12 March 2019

2018 FULL YEAR RESULTS

Forterra plc, a leading UK producer of manufactured masonry products, announces its results for the year ended 31 December 2018.

	2018 £m	2017 £m	Change
Revenue	**367.5**	**331.0**	11.0%
EBITDA	**78.8**	**75.4**	4.5%
Operating profit	**67.1**	**64.5**	4.0%
PBT before exceptionals*	**64.8**	**61.1**	6.1%
Profit before tax	**64.8**	**59.3**	9.3%
EPS before exceptionals (pence)	**26.5**	**24.5**	8.2%
Net debt	**38.8**	**60.8**	36.2%
Total dividend (pence)	**10.5**	**9.5**	10.5%

* an exceptional finance charge of £1.8m was incurred in 2017, there were no exceptional items in 2018

HIGHLIGHTS

- Good underlying growth in revenue reflecting the sustained strength of the new build residential market
- EBITDA up £3.4m to £78.8m due to a strong performance in Bricks and Blocks driven by an increase in volumes and prices, partly offset by higher operating costs
- Sustained improvement in productivity within Bison Precast in the last quarter as integration of newly acquired facility gained traction
- PBT before exceptionals up 6.1% to £64.8m due to good operating result and lower interest cost arising from significant reduction in net debt
- Strong cash flow performance resulting in a further reduction in net debt to £38.8m at 31 December 2018, representing 0.5 times EBITDA
- Total dividend proposed of 10.5 pence per share, an increase of 10.5% over 2017

Stephen Harrison, Chief Executive Officer, commented:

“2018 was a year of good progress for the Group, with a strong performance from the Bricks and Blocks businesses and the integration of Bison gaining traction following a slow start. We also approved a £95m investment to build a new brick manufacturing facility that will increase our existing capacity by 16%.

“Trading in the current year has been in line with our expectations. The improvement in productivity seen at Bison Precast in the last quarter has been sustained into the first two months of 2019 and the business is performing well. As anticipated, price increases have now been agreed with most customers in order to cover the increase in our cost base. Based on our current order book and indications from major customers, the Board’s expectations for 2019 are unchanged.

“Whilst we are watchful of the impact of the current political and economic uncertainty on our end markets, the Board remains confident that the business is well positioned to take advantage of the attractive market fundamentals in order to continue delivering sustainable shareholder value.”

ENQUIRIES

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A presentation for analysts will be held today, 12 March 2019, at 9.00am at the offices of FTI Consulting. An audio webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

This announcement contains inside information and is disclosed in accordance with the Company's obligations under the Market Abuse Regulation (EU) No 596/2014

ABOUT FORTERRA PLC

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

Within our clay bricks business, Forterra focuses on 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, Forterra is one of the leading producers of both aircrete and aggregate blocks, the former being sold under one of the country's principal aircrete brands of Thermalite.

BUSINESS REVIEW

RESULTS FOR THE YEAR

Group revenue of £367.5m was ahead of the prior year by 11.0%. The underlying increase was in high single digits after excluding the benefit of the Bison acquisition completed in September 2017 and was partly due to a modest increase in volumes which reflected the sustained strength of the new build residential market following the strong growth seen in 2017. Price increases were applied across all product ranges to cover increases in the operating cost base.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the year of £78.8m was £3.4m ahead of prior year. The benefit of increased volumes and prices described above was somewhat offset by higher operating costs, especially for energy, fuel and carbon credits (under the EU Emissions Trading Scheme) which all increased by double digit percentages, though the impact was mitigated by the forward purchases of gas and electricity made previously. Repair and maintenance costs were higher than prior year due to the brick facilities operating at near full capacity and also due to the issues experienced with the kiln at Desford. The result for the Bison Precast business was disappointing due to lower than budget volumes, which partly arose from the delays in despatches in the first quarter due to poor weather, and also the challenges faced in integrating the acquired site at Swadlincote, Derbyshire. The business has made good progress in the final quarter with a sustained increase in productivity.

The Group initiated a project during 2018 to identify and claim credit for qualifying Research and Development (R&D) expenditure under the HMRC R&D Tax Credit Scheme. The project analysed the extensive activities carried out across the business in areas such as developing alternative raw material solutions to PFA used in aircrete, brick production process improvements and innovative modifications undertaken in the precast concrete manufacturing business going back to 2016. A benefit of £1.3m has been recognised within operating profit relating to the credit arising from qualifying expenditure identified.

The EBITDA margin for Bricks & Blocks increased during the year, but the Group EBITDA margin of 21.4% was lower than the 22.8% in 2017 due to the Bison Precast performance and also the diluting effect of Bespoke Products on overall margin.

Profit before tax of £64.8m was £5.5m higher than the result for 2017 due to the increased operating result, a lower finance cost and the inclusion in 2017 of an exceptional finance charge of £1.8m. There were no exceptional items in 2018. The increase in profit before tax was £3.7m (6.1%) after excluding the exceptional item.

CURRENT TRADING AND OUTLOOK

2018 was a year of good progress for the Group, with a strong performance from the Bricks and Blocks businesses and the integration of Bison gaining traction following a slow start. We also approved a £95m investment to build a new brick manufacturing facility that will increase our existing capacity by 16%.

Trading in the current year has been in line with our expectations. The improvement in productivity seen at Bison Precast in the last quarter has been sustained into the first two months of 2019 and the business is performing well. As anticipated, price increases have now been agreed with most customers in order to cover the increase in our cost base.

Based on our current order book and indications from major customers, the Board’s expectations for 2019 are unchanged.

Whilst we are watchful of the impact of the current political and economic uncertainty on our end markets, the Board remains confident that the business is well positioned to take advantage of the attractive market fundamentals in order to continue delivering sustainable shareholder value.

EARNINGS PER SHARE AND DIVIDEND

Earnings per share (EPS) was 26.5 pence compared with 24.5 pence before exceptionals for 2017, an increase of 8.2%. The increase reflected the higher level of profit and also a lower effective tax rate of 18.5% compared with 20.0% for 2017. Basic EPS for 2017 was 23.8 pence.

