FORTERRA plc

28th July 2022

Continued strong performance; Full Year expectations slightly increased

Six months ended 30 June 2022

	Adjusted results*			Statutory		
					Restated	
	2022 £m	2021 £m	Change	**2022 £m**	2021 £m	Change
Revenue	**222.8**	180.3	23.6%	**222.8**	180.3	23.6%
EBITDA	**46.1**	37.0	24.6%	**53.0**	39.0	35.9%
EBITDA margin	**20.7%**	20.5%	20bps	**23.8%**	21.6%	220bps
Operating profit (EBIT)	**38.1**	29.0	31.4%	**45.0**	31.0	45.2%
Profit before tax	**37.3**	27.1	37.6%	**44.2**	29.1	51.9%
Earnings per share (pence)	**13.5**	9.3	45.2%	**16.0**	10.0	60.0%
Cash flow from operations	**37.5**	31.6	18.7%	**37.5**	31.6	18.7%
Net cash before leases	**24.1**	26.3	(8.4)%	**24.1**	26.3	(8.4)%
Total dividend (pence)	**4.6**	3.2	43.8%	**4.6**	3.2	43.8%

** Adjusted results for the Group have been presented before exceptional items (2022: increase of £2.3m, 2021: £nil) and with a weighted-average approach to carbon credit allocation (2022: reduction of £4.6m, 2021: reduction of £2.0m) relative to statutory profit as explained in Alternative Performance Measures. There is no impact on the full year results.*

OPERATIONAL AND TRADING HIGHLIGHTS

- Strong trading continued throughout the period with results ahead of both the prior year and 2019
- Both housebuilding and RMI demand remains strong with London Brick volumes performing well (sold almost exclusively into the home extension sector)
- With sales constrained by capacity and record low inventories, brick sales volumes were 3% ahead of prior year and in line with 2019
- Brick selling prices increased by c.30% relative to December 2021 prices with similar increases in other products driving meaningful margin improvement vs 2021 full year
- Improved Bespoke Products result driven by strategic focus on driving profitability in the rationalised flooring business
- Continued strong operating cash flow of £37.5m delivering a net cash balance before leases of £24.1m

STRATEGIC INVESTMENT AND CAPITAL ALLOCATION

- New Desford brick factory progressing to timetable and on budget with commissioning expected in late 2022
- Total capital expenditure of £21.3m in H1 of which £15.8m related to Desford
- Wilnecote factory closing for redevelopment at end of September, with commissioning planned for July 2023 and full reopening in October 2023
- Equipment supplier selected for the Accrington brick slips project with completion scheduled for Q4 2023
- Progress on sustainability goals includes announcement of £4.1m investment in on-site solar
- £40m share buy-back expected to be completed by the end of the year with £20.6m of shares repurchased as at the half year
- Interim dividend of 4.6p per share increased by 43.8% relative to prior year (2021: 3.2p) declared in line with 55% pay-out ratio

OUTLOOK

- Based on our performance to date and expectations looking forward, we now anticipate a full year 2022 result slightly ahead of the Board's previous expectations

Stephen Harrison Chief Executive Officer commented:

“Forterra delivered a strong performance in the first half of 2022, against the backdrop of robust market conditions. Sales volumes were slightly ahead, limited by capacity constraints rather than demand, with our factories generally operating at capacity and with inventory levels remaining at record low levels.

“We also benefited from our ability to pass on cost inflation to our customers with two price increases delivered in the period, facilitating an improvement in margins relative to 2021 as a whole.

“We continued to produce strong operating cash flows, enabling us to progress our strategic capital investment and innovation plans. Our strong financial position allows us to increase capacity, to better serve our customers; to focus on efficiency; and to reduce our carbon footprint, thus progressing our sustainability agenda.

“We anticipate current trading conditions will continue in H2, despite growing macro-economic uncertainty. The temporary closure of our Wilnecote brick factory, ongoing capacity constraints and the closure costs and inefficiencies relating to the old Desford brick factory will influence H2 performance. Despite this, the performance to date and our expectations looking forward, lead the Board to anticipate a full year 2022 result slightly ahead of the Board’s previous expectations.”

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

A presentation for analysts will be held today, 28 July 2022, at 9.30am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

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ABOUT FORTERRA PLC

Forterra is a leading UK manufacturer of essential clay and concrete building products, with a unique combination of strong market positions in clay bricks, concrete blocks and precast concrete flooring. Our heritage dates back 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.

SUMMARY

The Group delivered a strong performance in the first half of 2022 supported by a backdrop of robust market conditions. Brick sales volumes were slightly ahead of the prior year and in line with 2019, limited only by capacity constraints rather than demand, with our factories generally operating at capacity and with inventory levels remaining at record low levels.

Our results also benefited from our ability to pass on cost inflation to our customers with two price increases delivered in the period, facilitating an improvement in margins. We have seen cost inflation across virtually all spend categories with significant rises in the costs of most of our key inputs. Labour costs have also increased at rates well above historic levels. The market price of natural gas in the first half of 2022 was approximately three times the levels seen a year ago although forward purchases secured several years ago at more favourable prices significantly reduced the cost impact. We continue to actively manage the risk through forward purchases as appropriate.

OUR MARKETS

We have seen consistent strength in demand for our products throughout the period. Housebuilding demand has remained strong and demand for our products from the repair maintenance and improvement (RMI) sector, remains robust with sales of London Brick (sold almost exclusively into the home extension market) performing well. Our ability to service market demand continues to be restricted by our capacity constraints and historically low levels of inventory.

UK housebuilding continues to fall short of Government targets against a back-drop of population growth, with recently published census figures suggesting that the UK population grew by 6.3% between 2011 and 2021. There remains substantial unfulfilled demand for high quality housing. Interest rates, whilst increasing, remain at historically low levels, and financial institutions are well capitalised whilst mortgage lending continues to be accessible. There is also a shortage of property coming on to the market which is stimulating demand for new build property. In the current high energy cost environment, new build properties also offer the advantage of having lower running costs driven by their greater energy efficiency.

