



FORTERRA

Forterra plc
Annual Report
and Accounts 2017

Manufacturing Excellence

Who We Are

Highlights

Revenue

£331.0m

(2016: £294.5m)

+12.4%

Pro-forma profit before tax¹

£61.1m

(2016: £53.1m)

+15.1%

Statutory profit before tax

£59.3m

(2016: £37.1m)

+59.8%

Net debt

£60.8m

(2016: £92.3m)

-34.1%

EPS¹

24.5p

(2016: 21.0p)

+16.7%

With an 1,800 strong workforce across 18 manufacturing facilities, Forterra produces a diverse range of brick, block and bespoke building products for the UK construction industry.

These products form an essential and substantial part of the built environment – from housing developments to Government projects – helping to drive the country's growing economy. Our portfolio includes some of the sector's most trusted and well-known brands.



¹ Pro-forma basis is presented as an additional performance measure and is stated before exceptional items and after adjustments to present finance costs and additional plc costs incurred in 2016 as comparative measures. These numbers are reconciled to the statutory results within page 29 of the Strategic Report.

Our segments and brands

Bricks and Blocks

Bricks

Forterra is one of the largest manufacturers of bricks in Great Britain and is the only producer of the iconic London Brick. We operate nine brick manufacturing factories throughout the United Kingdom.



Blocks

Forterra is a leading manufacturer of aircrete blocks, which it produces at two sites and sells under the Thermalite brand, a further two plants are dedicated to the production of aggregate blocks sold under the Conbloc brand.



Bespoke Products

Our Bespoke Products business operates from five facilities and comprises precast concrete, concrete block paving and chimney and roofing solutions. The Bison Precast brand was added in September 2017, following the acquisition of the Swadlincote site.



In this year's report

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Our Investment Case

Well positioned for continued growth

The UK's need for housing and improved infrastructure coupled with our clear strategy will deliver long-term value for our shareholders.

Growth



We are well placed to deliver growth by helping the UK address its growing housing shortage

We supply many of our customers with a range of complementary products and we continue to look for further cross-selling opportunities whilst helping our customers meet their needs.



For more detail see [page 12](#)

Resilience



We have significant exposure to the repair, maintenance and improvement (RM&I) market which is traditionally more stable than new build construction

We are the sole manufacturer of the iconic London Brick which is sold into the RM&I market. Our large efficient factories and operating synergies offer us flexibility should market demand fall and we have a proven track record of reducing costs during periods of economic decline.



For more detail see [page 18](#)

Efficiency



Manufacturing excellence and operational efficiency are at the core of our strategy

We are focused on maximising value by enhancing the efficiency of our current asset base. Our de-bottlenecking projects enable us to increase capacity at a fraction of the cost of adding new facilities whilst increasing plant efficiency and reducing unit production costs.

The Bison Swadlincote facility acquired in the year is the largest and most advanced facility of its kind in the UK.



For more detail see [page 20](#)

UK focus



We are focused exclusively on the UK. We are a leading supplier of complementary clay brick and concrete block products with established brands and strong market positions across our product range

Government policy is focused on stimulating additional housebuilding and investing in infrastructure. Our markets are mature and established and the low value to weight ratio of our products combined with the UK's island geography will continue to limit the penetration of imports.



For more detail see **page 10**

Strategy



To ensure we remain industry leaders we have clearly set out our strategic priorities

Our strategy is focused upon maximising our current potential, as well as considering options for product expansion and appropriate bolt-on acquisitions. Our strong balance sheet gives us significant optionality whilst maintaining a progressive dividend policy.

The acquisition of the Bison business is an example of how we delivered on this strategy in 2017.



For more detail see **page 14**

Leadership



We have established a strong and proven leadership team with our Executive Directors joined by Non-Executive Directors who bring a diverse range of skills and experience to the Board

Our Board is supported by our Executive Committee who possess many years of industry experience. Since our IPO we have continued to strengthen both our Board and Executive Committee.

We have an organisation structure that enables us to be flexible, agile and responsive to the needs of our customers.



For more detail see **page 42**



Bison Precast has been appointed to design and manufacture a range of concrete products to one of Europe's largest construction projects, Hinkley Point C nuclear power station.

Chairman's Statement



Our objective of generating sustainable shareholder value is achieved through the delivery of three strategic objectives, underpinned by our people and the strength of our customer relationships.”

Paul Lester CBE
Chairman



I am pleased to report that following the Initial Public Offering (IPO) in April 2016, Forterra made good progress during 2017 in its first full year as a listed company. The previous private equity owners, Lone Star, sold their remaining holding in the Group in April 2017, resulting in 100% free float in the stock market.

Forterra, which originated from the building products business of Hanson plc, 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, having acquired the Bison business during 2017.

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. During 2017, we celebrated the 140th anniversary of production of the Fletton brick. 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.

Strategy

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

- drive for a flexible, efficient manufacturing base and align 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.

During the year, the Group completed the acquisition of the trade and certain assets of Bison Manufacturing Limited from Laing O'Rourke, which enabled us to take a leadership position in the UK precast concrete market, whilst also reducing capacity constraints in our business. The business has traded in line with our expectations following the acquisition and the integration process is well-advanced. We have rebranded our whole precast concrete business as Bison Precast, recognising the strength of the brand in the marketplace.

Dividend per share

9.5p

(2016: 5.8p)

+10.5% (annualised)

Operating cash flow
(before exceptionals)

£90.2m

(2016: £69.8m)

+29.2%

Chairman's Statement continued

The UK brick market has grown strongly over recent years and capacity utilisation has increased. As outlined previously, we have prioritised de-bottlenecking projects at four sites in order to increase capacity by around 40 million bricks, which has been less capital-intensive, whilst increasing plant efficiency and reducing unit production costs. The last of these projects is being undertaken at our Accrington facility in the summer of 2018.

We are completing the evaluation for building new brick manufacturing capacity and have considered a number of options, including using brownfield sites owned by the Group with existing permissions for extracting mineral, and also redeveloping one of our existing brick facilities. We anticipate making an announcement on this over the coming months.

We continued investing in the business, including upgrade work carried out at our Cloughton and Desford brick facilities which resulted in increased capacity, and further investment in upgrading IT systems. The rest of the report gives further information of progress being made in implementing the strategy.

Health and safety

Forterra is committed to the highest safety standards for all employees, sub-contractors and visitors to our various facilities. We describe in the Corporate Social Responsibility section of the report the initiatives being taken in this area including the Building Safety Together programme and safety training for employees to build awareness and good working practice. In addition, each Board Director has undertaken at least one health and safety site visit during 2017 and will do at least two such visits each year going forward. This emphasises to the workforce the importance placed by the Board on health and safety and is part of driving a strong safety culture across the Group.

Our progress on health and safety during the year was overshadowed by a serious accident suffered by one of our employees at a brick manufacturing facility, which is subject to an ongoing investigation. We will report on the outcome and the actions implemented to reinforce safety processes, training and awareness once this has concluded.

Performance

Group sales at £331.0m were 12.4% ahead of 2016 due to the strong demand seen from the housebuilding sector, which resulted in sales of bricks and aggregate blocks increasing by double digits. The result also benefited from the contribution of the Bison business which was acquired in September 2017; the growth in revenue was 10.4% after excluding the effect of the acquisition.

Due to the Group listing on the London Stock Exchange's Main Market through an IPO in April 2016, coupled with a refinancing, which significantly reduced indebtedness at the date of listing, a true comparison of performance with the prior periods is difficult. In order to make a comparison more meaningful, the profit before exceptionals for 2016 has been shown on a pro-forma basis after adjusting for additional costs relating to being a stand-alone plc. The finance charge for 2016 has been calculated assuming that the debt structure at IPO was in place throughout the year, and the pro-forma profit before tax calculated on this basis.

The profit before tax and exceptional items of £61.1m for 2017 was up £8.0m compared to last year's pro-forma result, benefiting from higher sales volumes and reduced interest costs arising from the lower debt and the refinancing of facilities during the year.

The statutory profit before tax (PBT) for 2017 of £59.3m compares with 2016 of £37.1m. In 2017, this was after charging exceptional items of £1.8m (2016: £8.9m) relating to the writing-off of capitalised IPO finance costs. The actual finance charge for 2016 was higher than that used in the pro-forma due to the increased net debt and higher interest rate in place under the previous ownership structure.

Earnings per share (EPS) before exceptionals was 24.5 pence, an increase of 16.7% over the comparable pro-forma figure for 2016. Basic EPS was 23.8 pence for 2017 compared with 13.8 pence for 2016.

The Group continues to generate a strong level of free cash flow and net debt at the end of December 2017 was £31.5m lower than the start of the year at £60.8m, after making the payment of £20m for the Bison acquisition. This excellent performance meant that the Group's gearing was below one times EBITDA at the end of the year, demonstrating the strength of the business and the balance sheet.

Dividend

The Board is recommending a final dividend of 6.4 pence per share, which, together with the interim dividend, would make a total of 9.5 pence for the full year. This compares with the total dividend in 2016 of 5.8 pence for the period post IPO, and the increase over the annualised total for 2016 is 10.5%.

The dividend is in line with the progressive dividend policy adopted by the Board and demonstrates the progress made by the Group in reducing net debt and our confidence in the business going forward.

Board and corporate governance

Since listing, one of my main responsibilities has been to develop the appropriate corporate governance framework and ensure the formation of the plc Board with strong independent Directors. I am pleased to say that during the year we achieved full compliance with the UK Corporate Governance Code.

Following the full sell-off of their holding by Lone Star Funds, Bradley Boggess and Richard 'Chip' Cammerer resigned from the Board in April 2017. I would like to thank both of them, and also Chad Lewis who managed the relationship for Lone Star, for their contribution to the Group over the period since listing.

We have appointed two new Non-Executive Directors during the year to bring the total number of Independent Non-Executive Directors to four in addition to the two Executive Directors and myself. Martin Sutherland, who is CEO at De La Rue plc, was appointed in May 2017. Katherine Innes Ker joined the Board in September and has a wealth of executive and non-executive experience across many sectors including housebuilding and property development. I am pleased that we have been able to recruit people of the calibre of Martin and Katherine to the Board.

The corporate governance section of this report outlines the Board's approach to corporate governance arrangements and how they operated, and supported the business during the year. The section includes reports from each of the Committee Chairs, providing details on key matters addressed by the Committees during the year. We have also set out a separate Corporate Governance Statement (on pages 46 to 50) to provide a detailed description of how the Group has complied with the principles of the UK Corporate Governance Code.

People

Our success as a business is due to the commitment and dedication of all of our employees, and I would like to thank them all for their excellent work during the year.

At the listing, under the Share Incentive Plan we were pleased to give each employee a deferred stake of £500 in the equity of the business subject to them continuing to be with us over the next three years. We have also had two offers since listing in the Group-wide employee Sharesave scheme, and I am very pleased to say that around two-thirds of our employees have chosen to participate by saving regularly under the scheme.

We have implemented measures to increase employee engagement and develop our people, some of which are described in this report, and this will continue to be a priority.

Current trading and outlook

Following our strong performance in 2017, the current year has started well with brick volumes for the first two months ahead of the comparable period in 2017. Whilst the housing maintenance and improvement market remains subdued, we continue to see good activity levels from the new build residential market and anticipate a more modest level of volume growth compared with the prior year.

As anticipated, price increases have now been agreed with most customers in order to cover the increase in our cost base.

Based on our order book and indications from major customers, our expectations for 2018 are unchanged.

Whilst we are cautious of the impact of the current uncertainty on the UK economy, the Board remains confident that the business is well positioned to take advantage of the attractive market fundamentals and of its ability to deliver sustainable shareholder value.

Paul Lester CBE

Non-Executive Chairman

CEO's Statement



We are continuing to deliver on our strategic priorities thanks to the hard work of our dedicated workforce.”

Stephen Harrison

Chief Executive Officer



I am pleased to report that we delivered a strong profit and cash performance in 2017, our first full year as a listed company. Revenue was up over 10%, primarily due to a strong performance from the new build residential market, and we also completed the strategically important acquisition of Bison, which has given us a leadership position in the precast concrete products market. Another highlight was our cashflow performance, which enabled us to reduce our net debt to EBITDA ratio to below one times after paying for the Bison acquisition.

During the year, we made other substantial investments that ensure we are better able to respond to changes in customer demand. This includes an upgrade of dryers and increased capacity at our Cloughton brick facility, and the re-opening of our Accrington brick factory.

We place the health and safety of all employees, sub-contractors and visitors to our facilities at the top of our priorities. In addition to the Board safety visits, members of the Executive Committee regularly visit sites to review working practices and discuss safety issues with our employees. During May, I held all-employee meetings at each of our facilities to highlight the importance we place on safety and understand issues of concern. We also recently asked each site manager to undertake a two day safety review at another site.

Our progress on health and safety during the year was overshadowed by a serious accident suffered by one of our employees at a brick manufacturing facility which is subject to an ongoing investigation. This has reinforced the efforts we have been making in improving the Group's safety performance, and we should acknowledge that there were no lost time incidents at the Group's five Bespoke Products facilities in the year.

We welcomed the 180 staff from Bison to Forterra in September. We further strengthened our leadership team in 2017 and are continuing to deliver on our strategic priorities thanks to the hard work of our dedicated workforce. In recognition of the important role each employee has in contributing to the success of our business, we are increasing engagement and listening carefully to what they have to say via our employee forum and annual Best Companies employee engagement survey. The results of the latest survey carried out in the last quarter of 2017 showed limited progress from the previous survey, and we have put in place a number of initiatives based on the feedback provided around communication, staff development, training and addressing site-level concerns. I am particularly pleased that so many of our colleagues have an equity interest in Forterra following strong participation in our Sharesave scheme along with the shares given to each employee upon our IPO. During the year we launched our Best Practice Awards and had over 120 people nominated across the six award categories.

I would like to take this opportunity to thank all of our staff for their efforts during 2017.

I am looking forward to continuing the implementation of our strategy and taking advantage of the opportunities that 2018 will bring.

Stephen Harrison

Chief Executive Officer

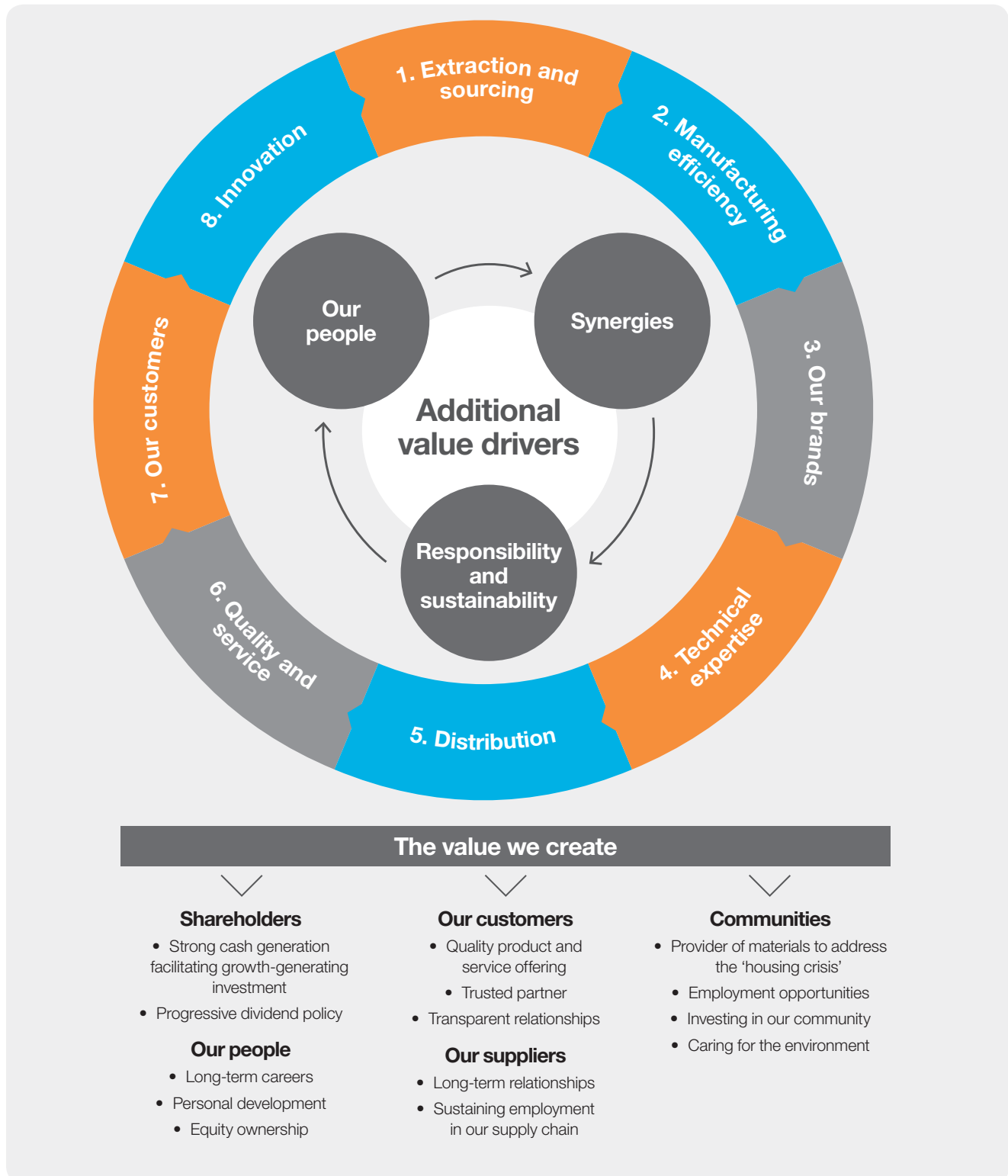


Ecstock Hampton Rural Blend.

Our Business Model

We create value through **differentiation**, **efficiency** and **resource management**

We are the only UK manufacturer strong in both bricks and blocks – diversifying our risk but also presenting opportunities for synergies.



Our value chain

1. Extraction and sourcing

Each of our major brick factories has an adjacent quarry from which clay is sourced. We also own clay reserves at other strategic locations. In total we have access to over 80 million tonnes of clay reserves and resources equating to an average of over 50 year's production.

In addition to internally sourced clay, we source a range of other raw materials externally, including cement, aggregates, steel and packaging. We also consume significant quantities of natural gas, electricity and diesel, which may be procured under forward contracts to provide price certainty.

2. Manufacturing efficiency

Manufacturing is at the core of our strength. The Bricks and Blocks business manufactures and supplies a complementary range of clay and concrete building products. The Bespoke Products business manufactures and supplies a wide range of design-led products, including precast concrete flooring, permeable paving solutions and roofing and chimney products.

We operate from 18 highly efficient and well invested facilities, which are amongst the largest of their kind in the UK. This delivers significant operating efficiencies, reducing our production costs. We strive for continuous improvement with modern methods of manufacturing being implemented throughout the Group. We continue to invest in maximising the performance of our installed production capacity with a number of de-bottlenecking projects further enhancing operating efficiency.

3. Our brands

We possess well-known brands with strong histories, which are held with affection in the construction industry, including London Brick, Thermalite, Butterley Brick, Formpave, Red Bank and the recently acquired Bison Precast. Forterra may be a relatively new name in the industry, but our brands are long-established with a reputation for quality.

4. Technical expertise

We not only manufacture high quality products but also offer customers a range of technical support, design and installation services to ensure our products meet and exceed expectations.

5. Distribution

We operate a dedicated distribution fleet of 125 flexible crane-equipped brick and block delivery vehicles suitable for deliveries to sites where space is restricted. Operating our own fleet allows us to provide the most reliable delivery service to customers.

6. Quality and service

We take great pride in the quality of our products and the service provided to our customers. In the unlikely event that our service levels or products fall short of the high standards we demand, then we aim to be transparent in putting things right as quickly as possible.

7. Our customers

Our customers include major housebuilders, builders' merchants and other distributors. We don't generally sell directly to tradesmen and the general public, who purchase our products from their local stockists. We have long-standing customer relationships, in many cases exceeding 25 years.

8. Innovation

We continue to focus on innovation throughout our value chain, from seeking new raw materials, to improving production processes and designing new products for tomorrow's markets.

Additional value drivers

Our people

We are committed to ensuring the safety and wellbeing of our people. We employ over 1,800 people to whom we offer effective training to ensure that they can perform to their potential. Highly skilled, experienced and qualified people are vital to the success of our strategy. We are developing and empowering our people at all levels to help them improve their Company and its performance.

Synergies

Our product range is complementary and we sell many of our products to the same customers. Our shared distribution fleet operating across our Bricks and Blocks business allows us to reduce costs and carbon emissions by reducing the time our vehicles run empty.

Production waste from one of our products is a valuable raw material for another. We re-use brick and aircrete waste in the manufacture of our aggregate blocks. Where our clay deposits are found beneath sand and gravel reserves we are able to use this too in manufacturing our aggregate blocks.

Responsibility and sustainability

Central to everything we do is our responsibility for the safety of our people and everyone with whom we come into contact, along with our obligation to protect the environment.

Market Overview

Growth experienced in key market sectors

Forterra's primary market place is the UK residential construction sector and therefore the Group's results are influenced by the level of activity in this sector. Despite forecasts of a weakening in overall construction output, growth in residential construction has remained strong throughout 2017 and is expected to continue.

Our market

The Group's products are almost exclusively used in construction activities within the UK and demand for the Group's products is therefore directly related to levels of UK construction activity. Levels and growth of construction activity are influenced by a number of macro-economic factors including general economic prosperity, government policy, mortgage availability and interest rates. The UK construction market can be segmented by both end market and end use.

The Group's products are predominantly utilised within the residential construction sector.

In 2017 c95% of the Group's revenue was derived from sales to residential construction applications. An element of estimation is included within this end use split, as whilst sales to housebuilders are easily identified, the Group's customers also include builders' merchants and distributors who sell the product to a range of end users.

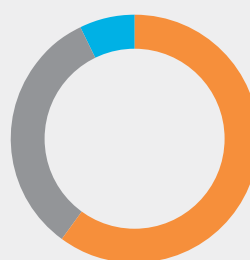
Economic overview

Overall GDP growth in the UK in 2017 of 1.8% was marginally lower than 2016 (1.9%), and continued uncertainty around the UK's Brexit negotiations and its impact on consumer confidence add a high level of variability to the Office for Budget Responsibility's (OBR) 2018 growth estimate of 1.6%.

The market for new build housing in the UK has remained strong, despite wider macro economic conditions. Interest rates remain low, offering further support to the UK housing market with future growth in housing supported by an extension to the Government's Help to Buy equity loan scheme, as well as an underlying agenda to build additional homes as laid out within the Government's February 2017 Housing White Paper.

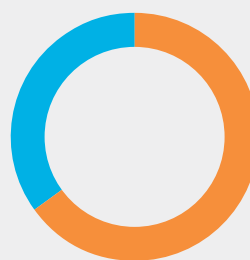
This positive trend in residential construction is forecast to support the wider construction market where output is forecast by the Construction Products Association (CPA) to remain broadly flat in 2018 (0.2% growth), before growing by 1.7% in 2019.

2017 Forterra revenue by end use



Residential new build	60%
Residential RM&I	33%
Commercial	7%

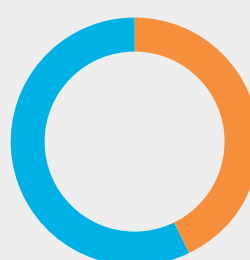
UK market breakdown by end use



New works	65%
Repair and maintenance	35%

Sources: CPA Forecast Winter 2017/18

UK market breakdown by end market



Residential	43%
Non-residential	57%

Sources: CPA Forecast Winter 2017/18

Outlook remains strong in housing

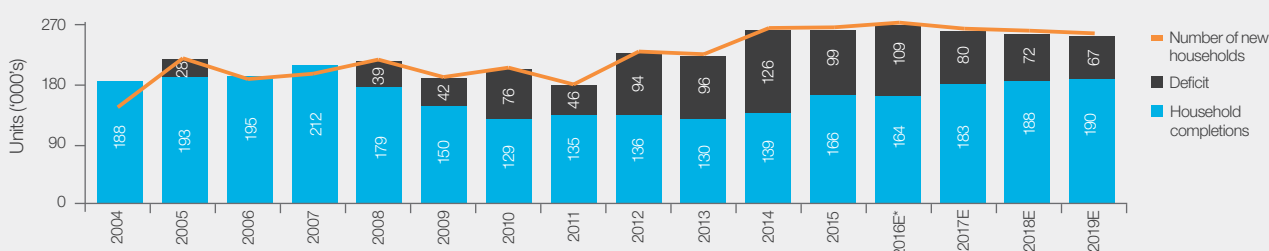
UK housing market

The residential construction sector in the UK consists of both private and public (social) housing and includes both new build and the repair, maintenance and improvement (RM&I) of existing properties. New build activity is generally measured by the number of housing starts and the number of housing completions. Historically, new build activity has tracked broader economic cycles. RM&I activity is historically more stable. Forterra, through the unique and widely used London Brick, has a greater exposure to the residential RM&I market than some of its competitors.

Offsite construction as a method of house building is becoming more prominent, and whilst this is not impacting demand for traditional properties, it provides a further method of achieving future housing growth. Offsite methods may demand fewer traditional building products such as bricks and blocks however Forterra is actively developing products to serve this growing market.

The current housing shortage should act as a positive driver to industry growth for the foreseeable future, although the current outlook is tempered by uncertainty around the impact of Brexit negotiations.

Great Britain housing formations vs completions 2004 – 2016



Sources: CPA / Department for Communities and Local Government

New build residential

With over 50% of the Group's revenue being derived from residential new build construction, the performance of the housebuilding sector is fundamental to the Group's success. Over 85% of houses constructed in the UK are built by the private sector, and growth in this area has been strong in recent years. The winter 2017/18 CPA forecast suggests that this growth will continue at c.2% in 2018, underpinned by the Government's supportive policies in extending the Help to Buy equity loan scheme and a number of wider policies laid out in the February 2017 Housing White Paper. Support from the Government resulted in a commitment made in the November 2017 budget to create 300,000 homes a year by the mid 2020s.

Growth in public new build housing is forecast to follow a similar trend with growth predicted at 3% in both 2018 and 2019.

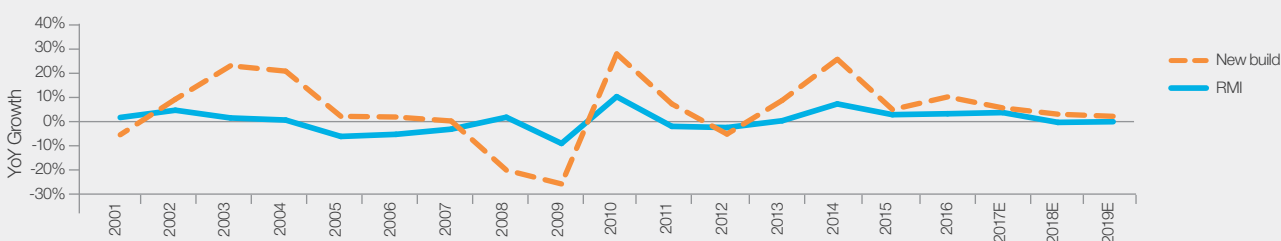
Further growth stimulus is expected to come from the private rental sector, specifically 'Build-to-rent', which involves purpose built developments of homes for rent which are usually funded by longer term private investors, a sector that the Government is keen to develop.

RM&I

Whilst the RM&I market has been subdued in 2017, this is historically a more stable source of demand through housing cycles, being favourable to Forterra as it supports the London Brick range of products, sold predominantly into this market.

This trend in RM&I is forecast to continue in the near term with no growth forecast in 2018. The uncertainty in consumer markets as a result of Brexit negotiations and dependent on the outcome, households' willingness to make large, discretionary purchases may weigh on RM&I demand, especially in light of rising inflation that has eroded increases in wages and salaries during 2017.

Annual change in housing output (%)



Sources: CPA Forecast Winter 2017/18

Our Strategy

We are **continuing to deliver** on our strategic priorities

Delivery of our strategic priorities will ensure our overall strategic objective of generating sustainable shareholder value is achieved.

Strategic priority:

1. Manufacturing excellence:



Increase efficiency via a continuous improvement culture. Plant utilisations maximised, with dedicated investment to support long-term growth

2017 achievements:

- Continued to implement modern methods of manufacturing with continuous improvement programme delivering efficiency benefits
- Key brick de-bottlenecking activities completed at Claughton and Desford factories; Accrington brick factory re-opened to meet strong demand
- Progressing options for large scale brick capacity investments

2. Core product focus:



Maintain strong market positions in core products, underpinned by robust financial performance

- Profit and cash flow growth delivered
- Targeted London Brick marketing campaign, celebrating 140 years of this iconic brand
- Utilisation of acquired Bison brand across full precast range
- Expanded customer base in core markets
- Investment in aircrete business to handle alternative raw materials and decrease reliance on pulverised fuel ash (PFA)

3. Business expansion:



Expand the range of products and services offered through both organic growth and acquisitions

- Bison (Swadlincote) acquisition completed, providing market leadership position in precast concrete
- Soft mud bricks product range expanded via new product development
- Commercial project successes, culminating in winning a Brick Development Association Brick Award

The business has identified two key drivers to delivering our strategic priorities:



High performing people



Our people are at the heart of our business. We will continue to invest in our employees to ensure they are appropriately skilled to deliver our strategic objectives, rewarding high performance and developing future talent. Our drive for zero harm will continue to be prioritised, and embedded in our culture.