The Board is recommending a final dividend of 7.2 pence per share, making a total dividend of 10.5 pence for the year. This represents an increase of 10.5% over the dividend for 2017. The dividend is in line with the progressive dividend policy followed by the Board and demonstrates the progress made by the Group in reducing net debt and our confidence in the business going forward. The final dividend will be paid on 4 July 2019 to those shareholders on the register as at 14 June 2019.

STRATEGY IMPLEMENTATION

The Group’s objective of generating sustainable shareholder value is achieved through delivery of the following strategic priorities:

- drive for a flexible and efficient manufacturing base, aligning capacity to market conditions;
- maintain strong market positions in our core products; and
- expand the range of products and services offered through both organic and appropriate bolt-on acquisitions.

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

The UK brick market has continued to perform strongly, with high levels of capacity utilisation across the industry due to the sustained increase in new housing output over the last few years. Brick imports have increased to help satisfy market demand and now represent over 16% of the total UK brick market. The overall fundamentals of the market continue to be favourable, supported by the Government’s commitment to further increase new housebuilding. In this context, the Board has approved an investment of £95m to build a new extruded brick factory at Desford in Leicestershire with an annual production capacity of up to 180 million bricks. It is anticipated that planning consent will be received this year and that the new plant will commence full production during 2022. Once completed, the new factory will replace the existing facility at the site which currently has a capacity of 85 million bricks per annum, thereby increasing our total brick capacity by 16% whilst also reducing the average cash cost of production. The preparation work for the project is well-advanced prior to receiving formal planning consent with tenders being evaluated for equipment supply and construction.

The acquisition of the Bison business in 2017 enabled us to take a leadership position in the UK precast concrete business whilst also reducing capacity constraints. The market dynamics of the business are favourable in the medium term due to continued growth in the housing market, a greater level of construction in the private rented and social housing segments, higher investment in infrastructure projects, and an increase in the use of off-site manufactured structural precast concrete. We remain confident of the business case for the acquisition and anticipate making progress towards this during 2019 following the challenges faced in 2018.

The Group has secured supplies of stockpiled conditioned (wet) pulverised fuel ash (PFA) and modified the aircrete facility at Hams Hall, Birmingham to enable use of this raw material. This has reduced reliance on dry PFA available only from running coal-fired power stations which are being phased out.

Investment in innovation and developing the product range has been a specific priority. Our brick range has been extended during the year and within Bison Precast we have introduced an off-site manufactured twin wall product with brick facing alongside a wider range of structural precast products.

CAPITAL ALLOCATION

In view of the excellent progress made in reducing net debt and the strong financial position, the Board has reviewed and confirmed its priorities for allocating capital:

1. Organic investment
   The increase in capacity at Desford at a cost of £95 million is an example of the attractive organic investment opportunities available to the Group and the Board will continue to prioritise these. Other projects include investments in the Bison Precast business to improve productivity, IT system upgrades, new product development and the conversion of the Newbury aircrete plant to take conditioned PFA as well as dry ash. There will be further opportunities to increase capacity in other product lines over the medium term.

2. Dividends
   The Board intends to continue a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This policy will reflect the long-term earnings and cash flow potential of the Group whilst recognising that the businesses of the Group operate in cyclical markets.

3. Acquisitions
   The Group will continue to evaluate potential acquisitions which strengthen existing market positions, expand the product range or enable us to address complementary markets. We will only pursue those opportunities where the strategic rationale can be clearly demonstrated and where the financial hurdles set by the Board can be met.

CASH FLOW, BORROWINGS AND FACILITIES

Operating cash flow for the year was £79.8m which represented a cash conversion of 91% (operating cash flow less total capital expenditure, divided by operating profit). Working capital reduced by £2.7m in the year, compared with a £10.6m reduction last year, and this was the main factor in operating cash flow being below the £90.2m generated in 2017. Brick inventory reduced at a lower rate than in 2017 due to a double digit increase in output which meant that there was a better balance between sales and production. There was a continued good level of cash collections, and debtor days were 41 compared with 40 in the prior year.

Capital expenditure increased by £7.8m to £18.6m due mainly to greater investment in strategic projects. These included the modification of the Hams Hall aircrete facility to enable use of conditioned PFA; purchase of long-term clay reserves at an investment of £4.5m for the London Brick facility; the completion of the brick debottlenecking project at Accrington; and the preparation work for the major capacity increase project at Desford.

Maintenance capital expenditure included further investment in improving IT systems. The project to upgrade the main IT systems used across the Group was completed in early 2019 with the roll-out to the brick facilities. It reduces risk to the business by removing reliance on outdated bespoke solutions and other disparate systems. The next stage is to optimise usage of the new system so as to deliver business benefits in terms of improved processes and enhanced customer service. Further IT expenditure including the upgrade of other specific functional and business systems will continue during 2019.

Net cashflow of £22.0m also includes the dividends paid in the year of £19.3m and funding for the purchase of shares by the Employee Benefit Trust of £6.1m. As a result, net debt reduced from £60.8m at the start of the year to £38.8m at December 2018.

CASH FLOW – HIGHLIGHTS	**2018** **£m**	2017 £m
Cash generated from operations	**79.8**	90.2
Interest paid	**(2.2)**	(3.3)
Tax paid	**(11.8)**	(9.3)
Capital expenditure:		
- maintenance	**(8.5)**	(7.6)
- strategic	**(10.1)**	(3.2)
Acquisition of Bison	**-**	(20.0)
Dividends paid	**(19.3)**	(13.8)
Purchase of shares by Employee Benefit Trust	**(6.1)**	-
Other movements	**0.2**	(1.5)
Reduction in net debt	**22.0**	31.5
Debtor days	**41**	40

Since listing in April 2016, the free cashflow (net cashflow excluding dividends, share purchases and acquisitions) generated by the business has been over £175m which has funded investment in the business, both organic through debottlenecking and efficiency projects, and also through acquisition. It has also enabled the Board to follow a progressive dividend policy whilst strengthening the balance sheet.

Net debt to EBITDA was 0.5 times at 31 December 2018 compared with 0.8 times at December 2017 and 2.2 times at IPO. For this purpose, the net debt excludes capitalised finance costs in line with the calculation required by the banking covenant.

