10th March 2022

Strong 2021 results; upgraded guidance highlighting benefits of the new Desford brick factory

	Before exceptional items[1]		Statutory	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Revenue	**370.4**	291.9	**370.4**	291.9
EBITDA	**70.4**	37.9	**76.5**	18.5
EBITDA margin	**19.0%**	13.0%	**20.7%**	6.3%
Operating profit (EBIT)	**54.0**	20.8	**60.1**	1.4
Profit / (loss) before tax	**50.7**	17.4	**56.8**	(5.4)
Earnings / (loss) per share (pence)	**17.5**	6.6	**19.9**	(2.6)
Cash flow from operations	**81.2**	53.9	**80.6**	48.3
Net cash before leases			**40.9**	16.0
Total dividend (pence)			**9.9**	2.8

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

OPERATIONAL AND TRADING HIGHLIGHTS

- Strong trading throughout the year with FY21 results slightly ahead of market expectations
- Full year brick sales volumes 33% ahead of 2020 and 1% ahead of 2019
- H2 cost inflation not fully recovered in the short-term leading to margin decline relative to 2019; significant (double-digit) selling price increases delivered by 1 January 2022 with further double-digit price increases effective 1 April 2022
- Continued strength of operating cash flow drives strong liquidity position; with closing net cash of £40.9m before leases

ORGANIC INVESTMENT

- Construction of new Desford brick factory remains on track with commissioning due end 2022
- New Desford brick factory now expected to deliver a 22% effective increase in brick production output from 2025; anticipated incremental EBITDA increased to c£25m from c£15m. This increase primarily driven by the reduced performance of the old factory as well as the benefit of increased selling prices
- £27m Wilnecote brick factory refurbishment proceeding according to plan, with main contractor appointed
- Announcement of a highly cost-effective £12m investment to manufacture clay brick slips at Accrington factory
- Sector-leading investment in renewable energy generation through a Power Purchase Agreement (PPA) with a c£50m commitment over 15 years securing around 70% of our electricity requirement from a dedicated Forterra solar farm

CAPITAL ALLOCATION

- Capital allocation policy structured to maximise shareholder value
- Attractive pipeline of organic investment projects in place each offering compelling returns
- Progressive dividend policy with payout ratio of 55% of earnings recommending final dividend of 6.7p bringing total 2021 dividend to 9.9p

- Leverage target at or below 1x EBITDA
- £40m share buyback programme commenced in January 2022 with £5.5m returned to date
- Balance sheet flexibility allows opportunistic bolt on acquisitions

OUTLOOK

- Market conditions remain highly supportive with continued demand for new housing and constrained UK manufacturing capacity driving brick imports to record levels, despite increasing macro-economic uncertainty and supply chain pressures which have created a higher interest rate environment
- Order books remain strong, supported by robust customer sentiment and an ongoing housing shortage
- Selling price increases leave business well placed to recover cost inflation and benefit margins
- Approximately 70% of 2022 energy requirements secured with greatest coverage in winter months where volatility has been historically greatest
- Management expects the Group to achieve further progress in the coming year and beyond

Stephen Harrison Chief Executive Officer commented:

"We delivered a good financial performance in 2021, with strong trading throughout the year and full year results slightly ahead of expectations.

Our markets continued to recover from the effects of the pandemic, with our brick sales volumes similar to 2019 and further growth only limited by production capacity and available inventory.

We continued our programme of organic investment, with the construction of our new Desford brick factory remaining on track for commissioning at the end of this year, our Wilnecote refurbishment proceeding to plan; and new investments in Accrington and solar power generation announced today. We remain disciplined in our capital allocation and have maintained our progressive dividend policy whilst commencing a share buy-back programme and retaining balance sheet flexibility for bolt-on acquisitions.

Our order book remains strong and, although inflationary pressures continue, we remain confident of recovering these through selling price increases.

We remain watchful as to the impacts of increasing macro uncertainty and supply chain pressures as well as increases in interest rates. Approximately 70% of the Group's 2022 energy requirements have been secured.

With market conditions remaining highly supportive, and Desford now expected to deliver a 22% effective increase in brick production and increased incremental EBITDA of £25m from 2025, we are confident that the Group will achieve further progress in the coming year and beyond".

ENQUIRIES

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A presentation for analysts will be held today, 10 March 2022, at 8.30am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

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

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

INTRODUCTION

2021 proved to be a very different year to 2020, although one that brought with it many new challenges. Despite this, we were pleased to see that the strong recovery in our markets, which began in the summer of 2020, continued unabated through 2021.

The ongoing Covid-19 pandemic and associated lockdown restrictions which persisted through much of the first half of the year had little impact on our results but did continue to influence the way we managed the business, with the safety and welfare of our employees remaining paramount.

Supply chain pressures mounted through the year with shortages experienced across several key inputs, along with growing cost inflation, which in the case of energy prices reached unprecedented levels in the final quarter.

OUR MARKETS

Our markets recovered strongly from the effects of the pandemic with UK clay brick demand now similar to 2019 levels. Total clay brick consumption in 2021 is estimated at 2.4bn bricks, of which 422m were satisfied by imports due to a continuing shortfall in domestic production capacity.

UK housebuilding continues to fall short of Government targets with around 198,500 new build homes estimated to have been completed in Great Britain during 2021 compared to the UK target of 300,000. As demand for high quality homes continues to exceed supply and house prices continue to rise, this creates a supportive environment for the recovery of our own cost increases.

Despite recent and ongoing investments, the UK brick market presently lacks the capacity required to meet demand, with domestic production capacity of c2.1bn clay bricks per annum still lower than the pre-financial crisis figure of 2.6bn. Brick imports to the UK increased in 2021 to a record high of 422m bricks, which equates to around 19% of market demand in 2021, with this figure higher still towards the end of the year.

The number of imported bricks increased by 6% relative to 2019 with evidence that imports are now being transported greater distances, at even greater cost, as supplies in nearby continental Europe tighten. We know our customers would rather buy British where possible because we can ensure provenance and quality, we can supply from stock which is available for prompt delivery, and there are shorter transport distances than purchasing imported product. The UK's island geography, combined with similar cost bases in Europe, also provides an economic barrier to entry with the increasing cost of transportation ensuring that imported products continue to sit at a significant cost disadvantage to those manufactured domestically.

These market dynamics leave us ideally placed to substitute imports with production from our new factory at Desford which, upon commissioning at the end of 2022, we believe will be the largest brick factory in Europe offering market leading efficiency. The housebuilding sector's present reliance on imported products also provides an incentive for further investment in domestic production capacity.

RESULTS FOR THE YEAR

	Statutory 2021 £m	Exceptional items[1] 2021 £m	Before exceptional items 2021 £m	Before exceptional items 2020 £m
Revenue	370.4	-	370.4	291.9
EBITDA	76.5	(6.1)	70.4	37.9
Depreciation and amortisation	(16.4)	-	(16.4)	(17.1)
Operating profit (EBIT)	60.1	(6.1)	54.0	20.8
Finance expense	(3.3)	-	(3.3)	(3.4)
Profit before tax	56.8	(6.1)	50.7	17.4

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

Our revenues show a strong recovery relative to 2020, which was adversely affected by the impacts of the initial Covid-19 lockdown. Total revenue of £370.4m represents an increase of £78.5m (26.9%) on the prior year (£291.9m) and more meaningfully a decrease of £9.6m on 2019 (£380.0m).

Brick and Block revenues of £298.1m, represent an increase of 33.6% on the prior year comparative (£223.1m) and an increase of £19.0m on 2019 (£279.1m). This is reflective of the strong market demand throughout the year, with production capacity and available inventory being the limiting factors to further growth upon 2019.

Bespoke Products revenues of £76.1m represent an increase of 6.1% on the prior year (£71.7m) and a decrease of 26.5% on 2019 (£103.5m), this decrease primarily being driven by the restructure of the Bison business, with the Swadlincote hollowcore factory closing in mid-2020 and the co-located bespoke precast manufacturing factory closing in late 2021. This rationalisation of capacity allows us to pursue a strategy of maximising the profitability of this segment, focusing on margin improvement as opposed to volume.

OPERATIONS

With the exception of our current Desford brick factory and the Swadlincote precast concrete factory, our facilities generally operated at close to capacity during the year. We ended 2020 with very low levels of inventory and with demand consistently strong throughout 2021, there was no opportunity for replenishment. As a result, inventory levels remained extremely low throughout the year. Whilst the inventory value of £32.8m is very similar to the prior year (£33.0m), this is driven by an increase in the valuation of inventories following the significant increase in production costs during the year with quantities on hand further reducing in 2021. Industry statistics show that the UK brick industry held less than two months stock at the end of 2021.

OPERATING COSTS

At the beginning of 2021 cost inflation was relatively benign although by the second quarter the disruption initially triggered by the pandemic meant supply chains were struggling to cope, and prices began to rise. Initially, inflation was centred upon our Bespoke Products segment with steel prices increasing by over 30% followed by similar increases in the cost of the insulation used in our flooring systems. Cost pressures intensified as the year progressed, with significant and often multiple increases in a range of commodities including cement. Transport availability also became constrained, threatening the delivery of key raw materials and pushing up the cost of delivering our own products to customers. With clay being the largest raw material input, most of which is sourced internally from own quarries, our brick business was initially insulated from the worst inflationary pressures until significant increases were seen in energy prices in the final quarter.

ENERGY PROCUREMENT

Our factories are significant consumers of energy with an annual combined spend on natural gas and electricity approaching £30m under normal circumstances. We take a risk-based approach to energy procurement and manage our exposure to market fluctuations through forward purchasing a portion of our requirements, sometimes years in advance. Traditionally our forward purchasing is weighted towards the winter months when energy costs are normally highest and most volatile.

We entered 2021 with around 60% of our gas and the majority of our electricity requirement for the year forward purchased at competitive prices. At this point energy prices remained low, due to the pandemic driven economic uncertainty. With continuity uncertainty as to whether the ongoing pandemic would further disrupt our demand for energy a cautious approach to committing to further purchases was adopted following the £2.5m loss incurred in exiting energy contracts in 2020 at the height of the pandemic. Energy prices began to rise in the summer, and the sudden sharp increase seen in the autumn was unprecedented. With prices rising to around four times historic norms, the increased cost to the business in 2021 is approximately £8.4m. As explained in more detail below, we have recently entered into an agreement to secure around 70% of our electricity requirement from a dedicated solar farm from 2025, enhancing our sustainability credentials and providing long-term price certainty.