In 2017, we have made good progress, including the recruitment of high performing experts in modern manufacturing, and have invested in our leadership, and learning and development programmes.

Targets:



- Continue health and safety drive for zero harm
- Improve metrics of labour productivity and energy efficiency
- Maintain cost leadership position
- Increase capital expenditure on process enhancement
- Continue to align current capacities to market conditions
- Invest in future capacity to secure long-term growth



- Maintain our leading market positions in core products
- Ensure long-term security of raw material supply
- Maximise commercial opportunities via an integrated product offering



- Deliver successful integration of Bison Precast, realising synergies and developing our product range
- Increase research and development, and innovation capability for new products and services
- Focus on customer service development
- Investigate appropriate bolt-on acquisition opportunities



Strong customer relationships

We will strive to be the strategic supply chain partner of choice for our customers, underpinned by excellent customer service. We will also continue to increase our customer base and develop relationships in adjacent market sectors.

In 2017 we continued to build our customer relationships, supported by our strong brand values of product quality and service excellence. Our commercial function leveraged cross-selling opportunities, and the Bison acquisition expanded our customer and product portfolio into new sectors.

Case Study – Bison

Bison acquisition

We have strengthened our position in precast concrete manufacturing with the acquisition of Bison, one of the most recognised names in precast concrete. The acquisition saw Bison's Swadlincote facility, with 180 staff, join forces with the 230 staff at our Somercotes and Hoveringham facilities. The combined business has been rebranded Bison Precast.

The state-of-the-art Swadlincote plant features a 410-metre-long hollowcore manufacturing facility on a site that covers 35 acres. It also fits perfectly with our core strategic priority of manufacturing excellence and provides an uplift in production capacity.

Work is already underway to integrate the facility, substantially increase its output and realise its operating efficiencies.

Bison Precast has truly reinforced its position as a leading manufacturer of precast concrete products.

BISON PRECAST



Business expansion



Case Study – London Brick



Core product focus

London Brick

2017 marked 140 years of production of London Brick. To celebrate this significant achievement, we organised 140 days of celebrations running from June to October. Activities ranged from prize draws and trade days to radio advertising and charity fundraising.

Used in the building of almost a quarter of England's housing stock and still produced today for the residential renovation, maintenance and improvement market, London Brick is one of our most successful and recognised brands. The celebrations were designed to remind both the trade and public that London brick is the original and the best, with a long history and a secure future.



Case Study – Manufacturing excellence

Forterra's Head of Engineering, Stuart McQuillan joined the Group in early 2017 and has spent his first year with the company implementing improvements and driving best practice at our Measham brick factory and Hams Hall aircrete block facility.

Highly skilled people are key to our strategic pillar of manufacturing excellence. Our goal is to recruit and retain talented engineers with modern manufacturing experience gained across a range of sectors. With sustainability at the core of his principles, and a wealth of experience and knowledge gained over 20 years working around the world in the automotive, chemical, aerospace and retail sectors, talented people like Stuart bring a fresh perspective and new ideas to the business' manufacturing processes.

Stuart's story is just one example of how Forterra is investing in expertise and learning from other industries to drive continuous improvement in our manufacturing processes.



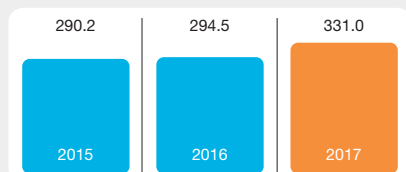
Manufacturing excellence

Our Key Performance Indicators

Measuring and monitoring our performance

We use the metrics below to monitor our strategic process.

Revenue (£ million)



Definition

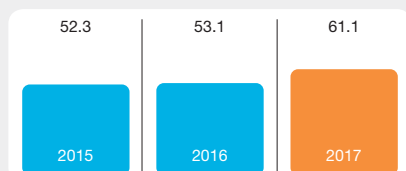
Revenue represents the sale of our products, net of rebates, discounts and value added taxes.

Performance

Revenue increased by 12.4% to £331.0m in 2017. Excluding the Bison acquisition, revenue increased by 10.4%.

Growth was mainly due to strong demand in the new build residential market leading to a double digit increase in sales volumes of bricks and aggregate blocks.

PBT before exceptionals (pro-forma) (£ million)



Definition

Profit before tax adjusted for exceptional items, additional costs related to being a stand-alone plc and with finance costs restated to present the debt facility at IPO as if it had been in place throughout both years.

Performance

On a pro-forma basis, profit before tax increased by 15.1% to £61.1m. This was achieved as a result of increased operating profits and lower finance costs arising from reduced indebtedness.

EPS (pro-forma) (p)



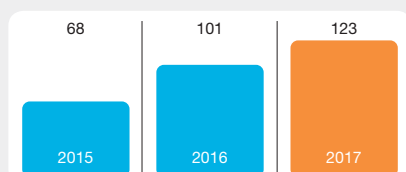
Definition

Basic earnings per share adjusted for exceptional items, additional costs related to being a stand-alone plc and with finance costs restated to present the debt facility at IPO as if it had been in place throughout both years.

Performance

On a pro-forma basis, EPS increased by 16.7% to 24.5 pence per share, reflecting the increase in profitability and also a lower tax rate.

Operating cash conversion (%)



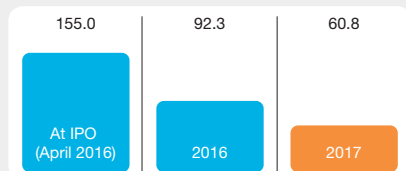
Definition

Operating cash conversion is calculated as operating cash flow before exceptional items less capital expenditure divided by operating profit before exceptional items. This KPI measures our efficiency at turning operating profits into cash.

Performance

The increase in the Group's operating cash conversion from 101% to 123% in 2017 was driven by the Group's increasing working capital efficiency.

Net debt (£ million)



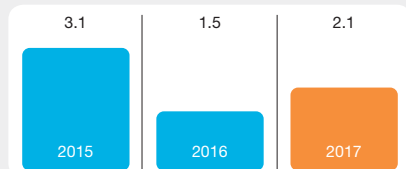
Definition

Net debt comprises the balance of short and long-term borrowings, less cash and cash equivalents.

Performance

Net debt reduced by 34.1% to £60.8m, a significant reduction on prior year especially when taking into account the £20m purchase of Bison. This was driven by strong operating cash flow with operating cash flows before exceptionals of £90.2m compared with £69.8m in 2016.

Lost time incident frequency rate



Definition

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

Performance

The LTI frequency rate increased to 2.1 in 2017 but compares favourably to 2015 and prior years. This performance is disappointing and improving this is a key priority. The Group continues to take initiatives to build awareness and emphasise the importance placed on safety.

Business Review

Stephen Harrison
Chief Executive Officer



Shatish Dasani
Chief Financial Officer



Results for the year

Sales for the year of £331.0m were ahead of last year by 10.4% after excluding the benefit of the Bison acquisition made in September 2017. The sales growth was primarily driven by a strong performance from the new build residential market, leading to a double digit increase in brick and aggregate block volumes over 2016. Aircrete block volumes were marginally lower than prior year, but strengthened in the second half due to greater availability of raw materials. Precast flooring volumes excluding the Bison acquisition were up by low single digits. The Group achieved price increases across all product ranges to mitigate increases in the operating cost base.

Earnings before interest, tax, depreciation and amortisation (EBITDA) of £75.4m for the year was £6.0m ahead of the comparable pro-forma result for 2016 due to higher sales volumes and price increases as outlined above offset by higher costs for raw materials, energy, labour and distribution. As set out in the half year results, the Group was running with a lower level of overheads and operating expenditure in the first part of 2016 pre-IPO, and since listing in April 2016 budgeted investment has been made in specific areas such as IT, sales and marketing, HR and business development to take the Group forward as a stand-alone entity. The full year effect of this in 2017 compared with the prior year was £1.9m, and this investment is now complete.

EBITDA for 2016 has been adjusted to aid comparison to 2017 by deducting additional PLC costs of £1.2m, reflecting the timing of the Group's Initial Public Offering (IPO), which took place in April 2016. In addition, the finance cost for 2016 has been calculated assuming that the post-IPO debt structure was in place throughout 2016. It will not be necessary to use pro-forma figures in future years.

The acquisition of the Bison business from Laing O'Rourke for £20.0m was completed in September 2017, and the contribution from the business from the date of purchase is estimated at sales of £5.8m, EBITDA of £0.6m and operating profit of £0.1m. The acquisition resulted in goodwill of £0.8m as described later in the report.

EBITDA margin of 22.8% was lower than the comparable margin in 2016 of 23.6% due to the additional costs described above, change in sales mix which was weighted more towards new build residential projects, and the effect of the Bison acquisition.

The profit before tax and exceptional items of £61.1m was £8.0m higher than the pro-forma result for 2016, benefiting from the higher volumes and reduced interest costs arising from lower debt and the refinancing of facilities during the year.

Results for the year

	Bricks and Blocks £m	2017 Bespoke Products £m	Group £m	Bricks and Blocks £m	2016 Bespoke Products £m	Group £m
Revenue	249.5	83.6	333.1	221.3	74.8	296.1
Intersegment elimination			(2.1)			(1.6)
Group Revenue			331.0			294.5
EBITDA before exceptionals	69.1	6.3	75.4	63.6	7.0	70.6
EBITDA before exceptionals (pro-forma)	69.1	6.3	75.4	62.7	6.7	69.4
EBITDA margin (pro-forma)	27.7%	7.5%	22.8%	28.3%	9.0%	23.6%

Profit before tax on a statutory basis was £59.3m for 2017 compared with prior year of £37.1m. As well as the trading factors described above, there was a higher finance charge in 2016 due to the increased net debt and higher interest rate in place under the pre-IPO ownership structure. Exceptional charges in 2017 were £1.8m (2016: £8.9m), arising from the writing-off of previously capitalised IPO financing costs upon completion of the Group's refinancing in July 2017.

Earnings per share and dividend

Earnings per share before exceptionals was 24.5 pence compared with 21.0 pence pro-forma EPS for 2016, an increase of 16.7%. The increase reflected the higher level of profit and also a lower effective tax rate of 20.0% compared with 20.9% for 2016.

Basic EPS for 2017 was 23.8 pence compared with 13.8 pence in 2016.

As reported in the Chairman's Statement, the Board is recommending a final dividend of 6.4 pence per share, making a total dividend of 9.5 pence for the year. This represents an increase of 10.5% over the annualised dividend for 2016. The final dividend will be paid on 5 July 2018 to those shareholders on the register as at 15 June 2018.

Cash flow, borrowings and facilities

Operating cash flow before exceptionals for the year of £90.2m was £20.4m higher than 2016, due to a significant improvement in trade working capital and higher profitability. Brick inventory reduced in the year due to the increased levels of demand and there was a continued good level of cash collections reflected in the year end cash balance arising from the busy last few months of the year. Debtor days on a countback basis were 40 days, a small increase from the 39 days at December 2016. The normal seasonal pattern for working capital is an increase in the first half of the year as inventory is built ahead of the busy spring selling season and receivables are higher, followed by a reduction towards the end of the year.

Capital expenditure for the year increased by £1.7m to £10.8m and included the project to upgrade the dryers at the Claughton brick facility and increase capacity. It also included investment being made to upgrade IT systems across the business.

Net cash flow includes the acquisition of the Bison business in September 2017 for a consideration of £20.0m.

Cash flow – highlights

	2017 £m	2016 £m
Operating cash flow before exceptional items	90.2	69.8
Exceptional payments	–	(13.6)
Cash generated from operations	90.2	56.2
Interest paid	(3.3)	(12.4)
Tax paid	(9.3)	(6.3)
Capital expenditure:		
– maintenance	(7.6)	(7.4)
– expansion	(3.2)	(1.7)
Acquisition of Bison	(20.0)	–
Dividends paid	(13.8)	(4.0)
Debtor days	40	39

Net debt at 31 December 2017 was £60.8m compared with £92.3m at the start of the year and £155.0m at IPO in April 2016. The reduction in net debt during the year of £31.5m after paying for the Bison acquisition is testament to the strong operating cash generation of the business. Since IPO, the free cash flow generated by the business has been over £130m, enabling both organic investment through new product development, de-bottlenecking and efficiency projects, and investment through acquisition. It has also enabled the Board to follow a progressive dividend policy whilst strengthening the balance sheet.

Net debt to EBITDA (calculated with reference to the last twelve months of earnings before exceptionals) was 0.8 times at 31 December 2017 compared with 1.3 times at December 2016 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, which was agreed as part of the IPO, was successfully amended in July 2017 and replaced by a new RCF-only committed facility of £150m with a group of major international banks. The term of the facility has been extended by a year to July 2022. In addition, an accordion facility of £50m has been agreed. The financial covenants are unchanged but there is a reduction in the interest cost under the new facility with interest set at LIBOR plus a margin of 125 to 225 basis points depending on the leverage. The new facility will provide a more efficient and flexible form of funding than the previous structure of a large term loan and much smaller RCF.

The Group met its covenant tests comfortably at 31 December 2017.

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 £5.4m (2016: £5.2m).

Business Review continued

Bricks and blocks



Brick volumes increased by double digits benefiting also from the extra soft mud capacity installed in 2016 at our Measham facility.”

Stephen Harrison

Chief Executive Officer

Revenue

£249.5m

EBITDA

£69.1m

Results for the year

	2017 £m	2016 £m	Change
Revenue	249.5	221.3	12.7%
EBITDA*	69.1	63.6	
EBITDA (pro-forma)	69.1	62.7	10.2%
EBITDA margin (pro-forma)	27.7%	28.3%	

* There were no exceptional items relating to the segment in 2017 and 2016.

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. The Group operates nine brick manufacturing facilities across the country with a total production capacity of 575 million bricks per annum. It is also a leader nationally in the aircrete block market, operating from facilities at Newbury (Berkshire) 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 (near Peterborough).

Revenue increased by 12.7% compared with 2016, reflecting strong demand from the new build residential market. Brick volumes were up by double digits, benefiting also from the extra soft mud capacity installed in 2016 at our Measham facility. The blocks business also performed well, with aggregate block volumes increasing strongly, facilitated by an additional shift and higher capacity utilisation at the Oxfordshire plant in particular. Whilst overall aircrete sales volume was down slightly on prior year, the business has performed more consistently during the year due to securing a number of alternative raw material supply sources. Production volumes of aircrete increased, enabling inventory levels to be rebuilt in order to maintain customer service levels during 2018.

Price increases were achieved across each of the product lines in line with our expectations to offset increases in the cost base.

EBITDA of £69.1m was up by 10.2% against the comparative pro-forma EBITDA for 2016 due to increased sales volumes and price rises which offset higher costs of energy, raw materials, distribution and labour. The result was also adversely impacted by sales mix arising from higher sales to the volume housebuilders, higher repair costs due to maintenance carried out at brick facilities including at Accrington, Cloughton and Measham, and the planned cost increases made since IPO as described earlier in this report.

The Group continues to invest in brand awareness and during the year a successful campaign was run to celebrate the heritage and 140 year anniversary of the Fletton brick. This included marketing promotions at builders' merchants, national advertising using both traditional and social media and donation of the product for use by apprentice bricklayers.

A number of new bricks were launched in the year to expand the range and improve customer choice. The number of bricks in the Measham soft mud range has more than doubled during the year in addition to an expanded range of extruded bricks at Cloughton, Accrington and Howley Park. There has been specific focus on the smaller regional and local housebuilders by working with merchants and brick distributors, as well as strengthening relationships with large housebuilders. The dedicated team established to serve the Commercial and Specification segments gained traction in securing a number of successful projects including the Priority School Building Programme, university buildings and student accommodation and the ongoing regeneration of northern and Scottish cities. The Group's bricks made at the Wilnecote facility and used at Sheffield Hallam University won the Best Education category at the 2017 Brick Awards.

The project to replace the dryers at the Cloughton brick facility in Lancashire was completed to schedule, resulting in improved efficiency and a capacity increase of over five million bricks per annum. Following the completion of the project, the Cloughton facility was brought back on line in the second half of the year with a total annual production capacity of 50 million bricks. The nearby Accrington facility also resumed manufacturing in the last quarter of the year, bringing back into production its capacity of 45 million bricks per annum which will increase by a further 10 million during the first half of 2018 through completion of a capital investment programme.

The scope of the de-bottlenecking project at Desford was redefined in order to increase capacity in the short term by around 5 million bricks per annum by replacing the kiln burners at a cost of £0.9m which was less than originally planned. This project was completed in early 2018.

Whilst brick inventories reduced during the year, the measures taken at plants such as at Cloughton, Accrington and Desford as described above will lead to increased production during 2018 and enable the business to continue providing a good level of customer service.

The initiatives taken during the last two years in securing supply of Pulverised Fuel Ash (PFA) used in the production of aircrete blocks have enabled more consistent production during 2017. The Group has recently secured a good supply of conditioned (wet) PFA and capital expenditure of £1.9m has been approved to convert the Hams Hall facility to enable the plant to use 100% wet or dry PFA, or a mixture of the two. The project is planned to be completed during the first half of 2018 and will provide greater flexibility and resilience in the production capability for aircrete blocks.



Business Review continued

Bespoke Products



The acquired Bison Swadlincote facility is the largest and most technically advanced hollowcore manufacturing facility in the UK.”

Stephen Harrison

Chief Executive Officer

Revenue

£83.6m

EBITDA before exceptionals

£6.3m

Results for the year

	2017 £m	2016 £m	Change
Revenue	83.6	74.8	11.8%
EBITDA*	6.3	7.0	
EBITDA (pro-forma)	6.3	6.7	-6.0%
EBITDA margin (pro-forma)	7.5%	9.0%	

* There were no exceptional items relating to the segment in 2017 and 2016.

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

Overall revenue for the division grew by £8.8m (11.8%) or by £3.0m (4.0%) when the benefit of the Bison acquisition is excluded.

EBITDA stated on a pro-forma basis however fell by £0.4m (6.0%) to £6.3m as the precast concrete business faced several headwinds during the year and also due to the planned cost increases made since IPO as described before. EBITDA margin (stated on a pro-forma basis) reduced from 9.0% in 2016 to 7.5% in 2017.

Precast concrete

Precast concrete products are designed, manufactured and shipped nationwide from the Swadlincote, Hoveringham and Somercotes facilities. 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, concrete beams used in the construction of building frames as well as stadia components;
- a range of concrete retaining walls, culverts, Omnia Bridgedeck, 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 highlight of 2017 was the acquisition of the trade and certain assets of Bison Manufacturing Limited which was completed in September. The Swadlincote plant is the largest and most technically advanced hollowcore manufacturing facility in the UK. In addition, the site includes a specialist precast facility capable of producing a wide range of bespoke precast concrete products.

As well as a state-of-the-art factory, a well-trained and dedicated workforce and an ongoing supply agreement with Laing O'Rourke, the acquisition also included the highly respected and well-known Bison brand.

The combined Forterra and Bison precast concrete business has already been rebranded as 'Bison Precast', allowing the wider business to leverage what is regarded as the leading UK precast concrete brand.

Prior to the acquisition, the Swadlincote plant had been operating at around 50% of its capacity. The integration of this facility into the wider Forterra business is progressing well with the aim of having this factory running at a much higher level of capacity utilisation by the summer of 2018. Transferring hollowcore production to Swadlincote will facilitate the release of production capacity at the Hoveringham and Somercotes facilities allowing increased output of precast concrete products as well as creating opportunities to add new and innovative products to the range. The acquisition is performing in line with our expectations with the Swadlincote facility already making a positive contribution to operating profit.

Another notable success was the securing by the Somercotes facility of the contract to supply precast concrete drainage channels and box culverts to the Hinkley Point C construction project. This contract award demonstrates Forterra's capability to supply a prestigious infrastructure project where quality and service are of paramount importance.

Aside from the successes above, 2017 was a challenging year for the precast concrete business. The business faced issues associated with the supply of the expanded polystyrene blocks, which are used in the Jetfloor system and also saw significant mid-year cost volatility on this important input which could not be fully recovered from customers. In addition, the business faced a number of operational challenges and inefficiencies in the main caused by operating the Hoveringham facility at levels of utilisation which were above its normal operating capacity. The acquisition of the Swadlincote factory provides the required additional capacity and removes this constraint for the foreseeable future.

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.

Formpave delivered a strong result in 2017 with both revenues and EBITDA ahead of the 2016 results. At the beginning of the year Formpave successfully installed a replacement block press machine, which increases capacity and provides greater efficiency across its product range whilst also offering the ability to support the aggregate block business with additional output if desired.

Commercially, Formpave continues to make progress in bringing to market its Aquaflow Thermapave system, which combines ground source heat pump ('GSHP') technology with its patented Aquaflow paving system.

Red Bank

Red Bank manufactures its products from its facility alongside the Measham quarry and 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 manufacturing facility to accommodate unique customer requirements.

Red Bank had a successful year in 2017, recording double-digit increase in sales and EBITDA compared with prior year. The business has implemented measures to reinvigorate its product offering, improve margins and enhance customer service. It ran a number of training workshops for distributors in order to improve awareness of its product range and support sales.

Business Review continued

Other financial information



Since IPO, the free cash flow generated by the business has exceeded £130m enabling investment in the business and allowing for a progressive dividend policy whilst strengthening the balance sheet.”

Shatish Dasani

Chief Financial Officer

Revenue

£331.0m

EBITDA before exceptionals

£75.4m

Exceptional items

Exceptional items totalled £1.8m in 2017 compared with £8.9m in the previous year:

	2017 £m	2016 £m
IPO capitalised financing costs written off	(1.8)	–
Transaction costs	–	(9.1)
Separation costs	–	(1.3)
Loss on disposal of subsidiary	–	(0.1)
Indemnity payment received	–	1.6
Total exceptional items	(1.8)	(8.9)

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 has been written-off.

Finance costs

The total finance costs for 2017 were £5.2m compared with £14.2m in 2016. The 2017 charge comprises the £1.8m exceptional cost described above and £3.4m interest cost.

The Group had a much higher debt level and interest rate during the first few months of 2016 under the previous ownership structure prior to the IPO. The pro-forma annual finance cost for 2016 was £5.9m assuming that the debt facility at IPO had been in place throughout the year, and this has been used to calculate the pro-forma profit before tax and Earnings per share before exceptional items.

The reduction in the underlying finance cost from 2016 to 2017 is due to the significant reduction in borrowings since IPO, and also the benefit from refinancing the borrowing facility during 2017.

Taxation

The effective tax rate excluding exceptional items was 20.0% (effective rate excluding exceptional items for 2016: 20.9%). 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 effective tax rate after including exceptional items was 19.9% (2016: 25.9%).

Employee share schemes

During the year, the second offering of the Company-wide employee Sharesave scheme was successfully launched and this, together with the first offer made in 2016, resulted in around two-thirds of employees participating by saving regularly under the Scheme.

In order to have sufficient shares for the vesting of the 2016 Sharesave options as well as any shares required for vesting Performance Share Plan and Deferred Annual Bonus Plan awards, the Board, subject to continued Shareholder approval being granted at the AGM, intends to fund the market purchase of around 240,000 shares each month commencing from March 2018 through the Employee Benefit Trust. It is anticipated that this would provide around five million shares by November 2019, which would be sufficient to meet the Company's obligations in respect of the Sharesave options vesting on 1 December 2019 as well as awards from the other share schemes vesting prior to this date.

The employees' savings pool to be accumulated to that date is estimated at £6.4m (based on the exercise price of 135p per share) and this amount would be received by the Company on the employees exercising their Sharesave options.

Pro-forma adjustments

Pro-forma adjustments have been made to enable a proper understanding of the result compared with prior year:

	2017 £m	2016 £m
Operating profit (statutory basis)	64.5	51.3
Exceptional items	–	8.9
Operating profit before exceptionals	64.5	60.2
Additional costs in 2017 as a plc		(1.2)
Operating profit before exceptionals (pro-forma basis)	64.5	59.0
Finance charge (based on debt structure at IPO for full year)	(3.4)	(5.9)
PBT before exceptionals (pro-forma basis)	61.1	53.1
Tax charge at effective rate	(12.2)	(11.1)
Earnings before exceptional items (pro-forma basis)	48.9	42.0
Number of shares (millions)	200.0	200.0
EPS before exceptionals (pence)	24.5	21.0

EBITDA is calculated by adding back depreciation and amortisation to operating profit:

EBITDA

	2017 £m	2016 £m
Operating profit before exceptionals (pro-forma basis)	64.5	59.0
Depreciation and amortisation	10.9	10.4
EBITDA before exceptionals (pro-forma basis)	75.4	69.4

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
14 March 2018

Shatish Dasani

Chief Financial Officer

The Strategic Report on pages 2 to 41 was approved by the Board of Directors on 14 March 2018 and signed on their behalf by Stephen Harrison, Chief Executive Officer and Shatish Dasani, Chief Financial Officer.

Corporate Social Responsibility

Working to **create value** for all our stakeholders

We engage with our employees, actively participate in our local communities and care for the environment.

Our people



Ensuring the safety, health and wellbeing of our people and everyone we come into contact with is of primary importance. Further information on our people and commitment to safety is provided on pages 32 to 36.

We are committed to ensuring a diverse and inclusive workforce with opportunities for all. Recruitment and retention of highly skilled people is key to our business strategy. We continually seek to develop talent through our training and development programmes as well as through the recruitment of graduates and apprentices.

Strong employee engagement is core to our principals and participation in the annual Best Companies employee engagement survey allows us to listen to our employees feedback and work with local teams to improve levels of engagement.

Our environment



As a business we are committed to protecting the environment. Operating exclusively in the United Kingdom, where a strong legislative framework exists to ensure the protection of the environment, we comply with all relevant environmental regulation and operating consents. We employ dedicated specialists who monitor our compliance and we set stretching targets to continually improve our sustainability credentials. Through our adoption of a number of recognised management systems we are subject to external verification. Further information regarding our sustainability initiatives and the impact we have on the environment can be found on pages 33 and 34.

Left: Former quarry at our Kirton brick factory restored to agricultural use.

Our communities



Each of our facilities sits at the heart of a community providing employment for local people. We are mindful of our impact on local communities and where appropriate have formal community liaison arrangements in place to ensure we are accessible to our neighbours and their views are heard. We aim to support local communities in a variety of ways. During 2017 our charitable efforts were split between our chosen national charities, Prostate Cancer UK and CRASH, and a host of good causes local to our facilities.

Left: Forterra employees climbed Ben Nevis to raise funds for CRASH.

Compliance



We have a zero-tolerance position on corruption, bribery, modern slavery and human trafficking and other abuses of human rights. All of our employees are expected to adhere to our code of business conduct under which they commit to abide by all laws and regulations. We have introduced a formal supplier accreditation process to ensure we only trade with suppliers who can demonstrate that they also operate to the same high standards as we do. All our employees have access to a whistleblowing hotline allowing employees to report any concerns with confidentiality assured.

Corporate Social Responsibility continued



Commitment to health and safety

Improving occupational health and safety standards and performance is an ongoing commitment for Forterra. We recognise that our workforce is our greatest asset and aim to provide a working environment that is free of accidents and ill health. To achieve this, the business strives to ensure that all relevant legislation and codes of practice are complied with and regularly monitors key performance indicators. In 2017, we successfully retained our OHSAS 18001 certification, an independent verification of our health and safety systems and their implementation. We also ensure adequate arrangements are in place for the health, safety and wellbeing of visitors and members of the public that come into contact with our operational activities.

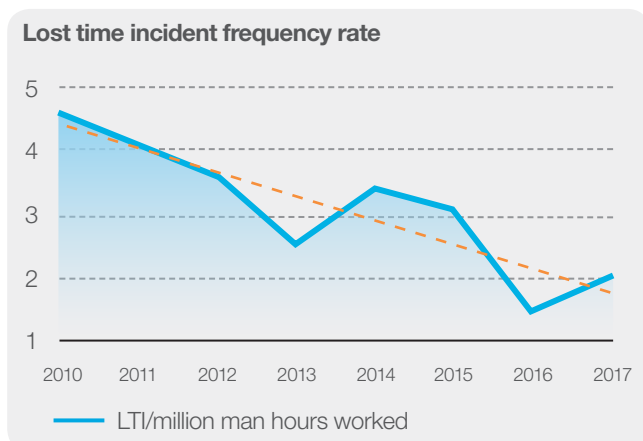
It is important that we have a workforce that is not only safe but also highly engaged. To this end, we invest in putting our staff through recognised safety qualifications. Operational staff are required to complete The Institute of Occupational Safety and Health (IOSH) Working Safely course, while all plant managers and senior operational staff undertake the National Examination Board in Occupational Safety and Health (NEBOSH) certificate training.

This, combined with our long-standing policy for our supervisors and team leaders to complete IOSH's Managing Safely programme, is all part of our continually evolving Health and Safety training strategy.

At Forterra, we recognise the importance of employee involvement. We believe that by listening to and engaging with our workforce on safety, health and welfare issues we will significantly improve our overall health and safety performance. Our safety engagement programme, Building Safety Together (BST), is a key platform for this communication. All factories have an active BST working group who meet regularly to review local safety related data and recent incidents as well as to discuss new safety ideas and initiatives. Findings and feedback from working groups are communicated to the wider workforce through appointed Safety Leaders.

Throughout 2017 we conducted Operational Safety Tours of our sites. The tours, which were led by Directors, were designed to give them the opportunity to look around the plants, identify both good and poor practice, giving feedback where appropriate. This highlights our commitment to safety at the highest level and sets the tone for operational colleagues that safety is a key priority. Outputs of the tours are a regular discussion point at meetings of the Risk Committee.