The Group's debt facility comprises a committed Revolving Credit Facility of £150m extending to July 2022 with a group of major international banks. At 31 December 2018, £85m of the facility was undrawn. There is also an accordion facility of £50m on the same terms as the main facility.

The Group continues to operate comfortably within the covenants under the facility.

BRICKS AND BLOCKS	**2018** **£m**	2017 £m	**Change**
Revenue	**269.4**	249.5	**8.0%**
EBITDA	**75.8**	69.1	**9.7%**
EBITDA margin	**28.1%**	27.7%	

The Group has a unique combination of strong market positions in both clay brick and concrete blocks. It is also the only manufacturer of the iconic and original Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. The Group operates nine brick manufacturing facilities across the country with a total production capacity of 590 million bricks per annum. It is also a leader nationally in the aircrete block market, operating from facilities at Newbury and Hams Hall in the Midlands. The aggregate blocks business has a leading position in the important South East and East of England markets with well-located manufacturing facilities at Milton (Oxfordshire) and Whittlesey (Cambridgeshire).

Revenue increased by 8.0% compared with 2017 due to the benefits of higher volumes and prices. Brick volumes were modestly ahead in 2018 following the strong growth achieved in 2017 due to the ongoing strength of the new build residential market. Block volumes were also ahead of prior year, with the switch from aircrete to aggregate blocks seen in 2017 being reversed. Price increases were achieved across each of the product lines in line with our expectations to offset increases in the cost base.

EBITDA of £75.8m was up by £6.7m compared with 2017, and there was an improvement in EBITDA margin to 28.1%. The result reflected the benefit of higher volumes and prices, partly offset by increased operating costs, particularly for gas, electricity, fuel and carbon credits which all increased in double digit percentage terms. Forward purchasing of gas and electricity previously put in place under the Group policy helped to mitigate the effect of this during the year. Repair and maintenance costs at the brick facilities were higher than prior year due to the ongoing maintenance programme designed to enable the facilities to operate at near full capacity, and also the impact of the kiln repair required at the Desford facility following a prolonged power outage which caused overheating. The repair was completed by mid-December 2018 and production re-commenced.

Brick production increased by 13% compared with prior year, reflecting full year production at Claughton and Accrington and also the benefits of increased capacity achieved through the debottlenecking investments. This enabled demand to be mainly fulfilled by current year output and enabled a rebalancing between sales and production.

The capital investment programme at the Accrington facility was completed to schedule during the year, resulting in an increase in capacity of 10 million bricks per annum. The four debottlenecking projects highlighted at IPO have now all been implemented, resulting in a total increase in brick capacity of around 40 million bricks per annum at a modest capital cost of under £9m.

In the aircrete business, the project to convert the Hams Hall facility to use conditioned or wet PFA as well as dry PFA, was successfully completed in July 2018 at a capital cost of £2.2m. The Group has entered into a contract to purchase stockpiled conditioned PFA so as to reduce dependence on dry PFA which is only available from running coal-fired power stations. Modification of the other aircrete facility at Newbury is planned for 2019, and once completed will increase the flexibility and resilience of the production capability for the aircrete business.

The Group continued to develop its long-term relationships with customers across different channels: major housebuilders, builders' merchants and other specialised distributors. During the year new product development progressed well, allowing the further expansion of the facing brick range to better meet customer requirements in target markets. This process supported a move away from lower value products (engineering bricks) towards a higher percentage of facing bricks in better value segments. In addition, several best-selling bricks have been replicated at alternative factories allowing a more local customer offering and reducing transport costs. Significant progress has also been made in brick façade solutions utilising offsite manufacturing techniques.

The dedicated team established to serve the Commercial and Specification segments made progress with 1,600 architect visits during the year as well as attending a number of regional professional development events organised by the Royal Institute of British Architects (RIBA). We sponsored the '2018 House of the Year Award' run by RIBA and improved marketing communication and promotions targeted to architects.

Sales of bricks and blocks are managed by a single team, and delivery is fulfilled through the Group's fleet of vehicles supplemented by third party hauliers. During the year, our fleet was increased by 12 vehicles to 137. Maintaining our fleet provides greater flexibility and enables a high level of customer service. The Board has recently approved a project to improve the technology used in the planning and execution of the distribution operations. This includes a Routing and Scheduling tool to provide more efficient planning and a Transport Management tool to provide better tracking of deliveries and analysis of journeys to enable continuous improvement. The project commenced in the last quarter of 2018 and will be implemented during 2019.

As described previously, in May 2018 the Board approved the project to build a new extruded brick factory at Desford with a capacity of 180 million bricks per annum at a capital cost of £95m. The preparation work for this project prior to receiving planning consent is well-advanced with tenders being evaluated from both equipment suppliers and construction companies, and a dedicated project team being assembled under a clear governance structure. The existing plant, which has a capacity of 85 million bricks per annum, will remain operational until the new facility built alongside is completed. It is anticipated that planning consent will be received later this year and that the new plant will commence full production during 2022. The expenditure will be funded from the free cash flow generated by the business as well as the Group's existing debt facility. The project is anticipated to deliver an internal rate of return (IRR) over 20 years in excess of 15% after tax.

BESPOKE PRODUCTS	**2018** **£m**	2017 £m	**Change**
Revenue	**100.3**	83.6	**20.0%**
EBITDA	**3.0**	6.3	**(52.4)%**
EBITDA margin	**3.0%**	7.5%	

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

Overall revenue grew by 20% to £100.3m due mainly to the benefits from the acquisition of the Bison Swadlincote site in September 2017.

EBITDA fell by £3.3m to £3.0m as the integration of the new precast site was slower than anticipated and also due to the weather-related delays in the first half which were not fully recovered. EBITDA margin reduced to 3.0% from 7.5% recorded in 2017.