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

Earnings before interest, tax, depreciation and amortisation (EBITDA) as stated before exceptional items was £70.4m (2020: £37.9m, 2019: £82.7m) with the prior year being impacted by the pandemic. Brick and Block EBITDA before exceptional items was £70.5m (2020: £40.3m, 2019: £80.4m) and Bespoke Products a loss of £0.1m (2020: loss of £2.4m, 2019: profit of £2.3m).

Our business is managed as two divisions and we allocate our central overheads to each division based on an historic revenue driven mechanism, with central overheads allocated to Bricks and Blocks and Bespoke Products in the ratio 80%:20% respectively. In practice, the allocation of overheads to Bespoke Products exceeds the level of overheads that are directly applicable to this segment, such that if this segment was to be discontinued or divested then the saving of overheads would in reality be modest. Accordingly, we are now disclosing the allocation of central overheads to give greater visibility on the profitability of our segments, in particular Bespoke Products, demonstrating that this segment delivers a meaningful EBITDA contribution whilst utilising a low level of capital employed.

Recognising 2020 was heavily impacted by Covid-19, EBITDA before exceptional items for the year of £70.4m compares to a 2019 comparative of £82.7m, with margins impacted by cost inflation, which in the short-term was not recovered. This is shown in the bridge below which demonstrates that with sales volumes returning to 2019 levels, once the impact of short-term unrecovered cost inflation is taken into account along with other identifiable variances, the result delivered is comparable to 2019. In addition, the 2021 result was impacted by operational issues at the old Desford factory which is expected to close at the end of 2022, as well as a significant increase in the bonuses due to salaried staff relative to 2019, driven by achievement of financial targets, resulting in a bonus and share based payment charge £4.9m greater than 2019. All salaried staff, totalling over 400 individuals, participate in the annual bonus plan.

During 2021 we sold an exhausted former quarry for proceeds of £0.1m. Although the proceeds were modest, this sale relieved the Group of its associated restoration obligations facilitating a release of £1.4m from the restoration and decommissioning provision recognising a profit on disposal of £1.5m which is included within other operating income.

EBITDA (BEFORE EXCEPTIONAL ITEMS) 2019 TO 2021 BRIDGE

£'m

2019 Actual	Sales volumes	Selling prices	Cost inflation	Swadlincote disposal	Bonus & share based payments	Desford inefficiency	Property disposal	2021 Actual
82.7	4.0	16.3	(26.1)	(1.1)	(4.9)	(2.0)	1.5	70.4

Unrecovered cost inflation in the above totals £9.8m.

Profit before tax stated before exceptional items totalled £50.7m (2020: £17.4m; 2019: £62.5m).

BRICKS AND BLOCKS

We have a unique combination of strong market positions in both clay brick and concrete blocks.

We are also the only manufacturer of the iconic and original Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. We operate nine brick manufacturing facilities across the country with a total installed production capacity of 590 million bricks per annum. We are also a leader nationally in the aircrete block market, operating Thermalite block facilities at Newbury and Hams Hall (Warwickshire). Our aggregate block product has a leading position in the important South East and East of England markets, with well-located manufacturing facilities at Milton (Oxfordshire) and Whittlesey (Cambridgeshire).

This segment also includes Formpave, the Group's concrete block paving business. Based at Coleford in Gloucestershire, Formpave manufactures a wide range of high-quality concrete block paving to suit all projects from commercial to domestic applications, including the patented Aquaflow sustainable drainage system.

TRADING AND RESULTS

	2021 £m		2020 £m		2019 £m	
	Before exceptional items	**Statutory**	Before exceptional items	Statutory	Before exceptional items	Statutory
Revenue	**298.1**	**298.1**	223.1	223.1	279.1	279.1
EBITDA before overhead allocations	**90.5**	**90.5**	54.9	47.7	93.0	89.7
Overhead allocations	**(20.0)**	**(20.0)**	(14.6)	(14.6)	(12.6)	(12.6)
EBITDA	**70.5**	**70.5**	40.3	33.1	80.4	77.1
EBITDA margin before overhead allocations	**30.4%**	**30.4%**	24.6%	21.4%	33.3%	32.1%
EBITDA margin after overhead allocations	**23.6%**	**23.6%**	18.1%	14.8%	28.8%	27.6%

The performance of the Brick and Block segment is characterised by strong demand and increasing costs. Brick and Block sales revenues were £298.1m, an increase of 33.6% on the prior year comparative (2020: £223.1m) and an increase of 6.8% on 2019 (2019: £279.1m). Sales volumes were well ahead of 2020 and slightly ahead of 2019, with production capacity and available inventory being the primary constraint, as market demand exceeded our ability to supply.

With demand remaining strong throughout the year and having commenced the year with minimal levels of inventory, our greatest challenge was meeting our customers' expectations. The year saw consistently strong demand from our housebuilding customers, with our initial concerns around the impact of the end of the stamp duty holiday on consumer demand proving unfounded. Repair, maintenance and improvement driven demand from our distributor customer base was also robust.

Accordingly, as a result of the above, segmental EBITDA as stated before exceptional items, totalled £70.5m (2020: £40.3m) with the EBITDA margin of 23.6% representing a significant improvement on the prior year (2020: 18.1%) although falling short of 2019 margin of 28.8%, primarily as a result of rapidly increasing costs in the second half of the year, which in the short term have not been recovered.

OPERATING COSTS

Inflationary pressures in this segment were first felt in our blocks businesses where we have the highest level of externally purchased raw materials, with the price of cement increasing significantly. Inflation was also seen across a wide range of categories as shortages of transport and rising fuel costs pushed distribution costs upwards, along with increases in the cost of packaging and many other categories. The biggest driver, however, came from energy costs whereby, despite benefitting from our forward purchasing to limit price volatility, we, along with much of the wider economy, faced a sudden unprecedented increase in energy costs in the final quarter. In addition, the price of carbon credits which we are required to purchase under the UK Emissions Trading Scheme also increased markedly.

Operating costs were also adversely impacted by low productivity at the old Desford factory which is nearing the end of its life and expected to close at the end of 2022. A significant kiln related breakdown in the first half of the year led to a loss of operating efficiency and, whilst the factory operated more reliably in the second half the year, the output of the was still some way below its design capacity.

PRICING

Whilst the cost inflation experienced during the year was unwelcome, we believe we are ultimately well placed to pass on the increases in our cost base. Our pricing arrangements with customers vary by product, although many of our arrangements until now have been annual in nature. Due to the sudden and unexpected increase in costs seen in 2021 we have not fully recovered our cost inflation in the very short-term, although we remain confident of progressively recovering costs and positively influencing margins. Given the significant cost inflation seen in the raw materials required to manufacture our concrete products we increased the prices of our aggregate blocks in both the spring and autumn and we increased our Thermalite prices by 16.0% in the autumn.

With most of the raw materials sourced internally, our brick business was somewhat insulated from the worst inflationary pressures until the energy prices increased suddenly in the autumn. We elected not to further increase our brick prices in 2021, honouring our previous agreements with customers although we were successful in securing price increases of 16.5% from 1 January 2022 for the significant majority of our customers.

The current cost environment requires us to be agile in our customer pricing and for 2022 we have amended our trading agreements to remove any commitment to annual pricing and also reduced our obligation to give three months' notice of price increases down to one month, allowing greater agility in our pricing in the face of an uncertain cost environment. We have recently announced further double-digit price increases to take effect from 1 April 2022.

BESPOKE PRODUCTS

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

Precast concrete products are designed, manufactured and shipped nationwide under the Bison Precast brand from two facilities situated in the Midlands. Our Red Bank range of terracotta and concrete chimney and roofing products are made at a single facility alongside our highly efficient brick factory at Measham. Our products include:

- beam and block flooring including Jetfloor, which was the UK's first suspended ground floor system to use expanded polystyrene blocks combined with a structural concrete topping to provide high levels of thermal insulation;
- hollowcore floors alongside associated staircases and landings which are used for upper floors of multi-family and commercial developments, with the majority of floors fitted by our in-house installations team;
- structural precast components including precast concrete walls used in applications such as hotels and prisons, and concrete beams used in the construction of building frames as well as stadia components;
- architectural precast concrete façades, in a variety of finishes including brick facings; and
- Red Bank chimney pots, flue systems, ridge tiles and air bricks.

	2021 £m		2020 £m		2019 £m	
	Before exceptional items	**Statutory**	Before exceptional items	Statutory	Before exceptional items	Statutory
Revenue	**76.1**	**76.1**	71.7	71.7	103.5	103.5
EBITDA before overhead allocations	**4.8**	**10.9**	1.2	(11.0)	5.4	5.1
Overhead allocations	**(4.9)**	**(4.9)**	(3.6)	(3.6)	(3.1)	(3.1)
EBITDA	**(0.1)**	**6.0**	(2.4)	(14.6)	2.3	2.0
EBITDA margin before overhead allocations	**6.3%**	**14.3%**	1.7%	–	5.2%	4.9%
EBITDA margin after overhead allocations	**–**	**7.9%**	–	–	2.2%	1.9%

RESTRUCTURING

The largest component of the Bespoke Products segment is the Bison Precast concrete products business. Bison Flooring which manufactures precast concrete flooring systems and Bison Precast which manufactures a range of bespoke precast concrete products including walls and façades.

Following the mothballing of the hollowcore factory at Swadlincote in 2020 in response to the impacts of the pandemic, in 2021 we regrettably took the decision to also close the bespoke precast concrete manufacturing facility co-located on the same site and subsequently sell the entire site. This sale returns this segment to the same footprint it occupied in 2017 prior to the Bison acquisition.

The business case for the Bison acquisition was that of a turn-around predicated on increasing the utilisation of the Swadlincote facility. Unfortunately, the market for a number of the precast concrete products manufactured at Swadlincote was materially impacted by the pandemic and even before this, margins across the sector had been declining for several years; something that was not anticipated at the time of the acquisition. In 2020 the decision was taken to refocus flooring production at the Hoveringham site, reducing capacity and sales volumes but increasing margins through a focus on more attractive customer segments. Aligned to the decision to sell the Swadlincote facility, we decided to focus bespoke precast concrete production at a single site, Somercotes in Derbyshire, with our strategy again driven by the manufacture of smaller quantities of differentiated, higher value façade solutions over commoditised grey concrete.