In March, we hosted a Safety and Health Awareness Day at our Hoveringham site on behalf of British Precast. Featuring guest speakers and group sessions, the event was attended by 150 people including delegates from the HSE, Tarmac, Marshalls and Aggregate Industries. Topics included dust and respirable crystalline silica, manual handling, risk perception, drugs and alcohol testing, noise and vibration and prostate cancer.



Our LTIFR was 2.1 lost time incidents for every million man hours worked in 2017 which regrettably is an increase from the figure of 1.5 recorded in 2016 although the trend over the last seven years shows a strong reduction. Notably, no single LTI occurred across our five Bespoke Products facilities during 2017.

Recognition awards

Forterra received several awards and commendations at the British Ceramic Confederation Awards 2017, which recognise best practice and award innovation among the Confederation's members. Forterra's awards included an Occupational Health Award for the team at Wilnecote who significantly reduced exposure to respirable crystalline silica, and one for health and safety improvements at Kings Dyke, recognising improved isolation procedures when working on fixed guarded equipment.

Prostate Cancer UK

Forterra supports Prostate Cancer UK as part of its ongoing health and safety strategy. The charity represents a similar demographic to a large part of our workforce and has a simple ambition – to stop men dying from prostate cancer.

Environment

Our approach to sustainability

We understand the importance of sustainability and the contribution the Group can make, both in how we operate our production facilities and in the benefits our products can bring to a sustainable built environment.

We rely on effective management systems to ensure we are looking after our people, protecting the environment, and making best use of natural resources. As well as providing a framework for how we manage our sites, these systems are externally audited to provide confidence to stakeholders that we operate to a high standard. Certificates for the management systems shown on the right are available on our website.

Our Management Systems

- ISO 9001 – Quality Management
- ISO14001 – Environmental Management
- BS OHSAS 18001 – Health and Safety Management
- ISO 50001 – Energy Management
- BES 6001 – Responsible Sourcing of Construction Products

Our management systems require us to set objectives and targets in order to show continual improvement in key areas. We have selected a period of 2010 – 2020 to deliver these improvements, a summary of which is shown below. Each of our sites has a management programme in place to support these targets.

Our targets 2010 – 2020	Change Since 2010	Change Since 2016
Reduce energy use Kwh per tonne by 10%	-14%	-5%
Reduce carbon emissions kg per tonne by 10%	-18%	-9%
Reduce our waste to landfill kg per tonne by 85%	-63%	+62%
Reduce our mains water consumption litres per tonne by 25%	-37%	-5%

We continue to make significant progress against our key performance areas and, in most cases, have already achieved our 2020 targets. Capacity utilisation has a significant impact on these statistics with high levels of utilisation leading to the most efficient use of resources. We are on track to meet our 2020 target for waste but, because the levels being generated are low, they are heavily impacted by any improvement projects being carried out on site. For example, a single kiln maintenance project in 2017 contributed around 20% of our total waste to landfill.

By applying life cycle thinking to our products and processes, we are working to reduce our environmental footprint and become less resource intensive. We take our social responsibility seriously and protect those people working on our sites to ensure they go home unharmed at the end of their shift. We also work with our local communities to ensure we are a good neighbour, for example, we are looking at quarry restoration programmes to enhance the areas surrounding our factories.

Corporate Social Responsibility continued

Our delivery fleet utilises modern, efficient vehicles and operates to the highest standards. Our drivers are aware of their ability to influence vehicle emissions and are measured in this respect.

Within the built environment, we provide products to help construct thermally efficient buildings that help reduce heating costs and provide a high level of comfort. We also have products to help protect against flooding, from permeable paving systems attenuating water discharge through to flood defence systems.

Green house gas (GHG) emissions

As a business, we collect direct and indirect fuel consumption data on a monthly basis. We use the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the latest "Defra" published CO₂e emissions conversion factors to measure our GHG emissions.

Scope 1 covers our direct emissions, including fuels and raw materials. Scope 2 covers our indirect emissions such as purchased electricity. We have also reported emission intensity based on our production output (see table below).

	2017	2016	Units
Scope 1	265,797	268,530	tonnes of CO ₂ e
Scope 2	22,929	26,426	tonnes of CO ₂ e
			tonnes of CO ₂ e per tonne of product
Intensity Ratio	0.123	0.136	



Whittlesey Block

The Whittlesey aggregate block factory won the 2017 British Precast Sustainability award for its continual energy improvement work. The award was made in recognition of the efforts made to improve energy consumption year on year.

In 2016, the site management team increased production by 12% while at the same time improving energy efficiency through a number of measures such as investing in new equipment, preventative maintenance programme improvements, installation of new burners, improved curing control systems, and increased insulation. This series of relatively small improvements led to an energy saving in 2016 of 9% compared to 2015 and almost 18% when compared to 2014 when the project commenced.



People

Equality and diversity

As an employer of over 1,800 people, we are committed to the creation and support of a truly inclusive working environment with opportunities for all. Diversity helps our business to grow and succeed.

People are vital to the continuity, growth and success of our organisation and we work to ensure that our equal opportunities policy is applied at every stage of recruitment and selection. The shortlisting, interviewing and selection of candidates is always conducted without regard to gender, sexual orientation, marital status, race, nationality, religion or belief, disability, age, pregnancy/maternity leave or trade union membership.

Should an employee become disabled while working for Forterra, we will do everything we can to help them continue in their role. When that is not possible, we will support them with appropriate training for other suitable employment either within Forterra or elsewhere. This forms part of our commitment to ensuring Forterra is a company where discriminatory practices and behaviours are eliminated.

We are resolute in acting ethically and with integrity in all our business dealings and relationships. We implement and enforce effective systems and controls to ensure modern slavery does not take place anywhere in our own business or within our supply chain. The charts opposite show our diversity statistics.

The Group is aware of its obligations under the Human Rights Act and seeks to act accordingly in all aspects of its operations. In addition, the Group has policies and procedures in place covering whistleblowing, anti-bribery and corruption. The Group complies with the requirements of the Modern Slavery Act 2015 and our Modern Slavery policy was adopted during the year and the associated statement published on our website.

Employment programmes

Throughout 2017 we continued to invest in our apprenticeship and graduate programmes to create a workforce for the future and support internal succession planning and talent development.

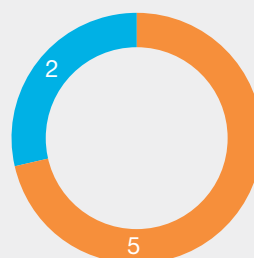
Apprentices

During 2017 we increased our number of apprentices and intend to utilise the Apprentice Levy to further increase the number of apprenticeship places we offer. Apprenticeships are a great way to earn while gaining the skills needed for a career. Forterra offers several apprenticeship schemes covering all fields of engineering. These include a one-year residential course set in the heart of Birmingham, followed by two years of work-based training at one of our UK facilities. On completing the programme, students graduate with an NVQ Level 3 Certificate qualification.

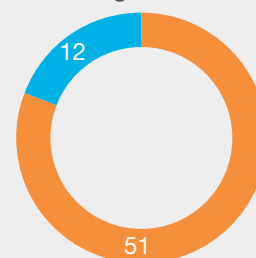
Graduates

Several university leavers joined our Graduate Scheme in 2017. The scheme is made up of four six-month secondments and offers a clear career path, mentoring and tailored projects, as well as multi-disciplinary experience from factory floor to management meetings.

Directors of the Company



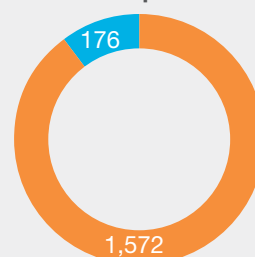
Total senior managers excluding Directors



Other members of Executive Committee



Other employees of the Group



Year end total	
Male	1,635
Female	190

Corporate Social Responsibility continued



Top: 2017 engineering apprentices.

Above: Best Practice award winners.

Employee engagement

We recognise that communication is important and we provide our employees with information about business activities on a regular basis. We also ensure that employees have the opportunity to communicate their views to management. To this end, we have established an employee forum and conduct an annual Best Companies employee engagement survey.

Employees are encouraged to participate in the success of the Group. The Group currently operates two all-employee share schemes: a Sharesave plan ("SAYE") under which approximately two-thirds of the Group's employees now participate, and a Share Incentive Plan under which free shares were granted to all employees working in the business at the time of the IPO in 2016.

Leadership and management development

In response to the results of the Best Companies employee engagement survey, we are investing in the development of our leadership and management teams.

Best Practice Awards

In 2017 Forterra launched its Best Practice Awards which culminated in an awards ceremony held in January 2018. The awards are aligned to our corporate values and strategic priorities and designed to recognise, celebrate and encourage the sharing of best practice. Over 120 people from across our sites were nominated in six award categories: Health and Safety, People Management, Customer, Procurement, Community and Project.



Community

In 2017, we continued our engagement with the local communities in which we operate, from fundraising for local charities to sponsoring college brickwork departments. Engagement such as this helps us to better understand local issues and needs and allows us to make positive contributions where we can.

At the beginning of the year, Forterra became a patron partner of CRASH, a unique and practical charity that assists homeless and hospice charities with construction-related projects. We provide building materials, cash grants and our contributions to the charity totalled more than £22,500 in 2017. CRASH's work makes a significant difference to the lives of vulnerable homeless people and those with life-limiting illnesses.

In 2017, we set up our Charity Committee, which has already raised several thousand pounds for charity through the organisation of events. A team climb of Ben Nevis raised over £8,000 for CRASH, while a golf day and a football tournament raised over £11,000 for Prostate Cancer UK.

We support and encourage our staff in their fundraising activities, providing access to a community fund and charity matching scheme, as well as supporting payroll giving.

During the year, our employees supported over 35 different organisations in the wider community. Their contributions have extended beyond fundraising to include practical, hands-on involvement with local schools, sports clubs and community groups.

In Northamptonshire, we have continued our support of the Community Safety Partnership. By providing a heavy goods vehicle and support staff we are able to teach local children about the dangers of large vehicles, such as blind spots and stopping distances.



1



2



3



4



5

- 1 Forterra 7-a-side football tournament.
- 2 Book donation to Duston Eldean Primary School.
- 3 Sponsorship of the Northamptonshire Bowling Federation.
- 4 Support of a Community Safety Partnership event.
- 5 Forterra golf tournament.

Supporting bricklayers of the future

Forterra is committed to supporting the bricklayers of the future by sponsoring events and college brickwork departments. This has seen us donate supplies of London Brick and Ecostock soft mud bricks for courses attended by BTEC and apprenticeship students.

We donated thousands of London Bricks to support the bricklaying heats and final of the Construction Industry Training Board (CITB)'s SkillBuild. SkillBuild has been running for more than 45 years and sees students who are undertaking a construction qualification compete to be crowned winner in their chosen craft.



Risk Management and Key Risks

Risk management framework

Board responsibility

The Board considers effective risk management as critical to the Group, and has ensured that appropriate risk management and control systems have been in operation throughout the year.

During the year, the Board has:

- undertaken a review of the effectiveness of the Group's risk management and internal control systems;
- regularly reviewed the key risks on the Group risk registers, challenging the risks identified, evaluations and proposed mitigating actions;
- considered changes in key risks over the year;
- reviewed and approved the risk appetite of the Group;
- received updates on specific key risks from management, and status updates on follow-up actions; and
- received updates on the internal control environment from management, internal and external audit, and status updates on the remedial actions taken where deficiencies have been identified.

The above actions have been carried out by the Board itself or through the work carried out by the Audit and Risk Committees.

Management activity

The Executive Committee, along with other senior managers, met regularly through the year to ensure that Group risk registers continued to reflect the risks faced by the Group, changes to existing risks and emerging risks had been recognised, mitigating activities were effective and to provide impetus to the embedding of Risk Management activities across the Group.

Priorities are determined by applying a standard methodology to all risks. This methodology considers the potential impact and likelihood of a risk event occurring before considering the mitigating actions and the severity and likelihood of the residual risk.

Senior management regularly re-evaluate the risks that they are responsible for and provide updates.

In addition to the Group risk register, site-level registers are in the process of being established and will give a better view of risks from the bottom-up. Management aim to have specific risk registers in place at each operational site within the next twelve months.

First line controls are in place across all business units and represent the foundations of the internal control system. Management control self-assessments, review controls, risk registers and internal audit complement these to give management reasonable assurance that risks which threaten the Group's ability to meet its strategic objectives are mitigated.

Risk appetite

The Board believes that effective risk management can support the Group's strategic objectives. As such, risk management is based on a balance of risk and reward determined through the organisation's assessment of likelihood and impact. The Board seeks to minimise exposure to health and safety, financial and compliance risks as far as is reasonably practicable. However the Board accepts and is prepared to take certain strategic, commercial and operational risks in pursuit of its objectives, where these risks and potential benefits have been fully understood and reasonable risk mitigation actions have been taken.

Viability statement

In accordance with provision C2.2 of the 2016 UK Corporate Governance Code, the Directors have conducted a review and assessed the prospects and viability of the Group.

Although the Directors have no reason to believe that the Group will not be viable over a longer period, the Board has chosen to conduct this review for a period of three years. The Group believes that this is an appropriate timeframe as it aligns with the Group's strategic and financial planning horizon.

The Directors have taken account of financial forecasts for the three-year period following the balance sheet date, comparing future funding requirements with committed external borrowing facilities. The Directors confirm that they have a reasonable expectation that the Group will continue in operation, meet liabilities as they fall due and will not breach banking covenants in this period.

In support of the viability statement that the Directors make the Group has stress tested the three-year financial forecasts by assessing the potential impact that the principal risks facing the Group could have on these financial forecasts. This assessment reflected the Directors' judgement as to the net potential financial impact of these risks and the likelihood of these principal risks occurring.

Key risks and uncertainties

The table below summarises the Group's key risks and uncertainties (not listed in order of priority) and how we respond to them.






Our strategic objectives and drivers are:

- 1 Manufacturing excellence
- High performing people
- 2 Core products focus
- Strong customer relationships
- 3 Business expansion

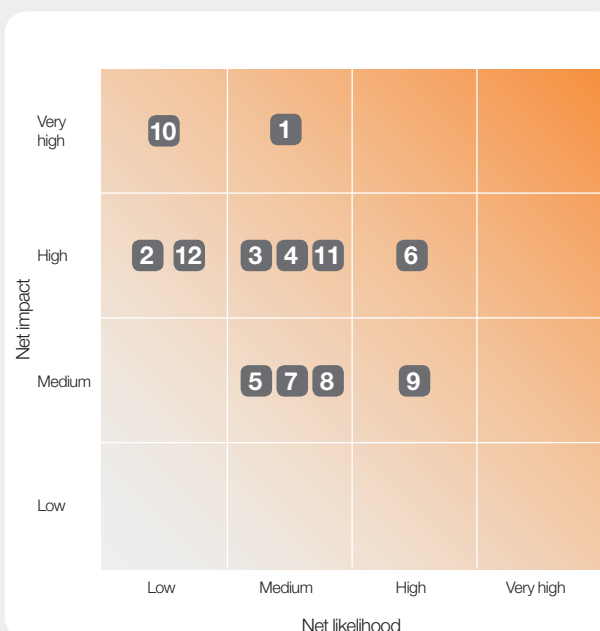
Risk:	Potential impact on KPIs:	How we responded:	Change in risk in the year:	Link to strategy:
1. Economic conditions	The Group's business could be adversely affected by general economic and global market conditions. Demand for the Group's products is closely correlated with residential and commercial construction activities, which are influenced by these conditions.	<p>The Group reviews and monitors business performance, market data and industry forecasts in detail on an ongoing basis and as part of standard month-end procedures. The suite of leading indicators that the Group monitors has developed in the year and management are confident that this allows the Group to identify adverse trends sooner and respond accordingly.</p> <p>The Group has built a strong track record of reducing costs rapidly and flexing the utilisation of capacity in the event of a downturn, whilst continuing to manage assets and human resources to take advantage of subsequent increases in demand.</p> <p>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.</p>	→	<div style="display: flex; flex-direction: column; gap: 5px;"> 1 2 3 </div>
2. 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 the Group's business.	The Group participates in trade associations, attends industry events and tracks any policy changes associated with housebuilding and the construction sector more broadly. The Group factors any emerging issues into its models of future demand so as to anticipate future changes and develop action plans for scenarios such as changes to credit availability, interest rates, sustainability initiatives or construction methods.	→	<div style="display: flex; flex-direction: column; gap: 5px;"> 1 2 3 </div>
3. Residential sector activity levels	The Group receives a significant portion of its revenue from residential development; whether new build construction or repair, maintenance and improvement. The weighting of Group revenues towards this sector means that there is exposure to the impact that a change in activity levels in this sector could have.	The Group focuses on activity and outlook for the residential sector 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. The recent acquisition of Bison is an example of this.	→	<div style="display: flex; flex-direction: column; gap: 5px;"> 1 2 3 </div>
4. Product availability and demand	Certain Group products are only manufactured at single facilities and certain products are only demanded for specific end uses. This means that the disruption at a facility or falling demand in a specific market could have a detrimental impact on the Group's performance.	<p>The Group plans to add brick capacity in the medium-term and improve efficiency to ensure that brick inventory levels meet customer demand. Within the year the Group has mitigated the risks associated with availability of inventory by; increasing incremental capacity through capital investments, production planning, managing inventory levels, proactive maintenance and management of engineering resource and spares. Risks have been reduced further inorganically, with the Bison acquisition adding capacity to our previously capacity constrained precast business.</p> <p>The Group has mitigated demand risks in the year through marketing campaigns, new product developments and commercial initiatives.</p>	→	<div style="display: flex; flex-direction: column; gap: 5px;"> 1 2 3 </div>

Risk Management and Key Risks continued

Risk:	Potential impact on KPIs:	How we responded:	Change in risk in the year:	Link to strategy:
5. Customer relationships and reputation	<p>The Group receives a significant portion of its revenue from key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.</p>	<p>The Group has long-standing relationships with major customers and continues to develop these through an ongoing commitment to quality, service and having an appropriate product offering. Customer satisfaction surveys have been undertaken in the year to assess how the Group can evolve and ensure that it continues to meet its customer expectations. Commercial initiatives have also seen the Group develop relationships with a number of pre-identified customers.</p>		
6. Cost and availability of raw material	<p>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.</p>	<p>The Group production plans are developed collaboratively by Operations and Commercial management to facilitate effective stock management and procurement processes. The Group has taken a range of positive steps to ensure more consistent prices and supply of certain key raw materials. Where this has not been possible the Group has been able to source new supplies and process alternative raw materials to mitigate the impact of this risk.</p>		 
7. People training and development	<p>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.</p>	<p>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 also planning to improve its HR systems.</p>		
8. Research and development	<p>Demand for the products that the Group manufactures may fall if the Group fails to respond to market developments and revenues and margins may suffer.</p>	<p>Activity that aims to extend and enhance the product range has increased in the year. A number of key appointments have been made, new products have been added to our range and progress against initiatives continues.</p>		 
9. IT infrastructure and systems	<p>Disruption or interruption to the IT systems could have a material adverse impact on performance and position.</p>	<p>The Group continues to invest in IT, having upgraded its core financial platform. Other business systems addressing manufacturing, inventory and customer services are also being upgraded. Together with this, the Group has continued to develop its cyber strategy and assess its defences.</p>		  
10. Business continuity	<p>Group performance is dependent on a number of 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.</p>	<p>The Group has made plans that will allow key centralised functions to operate in the event of business interruption. During the year the Group responded to a number of events which caused business interruption at operational sites. Lessons learnt from such incidents are shared across the business and will be incorporated into emergency response plans at other operational facilities.</p>		  

Risk:	Potential impact on KPIs:	How we responded:	Change in risk in the year:	Link to strategy:
11. 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.	Health and safety remains our 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. The Group promotes a number of ongoing initiatives to highlight hazards, promote best practice and undertake on-the-spot risk assessments.		1 2  
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.	The Group closely manages financial risks and takes steps to reduce risks where necessary. Foreign exchange risk – Significant purchases in foreign currency are managed by the Group treasury function. Foreign exchange forward contracts and options are arranged with terms timed to match the settlement of obligations to mitigate this risk. Credit risk – The Group credit control function manage the risk of customer default and apply appropriate credit limits to mitigate credit risk. Liquidity risk – The Group manages daily cash flow and forecasts daily requirements over the Group working capital cycle to mitigate liquidity risk. The cash-generative operations of the Group and committed facilities are sufficient to mitigate liquidity risk for the foreseeable future. Interest rate risk – The Group monitors interest rate risk on an ongoing basis and reviews options to hedge part of the variable rate risk. During the year, the Group refinanced its debt facilities on improved terms for a five year period.		2 3 

Risk heat map



In addition to the information shown above, management prepare a heat map to illustrate how potential impact and likelihood interact after the strength of mitigating activities has been considered and reflected.

Net impact is a financial measure, Net likelihood reflects the chance of the risk occurring within the next three years.

Our Board of Directors

We have a **strong and experienced leadership team**

Paul Lester CBE
Non-Executive Chairman



Appointed
11 April 2016



Paul has over 30 years of experience at senior management or director level of businesses. Previously, Paul was Chief Executive of support services company VT Group plc, Group Managing Director of Balfour Beatty plc and Non-Executive Director of Invensys plc. Paul has held numerous Board and senior management positions at other engineering and support service companies.

Paul holds a Bachelor of Science with honours in Mechanical Engineering and a diploma in Management Studies from Nottingham Trent University. Paul is a Chartered Engineer, is Fellow of the Institution of Mechanical Engineers and is a member of Her Majesty's Major Projects Review Group. Paul was awarded a CBE in 2008.

Other Directorships

Non-Executive Chairman of Essentra plc and McCarthy and Stone plc.

Stephen Harrison
Chief Executive Officer



Appointed
21 January 2016



Stephen joined Hanson plc in October 2002 and held a variety of senior management roles within Hanson and the HeidelbergCement Group. Stephen was appointed Managing Director of Hanson Building Products, the predecessor to Forterra, in 2012.

Stephen studied Economics at Kingston University in London and holds a Masters in Business Administration from Cranfield School of Management.

Other Directorships

Stephen is an Officer of the Construction Products Association and a Director of the Brick Development Association.

Shatish Dasani
Chief Financial Officer



Appointed
21 January 2016



Shatish has over 20 years of global experience in senior finance roles within different industries including building materials, business services, manufacturing and electronics. Notable appointments include Chief Financial Officer of TT Electronics plc, Group Financial Controller of De La Rue plc and Chief Financial Officer of Blue Circle South America based in Chile. Shatish has also been alternate Non-Executive Director at Camelot Group plc and Public Member at Network Rail plc.

Shatish is a qualified Chartered Accountant and holds a Masters degree in Mathematics from Oxford University and a Master of Business Administration degree from London Business School.

Justin Atkinson
Senior Independent
Non-Executive Director



Appointed
11 April 2016



Justin has over 20 years of experience at senior management or director level of businesses, including those in engineering and all types of construction, including residential and commercial markets. Between 1990 and 2015, Justin held various roles within Keller Group plc, and became Chief Operating Officer in 2003 and Chief Executive Officer in 2004 until 2015. Previously, Justin was a Financial Manager at Reuters plc and trained as a Chartered Accountant at Deloitte Haskins & Sells (Scotland) (now part of PwC).

Justin is a qualified Chartered Accountant, holds a Bachelor degree in Accountancy from Glasgow University and the advanced management programme qualification from INSEAD. The Board have determined that Justin has recent and relevant financial experience.

Other Directorships

Senior Independent Non-Executive Director for Kier Group plc, Non-Executive Director of Sirius Real Estate Limited and James Fisher and Sons plc and member of the Audit Committee of the National Trust.

Divya Seshamani
Independent
Non-Executive Director



Appointed

11 April 2016



Divya has over 16 years of experience at senior management or director level of businesses, including those in investment, infrastructure, energy, sustainability and manufacturing. Previously, Divya was an Independent Non-Executive Director at Marine Current Turbines Limited, a Council Member of the Royal Institute of International Affairs (Chatham House) and worked in the global infrastructure group at the Government of Singapore Investment Corporation. Divya has also held principal roles at Unilever Ventures Limited and The Parthenon Group.

Divya holds a Bachelor of Arts degree and Masters of Arts degree in Politics, Philosophy and Economics from Oxford University and a Master of Business Administration degree from Harvard University.

Other Directorships

Managing Partner of Greensphere Capital LLP. Director of Greensphere Biomass 1 Limited and Duranta Energy Limited.

Martin Sutherland
Independent
Non-Executive Director



Appointed

23 May 2017



Martin has over 20 years international experience at senior management or director level in technology and manufacturing businesses focused on the government, financial services and the telecoms markets. Martin has held the position of Chief Executive Officer at De La Rue plc since 2014. Previously he held various roles at Detica plc, becoming Managing Director in 2008 on its acquisition by BAE Systems plc. Prior to this Martin worked for Anderson Consulting and British Telecom.

Martin holds a Masters degree in Physics from Oxford University, and a Masters degree in Remote Sensing from University College and Imperial College London.

Other Directorships

Chief Executive Officer of De La Rue plc.

Katherine Innes Ker
Independent
Non-Executive Director



Appointed

1 September 2017



Katherine has gained extensive executive and non-executive experience across a range of sectors in a career spanning over 28 years. Katherine began her career as a city financial analyst and has since held many non-executive directorships including Colt Group SA, Fibernet plc, St Modwen Properties plc, Taylor Wimpey plc, Taylor Woodrow plc, Shed Media plc, ITV Digital plc, The Television Corporation plc, Tribal Group plc, S&U plc, Victoria plc, Marine Farms ASA, Gyrus plc, Williams Lea plc, and the Ordnance Survey.

Katherine is a Graduate of Oxford University, holding both a Masters degree in Chemistry and a Doctorate in Molecular Biophysics.

Other Directorships

Non-Executive Chairman of Mortgage Advice Bureau plc, Senior Independent Director of The Go Ahead Group plc and Non-Executive Director at Gigaclear plc.

Benjamin Guyatt
Company Secretary

Appointed

22 March 2016



In addition to his role as Company Secretary, Ben is also a member of the Executive Committee and holds the role of Director of Finance. Along with financial responsibilities his role also includes corporate finance. Ben joined Hanson plc in 2006 and held a variety of senior finance and strategy roles within Hanson and HeidelbergCement. Previously Ben held financial management roles at Heath Lambert.

Ben is a qualified Chartered Accountant and holds a Bachelor of Arts degree with honours in Accounting and Finance from the University of the West of England.

Committee membership

A Audit Committee

R Remuneration Committee

N Nomination Committee

RK Risk Committee

***** Denotes Committee Chairman

Our Executive Committee

Stephen Harrison
Chief Executive Officer

See Stephen Harrison's
biography:

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Shatish Dasani
Chief Financial Officer

See Shatish Dasani's
biography:

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Matthew Clay
Managing Director,
Bespoke Products



Matthew joined Hanson plc in 2004. Prior to joining the Group, Matthew held senior IT roles at MITIE Group plc and FirstGroup plc. Matthew holds a Bachelor of Science with honours degree in Physical Electronic Engineering with Professional Studies from Lancaster University, is a Chartered Engineer and member of the Institute of Engineering and Technology and is President of the British Precast Concrete Federation.

Adam Smith
Commercial Director



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

Edward Haslam
Human Resources
Director



Ed joined Forterra in March 2017 as Human Resources Director. He previously held senior HR roles at Weetabix, Rolls Royce and Saint-Gobain. Ed started his career as an apprentice in the automotive industry, during which time he studied for a BA Hons in Business followed by an MA in Human Resource Management at the University of Wolverhampton.

Darren Rix
Strategy and
Development Director



Darren joined Hanson plc in 2007 and held a number of senior finance roles, including Financial Controller for the Building Products and Cement divisions. From July 2015 Darren held the role of Group Controller at Forterra and was appointed Strategy and Development Director in July 2017. Darren is a Chartered Management Accountant and holds a Bachelor of Arts Degree with honours in Economics from the University of Leicester.

Benjamin Guyatt
Director of Finance and
Company Secretary

See Ben Guyatt's
biography:

Page 43



George Stewart
Operations Director



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

Matthew Day
IT Director



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

Corporate Governance Statement

Paul Lester CBE
Chairman



Introduction from the Chairman

On behalf of the Board I am pleased to present the Company's Corporate Governance Statement for the year ended 31 December 2017.

2017 represented our first full year as a listed company and has seen a significant change to the Board. Lone Star Funds completed the sell down of their investment in the Company in April 2017 and with this Bradley Boggess and Richard 'Chip' Cammerer resigned from the Board. The exit of Lone Star is another milestone in the journey of Forterra with the Company now having a 100% free float of its equity on the stock market.

Shortly after the Lone Star exit, Martin Sutherland joined the Board as an independent Non-Executive Director. Martin's appointment was followed by the appointment of a further Independent Non-Executive Director, Katherine Innes Ker. I am pleased to report that the transition to a Board fully compliant with the UK Corporate Governance Code 2016 issued by the Financial Reporting Council (the Code) was a smooth one and I am confident that we now have a strong and diverse Board of the highest calibre in place with the complementary skills, motivation and experience to drive the Group forward.

It is pleasing to see how quickly our new Directors have come together as a Board and I am also pleased to be able to report a strengthening of our Executive Committee which assists the Executive Directors in the day to day management of the business and the implementation of the strategy. During the year the Group appointed an HR Director, a Director of Strategy and Development and also promoted the existing role of IT Director to the Executive Committee. This strengthening of the management team completes our journey from a division of a multinational group to a truly independent company equipped for future growth.