Bison Precast

Precast concrete products are designed, manufactured and shipped nationwide from the Swadlincote, Hoveringham and Somercotes facilities in the Midlands. These products cover:

- Hollowcore floors, which are used for upper floors of multi-family and commercial developments, with the majority of floors fitted by the in-house installations team;
- Jetfloor, which was the UK's first system to use expanded polystyrene blocks combined with a structural concrete topping to provide high levels of thermal insulation;
- Beam and Block flooring, a traditional and cost-effective suspended flooring system for ground floors in domestic and commercial applications;
- Structural Precast Components including precast concrete walls used in applications such as hotels and prisons, and concrete beams used in the construction of building frames as well as stadia components;

- a range of concrete retaining walls, culverts, bridge decks, barriers and bespoke products for the housing, commercial, infrastructure and utility markets. The Group's engineers and designers are able to advise on all aspects of a project and are supported by technical specialists to ensure an efficient and effective solution; and
- standard and bespoke precast concrete staircases and landings which are suitable for both commercial and residential projects.

The result from the Bison Precast business in 2018 was disappointing. Delivery volumes reduced in the first few months of the year due to severe weather, and were slow to recover as construction sites appeared to prioritise the completion of single unit houses over multi-occupancy units. This made the integration of the new Swadlincote facility and improvement in productivity at all sites more challenging. A revised plan was implemented in the second half of the year under a new management team and the business performance has improved gradually. Daily production at Swadlincote has increased from 5 to 6 beds of precast concrete per day, to a sustained level of 7 to 8 beds per day in the last quarter. A bed in this context is the casting surface of the manufacturing process and is arranged in rows. Improvements in productivity has also been achieved at our flooring beam production facility at Hoveringham.

During the year, the launch of the Bison Precast brand was completed allowing the wider business to leverage what is regarded as the leading UK precast concrete brand. The business has made progress commercially and order intake has been encouraging resulting in a robust order book in place at the end of the year. The business has been able to develop new housebuilder customers using existing relationships within the Bricks & Blocks product lines. Precast products supplied during the year includes stadia components such as terraces, walls and stairs for new stands at the Headingley Stadium, Leeds and box culverts and V channels for the Hinkley Point C project. A number of major precast projects are being progressed for 2019 and beyond, and the business is well positioned to provide an attractive proposal to customers.

The business has launched a new offering in the offsite construction market of brick faced sandwich panels. These comprise an outer leaf of precast concrete with a brick finish, an insulating layer and a structural inner leaf. The external panel is connected to and supported by the internal skin. The system has gained a lot of interest and is being trialled by an important customer.

Formpave

Formpave, based at our Coleford site, designed the UK's first permeable block paving solution almost 20 years ago and continues to be a leading authority in the design and specification of sustainable urban drainage systems ('SuDS') using the Group's permeable block paving.
Products sold under the Formpave brand include:

- Aquaflow SuDS, a patented filtration system that allows rainwater to be filtered and cleaned before being percolated into the ground or a patented attenuation (tanked) system allowing water to be collected and released into watercourses;
- a wide range of high quality precast concrete standard block paving to suit all projects from commercial to domestic applications, offering a selection of colours, block types and finishes, including EcoGranite, which contains up to 77% recycled content, and Chartres, which matches the stone traditionally used in certain heritage sites; and
- a range of kerbs, edging, step systems and transitions suitable for use with conventional block and permeable block paving.

The result from the business during 2018 was influenced by price discounting by major players in the market during the year which affected volumes and prices. This has now stabilised and it is anticipated that the business will progress under new management which is more closely aligned and supported by the bricks and blocks team.

Red Bank
Red Bank manufactures its products from its facility alongside the Measham brick facility, producing a wide range of chimney, roofing and flue systems. Products include fire-backs, clay and concrete flue liners (developed to meet the growing demand for flue products to suit modern efficient wood-burning, multi-fuel and gas-fired appliances), chimney pots and ridge tiles and a complete bespoke terracotta manufacturing facility to accommodate unique customer requirements.

Following the successful prior year, the business delivered a robust performance during 2018. Flue systems inquiries and sales increased during the year, though there was increased pressure in some other product areas due to competitor price discounting which required management to implement measures to counteract this. The business has relaunched its bespoke and heritage terracotta product range and had a stand at the Listed Property Show which generated a number of sales opportunities. Product development to complement the existing range continues to be an area of focus, and work is ongoing on a number of projects.

OTHER FINANCIAL INFORMATION

EXCEPTIONAL ITEMS

There were no exceptional items in 2018. Following the refinancing of the Group’s borrowings facilities during 2017, the balance of the capitalised financing costs of £1.8m incurred when the previous facility was put in place at IPO was written-off and recorded as an exceptional finance cost.

FINANCE COSTS

Finance costs for 2018 were £2.3m compared with £5.2m in 2017. The prior year included the £1.8m exceptional charge described above. The underlying reduction in cost was due to the lower net debt and also the reduction in gearing to below one times EBITDA which meant that the interest rate charged on the RCF facility was at the lowest band of the grid under the agreement.

TAXATION

The effective tax rate was 18.5% compared with 19.9% in 2017 (effective rate excluding exceptional items for 2017: 20.0%). The Group derives substantially all its revenue from the UK and the rate is based on the UK corporation tax rate adjusted for permanent non-deductible items such as depreciation on non-qualifying assets. The reduction in effective rate was due to a reduction in the UK statutory rate to 19% and the inclusion of prior period adjustments.

PENSIONS

The Group has no defined benefit pension scheme in place, with the legacy liabilities of the previous pension scheme left with the HeidelbergCement AG Group when the business was divested in 2015. There is a defined contribution arrangement in place and pension costs for the year amounted to £5.8m (2017: £5.4m), the increase due to the Bison acquisition in 2017 and increased numbers of employees participating in the scheme.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group has established processes for identifying, evaluating and managing the key risks which could have an impact upon performance under the direction of the Board Risk Committee.

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

The UK's decision to exit the European Union has created significant uncertainty. This uncertainty has yet to recede as negotiations between the UK and EU have yet to reach a conclusion and the future arrangements, timeframes and economic landscape remain unclear.

The risk posed by Brexit is inherent within each of the risks that the Board has reviewed through the year and has been a focus for management since the referendum. The main risk to the business arises from any reduction in consumer confidence and its effect on the markets which the Group serves. In response, management are proactive in mitigating controllable risks; and in areas where control rests outside of the business, management seek to be up-to-date with developments and equipped to respond.