At the time of acquisition, we always recognised that the risks associated with returning a loss-making asset to profitability could, at least in part, be mitigated by the fact that the factory was located on a valuable and marketable piece of land. During the year, we sold the entire site and associated equipment for gross proceeds of £14.7m, recovering a large portion of our original purchase consideration of £20m and realising a profit of £6.1m after accounting for the costs of closure and redundancy. For completeness, this profit recognised in 2021 follows a 2020 impairment loss of £10.2m recognised in respect of the assets and goodwill at Swadlincote. Our precast concrete businesses will continue to trade under the Bison brand.

TRADING AND RESULTS

Segmental turnover in the year was £76.1m (2020: £71.7m, 2019: £103.5m). Demand for our precast concrete floor beams and the flooring solutions in which they are utilised, recovered strongly in the year, aligned with the recovery of the housebuilding industry. Floor beam sales volumes recovered to 88% of 2019 levels although our output is now constrained by the available production capacity. Hollowcore flooring sales volumes however were intentionally reduced by 53% relative to 2020 and 70% relative to 2019 reflecting our decision to close the Swadlincote facility and focus on maximising margin over volume. Bespoke precast output was also reduced relative to 2020, reflecting the gradual run down of the Swadlincote facility ahead of its closure in November 2021.

Segmental EBITDA, stated before exceptional items, totalled a loss of £0.1m: (2020: loss of £2.4m) after allocation of central overheads totalling £4.9m (2020: £3.6m). Presenting segment results both with and without the overhead allocation demonstrates that the segment continues to deliver a meaningful contribution to Group results.

OPERATING COSTS

The Bespoke Products segment was the first to experience significant cost inflation with steel used for reinforcement of our products along with the insulation used in our flooring systems suddenly rising by around 30%. Like our concrete block businesses, the Bespoke Products segment was also impacted by increases in the cost of other key inputs such as cement and transportation. Such was the level of input cost inflation experienced we needed to increase our selling prices on multiple occasions during the year to ensure operating margins were maintained.

EXCEPTIONAL ITEMS

Exceptional items total a net profit of £6.1m (2020: loss of £22.8m) and relate solely to the closure and subsequent disposal of the Swadlincote facility. The sale of the facility and associated equipment realised gross sales proceeds of £14.7m, received in cash, generating a profit on disposal of £6.7m. Associated redundancy and termination costs totalling £0.6m have also been recognised within the exceptional item reducing the profit to £6.1m. An exceptional impairment loss of £10.2m was recognised in the prior year in respect of the Swadlincote site and associated goodwill.

FINANCE COSTS

Finance costs totalled £3.3m (2020: £3.4m excluding exceptional financing costs). Under the terms of our credit agreement, which were amended in 2020 as part of our response to the pandemic, interest was charged at a margin of LIBOR +4.00% and subsequently SONIA +4.00% until 31 December 2021. Our interest rate now reverts to a margin grid dependent on leverage with a margin of SONIA plus 1.75% applicable whilst leverage (Net debt / EBITDA, pre IFRS 16) is less than one times, increasing to a margin of 4.00% should leverage exceed 3 times. A commitment fee of 35% of the margin is payable on the unborrowed credit facility.

TAXATION

The effective tax rate (ETR) excluding exceptional items was 21.3% (2020: 18.4%). Inclusive of exceptional items the ETR was 19.8% (2020: 3.8%). The ETR is higher than the UK statutory rate of 19.0% (2020: 19.0%) due to permanent differences, mainly as a result of depreciation on non-qualifying assets, along with the impact of the increase in the UK statutory rate of corporation tax which is to increase to 25% effective from 1 April 2023, the 2021 ETR includes the impact of this rate change on deferred tax, resulting in a charge of £0.8m, adding 1.6% to the ETR.

Excluding the impact of the rate change, the 2021 ETR shows a return to our expected tax rate which tracks around 1% higher than the statutory rate. The 2020 ETR was impacted by the significant fall in profits driven by the pandemic and therefore the permanent adjustments for non-deductible items which had a bigger impact.

EARNINGS PER SHARE

Earnings per share (EPS) as stated before exceptional items were 17.5p (2020: 6.6p). Basic EPS after exceptional items was 19.9p (2020: loss of 2.6p) reflecting the exceptional profit on disposal. Earnings per share is calculated on the average number of shares in issue during the year (excluding those held by the Employee Benefit Trust (EBT) which in 2021 was 228.1m shares (2020: 214.8m), the increase being driven by the issue of 26.8m shares in July 2020 which were not fully reflected in the 2020 weighted average.

DIVIDEND

Our dividend policy is that we intend to distribute 55% of our earnings. The decision, announced in 2020, to increase our pay-out ratio from 45% to 55% in 2021 was driven by the strength of our balance sheet, coupled with the Board's confidence in the strength of the Group's ability to generate cash on an ongoing basis. The Board is proposing a final dividend of 6.7p per share (2020: 2.8p) which in addition to the interim dividend of 3.2 pence per share paid in October (2020: nil) will bring the total dividend to 9.9 pence per share (2020: 2.8p).

Subject to approval by shareholders, the final dividend will be paid on 8 July 2022 to shareholders on the register at 17 June 2022.

CASH FLOW – HIGHLIGHTS

	2021 £m	**2020 £m**
Operating cash flow before exceptional items	**81.2**	53.9
Payments made in respect of exceptional operating items	**(0.6)**	(5.6)
Operating cash flow after exceptional operating items	**80.6**	48.3
Interest paid	**(2.8)**	(2.8)
Tax paid	**(9.6)**	(5.2)
Capital expenditure:		
– maintenance	**(5.7)**	(5.4)
– strategic	**(28.9)**	(19.5)
Dividends paid	**(13.7)**	–
Purchase of shares by Employee Benefit Trust	**(5.0)**	(1.0)
Proceeds from sale of shares by Employee Benefit Trust	**1.2**	0.9
Net proceeds from issue of shares	**–**	53.0
New lease liabilities	**(12.4)**	(0.6)
Other movements	**(0.3)**	(0.6)
Gross proceeds from sale of Swadlincote (exceptional)	**14.7**	–
Costs incurred in sale of Swadlincote (exceptional)	**(0.3)**	–
Payments made in respect of exceptional finance costs	**–**	(3.2)
Increase in net funds	**17.8**	63.9
Debtor days	**37**	36

Operating cash flow before exceptional items totalled £81.2m compared to £53.9m in 2020 and £64.9m in 2019, a demonstration of the Group's ability to generate consistently strong cash flow and highlighting the quality of earnings in the year.

Payments to the Employee Benefit Trust in the year totalled £5.0m (2020: £1.0m) with payments suspended in 2020 in order to preserve cash in response to the Covid-19 pandemic. Given the strength of our balance sheet, our policy is to provide shares for settlement of our share-based employee remuneration schemes through open market purchases of shares as opposed to the issue of new share capital which would be dilutive.

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

CAPITAL EXPENDITURE

Capital expenditure in the year totalled £34.6m (2020: £24.9m) with strategic capital expenditure totalling £28.9m (2020: £19.5m) and maintenance capital expenditure totalling £5.7m (2020: £5.4m).

Spend on the new Desford brick factory totalled £27.2m bringing the total cumulative project spend to £59.3m with the project still on course to be completed within the £95m budget. We expect £31m of the remaining spend to be incurred in 2022, with the final £5m in 2023.

In addition to the spend on the Desford project, £1.7m was spent on the Wilnecote factory refurbishment project. Spend on this project in 2022 is expected to be approximately £12m with the balance of £13m in 2023.

BORROWINGS AND FACILITIES

At 31 December 2021 net cash (excluding lease liabilities under IFRS 16) was £40.9m (2020: £16.0m). Net cash after deducting lease liabilities of £16.5m was £24.4m. These leases primarily relate to plant and equipment, in particular the fleet of heavy goods vehicles used to deliver products to our customers.

The Group's debt facility comprises a committed revolving credit facility (RCF) of £170m extending to July 2025 with a one-year extension option having been exercised in 2021.

As at 31 December 2021 the facility was undrawn in its entirety, leaving facility headroom of £170m. The Group also benefits from an uncommitted overdraft facility of £10m.

The facility is subject to covenant restrictions of net debt / EBITDA (as measured before IFRS 16) of less than three times and interest cover of greater than four times although a package of bespoke amendments applied until September 2021. The business has traded within these covenants throughout 2021. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times.

STRATEGY AND CAPITAL ALLOCATION

Our strategy can easily be articulated as three pillars that will drive sustained earnings and cashflow growth through:

- **Expansion of capacity, enhanced efficiency and sustainability**
- **Range expansion**
- **New product innovation**

This, along with our capital allocation policy which is centred on delivering compelling returns to shareholders leaves the Group well placed to deliver long term shareholder value.
The Group's capital allocation priorities are summarised as follows:

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

Our consistently strong operating cash generation coupled with a strong balance sheet with net cash of £40.9m before leases means the Group ended the year in a strong position. This allows us to deliver our strategy, investing in excess of £200m over the next decade (in addition to Desford) in ambitious organic growth projects, taking advantage of unsatisfied demand for our products whilst at the same time improving our efficiency, and reducing greenhouse gas emissions. Alongside this we have increased our dividend distribution rate whilst also commencing the return of surplus capital to our shareholders, while retaining flexibility to deliver bolt-on acquisitions should attractive opportunities arise.

ORGANIC CAPITAL INVESTMENT

The construction of the new Desford brick factory continues to progress according to plan with commissioning expected towards the end of this year. This factory will be the largest and most efficient brick factory in Europe.

When we announced the investment back in 2018 we expected the factory to increase our installed brick manufacturing capacity by 16%. However, with the old factory it will replace struggling to meet its design output and desired levels of efficiency as it reaches the end of its life, the new factory will uplift our actual production output by 22% and is now expected to deliver incremental EBITDA of c£25m in 2025 up from our previous estimate of c£15m. This increase is driven by the deteriorating performance of the old factory as well as selling price increases having a greater beneficial impact due to the operating cost efficiency of the new factory. We expect the increase in EBITDA in 2023 to be approximately £10m, increasing to £17m in 2024. Annual depreciation on the new factory is expected to be approximately £4m.