Despite recent and ongoing capacity investments, UK brick manufacturers presently lack the capacity required to meet demand, with current domestic production capacity of c.2.1bn clay bricks per annum still lower than the pre-financial crisis figure of 2.6bn. Brick imports have increased to record levels being c.25% of UK consumption in the five month period to May 2022 compared with c.19% in the whole of 2021 with bricks being imported from greater distances with increasing transport costs in order to satisfy demand. The UK's island geography, coupled with similar cost bases and inflationary pressures in continental Europe, also provides an economic barrier to entry with the increasing cost of transportation ensuring that imported products continue to stand at a significant cost disadvantage to those manufactured domestically. Our customers regularly inform us that they would prefer to buy UK manufactured bricks with assured provenance and quality from stock without reliance on long and fragile supply chains.

These market dynamics leave us ideally placed to substitute imports with bricks from the new Desford brick factory which, upon commissioning at the end of this year, will be the largest brick factory in Europe offering market leading efficiency.

RESULTS FOR THE PERIOD

Our revenues reflect the significant price increases achieved during the period with sales volumes slightly ahead of 2021 limited by constraints in both production capacity and inventories. Total revenue of £222.8m represents an increase of £42.5m (23.6%) on the prior year (£180.3m) and an increase of £29.2m (15.1%) on 2019 (£193.6m).

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for the first half of the year were £46.1m an increase of 24.6% relative to the same period in the prior year (2021: £37.0m) and also ahead of the 2019 comparative of £42.5m. Group adjusted EBITDA margin of 20.7% compares to 20.5% in 2021 and 22.0% in 2019 with demonstratable margin recovery against a full year 2021 margin of 19.0% and an H2 2021 margin of 17.6%.

The effective rate of corporation tax in the period was 19.7% (2021: 21.3%) which is in line with expectations. Adjusted profit before tax of £37.3m compares with a profit of £27.1m in 2021 and £32.7m in 2019. Statutory profit before tax of £44.2m compares with a profit of £29.1m in 2021 and £32.7m in 2019.

OUTLOOK

We expect favourable trading conditions to continue in the second half of the year underpinned by continuing robust demand from both the housebuilding and home extension channels. We remain watchful of growing headwinds in the form of macro-economic uncertainty and increasing interest rates, although these have not meaningfully impacted demand to date. We have seen some evidence of customer procurement behaviours across our sales channels returning to normal although with our capacity constraints and low inventories we do not expect this to adversely impact our despatches.

We continue to operate in a market with attractive undersupply characteristics, a shortage of available housing and a deficit of domestic production capacity for the products that we manufacture. The undersupply of domestically produced bricks and increasing reliance on imports should protect domestic production should any slowdown in demand occur as higher cost imports are expected to be displaced. Imports are currently at record levels with the costs of transportation increasing further, ideally positioning our new Desford factory to service this demand. 2023 is expected to see the first financial returns from the new Desford factory coming online adding an expected £10m of EBITDA, increasing to c.£25m in 2025.

Inflationary pressures are likely to continue in the second half of the year and we will continue to monitor our own pricing and will respond if necessary to protect our margins. Energy costs in particular remain extremely volatile although we benefit from having secured c.85% of our exposure in the second half. We have forward purchased c.40% of our energy requirement for 2023. With the current year benefiting from very competitive purchases made several years ago, we expect a potentially significant increase in our energy costs in 2023. We would expect to recover these higher costs through price increases.

Based on our performance to date and expectations looking forward, we now anticipate our full year 2022 result to be slightly ahead of the Board's previous expectations.

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

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

We believe this approach provides users of the interim accounts with a more representative presentation of underlying trading performance in the first half. At 30 June 2022, the impact of this is to decrease adjusted profit before tax by £4.6m (2021: £2.0m) relative to the statutory measure. This only affects the interim results and will have no impact on the full year results.

The statutory 2021 results have been adjusted to reflect our new accounting policy in this area, reducing reported profit by £2.0m. The full year 2021 result remains unchanged.

During the current year the Group also completed the sale of an area of disused land for gross proceeds of £2.5m. A profit on disposal of £2.3m has been recognised as an exceptional item in relation to this sale. No exceptional items were presented in the prior period.

BRICKS AND BLOCKS

	Adjusted results		**Statutory**	
				Restated
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Revenue	**181.0**	145.0	**181.0**	145.0
EBITDA before overhead allocations	**56.9**	48.0	**63.8**	50.0
Overhead allocations	**(12.6)**	(10.2)	**(12.6)**	(10.2)
EBITDA	**44.3**	37.8	**51.2**	39.8
EBITDA margin before overhead allocations	**31.4%**	33.1%	**35.2%**	34.5%
EBITDA margin after overhead allocations	**24.5%**	26.1%	**28.3%**	27.4%

The result of the Bricks and Blocks segment reflects a continuation of strong market demand supported by significant price increases against a backdrop of increasing costs. Revenues in the first half increased by 24.8% compared to the same period last year, with this increase primarily attributable to increased selling prices.

Brick sales volumes were 3% ahead of the corresponding period in 2021 and in line with the 2019 comparative. Sales volumes of both aircrete and aggregate blocks were in line with 2021 although aircrete block volumes fell below 2019 levels as a result of production issues.

Segmental adjusted EBITDA of £44.3m compares to £37.8m in 2021 and £41.6m in 2019 with the 2022 H1 EBITDA margin of 24.5%, as stated after overhead allocations significantly ahead of the H2 2021 equivalent of 21.4%, demonstrating clear progress toward our goal of returning margins to 2019 levels (2019: FY 28.8%).

This performance results from the successful delivery of two successive double digit selling price increases recovering cost inflation and benefiting margins following a period of margin erosion seen in the last quarter of 2021. Brick selling prices were initially increased by c.16% on 1 January followed by a further increase of c.12% effective from 1 April with similar increases applied across our other products. The current cost environment requires us to be agile in our pricing and for 2022 we amended our trading agreements to move away from an annual pricing model whilst also reducing our previous 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.