As a Board we recognise that we are accountable to our shareholders and are responsible for ensuring good corporate governance. We seek to promote consistently high standards of Corporate Governance throughout the Group.

In our IPO prospectus we committed to achieving compliance with the Code within a reasonable timeframe and I am happy to report that this goal has been achieved in 2017.

The Corporate Governance Statement, together with the reports of the Remuneration, Nomination, Audit and Risk Committees on pages 46 to 58 set out in greater detail how the principles and provisions of the Code have been fulfilled and how the Board and its Committees have fulfilled their responsibilities for ensuring that robust governance practices are in place across the Group.

Paul Lester CBE

Chairman
14 March 2018

Compliance with the Code

The purpose of the UK Corporate Governance Code 2016 (the Code) is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the Company. The main principles of the Code set out standards of practice for the Board in relation to leadership, effectiveness, accountability, remuneration and its relationship with shareholders.

Certain provisions of the Code do not apply to smaller companies defined as those, like Forterra, outside of the FTSE 350. The Board is however committed to achieving the highest standards of corporate governance and had previously declared its intention that Forterra be fully compliant with all of the provisions of the Code.

As at 31 December 2017 the Board believes Forterra is fully compliant with all of the provisions of the Code. During 2017 as the Group transitioned to fully compliant status, the following instances of non-compliance with the Code are reported:

Mandatory provisions

Prior to 10 October 2017 the Remuneration Committee was chaired by the Chairman of the Board, Paul Lester. This was in contradiction of provision D.2.1 of the Code which stipulates that the Company Chairman may be a member of but not chair the Remuneration Committee. It was disclosed in the 2016 Annual Report that the Board had considered that Paul Lester had the necessary experience and skill to chair the Committee prior to a suitable replacement being identified. In seeking additional independent Non-Executive Directors to join the Board, the Nomination Committee had stipulated the skills and experience necessary to chair the Remuneration Committee and Katherine Innes Ker was appointed with a view to assuming this role. Following a handover period, Katherine assumed the Chairmanship of the Committee on 10 October 2017.

Application of best practice

Prior to 23 May 2017, the Company was not compliant with provision B.1.2 of the Code which stipulates that at least half the Board, excluding the Chairman, should comprise Non-Executive Directors determined by the Board to be independent. During this time however Forterra did meet the requirements of this provision applicable to small companies which requires that a smaller company should have at least two independent Non-Executive Directors. As at 31 December 2017 the Board comprised seven Directors of whom four (excluding the Chairman) were determined to be independent Non-Executive Directors.

Prior to 1 September 2017 the Company was not in full compliance with provision C.3.1 of the Code which requires that the Board should establish an Audit Committee of at least three or, in the case of smaller companies, two, independent Non-Executive Directors although Forterra was in compliance with the requirement for smaller companies. Katherine Innes Ker was appointed to the Audit Committee on 1 September 2017, the date of her appointment to the Board, and from this date the Company was fully compliant with this provision of the Code.

Share dealing code

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

The Board

The Board has overall responsibility for the management of the Company in order to maximise shareholder value. The Board sets the Company's strategic aims and ensures that the necessary financial and human resources are in place for the Company to meet its objectives. It is the role of the Board to ensure the operation of a framework of operational, financial and regulatory internal controls which enables risk to be assessed and managed.

Summary of matters reserved for the Board

The Board has a formal schedule of matters reserved for its decision which is summarised below. This document was approved by the Board on 11 April 2016 and is reviewed regularly:

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

To assist in discharging its responsibilities the Board is supported by specialist Committees established by the Board in compliance with the Code. The Board has established four Committees, an Audit Committee, a Risk Committee, a Remuneration Committee and a Nomination Committee. The terms of reference of each of these Committees was approved by the Board prior to the IPO in April 2016 and are kept under review. The Board believes each of the Committees has the necessary skills and resources to fulfil its brief and each of the Committees has access to appropriate legal and professional advice where necessary.

The Audit Committee report on pages 51 to 54 outlines how the Board has applied the Code in respect of financial reporting and internal controls. The Risk Committee report on page 56 explains how the Board has applied the Code in respect of risk management. The Nomination Committee report on page 55 outlines the Board's approach to Board development. The Remuneration Committee report on pages 57 to 72 provides details of the Directors' remuneration received in the year.

Corporate Governance Statement continued

Day-to-day management and implementation of strategies approved by the Board is delegated to the Executive Committee which comprises nine senior managers including the two Executive Directors. Membership of the Executive Committee along with biographies are detailed on pages 44 to 45.

Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive Officer.

The Code recommends that a UK listed company's Chairman be independent on appointment. The Board considers that the Chairman, Paul Lester, was independent on appointment. The Chairman's role is to ensure good corporate governance. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

Stephen Harrison, the Chief Executive Officer, assisted by the Executive Committee is responsible for the day-to-day operational and commercial management of the Group including the implementation of strategies and policies approved by the Board.

Senior Independent Director

The Code also recommends that the Board should appoint one of the independent Non-Executive Directors as the Senior Independent Non-Executive Director and Justin Atkinson has been appointed to fulfil this role. The Senior Independent Non-Executive Director is available to shareholders if they wish to discuss the governance of the Company or any other matter and Justin Atkinson met with a number of major shareholders in this capacity in 2017 and again met with major shareholders at the beginning of 2018.

Re-election of Directors

The Company's Articles of Association contain certain powers of removal, appointment, election and re-election of Directors and provide that each Director should retire at the Annual General Meeting if they had been a Director at each of the two preceding Annual General Meetings and are not reappointed by the Company in general meeting at or since such meeting. A retiring Director shall be eligible for reappointment. In practice it is intended that all Executive and Non-Executive Directors will retire and put themselves forward for re-election annually at each Annual General Meeting and as such all Directors will stand for re-election at the 2018 Annual General Meeting.

On appointment, Board members, in particular the Chairman and Non-Executive Directors, disclose their other commitments and agree to allocate sufficient time as necessary to the Company in order to discharge their duties effectively. The current external commitments of the Board are shown on pages 42 and 43. Any conflicts of interest are dealt with in accordance with the Board's conflict procedures.

Board evaluation

In accordance with the provisions B.6.1 and B.6.2 of the Code, during 2017 the Board undertook an internal evaluation of both its own effectiveness and that of its Committees. The evaluation consisted of questionnaires completed by each Director, the questionnaire was formed to allow the Directors to provide their views upon the following subjects:

- Board composition;
- Board culture;
- Board administration and governance;
- committee structure functionality and meetings;
- strategy development and implementation;
- risk appetite and risk management systems; and
- succession planning.

The evaluation process was designed to stimulate thought and discussion and the process included the consideration of the effectiveness of Executive Directors, the Non-Executive Directors and the Chairman. The results of the evaluation were considered by the Chairman and discussed with the Board.

Following this review, the Board is satisfied that the composition of the Board and its Committees provides an appropriate balance of skills, experience, independence and knowledge to allow the Board and its Committees to successfully and effectively discharge their duties in line with the requirements of the Code.

The following items were identified by the evaluation process and the Board will consider and address these in 2018 and beyond:

- enhancing the induction process for new Directors following feedback received from the Directors joining the Board in 2017;
- crisis management; and
- the interface between the Board Committees.

It is the intention of the Board that an independent evaluation of the Board and its Committees is undertaken at least every three years as recommended by the Code and the Board expects the first external evaluation to be undertaken in 2018.

In addition to the evaluation, the Senior Independent Non-Executive Director separately reviewed the performance of the Chairman with the other Directors. The Chairman also met with each Director during the year to discuss their contribution to the Board along with their personal development.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they may have interests which conflict with those of the Company. The Board has adopted procedures as provided for in the Company's Articles of Association for authorising existing conflicts of interest and for the consideration of, and if appropriate, authorisation of new situations which may arise. The Company maintains a conflict register to be reviewed by the Nomination Committee at least annually. Currently the only situations authorised and listed on the register are the Directors holding directorships and other similar appointments in companies or organisations not connected with the Company where no conflict of interest has been identified.

Internal controls and risk management

The Board acknowledges its responsibility for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. It is also responsible for maintaining sound risk and internal control systems in accordance with section C.2.2 of the Code.

The Board, in accordance with provision C.2.3 of the Code has in 2017 requested that the Internal Audit function carry out a review of the Group's risk management and internal control systems covering all material controls including financial, operational and compliance controls.

The Board confirms that:

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

The key risks faced by the Group together with their potential impact and mitigating actions are laid out in the Risk Management section of the Strategic Report on pages 38 to 41.

Financial and business reporting processes

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

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

Directors' and Officers' insurance

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

Shareholder engagement

The Chief Executive Officer and Chief Financial Officer meet regularly with major shareholders and work together with the joint Brokers to ensure there is effective communication with shareholders on matters such as governance and strategy. As part of the Group's investor relations programme, meetings with major shareholders are scheduled to discuss the Group's interim and full year results. The Chairman is available to meet major shareholders on request, and the Senior Independent Director also regularly meets with major shareholders.

Relationship agreement

From 25 April 2017 Lone Star Funds ceased to qualify as a 'controlling shareholder' according to the Listing Rules of the Financial Conduct Authority (LR 6.1.2A) and upon the sale by Lone Star of its entire shareholding in the Company on that date, the relationship agreement between the Company and Lone Star lapsed.

Pursuant to the terms of the relationship agreement Lone Star had appointed two Directors, Bradley Boggess and Richard 'Chip' Cammerer to the Board and in accordance with the terms of the relationship agreement both resigned from the Board on 25 April 2017.

Board meetings

It is the intention of the Board to meet on at least eight occasions a year. In 2017 the Board met on nine occasions, one of which was a designated strategy day.

The Directors regularly communicate and exchange information regardless of the timing of meetings and should the need arise, a meeting of the Directors can be convened at short notice. In addition to the scheduled meetings the Board also held a number of telephone conference calls during the year.

There were also five meetings of the Audit Committee, six meetings of the Remuneration Committee, four meetings of the Risk Committee and three meetings of the Nomination Committee held during the year under review.

The Chief Executive Officer, Chief Financial Officer and external auditor are often invited to the Audit Committee meetings although the Committee also regularly meets with the external auditor without the presence of the Executive Directors.

Corporate Governance Statement continued

The table below only includes attendance where each Director attended as a member rather than as an invitee or an observer.

The Company Secretary is also secretary to each of the Board Committees and attends meetings in this capacity.

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
Current Directors					
Paul Lester	9/9	N/A	4/4	6/6	3/3
Stephen Harrison	9/9	N/A	4/4	N/A	N/A
Shatish Dasani	9/9	N/A	4/4	N/A	N/A
Justin Atkinson	9/9	5/5	4/4	6/6	3/3
Divya Seshamani	8/9	4/5	4/4	5/5	3/3
Martin Sutherland ¹	4/4	2/2	N/A	1/1	1/1
Katherine Innes Ker ²	2/2	2/2	N/A	2/2	-/-
Past Directors					
Bradley Boggess ³	3/3	N/A	N/A	N/A	2/2
Richard Cammerer Jr. ⁴	3/3	N/A	N/A	N/A	N/A

1 Appointed to the Board on 23 May 2017.

2 Appointed to the Board on 1 September 2017.

3 Resigned on 25 April 2017.

4 Resigned on 25 April 2017.

Divya Seshamani missed a single meeting of both the Board and Audit Committee which took place on the same day as a result of an unavoidable conflict which arose at short notice. Divya received all of the papers in advance, with the opportunity to provide input before and after the meeting via the Company Secretary.

Approved by the Board and signed on its behalf

Paul Lester

Chairman
14 March 2018

Audit Committee Report

Justin Atkinson
Chairman



Introduction

Dear Shareholder,

I am pleased to present the Audit Committee Report for 2017, the first full year of trading following Admission to the London Stock Exchange.

The role of the Audit Committee (the Committee) is to protect the interests of shareholders by ensuring the integrity of the Group's financial reporting and by monitoring the ongoing effectiveness of the Group's internal controls. The Committee is appointed by the Board and comprises Independent Non-Executive Directors and provides independent monitoring, guidance and challenge to management. We will continue to keep our activities under review to ensure that we comply with any changes in the regulatory environment.

You will have read elsewhere that our Board has seen significant change in 2017 as we transitioned to a fully independent listed Company and I am pleased to welcome both Martin Sutherland and Katherine Innes Ker who both joined the Committee in 2017 meaning that our Committee composition is now fully compliant with the requirements of the UK Corporate Governance Code (the Code).

Our Internal Audit function, which was established in 2016 on a co-sourced basis with PwC, have conducted four audits in 2017 and these have been reported to the Committee along with recommendations for improvement, all of which have either been implemented or are in progress. Further details of the work undertaken by our Internal Audit function are set out on page 53.

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

During the year we also received what we regarded as a positive comment letter from the Financial Reporting Council following their review of our first Annual Report and Accounts.

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

Audit Committee Report continued

Responsibilities and terms of reference

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

The terms of reference of the Audit Committee were approved by the Board and became effective prior to the IPO and have been reviewed to ensure they remain appropriate.

The principal responsibilities of the Committee are to:

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

Membership

The members of the Committee as at 31 December 2017 were as follows:

Justin Atkinson (Chairman);

Divya Seshamani;

Martin Sutherland; and

Katherine Innes Ker.

The Board considers that the members of the Committee have the appropriate competence and financial and industry experience necessary to fulfil their duties. Prior to his appointment to the Board, Justin Atkinson previously spent 25 years at Keller Group plc, the Ground Engineering Company, latterly as Chief Executive Officer and prior to that as Chief Financial Officer. Justin is also Senior Independent Non-Executive Director and member of the Audit Committee at Kier Group plc, a Non-Executive Director and Chairman of the Audit Committee at Sirius Real Estate Limited and a Non-Executive Director and member of the Audit Committee at James Fisher and Sons plc as well as being a member of the Audit Committee of the National Trust. Justin is a qualified Chartered Accountant and has recent and relevant financial experience.

Summary of activity during 2017

During 2017 the Committee formally met on five occasions. In addition to the members of the Committee, other members of the Board, including the Chief Financial Officer, the Head of Internal Audit, representatives from co-sourced internal audit service provider PwC, and the external auditor Ernst & Young may attend the meetings by invitation. The external auditor was invited to and attended each meeting of the Committee in 2017. The Company Secretary provides secretarial services to the Committee and attends meetings in this capacity.

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

- review of the Group's annual and half year financial statements and preliminary results announcements including review of significant financial reporting issues and matters of judgement inherent within the above;
- review of the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy;
- monitor and review the Group's internal control and risk management systems including the annual review of Risk Management and Internal Control Systems prepared by the Internal Audit function;
- monitor and review the performance of the co-sourced Internal Audit function confirming that its operating charter remains appropriate;
- review of the audit reports prepared by the Internal Audit function with subsequent oversight of the implementation of recommended improvements;
- setting of the 2018/9 internal audit programme following consideration of the risks facing the Group;
- consideration of the external auditor's 2017 audit plan including the scope of audit work and the agreement of the 2017 audit fee;
- consideration of the comment letter provided by the Financial Reporting Council (FRC) following their review of the Group's maiden Annual Report and Accounts;
- consideration of the annual 'letter to those charged with governance' and other reports prepared by the external auditor;
- review management's assessment of the impact of changes in financial reporting standards including IFRS 15 'Revenue Recognition' on the group;
- review and approval of the Group's tax strategy; and
- review and update of the Committee's terms of reference ensuring they remain in line with best practice.

Significant financial reporting risks and judgement areas considered

The following judgement areas and significant estimates were considered by the Committee in the review and approval of the 2017 Financial Statements:

- Accounting for the Bison acquisition

During the year the Company acquired the trade and certain assets of Bison Manufacturing Limited. The Committee has reviewed management's accounting treatment of this acquisition including consideration of the valuation reports prepared by independent valuation experts, SLR Consulting Limited and BDO LLP.

- Refinancing of debt facilities

During the year the Group refinanced its credit facilities agreeing a new five-year revolving credit facility with its lenders. The Committee has reviewed management's treatment of this transaction including the writing off of the arrangement fees capitalised in respect of the old facility.

- Restoration and decommissioning provisions

The Group makes provisions for liabilities in respect of restoration and decommissioning based upon both third party advice and management's judgement of the appropriate level of liability likely to arise in the future. The Committee has reviewed the basis and amounts of such provisions as at 31 December 2017 and is satisfied that they are appropriately stated.

- Inventory valuation and provisioning

The Committee has critically reviewed the Group's valuation of its finished goods inventory including the level of provisions recognised against potential obsolescence. This review was informed by recent trading trends and expectations for the coming year. This allowed the Committee to concur with management's assessment that the carrying value of the Group's inventories is appropriately stated.

After reviewing management reports and consulting where necessary with the external auditor the Committee is satisfied that the estimates adopted, and the accounting treatments applied in the preparation of the Financial Statements are appropriate.

Risk management and internal controls

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

Internal audit

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

Following the IPO in 2016, the Committee oversaw the introduction of a co-sourced Internal Audit function, headed by an in-house Head of Internal Audit with auditing services provided by PwC. The Committee continues to believe that this operating model is the most suitable as it combines strong internal business knowledge and understanding with a wide pool of external experience and specialist skillsets to deliver the most effective and responsive solution possible.

During 2017 the Committee reviewed audit reports prepared by the Internal Audit function covering areas, including: purchase to pay, payroll, sales pricing controls, as well as additional work commissioned by the Committee structured to provide assurance over the design of the Group's new finance systems.

The Internal Audit function operates to an agreed internal audit programme which is set by the Committee after considering recommendations from the Internal Audit function as well as management. The initial audit programme was set for an eighteen-month period following the IPO in 2016 and this period was completed at the end of 2017. At this stage the Committee undertook a review of the effectiveness of the Internal Audit function seeking feedback from both PwC and Executive management. This process allowed the Committee to conclude that the Internal Audit function is working effectively as intended. Following this review, the Committee worked with the Internal Audit function in defining the audit programme for the next eighteen months running to mid-2019. This audit programme has been designed to prioritise the review of key financial processes and operating units based on an assessment of inherent risk and the control environment and includes reviews covering quote to invoice, record to report, inventory, business continuity, crisis management and disaster recovery.

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

Audit Committee Report continued

Governance

The effectiveness of the Committee was reviewed, both as part of the internal Board and Committee evaluation detailed on page 48, as well as by a more detailed internal self-assessment of its own effectiveness. Following these exercises, the Committee considered the findings of these exercises and concluded that the Committee is operating effectively and is providing robust challenge to the Executive Directors and the wider business.

Fair, balanced and understandable

At the request of the Board, the Audit Committee has considered whether the 2017 Annual Report is fair, balanced and understandable and whether it provides the necessary information for the Group's shareholders to assess the Group's performance, business model and strategy.

Viability statement

Shortly before the publication of the full year financial results for 2017 the Committee undertook a detailed review of the Viability Statement and recommended to the Board that the Directors can justifiably state that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities over a three-year assessment period.

FRC comment letter

The Board received a letter from the Financial Reporting Council (FRC) following their review of the Group's 2016 Annual Report and Accounts which was our first report as a listed company. The review was based solely on the report and accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. The FRC informed the Board that based on the review, there were no questions or queries that they wished to raise at that stage.

External audit, auditor independence and objectivity

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

The Company has complied with the Competition and Markets Authority final order on mandatory tendering and the requirements of the Audit Directive (2014/56/EU). It is the Company's intention to put the audit out to tender at least once every 10 years.

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

Also, the Chairman of the Committee regularly meets with the external audit partner outside of the formal committee meetings and intends to continue doing so on a regular basis going forward.

Non-audit services policy

The Group's non-audit services policy restricts the external auditor from performing certain non-audit services in accordance with the Revised Ethical Standard 2016 issued by the Financial Reporting Council. The policy provides details of permitted, prohibited and audit related services and requires Audit Committee approval of all anticipated non-audit fees above a de-minimis threshold. Whilst the new regulations will not formally apply until 2019, when a three-year history of audit fees will have been determined, the Group is committed to applying best practice and has applied the new policy (with reference to the prior year's statutory audit fee) from the start of 2017.

The amounts paid to Ernst & Young for non-audit services during the year are disclosed in note 6 of the Financial Statements. The only non-audit service provided in the year was in respect of the review of the interim financial statements and results announcement. Ernst & Young also has its own policies and procedures in place to ensure it maintains its independence and objectivity and regularly reports to the Committee on its independence.

Whistleblowing, fraud and the Bribery Act

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

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

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

Justin Atkinson

Chairman of the Audit Committee
14 March 2018

Nomination Committee Report

Paul Lester CBE
Chairman



Dear Shareholder,

I am pleased to present the report of the Nomination Committee (the Committee) for 2017. The report below describes the main responsibilities of the Committee. I chair Nomination Committee meetings but would not participate when the Committee is dealing with my own appointment as Chairman.

Membership

The members of the Committee are appointed by the Board. At the end of the year the members of the Committee were as follows:

Paul Lester (Chairman);

Justin Atkinson;

Divya Seshamani;

Martin Sutherland; and

Katherine Innes Ker.

Responsibilities and terms of reference

The terms of reference of the Nomination Committee were approved by the Board and became effective prior to the IPO in 2016. The principal responsibilities of the Committee are as follows:

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

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

Activities during the year

There were three formal meetings in the year. The Committee's primary task in the year has been to identify and recruit suitable Independent Non-Executive Directors to join the Board.

Comprehensive search and selection processes were undertaken by Vardis, an independent external executive search consultancy with no other connection to the Company, to identify candidates with specific skills and experiences that would complement the existing board members.

Following the conclusion of these processes which included the interviewing of a number of prospective candidates, I am delighted that Martin Sutherland and Katherine Innes Ker joined the Board during 2017. Both bring a wealth of experience which I am certain will strengthen our Board. These appointments also allow the Board to reach its goal of having a Board and Committee structure which is fully compliant with the provisions of the UK Corporate Governance Code.

Diversity and equality

The Group has an Equality and Diversity policy and is committed to encouraging diversity across the business. The Group has not set specific gender targets as it is believed that all appointments should be based on merit. At the end of the year, the Board contained two female members (representing 28.5%) and 10% of our total workforce is female. This figure is reflective of the nature of our business and the industry in which we operate.

Paul Lester CBE

Chairman of the Nomination Committee
14 March 2018

Risk Committee Report

Divya Seshamani
Chairman



Dear Shareholder,

I am pleased to present the report of the Risk Committee for 2017. The purpose of the Committee is to assist the Board in ensuring that all risks, including health, safety, environmental, operational and commercial are managed effectively and proactively throughout the Group.

Responsibilities and terms of reference

The Board elected to establish a dedicated Risk Committee in addition to the Audit Committee to ensure that the management of more operationally focused risks, of which health and safety is of paramount importance, get sufficient and detailed Board level consideration.

The Committee operates under terms of reference approved by the Board which are summarised as follows:

- review health and safety policy considering whether it complies with legislation and best practice and recommending improvements as appropriate;
- implement changes in health and safety policy as necessary;
- review the effectiveness of risk management processes in determining whether all risks are being identified, evaluated, monitored and managed appropriately;
- review of the Group risk register and consider its appropriateness and completeness along with reviewing the appropriateness of the mitigating actions being taken; and
- review the effectiveness of the Group's risk management functions including health and safety ensuring that sufficient resources are devoted to this area and that these resources are appropriately skilled.

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

Membership

The members of the Committee throughout the year was as follows:

Divya Seshamani (Chairman);
Paul Lester;
Justin Atkinson;
Stephen Harrison; and
Shatish Dasani.

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

During 2017 the Committee met on four occasions and the activities of the Committee were as follows:

- consideration of health and safety policy and practices against best practice including review of health and safety incidents along with Management's response to such incidents; reviewing the outcomes of each of the safety walks undertaken by members of the Board during the year;
- review of the susceptibility of the Group's products to fire following the Grenfell Tower tragedy. This review concluded that all of Forterra's products comply with the appropriate regulations and confirmed that Forterra does not offer any products containing combustible material for use in the exterior cladding of high rise buildings;
- received updates from management on specific key risks, mitigation measures and consideration of changes in key risks over the year;
- review and approval of the risk appetite of the Group;
- review and approval of the Group's insurance strategy;
- consideration of the cyber security risks faced by Group and review of the results of resilience testing; and
- consideration of the environmental risks and regulation faced by the Group and review of the Group's processes and procedures put in place to manage these risks.

Health and safety site visits

Each member of the Board undertook at least one site visit at one of the Group's operating facilities during the year where they took the opportunity to engage directly with employees on matters relating to health, safety and well-being. The Committee considers the feedback from each of these visits and regularly reviews progress against identified actions. These safety visits have been well received by our employees and demonstrate the Board's commitment towards visible leadership. Each member of the Board has committed to undertaking at least two safety walks during the course of 2018.

Divya Seshamani

Chairman of the Risk Committee
14 March 2018

Remuneration Committee Report

Katherine Innes Ker
Chairman



Dear Shareholder,

I am pleased to present, on behalf of the Board, the 2017 Remuneration Report which is my first as Chairman of the Remuneration Committee (the Committee).

In creating our Remuneration Policy last year our objective was to design a policy which allows the Group to attract, retain, motivate and develop the best talent and to align the interests of the Executive Directors, senior management and employees with the strategic goals of the Group and the long-term interests of our shareholders. Our Remuneration Policy is designed to support a culture of high achievement and delivery with appropriate reward for high performance without incentivising the taking of unnecessary risks and to be both transparent and understandable.

No changes will be made this year to the Remuneration Policy which was approved by shareholders at our 2017 AGM receiving in excess of 99.9% of the votes cast. Our remuneration policy can be found on pages 59 to 65 of this report.

Membership

The membership of the Committee at 31 December 2017 and at the date of this report was as follows:

Katherine Innes Ker (Chairman);

Paul Lester;

Justin Atkinson; and

Martin Sutherland.

The membership of the Committee has evolved during the year and I am delighted to have assumed the role of Chairman after a period of handover, in October 2017. I would like to express my thanks to Paul Lester for guiding the Committee through its first year, and also to Divya Seshamani who stepped down from the Committee in October 2017 to be replaced by Martin Sutherland. I am pleased to report that the composition of the Committee is now fully compliant with provisions of the UK Corporate Governance Code (the Code).

Structure of the report

- Chairman's Annual Statement, page 46
- Remuneration Policy, pages 59 to 65
- Annual Report on Remuneration, pages 66 to 72

Remuneration Committee activity

The Remuneration Committee operates under terms of reference approved by the Board, a copy of which is available on the Company's website. During 2017 and to the date of this report the key activities of the Committee are laid out below with full details set out in the relevant sections of this report.

Remuneration Committee Report continued

2018 pay decisions

In line with the Remuneration Policy the Committee considered the base salaries of the Executive Directors and awarded 2.4% increases to both Stephen Harrison and Shatish Dasani, in line with the increases awarded to the salaried employees of the Group.

Chairman's fee

The fee payable to Paul Lester as Chairman of the Board had not been reviewed since listing in April 2016 and in recognition of his time commitment and the increase in the Company's market capitalisation and after consideration of an external benchmarking exercise undertaken by New Bridge Street (NBS), part of Aon plc it was agreed to increase the annual fee payable to the Chairman by £10,000 to £140,000. Paul Lester did not participate in discussions or the decision on this matter which occurred after he had ceased to chair the Committee.

2017 performance and reward

The 2017 bonus outcomes reflect the Company's strong financial performance during the year and fulfilment of personal objectives. However, and at the request of the Executive Directors, in acknowledgement of the deterioration in health and safety performance including the serious accident suffered by one of our colleagues, the portion of the Executive Directors' bonus entitlement based on Company profit before tax (PBT) performance (70% of opportunity) will be reduced by 25% from the level earned. The profit before tax target was achieved in full and would have resulted in each of the Executive Directors earning the maximum for this element of the annual bonus (70% of salary). However, on applying the 25% reduction, this figure will fall to 52.5% of salary. When added to the achievement against personal objectives Stephen Harrison, Chief Executive Officer (CEO) earned 72% of his maximum potential annual bonus in 2017 and Shatish Dasani, Chief Financial Officer earned 79% of his maximum potential annual bonus in 2017. The 2017 bonus payments to members of the Executive Committee and management generally have also been subject to a 25% reduction. A health and safety underpin will be incorporated into the 2018 bonus scheme formalising this principle going forward giving the Committee the discretion over the bonus payout in the event of a serious accident or other deterioration in health and safety performance.

Performance Share Plan awards

The 2017 grant of awards under the Performance Share Plan was made in accordance with the Remuneration Policy with a grant of 125% of salary being made to Stephen Harrison and 100% of salary to Shatish Dasani. No change was made to the performance measures. Half of the awards will vest based on the Group's earnings per share (EPS) performance over the three year period and half will vest subject to the Company's total shareholder return (TSR) performance against an unweighted index of comparator companies. All awards are subject to malus and clawback provisions and a two year holding period on vesting will apply.

Following consultation with our remuneration consultants, New Bridge Street (NBS), and having regard to the analysts' consensus forecasts, the growth targets applicable to the 2017 PSP awards subject to an EPS performance condition were assessed. The growth rates adopted took into account the economic uncertainty created by the EU referendum and, following the outcome of the referendum, the analysts reduced their longer term growth forecasts for the Company and for the industry as a whole. The growth targets adopted for the EPS performance condition for the 2017 PSP awards were determined by the Committee to be stretching in the light of both management and analysts' forecasts. At a threshold of annual growth in EPS of 5% over the three years from 2017–2019, 25% of the awards to which the EPS performance condition applies would vest, and at annual growth of 9% the awards would vest in full. No PSP awards vested in the year as the first awards were granted in 2016 and will vest in 2019.