During 2021 we also announced a £27m investment in our Wilnecote factory, a very different investment to Desford. Wilnecote services the architect-led commercial and specification market which includes residential, commercial, school and hospital developments, a sizeable market of around 400m bricks per annum (approximately 18% of the UK brick demand) and a market segment where Forterra has historically been under-represented. This investment will expand the product range manufactured at the factory providing a degree of diversification reducing our reliance on mainstream housebuilding whilst increasing our total brick production capacity by around 1%. The factory will close in July 2022 for a period of approximately 9 months, recommissioning in the second quarter of 2023 and will ultimately contribute £7m of incremental EBITDA to Group results.

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

Brick slips also offer several sustainability benefits, reducing raw material and energy usage relative to the manufacture of traditional bricks, and with many slips currently being cut from traditional bricks, they can significantly reduce wastage. We expect to be manufacturing brick slips in late 2023 although the ramp up to full production could take a number of years as we grow our market share.

INCREASED FOCUS ON INNOVATION

Our strategy for growth requires an increased investment in innovation. Starting in 2022 we will increase our future focused operating expenditure by an additional £2-3m per annum resourcing our business allowing us to enhance our product range, especially in façade solutions where we intend to develop and expand a range of products that will establish firesafe brickwork as a cladding of choice for modular and high-rise buildings.

SHARE BUYBACK PROGRAMME

On 26 January 2022 the Board announced the commencement of a share buyback programme to repurchase ordinary shares of 1 pence each in the capital of the Company. The intention is to repurchase and cancel £40m worth of shares through 2022 with this decision taken in line with the Group's capital allocation priorities reflecting the strength of the balance sheet with reported net cash before IFRS 16 lease liabilities of £40.9m and the Board's confidence in the Group and its ongoing strength of cash generation. As at the date of the announcement a sum of £5.5m had already been returned to shareholders.

SUSTAINABILITY

Sustainability has always been very important to us, as evidenced by our significant achievement of reducing our carbon emissions per tonne of production between 2010 and 2019 by 22%. Since then, we have embedded sustainability at the heart of our business and strategy. In 2021 we further reduced our carbon intensity by a further 4.5% relative to 2019.

It is important to recognise that our products are inherently sustainable, they last for well over a century and require no maintenance throughout their lifetime. The bricks used in an average family home have the same carbon footprint as driving around in an average family car for a year but will provide housing for generations over a period of around 150 years.

Having said that, we are committed to reducing both our carbon footprint and our wider impact on the environment. In doing so we have set challenging targets and intend to reduce our carbon emissions per tonne of output by 32% by 2030 and are committed to achieving net zero by 2050. Today we are delivering large scale investments which will make our business more sustainable whilst also, working in partnership with a number of providers to discover how we can benefit from the game changing emerging technologies of hydrogen and carbon capture and storage.

We are pleased to have recently entered into a 15-year Power Purchase Agreement (PPA) which will see us receive around 70% of our electricity from 2025 from a dedicated solar farm, representing a c£50m commitment to renewable energy over the period of the agreement which will also provide us with price security and stability.

We are committed to transparent disclosure of our sustainability performance and having taken steps last year to early-adopt a number of the requirements of the Task Force on Climate Related Financial Disclosures (TCFD), we have now undertaken the required scenario analysis in order to be fully complaint in the year that this becomes mandatory. Full details of these disclosures and others can be found in our upcoming Annual Report.

HEALTH, SAFETY AND WELLBEING

Health and Safety remains our number one priority with our ultimate goal being that of achieving zero harm. Whilst the pandemic has not adversely impacted our trading in the year it continued to present a number of safety related challenges with additional measures put in place to ensure our workplaces remained safe. We recognise the additional pressures the pandemic has placed on our people and have significantly increased the level of mental health support we are able to offer with 57 colleagues across our business qualifying as mental health first aiders.

In 2021 we increased our focus on behavioural and cultural safety, launching our Road Map to Zero Harm. Following an independent review of the effectiveness of our approach to health and safety completed in early 2020 prior to the pandemic, a follow up review was completed in the year to assess progress against the recommendations. We are pleased to say that the report concluded that progress had been made on the direction of safety strategy and leadership as evidenced by our simplified Golden Rules and the Roadmap to Zero Harm.

OUR PEOPLE

We would like to pass on our sincere thanks to our people who have all worked tirelessly in guiding the business through the challenges faced in the year. Whilst the ongoing pandemic has fortunately had very little impact on our current year results it did significantly impact many of our colleagues and the way they had to work.

The strength of customer demand, coupled with very low inventory levels, alongside substantial supply chain challenges has placed the business and its people under a great deal of pressure and it is pleasing to see how everyone has worked together to meet these challenges head on.

It is also very important to recognise the commitment of the majority of our employees, who did not have the opportunity to work from home and continued to come to work every day in our facilities through the restrictions. Equally, it is also important to acknowledge those who had to spend a large period of time working from home, without valuable face-to-face contact with colleagues, while in many cases again having to balance childcare and home-schooling responsibilities. It was encouraging to see the learnings taken from the previous year and that the investments in improved technology have reaped rewards, with the business able to function efficiently and without interruption throughout the lockdown period.

CORPORATE CULTURE

The Board is aware of its responsibility to foster a corporate culture based upon strong leadership and transparency, ensuring we do business responsibly, adhering to the highest ethical standards, whilst minimising the impact our business has on the environment.

During the year we have continued the open and transparent communication that was so appreciated during the initial lockdown helping all our colleagues better understand the Company’s purpose which is to Keep Britain Building.

Health and Safety remains our number one priority and our Roadmap to Zero Harm begins with focussing on behaviours including treating others as family.

SUMMARY AND OUTLOOK

Market conditions remain highly supportive with continued demand for new housing and constrained UK manufacturing capacity driving brick imports to record levels. Order books remain strong supported by robust customer sentiment and an ongoing shortage of quality housing in the UK. Inflationary pressures continue although Management remain confident of recovering cost increases with the Group announcing further double-digit price double increases effective from 1 April 2022 following on from those delivered on or before 1 January 2022.

We remain watchful as to the impacts of wider macro uncertainty and supply chain pressures as well as increases in interest rates. Approximately 70% of the Group’s 2022 energy requirements have been secured, with the greatest coverage in the winter months where volatility has been historically greatest.

The construction of the new Desford brick factory remains on track with commissioning due at the end 2022, and the factory now expected to deliver a 22% effective increase in brick production and increased incremental EBITDA of

£25m from 2025. Management therefore expects the Group to achieve further progress in the coming year and beyond.

GOING CONCERN

At the balance sheet date, the cash balance stood at £41.5m with available undrawn borrowings of £170m available in the form of a Revolving Credit Facility (RCF). The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term. During the year the Group agreed a one year extension to the RCF, which now expires in July 2025.

The Board have elected to return surplus capital to shareholders. On 26 January 2022 the Group announced it was commencing a share buyback programme to repurchase ordinary shares of 1p each in the capital of the Company, the aggregate purchase price of the shares is expected to be £40m with this cash outflow occurring in 2022. The decision to undertake the share buyback was taken based on a detailed consideration of the capital requirements of the Group along with the current liquidity position and expected future cash generation. The Board considers it is returning a prudent level of cash to shareholders which reflects the strong cash generative ability of the Group.

The Group have modelled financial scenarios for the period to 31 March 2023, reflecting both macroeconomic and industry-specific projections. These have been modelled as a base case, and two severe but plausible downside scenarios. Each scenario is tested to determine if there is a cash shortfall or there are covenant breaches at each forthcoming covenant test date review. The severe but plausible downside scenarios reflect a downturn in market demand in one scenario and an increase in variable costs in the other scenario.

Scenarios were modelled over the period to 31 March 2023 (going concern review period) to support the going concern assessment. In all the scenarios modelled, and considering mitigative actions available, the Group had headroom in both its banking covenants and existing bank facilities.

With manufacturing operations continuing at capacity since fully reopening in summer 2020, the recovery to date has been sustained, and as such Management are confident that i) the severe but plausible scenarios are unlikely and ii) the mitigations in the form of cost reduction, reducing or delaying capital expenditure and a reduction or curtailment in the quantum of either dividend distributions or the execution of the share buyback that could be applied in such a scenario would see the Group remain resilient.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group, the post balance sheet share buyback and the mitigations available the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 March 2023. The Group therefore adopts the going concern basis in preparing these preliminary financial statements.

FORWARD LOOKING STATEMENTS

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the Consolidated Financial Statements of the Group, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Stephen Harrison	Ben Guyatt
Chief Executive Officer	Chief Financial Officer
10 March 2022	

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**2021 £m**	2020 £m
Revenue	3	**370.4**	291.9
Cost of sales		**(240.7)**	(225.8)
Gross profit		**129.7**	66.1
Distribution costs		**(51.2)**	(44.1)
Administrative expenses		**(27.4)**	(20.8)
Other operating income		**9.0**	0.2
Operating profit		**60.1**	1.4
EBITDA before exceptional items		**70.4**	37.9
Exceptional items	4	**6.1**	(19.4)
EBITDA		**76.5**	18.5
Depreciation and amortisation		**(16.4)**	(17.1)
Operating profit		**60.1**	1.4
Finance expense before exceptional items		**(3.3)**	(3.4)
Exceptional finance expense	5	**–**	(3.4)
Finance expense	5	**(3.3)**	(6.8)
Profit / (loss) before tax		**56.8**	(5.4)
Income tax expense	6	**(11.3)**	(0.2)
Profit / (loss) for the year attributable to equity shareholders		**45.5**	(5.6)
Other comprehensive loss			
Effective portion of changes of cash flow hedges		**(0.2)**	–
Total comprehensive income / (loss) for the year attributable to equity shareholders		**45.3**	(5.6)
Earnings / (loss) per share		**Pence**	Pence
Basic earnings per share	8	**19.9**	(2.6)
Diluted earnings per share	8	**19.7**	(2.6)