At the balance sheet date, the Brexit risk was partly mitigated by holding higher levels of raw material and critical spares, engaging with the supply chain through 2018, putting forward purchase contracts in place for the majority of the energy requirements for 2019, closely managing cash flows, retaining access to debt facilities that are substantially undrawn and tracking potential market trends by monitoring customer stock levels and planning applications.

The principal risks and uncertainties facing the business are set out below:

Key risk and why it is relevant:	Year-on-year change:	Key mitigation, change and sponsor:
1. Health, safety and environment Group employees work in manufacturing environments where heavy machinery and moving parts are present and there is a risk of serious injury. The lost time injury frequency rate is a critical KPI that is monitored at all levels in the business on an ongoing basis.	Static	Health and safety remains the Group's number one priority. The Group targets a working environment that is free of accidents and ill health and has a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. 2018 saw significant progress across the Group against a number of high-profile objectives. Reinforcing the Group's commitment to Health & safety and mitigating key risks previously identified. Further, the Group continued to promote longer-term hazard spot, best practice and 1 minute risk assessment initiatives. Disappointingly the LTIFR KPI increased despite all the progress being made. Management continue to put safety first and encourage a safety culture throughout the Group. Executive sponsor: Stephen Harrison
2. Economic conditions Demand for the Group's products is closely correlated with residential and commercial construction activities. These markets are expected to decline if general economic conditions decline. The risk that this will adversely affect Group performance increased following the Brexit referendum and	Static	The Group reviews and monitors business performance, market data and industry forecasts in detail on an ongoing basis. Business performance, the customer order book and external lead indicators are closely monitored to give the business time to respond to deteriorating market conditions. The Group is confident that costs and capacity utilisation can be effectively managed in challenging markets.

has remained at a heightened level since.		The broad range of products provided by the Group through different distribution channels and the strong customer relationships built up over many years also provide some resilience. Executive sponsor: Stephen Harrison
3. Government action and policy The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding initiatives, investment in public housing and availability of finance. Changes to government policy or planning regulations could adversely affect Group performance.	Static	The Group participates in trade associations, attends industry events and tracks any policy changes associated with housebuilding and the construction sector more broadly. Where identified, the Group factors any emerging issues into models of anticipated future demand to guide strategic decision-making. The Group has been actively trying to mitigate the short-term risks posed by Brexit. The focus to-date has specifically been on the supply chain and production management. Executive sponsor: Stephen Harrison
4. Residential sector activity levels Residential development (both new build construction and repair, maintenance and improvement) contribute a significant portion of Group revenue. The weighting of Group revenues towards this sector means that a change in activity levels in this sector could affect our strategic growth plans.	Static	The Group closely follows the demand it is seeing from this sector and market projections in order to identify and respond to opportunities and risk. Group strategy encourages initiatives that strengthen the Group's position in this sector whilst also seeking to strengthen our commercial offer. Executive sponsor: Stephen Harrison
5. Product availability Some of the Group's product ranges are manufactured at a single facility. A lack of buffer stock levels, spare capacity or a breakdown could have a detrimental impact on the Group's performance and reputation.	Increased	In the short term, the Group continues to mitigate risk through efficiency initiatives, production planning and managing shutdowns. Longer term, plans are in place to add capacity by redeveloping a facility, however, increased capacity at one facility will not reduce risk in all product lines. Despite mitigating activities the Group finds itself capacity constrained in some areas at times. Executive sponsor: George Stewart & Peter Varnsverry
6. 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.	Static	One of the Group's 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 the Group seeks to develop our long-standing relationships with major customers and replicate these with newer customers. Regular and frequent review meetings focus on the Group's effectiveness in this area.

		Having consolidated finance and sales order systems in the year for a number of product lines the number of queries from customers increased. Substantial progress has been made in the year resolving queries; and cash collection reflected the progress made but some remain in query and further system consolidation will be undertaken in 2019. Executive sponsor: Adam Smith
7. Cost and availability of raw material Availability of raw materials can vary at times and where shortages exist the Group is susceptible to significant increases in the price of raw materials and threats to its ability to meet customer expectations.	Decreased	The Group has taken a range of positive steps to ensure more consistent prices and supply of certain key raw materials. The cost and availability of pulverised fuel ash has been recognised as a specific risk in previous periods. In the year, the Group entered new supply agreements, established additional supply routes and successfully converted its Hams Hall facility to accept alternative raw materials. The group has also evaluated options that mitigate similar risk elsewhere, assessed the Brexit threat to its supply chain and identified other raw material risks when developing local operational risk registers. Executive sponsor: George Stewart & Peter Varnsverry
8. People training and development The Group recognises that its greatest asset is its workforce and a failure to attract, retain and develop talent will be detrimental to Group performance.	Static	The Group has identified where key person dependencies and skills gaps exist and continues to develop its succession, talent acquisition, retention and training and development plans and is undertaking a project to improve its HR systems. The Group's apprentice and graduate schemes have now been in place for several years and are proving an effective approach to mitigating these risks and supporting strategic priorities. The development of local operational risk registers has given succession plans increased focus, adding 'bottom-up' recognition of the risk. Executive sponsor: Ed Haslam
9. Research and development Demand for the products that the Group manufactures may decline if the Group fails to respond to market developments and revenues and margins may suffer.	Static	Strong relationships with customers ensure that the Group understands 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. The Group continues to develop manufacturing processes, the product range and regularly assesses how this supports the Group's progress against its strategic priorities and in line with its values. During the year