As was the case in 2021, our production capacity has been the primary constraint on sales during the first half of 2022 with market demand continuing to exceed our ability to supply. The old Desford factory, which we expect to decommission at the end of the year, is now only capable of operating at reduced levels of output. Addressing this would require significant investment which would not be viable given the factory's short remaining life. In addition, production challenges at our aircrete block factories have impacted output and have limited sales accordingly.

We continue to invest in our own in-house fleet of delivery vehicles which we believe provides us with a competitive advantage and have purchased additional equipment which will allow us to increase resilience by providing inbound haulage of raw materials.

BESPOKE PRODUCTS

	Adjusted results		Statutory	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Revenue	**44.3**	37.2	**44.3**	37.2
EBITDA before overhead allocations	**4.9**	1.8	**4.9**	1.8
Overhead allocations	**(3.1)**	(2.6)	**(3.1)**	(2.6)
EBITDA	**1.8**	(0.8)	**1.8**	(0.8)
EBITDA margin before overhead allocations	**11.1%**	4.8%	**11.1%**	4.8%
EBITDA margin after overhead allocations	**4.1%**	–	**4.1%**	–

Having rationalised our precast concrete assets through 2020 and 2021 our objective is now to progressively improve our margins within this segment delivering profit growth. Revenues in the period totalled £44.3m, an increase of £7.1m or 19.1% relative to 2021 but a decrease of £6.6m (13.0%) relative to 2019 as a result of the restructuring actions.

Our strategy of being more selective in the work we take on whilst maximising the utilisation of our assets is paying dividends with a significant improvement in segment performance. Our precast concrete flooring business has performed particularly well in the period with strong demand allowing us to efficiently utilise the manufacturing footprint at our Hoveringham facility. We have successfully passed on cost inflation to customers through regular price increases allowing margins to improve. Relative to 2019 we have increased the average selling price of our hollowcore flooring by c.40% allowing this product to become profitable again.

Segmental adjusted EBITDA, after allocated Group overheads, totalled £1.8m: (2021: loss of £0.8m). EBITDA margin prior to allocation of Group overheads was 11.1% compared to 4.8% in 2021. We have disclosed previously that the method of allocation of overheads places an additional burden on this segment than would be required if it was a stand-alone business. This contribution towards Group overheads and profit of £4.9m in the period represents an excellent result and an attractive level of return on capital employed given the modest asset base of this segment.

ENERGY PROCUREMENT

Our factories are significant consumers of energy with our combined annual spend on natural gas and electricity expected to exceed £50m in 2022. We take a risk-based approach to energy procurement and manage our exposure to market fluctuations through forward purchasing a portion of our requirements, often years in advance.

Following the Russian invasion of Ukraine, we have seen further volatility in already unstable energy markets with market prices rising to previously unseen levels. Forward purchasing has provided us with some protection from rising prices although our combined gas and electricity spend was £25.4m relative to a spend of £12.5m in the same period last year. We have forward purchased c.85% of our combined energy requirement for H2 and have currently purchased around c.40% of our requirement for 2023. This figure increases to c.75% of the first quarter requirement when prices are expected to be at their highest and most volatile.

A large proportion of the energy we will consume in 2022 was purchased several years ago before the significant increase in pricing we have seen over the last 9 months. Energy markets remain volatile with prices for the coming winter looking particularly expensive and as such we expect to see a potentially significant further increase in our energy costs in 2023.

In addition, our Board has recently approved capital projects with a combined investment of £4.1m to equip both our new Desford and Wilnecote factories with roof mounted solar arrays which will ultimately generate around 5% of our total electricity requirement and being on site, will benefit the business by allowing us to avoid the significant transmission costs associated with grid-supplied electricity.

We have also seen a significant increase in our carbon compliance costs, more than quadrupling since 2019 and we have secured a significant majority of our 2022 carbon requirement again, limiting exposure to further volatility.

EARNINGS PER SHARE AND DIVIDEND

Adjusted earnings per share (EPS) in the period stated of 13.5 pence represents an increase of 45.2% relative to the 2021 equivalent EPS of 9.3 pence. EPS is calculated based on the average number of shares in issue during the period, adjusted for the shares held by the Employee Benefit Trust. On 26 January the Board announced the commencement of a share buyback programme to repurchase ordinary shares of 1 pence each in the capital of the Company. To date, a total of 9.7 million shares have been repurchased and immediately cancelled, reducing the average number of shares in issue during the period and positively impacting the Group's reported EPS.

The Board maintains a dividend pay-out ratio of 55% of earnings. In line with this policy the Board has declared an interim dividend of 4.6 pence per share with the distribution approximating to 1/3 interim, 2/3 final. The interim dividend will be paid on 14 October to shareholders on the register at 23 September 2022.

CASH FLOW, BORROWINGS AND FACILITIES

Demonstrating the Group's continued ability to generate consistently strong cash flow, adjusted cash flow from operations was £37.5m in the first half (2021: £31.6m).

Closing net cash (excluding lease liabilities) was £24.1m (31 December 2021: £40.9m) with the decrease attributable to £21.3m of capital expenditure in the period; the return of £20.6m to shareholders by way of the share buyback; as well as the expected seasonal movements in working capital.

Finished goods inventories totalled £21.6m compared to £19.8m at the end of 2021 and £35.9m at the end of 2019 demonstrating the impact of the destocking through the pandemic and beyond. Production cost increases offset the impact of lower quantities of inventory on hand relative to 31 December 2021. Industry statistics continue to show that the UK brick industry continued to hold less than two months stock this year.

The largest component of capital expenditure continues to be the construction of the new Desford factory, which totalled £15.8m in the period, taking total project spend to £75.1m. We anticipate spending a further £14.0m in the second half with the final spend of £5.9m in 2023 and the project being delivered within its original £95m budget.