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2021

	Note	**2021 £m**	2020 £m
Assets			
Non-current assets			
Intangible assets		**17.7**	11.0
Property, plant and equipment		**201.4**	187.1
Right-of-use assets		**16.5**	9.0
		235.6	207.1
Current assets			
Inventories		**32.8**	33.0
Trade and other receivables		**39.1**	35.7
Income tax asset		**1.0**	0.6
Cash and cash equivalents		**41.5**	31.5
		114.4	100.8
Total assets		**350.0**	307.9
Current liabilities			
Trade and other payables		**(75.6)**	(63.8)
Loans and borrowings	9	**(0.6)**	(0.5)
Lease liabilities		**(4.5)**	(3.4)
Provisions for other liabilities and charges		**(9.9)**	(5.0)
Derivative liability		**(0.2)**	–
		(90.8)	(72.7)
Non-current liabilities			
Loans and borrowings	9	**–**	(15.0)
Lease liabilities		**(12.0)**	(6.0)
Provisions for other liabilities and charges		**(9.7)**	(9.2)
Deferred tax liabilities		**(2.7)**	(0.9)
		(24.4)	(31.1)
Total liabilities		**(115.2)**	(103.8)
Net assets		**234.8**	204.1
Capital and reserves attributable to equity shareholders			
Ordinary shares		**2.3**	2.3
Retained earnings		**213.4**	162.3
Cash flow hedge reserve		**(0.2)**	–
Other reserve		**23.9**	41.5
Reserve for own shares		**(4.6)**	(2.0)
Total equity		**234.8**	204.1

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	**2021 £m**	2020 £m
Cash flows from operating activities			
Profit before tax		**56.8**	(5.4)
– Finance expense before exceptional items	5	**3.3**	3.4
– Exceptional items	4	**(6.1)**	22.8
Operating profit before exceptional items		**54.0**	20.8
Adjustments for:			
– Depreciation and amortisation		**16.4**	17.1
– Profit on disposal of fixed assets and finance leases		**(1.5)**	–
– Movement on provisions		**6.4**	1.7
– Purchase of carbon credits		**(6.4)**	–
– Share-based payments		**2.5**	0.9
– Other non-cash items		**–**	(0.9)
Changes in working capital:			
– Inventories		**0.2**	14.8
– Trade and other receivables		**(3.4)**	4.6
– Trade and other payables		**13.0**	(5.1)
Cash generated from operations before exceptional items		**81.2**	53.9
Cash flows relating to operational exceptional items		**(0.6)**	(5.6)
Cash generated from operations		**80.6**	48.3
Interest paid		**(2.8)**	(2.8)
Tax paid		**(9.6)**	(5.2)
Net cash inflow from operating activities		**68.2**	40.3

	Note	**2021 £m**	2020 £m
Cash flows from investing activities			
Purchase of property, plant and equipment		**(33.0)**	(23.5)
Purchase of intangible assets		**(1.6)**	(1.4)
Proceeds from sale of property, plant and equipment		**0.2**	–
Exceptional proceeds from sale of property, plant and equipment		**14.7**	–
Exceptional costs incurred in sale of property, plant and equipment		**(0.3)**	–
Net cash used in investing activities		**(20.0)**	(24.9)

	Note	**2021 £m**	2020 £m
Cash flows from financing activities			
Reduction in lease liabilities		**(5.3)**	(5.2)
Dividends paid	7	**(13.7)**	–
Drawdown of borrowings		**5.0**	80.0
Repayment of borrowings		**(20.0)**	(135.0)
Purchase of shares by Employee Benefit Trust		**(5.0)**	(1.0)
Proceeds from sales of shares by Employee Benefit Trust		**1.2**	0.9
Proceeds from issue of shares		**–**	55.0

Transaction costs on share issue	**–**	(2.0)
Financing fees	**(0.4)**	–
Exceptional finance payments	**–**	(3.2)
Net cash used in financing activities	**(38.2)**	(10.5)
Net increase in cash and cash equivalents	**10.0**	4.9
Cash and cash equivalents at the beginning of the period	**31.5**	26.6
Cash and cash equivalents at the end of the period	**41.5**	31.5

Note: The cash flow presentation has been amended in the current year to include a reconciliation from profit before tax through to operating profit before exceptional items.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital £m	Reserve for own shares £m	Cash flow hedge reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2020		**2.0**	**(3.6)**	**–**	**–**	**157.8**	**156.2**
Total comprehensive loss for the year		–	–	–	–	(5.6)	(5.6)
Dividend paid	7	–	–	–	–	–	–
Issue of shares		0.3	–	–	41.5	11.2	53.0
Purchase of shares by Employee Benefit Trust		–	(1.0)	–	–	–	(1.0)
Proceeds from sale of shares by Employee BenefitTrust		–	0.9	–	–	–	0.9
Share-based payments charge		–	–	–	–	0.8	0.8
Share-based payments exercised		–	1.7	–	–	(1.7)	–
Tax on share-based payments		–	–	–	–	(0.2)	(0.2)
Balance at 31 December 2020		**2.3**	**(2.0)**	**–**	**41.5**	**162.3**	**204.1**
Total comprehensive income for the year		–	–	–	–	45.5	45.5
Other comprehensive loss		–	–	(0.2)	–	–	(0.2)
Dividend paid	7	–	–	–	–	(13.7)	(13.7)
Movement in other reserves		–	–	–	(17.6)	17.6	–
Purchase of shares by Employee Benefit Trust		–	(5.0)	–	–	–	(5.0)
Proceeds from sale of shares by Employee BenefitTrust		–	1.2	–	–	–	1.2
Share-based payments charge		–	–	–	–	2.5	2.5
Share-based payments exercised		–	1.2	–	–	(1.2)	–
Tax on share-based payments		–	–	–	–	0.4	0.4
Balance at 31 December 2021		**2.3**	**(4.6)**	**(0.2)**	**23.9**	**213.4**	**234.8**

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, NN4 5EA. The Company is the parent of Forterra Holdings Limited and Forterra Building Products Limited, which together comprise the Group. The principal activity of the Group is the manufacture and sale of bricks, dense and lightweight blocks, precast concrete, concrete block paving and other complementary building products.

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

2. Basis of preparation

The preliminary results for the year ended 31 December 2021 have been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 10 March 2022. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published in April 2022. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the Consolidated Financial Statements for the year ending 31 December 2021. Copies of the Annual Report for the year ended 31 December 2021 will be mailed to those shareholders who have opted to receive them by the end of April 2022 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

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

Going concern

At the balance sheet date, the cash balance stood at £41.5m with available undrawn borrowings of £170m available in the form of a Revolving Credit Facility (RCF). The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term. During the year the Group agreed a one year extension to the RCF, which now expires in July 2025.

The Board have elected to return surplus capital to shareholders. On 26 January 2022 the Group announced it was commencing a share buyback programme to repurchase ordinary shares of 1p each in the capital of the Company, the aggregate purchase price of the shares is expected to be £40m with this cash outflow occurring in 2022. The decision to undertake the share buyback was taken based on a detailed consideration of the capital requirements of the Group along with the current liquidity position and expected future cash generation. The Board considers it is returning a prudent level of cash to shareholders which reflects the strong cash generative ability of the Group.

The Group have modelled financial scenarios for the period to 31 March 2023, reflecting both macroeconomic and industry-specific projections. These have been modelled as a base case, and two severe but plausible downside scenarios. Each scenario is tested to determine if there is a cash shortfall or there are covenant breaches at each forthcoming covenant test date review. The severe but plausible downside scenarios reflect a downturn in market demand in one scenario and an increase in variable costs in the other scenario.

Scenarios were modelled over the period to 31 March 2023 (going concern review period) to support the going concern assessment. In all the scenarios modelled, and considering mitigative actions available, the Group had headroom in both its banking covenants and existing bank facilities.

With manufacturing operations continuing at capacity since fully reopening in summer 2020, the recovery to date has been sustained, and as such Management are confident that i) the severe but plausible scenarios are unlikely and ii) the mitigations in the form of cost reduction, reducing or delaying capital expenditure and a reduction or curtailment in the quantum of either dividend distributions or the execution of the share buyback that could be applied in such a scenario would see the Group remain resilient.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group, the post balance sheet share buyback and the mitigations available the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 March 2023. The Group therefore adopts the going concern basis in preparing these preliminary financial statements.

New standards, amendments and interpretations

The accounting policies adopted in the preparation of the preliminary financial statements are consistent with those followed in the preparation of the Consolidated Financial Statements for the year ended 31 December 2020, except for the adoption of new standards effective as at 1 January 2021, the impact of which is described below. At the date of approval of these preliminary financial statements there were a number of standards, amendments and interpretations that have been published and are effective for accounting periods beginning on or after 1 January 2022. The Group are currently assessing any potential impact of amendments to IAS 12 (Deferred Tax related to Assets and Liabilities arising from a Single Transaction) however no others are expected to have a material impact on the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendment includes a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. The Group has taken advantage of this in transitioning from interest rates calculated using LIBOR to SONIA on its Revolving Credit Facility. The change has not significantly impacted the interest rate payable, with LIBOR and SONIA being regarded as economically equivalent. Further reliefs regarding hedge designation and hedge documentation had no impact on the preliminary financial statements.

3. Segmental reporting

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

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

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

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

The Bespoke Products range includes precast concrete (marketed under the ‘Bison Precast’ brand), chimney and roofing solutions, each of which are typically made-to-measure or customised to meet the customer’s specific needs. The precast concrete flooring products are complemented by the Group’s full design and nationwide installation services, while certain otherbespoke products, such as chimney flues, are complemented by the Group’s bespoke specification and design service.

Costs which are incurred on behalf of both segments are held at the centre and these, together with general administrative expenses, are allocated to the segments for reporting purposes using a split of 80% Bricks and Blocks and 20% Bespoke Products. Management considers that this is an appropriate basis for the allocation.