In addition, the Committee approved the granting of share awards to Stephen Harrison and Shatish Dasani under the terms of the Deferred Annual Bonus plan in respect of the deferral of an element of the 2016 bonus in line with the Remuneration Policy.

Employee share ownership

The Committee also continued its commitment to encouraging employee ownership by approving the offer and subsequent grant of share options under the Forterra sharesave plan. There was a strong uptake of this offer from employees such that around two thirds of our workforce are now saving for their future by investing in the Forterra sharesave plan.

Shareholder engagement

We take a keen interest in our shareholders' views on executive remuneration and welcome any feedback on the remuneration report.

This remuneration report will be subject to an advisory vote at the 2018 AGM. Our goal has been to be clear and transparent in the presentation of this report and I look forward to your support on this resolution.

Katherine Innes Ker

Chairman of the Remuneration Committee
14 March 2018

Notes:

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code and the Listing Rules.

Remuneration Committee Report

Remuneration Policy

Summary of Remuneration Policy

Policy overview

The Remuneration Committee has responsibility for determining the remuneration of the Chairman, Executive and Non-Executive Directors and other senior management. The Committee's terms of reference are available on the Company's website.

The Company's Remuneration Policy has been designed based on the following key principles:

- to promote the long-term success of the Group, with stretching performance targets which are rigorously applied;
- to provide appropriate alignment between the Group's strategic goals, shareholder returns and executive reward; and
- to have a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Group's performance.

The remuneration arrangements have been structured with due consideration of the UK Corporate Governance Code and both best practice and market practice for UK listed companies.

The Remuneration Policy for Directors.

The following table summarises the key aspects of the Company's Remuneration Policy for Executive and Non-Executive Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Salary	<p>Salary is a fixed payment that reflects an individual's experience and role and may be increased to reflect capability and performance.</p> <p>To recruit and retain executives.</p>	<p>Salaries are paid monthly and are normally reviewed annually with changes effective from 1 January but by exception may be reviewed more frequently if the Committee determines this is appropriate.</p> <p>In reviewing salaries, the Committee considers:</p> <ul style="list-style-type: none"> • remuneration practices within the Group; • market benchmarks based on companies of broadly comparable size and/or operating in similar sectors; • role, competence and performance; and • the general increase awarded to salaried employees. <p>Higher increases may be awarded to new Executive Directors who were hired at below market rates but with the intention to move to a market competitive rate over time, subject to individual performance.</p>	<p>It is anticipated that salaries will generally be increased in line with increases awarded to salaried employees.</p> <p>However, in certain situations such as where there has been an increase in the scope, responsibility or complexity of the role or there has been a significant change in the size, value or complexity of the Group increases may be higher to remain market competitive.</p>	<p>Individual and Group performance is taken into account when determining the annual increase.</p> <p>The rationale for any such increase will be disclosed in the Annual Report on Remuneration.</p>

Remuneration Committee Report

Remuneration Policy continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Benefits	The Company's aim is to offer competitive and cost-effective benefits valued by participants and to help recruit and retain executives.	<p>A range of benefits are provided to Executive Directors that may include a company car (or car allowance), private medical and permanent health insurance, business travel insurance and life assurance/death in service cover. Relocation (or other related expenses) and tax equalisation arrangements may be offered as appropriate to ensure Directors are no worse or better off in a case of relocation.</p> <p>Any reasonable business related expenses (included tax thereon) may be reimbursed if determined to be a taxable benefit.</p> <p>Executive Directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms.</p>	<p>The cost of providing market competitive benefits may vary from year to year depending on the cost to the Company from third party providers.</p> <p>The Committee will continue to monitor the cost of benefits to ensure that the overall benefit costs do not increase by more than the Committee considers appropriate in the circumstances.</p>	No performance metrics apply.
Pension	To provide a market-competitive cost-effective contribution towards post-retirement benefits.	Executive Directors receive a contribution towards their retirement provision which may be paid as a contribution to a personal pension scheme or a cash allowance in lieu of pension or a mix of both.	The Company contribution to retirement allowances is up to 10% of salary.	No performance metrics apply.
Annual bonus	<p>The purpose of the Annual Bonus Plan is to incentivise Executive Directors to achieve annual financial and/or strategic targets.</p> <p>Bonus deferral provides a retention mechanism and provides further alignment with shareholders' interests.</p>	<p>Bonus payments are determined by the Committee after the year end, based on performance against the targets set around the start of the year.</p> <p>The Committee aims to set out in the Annual Report of Remuneration: The nature of the targets and their weighting for the forthcoming financial year and details of the performance conditions, the weightings and targets applied and the level of achievement against these targets for the financial year being reported on.</p> <p>The first 10% of salary is payable in cash. Up to half of any remainder of the bonus may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply.</p> <p>In line with good practice, recovery and withholding provisions apply (see note 1).</p> <p>An additional payment (in the form of cash or shares) may be made in respect of shares that vest to reflect the value of dividends that would have been paid on those shares during the vesting period.</p>	<p>The maximum opportunity under the annual bonus scheme is 100% of salary.</p> <p>Bonus starts to be earned at the threshold level (up to 25% of the maximum depending on the performance metric).</p>	<p>The bonus may be based on the achievement of an appropriate mix of challenging financial, operational or strategic measures.</p> <p>Typically, financial measures will account for the majority of the bonus opportunity and may include measures such as profit or cash flow. Other financial measures that support the key short-term priorities of the business may be used. The targets applying to financial metrics will take into account the internal plan and external expectations of the business at the time they are set.</p> <p>If operational, individual or strategic measures are included, where possible a performance range will be set although this will depend on the measure chosen.</p> <p>The measures, targets and weightings may be varied by the Committee year on year based on the Company's strategic priorities at the time (see note 2).</p>

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
Long-term incentives	<p>The Performance Share Plan (PSP) incentivises Executive Directors and selected senior management to deliver sustained performance over the long-term.</p> <p>The Plan also acts as a method of retaining key management over the medium-term.</p> <p>Aligns the interests of the Executive Directors and shareholders and assists Executive Directors in building up a substantial shareholding.</p>	<p>Awards are granted annually in the form of nominal or nil cost options under the PSP and vest after no less than three years.</p> <p>Stretching performance conditions measured over a period of three years determine the extent to which awards vest.</p> <p>A holding period may apply to vested PSP awards under which Executive Directors will be required to retain the net of tax number of vested awards for at least two years from the date of vesting. In exceptional circumstances, the Committee may, at its discretion, allow participants to sell or dispose of some or all of these vested shares before the end of the holding period.</p> <p>Details of performance conditions for grants made in the year will be set out in the Annual Report on Remuneration.</p> <p>Award levels are reviewed annually (subject to the PSP individual limits) taking into account matters such as market practice, overall remuneration, the performance of the Company and the Executive Director being made the award.</p> <p>In line with good practice, recovery and withholding provisions may apply (see note 1).</p> <p>Dividends may accrue based on the value of dividends paid during the three-year vesting period and two-year holding period (if applicable).</p>	<p>The maximum annual award under the PSP that may be granted to an individual in any financial year is 200% of salary in normal circumstances (250% of salary in exceptional circumstances).</p> <p>The Committee expects to increase the current grant levels of 125% of salary for the CEO and 100% of salary for the CFO to 150% and 125% respectively in 2018 and these will be kept under review over the life of the policy.</p> <p>For each measure, up to 25% of the relevant part of the award would vest for achieving the threshold level of performance, normally increasing on a straight line basis to 100% for achieving maximum performance.</p>	<p>Vesting is based on the achievement of one or more challenging performance targets set by the Remuneration Committee at the time of grant and measured over a three year period.</p> <p>Measures may include EPS growth (or another financial metric) or TSR. TSR will apply for at least part of each award under the life of this policy.</p> <p>In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long-term business plan and external expectations.</p> <p>The Committee retains the flexibility to vary the mix of metrics for each year's award in light of the business priorities at the time or to introduce new measures to support the long-term business strategy (see note 3).</p>

Remuneration Committee Report

Remuneration Policy continued

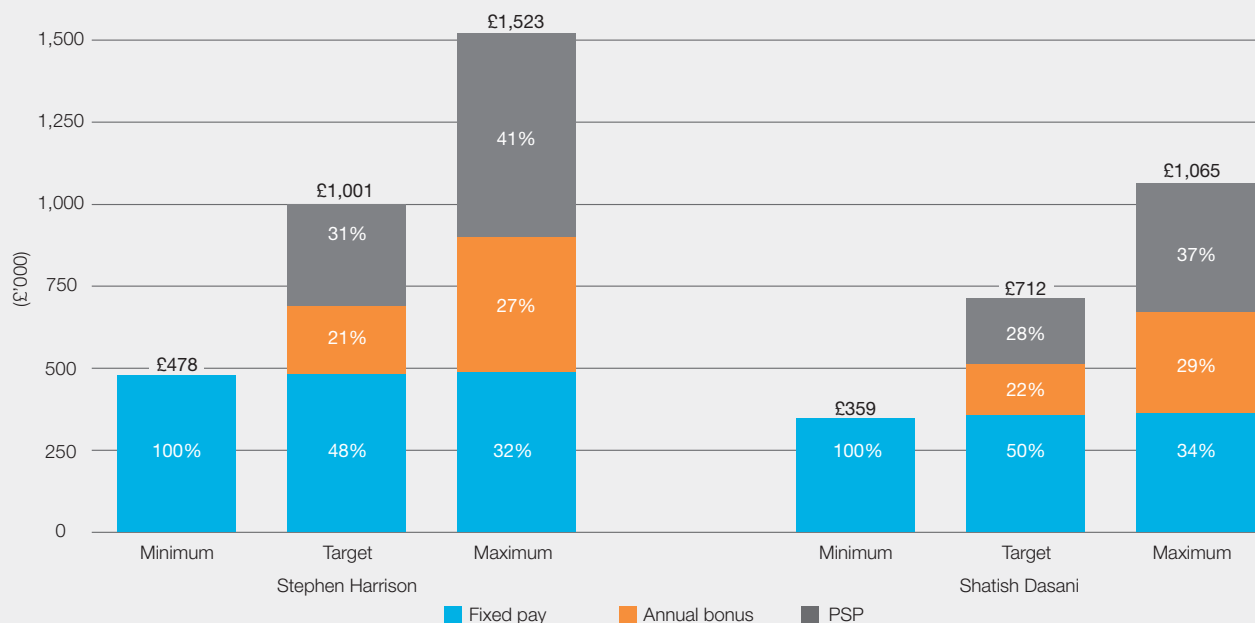
Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess performance
All-employee share plans	To increase alignment between employees and shareholders in a tax efficient manner.	All-employee share schemes may be operated. Current schemes include: <ul style="list-style-type: none"> • Sharesave Plan; • Share Incentive Plan (SIP); and • Other HMRC approved all-employee schemes may be introduced at the Committee's discretion. 	Consistent with prevailing HMRC limits.	No performance metrics apply.
Share ownership policy	To align interests of management and shareholders and promote a long-term approach to performance and risk management.	Executive Directors are required to build up a shareholding in the Company equal to 200% of salary. Half of the net of tax number of vested PSP and DABP awards are expected to be retained until the guideline is met. The value of vested but unexercised awards subject to a two year holding period will count towards the guideline on a net of tax basis.	Not applicable.	No performance metrics apply.
Non-Executive Directors' fees	To attract and retain high quality and experienced Non-Executive Directors.	The fees of the Non-Executive Directors are set by the Board and the Chairman's fee is set by the Committee (the Chairman does not take part in any discussion regarding his own fees). Fees are reviewed periodically. Non-Executive Directors receive a fee for carrying out their duties, together with additional fees for those who chair other Board Committees and the Senior Independent Director. The Chairman and Non-Executive Directors are entitled to reimbursement of reasonable business related expenses (including any tax thereon). They do not participate in any incentive arrangements and they do not receive a pension contribution. The level of fees reflects the time commitment and responsibility of their respective roles.	Details of current fees are set out in the Annual Report on Remuneration. As set out in the Company's Articles of Association, the total fees paid to Non- Executive Directors must not exceed £1m a year or any higher amount agreed by ordinary resolution at a general meeting.	No performance metrics apply.

Note 1: **Recovery and withholding provisions.** Recovery and withholding provisions apply to the Annual Bonus Plan, the DABP and the PSP. If, within three years of the payment of a bonus, grant of a deferred bonus award and/or vesting of a PSP award, it transpires that payment or vesting should not have occurred as a result of a material misstatement, error in calculation or gross misconduct has been discovered, the payment or vesting can be recovered or withheld, in part or in full, as appropriate.

Note 2: **Annual bonus performance metrics.** The annual bonus measures are reviewed annually and reflect key financial, strategic and operational priorities of the Group. Stretching financial targets are set by the Committee by taking account of the Company's business plan and external expectations. For 2018, these are based on profit and strategic objectives reflecting the short-term priorities of the Group. The target ranges set at the start of the financial year are deemed to be commercially sensitive. Actual targets, performance achieved and the awards made will be published at the end of the performance period so shareholders can assess payout levels.

Note 3: **Performance Share Plan metrics.** For 2018 awards the performance conditions will be EPS growth and relative TSR. The use of relative TSR provides a measure of the long-term success of the Company relative to appropriate peer comparators. EPS growth is a measure of the overall profitability of the business for investors over the long-term and therefore helps align the interests of management with shareholders.

Total remuneration opportunity



Notes:

- Minimum is equivalent to fixed pay which comprises salary levels applying for 2018, the value of benefits in 2017 and a 10% pension contribution.
- Target comprises fixed pay plus the value of the on target bonus at 50% of the maximum bonus opportunity (100% of salary) plus the value of the on target level of vesting under the PSP which is taken to be 50% of the expected 2018 grant level.
- Maximum comprises fixed pay plus maximum bonus plus the maximum value of the PSP (equal to be 100% of the face value of the award at grant using the 2018 grant policy of 150% of salary for the CEO and 125% of salary for the CFO).
- No share price appreciation has been assumed for the PSP award.

Service contracts and letters of appointment

Service contracts and letters of appointment are available for inspection at the Company's registered office.

Service contracts

The service contracts for the Executive Directors are terminable by either the Company or the Executive on 12 months' notice. The Company can terminate either Executive Director's service contract by payment of a cash sum in lieu of notice equivalent to the base salary and the cost that would have been incurred in providing the Executive Director with contractual benefits for any unexpired portion of the notice period (or alternatively the Company can choose to continue providing the contractual benefits). The payment in lieu may be paid as one lump sum or in monthly equal instalments over the notice period. If the Company chooses to pay in instalments the Executive Directors are obliged to seek alternative income over the relevant period and the payment of each monthly instalment will be reduced by the amount of such income earned. There are no enhanced provisions on a change of control.

At the discretion of the Committee, a contribution to reasonable outplacement costs in the event of termination of employment due to redundancy may also be made. The Committee also retains the ability to reimburse reasonable legal costs incurred in connection with a termination of employment and may make a payment for any statutory entitlements or to settle or compromise claims in connection with a termination of employment of any existing or future Executive Director as necessary. Relevant details will be provided in the Annual Report on Remuneration should such circumstances apply.

The table opposite sets out, for variable pay elements, the Company's policy on payment for loss of office in respect of Executive Directors. In general, treatment will depend on the circumstances of departure and in particular whether a leaver is a 'good leaver'. Good leaver reasons include

- death;
- injury;
- retirement;
- disability;
- redundancy;
- the employing company being sold outside the Group; or
- other circumstances at the discretion of the Committee.

In any other circumstance, the leaver will be treated as a 'bad leaver'.

Remuneration Committee Report

Remuneration Policy continued

Policy on payment for loss of office

Element	Treatment
Annual Bonus Plan	<p>No automatic or contractual right to bonus payment.</p> <p>Good leavers: a pro-rata bonus may become payable at the normal payment date for the period of employment and based on full-year performance. With rationale set out in the Annual Report on Remuneration.</p> <p>Bad leavers: no bonus is payable for the year of cessation.</p> <p>Discretions:</p> <ul style="list-style-type: none"> To determine whether to pro-rate the bonus for time. It is the Committee's normal policy to pro-rate for time, however, there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.
Deferred Annual Bonus Plan	<p>Good leaver: all deferred shares vest at the date of cessation.</p> <p>Bad leavers: awards lapse.</p> <p>Discretions:</p> <ul style="list-style-type: none"> To vest deferred shares at the end of the original deferral period or to defer vesting in connection with a potential clawback event.
Performance Share Plan	<p>Good leaver: awards vest at normal vesting date and pro-rated for time and tested for performance in respect of each subsisting PSP award.</p> <p>Bad leaver: awards lapse.</p> <p>Discretions:</p> <ul style="list-style-type: none"> To vest and measure performance over the original performance period or vest and measure performance at the date of cessation or to defer vesting in connection with a potential clawback event. To determine whether to pro-rate the maximum number of shares for the time from the date of grant to the date of cessation (the Committee may need to round up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate. Where this is the case it will be fully disclosed to shareholders.

Change of control

The Committee's policy on the vesting of incentives on a change of control is summarised below:

Element	Treatment
Annual Bonus Plan	Pro-rated for time and performance to the date of the change of control.
Deferred Annual Bonus Plan	Subsisting DABP awards will vest on a change of control.
Performance Share Plan	<p>The number of shares subject to existing PSP awards will vest on a change of control pro-rated for time and performance to the date of the change of control.</p> <p>Discretions:</p> <ul style="list-style-type: none"> To determine whether to pro-rate the maximum number of shares from the time from the date of grant to the date of the change of control (the Committee may round-up to the nearest whole year). Normal policy is to pro-rate for time, however there may be circumstances where this is not appropriate.

Letters of appointment

The Chairman and the Non-Executive Directors have letters of appointment and are subject to annual re-election at the AGM. The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination. The appointments are terminable by the Company on not less than 30 days' notice or immediately in the event that the appointment is terminated by the shareholders (or where shareholder approval is required but not forthcoming).

Approach to recruitment and promotions

The recruitment package for a new Executive Director would be set in accordance with the terms of the Company's approved Remuneration Policy. Currently, this would facilitate a maximum annual bonus payment of no more than 100% of salary and PSP award of up to 200% of salary (other than in exceptional circumstances (including recruitment) where up to 250% of salary may be made).

On recruitment, salary may (but need not necessarily) be set below the normal market rate, with phased increases as the Executive Director gains experience. The rate of salary should be set so as to reflect the individual's experience and skills.

In addition, on recruitment the Company may compensate for amounts foregone from a previous employer (using LR 9.4.2R if necessary) taking into account the quantum foregone and, as far as reasonably practicable, the extent to which performance conditions apply, the form of award and the time left to vesting.

For an internal appointment, any variable pay element awarded in respect of their prior role should be allowed to payout according to its outstanding terms. Any other ongoing remuneration obligations existing prior to appointment may continue, provided that, if they are outside the approved policy, they are put to shareholders for approval at the earliest opportunity.

For all appointments, the Committee may agree that the Company will meet appropriate relocation costs.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved Remuneration Policy in force at that time.

Policy on external appointments

Subject to Board approval, Executive Directors are permitted to take on a single paid non-executive position with an unconnected company and to retain their fees in respect of such position. Where appropriate details of outside directorships held by the Executive Directors and any fees that they received are provided in the Annual Report on Remuneration. At present neither of the Executive Directors holds any outside appointments other than those held in the capacity of representing the Group on trade associations and similar bodies, and no remuneration is received in respect of these appointments.

How the views of shareholders and employees are taken into account

In setting the remuneration for the Executive Directors the Committee takes note of the overall approach to reward for employees in the Group and salary increases will ordinarily be (in percentage of salary terms) in line with those of the wider workforce. The Committee does not formally consult directly with employees on executive pay but does receive periodic updates on employee remuneration within the Group as necessary.

Remuneration Committee Report

Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ending 31 December 2018

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 December 2018 is set out below:

Base salary

Executive Directors' salaries were reviewed in January 2018 and the Committee agreed to increase Executive Directors' salaries by 2.4% in line with the general increase made to salaried staff. The increases took effect from 1 January 2018.

	2018	2017	% Increase
Stephen Harrison	£417,800	£408,000	2.40%
Shatish Dasani	£313,350	£306,000	2.40%

Pension and benefits

The Committee intends that the implementation of its policy in relation to pension and benefits will be in line with the policy disclosed on page 60 of this report.

Annual bonus

The maximum annual bonus for the year ending 31 December 2018 will be 100% of salary for Executive Directors. Awards will be determined based on a combination of the Group's financial results, being profit before tax (70%) and strategic/personal performance (30%).

The specific financial targets for 2018 are considered commercially sensitive. However, the Committee intends to disclose these retrospectively in next year's Annual Report on Remuneration along with details as to their achievement to the extent that they do not remain commercially sensitive. The strategic objectives for 2018 are also considered commercially sensitive. Stretching targets aligned to the Group's strategy have been set.

In determining the level of any bonus award to be deferred into shares under the Deferred Annual Bonus Plan the first 10% of salary of any bonus and 50% of any further bonus earned will be paid in cash with the balance deferred in shares for three years within the Deferred Annual Bonus Plan.

Performance Share Plan (PSP)

The Committee intends to make awards under the PSP to Executive Directors during the 2018 financial year. These awards will be at 150% of salary for the Chief Executive Officer and 125% of salary for the Chief Financial Officer. This represents an increase from the previous year's grant of 125% of salary for the Chief Executive Officer and 100% of salary for the Chief Financial Officer. The Committee has taken this decision having considered the growth of the Company and having undertaken a benchmarking exercise of comparable companies, before concluding that an increase was required to ensure that the remuneration package offered to Executive Directors remained competitive, as well as ensuring the PSP remains an effective retention tool. Increasing the award level also ensures that Directors' interests remain aligned to those of shareholders through an appropriate weighting of long-term variable remuneration based on Company performance.

The 2018 grant of awards under the PSP will be made in accordance with the Remuneration Policy. No changes will be made to the performance measures. Half of the awards will vest by reference to the Company's earnings per share (EPS) performance over the three-year period and the remaining half will vest subject to the Groups' total shareholder return (TSR) performance against an unweighted index of comparator companies. The EPS performance targets to be applied to the 2018 awards were assessed with regard to management and analysts' consensus forecasts. At a threshold of 5% annual growth in EPS for the three years from 2018-2020, 25% of the awards to which the EPS performance conditions are to apply would vest, and at 11% annual growth in EPS, the awards would vest in full. Awards will be subject to clawback/malus provisions and a two-year holding period on vested shares will apply.

Fees for Chairman and Non-Executive Directors

The Company's approach to Non-Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including where applicable the chairmanship of Board Committees. A summary of current fees is shown below:

	2018	2017	% Increase
Non-Executive Chairman	£140,000	£130,000	7.69%
Non-Executive Director base fee	£51,200	£50,000	2.40%
Additional fees:			
Senior Independent Director	£10,000	£10,000	—
Audit Committee Chairman	£7,000	£7,000	—
Remuneration Committee Chairman	£7,000	£7,000	—
Risk Committee Chairman	£4,000	£4,000	—

The Chairman's fee increase was determined following an external benchmarking of comparable companies and the increase in the Non-Executive Director base fee of 2.4% is equal to the increase awarded to the Group's salaried employees. Going forward the fees payable to the Chairman and the Non-Executive Directors will be reviewed on an annual basis, such review will not necessarily lead to an increase.

Annual report on remuneration

This report covers the full year ended 31 December 2017. Unless stated otherwise, the figures below are full year figures and the comparative figures include remuneration paid by Forterra Building Products Limited prior to the incorporation and subsequent Admission of Forterra plc.

Single total figure of remuneration (audited)

Executive Directors (audited)

£'000	Period	Salary and fees	Taxable benefits ³	Pension/retirement allowance ⁴	Annual bonus ⁵	Exceptional IPO bonus ⁶	Long-term incentives ⁷	Sharesave ⁸	SIP ⁹	Total
Stephen Harrison ¹	2017	£408,000	£18,692	£40,800	£294,984	–	–	–	–	£762,476
	2016	£330,623	£11,226	£38,067	£201,000	£400,000	–	£4,400	£490	£985,806
Shatish Dasani ²	2017	£306,000	£14,938	£30,600	£240,516	–	–	–	–	£592,054
	2016	£300,000	£10,147	£30,000	£150,750	£300,000	–	£4,400	£490	£795,787

1 2016: Annual salary of £180,000 from 1 January 2016 until IPO in April 2016 and £400,000 following IPO to the end of 2016.

2 2016: Annual salary of £300,000 for entire year.

3 Taxable benefits in the year comprised a company car/allowance and private medical insurance.

4 2016: Prior to listing Stephen Harrison received a contribution of 19% of salary to the Group's defined contribution pension scheme. From IPO a 10% retirement allowance was received. Shatish Dasani received a 10% retirement allowance for the full year.

5 Details of the bonus targets and their level of satisfaction and resulting bonus earned are set out on the following page. The figures above include amounts of £132,742 (2016: £90,450) for Stephen Harrison and £108,232 (2016: £67,838) for Shatish Dasani which are to be deferred into shares under the rules of the DABP.

6 As detailed in the Prospectus, on Admission, the Executive Directors and other senior Executives were awarded a one-off bonus in recognition of the significant work undertaken in connection with the Offer and Admission. The pre-IPO restructuring was structured so as to leave the Company with a specified level of net debt upon Admission. These bonus payments were taken into account as part of the restructuring thus in practice they were effectively paid out of the selling shareholders proceeds raised on IPO and not the ongoing cash reserves of the Group.

7 The first award under the Performance Share Plan was made in 2016. These first awards will not be eligible to vest until 2019 and are subject to performance conditions as described below.

8 2016: 13,333 options were granted to both Stephen Harrison and Shatish Dasani under the Forterra Sharesave Plan on 24 October 2016 with an exercise price of 135p per share (awarded at a 20% discount to the market price at the date of launch in accordance with HMRC rules). The earliest date these options may be exercised is 1 December 2019.

9 2016: 277 deferred shares were awarded to both Stephen Harrison and Shatish Dasani under the Forterra All Employee Share Incentive Plan (SIP) on 25 May 2016. These shares are not subject to performance conditions and will vest in 2019.

Pension entitlements (audited)

The Group operates a defined contribution personal pension plan. Both Executive Directors receive a 10% retirement allowance which they may use to make contributions into the Group personal pension scheme should they wish. The Group does not operate a defined benefit pension scheme. Details of the value of pension contributions received in the year under review are provided in the pensions column of the single total figure of remuneration table.

Annual bonus (audited)

The 2017 bonus awards payable to the Executive Directors were agreed by the Committee having reviewed the Company's results. Detail of the targets used to determine bonus entitlements and to the extent that they have been satisfied are shown below. These figures are shown in the single figure table on page 68.

	Weighting	Threshold performance required	Maximum performance required	Actual performance achieved	Percentage of maximum value achieved ²		Bonus value achieved	
					Stephen Harrison ³	Shatish Dasani ⁴	Stephen Harrison ³	Shatish Dasani ⁴
PBT (before exceptional items) ¹	70%	£53.4m	£60.4m	£61.1m	75%	75%	£214,200	£160,650
Strategic objectives	30%		See table below		66%	87%	£80,784	£79,866
Total (% of maximum)	100%				72%	79%		
Total (£)							£294,984	£240,516

1 Under the terms of the 2017 annual bonus plan bonus is earned on achieving the threshold PBT before exceptional items performance target increasing on a linear basis to 100% if the maximum performance is achieved.

2 The Executive Directors recommended that the Remuneration Committee reduce the level of the bonus earned in respect of the PBT target by 25% following the deterioration of the Group's Health and Safety performance as demonstrated by the occurrence of a serious accident in the year.

3 Maximum bonus opportunity of 100% of salary. Bonus payment based on 2017 base salary of £408,000.

4 Maximum bonus opportunity of 100% of salary. Bonus payment based on 2017 base salary of £306,000.

Remuneration Committee Report

Annual Report on Remuneration continued

Strategic objectives

The strategic objectives comprising 30% of the overall bonus opportunity and their achievement are set out in full below. An outline of the objectives and the extent to which they were achieved are provided below.

	Objectives	Assessment of achievement	% of maximum bonus payable
Stephen Harrison	Objectives linked to: Definition of strategic actions and delivery against these actions; investor engagement and broadening of investor base; enhancing long term security of raw material supplies and employee engagement and development.	Partially achieved: Significant progress has been made in defining and implementing the Group's strategy as evidenced by the completion of the Bison acquisition. The investor base has been substantially widened in the year and the investor engagement work undertaken by the Executive Directors was key in allowing Lone Star to completely divest their shareholding in the year. Progress has been made in reducing the reliance on PFA within the Aircrete Blocks business and a number of initiatives to enhance employee engagement have been implemented.	66%
Shatish Dasani	Objectives linked to: Definition of strategic actions and delivery against these actions; investor engagement and broadening of investor base; strengthening of internal control environment and risk management framework and enhancement of the Group's IT systems.	Partially achieved: Significant progress has been made in defining and implementing the Group's strategy as evidenced by the completion of the Bison acquisition. The investor base has been substantially widened in the year and the investor engagement work undertaken by the Executive Directors was key in allowing Lone Star to completely divest their shareholding in the year. The Group's risk management and internal control systems have been enhanced during the year and a project to renew the Group's financial IT systems is progressing well and in line with budget.	87%

The first 10% of salary is payable in cash. Up to half of any remainder of the bonus may then be deferred into shares as either conditional awards or nominal cost options under the Deferred Annual Bonus Plan (DABP). Such awards vest after a period of three years subject to continued employment. No further performance conditions apply. A full breakdown of the bonus and payments and share award deferral is set out below:

	Bonus total	Paid in cash	Paid in shares
Stephen Harrison	£294,984	£167,892	£127,092
Shatish Dasani	£240,516	£135,558	£104,958

Single total figure of remuneration (audited)

Non-Executive Directors (audited)

The table below sets out the single total figure for remuneration and breakdown for each Non-Executive Director.