In addition, during the period £0.1m has been spent on the Wilnecote factory refurbishment project, bringing the total spend on this project to date to £1.8m. Following the previously announced delay in the commencement of the project, the timing of cash outflows are now expected to be £6.5m in 2022, £17.7m in 2023 with the balance of £1m in 2024.

The manufacturing equipment for both the Desford and Wilnecote projects are being supplied from Europe with a significant proportion of the project spend being denominated in Euro. In addition to the package of forward and option foreign exchange contracts entered into in respect of the Desford project, the Group has, in the current period, entered into forward foreign exchange contracts to hedge its exposure to currency fluctuations in respect of the Wilnecote project and has applied hedge accounting in both instances.

The Group's debt facility comprises a committed revolving credit facility (RCF) of £170.0m extending to July 2025. As at 30 June 2022, £10.0m was drawn upon this facility, leaving headroom of £160.0m. The Group also benefits from an uncommitted overdraft facility of £10.0m.

The credit 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. The Group has traded within these covenants throughout the period. The facility also includes a restriction prohibiting the declaration or payment of dividends should leverage exceed three times.

Finance expense for the period totalled £0.8m (2021: £1.9m). Interest charges on borrowings for 2022 are calculated by applying a margin of 1.75% above SONIA provided that leverage remains under 1 times EBITDA. A commitment fee of 35% of the applicable margin on unborrowed funds remains payable.

STRATEGY AND CAPITAL ALLOCATION PRIORITIES

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

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

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

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

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

The Group ends the period in a strong financial position. After accounting for significant capital spend along with the normal seasonal working capital movements as well as the ongoing share buyback programme the Group had a net cash position (before lease liabilities) of £24.1m at the period end. Management's current expectations are for net debt (before leases) to be in the region of £20-£30m at the end of 2022 leaving the Group with a strong balance sheet and financial flexibility looking forward.

STRATEGIC ORGANIC CAPITAL INVESTMENT

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

The construction of the new £95m Desford brick factory continues to progress according to plan and budget with commissioning expected towards the end of this year. This factory will be the largest and most efficient brick factory in Europe.

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

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

Once operating at full capacity which is expected to be reached during 2024, this factory will manufacture a range of bricks suitable for volume housebuilding providing an effective 22% increase in our brick production output which we expect to deliver incremental EBITDA of £25m. Incremental EBITDA is expected to be £10m in 2023 and £17m in 2024 with an annual depreciation charge of £4m.

Our second major project, the refurbishment of our Wilnecote brick factory, will provide range expansion as well improved efficiency and sustainability along with a modest increase in capacity. This £27m investment is 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 ongoing supply chain challenges which have restricted the supply of semi-conductors and microchips have led us to pro-actively delay the project by three months from its original timetable to mitigate the risk of the closure being any longer than the planned year (which includes recommissioning). Accordingly, as previously announced, the factory will now close in September 2022 with recommissioning beginning around nine months later, with the factory expected to be fully operational by September 2023. Ultimately, we expect the factory to contribute £7m of incremental annual EBITDA to Group results.

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

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

Beyond the three strategic projects detailed above, we continue to progress our further pipeline of future projects and in the period invested £1.8m to secure 4.5m tonnes of clay reserves at our Swillington site where we retain the optionality to construct a new brick factory in the future.

INCREASED FOCUS ON INNOVATION

Our strategy for growth requires an increased investment in innovation. Commencing in 2022 we have increased our future focused operating expenditure by £2-3m per annum growing our technical resources, allowing us to expand our focus on innovation centred upon 3 key areas: new product development (with specific emphasis on modern methods of construction) materials development and enhanced manufacturing process technologies. Each of these has areas has sustainability at its core and further information regarding some of these projects is included in the sustainability section of this announcement.

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.

As at the end of June a total of £20.6m had been returned to shareholders increasing to £24.1m as at the date of this announcement. As initially anticipated, we remain on course to complete the full buy back by the end of the year.
The Board expects to keep the possibility of further returns of capital to shareholders under active consideration with decisions on future returns of capital driven not only by future trading performance but also the timing of capex outflows and the availability or otherwise of bolt on acquisitions.

SUSTAINABILITY

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

As well as investing in newer, more efficient production capacity, which will deliver meaningful reductions in our carbon footprint, we are working on a host of other initiatives. We are currently participating in a project with a number of industry and academic contributors and funded by Innovate UK, to explore the opportunity to use calcined clay as a cement substitute. This is of particular interest to us as calcined clay is present in bricks and therefore offers an exciting use for our brick manufacturing waste, potentially allowing us to repurpose our manufacturing waste as a cement substitute in our concrete products, reducing our usage of cement and accordingly our scope 3 emissions. Similarly, we are working with our cement suppliers to make greater use of blended cements which include ground limestone as a partial substitute for clinker, again reducing the embodied carbon of the cement which represents by far the largest proportion of our scope 3 emissions.

Following on from our ground-breaking commitment to the Power Purchase Agreement that will provide c70% of electricity through a dedicated solar farm from 2025, and in line with our commitment to source 10% of electricity from on-site renewables by 2025, our Board have recently approved a combined investment of £4.1m in roof mounted solar installations at both our new Desford and Wilnecote brick factories. These installations will jointly provide 5% of our overall electricity requirement ensuring that both these factories are industry leading in their sustainability credentials. As well as the clear sustainability benefits provided by further decarbonising UK electricity supply, on site renewables offer further cost savings by avoiding the significant transmission costs which in the first half represent approximately 50% of the cost of electricity supplied through the grid, demonstrating how being more sustainable can improve earnings.

We believe we have a pathway to delivering our targeted 32% reduction in carbon emissions by 2030. We are actively pursuing technologies which will enable our ambition of reaching net zero by 2050. We are actively working on a number of initiatives which will allow us to pursue our vision of a zero-carbon future. We continue to prepare for our previously publicised hydrogen trial where we will gain an understanding of how firing bricks with hydrogen impacts both the product and our kilns, unfortunately the global supply chain challenges have delayed this important step as we seek to source the necessary equipment, although we expect these trials to commence in the second half of the year.