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

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

Segment revenue and results

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

Segment assets

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

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

Other segment information

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

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

	2021		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**
Customer A	41.7	1.3	43.0
Customer B	35.9	2.0	37.9

Segment revenue and results

		2020		
	Note	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		223.1	71.7	294.8
Intercompany eliminations				(2.9)
Revenue				**291.9**
EBITDA before exceptional items		**40.3**	**(2.4)**	**37.9**
Depreciation and amortisation		(14.8)	(2.3)	(17.1)
Operating profit / (loss) before exceptional items		**25.5**	**(4.7)**	**20.8**
Exceptional items	4	(7.2)	(12.2)	(19.4)
Operating profit / (loss)		**18.3**	**(16.9)**	**1.4**
Net finance expense				(3.4)
Exceptional finance expense				(3.4)
Loss before tax				**(5.4)**

Segment assets

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

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

Other segment information

	Note	2020 Bricks and Blocks £m	Bespoke Products £m	Total £m
Property, plant and equipment additions		22.6	1.3	23.9
Intangible asset additions		1.2	0.3	1.5
Right-of-use asset additions		0.3	0.3	0.6

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

	2020 Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	30.3	1.6	31.9
Customer B	28.1	1.5	29.6

4. Exceptional items

	2021 **£m**	2020 £m
Exceptional operating items		
Restructuring costs	**–**	(2.4)
Closure and sale of Swadlincote factory	**6.1**	–
Asset impairment charges	**–**	(17.0)
	6.1	(19.4)
Exceptional finance items		
Debt refinancing costs	**–**	(3.4)
	–	(3.4)
Total exceptional items	**6.1**	(22.8)

2021 exceptional items

In the current year the Group announced the closure of the bespoke precast concrete factory at Swadlincote. This followed the decision made by Management to mothball the hollowcore facility co-located at the site in 2020, the impairment charge for which is recognised as an exceptional item in 2020. Following the announcement of closure, the site was subsequently sold in 2021.

In line with the treatment of the closure of the hollowcore production facility in 2020, the second stage of this site closure and subsequent sale has been disclosed as an exceptional item in 2021. The total recognised gain of £6.1m can be broken down into a profit on sale of the land and buildings and plant and machinery at the site of £6.7m, combined with associated redundancy costs of £0.6m. Within the profit on sale, the Group received gross sales proceeds of £14.7m relating to the sale of the facility and associated equipment.

2020 exceptional items

Restructuring costs totalling £2.4m were incurred in 2020 as a result of changes announced to address the Group’s cost base, including both changes to shift patterns and adjustments to the size and structure of support functions.

Following the Covid-19 pandemic Management's immediate priorities were reassessed and a £17.0m impairment was charged against assets in business areas with more challenging market conditions and weaker margins. This fully wrote-down the carrying value of goodwill within the business, wrote down assets associated with hollowcore production at the mothballed facility in Swadlincote and wrote-off an IT system. The Goodwill impairments (£6.8m) substantially related to £6.0m of goodwill that had been recognised on the historic acquisition of Hanson plc by HeidelbergCement AG in 2007 attached to the Formpave site. Formpave following Covid-19 could no longer support a carrying value that included this £6.0m of goodwill.

The remaining £0.8m of goodwill related to the acquisition of the Swadlincote facility in 2017 and was recognised within the Bespoke Products segment. Goodwill of £0.8m was impaired along with a £9.4m impairment relating to idle assets at the Swadlincote facility. There was no value in use for the foreseeable future following the decision to mothball the hollowcore facility in response to the Covid-19 pandemic.

The final £0.8m impairment related to the write down of an IT system following a decision to cease use of and replace this asset. £0.7m of this was shown as an impairment within intangible assets and the remainder within provisions as an onerous contract.

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

Exceptional costs incurred by the Group are presented within the following line items in the Consolidated Statement of Comprehensive Income.

	Cost of sales £m	**Distribution costs £m**	**Administrative costs £m**	**Other operating income £m**	**Finance expense £m**	**Total £m**
2021						
Total before exceptional items	**(240.1)**	**(51.2)**	**(27.4)**	**2.3**	**(3.3)**	**(319.7)**
Exceptional items						
Closure and sale of Swadlincote	(0.6)	–	–	6.7	–	6.1
Statutory total	**(240.7)**	**(51.2)**	**(27.4)**	**9.0**	**(3.3)**	**(313.6)**
2020						
Total before exceptional items	**(207.8)**	**(44.0)**	**(19.5)**	**0.2**	**(3.4)**	**(274.5)**
Exceptional items						
Restructuring costs	(1.8)	(0.1)	(0.5)	–	–	(2.4)
Impairment costs	(16.2)	–	(0.8)	–	–	(17.0)
Debt refinancing costs	–	–	–	–	(3.4)	(3.4)
Statutory total	**(225.8)**	**(44.1)**	**(20.8)**	**0.2**	**(6.8)**	**(297.3)**

2021 tax on exceptional items

The sale of the land and buildings at Swadlincote gave rise to a chargeable gain subject to corporation tax. The redundancy costs incurred are tax deductible.

2020 tax on exceptional items

Restructuring and refinancing costs recognised have been treated as tax deductible. The aborted transaction costs and impairment charges on goodwill, property, plant and equipment and land and buildings are not tax deductible. The property, plant and equipment impairment gives rise to a deferred tax credit such that they are not tax rate impacting, however the impairment of goodwill and non-qualifying land and buildings impact the effective tax rate.

5. Finance expense

	Note	**2021 £m**	2020 £m
Interest payable on external borrowings		**(2.6)**	(2.9)
Interest payable on lease liabilities		**(0.3)**	(0.3)
Other finance expense		**(0.4)**	(0.2)
Exceptional finance expense	4	**–**	(3.4)
		(3.3)	(6.8)

In 2020, the Group drew down on its revolving credit facility in its entirety from mid-March, securing cash in response to the Covid-19 pandemic, but resulting in higher interest charges. At the 31 December 2020, £15.0m remained drawn down under the facility which was repaid in full during 2021. The interest payable as presented in the preliminary financial statements for 2021 relates to the commitment fee charged during the period.

6. Taxation

	Note	**2021 £m**	2020 £m
Current tax			
UK corporation tax on profit for the year		**(9.1)**	(1.8)
Prior year adjustment on UK corporation tax		**–**	0.5
Total current tax		**(9.1)**	(1.3)
Origination and reversal of temporary differences		**(1.4)**	1.2
Effect of change in tax rates		**(0.8)**	(0.2)
Effect of prior period adjustments		**–**	0.1
Total deferred tax		**(2.2)**	1.1
Income tax expense		**(11.3)**	(0.2)

	2021 £m	2020 £m
Profit / (loss) before taxation	**56.8**	(5.4)
Expected tax (charge) / credit	**(10.8)**	1.0
Expenses not deductible for tax purposes	**0.3**	(0.5)
Impairment of goodwill not deductible for tax purposes	**–**	(1.2)
Reversal of uncertain tax provision	**–**	(0.2)
Impact of change on deferred tax rate	**(0.8)**	0.7
Income tax expense	**(11.3)**	(0.2)

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

7. Dividends

	2021 £m	2020 £m
Amounts recognized as distributions to equity holders in the year		
Interim dividend of 3.2p per share (2020: nil)	(6.3)	–
Final dividend of 2.8p per share in respect of prior year (2020: nil)	(7.4)	–
	(13.7)	–

The Directors are proposing a final dividend for 2021 of 6.7p per share, making a total payment for the year of 9.9p (2020: 2.8p). This is subject to approval by the shareholders at the AGM and has not been included as a liability in the preliminary financial statements.

8. Earnings / (loss) per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has four types of dilutive potential ordinary shares, being: those share options granted to employees under the Sharesave Scheme where the exercise price is less than the average market price of the Company's ordinary shares during the year; unvested shares granted under the Deferred Annual Bonus Plan; unvested shares granted under the Share Incentive Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

		Before exceptional items		Statutory	
	Note	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Operating profit for the year		**54.0**	20.8	**60.1**	1.4
Finance expense	5	**(3.3)**	(3.4)	**(3.3)**	(6.8)
Profit / (loss) before taxation		**50.7**	17.4	**56.8**	(5.4)
Income tax expense	6	**(10.8)**	(3.2)	**(11.3)**	(0.2)
Profit / (loss) for the year		**39.9**	14.2	**45.5**	(5.6)
Weighted average number of shares (millions)		**228.1**	214.8	**228.1**	214.8
Effect of share incentive awards and options (millions)		**2.3**	0.2	**2.3**	0.2
Diluted weighted average number of ordinary shares (millions)		**230.4**	215.0	**230.4**	215.0
Earnings / (loss) per share:					
Basic (in pence)		**17.5**	6.6	**19.9**	(2.6)
Diluted (in pence)		**17.3**	6.6	**19.7**	(2.6)

9. Loans and borrowings

	2021 **£m**	2020 £m
Non-current loans and borrowings		
– Revolving credit facility	**–**	15.0
Current loans and borrowings		
– Interest	**0.6**	0.5
	0.6	15.5

The Group last refinanced its banking facilities in July 2020 securing a facility size of £170m in place until July 2024 as well as a package of covenant variations extending to September 2021. The facility agreement included the option for the Company to request, subject to bank approval, an additional extension for a further year to July 2025. The extension was approved, with the facility now committed until 1 July 2025. An arrangement fee of £0.3m was paid in respect of this extension which is included within other finance expenses within note 5. The credit agreement has also been amended to remove references to LIBOR with interest now calculated based on SONIA plus a small credit adjustment spread. This change does not significantly impact the interest rate payable.

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

10. Net cash

The analysis of net cash is as follows:

	2021 **£m**	2020 £m
Cash and cash equivalents	**41.5**	31.5
Loans and borrowings	**(0.6)**	(15.5)
Lease liabilities	**(16.5)**	(9.4)
Net cash	**24.4**	6.6

Reconciliation of net cash flow to net cash

	2021 **£m**	2020 £m
Cash flow generated from operations before exceptional items	**81.2**	53.9
Payments made in respect of exceptional operating items	**(0.6)**	(5.6)
Operating cash flow after exceptional items	**80.6**	48.3
Interest paid	**(2.8)**	(2.8)
Tax paid	**(9.6)**	(5.2)
Net cash flow from investing activities	**(20.0)**	(24.9)
Dividends paid	**(13.7)**	–
Exceptional finance payments	**–**	(3.2)
Purchase of shares by Employee Benefit Trust	**(5.0)**	(1.0)
Proceeds from sale of shares by Employee Benefit Trust	**1.2**	0.9
Proceeds from issue of shares	**–**	55.0
Transaction costs on share issue	**–**	(2.0)
New lease liabilities	**(12.4)**	(0.6)

Other financing movement	**(0.5)**	(0.6)
Increase in net cash	**17.8**	63.9
Net cash / (debt) at the start of the period	**6.6**	(57.3)
Net cash at the end of the period	**24.4**	6.6

11. Related party transactions

Transactions with key management personnel

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

	2021 £m	2020 £m
Emoluments including taxable benefits	**(3.2)**	(2.0)
Share-based payments	**(0.8)**	(0.4)
Pension and other post-employment benefits	**(0.3)**	(0.2)
	(4.3)	(2.6)

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within the Annual Report and Accounts to be published in April 2022.