	Period	Fees	Exceptional IPO Bonus ⁵	Total	Roles
Paul Lester ¹	2017	£135,137	–	£135,137	Non-Executive Chairman
	2016	£102,750	£100,000	£202,750	
Justin Atkinson	2017	£67,000	–	£67,000	Senior Independent Non-Executive Director
	2016	£55,833	–	£55,833	
Divya Seshamani	2017	£54,000	–	£54,000	Independent Non-Executive Director
	2016	£45,000	–	£45,000	
Martin Sutherland ²	2017	£30,513	–	£30,513	Independent Non-Executive Director
	2016	–	–	–	
Katherine Innes Ker ³	2017	£18,129	–	£18,129	Independent Non-Executive Director
	2016	–	–	–	
Bradley Boggess ⁴	2017	–	–	–	Non-Executive Director
	2016	–	–	–	
Richard Cammerer Jr. ⁴	2017	–	–	–	Non-Executive Director
	2016	–	–	–	

1 Paul Lester served as Chairman throughout the year and received a fee for chairing the Remuneration Committee for the period to 16 October 2017.

2 Martin Sutherland was appointed on 23 May 2017.

3 Katherine Innes Ker was appointed on 1 September 2017 and was appointed Chairman of the Remuneration Committee from 17 October 2017.

4 Bradley Boggess and Richard Cammerer Jr. resigned on 25 April 2017 and during their appointment as Directors had waived any entitlement to a fee.

5 As detailed in the Prospectus, on Admission, Paul Lester was awarded a cash bonus of £100,000 which was used to acquire ordinary shares at the Offer Price. As explained previously, this bonus was effectively paid out of the selling shareholder's proceeds and was intended as reward for his work as a consultant prior to the IPO for which he wasn't otherwise remunerated.

Performance Share Plan awards made during the year

On 25 April 2017 the following awards were granted to Executive Directors.

	Type of award	Basis of award granted	Share price used to determine no of options granted ¹	Number of shares over which award was granted	Face value of award	% of face value that would vest at threshold performance	Vesting determined by performance over
Stephen Harrison	Nominal (1p) cost option	125% of salary of £408,000	£2.1115	241,534	£510,000	25%	Three financial years to 31 December 2019 for the EPS element and three years to 25 April 2020 for the TSR element
Shatish Dasani	Nominal (1p) cost option	100% of salary of £306,000	£2.1115	144,921	£306,000	25%	Three financial years to 31 December 2019 for the EPS element and three years to 25 April 2020 for the TSR element

1 The number of options was determined using a share price of £2.1115 being an amount equal to the average mid-market closing price for the five days prior to grant.

The performance condition for these awards is set out below:

Performance condition	% of award subject to condition	Annual growth in EPS	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a pro-forma 2016 EPS of 21.5p	50%	<5% per annum	0%
		5% per annum	25%
		9% per annum or above	100%
Company's total shareholder return (TSR) against Index TSR	50%	<Index TSR	0%
		At Index TSR	25%
		Index TSR plus 25 percentage points	100%

Straight line vesting in between the performance points

The Index comprises the following companies: Kingspan Group plc, Howden Joinery Group plc, Breedon Group plc, Ibstock plc, Marshalls plc, Polypipe Group plc, Tyman plc, Volution Group plc, Low & Bonar plc and Eurocell plc.

Awards are subject to malus and clawback provisions and a two year holding period will apply.

Remuneration Committee Report

Annual Report on Remuneration continued

Directors' shareholding and share interests

Share ownership plays a key role in the alignment of our Executive Directors with the interests of shareholders. Our Executive Directors are expected to build up and maintain a 200% of salary shareholding in Forterra. Where an Executive Director does not meet this guideline then they are required to retain at least 50% of the net of tax vested shares under the Company's share plans until the guideline is met. The number of shares held by the Directors as at 31 December 2017 are as follows:

	Shareholding requirement (% salary)	Current shareholding (% salary) ¹	Beneficially owned ²	Deferred Shares not subject to performance conditions ³	Unvested PSP (nominal cost options subject to performance conditions) ³	Unvested DABP (nominal cost options not subject to performance conditions) ⁴	Outstanding Sharesave awards ⁵	Shareholding requirement met
Executive Directors								
Stephen Harrison	200%	16%	22,111	277	519,311	43,556	13,333	No
Shatish Dasani	200%	90%	92,783	277	311,587	32,667	13,333	No
Non-Executive Directors								
Paul Lester	n/a	–	30,555	–	–	–	–	n/a
Justin Atkinson	n/a	–	25,000	–	–	–	–	n/a
Divya Seshamani	n/a	–	5,556	–	–	–	–	n/a
Martin Sutherland	n/a	–	7,500	–	–	–	–	n/a
Katherine Innes Ker	n/a	–	–	–	–	–	–	n/a

1 As at 31 December 2017. This is based on a closing share price of £2.9875 and the year-end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.

2 Includes shares owned by connected persons.

3 This relates to shares awarded granted under the Forterra All Employee Share Incentive Plan (SIP).

4 This relates to PSP awards relating to 2016 and 2017 granted in the form of nominal (1p) cost options and subject to performance criteria.

5 This relates to DABP awards awarded in March 2017 relating to the partial deferral of the 2016 annual bonus granted in the form of nominal (1p) cost options which are not subject to performance criteria.

6 Sharesave grants made during the year under the Forterra Sharesave Plan on 24 October 2016 with an exercise price of £1.35 (awarded at a 20% discount to the share price at the date of launch). The earliest date the options can be exercised is 1 December 2019.

Between 31 December 2017 and the date of this report there were no changes in the shareholdings outlined in the above table.

Summary of share option awards

The table summarises each of the Executive Directors long-term share awards and the changes that have taken place in the year:

Executive Type of Award

Executive	Type of award	Date granted	At 1 January 2017	Awarded during the year	Vested during the year	Lapsed during the year	At 31 December 2017
Stephen Harrison	PSP	Apr-17	–	241,534	–	–	241,534
	PSP	May-16	277,777	–	–	–	277,777
	DABP	Mar-17	–	43,556	–	–	43,556
Total							562,867
Shatish Dasani	PSP	Apr-17	–	144,921	–	–	144,921
	PSP	May-16	166,666	–	–	–	166,666
	DABP	Mar-17	–	32,667	–	–	32,667
Total							344,254

PSP awards granted in 2016 are subject to the performance conditions below.

Performance condition	% of award subject to condition	Annual growth in EPS	% of PSP award which will vest
Annual growth in basic earnings per share (EPS) before exceptional items over a pro-forma 2015 EPS of 20.4p	50%	<8% per annum	0%
		8% per annum	25%
		15% per annum above	100%
Company's total shareholder return (TSR) against Index TSR	50%	<Index TSR	0%
		At Index TSR	25%
		Index TSR plus 25 percentage points	100%

Straight line vesting in between the performance points

The index of comparable companies against which the TSR is measured is the same as the 2017 awards.

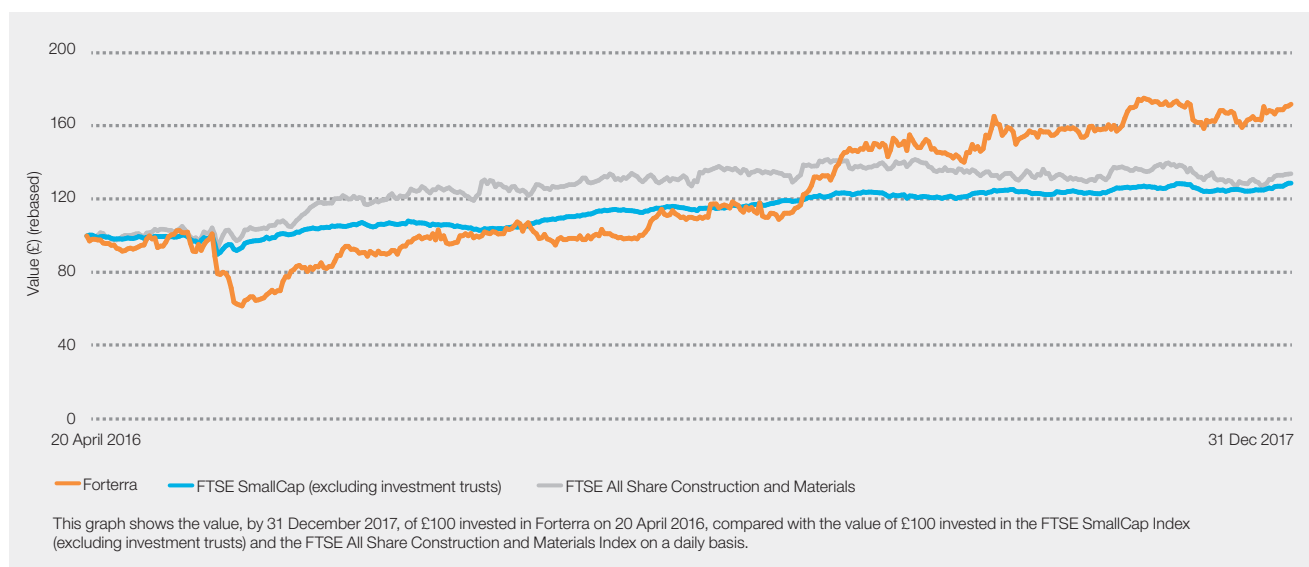
Payments to past Directors/payments for loss of office (audited)

Bradley Boggess and Richard Cammerer Jr. did not receive any payments upon resignation and as such there were no payments in the year.

Performance graph

The graph below illustrates the Company's Total Shareholder Return (TSR) performance relative to the constituents of the FTSE Small Cap index excluding investment companies of which the Company is a constituent, from the start of conditional share dealing on 26 April 2016. The graph shows performance of a hypothetical £100 invested and its performance over that period.

Total shareholder return



Chief Executive Officer's remuneration history

The table below sets out the total Chief Executive Officer's remuneration for 2017, together with the percentage of maximum annual bonus awarded in that year. A summary of remuneration paid will be provided and built up over time until 10 years' of data is shown.

The Committee does not believe that the remuneration payable in earlier years as a private company bears any comparative value to that which has been paid post IPO, therefore the Committee has chosen to disclose comparative remuneration only for 2016.

Chief Executive Officer	2017	2016
Single total figure	£762,476	£985,806 ¹
Annual bonus (% of maximum)	72.0%	50.25%
PSP award (% of maximum)	—²	— ²

¹ Includes a one off bonus agreed prior to IPO of £400,000.

² No awards under the Performance Share Plan are due to vest until 2019.

Change in Chief Executive Officer's remuneration compared with employees

	Change 2016 to 2017		
	Salary change	Benefits change	Annual bonus
CEO	2.0% ¹	66.5% ²	46.7%
Average for all employees	2.6%	—	51.0% ³

¹ Calculated as increase in 2016 post IPO salary of £400,000.

² Under the terms of the Forterra company car policy Stephen Harrison became entitled to a higher value of vehicle in 2016 although he only changed vehicles in 2017.

³ Increase in annual bonus calculated for salaried employees only.

Remuneration Committee Report

Annual Report on Remuneration continued

Relative importance of total spend on pay

The following table shows the Company's actual spend on pay for all employees compared to distributions to shareholders in 2017.

	Disbursements from profit	
	2017 £m	2016 £m
Total spend on pay, including Directors	80.9	72.6
Distributions to shareholders by way of dividend	13.8¹	4.0 ²

1 Final 2016 dividend of £0.038 per share paid in July 2017 and interim dividend of £0.031 per share paid in October 2017.

2 Interim dividend of £0.02 per share paid in October 2016.

Advisors to the Remuneration Committee

The Remuneration Committee has access to independent advice where it considers it appropriate. The Committee seeks advice relating to executive remuneration from New Bridge Street (NBS), part of Aon plc. Aon plc also provides other remuneration and benefits services to the Group and the Committee is satisfied that no conflict of interest exists in the provision of these services.

The Committee is satisfied that the advice received by NBS in relation to executive remuneration matters during the year was objective and independent. NBS is a member of the Remuneration Consultants Group and abides by the Remuneration Consultants Group Code of Conduct, which requires its advice to be objective and impartial. The fees paid to NBS during the year totalled less than £0.1m.

Statement of shareholder voting

A high level of shareholder support was received for our Remuneration related resolutions at our 2017 AGM as summarised below

	Votes for	Votes against	Votes withheld
A binding vote on the Approval of the Directors Remuneration policy	166,440,401 (99.96%)	65,494 (0.04%)	–
An advisory vote on the approval of the 2016 Annual Report on Remuneration	162,936,847 (99.34%)	1,089,694 (0.66%)	2,479,354

Approval

This Remuneration Committee Report, comprising the Annual Statement, Remuneration Policy Summary and Annual Report on Remuneration has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Katherine Innes Ker

Chairman of the Remuneration Committee
14 March 2018

Directors' Report

The Directors present their report for the financial year ended 31 December 2017. The information required by the Listing Rules (DTR 4.1.8R) is contained in the Strategic Report and the Directors' Report. Forterra plc is incorporated in England and Wales with company number 09963666.

Cross references to other sections of the Annual Report and Accounts

The Company's Strategic Report on pages 2 to 41 includes the following information that would otherwise be required to be presented in this Directors' Report.

Subject matter	Section and page reference
Likely future developments in the business	Strategic Report, page 5
Risk management	Strategic Report, page 38
Financial instruments	Consolidated Financial Statements, page 104
Employee engagement, diversity and inclusivity	Strategic Report, page 35
Greenhouse gas emissions	Strategic Report, page 34

The following disclosures required under LR 9.8.4R can be found elsewhere in the Annual Report as laid out below:

Subject matter	Section and page reference
Long-term incentive schemes	Annual Report on Remuneration, page 69

Directors

The Directors of the Company who served during the year and to the date of this report are listed on pages 42 to 45. Details of the Directors' interests in the share capital of the Company are set out in the Annual Report on Remuneration on page 70.

Dividends

An interim dividend of 3.1 pence per ordinary share was paid on 12 October 2017 to those shareholders on the register on 22 September 2017. Subject to securing shareholder approval at the 2018 AGM the Directors are proposing a final dividend for the financial year ended 31 December 2017 of 6.4 pence per ordinary share, this brings the total dividend for the year to 9.5 pence. If approved at the AGM, payment of the final dividend will be made to shareholders registered at the close of business on 15 June 2018 and will be paid on 5 July 2018.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by the shareholders at the first Annual General Meeting following their appointment. In practice however, all Directors are expected to retire and seek re-election on an annual basis.

The Board of Directors may exercise all of the powers of the Company subject to the provisions of relevant laws and the Company's Memorandum and Articles of Association. These include specific provisions and restrictions regarding the Company's ability to borrow money and to issue and repurchase shares.

The Articles of Association may be amended in accordance with the provisions of the Companies Act 2006 by way of a special resolution of the Company's shareholders.

Share capital and control

Details of the Company's share capital are included within note 26 of the Consolidated Financial Statements on page 106.

As at 31 December 2017 there were 200,442,068 ordinary shares of 1p nominal value in issue. The Company has one class of shares, ordinary shares of 1p nominal value, which carry equal rights to dividends, voting and return of capital on winding up of the Company. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights other than those prescribed by law, nor is the Company aware of any arrangement which may result in restrictions on the transfer of securities or voting rights nor any arrangement whereby a shareholder has waived or agreed to waive dividends.

The Company has established two separate employee benefit trusts for the purposes of satisfying awards under the Company's share based incentive schemes. The Company has established a Trust in connection with the Group's Share Incentive Plan (the SIP) which holds ordinary shares in trust for the benefit of employees of the Group. The Trustees of the SIP Trust may vote in respect of Forterra shares held in the Trust but only as instructed by participants in the SIP in accordance with the deed and rules governing the scheme. The Trustees will not otherwise vote in respect of the shares held in the SIP Trust.

The Employee Benefit Trust (the 'EBT') has been established to satisfy future awards vesting under the Performance Share Plan (the 'PSP'), the Deferred Annual Bonus Plan (the 'DABP') and the Sharesave Scheme. As at 31 December 2017 the EBT did not hold any shares in the Company.

Directors' Report continued

Substantial shareholdings

At 31 December 2017 the Company in accordance with the Disclosure Guidance and Transparency Rules has been notified of the following interests of greater than 3% in its ordinary share capital. This information is correct at the date of notification and it should be noted that these holdings may have changed since they were notified to the Company.

Name of shareholder	Number of shares disclosed	% interest in voting rights	Nature of holding
Woodford Investment Management Ltd	40,110,000	20.01	Direct
Investec Asset Management Ltd	13,019,353	6.50	Indirect
Aberforth Partners LLP	11,515,223	5.74	Indirect
J P Morgan Asset Management (UK) Limited	10,087,168	5.03	Indirect
Pelham Long/Short Small Cap Master Fund Ltd	9,820,369	4.90	Direct
Kames Capital plc	9,370,230	4.67	Direct/Indirect

In the period from 1 January 2018 to the date of this report the following notifications were received.

Name of shareholder	Number of shares disclosed	% interest in voting rights	Nature of holding
Polar Capital LLP	10,146,004	5.06	Direct
J O Hambro Capital Management Limited	9,860,472	4.92	Indirect
Kames Capital plc	9,223,375	4.60	Direct/Indirect

Information provided to the Company in accordance with the Disclosure Guidance and Transparency Rules is publicly available via the Regulatory News Service and on the Company's website.

Significant agreements (change of control)

The Company's committed credit facilities as described in note 20 of the Consolidated Financial Statements on page 103 are subject to provisions that require the mandatory prepayment of the facilities on a change of control. For this purpose, a change of control is defined as any person or group of persons acting in concert gaining direct or indirect control of the Company. For the purposes of this definition, control of the Company means the holding beneficially (directly or indirectly) of the issued share capital of the Company having the right to cast more than 30% of the votes capable of being cast in general meetings of the Company.

There are no agreements between the Group and its Directors and employees providing for compensation for loss of office or employment (whether through resignation purported redundancy or otherwise) in the event of a takeover bid.

Post balance sheet events

There have been no significant events affecting the Group since the end of the year. Details of developments in the year under review are contained within the Strategic Report.

Political donations

The Group made no donations during the year to any political party or other political organisation.

Going concern

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 this Annual Report and Consolidated Accounts.

The Directors are also required to provide a broader assessment of viability over a longer period which can be found on page 38.

In making the going concern statement and the viability statement the Directors have taken into account the Guidance on Risk Management, Internal Controls and Related Financial and Business Reporting issued by the Financial Reporting Council in September 2014.

Statement of disclosure of information to the auditor

Each Director of the Company confirms that as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each of the Directors has taken all the steps they ought to have taken individually as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The 2017 AGM will be held on Tuesday 22 May 2018. Full details are contained in the Notice convening the AGM, which is being sent to shareholders with this Annual Report.

Approved by the Board and signed on its behalf by:

Benjamin Guyatt

Company Secretary

14 March 2018

Statement of Directors' Responsibilities

The Directors are required by the Companies Act 2006 to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected to prepare the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and applicable law.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Consolidated and Company Financial Statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy, at any time, the financial position of the Group and the Company, and which enable them to ensure that the Financial Statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Consolidated Financial Statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are set out on pages 42 to 43 confirm that, to the best of their knowledge:

- the Consolidated Financial Statements of the Group, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained within this document includes a fair review of the development and performance of the business and the position of the Group together with a description of principal risks and uncertainties that the Group faces.

Approved by the Board and signed on its behalf by:

Stephen Harrison

Chief Executive Officer
14 March 2018

Shatish Dasani

Chief Financial Officer

Independent Auditor's Report to the Members of Forterra plc

Opinion

In our opinion:

- Forterra plc's Consolidated Financial Statements and Company Financial Statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the Consolidated Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102. The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Forterra plc which comprises:

Group	Company
Consolidated Balance Sheet as at 31 December 2017	Balance Sheet as at 31 December 2017
Consolidated Statement of Total Comprehensive Income for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 12 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year then ended	
Related notes 1 to 30 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the financial statements is the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company Financial Statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 38 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 38 that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 88 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 38 as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report to the Members of Forterra plc

continued

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Revenue recognition and accounting for customer rebates; • Management override of Decommissioning and restoration provision.
Audit scope	<ul style="list-style-type: none"> • We performed a full scope audit of the complete financial information for the main trading component and full scope audit procedures for the plc company; • The components where we performed full or specific audit procedures accounted for 100% of Profit before taxation, 100% of Revenue and 100% of Total assets.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £3.1m which represents 5% of Adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements in the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Revenue recognition (£331.0m stated net of rebates, PY comparative £294.5m) and accounting for rebates.</p> <p>Refer to the Audit Committee Report (page 51); Accounting policies (page 88); and Note 4 of the Consolidated Financial Statements (page 94).</p> <p>There is a risk of inappropriate revenue recognition through revenue being recorded in the wrong period or through manual journals posted to revenue.</p> <p>There is a risk that customer rebates could be incorrectly recorded, resulting in the understatement of the associated expense and accrual.</p>	<p>Revenue recognition</p> <p>We have understood the accounting for revenue recognition which included identifying and assessed key controls over the revenue process.</p> <p>We utilised data analytics techniques to track the full amount of revenue recognised in the year through to cash and tested any material outliers to this process.</p> <p>We have performed other audit procedures specifically designed to address the risk of management override of controls included journal entry testing.</p> <p>We have tested a sample of revenue transactions throughout the period to ensure they met the IFRS revenue recognition criteria and traced them to source documentation making sure they were appropriately recorded.</p> <p>We inspected the financial impact of transactions around the period end and tested a sample to source documentation to ensure they were recorded in the correct period.</p> <p>Accounting for rebates</p> <p>We utilised data analytics to validate the accuracy of the postings to revenue for rebates charged in the year and used this to confirm the amount which had been cleared through credit notes or payments in the period.</p> <p>We selected a sample of customer rebates for significant customers and inspected the terms, confirmed these and the sales data through to direct confirmation from customers and recalculated the rebates. To supplement this we also performed year on year analysis to understand the material changes in the provision and expense.</p> <p>To determine the completeness of the rebates, we assessed the aged debtors, post period end credit notes and reviewed journal entry transactions recorded for evidence of any unrecorded amounts. We also made enquires of management.</p> <p>We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.</p>	<p>Based on our procedures we have identified no instances of incorrect revenue or rebate recognition and amounts have been recognised in line with IAS 18.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Management override of the Decommissioning and restoration provision (£11.5m, PY comparatives £11.4m).</p> <p>The Decommissioning and restoration provision is subject to a high degree of subjectivity as to determine the estimated future cash outflows involves significant management judgements in relation to inflation rates and the appropriate discount rate to use.</p>	<p>We have audited management's methodology and accounting treatment applied in preparing the calculation of the Decommissioning and restoration provision (included the underlying assumptions) walking through key controls within the process.</p> <p>Our valuation specialists have independently evaluated the discount and inflation rates used by management. Our analysis produced a range of appropriate outcomes for both of the assumptions when benchmarked against market data. We concluded that management's assumptions were within an acceptable range.</p> <p>We agreed management's cost calculation of the Decommissioning and restoration provision for each site, which is based on an independent third party consultant's assessment, including confirming the useful lives of each site. We assessed the methodology used, confirmed its compliance with IFRS and the appropriateness of the cost calculated.</p> <p>We performed full scope audit procedures over this risk area, which covered 100% of the risk amount.</p>	<p>The assumptions used in the valuation of the Decommissioning and restoration provision are considered within an acceptable range.</p> <p>Based on the procedures performed we have identified no instances of inappropriate management override of the Decommissioning and restoration provisions.</p>

In the prior year, our auditor's report included a key audit matter in relation to accounting for exceptional items and the valuation of finished goods within inventory. We no longer consider these risks to be relevant in the current year.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Consolidated Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we have selected the two components, which represent the principal business units within the Group.

Of the two components, we performed an audit of the complete financial information ("full scope component"). For the other component we have performed review procedures over the accounts within that component.

The reporting components where we performed audit procedures accounted for 100% (2016: 99%) of the Group's Adjusted PBT, 100% (2016: 100%) of the Group's Revenue and 100% (2016: 98%) of the Group's Total assets.

For the current year, the full scope components contributed 100% (2016: 97%) of the Group's Adjusted PBT, 100% (2016: 97%) of the Group's Revenue and 100% (2016: 96%) of the Group's Total assets.

We had no specific scope components in the current year therefore the contribution was as follows 0% (2016: 2%) of the Group's Adjusted PBT, 0% (2016: 3%) of the Group's Revenue and 0% (2016: 2%) of the Group's Total assets.

The remaining component represents less than 1% of the Group's Adjusted PBT. For this component, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

In the current year, Formpave is no longer considered to be a separate component of Forterra Building Products Limited and the Structerm business was sold in the prior year as such does not form part of our current year scoping, thus the total number of components reduced from five to three.

Independent Auditor's Report to the Members of Forterra plc

continued

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.1m (2016: £2.3m), which is 5% (2016: 5%) of Adjusted profit before tax. We believe that adjusted profit before tax provides us with the most appropriate basis for materiality based on the Group being profitable in the year.

Starting basis	<ul style="list-style-type: none"> Profit before tax – £59.3m We begin our assessment for materiality based on Profit before tax
Adjustments	<ul style="list-style-type: none"> Adjustment for exceptional items – £1.8m
Materiality	<ul style="list-style-type: none"> Totals £61.1m adjusted Profit before tax Materiality of £3.1m (5% of adjusted Profit before tax)

We determined materiality for the Company to be £1.5m (2016: £1.5m), which is 0.5% of Total assets (2016: 0.5%).

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality should be set at 75% (2016: 75%) of our planning materiality, namely £2.3m (2016: £1.7m). We have set performance materiality at this percentage due to our understanding of the entity and past experience with the audit, which indicates a lower risk of misstatements.

Audit work of the components for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.3m to £1.8m (2016: £1.3m to £0.4m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.15m (2016: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 76, including Strategic Report, set out on pages 2 to 41, Governance, set out on pages 42 to 76, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- fair, balanced and understandable set out on page 54 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 51 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 47 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- based on the work undertaken in the course of the audit:
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
 - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement set out on pages 46 to 50 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority:
 - is consistent with the Financial Statements; and
 - has been prepared in accordance with applicable legal requirement.
- Based on the work undertaken rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administration, management and supervisory bodies and their committees) have been complied with if applicable.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Independent Auditor's Report to the Members of Forterra plc

continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 76, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to occupational health and safety and data protection.
- We understood how Forterra plc is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, divisional management and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the company on 12 August, 2016 to audit the Financial Statements for the year ending 31 December, 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending December 31, 2016 to December 31, 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Peter Mclver

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

14 March 2018

- 1 The maintenance and integrity of the Forterra plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Total Comprehensive Income

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue	4	331.0	294.5
Cost of sales		(196.8)	(175.2)
Gross profit		134.2	119.3
Distribution costs		(48.9)	(43.6)
Administrative expenses		(21.2)	(26.7)
Other operating income	7	0.4	2.3
Operating profit	5	64.5	51.3
EBITDA before exceptional items		75.4	70.6
Exceptional items	9	-	(8.9)
Depreciation and amortisation	14,15	(10.9)	(10.4)
Operating profit		64.5	51.3
Finance expense before exceptional items		(3.4)	(14.2)
Exceptional finance expense	9	(1.8)	-
Net finance expense	10	(5.2)	(14.2)
Profit before tax		59.3	37.1
Income tax expense	11	(11.8)	(9.6)
Profit for the year attributable to equity shareholders		47.5	27.5
Total comprehensive income for the year attributable to equity shareholders		47.5	27.5
Earnings per share		Pence	Pence
Basic earnings per share	13	23.8	13.8
Diluted earnings per share	13	23.4	13.7

The calculation of earnings per share on a pro-forma basis is shown within note 13 of these Consolidated Financial Statements.

Note: The classification of expenses within the Consolidated Statement of Total Comprehensive Income has been revised in 2017 and restated in 2016 to better align internal and external financial reporting (see note 2).