We are encouraged at the speed at which carbon capture and sequestration technologies are being developed. We are engaging with a number of parties and are pleased to have partnered with a supplier in jointly running a feasibility study for a scheme at our Kirton brick factory that, if successful, could capture around 70% of that factory's carbon emissions sequestering them in a mineral form that can be reused either as a raw material in our processes or alternative construction uses. In addition, we are also actively exploring technologies to use biomass as a fuel in our kilns either in pellet form or as a finely ground dust that could be injected into the kiln and burned like gas. Ultimately, firing a kiln using biomass and then capturing the carbon would create the potential for at least a part of our business to become carbon negative.

Our sustainability journey is not just focussed on carbon reduction. We have committed to reducing the amount of plastic packaging we consume by 50% by 2025 relative to a 2019 baseline. We need to work with our customers to ensure we meet their requirements, and our products can still be handled safely whilst remaining unaffected by the elements. This may necessitate some changes in both our own and our customers' working practices. From August 2022, rather than fully wrapping our bricks from our Accrington factory in plastic we will now only wrap them with a "belly band" around the middle of the pack to provide stability, reducing the use of plastic wrapping by 84%. When the new Desford brick factory opens at the end of this year, the default option is that bricks will be despatched without plastic wrapping.

OUR PEOPLE

Our people remain critical to our success, and it is fundamentally important that not only do we protect them and keep them safe but also that we actively invest in and support their training, development and wellbeing.
During the period we have delivered a programme of behavioural safety awareness training using an engaging external provider to over 1,500 colleagues emphasising the importance of our safety golden rules. These themes were reinforced at our annual health and safety event which was held at our Measham factory in June where over a hundred colleagues from all functions around the business attended an interactive day aimed at increasing not only safety but also health and well-being awareness.

In addition, we launched the Forterra Leadership Framework during the period, kickstarting with our Leadership Development Programme for all first line leaders. To date in excess of 60 leaders have joined the programme.
In these inflationary times we have provided all of our workforce with a competitive annual wage rise, ahead of many other industry participants, acknowledging our commitment to ensure we look after our employees and their families, allowing us to remain an employer of choice.

BOARD SUCCESSION

Following the announcement ahead of our AGM in May that Stephen Harrison had informed the Board of his intention to stand down as Chief Executive. Stephen will remain with the Company until the first half of 2023 allowing time both to commission the new Desford brick factory and support an orderly transition. The Board has since commenced a process to identify his successor and will provide a further update in due course.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the business have been appended to this interim statement and include a summary of risks emerging and an update to each of the risks recently presented in the 2021 Annual Report and Accounts.

GOING CONCERN

At the balance sheet date, the cash balance stood at £34.3m with £10.0m borrowed against £170.0m of available facilities leaving further available headroom of £160.0m. The Group meets its working capital requirements through these cash reserves and borrowings, and closely manages working capital to ensure sufficient daily liquidity, preparing financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. The Group has operated comfortably within all its banking covenants throughout the period, with funding secured through an RCF facility extending until 1 July 2025.

The Group continues to update internal forecasts, reflecting current economic conditions, incorporating management experience, future expectations and sensitivity analysis. As at 30 June 2022, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of the Desford, Wilnecote and Accrington capital projects, and will continue to have significant headroom in both its banking covenants and existing bank facilities. We have modelled a financial scenario to assess the fall in EBITDA required to breach the covenants on the credit facility in the next year and we believe that probability of such a situation is highly remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 December 2023. The Group therefore adopts the going concern basis in preparing the Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE INTERIM REPORT

We confirm to the best of our knowledge:

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

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

By order of the Board

Stephen Harrison
Chief Executive Officer

Ben Guyatt
Chief Financial Officer

27 July 2022

INDEPENDENT REVIEW REPORT TO FORTERRA PLC

CONCLUSION

We have been engaged by the Company to review the Condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises Condensed Consolidated statement of total Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Changes in Cash Flows and related notes 1 to 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BASIS FOR CONCLUSION

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

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

CONCLUSION RELATING TO GOING CONCERN

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

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

RESPONSIBILITIES OF THE DIRECTORS

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

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

AUDITOR’S RESPONSIBILITIES FOR THE REVIEW OF THE FINANCIAL INFORMATION

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

USE OF OUR REPORT

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

Ernst & Young LLP

Luton

27 July 2022

CONDENSED CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2022 (UNAUDITED)

	Note	Six months ended 30 June		Year ended 31 December
		2022 Unaudited £m	Restated 2021 Unaudited £m	2021 Audited £m
Revenue	6	222.8	180.3	370.4
Cost of sales		(136.3)	(111.2)	(240.7)
Gross profit		**86.5**	**69.1**	**129.7**
Distribution costs		(28.4)	(24.5)	(51.2)
Administrative expenses		(16.2)	(13.9)	(27.4)
Other operating income		3.1	0.3	9.0
Operating profit		**45.0**	**31.0**	**60.1**
EBITDA before exceptional items		**50.7**	**39.0**	**70.4**
Exceptional items	7	2.3	-	6.1
EBITDA		**53.0**	**39.0**	**76.5**
Depreciation and amortisation		(8.0)	(8.0)	(16.4)
Operating profit		**45.0**	**31.0**	**60.1**
Finance expense	8	(0.8)	(1.9)	(3.3)
Profit before tax		**44.2**	**29.1**	**56.8**
Income tax expense	9	(8.7)	(6.2)	(11.3)
Profit for the financial period attributable to equity shareholders		**35.5**	**22.9**	**45.5**
Other comprehensive loss				
Effective portion of changes in cash flow hedges		**-**	**(0.2)**	**(0.2)**
Total comprehensive income for the period attributable to equity shareholders		**35.5**	**22.7**	**45.3**
Earnings per share			**Restated**	
Basic (in pence per share)	10	16.0	10.0	19.9
Diluted (in pence per share)	10	15.8	10.0	19.7

The notes on pages 20 to 30 are an integral part of these Condensed Consolidated Financial Statements.

