support these appraisals. A shortage of external transport in 2021 presents an additional risk in that it could constrain delivery to customers. We continue to draw on long-standing relationships, both	Static

	with hauliers and customers, and increase our internal fleet to mitigate this risk. Our service proposition during the pandemic was well received by customers across all channels and strengthened relationships. We aim to build on these relationships, and strong communication with customers remains paramount to our success, especially whilst operating with exceptionally low levels of inventory and distribution constraints. **Executive sponsor: Adam Smith and Darren Rix**	
8. Supply chain: Cost and availability of raw materials Availability of raw materials can vary at times and where shortages exist, we are susceptible to significant increases in price and threats to our ability to meet customer expectations. These risks may be associated with sustainability and climate change impacting availability of materials, and have been a priority for a number of years. Others have arisen more recently in line with the end of the Brexit transition period and the faster than expected recovery of demand following the pandemic.	We continue to focus on ensuring inflationary pressures are understood, forecast and where possible mitigated. In addition to price pressures, we have recently been subject to short-term shortages of some key raw materials, including cement, driven by the speed of the recovery from the pandemic and following the significant reduction in production last year. This required us to seek alternative recipes and, in some cases, amend production plans or even reduce output, therefore we have increased this risk. Where we are faced with material shortages we work closely with suppliers to mitigate these risks wherever possible. Changes in industrial processes required to address the climate change have impacted the availability and the price of certain raw materials and we have taken action to mitigate the risks; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials. Wider industry supply chain challenges also have the potential to indirectly impact demand for our products, if our customers cannot get the other materials they need to complete projects this may adversely impact demand for our products. Management continue to maintain focus on all supply risks to ensure risks are mitigated. **Executive sponsors: George Stewart and Darren Rix**	Increased
9. Attracting, retaining and developing employees We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. Throughout the Covid-19 pandemic we have prioritised the increased health and safety risk for the workforce along with overall employee welfare. Staffing risks relating to the end of the Brexit transition period remain a concern although a wider shortage of labour following the pandemic is of increasing concern.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. The Covid-19 pandemic has focussed our attention on establishing safe working practices for return to work, employee support and strong communication / employee engagement. We continue to invest in HR and payroll systems, with significant resource now in place to see this investment through to delivery. Staffing risks related to our European workers have not been realised but we remain cautious about closing these risks out immediately, in particular around the availability of skilled labour with shortages of labour becoming more apparent as the economy recovers. As well as pressures on the availability of suitably skilled labour for our manufacturing operations, a shortage of skilled heavy goods vehicle drivers	Increased

	has been well publicised with the shortage of skilled drivers also impacting the construction sector and our supply chains. Likewise, whilst the pandemic may have disguised some of the impacts of Brexit, a shortage of labour in the construction industry may have the impact of curtailing demand for our products as customer's build programmes are slowed by labour shortages. **Executive sponsor: Shahbaz Idriss**	
10. Innovation Demand for the products that we manufacture may decline if we fail to respond to market developments and revenues and margins may suffer.	Strong relationships with customers and independently administered customer surveys ensure that we understand current and future demand. Close ties between the Strategy, Operations and Commercial functions ensure that the Group focuses on the right areas of research and development. New product development and other development initiatives continue and in announcing our strategy we are committing to further investment in research and development and there also are clear links between investment in R&D and the work undertaken in relation to sustainability. **Executive sponsor: Peter Varnsverry**	Static
11. IT infrastructure and systems Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years, attaining ISO 27001 Information Security accreditation in 2019. Further investment in 2020 in new telephony and communication systems allowed us to cater for strong demand whilst office staff continue to work remotely. An increase in cyber risk is evidenced by increasing instances of malicious attacks globally and has encouraged continued investment and training around cyber security. **Executive sponsor: Matthew Day**	Static
12. Business continuity Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	We made plans to allow key centralised functions to continue to operate in the event of business interruption in prior years and were able to establish remote working capability effectively as the Covid-19 pandemic developed. These capabilities have been retained in the first half of 2021 with the business able to continue operating with minimal disruption. We consider climate related risks when developing business continuity plans and have learnt lessons from weather related events in recent years which inform these plans. Our Business Continuity policy allows managers to apply clear principles to develop plans quickly in response to emerging events where a scenario without a pre-prepared plan is faced. With the pandemic seemingly receding and with the wider economy re-opening we see the risk of business disruption as a result of Covid-19 diminishing and have reduced this risk accordingly. Non Covid-19 related disruption risks remain unchained although some greater resilience is provided by	Reduced

	the now tried and tested ability of office staff to work from home. **Executive sponsor: Ben Guyatt**	
13. Project delivery This risk was recognised for the first time in 2020 in recognition of the scale and complexity of the Desford construction project.	The Desford brick factory represents the largest capital investment that we have ever made. The project was initially impacted by the pandemic with social distancing slowing construction and then, more critically the insolvency of a major supplier. Following the signing of contracts with a new equipment supplier in early 2021, the project has progressed in accordance to schedule. The ongoing pandemic has had little impact during the first half of 2021 although with the manufacturing equipment being supplied by a European supplier, management remain watchful of travel restrictions and the disruption they could cause. Management closely monitor the project for potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. Lessons have been learnt from the construction of the Measham brick factory which was completed in 2009 and with dedicated project management in place and groundworks largely complete, notable risks have already been mitigated. **Executive sponsor: George Stewart**	Static