		particular progress was made developing products for the off-site construction markets. Executive sponsor: Darren Rix
10. IT infrastructure and systems Disruption or interruption to IT systems could have a material adverse impact on performance and position.	Static	The Group continues to invest in IT, having upgraded its core financial platform, invested in IT infrastructure and expertise and consolidated systems. Progress has been made in mitigating identified cyber security risks, developing a broader Information Security strategy and ongoing system consolidation. Executive sponsor: Matt Day
11. Business continuity Group performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should the Group experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Increased	The Group has made plans that will allow key centralised functions to operate in the event of business interruption and audit activities have begun to assess effectiveness. The recent short-term production problems at Desford led to further activities to reduce the risk of similar technical problems. Work to develop business continuity plans across operational facilities is ongoing and overall risk increased as inventory levels decreased for some product lines. Executive sponsor: Shatish Dasani
12. Financial risk management The Group's activities and financial arrangements create exposure to a number of financial risks, which could impact Group performance and position. Foreign exchange risk exists on foreign currency purchases, credit risk exists as customers may not be able to settle liabilities owing to the Group, liquidity risk could result in the Group not being able to meet obligations as they fall due and interest rate risk could result in increased finance costs.	Decreased	Controls are in place to manage financial risks and take steps to reduce risks where necessary. Foreign exchange, credit, liquidity, interest rate and price risks have been managed sufficiently to mitigate the risk of potential variability to levels acceptable to management. Executive sponsor: Shatish Dasani

GOING CONCERN & VIABILITY STATEMENT

The Directors have assessed the Group's current financial position and the factors likely to affect performance in the coming year in light of current and anticipated economic conditions. Based on this assessment the Directors can have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements. On this basis the going concern concept has been adopted in the preparation of these preliminary financial statements.

The Directors have conducted a review and assessed the prospects and viability of the Group. They confirm that they have a reasonable expectation that the Group will continue in operation, meet liabilities as they fall due and will not breach covenants over the four year period covered by the review.

FORWARD LOOKING STATEMENTS

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

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

Stephen Harrison

Chief Executive Officer

Shatish Dasani

Chief Financial Officer

12 March 2019

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Revenue	3	**367.5**	331.0
Cost of sales		**(230.2)**	(196.8)
Gross profit		**137.3**	134.2
Distribution costs		**(51.8)**	(48.9)
Administrative expenses		**(20.1)**	(21.2)
Other operating income		**1.7**	0.4
Operating profit	3	**67.1**	64.5
EBITDA	3	**78.8**	75.4
Depreciation and amortisation		**(11.7)**	(10.9)
Operating profit		**67.1**	64.5
Finance expense before exceptional items		**(2.3)**	(3.4)
Exceptional finance items	4	**–**	(1.8)
Net finance expense	5	**(2.3)**	(5.2)
Profit before tax		**64.8**	59.3
Income tax expense	6	**(12.0)**	(11.8)
Profit for the year attributable to equity shareholders		**52.8**	47.5
Total comprehensive income for the year attributable to equity shareholders		**52.8**	47.5

Earnings per share		**Pence**	**Pence**
Basic earnings per share	8	**26.5**	23.8
Diluted earnings per share	8	**26.1**	23.4

CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Note	**2018 £m**	2017 £m
Assets			
Non-current assets			
Intangible assets		**17.3**	15.8
Property, plant and equipment		**170.5**	165.2
		187.8	181.0
Current assets			
Inventories		**37.4**	36.3
Trade and other receivables		**37.9**	33.0
Cash and cash equivalents		**26.0**	29.0
		101.3	98.3
Total assets		**289.1**	279.3
Current liabilities			
Trade and other payables		**(72.0)**	(61.2)
Current tax liabilities		**(3.9)**	(5.8)
Loans and borrowings	9	**(0.3)**	(0.4)
Provisions for other liabilities and charges		**(4.2)**	(7.9)
		(80.4)	(75.3)
Non-current liabilities			
Loans and borrowings	9	**(64.5)**	(89.4)
Provisions for other liabilities and charges		**(8.4)**	(9.1)
Deferred tax liabilities		**(1.6)**	(0.8)
		(74.5)	(99.3)
Total liabilities		**(154.9)**	(174.6)
Net assets		**134.2**	104.7
Capital and reserves attributable to equity shareholders			
Ordinary shares		**2.0**	2.0
Retained earnings		**138.0**	102.7
Reserve for own shares		**(5.8)**	–
Total equity		**134.2**	104.7

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Cash flows from operating activities			
Operating profit		**67.1**	64.5
Adjustments for:			
– Depreciation and amortisation		**11.7**	10.9
– Non-cash movement on provisions		**(2.3)**	3.1
– Share-based payments		**2.1**	1.5
– Other non-cash items		**(1.3)**	–
– Profit on sale of property, plant and equipment		**(0.2)**	(0.4)
Changes in working capital:			
– Inventories		**(1.1)**	3.0
– Trade and other receivables		**(4.9)**	(1.4)
– Trade and other payables		**10.9**	9.5
– Cash movement on provisions		**(2.2)**	(0.5)
Cash generated from operations		**79.8**	90.2
Interest paid		**(2.2)**	(3.3)
Tax paid		**(11.8)**	(9.3)
Net cash generated from operating activities		**65.8**	77.6
Cash flows from investing activities			
Cash outflow on business combinations		**–**	(20.0)
Purchase of property, plant and equipment		**(16.5)**	(9.0)
Purchase of intangible assets		**(2.1)**	(1.8)
Proceeds from sale of property, plant and equipment		**0.2**	0.6
Net cash used in investing activities		**(18.4)**	(30.2)
Cash flows from financing activities			
Dividends paid	7	**(19.3)**	(13.8)
Drawdown of borrowings		**–**	100.0
Repayment of borrowings		**(25.0)**	(160.0)
Finance arrangement fees paid		**–**	(0.8)
Equity shares acquired by Employee Benefit Trust		**(6.1)**	–
Net cash used in financing activities		**(50.4)**	(74.6)
Net decrease in cash and cash equivalents		**(3.0)**	(27.2)
Cash and cash equivalents at the beginning of the period		**29.0**	56.2
Cash and cash equivalents at the end of the period		**26.0**	29.0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Share capital £m	Reserve for own shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017		2.0	–	67.2	69.2
Total comprehensive income for the year		–	–	47.5	47.5
Dividends paid		–	–	(13.8)	(13.8)
Share-based payments charge		–	–	1.2	1.2
Tax on share-based payments		–	–	0.6	0.6
Balance at 31 December 2017		**2.0**	**–**	**102.7**	**104.7**
Total comprehensive income for the year		–	–	52.8	52.8
Dividends paid	7	–	–	(19.3)	(19.3)
Own shares purchased		–	(6.1)	–	(6.1)
Share-based payments charge		–	–	2.4	2.4
Share-based payments settled		–	0.3	(0.3)	–
Tax on share-based payments		–	–	(0.3)	(0.3)
Balance at 31 December 2018		**2.0**	**(5.8)**	**138.0**	**134.2**