All results relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022 (UNAUDITED)

	Note	As at 30 June 2022 Unaudited £m	As at 30 June Restated 2021 Unaudited £m	As at 31 December 2021 Audited £m
Assets				
Non-current assets				
Intangible assets		15.8	11.3	17.7
Property, plant and equipment		218.9	193.9	201.4
Right-of-use assets		16.1	14.9	16.5
		250.8	**220.1**	**235.6**
Current assets				
Inventories		36.3	35.0	32.8
Trade and other receivables		61.5	55.0	39.1
Income tax asset		-	0.8	1.0
Cash and cash equivalents		34.3	31.8	41.5
		132.1	**122.6**	**114.4**
Total assets		**382.9**	**342.7**	**350.0**
Current liabilities				
Trade and other payables		(104.0)	(83.6)	(75.6)
Income tax liabilities		(0.8)	-	-
Loans and borrowings	12	(0.2)	(0.5)	(0.6)
Lease liabilities		(4.3)	(4.2)	(4.5)
Provisions for other liabilities and charges		(7.8)	(5.6)	(9.9)
Derivative financial liability		(0.2)	(0.2)	(0.2)
		(117.3)	**(94.1)**	**(90.8)**
Non-current liabilities				
Loans and borrowings	12	(10.0)	(5.0)	-
Lease liabilities		(11.7)	(10.8)	(12.0)
Provisions for other liabilities and charges		(8.9)	(9.2)	(9.7)
Deferred tax liabilities		(3.8)	(2.1)	(2.7)
		(34.4)	**(27.1)**	**(24.4)**
Total liabilities		**(151.7)**	**(121.2)**	**(115.2)**
Net assets		**231.2**	**221.5**	**234.8**
Capital and reserves attributable to equity shareholders				
Ordinary shares		2.2	2.3	2.3
Capital redemption reserve		0.1	-	-
Retained earnings		239.1	181.1	213.4
Cash flow hedge reserve		(0.2)	(0.2)	(0.2)
Other reserve		-	39.7	23.9
Reserve for own shares		(10.0)	(1.4)	(4.6)
Total equity		**231.2**	**221.5**	**234.8**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2022 (UNAUDITED)

	Ordinary Shares £m	Capital redemption reserve £m	Reserve for own share £m	Cash flow hedge reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Current half year:							
Balance at 1 January 2022	**2.3**	**-**	**(4.6)**	**(0.2)**	**23.9**	**213.4**	**234.8**
Profit for the financial period	-	-	-	-	-	35.5	35.5
Total comprehensive income for the period	-	-	-	-	-	35.5	35.5
Dividend payable	-	-	-	-	-	(14.5)	(14.5)
Movement in other reserves	-	-	-	-	(23.9)	23.9	-
Purchase of shares by Employee Benefit Trust	-	-	(6.3)	-	-	-	(6.3)
Proceeds from sale of shares by Employee Benefit Trust	-	-	0.4	-	-	-	0.4
Share buyback	(0.1)	0.1	-	-	-	(20.8)	(20.8)
Share-based payments charge	-	-	-	-	-	2.0	2.0
Share-based payments exercised	-	-	0.5	-	-	(0.5)	-
Tax on share-based payments	-	-	-	-	-	0.1	0.1
Balance at 30 June 2022	**2.2**	**0.1**	**(10.0)**	**(0.2)**	**-**	**239.1**	**231.2**
Prior half year:							
Balance at 1 January 2021	**2.3**	**-**	**(2.0)**	**-**	**41.5**	**162.3**	**204.1**
Profit for the financial period	-	-	-	-	-	21.3	21.3
Profit adjustment	-	-	-	-	-	1.6	1.6
Other comprehensive loss	-	-	-	(0.2)	-	-	(0.2)
Restated total comprehensive (loss) / income for the period	-	-	-	(0.2)	-	22.9	22.7
Dividend payable	-	-	-	-	-	(6.4)	(6.4)
Movement in other reserves	-	-	-	-	(1.8)	1.8	-
Purchase of shares by Employee Benefit Trust	-	-	(1.4)	-	-	-	(1.4)
Proceeds from sale of shares by Employee Benefit Trust	-	-	0.9	-	-	-	0.9
Share-based payments charge	-	-	-	-	-	1.2	1.2
Share-based payments exercised	-	-	1.1	-	-	(1.1)	-
Tax on share-based payments	-	-	-	-	-	0.4	0.4
Balance at 30 June 2021	**2.3**	**-**	**(1.4)**	**(0.2)**	**39.7**	**181.1**	**221.5**

The amount of £20.8m shown in relation to the share buyback for the period ended 30 June 2022 is inclusive of transaction costs of £0.2m.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2022 (UNAUDITED)

	Ordinary shares	Capital redemption reserve	Reserve for own shares	Cash flow hedge reserve	Other reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Prior year:							
Balance at 1 January 2021	**2.3**	**-**	**(2.0)**	**-**	**41.5**	**162.3**	**204.1**
Profit for the financial year	-	-	-	-	-	45.5	45.5
Other comprehensive loss	-	-	-	(0.2)	-	-	(0.2)
Total comprehensive (loss) / income for the year	-	-	-	(0.2)	-	45.5	45.3
Dividend paid	-	-	-	-	-	(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 Benefit Trust	-	-	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**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2022 (UNAUDITED)