12. Post balance sheet events

On 26 January 2022 the Company announced a share buyback programme, which commenced 27 January 2022. The aggregate purchase price of all Ordinary Shares acquired under the first tranche of this programme will be no more than £40 million (excluding stamp duty and expenses) and any Ordinary Shares purchased under this programme will be cancelled immediately. In the period from 26 January 2022 to 8 March 2022 (the last practicable date prior to the date of this document), the Company purchased and cancelled 2,258,335 ordinary shares.

On 7 March 2022 the Group completed the sale of an area of disused land for total proceeds of £2.5m. Profit on disposal is expected to total c£2.3m which will be recognised in the year ended 31 December 2022.

On 9 March 2022 the Group entered into a 15-year Power Purchase Agreement (PPA) for a dedicated solar farm, which is expected to provide 70% of the Group's electricity from 2025, representing a c£50m commitment to renewable energy over the period of the agreement.

Risk Management and Key Risks

Overview

Effective risk management is critical to successfully meeting our strategic objectives and delivering long-term value to ourshareholders. Instilling a risk management culture at the core of everything we do is a key priority.

In 2021 we were able to restart wider risk management, including risk management site reviews, continuing to develop the physical links between central and local management and expanding the risk conversation. Communication continues to be strong, with our risk management policy, strategy, processes, reporting measures, internal reporting lines and responsibilities well established. A continued response to the impact and associated risks arising both directly and indirectly from Covid-19 and Brexit has been a primary focus during 2021, and many of the rapidly evolving business risks are attributable to this. We continue to monitor these risks and introduce mitigating controls, as appropriate, as they develop.

- Covid-19: Our markets saw strong recovery in 2021 and both we and our customers were able to continue to operate without significant interruption or Government imposed restrictions throughout the year. Our priority was therefore to concentrate on the controllable risks such as health and safety, where we continue to follow all public health guidance.

- Availability of raw materials and energy: 2021 has seen shortages of raw materials above any seen in recent years. Impacts of both Covid-19 and Brexit have required our business to secure new supplies, draw on long-standing relationships with our suppliers and explore possible changes that can be made within the production process in order to mitigate the risk. To date, the primary risk regarding energy was that of cost. More recently the war in Ukraine has increased concerns as to the security of energy supplies and we continue to closely monitor the situation.

- Cost inflation: Cost inflation has been an increasingly significant theme throughout 2021, impacting our business across a wide range of spend categories. We have increased selling prices to recover the cost inflation and whilst we remain confident of recovering costs in the medium term, our 2021 results have been impacted by short term under-recover of inflation.

- Cyber: A continued introduction of mitigative actions has attempted to keep pace with a fast-moving cyber risk with thebusiness facing a significant cyber-attack during the year. This risk will continue to be a focus area going into 2022.

Key risks are addressed within the table on the pages following. In addition, we continue to place emphasis on identification and review of emerging risks to ensure these are identified, considered and appropriately mitigated.

Our risk management objectives remain to:

- embed risk management into our management culture and cascade this down through the business;

- develop plans and make decisions that are supported by an understanding of risk and opportunity; and

- anticipate change and respond appropriately.

Sustainability

Sustainability continues to be a core focus within our business with the increasing need to make Forterra more resilient against the potential effects of climate change, and evolving sustainability driven risks are highlighted within extensive disclosures in our upcoming Annual Report. These reflect both the impact of our operations on the environment but also the challenging targets we have set to reduce this, targeting Net Zero by 2050 in line with the Race to Zero.

The Board remains committed to implementing the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) and whilst both short and long-term climate risks are summarised in this section, more expansive disclosures are provided in the Sustainability Report within our upcoming Annual Report and Accounts. The Board's Risk and Sustainability Committee continue to provide oversight and governance over the most significant risks the business faces in the short, medium and long-term.

Key risks

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

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

Key risks and uncertainties

1. HEALTH AND SAFETY		Gross change: Decrease	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor		
Our key risks remain the same as prior to the emergence of Covid-19. We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts noise, dusts and chemicals. Additionally, before mitigating actions, the underlying risk to employee health increased with the emergence of Covid-19, with working proximity for employees becoming an additional risk.	Safety remains our number one priority. We target a zero-harm environment and have robust policies in place covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. At the beginning of 2021, with high levels of Covid-19 in the community, the risk to our workforce was taken extremely seriously across our business with robust adherence to all Government safety guidance. Whilst able to continue to run our factories, our offices were again closed, with investments made in technology during 2020 enabling affected employees to transition seamlessly to a home working environment once again. As the prevalence of Covid-19 reduced through the spring our offices were reopened, allowing our employees to return to work in a safe and socially distanced manner. The vaccination roll- out has mitigated business interruption and accordingly we have reduced the threat from Covid-19 to business operations relative to December 2020. Non-Covid-19 safety risks, however, remain unchanged. Our safety focus in 2022 is effective employee engagement and communication focused on our "Road Map to Zero Harm". **Executive sponsor: Stephen Harrison**		
2. SUSTAINABILITY / CLIMATE CHANGE		Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor		
We recognise the importance of sustainability and climate change and both the positive	We recognise the positive impact that our products have on the built environment across their lifespan and are keen for the durability, longevity and lower lifecycle carbon footprint of our products to be championed and better understood.		

<table>
<tr><td>and negative impacts our products and processes have on the environment.</td><td colspan="3">Short-term transitional sustainability risks include increasing regulatory burden or cost, an inability to adapt our business model to keep pace with new regulation or customer preferences changing more quickly than anticipated or too quickly for our R&D to keep pace.

Several longer-term physical risks could have a material impact on the business. These risks include more severe weather impacts, such as flooding, and potentially changes to the design of buildings in order to adapt to different climatic conditions.

Our desire to reduce our impact upon the environment sits hand in hand with maximising the financial performance of our business; by investing in modernising our production facilities not only do we reduce energy consumption and our Co2 emissions, but we also benefit financially from reducing the amount of energy and carbon credits we need to purchase, both of which are becoming increasingly expensive.

Executive sponsor: Stephen Harrison and George Stewart</td></tr>
<tr><td colspan="2">3. ECONOMIC CONDITIONS</td><td>Gross change: Static</td><td>Net change: Static</td></tr>
<tr><td>Principal risk and why it is relevant</td><td colspan="3">Key mitigation, change and sponsor</td></tr>
<tr><td>Demand for our products is closely correlated with residential and commercial construction activity.

With the economy again now fully open, the risk associated with Covid-19 have receded, however we remain watchful of the potential for further economic instability and are mindful of the current cost inflation and supply shortages.</td><td colspan="3">Understanding business performance in real-time, through our customer order book, strong relationships across the building sector, and a range of internal and external lead indicators, help to inform management and ensure that the business has time to respond to changing market conditions.

Our ability to flex output and slow production if customer demand weakens was effective in 2020, although with the recovery across our key markets stronger than anticipated our factories have run at full output throughout 2021.

The new-build housing market is expected to recover to 2019 levels in the near future. There remains a shortage of housing in the UK, financing remains both affordable and available and continuing favorable population growth. However, should market demand fall, we would expect brick imports to reduce ahead of sales of domestically manufactured bricks as they have in prior cyclical downturns providing some degree of insulation to the effects of a market slowdown.

Forterra remains well positioned to take advantage of attractive market fundamentals. Whilst current trading is strong, the pandemic driven influence on the economy has receded, however the increased geopolitical uncertainties centered around the war in Ukraine and the potential wider economic fall-out this may create is creating renewed uncertainty.

Executive sponsor: Stephen Harrison</td></tr>
<tr><td colspan="2">4. GOVERNMENT ACTION AND POLICY</td><td>Gross change: Static</td><td>Net change: Static</td></tr>
<tr><td>Principal risk and why it is relevant</td><td colspan="3">Key mitigation, change and sponsor</td></tr>
<tr><td>The general level and type of residential and other</td><td colspan="3">We participate in trade associations, attend industry events and track policy changes which could potentially impact housebuilding and the construction</td></tr>
</table>

construction activity is partly dependent on the UK Government's housebuilding policy, investment in public housing and availability of finance. Changes in Government support towards housebuilding could lead to a reduction in demand for our products. Changes to Government policy or planning regulations could therefore adversely affect Group performance.	sector. Such policy changes can be very broad, covering macro-economic policy and including taxation, interest rates, mortgage availability and incentives aimed at stimulating the housing market. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision making. Through our participation in these trade and industry associations we ensure our views are communicated to Government and our Executive team often meet with both ministers and MPs. The Government have demonstrated that they remain committed to home ownership and housebuilding, evidenced by the recent launch of the Mortgage Guarantee Scheme. We consider the withdrawal of support unlikely should it risk a reduction in the supply of new high-quality homes where a significant shortfall still exists. Government policy around planning reform also has the potential to influence demand for our products and we remain watchful as to the significant opposition to some proposed planning reforms designed to increase the construction of new homes. **Executive sponsor: Stephen Harrison**

5. RESIDENTIAL SECTOR ACTIVITY LEVELS	Gross change: Decrease	Net change: Decrease

Principal risk and why it is relevant	Key mitigation, change and sponsor
Residential development (both new build and repair, maintenance and improvement) contributes the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector will affect profitability and in the longer term, strategic growth plans.	We closely follow the demand we are seeing from our key markets, along with market forecasts, end user sentiment, mortgage affordability and credit availability in order to identify and respond to opportunities and risk. Group strategy focuses upon our strength in this sector whilst also continuing to strengthen our commercial offer. The strength of the sector's recovery from the pandemic has been reassuring, allowing us to reduce this risk. Government action and policy as laid out above continues to be a key determinant of demand for housing. The investment in the refurbishment of the Wilnecote brick factory which will focus upon the commercial and specification market will provide a degree of diversification away from residential construction. **Executive sponsor: Stephen Harrison and Adam Smith**

6. ABILITY TO MEET CUSTOMER DEMAND	Gross change: Increase	Net change: Increase

Principal risk and why it is relevant	Key mitigation, change and sponsor
Having sufficient inventories of our products is critical to	Stock levels continue to be low across our business. 2020 saw a significant destocking as we emerged from the pandemic which due to continued strong

<table>
<tr><td>meeting our customer's needs. Many of our product ranges are manufactured at single facilities where there are low buffer stock levels and high-capacity utilisation. A breakdown can cause product shortages and have a detrimental impact on performance and reputation.