NOTES TO THE PRELIMINARY RESULTS

1 General information

Forterra plc ('Forterra' or the 'Company') and its subsidiaries (together referred to as the 'Group') are domiciled in the United Kingdom. The address of the registered office of the Company and its subsidiaries is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA. The Company is the parent of Forterra Holdings Limited and Forterra Building Products Limited, which together comprise the Group. The principal activity of the Group is the manufacture and sale of bricks, dense and lightweight blocks, precast concrete, concrete block paving and other complementary building products.

Forterra plc was incorporated on 21 January 2016 for the purpose of listing the Group on the London Stock Exchange. Forterra plc acquired the shares of Forterra Building Products Limited on 20 April 2016, which to that date held the Group's trade and assets, before admission to the main market of the London Stock Exchange.

2 Basis of preparation

The preliminary results for the year ended 31 December 2018 have been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 12 March 2019. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published by the end of April 2019. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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

Copies of the Annual Report for the year ended 31 December 2018 will be mailed to those shareholders who have opted to receive them by the end of April 2019 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

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

Going concern

The Group meets its day-to-day working capital requirements through its cash reserves and borrowings. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date that the preliminary financial statements are signed. The Group therefore adopts the going concern basis in preparing its preliminary financial statements.

IFRS 16 – Leases (effective 1 January 2019)

The new leasing standard, IFRS 16, will be effective from 1 January 2019 and will have a significant effect on the Group Balance Sheet due to leases of premises, land, fleet vehicles, cars and plant. Under the new standard a lessee will recognise, in its Statement of Financial Position, a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease expense within the Income Statement will also be affected and, whilst the total charge will remain the same over the lease period, the cost recognised in the Income Statement in earlier years will be higher. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group will use the modified retrospective transition method on adoption. Under this, the asset is calculated as if IFRS 16 had always been applied, however the liability is calculated as if all leases start on 1 January 2019, which will result in no change to comparative numbers but an adjustment within the reserves of the Group. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has assessed the impact that initial application of IFRS 16 will have on its consolidated financial statements and has estimated that the total transition adjustment at 1 January 2019 will be as follows:

- Recognition of a right of use asset and lease liability, both in the region of £14-18m; and
- No significant impact to profit before tax for the year ending 31 December 2019; with an increase in EBITDA of approximately £6m offset by a similar increase in interest and depreciation.

Notwithstanding the above, the actual impacts of adopting the standard on 1 January 2019 may change because:

- The Group is in the process of finalising the testing and assessment of the controls over collection of all the necessary information in relation to lease contracts, required for the application of IFRS 16;
- The Group is still refining its impact assessment calculations specifically in relation to the judgment around lease extensions, renewal and terminations and the determination of the appropriate rate to discount the lease payment; and
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3 Segmental reporting

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

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

Bricks – Manufacture and sale of bricks to the construction sector

Blocks – Manufacture and sale of concrete blocks to the construction sector

Bespoke Products – Manufacture and sale of bespoke products to the construction sector

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

The Bespoke Products range includes precast concrete (now marketed under the 'Bison Precast' brand), permeable paving, 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, including permeable paving and 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, have been allocated to the segments for reporting purposes using long-term average sales reporting. Management considers that a split of the 75% Bricks and Blocks and 25% Bespoke Products should be applied as the growth of Bespoke Products through the Bison acquisition has not resulted in additional central costs being incurred. Management considers that this is an appropriate basis for the allocation.

The revenue recognised in the Consolidated Statement of Total Comprehensive Income is all attributable to the principal activity of the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complimentary building products.

Substantially all revenue recognised in the Consolidated Statement of Total Comprehensive Income arose within the UK.

Segment revenue and results:

		2018		
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		**269.4**	**100.3**	**369.7**
Intersegment eliminations				**(2.2)**
Revenue				**367.5**
EBITDA		**75.8**	**3.0**	**78.8**
Depreciation and amortisation		**(9.4)**	**(2.3)**	**(11.7)**
Operating profit		**66.4**	**0.7**	**67.1**
Net finance expense	5			**(2.3)**
Profit before tax				**64.8**

For the purpose of monitoring segment performance, finance expenses are not allocated to segments.

	2018		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	**136.9**	**33.6**	**170.5**
Intangible assets	**9.2**	**8.1**	**17.3**
Inventories	**29.7**	**7.7**	**37.4**
Segment assets	**175.8**	**49.4**	**225.2**
Unallocated assets			**63.9**
Total assets			**289.1**

Property, plant and equipment, intangible assets and inventories are allocated to segments and considered when appraising segment performance.

Trade and other receivables and cash and cash equivalents are centrally controlled and unallocated.

Other segment information:

	2018		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	**15.3**	**1.3**	**16.6**
Intangible asset additions	**1.6**	**0.6**	**2.2**

Customers representing 10% or greater of revenues were as follows:

	2018		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Customer A	**46.0**	**2.7**	**48.7**
Customer B	**33.9**	**2.3**	**36.2**

Segment revenue and results:

		2017		
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		**249.5**	**83.6**	**333.1**
Intersegment eliminations				(2.1)
Revenue				**331.0**
EBITDA		**69.1**	**6.3**	**75.4**
Depreciation and amortisation		(9.6)	(1.3)	(10.9)
Operating profit		**59.5**	**5.0**	**64.5**
Finance expense before exceptional items				(3.4)
Exceptional finance items				(1.8)
Net finance expense	5			**(5.2)**
Profit before tax				**59.3**

For the purpose of monitoring segment performance, exceptional items and finance expenses are not allocated to segments.