Consolidated Balance Sheet

At 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	14	15.8	13.7
Property, plant and equipment	15	165.2	147.2
Deferred tax assets	25	–	0.4
		181.0	161.3
Current assets			
Inventories	16	36.3	39.0
Trade and other receivables	17	33.0	31.6
Cash and cash equivalents	18	29.0	56.2
		98.3	126.8
Total assets		279.3	288.1
Current liabilities			
Trade and other payables	19	(61.2)	(51.5)
Trade and other payables with related parties	30	–	(0.7)
Current tax liabilities		(5.8)	(3.8)
Loans and borrowings	20	(0.4)	(10.7)
Provisions for other liabilities and charges	24	(7.9)	(5.7)
		(75.3)	(72.4)
Non-current liabilities			
Loans and borrowings	20	(89.4)	(137.8)
Provisions for other liabilities and charges	24	(9.1)	(8.7)
Deferred tax liabilities	25	(0.8)	–
		(99.3)	(146.5)
Total liabilities		(174.6)	(218.9)
Net assets		104.7	69.2
Capital and reserves attributable to equity shareholders			
Ordinary shares	26	2.0	2.0
Retained earnings		102.7	67.2
Total equity		104.7	69.2

The notes on pages 88 to 110 are an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors on 14 March 2018 and signed on their behalf by:

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

Consolidated Statement of Cash Flows

For The Year Ended 31 December 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Operating profit before exceptional items		64.5	60.2
Adjustments for:			
– Depreciation and amortisation	14,15	10.9	10.4
– Non-cash movement on provisions	24	3.1	(0.4)
– Share-based payments	29	1.5	0.5
– Other non-cash items		–	0.3
– Profit on sale of property, plant and equipment	7	(0.4)	(0.2)
Changes in working capital:			
– Inventories		3.0	1.7
– Trade and other receivables		(1.4)	(3.1)
– Trade and other payables		9.5	0.7
– Cash movement on provisions		(0.5)	(0.3)
Operating cash flow before exceptional items		90.2	69.8
Cash flow relating to exceptional items		–	(13.6)
Cash generated from operations		90.2	56.2
Interest paid		(3.3)	(12.4)
Tax paid		(9.3)	(6.3)
Net cash generated from operating activities		77.6	37.5
Cash flows from investing activities			
Cash outflow on business combinations	28	(20.0)	–
Purchase of property, plant and equipment		(9.0)	(9.0)
Purchase of intangible assets		(1.8)	(0.1)
Proceeds from sale of property, plant and equipment		0.6	0.3
Net cash used in investing activities		(30.2)	(8.8)
Cash flows from financing activities			
Dividends paid	12	(13.8)	(4.0)
Drawdown of borrowings		100.0	167.0
Repayment of borrowings		(160.0)	(156.7)
Finance arrangement fees paid		(0.8)	(3.0)
Net cash (used in)/generated from financing activities		(74.6)	3.3
Net (decrease)/increase in cash and cash equivalents		(27.2)	32.0
Cash and cash equivalents at the beginning of the period		56.2	24.2
Cash and cash equivalents at the end of the period	18	29.0	56.2

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2017

	Note	Share capital £m	Share premium £m	Deferred shares £m	Retained earnings £m	Total equity £m
Balance at 1 January 2016		0.1	46.5	–	(257.2)	(210.6)
Total comprehensive income for the year		–	–	–	27.5	27.5
Adjustment to reserves on Group reorganisation		(0.1)	(46.5)	–	–	(46.6)
Issue of share capital		2.2	44.4	–	–	46.6
Reclassification of ordinary shares to deferred shares		(0.2)	–	0.2	–	–
Capitalisation of shareholder loan note		–	255.8	–	–	255.8
Capital reduction		–	(300.2)	(0.2)	300.4	–
Dividends paid		–	–	–	(4.0)	(4.0)
Share-based payments		–	–	–	0.5	0.5
Balance at 31 December 2016		2.0	–	–	67.2	69.2
Total comprehensive income for the year		–	–	–	47.5	47.5
Dividends paid	12	–	–	–	(13.8)	(13.8)
Share-based payments	29	–	–	–	1.2	1.2
Tax on share-based payments	25	–	–	–	0.6	0.6
Balance at 31 December 2017		2.0	–	–	102.7	104.7

Notes to the Financial Statements

1 General information

Forterra plc ('Forterra' or the 'Company') and its subsidiaries (together referred to as the 'Group') are domiciled in the United Kingdom. The address of the registered office of the Company and its subsidiaries is 5 Grange Park Court, Roman Way, Northampton, 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.

The Consolidated Financial Statements of the Group for the year ended 31 December 2017 were approved for issue by the Board of Directors on 14 March 2018.

2 Summary of significant accounting policies

(a) Basis of preparation

Forterra plc was incorporated on 21 January 2016, however the Consolidated Financial Statements for the comparative period, year ended 31 December 2016 have been prepared on the basis that Forterra plc was in existence throughout that period. The terms of the acquisition of Forterra Building Products Limited's shares was such that the Group reconstruction should be accounted for as a continuance of the existing Forterra Building Products Limited group rather than as an acquisition. Accordingly the Consolidated Financial Statements have been prepared by extracting financial information from the consolidated statutory accounts of Forterra Building Products Limited for the period prior to the incorporation of Forterra plc in 2016.

In 2017, the classification of expenses has been changed voluntarily; resulting in an increase in cost of sales and distribution costs and corresponding decrease in administrative expenses and other operating income. This change results in a decrease in gross margin of 1.4% for the period ended 31 December 2016, although there is no net impact to the Consolidated Statement of Total Comprehensive Income. Having reviewed the underlying nature of these costs, management have made this change to align internal and external financial reporting, which management are of the opinion, is a more accurate presentation. Comparative periods have been restated to reflect this reclassification consistently.

The above restatements do not have any impact on the balance sheet at 1 January 2016 and 31 December 2016.

The accounting policies used in the preparation of the Consolidated Financial Statements of the Group are set out below. These accounting policies have been used consistently in all material respects across the periods presented. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are presented in Pounds Sterling and all values are rounded to the nearest hundred thousand unless otherwise indicated.

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement and complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

(b) Going concern

The Group 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 financial statements are signed. The Group therefore adopts the going concern basis in preparing its Consolidated Financial Statements.

Further, the Group sets out on pages 22 to 23 of its Strategic Report the financial position, performance, cash flows and borrowing facilities and on page 38 its Viability Statement. In addition, note 23 to the Consolidated Financial Statements includes the Group's objectives, policies and procedures for financial risk management, including details of exposure and response to foreign exchange, interest rate, credit and liquidity risks.

(c) New standards, amendments and interpretations

The following newly effective standards and amendments have been considered:

IAS 7 – Statement of Cash Flows (amendments)

IAS 12 – Income Taxes (amendments)

Annual Improvements – IFRSs 2014-2016 Cycle

None of the above amendments to standards have had a material effect on the Group's Consolidated Financial Statements.

The following new standards/amendments have been issued but are not yet effective and therefore have not been applied in these financial statements.

2 Summary of significant accounting policies *continued*

IFRS 9 – Financial instruments (effective 1 January 2018)

IFRS 9 addresses requirements for recognition and measurement, impairment, derecognition of financial instruments and general hedge accounting. A review of financial instruments has been carried out to assess the impact of the new standard on current recognition and measurement policies.

Based on this review, we do not anticipate that there will be a material impact on the primary statements.

IFRS 15 – Revenue from contracts with customers (effective 1 January 2018)

IFRS 15 sets out a single framework for revenue recognition. Its core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A detailed review of contracts was carried out to identify and analyse the impact of IFRS 15 on the Group. Based on this review, we do not anticipate that there will be a material impact on the Group's revenue recognition. Further reviews will be conducted as new contracts are entered into to ensure ongoing compliance in future accounting periods.

IFRS 16 – Leases (effective 1 January 2019)

IFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for by lessees on balance sheet.

The Group has begun a systematic review of leases held to ensure current reporting is aligned with the standard. Further information about the Group's operating leases are set out in note 27.

Other than the potential impact of IFRS 16, the Group does not expect a significant net impact from the adoption of new standards. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

(d) Basis of consolidation

The Group controls an entity when it is exposed to, or has rights to, variable returns and has the ability to affect those returns through its power over the entity. A subsidiary is an entity over which the Group has control. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

(e) Foreign currency translation

The functional and presentational currency of the Group is Pounds Sterling; the currency of the primary economic environment in which the Group operates.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at period end, are recognised in the Group's Consolidated Statement of Total Comprehensive Income.

(f) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts for goods supplied, net of rebates, discounts, returns and value added taxes. The Group recognises revenue as follows:

Bricks and Blocks – When the goods have been delivered and the risks and rewards have passed to the purchaser.

Bespoke Products – When the goods have been delivered for supply and deliver contracts and when goods are delivered and installed for supply and fit contracts.

Bill and hold arrangements – When the inventory has been produced the purchaser accepts title and the contract vests.

The Group provides volume based rebates to certain customers, typically on an annual basis. Revenue is recognised net of rebates paid or accrued.

(g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Executive Committee which has been identified as the chief operating decision maker.

(h) Exceptional costs

The Group presents as exceptional items on the face of the Consolidated Statement of Total Comprehensive Income, those material items of income and expense, which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand elements of financial performance in the period.

Notes to the Financial Statements continued

2 Summary of significant accounting policies *continued*

(i) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset, costs attributable to bringing the asset to working condition for intended use, the initial estimate of any decommissioning obligation and associated changes to those estimates. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate assets.

Subsequent costs are included in the asset's carrying value where they meet the recognition criteria.

Assets are derecognised on disposal. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of an asset and are recognised in the Consolidated Statement of Total Comprehensive Income. Where no future economic benefit is expected from the use of an asset, a provision is made against its carrying value in accordance with IAS 37.

Land and assets under construction are not depreciated. For the other categories of property, plant and equipment, depreciation is charged to the Consolidated Statement of Total Comprehensive Income on a straight-line basis over the assets estimated useful life. The estimated useful lives of assets are as follows:

- Freehold buildings – 40 years
- Leasehold buildings – Shorter of the useful life and the lease term
- Plant and machinery – 4 to 25 years

Depreciation ceases where plant and machinery ordinarily used in production is idle as a result of the temporary cessation of production at a facility. Where assets are idle for any other reason depreciation continues to be charged in line with the requirements of IAS 16.

Asset residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount of an asset is written down if it is in excess of recoverable amount.

Repairs and maintenance expenses do not meet the recognition criteria and are recognised as an expense in the Consolidated Statement of Total Comprehensive Income.

(j) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of businesses, trade and assets where consideration paid exceeds the fair value at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs). Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of fair value less costs to sell and value in use. Any impairment is recognised immediately as an expense in the Consolidated Statement of Total Comprehensive Income and is not subsequently reversed.

(ii) Brand

Intangible assets are not amortised if they have an indefinite useful life but are tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

(iii) Other intangible assets

Other intangibles consists of clay rights, carbon emission credits, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. All other intangible assets have finite lives and are carried at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost of these intangible assets over their estimated useful lives of up to 5 years for software and up to 30 years for other intangibles.

(iv) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility to complete the development so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- That the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to reliably measure development expenditure

2 Summary of significant accounting policies *continued*

(k) Financial instruments

The Group determines the classification of financial assets and financial liabilities at initial recognition. The principal financial assets and liabilities of the Group are as follows:

(i) Trade and other receivables (excluding prepayments)

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. All trade receivables are expected to be settled in one year or less.

Trade receivables are reported net of provisions. Provisions are recorded in a separate provision account with the loss being recognised within administrative expenses in the Consolidated Statement of Total Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) Trade and other payables (excluding statutory non-financial liabilities)

Trade and other payables are initially stated at fair value and subsequently measured at amortised cost using the effective interest method.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits.

(iv) Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense.

(v) Derivative financial instruments

The Group uses derivative financial instruments, in particular forward foreign exchange contracts and options, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes. No derivatives have been designated as hedges in the periods presented.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price less any costs expected to be incurred in production and sale. The Group applies an inventory provision for damaged, obsolete, excess and slow-moving inventory.

Raw materials are measured at the weighted average cost. This method perpetually applies a cost weighting to obtain an average cost of purchased inventory and inventory on hand in proportion to quantity.

Finished goods are measured at standard cost. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

(m) Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle that obligation and the amount can be reliably measured. If the effect is material the provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The change in provisions due to passage of time is recognised as a net finance expense.

Accruals for rebates are included in accrued liabilities and other payables.

Provisions are not made for future operating losses.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(o) Operating leases

Leases in which a significant portion of the risk and reward is not transferred to the Group are classified as operating leases. The total rentals payable under operating leases are charged to the Consolidated Statement of Total Comprehensive Income on an accrual basis over the lease term. Operating lease incentives, which primarily include rent free periods, are capitalised and released to the rental expense within the Consolidated Statement of Total Comprehensive Income over the lease term. The Group has no finance leases.

(p) Net finance expense

Finance expense

Finance expense comprises interest payable on borrowings from external and related parties, direct issue costs, foreign exchange losses and unwinding of discount on long-term provisions. Finance expense is recognised in the Consolidated Statement of Total Comprehensive Income as it accrues using the effective interest method.

Notes to the Financial Statements continued

2 Summary of significant accounting policies *continued*

Finance income

Finance income comprises interest receivable on funds invested and foreign exchange gains.

(q) Current and deferred income tax

Income tax for the periods presented comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Total Comprehensive Income, unless it relates to items recognised directly in equity.

The current income tax charge is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(r) Employee benefits

The Group operates a defined contribution pension plan under which the Group pays fixed contributions. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when due.

(s) Share-based payments

The Group operates a number of equity-settled share-based compensation plans. The fair value of the employee services received in exchange for the grant of shares or options is recognised as an expense over the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of shares or options granted. Fair values are adjusted where non-market vesting conditions are attached to a particular scheme. At each balance sheet date the Group revises its estimates of the number of shares or options that are expected to vest and recognises the impact of the revision on original estimates, if any, in the Consolidated Statement of Total Comprehensive Income, with a corresponding adjustment to equity.

(t) Own shares held by employee benefit trust

The Group has established two separate employee benefit trusts for the purposes of satisfying awards under the Group's share-based incentive schemes. Shares in the Group acquired by the trusts are deducted from equity until shares are cancelled, reissued or disposed.

3 Significant accounting estimates and judgements

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

The Directors consider that the following estimates and judgements are likely to have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

(a) Accounting estimates

(i) Accounting for acquisitions

The acquisition of trade and certain assets of Bison Manufacturing Limited has been accounted for as a business combination under the purchase method from the date that control passes. Under the purchase method the identifiable assets, liabilities and contingent liabilities assumed have been measured at their acquisition date fair values. Management have engaged third party experts to estimate the fair values of assets and liabilities acquired on the date of acquisition.

(ii) Provisions

Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value, management reference information from the Bank of England when making such estimates.

Provisions for product liability or other legal claims, restructuring, and carbon emissions obligations are all made based on the best estimate of the likely committed cash outflow, using relevant information available at the reporting date.

Management engage third party valuation experts, as appropriate, when material and complex estimates are required.

The selection of appropriate long-term inflation and discount rates could have a material impact on the financial statements, particularly as net present value calculations span a longer time period. Management do not engage third party experts to estimate these rates as historic and forecast information has shown that the two rates often move in tandem and therefore do not cause a material net impact. If the rates did not move in tandem and the spread between them increased by 0.5% the value of provisions could change by c.£0.8m.

3 Significant accounting estimates and judgements *continued*

(b) Accounting judgements

(i) Inventory valuation and provisioning

Inventory carrying value is stated after recognising inventory provisions. The calculation of provisions for the potential inventory obsolescence requires a degree of commercial judgement when determining saleability and price of certain finished goods.

(ii) Refinancing of borrowing facilities arranged at IPO

The Group refinanced during the year and put new borrowing facilities in place of those agreed at the time of the IPO. Term loans were settled and the amount available under the revolving credit facility and its duration were increased whilst the syndicate of seven banks saw three members depart and one new lender join. Management have judged that the IPO facilities and their replacements are sufficiently different in qualitative and quantitative terms for the borrowings to be treated as extinguished and re-arranged rather than modified. As a result the borrowing costs capitalised at IPO have been written-off in full.

(iii) Exceptional items

Exceptional items are disclosed separately in the Consolidated Financial Statements where management believes it is necessary to do so to better understand the underlying financial performance of the Group. Management consider the nature, size and incidence of items when judging what should be disclosed separately. The costs associated with the IPO, separation from HeidelbergCement AG and subsequently Forterra Inc, the write-off of finance costs capitalised at IPO and costs incurred when acquiring and disposing of interests if material are all considered to be exceptional by management.

(iv) Additional performance measures

Additional performance measures are presented within the Consolidated Financial Statements where management have made the judgement that their presentation allows readers to properly understand the financial performance of the Group. As the Group listed in April 2016, management believe it is appropriate to adjust the cost base and therefore profit, as well as finance costs for 2016 to make a better comparison to the 2017 results. Exceptional items are excluded in presenting additional performance measures.

(v) EBITDA before exceptional items

Management use EBITDA before exceptional items in calculating compliance with banking covenants. EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

(vi) Pro-forma before exceptionals (pro-forma basis)

Pro-forma basis is presented within earnings per share (note 13) as an additional performance measure. As the Group was listed in April 2016, it is adjusted for exceptional items, additional costs in 2017 related to being a stand-alone plc and with finance expenses restated to present the debt facility at IPO as if it had been in place throughout 2016.

An appropriate level of additional overheads has been added in 2016 to make it comparable with the plc cost structure in 2017.

Finance expense for 2016 has been recalculated assuming the debt structure at IPO was in place throughout the year.

The impact of exceptional items has been excluded in both years (detailed in note 9).

On the basis of the adjustments made below, tax presented within the pro-forma information has been recalculated at the effective tax rate before exceptional items of 20.0% for 2017 (2016: 20.9%).

	2017 £m	2016 £m
Operating profit for the year	64.5	51.3
Exceptional items	–	8.9
Operating profit before exceptionals	64.5	60.2
Additional costs in 2017 as a plc	–	(1.2)
Operating profit before exceptionals (pro-forma basis)	64.5	59.0
Finance charge before exceptionals (based on debt structure at IPO for full period)	(3.4)	(5.9)
PBT before exceptionals (pro-forma basis)	61.1	53.1
Tax charge at effective rate	(12.2)	(11.1)
Profit for the year before exceptionals (pro-forma basis)	48.9	42.0

Notes to the Financial Statements continued

4 Segmental reporting

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

The Executive Committee considers the business to be split into 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 process, 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 relative sales proportions in 2016. Management considers that a split of 75% Bricks and Blocks and 25% Bespoke Products should be applied for 2017 and beyond as the growth of Bespoke Products through the Bison acquisition has not resulted in additional central costs being incurred. Management considers this 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, 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:

	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	14,15	(9.6)	(1.3)	(10.9)
Operating profit		59.5	5.0	64.5
Finance costs before exceptional items				(3.4)
Exceptional finance costs	9			(1.8)
Net finance expense	10			(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			
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	15	130.7	34.5	165.2
Intangible assets	14	8.1	7.7	15.8
Inventories	16	30.5	5.8	36.3
Segment assets		169.3	48.0	217.3
Unallocated assets				62.0
Total assets				279.3

4 Segmental reporting *continued*

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			
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions	15	7.3	1.4	8.7
Property, plant and equipment acquired	28	–	20.0	20.0
Intangible asset additions	14	1.1	0.3	1.4
Intangible assets acquired	28	–	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

Segment revenue and results:

	2016			
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		221.3	74.8	296.1
Intersegment eliminations				(1.6)
Revenue				294.5
EBITDA before exceptional items		63.6	7.0	70.6
Depreciation and amortisation	14, 15	(9.6)	(0.8)	(10.4)
Operating profit before exceptional items		54.0	6.2	60.2
Unallocated exceptional items	9			(8.9)
Operating profit				51.3
Net finance expense	10			(14.2)
Profit before tax				37.1

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

Segment assets:

	2016			
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment	15	132.5	14.7	147.2
Intangible assets	14	7.4	6.3	13.7
Inventories	16	34.4	4.6	39.0
Segment assets		174.3	25.6	199.9
Unallocated assets				88.2
Total assets				288.1

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.

Notes to the Financial Statements continued

4 Segmental reporting *continued*

Other segment information:

	Note	2016		Total £m
		Bricks and Blocks £m	Bespoke Products £m	
Property, plant and equipment additions	15	7.7	0.5	8.2
Intangible asset additions	14	0.5	0.2	0.7

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

	2016		
	Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	37.7	2.4	40.1
Customer B	31.9	4.5	36.4

5 Operating profit

Profit from operations is stated after charging:

	Note	2017 £m	2016 £m
Depreciation and amortisation	15	(10.9)	(10.4)
Operating lease expense		(6.8)	(6.7)
Share-based payments	29	(1.5)	(0.5)

6 Auditor remuneration

	2017 £m	2016 £m
Audit services:		
Fees payable for the audit of the Company and Consolidated Financial Statements	(0.1)	(0.1)
Fees payable for the audit of the subsidiary Financial Statements	(0.2)	(0.2)
	(0.3)	(0.3)
Other services:		
Fees payable for other non-audit services	–	(0.4)
	–	(0.4)
	(0.3)	(0.7)

In 2016 other services related mainly to the costs incurred in listing the Group on the London Stock Exchange.

7 Other operating income

	Note	2017 £m	2016 £m
Profit on sale of property, plant and equipment		0.4	0.2
Loss on disposal of subsidiary	9	–	(0.1)
Other income		–	0.6
Indemnity payment received	9	–	1.6
		0.4	2.3

8 Employment costs

Employment costs for the Group during the year

	2017 £m	2016 £m
Wages and salaries	(67.5)	(61.1)
Pension costs	(5.4)	(5.2)
Social security costs	(6.8)	(5.8)
Share-based payments	(1.2)	(0.5)
	(80.9)	(72.6)

8 Employment costs *continued*

Average number of employees

	2017	2016
Administration	203	179
Production and distribution	1,462	1,401
	1,665	1,580

The increase in average number of employees is primarily due to the Bison acquisition.

The classification of employees above has been re-presented for 2016 to align roles with the current structure and operation of the business.

Pension costs

Throughout the period under review the Group provided pension benefits to employees through defined contribution schemes and by way of a retirement allowance to some members of senior management.

9 Exceptional items

	2017 £m	2016 £m
Exceptional administrative expenses:		
Transaction costs	–	(9.1)
Separation costs	–	(1.3)
Exceptional other operating income/(expenses):		
Loss on disposal of subsidiary	–	(0.1)
Indemnity payment received	–	1.6
Exceptional finance expenses:		
IPO capitalised financing costs written off	(1.8)	–
	(1.8)	(8.9)

Following the refinancing of the Group's borrowings facility during 2017, the balance of the capitalised financing cost incurred when the previous facility was put in place at IPO has been written-off.

Transaction costs in 2016 relate to the IPO completed in April 2016 and associated non-recurring professional fees.

Separation costs relate to the separation from Forterra Inc in 2016 and included rebranding, new office fit out costs, set up of standalone IT operations and staff recruitment.

In October 2016 the Group disposed of its investment in Structerm Limited and ceased to consolidate its assets, liabilities and financial results.

A cash tax indemnity payment was received in the 2016 from HeidelbergCement AG relating to previous tax paid.

10 Net finance expense

	2017 £m	2016 £m
Interest payable on related party borrowings	–	(10.2)
Interest payable on external borrowings	(3.4)	(3.8)
IPO capitalised financing costs written off	(1.8)	–
Other finance expense	–	(0.2)
	(5.2)	(14.2)

Up to the date of the IPO, both the debt level and interest rate were significantly higher than the Group's post IPO financing arrangements. This resulted in a higher finance charge for 2016.

Notes to the Financial Statements continued

11 Taxation

	Note	2017 £m	2016 £m
Current tax			
UK corporation tax on profit for the year		(11.4)	(8.3)
Prior year adjustment on UK corporation tax		0.2	0.1
Total current tax		(11.2)	(8.2)
Origination and reversal of temporary differences	25	(0.5)	(1.0)
Effect of change in tax rates	25	0.1	0.1
Effect of prior period adjustments	25	(0.2)	(0.5)
Total deferred tax		(0.6)	(1.4)
Income tax expense		(11.8)	(9.6)
		2017 £m	2016 £m
Profit on ordinary activities before tax		59.3	37.1
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19.25% (2016: 20%)		(11.4)	(7.4)
Effects of:			
Change in tax rate		0.1	0.1
Expenses not deductible for tax purposes		(0.5)	(1.9)
Prior period adjustments		-	(0.4)
Income tax expense		(11.8)	(9.6)

The main rate of UK corporation tax for 2017 is 19.25%, based on a rate of 20% for the first three months of 2017 and 19% from 1 April 2017.

12 Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend of 3.1p per share (2016: 2.0p)	(6.2)	(4.0)
Final dividend of 3.8p per share in respect of prior year (2016: nil)	(7.6)	-
	(13.8)	(4.0)

The Directors are proposing a final dividend for 2017 of 6.4p per share, making a total payment for the year of 9.5p (2016: 5.8p).

The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the Consolidated Financial Statements.

13 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.

As the Group did not exist in its current form throughout the full prior period, basic and diluted EPS has been calculated as if the restructuring of the Group on admission to the London Stock Exchange occurred at the beginning of the comparative period.

	Note	Basic	2016	Pro-forma	2016
		2017 £m	£m	2017 £m	£m
Operating profit for the year		64.5	51.3	64.5	51.3
Exceptional items	9	–	–	–	8.9
Additional costs in 2017 as a stand-alone plc		–	–	–	(1.2)
Finance charge	10	(5.2)	(14.2)	(3.4)	(5.9)
Profit before taxation		59.3	37.1	61.1	53.1
Tax charge at effective rate	11	(11.8)	(9.6)	(12.2)	(11.1)
Profit for the year		47.5	27.5	48.9	42.0
Weighted average number of shares (millions)		200.0	200.0	200.0	200.0
Effect of share incentive awards and options		2.9	0.8	2.9	0.8
Diluted weighted average number of ordinary shares		202.9	200.8	202.9	200.8
Earnings per share:					
Basic (in pence)		23.8	13.8		
Diluted (in pence)		23.4	13.7		
Pro-forma earnings per share:					
Basic (in pence)				24.5	21.0
Diluted (in pence)				24.1	20.9

Pro-forma basis is presented as an additional performance measure and is stated before exceptional items and after adjustments to present additional plc costs incurred in 2017 and finance costs comparatively in both years. The detail for these adjustments has been presented within note 3.

14 Intangible assets

	Goodwill £m	Brand £m	Other intangibles £m	Total £m
Cost				
At 1 January 2017	405.7	10.7	15.0	431.4
Additions	–	–	1.4	1.4
Assets acquired on business combination	0.8	0.4	–	1.2
Disposals	–	–	(0.1)	(0.1)
At 31 December 2017	406.5	11.1	16.3	433.9
Accumulated amortisation and impairment				
At 1 January 2017	(399.7)	(4.7)	(13.3)	(417.7)
Charge for the year	–	–	(0.5)	(0.5)
Disposals	–	–	0.1	0.1
Impairment charge	–	–	–	–
At 31 December 2017	(399.7)	(4.7)	(13.7)	(418.1)
Net book value at 31 December 2017	6.8	6.4	2.6	15.8
Net book value at 1 January 2017	6.0	6.0	1.7	13.7

Notes to the Financial Statements continued

14 Intangible assets *continued*

	Goodwill £m	Brand £m	Other intangibles £m	Total £m
Cost				
At 1 January 2016	409.9	10.7	14.3	434.9
Additions	–	–	0.7	0.7
Disposals	(4.2)	–	–	(4.2)
At 31 December 2016	405.7	10.7	15.0	431.4
Accumulated amortisation and impairment				
At 1 January 2016	(403.9)	(4.7)	(13.0)	(421.6)
Charge for the year	–	–	(0.3)	(0.3)
Disposals	4.2	–	–	4.2
Impairment charge	–	–	–	–
At 31 December 2016	(399.7)	(4.7)	(13.3)	(417.7)
Net book value at 31 December 2016	6.0	6.0	1.7	13.7
Net book value at 1 January 2016	6.0	6.0	1.3	13.3

The carrying value of goodwill relates to the trades of Formpave and Bison Precast, CGUs within the Bespoke Products reportable segment.

The brand category comprises the acquired Thermalite and Bison Precast brands, components of the Bricks and Blocks and Bespoke Products reportable segments respectively.

The other intangibles category consists of clay rights, carbon emission credits, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. Additions in the period relate to costs incurred in upgrading Group IT systems and the purchase of EU carbon credits.

Impairment of intangible assets

(i) Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives consist of the Thermalite brand which is allocated to the Aircrete blocks CGUs within the Brick and Block reportable segment when undertaking annual impairment tests.

The Group estimates the recoverable amount of CGUs using a value in use model by projecting pre-tax cash flows over the estimated useful life. The key assumptions underpinning the recoverable amount of the CGUs are forecast revenue, EBITDA margin, capital expenditure and discount rate.

The forecast revenues in the model are based on management's past experience and future expectations of performance. The discount rate used in 2017 is pre-tax 10.4% (2016: 10.6%) derived from a Weighted Average Cost of Capital calculation and benchmarked against similar organisations operating within the sector. The terminal growth rate used in 2017 is 2% (2016: 2%). The short-term growth rate is 2.5% in 2017 (2016: 3%).

The recoverable amount in respect of the indefinite life intangibles, as assessed by management using the above assumptions, is greater than the carrying amount and therefore no impairment has been recognised in 2017 (2016: £nil). Management consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate headroom in each of the years presented in these financial statements.

(ii) Goodwill

The goodwill balance of £6.8m (2016: £6.0m) relates to the Formpave and Bison Precast CGUs allocated to the Bespoke Products reportable segment. The Group estimates the recoverable amount of goodwill using a value in use model by projecting pre-tax cash flows over the estimated useful life. The key assumptions underpinning the recoverable amount of the goodwill are forecast revenue, EBITDA margin, capital expenditure and discount rate.

The forecast revenues in the model are based on management's past experience and future expectations of performance. The discount rate used in 2017 is pre-tax 10.4% (2016: 10.6%) derived from a WACC calculation and benchmarked against similar organisations operating within the sector. The terminal growth rate used in 2017 is 2% (2016: 2%). The short-term growth rate is 5.3% in 2017 (2016: 3%). Management consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate headroom in each of the years presented in these financial statements.