Maximising efficiency through utilising longer production runs necessitates higher levels of inventory to maintain customer service. If these inventories are not present, shorter and less efficient production runs will be required to maintain levels of service.</td><td colspan="3">demand across 2021 we have been unable to address this year, presenting a short-term risk in meeting our customers' expectations, especially if there was further growth in demand.

Strong customer relationships and some degree of product range substitution can mitigate this risk although the ongoing pressure upon our inventories has led us to increase this risk.

A shortage of available transport capacity could also impact our ability to deliver our products to customers, although we mitigate this risk by operating our own distribution fleet, however, the wider constraints in the haulage market appeared to have eased by the year-end.

We are also aware of shortages of materials throughout the construction supply chain, and we are watchful to the fact that if our customers cannot secure materials and products they require from other suppliers then this may delay build programmes and impact demand for our own products.

Executive sponsor: Adam Smith, Steve Jeynes and Darren Rix</td></tr>
<tr><td colspan="2">7. CUSTOMER RELATIONSHIPS AND REPUTATION</td><td>Gross change: Increase</td><td>Net change: Static</td></tr>
<tr><td>Principal risk and why it is relevant</td><td colspan="3">Key mitigation, change and sponsor</td></tr>
<tr><td>Significant revenues are generated from sales to a number of key customers.

Where a customer relationship deteriorates there is a risk to revenue and cash flow.</td><td colspan="3">One of our strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products, we seek to develop our long-standing relationships with our customers. Regular and frequent review meetings focus on our effectiveness in this area.

Our service proposition during the pandemic was well received by customers across all channels and served to strengthen these relationships, continuation of which, combined with strong communication with customers remains paramount to our success. We are aware that a number of the current risks we face could manifest themselves in damaged relationships with customers be it low inventories, shortages of raw materials impacting our production or the need to pass on significant cost increases to our customers in order to protect our own margins. To mitigate these risks we remain in constant communication with our customers ensuring they are well informed of the challenges faced by our business and the impacts it may have on our customer service and selling prices.

Executive sponsor: Adam Smith and Darren Rix</td></tr>
<tr><td colspan="2">8. AVAILABILITY OF RAW MATERIALS AND ENERGY</td><td>Gross change: Increase</td><td>Net change: Increase</td></tr>
<tr><td>Principal risk and why it is relevant</td><td colspan="3">Key mitigation, change and sponsor</td></tr>
<tr><td>Whilst availability of raw materials can vary at times,</td><td colspan="3">During 2021 we have seen shortages of raw materials above those seen for many years and this has the potential to impact production.</td></tr>
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recent shortages across both our industry and the wider economy have become more commonplace, threatening our ability to manufacture and ultimately to meet customer expectations. Our production processes depend on energy and fuel and should supplies of these be interrupted production would be impacted; at a time when our business is operating at full capacity there is no scope for recovering lost production. In the longer term these risks may be exacerbated with climate related matters impacting availability of materials, management of which has been a priority for a number of years. More recently shortages have arisen in line with the end of the Brexit transition period and the faster than expected recovery of demand following the pandemic.	Where materials are in short supply we seek to limit our risk by utilising more than one supplier and by developing new sources of supply. Where possible we stockpile additional materials as we did in some cases ahead of Brexit though many of our key materials are needed in such large quantities this isn't possible. We regularly review our production processes to reduce reliance on materials that are in short supply and in the longer term we may seek to adjust our production processes to utilise materials which have a lesser impact on the environment. Security of energy supplies has not been identified as a key risk previously although recently this has become an increasing concern, exacerbated by the conflict in Ukraine. Shortages of gas and electricity have driven prices higher leading to concerns that should these pressures persist, particularly in winter months, supplies to industrial users could be constrained to prioritise domestic users. In the longer term our focus on sustainability will see investment in factories to reduce energy consumption, and we have recently entered into a Power Purchase Agreement which will secure c.70% of our electricity needs for 15 years from 2025 through the construction of a dedicated solar farm, reducing our reliance on the grid as well as providing price certainty. Changes in industrial processes required to address the climate risks have impacted the availability the price of certain raw materials and we have taken action to mitigate these; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials. We continue to focus on ensuring supply risks are understood, forecast and where possible, mitigated. **Executive sponsor: Ben Guyatt, Steve Jeynes and Darren Rix**

9. COST INFLATION	Gross change: Increase	Net change: Increase

Principal risk and why it is relevant	Key mitigation, change and sponsor
We utilise a wide range of inputs in our business from raw materials to energy and labour. Increases to the cost of our inputs will have an adverse effect upon our margins if we are unable to pass these cost increases on to our customers.	We seek to manage our costs by putting in place annual pricing agreements with our suppliers, although in recent times we have seen a number of these being broken. We aim to maintain a range of suppliers such that we avoid becoming dependent on any single supplier although like our own markets, parts of our supply chain are highly consolidated and as such alternative suppliers may be scarce. We also seek to manage our energy cost exposure by forward purchasing an element of our energy requirement providing price certainty. However, as happened in 2020, if our requirement for energy is lower than expected we are exposed to commodity risk and having to sell pre-purchased surplus energy back to the market at a loss.

Sudden fluctuations in our cost base makes budgeting difficult and exposes us to risk as cost increases are unable to be passed on to customers without some time delay.	In recent months we have seen unprecedented increases in energy costs driven by global markets and whilst our forward purchasing has provided partial mitigation, the prices that we currently see for energy have shifted our appetite for risk in this area and it is likely we will seek greater forward coverage of our positions in future as the markets allow. **Executive sponsor: Ben Guyatt**

10. ATTRACTING, RETAINING AND DEVELOPING EMPLOYEES	Gross change: Increase	Net change: Increase

Principal risk and why it is relevant	Key mitigation, change and sponsor
We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. Throughout the Covid-19 pandemic we have prioritised the increased health and safety risk for the workforce along with overall employee welfare. Staffing risks relating to the end of the Brexit transition period remain a concern although a wider shortage of labour following the pandemic is of increasing concern.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. The Covid-19 pandemic has focused our attention on establishing safe working practices for return to work, employee support and strong communication/employee engagement. We continue to invest in HR and payroll systems, with significant resource now in place to see this investment through to delivery. Challenges associated with labour shortages are presently faced across the business, in particular around the availability of engineers and drivers. A wider shortage of labour in the construction industry may have the impact of curtailing demand for our products as customers' build programmes are slowed by labour shortages. **Executive sponsor: Shahbaz Idriss**

11. INNOVATION	Gross change: Static	Net change: Static

Principal risk and why it is relevant	Key mitigation, change and sponsor
Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This could in turn cause revenues and margins may suffer.	Strong relationships with customers ensure that we understand current and future demand. Close ties between the Strategy, Operations and Commercial functions ensure that the Group focuses on the right areas of research and development. New product development and related initiatives therefore continue and in announcing our strategy we are committing to further investment in research and development and there also are clear links between investment in R&D and the work undertaken in relation to sustainability. **Executive sponsor: Stephen Harrison**

12. IT INFRASTRUCTURE AND SYSTEMS	Gross change: Increase	Net change: Increase

Principal risk and why it is relevant	Key mitigation, change and sponsor

Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years, attaining ISO 27001 Information Security accreditation in 2019. Further investment in 2020 in new telephony and communication systems allowed us to successfully cater for strong customer demand whilst office staff continue to work remotely. An increase in cyber risk is evidenced by increasing instances of malicious attacks globally and has driven our continued investment and training around cyber security. We are not immune from this heightened global cyber risk and have experienced an event during the year that neither resulted in disruption to our business or significant cost. **Executive sponsor: Matthew Day**		
13. BUSINESS CONTINUITY		Gross change: Decrease	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor		
Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Having made plans to allow key centralised functions to continue to operate in the event of business interruption, we were able to establish remote working capability effectively as the Covid-19 pandemic developed. These capabilities have been retained through 2021 with the business able to continue operating with minimal disruption. With the pandemic seemingly receding and with the wider economy re-opening we see the risk of business disruption as a result of Covid-19 diminishing and have reduced this risk accordingly. Non Covid-19 related disruption risks remain unchained although some greater resilience is provided by the now tried and tested ability of office staff to work from home. Where a scenario without a pre-envisaged plan is faced, our business continuity policy allows managers to apply clear principles to develop plans quickly in response to emerging events. We consider climate related risks when developing business continuity plans and have learnt lessons from weather related events in recent years which inform these plans. Loss of one of our operating facilities through fire or other catastrophe would impact upon production and our ability to meet customer demand. Working with our insurers and risk advisors we undertake regular factory risk assessments addressing recommendations as appropriate. We accept it is not possible to mitigate all the risks we face in this area and as such we have a comprehensive package of insurance cover including both property damage and business interruption policies. **Executive sponsor: Stephen Harrison**		

14. PROJECT DELIVERY		Gross change: Increase	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor		
This risk was recognised for the first time in 2020 in recognition of the scale and complexity of the Desford construction project. We have now announced an extensive programme of capital investment within our business over the next decade which will see a number of large projects to add production capacity	The Desford brick factory represents the largest capital investment that we have made. Following the signing of contracts with a new equipment supplier in early 2021, the project has progressed to schedule. The ongoing pandemic has had little impact in this respect during 2021 however with manufacturing equipment being supplied by a European supplier, management have remained watchful of travel restrictions and any potential corresponding delays. Management closely monitor the project for potential challenges, cost over-runs and delaysand act promptly to ensure that risks are mitigated. Lessons have been learnt from the construction of the Measham brick factory which was completed in 2009 and with dedicatedproject management in place and groundworks largely complete, notable risks have already been mitigated With the announcement of the Wilnecote factory redevelopment project, management recognise the additional risks posed by running two concurrent major projects. To mitigate, separate project management structures are in place for respective projects and where common suppliers are involved procedures are in place to ensure they retain sufficient capacity to deliver on both projects without significant risk. We recognise that we will need in increase the resources in our business to support multiple major expansion projects and recruitment of this resource has commenced. **Executive sponsor: George Stewart**		