Segment assets:

	2017		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	130.7	34.5	165.2
Intangible assets	8.1	7.7	15.8
Inventories	30.5	5.8	36.3
Segment assets	**169.3**	**48.0**	**217.3**
Unallocated assets			**62.0**
Total assets			**279.3**

Property, plant and equipment, intangible assets and inventories are allocated to segments and considered when appraising segment performance.

Trade and other receivables and cash and cash equivalents are centrally controlled and unallocated.

Other segment information:

	2017		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	7.3	1.4	8.7
Property, plant and equipment acquired	–	20.0	20.0
Intangible asset additions	1.1	0.3	1.4
Intangibles assets acquired	–	1.2	1.2

Customers representing 10% or greater of revenues were as follows:

	2017		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	40.1	2.4	42.5
Customer B	31.0	4.4	35.4

4 Exceptional costs

	2018 £m	2017 £m
Exceptional finance expenses:		
IPO capitalised financing costs written off	**–**	(1.8)
	–	(1.8)

Following the refinancing of the Group's borrowing facility during 2017, the balance of the capitalised financing cost incurred when the previous facility was put in place at IPO was written-off. There were no exceptional items in 2018.

5 Net finance expense

	2018 £m	2017 £m
Interest payable on external borrowings	**(2.2)**	(3.4)
IPO capitalised financing costs written off	**–**	(1.8)
Other finance expense	**(0.1)**	–
	(2.3)	(5.2)

6 Taxation

	2018 £m	2017 £m
Current tax:		
UK corporation tax on profit for the year	**(11.7)**	(11.4)
Prior year adjustment on UK corporation tax	**0.2**	0.2
Total current tax	**(11.5)**	(11.2)
Origination and reversal of temporary differences	**(0.7)**	(0.5)
Effect of change in tax rates	**0.1**	0.1
Effect of prior period adjustments	**0.1**	(0.2)
Total deferred tax	**(0.5)**	(0.6)
Income tax expense	**(12.0)**	(11.8)

	2018 £m	2017 £m
Profit on ordinary activities before tax	**64.8**	59.3
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19.0% (2017: 19.25%)	**(12.3)**	(11.4)
Effects of:		
Change in tax rate	**0.1**	0.1
Expenses not deductible for tax purposes	**(0.1)**	(0.5)
Prior period adjustments	**0.3**	–
Income tax expense	**(12.0)**	(11.8)

The main rate of UK corporation tax for 2018 is 19.0%, which was effective from 1 April 2017.

7 Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend of 3.3p per share (2017: 3.1p)	**(6.6)**	(6.2)
Final dividend of 6.4p per share in respect of prior year (2017: 3.8p)	**(12.7)**	(7.6)
	(19.3)	(13.8)

The Directors are proposing a final dividend for 2018 of 7.2p per share, making a total payment for the year of 10.5p (2017: 9.5p).

The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the preliminary financial statements.

8 Earnings per share

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

	Note	**2018 £m**	2017 £m
Operating profit for the year		**67.1**	64.5
Finance charge	5	**(2.3)**	(5.2)
Profit before taxation		**64.8**	59.3
Tax charge	6	**(12.0)**	(11.8)
Profit for the year		**52.8**	47.5
Weighted average number of shares (millions)		**199.2**	200.0
Effect of share incentive awards and options (millions)		**3.1**	2.9
Diluted weighted average number of ordinary shares (millions)		**202.3**	202.9
Earnings per share:			
Basic (in pence)		**26.5**	23.8
Diluted (in pence)		**26.1**	23.4
Earnings per share before exceptional items (in pence)		**26.5**	24.5

EPS before exceptional items is presented as an additional performance measure and is calculated by excluding the exceptional charge of £1.8m in 2017 and the associated tax effect.

9 Loans and borrowings

	2018 £m	2017 £m
Non-current loans and borrowings:		
External bank loans – principal	**65.0**	90.0
– unamortised debt issue costs	**(0.5)**	(0.6)
	64.5	89.4
Current loans and borrowings:		
External bank loans – interest	**0.3**	0.4
	0.3	0.4
	64.8	89.8

On 26 July 2017 the Group refinanced, repaying amounts outstanding under existing facilities and entering into a committed £150m revolving credit facility with a group of leading banks. This facility was extended by a year over the previous facility and is in place until July 2022. An accordion facility of £50m was also agreed.

Interest is payable on amounts drawn down under the agreement at a rate of LIBOR plus a variable margin ranging from 1.25% to 2.25%.

The facility is subject to both financial and non-financial covenants and is secured by fixed charges over the shares of Forterra Building Products Limited and Forterra Holdings Limited.

10 Net debt

The analysis of net debt is as follows:

	2018 £m	2017 £m
Cash and cash equivalents	**26.0**	29.0
External borrowings	**(64.8)**	(89.8)
	(38.8)	(60.8)

11 Reconciliation of net cash flow to net debt

	2018 £m	2017 £m
Net cash inflow from operating activities	**65.8**	77.6
Net cash outflow from investing activities	**(18.4)**	(30.2)
Dividends paid	**(19.3)**	(13.8)
Equity shares acquired by Employee Benefit Trust	**(6.1)**	–
Other movements	**–**	(2.1)
Decrease in net debt	**22.0**	31.5
Net debt at the start of the period	**(60.8)**	(92.3)
Net debt at the end of the period	**(38.8)**	(60.8)

12 Related party transactions

Transactions with related parties

	2018 **£m**	2017 £m
Purchases from related parties	**–**	(1.0)

The Group was under the control of Lone Star Funds and its affiliates up until 25 April 2017. On this date, Lone Star completed the sell-down of its shareholding and Forterra plc was no longer under the control of an ultimate controlling party.

Until 25 April 2017, related parties were entities under common ownership of Lone Star Funds. All related party transactions and balances were undertaken in the normal course of business and on an arm's length basis.

Transactions with key management personnel

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

	2018 **£m**	2017 £m
Emoluments including taxable benefits	**(2.8)**	(2.6)
Share-based payments	**(0.7)**	(0.5)
Pension and other post-employment benefits	**(0.2)**	(0.2)
	(3.7)	(3.3)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans is included in the Annual Report on Remuneration to be published in April 2019.