Development costs meeting the capitalisation criteria have been capitalised 2017: £0.3m (2016: £0.1m).

15 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2017	124.2	226.1	350.3
Additions	1.0	7.7	8.7
Assets acquired on business combination	9.9	10.1	20.0
Disposals	(0.8)	(5.1)	(5.9)
Changes in the value of decommissioning assets	(0.2)	–	(0.2)
At 31 December 2017	134.1	238.8	372.9
Accumulated depreciation and impairment			
At 1 January 2017	(46.3)	(156.8)	(203.1)
Charge for the year	(2.1)	(8.3)	(10.4)
Disposals	0.8	4.8	5.6
Changes in the value of decommissioning assets	0.2	–	0.2
At 31 December 2017	(47.4)	(160.3)	(207.7)
Net book value at 31 December 2017	86.7	78.5	165.2
Net book value at 1 January 2017	77.9	69.3	147.2

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2016	124.0	222.2	346.2
Additions	0.7	7.5	8.2
Disposals	(0.2)	(3.6)	(3.8)
Changes in the value of decommissioning assets	(0.3)	–	(0.3)
At 31 December 2016	124.2	226.1	350.3
Accumulated depreciation and impairment			
At 1 January 2016	(44.6)	(152.1)	(196.7)
Charge for the year	(1.9)	(8.2)	(10.1)
Disposals	0.2	3.5	3.7
At 31 December 2016	(46.3)	(156.8)	(203.1)
Net book value at 31 December 2016	77.9	69.3	147.2
Net book value at 1 January 2016	79.4	70.1	149.5

Land and buildings comprise sites used for administration, distribution, manufacturing and mineral extraction. Each asset is used to generate operating cash flows and rates of depreciation reflect this use.

Quarries and manufacturing facilities are classified under Land and buildings, quarrying enables manufacturing and is not carried out for any other economic purpose. The two are therefore not considered to be distinct.

Included within property, plant and equipment are assets under the course of construction of £1.6m (2016: £2.7), comprising £nil (2016: £0.1m) for land and buildings and £1.6m (2016: £2.6m) for plant and machinery.

Notes to the Financial Statements continued

16 Inventories

	2017 £m	2016 £m
Raw materials	4.5	5.0
Work in progress	1.7	1.5
Finished goods	29.1	31.5
Other inventory	1.0	1.0
	36.3	39.0

Inventory expense relating to variable and fixed production costs included in cost of sales during the year was £194.0m (2016: £173.5m), of which employment cost expenses totalled £56.0m (2016: £49.6m).

Write downs of inventories recognised as an expense in the year were £1.7m (2016: £1.3m). Reversals of previous inventory write downs in the period were £2.1m (2016: £2.1m).

There is no significant difference between the replacement cost of inventories and their carrying amounts.

17 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	31.7	30.0
Other receivables	0.2	0.3
Prepayments	1.1	1.3
	33.0	31.6

The ageing profile of trade receivables is:

	2017 £m	2016 £m
Trade receivables not yet due	26.2	22.2
1 to 30 days past due	3.9	6.0
31 to 60 days past due	1.0	0.6
61 to 90 days past due	0.3	0.3
Over 90 days past due	0.3	0.9
	31.7	30.0

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for.

These balances relate to customers who have no recent history of default and whose debts are considered to be recoverable.

Trade receivables are considered for impairment either where there is an identifiable risk of non-payment or the balance is overdue by greater than 60 days. Impairments in the period were less than £0.1m (2016: less than £0.1m).

18 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	29.0	56.2
	29.0	56.2

Cash at bank and in hand is held in Pounds Sterling and Euros. As at 31 December 2017, £1.8m was held in Euros (2016: £0.5m), the remaining £27.2m (2016: £55.7m) was held in Pounds Sterling.

19 Trade and other payables

	2017 £m	2016 £m
Trade payables	30.0	26.3
Payroll tax and other statutory liabilities	7.5	3.8
Accrued liabilities and other payables	23.7	21.4
	61.2	51.5

20 Loans and borrowings

	2017 £m	2016 £m
Non-current loans and borrowings		
External bank loan – principal	90.0	140.0
– unamortised debt issue costs	(0.6)	(2.2)
	89.4	137.8
Current loans and borrowings		
External bank loan – principal	–	10.0
– interest	0.4	0.7
	0.4	10.7
	89.8	148.5

As part of the IPO, on 26 April 2016 the Group entered into a facilities agreement with a group of leading banks under which it had access to a £150m term loan facility and a £30m revolving credit facility for five years.

On 26 July 2017 the Group refinanced by repaying amounts outstanding under existing facilities and entering into a committed £150m revolving credit facility with a new group of leading banks. The new facility has been extended by a year over the original facility and therefore is in place until July 2022. An accordion facility of £50m has also been 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%, a 25bps reduction from the original facility.

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

21 Net debt

The analysis of net debt is as follows:

	2017 £m	2016 £m
Cash and cash equivalents	29.0	56.2
External borrowings	(89.8)	(148.5)
	(60.8)	(92.3)

22 Reconciliation of net cash flow to net debt

	2017 £m	2016 £m
Net cash inflow from operating activities	77.6	37.5
Net cash outflow from investing activities	(30.2)	(8.8)
Dividends paid	(13.8)	(4.0)
Net cash flow in period (excluding financing cash flow)	33.6	24.7
Other movements	(2.1)	1.4
Restructuring movements	–	263.0
Decrease in net debt	31.5	289.1
Net debt at the start of the period	(92.3)	(381.4)
Net debt at the end of the period	(60.8)	(92.3)

Notes to the Financial Statements continued

23 Financial instruments

	2017 £m	2016 £m
Financial assets at amortised cost		
Cash and cash equivalents	29.0	56.2
Trade and other receivables (excluding prepayments)	31.9	30.3
	60.9	86.5
Financial liabilities at amortised cost		
Trade and other payables (excluding non-financial liabilities)	53.7	47.7
Loans and borrowings	89.8	148.5
	143.5	196.2

The financial assets of the Group, cash and cash equivalents and trade and other receivables are derived directly from operations. For financial liabilities of the Group, trade and other payables are also derived directly from operations, however loans and borrowings and derivative liabilities are arranged periodically to finance operating and investing activities.

Financial risk management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The Group uses derivative financial instruments to periodically manage risks if it is judged to be prudent. The risk management framework governing the management of these and all other business risks is set by the Board.

Foreign exchange risk:

The functional and presentational currency of the Group is Pounds Sterling although some transactions are executed in Euros and US Dollars. The transactional amounts realised or settled are therefore subject to the effect of movements in these currencies against Pounds Sterling. Foreign currency exposure is centrally managed by the Group Treasury function using forward foreign exchange contracts and currency options. The principles of hedge accounting are not applied.

Principal rate of exchange: Euro/sterling

	2017	2016
Period end	1.12	1.19
Average	1.14	1.23

The Group has entered into forward foreign currency contracts and options to mitigate exchange rate risk for certain foreign currency payables. At 31 December 2017, outstanding contracts maturing within 6 months amounted to €nil (2016: €1.7m) and outstanding contracts maturing between 6–12 months amounted to €nil (2016: €1.3m).

Interest rate risk:

The Group has secured its borrowings from a group of leading banks under a revolving credit facility. These facilities allow the Group to meet short, medium and long-term financing requirements at a margin over LIBOR. The Group manages interest risk on an ongoing basis and reviews options available to hedge part of the variable rate risk.

Credit risk:

Credit risk associated with trade receivables results from normal commercial operations. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Trade and other receivables are stated net of management estimated bad debt provisions, impairments in the period were less than £0.1m (2016: less than £0.1m). Deposits with banking institutions also give rise to credit risk. To dilute and mitigate the risk the Group deposits cash and cash equivalents with multiple highly rated counterparties.

Liquidity risk:

The Group's borrowing facilities are available to ensure that there is sufficient liquidity to exceed maximum forecast cash flow requirements in all reasonably possible circumstances. The Group monitors cash flow on a weekly basis to ensure that headroom exists within current agreed facilities and updates the Executive Committee on liquidity and the sources of cash flow performance and forecasts at Executive Committee meetings.

23 Financial instruments *continued*

The maturity profile of contractual undiscounted cash outflows, including expected interest payments, which are payable under financial liabilities at the balance sheet date is set out below:

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Total £m
2017						
Trade and other payables (excluding non-financial liabilities)	53.7	–	–	–	–	53.7
Loans and borrowings	2.1	2.1	2.1	2.1	91.2	99.6
	55.8	2.1	2.1	2.1	91.2	153.3
	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Total £m
2016						
Trade and other payables (excluding non-financial liabilities)	47.7	–	–	–	–	47.7
Loans and borrowings	13.4	13.0	12.8	12.6	110.8	162.6
Derivative financial instruments	2.6	–	–	–	–	2.6
	63.7	13.0	12.8	12.6	110.8	212.9

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

24 Provisions

	Restoration and Decommissioning £m	Other £m	Total £m
At 1 January 2017	11.4	3.0	14.4
Charged/(credited) to the Consolidated Statement of Total Comprehensive Income:			
Additional provisions	0.2	3.4	3.6
Release of provisions	–	(0.4)	(0.4)
Utilised amounts	–	(0.5)	(0.5)
Unwind of discount	(0.1)	–	(0.1)
At 31 December 2017	11.5	5.5	17.0
Analysed as:			
		2017 £m	2016 £m
Non-current		9.1	8.7
Current		7.9	5.7
		17.0	14.4

All non-current provisions are discounted at a rate of 2.65% (2016: 2.65%).

The total provisions balance is made up of provisions for restoration and decommissioning, carbon emissions, dilapidation, defective materials, restructuring and legal provisions.

Non-cash movements on provisions, as disclosed within the Consolidated Statement of Cash Flows, is the sum of additional provisions and release of provisions in the period.

Restoration and decommissioning

The Group is required to restore quarrying sites to a state agreed with the planning authorities after extraction of raw materials ceases and to decommission manufacturing facilities that have been constructed. Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value, management reference information from the Bank of England when making such estimates. These provisions are discounted by applying a discount rate that reflects the passage of time. Estimates are revised annually and in the case of decommissioning provisions are adjusted against the asset to which the provision relates, which is then subject to an impairment assessment. Future costs are expected to be incurred over the useful life of the sites, which is a period of up to 50 years.

The impact of changes in discount rate and inflation rates on the provision at year-end was £nil (2016: £nil).

Notes to the Financial Statements continued

25 Deferred tax

The analysis of deferred tax assets/(liabilities) is as follows:

	2017 £m	2016 £m
Deferred tax assets/(liabilities) to be recovered after more than 12 months	(0.8)	0.4
	(0.8)	0.4

The movement in deferred tax assets/(liabilities) during the year is as follows:

	Fixed assets £m	Provisions £m	Intangible assets £m	Share-based payments £m	Land £m	Total £m
Deferred tax assets/(liabilities):						
At 1 January 2016	1.6	1.5	(1.2)	–	(0.1)	1.8
Effect of prior period adjustment	(1.3)	0.3	0.5	–	–	(0.5)
(Charged)/credited to Consolidated Statement of Total Comprehensive Income	(1.2)	0.1	–	0.1	–	(1.0)
Effect of changes in tax rates	0.2	(0.1)	–	–	–	0.1
At 31 December 2016	(0.7)	1.8	(0.7)	0.1	(0.1)	0.4
Effect of prior period adjustment	(0.1)	–	–	(0.1)	–	(0.2)
(Charged)/credited to Consolidated Statement of Total Comprehensive Income	(0.8)	0.1	–	0.2	–	(0.5)
Effect of changes in tax rates	0.1	–	–	–	–	0.1
Other movement	(0.1)	0.1	–	–	–	–
Tax on items taken directly to equity	–	–	–	0.6	–	0.6
Deferred tax recognised on business combination	(1.2)	–	–	–	–	(1.2)
At 31 December 2017	(2.8)	2.0	(0.7)	0.8	(0.1)	(0.8)

Deferred tax is calculated on temporary differences between the tax base of assets and liabilities and their carrying amounts, using the corporation tax rate applicable to the timing of their reversal.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

26 Share capital

Called up issued and fully paid ordinary shares

	2017 £m	2016 £m
Allotted, called up and fully paid		
200,442,068 ordinary shares of £0.01 each	2.0	2.0
	2.0	2.0

In 2016, 442,068 ordinary shares were issued to an employee benefit trust at nominal value. The Trust has been consolidated within these financial statements, however, there is no monetary impact to the Consolidated Statement of Changes in Equity in the periods presented.

27 Commitments and contingencies

The Group's total commitments under non-cancellable operating leases are set out below:

	2017 £m	2016 £m
Land and buildings		
Within one year	0.7	0.7
Between one and five years	2.8	2.1
After five years	5.3	5.5
	8.8	8.3
Other		
Within one year	6.6	6.2
Between one and five years	12.9	16.3
After five years	0.3	0.9
	19.8	23.4

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2017 £m	2016 £m
Property, plant and equipment	2.1	1.3
Intangible assets	0.3	0.4

Other commitments include the Group's leased distribution fleet, company vehicles and plant and machinery.

28 Business combinations

Acquisition of trade and certain assets of Bison Manufacturing Limited

On 7 September 2017 the Group acquired the trade and certain assets of Bison Manufacturing Limited from Laing O'Rourke plc, transferring cash consideration of £20.0m from the Group's existing cash balances.

The acquisition of this UK-based business manufacturing precast concrete products provides a unique and immediate opportunity for the Group to take a leadership position in this market whilst also expanding its currently capacity-constrained precast business.

Details of the provisional fair value of identifiable assets and liabilities acquired, consideration transferred, goodwill and intangible assets are as follows:

Fair value of assets and liabilities acquired

	2017 £m
Non-current assets	
Intangible assets	0.4
Property, plant and equipment	19.7
Property, plant and equipment – decommissioning asset	0.3
Current assets	
Inventories	0.3
Non-current liabilities	
Provision for decommissioning	(0.3)
Deferred tax	(1.2)
Net assets acquired	19.2

Notes to the Financial Statements continued

28 Business combinations *continued*

Consideration transferred

The trade and certain assets of Bison Manufacturing Limited were acquired on 7 September 2017 for cash consideration of £20.0m.

Transaction costs amounting to £0.2m have been recognised as an expense in the current year, appearing within administrative expenses.

Goodwill arising on acquisition

	£m
Cash consideration transferred	20.0
Less fair value of net identifiable assets acquired	(19.2)
Goodwill	0.8

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes. This goodwill is attributable to the capacity increases and economies of scale the Group expects to benefit from. Goodwill is allocated to the Bison Precast CGU within the Bespoke Products segment.

Intangible assets

An intangible asset of £0.4m in relation to the 'Bison' brand name has been recognised on acquisition.

Impact of the acquisition on the results of the Group

Following acquisition, the acquired trade and assets were integrated with the Group's other precast operations and managed as one business. Therefore, post-acquisition figures have been estimated and do not reflect the synergies across the Group as a result of the Bison acquisition.

Management have estimated that incremental revenues and operating profit attributable to the trade and certain assets acquired are £5.8m and £0.1m respectively.

Management have not made such an estimate for the period from 1 January 2017 to the acquisition date as the business was embedded in the operations of the seller with a number of cross-company charges.

29 Share-based payment arrangements

Total cost of share schemes:

	2017 £m	2016 £m
Share Incentive Plan (SIP)	0.4	0.2
Performance Share Plan (PSP)	0.2	0.1
Deferred Annual Bonus Plan (DABP)	0.3	0.2
Sharesave Plan (SAYE)	0.6	–
	1.5	0.5

The total cost of share schemes in the year includes National Insurance contributions of £0.3m (2016: £0.1m).

Summary of share option and share award arrangements

The Group offers a number of share option and share awards and options to its employees, all of which are equity-settled (although the rules of the PSP and DABP allow for cash settlement in exceptional circumstances). A summary of the main features of each scheme is given below:

Share awards

Share incentive plan (SIP)

442,068 shares were issued under the SIP in 2016 as deferred free share awards. Employees in service at 25 May 2016 were each granted shares to the value of £500 which vest three years after the date of grant if the employee has met the three-year employment service condition. Each share had a fair value at the grant date of £1.78 and is held in an employee benefit trust on behalf of the Group's employees.

Share options

Performance share plan (PSP)

Performance based awards granted to the Executive Directors and designated senior management which vest three years after the date of grant at 1p per share. The total number of shares vesting is dependent upon both service conditions being met and the performance of the Group over the three year period. Performance is subject to TSR and EPS performance conditions with a 50% weighting for each. In addition, a holding period applies to vested PSP awards under which Executive Directors of Forterra plc are required to retain the number of vested awards, net of tax, for at least two years from the date of vesting.

29 Share-based payment arrangements *continued*

Deferred annual bonus plan (DABP)

Deferred bonus awards granted to designated senior management at IPO are subject to a three year vesting period. An element of the Executive Directors' annual bonus is deferred and vests after a period of three years. The total number of shares vesting is dependent upon service conditions being met.

Sharesave (SAYE)

An HM Revenue and Customs approved scheme available to all employees. The scheme was initially introduced in 2016 and made an offer to employees to join in both 2016 and 2017. Employees make monthly contributions of up to £500 per month into a linked savings account and these may be exchanged three years from each grant date for shares at an option price discounted by 20% from the grant date share price.

	2017	2016
Exercise price of grant (p)	222.0	135.0

The aggregate number of share awards outstanding for the Group is shown below:

	PSP Number of options	DABP Number of options	SAYE Number of options
Outstanding at 1 January 2016	–	–	–
Granted	595,889	167,544	4,711,403
Lapsed	–	–	(8,359)
Outstanding at 31 December 2016	595,889	167,544	4,703,044
Granted	660,124	76,223	1,299,743
Exercised	–	–	(1,777)
Lapsed	–	–	(177,999)
Outstanding at 31 December 2017	1,256,013	243,767	5,823,011

Share options outstanding at the end of the year have the following vesting dates:

	2017
PSP	
26 April 2019	595,889
15 April 2020	660,124
DABP	
26 April 2018	167,544
15 March 2020	76,223
SAYE	
01 December 2019	4,527,322
01 December 2020	1,295,689

The vesting of options is subject to attainment of performance conditions as set out in the Directors' Remuneration Report.

The fair value per option granted in year has been calculated using the following assumptions.

	2017			
	PSP (TSR condition)	PSP (EPS condition)	SAYE (Service condition)	DABP (No service conditions)
Date of Grant	25 April 2017	25 April 2017	24 October 2017	15 March 2017
Option pricing model	Monte Carlo	Black Scholes	Black Scholes	Black Scholes
Share price on grant date (p)	219.25	219.25	295.00	206.00
Exercise price (p)	1.00	1.00	222.00	1.00
Expected volatility	31.27%	31.27%	29.91%	31.12%
Vesting period (years)	3.00	3.00	3.15	2.98
Expected option life to exercise	3.00	3.00	3.39	2.98
Expected dividend yield	0.00%	0.00%	2.34%	0.00%
Risk free interest rate	0.12%	0.12%	0.54%	0.17%
Fair value per option (p)	122.60	218.25	84.64	205.01

Notes to the Financial Statements continued

29 Share-based payment arrangements *continued*

Expected volatility is a measure of expected fluctuations in the share price over the expected life of an option. The measures of volatility used by the Group in its pricing model during both years has been derived as the median volatility of companies within the comparator index that have been listed for the commensurate length of time.

30 Related party transactions

Transactions with related parties

	2017 £m	2016 £m
Purchases from related parties	(1.0)	(3.6)
Interest charged on shareholder loan note	–	(10.2)
Dividends paid to related parties	–	(2.6)

Year end balances with related parties

	2017 £m	2016 £m
Trade and other payables with related parties	–	(0.7)

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.

Up to 25 April 2017, related parties were entities under common ownership of Lone Star. 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.

	2017 £m	2016 £m
Emoluments including taxable benefits	(2.6)	(2.8)
Share-based payments	(0.5)	(0.2)
Pension costs	(0.2)	(0.2)
	(3.3)	(3.2)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within pages 66 to 72.

Company Balance Sheet

At 31 December 2017

	Note	2017 £m	2016 £m
Fixed assets			
Investment in subsidiary	6	304.2	303.0
Deferred tax asset	7	0.1	–
		304.3	303.0
Current assets			
Amounts due from Group undertakings	8	19.2	5.6
Total Assets		323.5	308.6
Current liabilities			
Creditors – amounts falling due within one year	9	(0.4)	(0.1)
Amounts due to Group undertakings	9	(18.5)	(5.3)
		(18.9)	(5.4)
Net current assets		0.3	0.2
Total assets less current liabilities		304.6	303.2
Non-current liabilities			
Creditors – amounts falling due after more than one year	9	–	(0.1)
		–	(0.1)
Net assets		304.6	303.1
Capital and reserves			
Ordinary shares	10	2.0	2.0
Retained earnings		302.6	301.1
Total equity		304.6	303.1

The notes on pages 113 to 115 are an integral part of these Financial Statements.

Approved by the Board of Directors on 14 March 2018 and signed on their behalf by:

Stephen Harrison
Chief Executive Officer

Shatish Dasani
Chief Financial Officer

Company Statement of Changes in Equity

For the period ended 31 December 2017

	Share capital £m	Share premium £m	Deferred shares £m	Retained earnings £m	Total equity £m
Balance at 21 January 2016	–	–	–	–	–
Total comprehensive profit for the period	–	–	–	4.2	4.2
Issue of share capital	2.2	44.4	–	–	46.6
Reclassification of ordinary shares to deferred shares	(0.2)	–	0.2	–	–
Capitalisation of shareholder loan note	–	255.8	–	–	255.8
Capital reduction	–	(300.2)	(0.2)	300.4	–
Dividends paid	–	–	–	(4.0)	(4.0)
Share-based payments	–	–	–	0.5	0.5
Balance at 31 December 2016	2.0	–	–	301.1	303.1
Total comprehensive profit for the year	–	–	–	14.0	14.0
Dividends paid	–	–	–	(13.8)	(13.8)
Tax on share based payments	–	–	–	0.1	0.1
Share-based payments	–	–	–	1.2	1.2
Balance at 31 December 2017	2.0	–	–	302.6	304.6

Notes to the Company Financial Statements

1 General background

Forterra plc is a public limited company which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006.

2 Accounting policies

Basis of preparation

The Company Statements have been prepared in accordance with applicable accounting standards, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ('FRS 102') and the Companies Act 2006.

As permitted by section 408 of the Companies Act 2006, an entity profit or loss account is not included as part of the published Financial Statements of Forterra plc. The Company profit for the financial year ended 31 December 2017 was £14.0m (2016: £4.2m.)

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the Consolidated Financial Statements.

The Financial Statements are presented in Pounds Sterling, rounded to the nearest hundred thousand and are prepared under the historical cost convention.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the Financial Statements are signed. The Company therefore adopts the going concern basis in preparing its Financial Statements.

(a) Investments

Investments are included in the balance sheet at the deemed cost of acquisition upon the Group restructure. Where appropriate, a provision is made for any impairment.

Capital contributions arising where subsidiary employees are awarded share options to be settled through the Company's equity result in increases to the cost of investment.

(b) Taxation

Charges for income tax are based on earnings for the period and take account of deferred taxation on timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

(c) Financial instruments

The Company determines the classification of financial assets and financial liabilities at initial recognition. The principal financial assets and liabilities of the Company are as follows:

(i) Financial assets

Basic financial assets, including trade and other receivables and amounts due from Group undertakings are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method and assessed for objective evidence of impairment or impairment reversal at the end of each reporting period.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire, are settled or substantially all the risks and rewards of ownership of the asset are transferred.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and amounts due to Group undertakings and related parties are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where the debt is measured at the present value of the future receipts discounted at a market rate of interest.

Trade and other payables and loans are subsequently carried at amortised cost, using the effective interest rate method.

(d) Share-based payments

The Company operates a number of equity-settled share-based compensation plans, under which the Company receives services from the Executive Directors in exchange for equity instruments granted by the Company. The services received and corresponding increase in equity are measured at the fair value of the equity instruments granted, on the date granted. The Company also compensates certain key management and other employees for services provided to Forterra Building Products Limited. The services provided are recognised as an increase in the cost of investment in subsidiaries and a corresponding increase in equity, which is measured at the fair value of the equity instruments granted, on the date granted.

Notes to the Company Financial Statements continued

2 Accounting policies *continued*

The cost of the equity-settled transactions are subsequently recognised over the vesting period, which ends at the date that the plan participant becomes fully entitled to the award. Fair values are determined using appropriate pricing models by external valuers. At the end of each reporting period the Company revises its estimates of the number of awards that are expected to vest based on non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss account, with a corresponding adjustment to equity.

Further details regarding the share-based payment schemes are set out in note 29 to the Consolidated Financial Statements.

(e) Own shares held by employee benefit trust

The Company has established two separate employee benefit trusts for the purposes of satisfying awards under share-based incentive schemes. Shares in the Company acquired by the trusts are deducted from equity until shares are cancelled, reissued or disposed. 442,068 ordinary shares were issued at nominal value in 2016. Therefore, although the Trust has been consolidated there is no monetary impact to the Statement of Changes in Equity.

(f) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

(g) Related parties

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated, unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Financial Statements.

3 Significant accounting estimates and judgements

(a) Impairment of investments

The Directors periodically review investments for possible impairment when events or changes in circumstances indicate, in managements' judgement, that the carrying amount of an asset may not be recoverable. The Company did not record any impairment charges during the period ended 31 December 2017.

4 Employee information

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests are set out in the Annual Report on Remuneration on pages 66 to 72.

5 Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Interim dividend of 3.1p per share (2016: 2.0p)	(6.2)	(4.0)
Final dividend of 3.8p per share in respect of prior year (2016: nil)	(7.6)	–
	(13.8)	(4.0)

The Directors are proposing a final dividend for 2017 of 6.4p per share, making a total payment for the year of 9.5p (2016: 5.8p). The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in the Company Financial Statements.

6 Investment in subsidiary

	2017 £m	2016 £m
Balance as at 1 January 2017	303.0	–
Investment in Forterra Holdings Limited	–	302.6
Capital contribution relating to share-based payments	1.2	0.4
Balance as at 31 December 2017	304.2	303.0

The companies in which the Company has an interest at the year end are shown below:

Name of Company	Country of incorporation	Holding	Nature of holding	% of class held
Forterra Holdings Limited	England & Wales	Ordinary £0.01	Direct	100%
Forterra Building Products Limited	England & Wales	Ordinary £0.01	Indirect	100%

The address of the registered office of both Forterra Holdings Limited and Forterra Buildings Products Limited is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA.

7 Deferred tax

	2017 £m	2016 £m
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	0.1	–
– Deferred tax assets to be recovered within 12 months	–	–
	0.1	–

8 Current assets

	2017 £m	2016 £m
Amounts due from Group undertakings	19.2	5.6
	19.2	5.6

Amounts due from Group undertakings are non-interest bearing, unsecured and repayable on demand.

9 Current and non-current liabilities

	2017 £m	2016 £m
Amounts due to Group undertakings	18.5	5.3
Creditors – amounts falling due within one year	0.4	0.1
Creditors – amounts falling due after more than one year	–	0.1
	18.9	5.5

Amounts owed to Group undertakings are non-interest bearing, unsecured and repayable on demand.

10 Capital and reserves

	2017		2016	
	Number	£m	Number	£m
Ordinary shares of £0.01 each	200,442,068	2.0	200,442,068	2.0
	200,442,068	2.0	200,442,068	2.0

The Ordinary Shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Movements in the share capital, share premium and deferred share accounts, and details of share options outstanding on the Company's share capital are set out in note 26 of the Consolidated Financial Statements.

11 Related party transactions

The Company is exempt from disclosing related party transactions with companies that are wholly owned within the Group. Transactions with related parties which are not wholly owned are disclosed within note 30 to the Consolidated Financial Statements.

Remuneration to key management personnel has been disclosed within note 30 to the Consolidated Financial Statements.

12 Controlling party

From 25 April 2017, Forterra plc was no longer under the control of an ultimate controlling party. Prior to this date, the ultimate controlling party of Forterra plc was Lone Star Funds. Further details of the relationship are disclosed within note 30 to the Consolidated Financial Statements.

Group Five Year Summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue	331.0	294.5	290.2	268.1	225.9
EBITDA (before exceptional items)	75.4	70.6	70.5	54.6	22.3
Operating profit (before exceptional items)	64.5	60.2	61.1	45.2	11.6
PBT (before exceptional items)	61.1	46.0	33.8	40.0	11.3
Profit before tax (statutory)	59.3	37.1	22.2	33.4	1.5
Operating cash flow (before exceptional items)	90.2	69.8	53.8	52.8	44.2
Net debt	60.8	92.3			
Pro-forma earnings per share (pence)	24.5	21.0	20.6		
Dividend per share (pence)	9.5	5.8			

Net debt, Earnings per share and Dividend per share are not presented for earlier years as the Group had a significantly different debt and ownership structure prior to the IPO in April 2016.

Additional Information

Calendar

The following dates have been announced:

2018 Annual General Meeting and Trading update	22 May 2018
Payment of final 2017 dividend	5 July 2018
2018 Interim results announcement	30 July 2018

Group advisers

Registrars

Link Asset Services

Statutory Auditor

Ernst & Young LLP

Brokers

Deutsche Bank

Numis Securities Ltd

Bankers

HSBC Bank plc

The Royal Bank of Scotland plc

Santander UK plc

Lloyds Bank plc

The Bank of Ireland

Financial PR

FTI Consulting

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Company number 09963666

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