	Six months ended 30 June		Year ended 31 December
		Restated	
	2022	2021	2021
	Unaudited	Unaudited	Audited
	£m	£m	£m
Cash flows from operating activities			
Profit before tax	**44.2**	**29.1**	**56.8**
Finance expense	0.8	1.9	3.3
Exceptional items	(2.3)	-	(6.1)
Operating profit before exceptional items	**42.7**	**31.0**	**54.0**
Adjustments for:			
Depreciation and amortisation	8.0	8.0	16.4
Movement on provisions	(3.8)	0.6	6.4
Movement on carbon credits held for settlement	2.4	-	(6.4)
Share-based payments	2.0	1.2	2.5
(Profit) / loss on disposal of property, plant and equipment	(0.5)	0.4	(1.5)
Other non-cash items	0.4	-	-
Changes in working capital:			
Inventories	(3.5)	(2.0)	0.2
Trade and other receivables	(22.4)	(19.3)	(3.4)
Trade and other payables	12.2	11.7	13.0
Cash generated from operations before exceptional items	**37.5**	**31.6**	**81.2**
Cash flows relating to operating exceptional items	-	-	(0.6)
Cash generated from operations	**37.5**	**31.6**	**80.6**
Interest paid	(1.2)	(1.5)	(2.8)
Tax paid	(5.7)	(4.8)	(9.6)
Net cash inflow from operating activities	**30.6**	**25.3**	**68.2**
Cash flows from investing activities			
Purchase of property, plant and equipment	(20.1)	(10.9)	(33.0)
Purchase of intangible assets	(1.2)	(0.7)	(1.6)
Proceeds from sale of property, plant and equipment	0.3	-	0.2
Exceptional proceeds from sale of property, plant and equipment	2.5	-	14.7
Exceptional costs incurred in sale of property, plant and equipment	-	-	(0.3)
Net cash used in investing activities	**(18.5)**	**(11.6)**	**(20.0)**
Cash flows from financing activities			
Reduction in lease liabilities	(2.6)	(2.5)	(5.3)
Dividends paid	-	-	(13.7)
Drawdown of borrowings	10.0	5.0	5.0
Repayment of borrowings	-	(15.0)	(20.0)
Financing fees	-	(0.4)	(0.4)
Share buyback	(20.6)	-	-
Transaction costs on share buyback	(0.2)	-	-
Purchase of shares by Employee Benefit Trust	(6.3)	(1.4)	(5.0)
Proceeds from sale of shares by Employee Benefit Trust	0.4	0.9	1.2
Net cash used in financing activities	**(19.3)**	**(13.4)**	**(38.2)**
Net (decrease) / increase in cash and cash equivalents	**(7.2)**	**0.3**	**10.0**
Cash and cash equivalents at beginning of the period	41.5	**31.5**	31.5
Cash and cash equivalents at the end of the period	**34.3**	**31.8**	**41.5**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2022 (UNAUDITED)

1. GENERAL INFORMATION

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

The Condensed Consolidated Financial Statements were approved by the Board on 27 July 2022.

The Condensed Consolidated Financial Statements for the six months ended 30 June 2022 and comparative period have not been audited. The auditor has carried out a review of the financial information and their report is set out on pages 13 and 14.

These Condensed Consolidated Financial Statements are unaudited and do not constitute statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006. The auditors have carried out a review of the financial information in accordance with the guidance contained in ISRE 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Financial Statements for the year ended 31 December 2021 were approved by the Board of Directors on 10 March 2022 and delivered to the Registrar of Companies. The Auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 of the Companies Act 2006.

BASIS OF PREPARATION

The Condensed Consolidated Financial Statements for the half year ended 30 June 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority (DTR), and the requirements of UK-adopted IAS 34 Interim Financial Reporting.

The Condensed Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's Financial Statements for the year ended 31 December 2021 and any public announcements made by the Company during the interim period.
The Condensed Consolidated Financial Statements are prepared on the historical cost basis.

GOING CONCERN BASIS

At the balance sheet date, the cash balance stood at £34.3m with £10.0m borrowed against £170.0m of available facilities leaving further available headroom of £160.0m. The Group meets its working capital requirements through these cash reserves and borrowings, and closely manages working capital to ensure sufficient daily liquidity, preparing financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. The Group has operated comfortably within all its banking covenants throughout the period, with funding secured through an RCF funding until 1 July 2025.

The Group continues to update internal forecasts regularly, reflecting current economic conditions, incorporating management experience, future expectations and scenarios. As at 30 June 2022, management are confident that the Group will remain resilient under all reasonably likely scenarios, whilst supporting the funding of both the Desford, Wilnecote and Accrington capital projects, and will continue to have significant headroom in both its banking covenants and existing bank facilities. We have modelled a financial scenario to assess the fall in EBITDA required to breach the covenants on the financing facility and we believe that probability of such a situation whereby the Group breaches its covenants is highly remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group following the refinancing and equity placing, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 31 December 2023. The Group therefore adopts the going concern basis in preparing the Condensed Consolidated Financial Statements.

2. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's Consolidated Financial Statements for the year ended 31 December 2021. The accounting standards that became applicable in the period did not impact on the Group's accounting policies and did not require retrospective adjustments. None of the standards which have been issued by the IASB but not yet effective are expected to have a material impact on the Group.

Prior period restatement: Accounting for carbon credits

The Condensed Consolidated Financial Statements include a restatement as at 30 June 2021 due to the change in accounting policy surrounding treatment of the Group's free allocation of carbon credits.

There is an apparent mixed practice concerning the treatment of free carbon credit allocation under the UK ETS scheme. However, following audit guidance, the Group have adopted a policy to recognise a provision based on the actual shortfall of carbon credits in the period. The results for the prior interim period have therefore been restated to remove the accrued carbon cost previously recognised on a weighted average basis from cost of sales within the statement of total comprehensive income. There is no impact to the full year numbers.

The effect of this restatement is to decrease cost of sales for the period to 30 June 2021 by £2.0m, with a corresponding decrease in short-term liabilities. The associated tax impact of this restatement is £0.4m and EPS impact of 0.7 pence. Overall, this has the effect of increasing profit for the period and retained earnings by £1.6m.

In the condensed consolidated statement of cash flows for the six months ended 30 June 2021, the restatement has the effect of increasing profit before tax by £2.0m and decreasing the movement on provisions by the same amount.

The full detail around this adjustment is outlined in Note 4.

3. JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements of Forterra plc for the year ended 31 December 2021.

4. ALTERNATIVE PERFORMANCE MEASURES

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

Adjusted results

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

Accounting for carbon credits

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

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

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

The results which are presented as statutory consider carbon credits as being utilised on a first in, first out basis. Under this method, the Group's free allocation of carbon credits is utilised before recognising any liability to purchase further credits, which has the effect of weighting the cost of compliance into the second half of the year rather than spreading the cost more evenly across the full year. At 30 June 2022 the impact of this alternative performance measure is to reduce statutory profit before tax by £4.6m (2021: £2.0m). This only affects the interim results and will have no impact on the full year results.

Exceptional items

As detailed within Note 7, the Group has received exceptional net income of £2.3m (2021: £nil) through the sale of a disused site.

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

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

Six months ended 30 June 2021	Adjusted results	Exceptional items	Carbon accounting	Statutory results
	£m	£m	£m	£m
Revenue	180.3	-	-	180.3
EBITDA	37.0	-	2.0	39.0
EBITDA margin	20.5%			21.6%
Operating profit	29.0	-	2.0	31.0
Profit before tax	27.1	-	2.0	29.1

BRICKS & BLOCKS

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

BRICKS & BLOCKS

Six months ended 30 June 2021	Adjusted results	Exceptional items	Carbon accounting	Statutory results
	£m	£m	£m	£m
Revenue	145.0	-	-	145.0
EBITDA	37.8	-	2.0	39.8
EBITDA margin	26.1%			27.4%

BESPOKE PRODUCTS

The Bespoke Products segment did not contain exceptional items in either the period ended 30 June 2022 or 30 June 2021 and is not captured under UK ETS and is therefore not affected by accounting treatment for carbon credits. As such, there is no difference between the Statutory and Adjusted results for this segment.

5. SEASONALITY OF OPERATIONS

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

6. SEGMENTAL REPORTING

Management has determined the operating segments based on the management reports reviewed by the Executive Committee (comprising the executive team responsible for the day-to-day running of the business) that are used to assess both performance and strategic decisions. Management has identified that the Executive Committee is the chief operating decision maker in accordance with the requirements of IFRS 8 ‘Operating segments’.
The Executive Committee considers the business to be split into three operating segments: Bricks, Blocks and Bespoke Products.

The principal activity of the operating segments are:

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

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

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

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

The revenue recognised in the condensed consolidated income statement is all attributable to the principal activity of the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complimentary building products. Substantially all revenue recognised in the Condensed Consolidated Financial Statements arose from contracts with external customers within the UK.

Segment revenue and results:

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

Segment assets:

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

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

Other segment information:

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

Segment revenue and results:

	Six months ended 30 June 2021		
	Restated		
	Bricks & Blocks	Bespoke products	Total
	£m	£m	£m
Segment revenue	145.0	37.2	182.2
Intercompany eliminations			(1.9)
Revenue			**180.3**
EBITDA	**39.8**	**(0.8)**	**39.0**
Depreciation and amortisation	(7.2)	(0.8)	(8.0)
Operating profit	**32.6**	**(1.6)**	**31.0**
Net finance expense			(1.9)
Profit before tax			**29.1**

Segment assets:

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

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:

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

Segmental revenue and results:

	Year ended 31 December 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£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	**55.8**	**(1.8)**	**54.0**
Exceptional items	-	6.1	6.1
Operating profit	**55.8**	**4.3**	**60.1**
Net finance expense			(3.3)
Profit before tax			**56.8**

Segment assets:

	As at 31 December 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£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 and cash and cash equivalents are centrally controlled and unallocated.

Other segment information:

	As at 31 December 2021		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	31.2	0.7	31.9
Intangible asset additions	7.6	0.4	8.0
Right-of-use asset additions	12.1	0.3	12.4

7. EXCEPTIONAL ITEMS

	Six months ended 30 June		Year ended 31 December
	2022	2021	2021
	£m	£m	£m
Exceptional operating income:			
Closure and sale of land and buildings	2.3	-	6.1

Exceptional items 2022

On 7 March 2022 the Group completed the sale of an area of disused land for total proceeds of £2.5m. Taking into account asset net book values and associated costs of sale, profit on disposal totalled £2.3m.

Exceptional items 2021

In 2021 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 was 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 was disclosed as an exceptional item in 2021. The total recognised gain of £6.1m was 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.

8. FINANCE EXPENSE

	Six months ended 30 June		Year ended 31 December
	2022	2021	2021
	£m	£m	£m
Interest payable on external borrowings	(0.6)	(1.3)	(2.6)
Interest payable on lease liabilities	(0.2)	(0.2)	(0.3)
Other finance expense	-	(0.4)	(0.4)
	(0.8)	(1.9)	(3.3)

9. TAXATION

The Group recorded a tax charge of £8.7m (2021: charge of £6.2m) on pre-tax profit of £44.2m (2021: profit of £29.1m) for the 6 months to 30 June. This results in an effective tax rate (ETR) of 19.7% (2021: 21.3%) including the impact of the change in rate of corporation tax from 19% to 25% in April 2023, and therefore the increase in the deferred tax rate.

	Six months ended 30 June		Year ended 31 December
		Restated	
	2022	2021	2021
	£m	£m	£m
Profit before taxation	**44.2**	**29.1**	**56.8**
Expected tax charge	8.4	5.5	10.8
Expenses not deductible for tax purposes	0.1	0.2	(0.3)
Impact of change in deferred tax rate	0.2	0.5	0.8
Income tax expense	**8.7**	**6.2**	**11.3**

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

In the March 2021 Budget, the Chancellor of the Exchequer confirmed an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023. The Finance Bill 2021 was substantively enacted on 24 May 2021.

10. EARNINGS PER SHARE

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

	Six months ended 30 June		Year ended 31 December
	2022	Restated 2021	2021
	£m	£m	£m
Operating profit for the period	45.0	31.0	60.1
Net finance expense	(0.8)	(1.9)	(3.3)
Profit before taxation	44.2	29.1	56.8
Income tax expense	(8.7)	(6.2)	(11.3)
Profit for the period	**35.5**	**22.9**	**45.5**
Weighted average number of ordinary shares in issue (millions)	222.1	228.6	228.1
Effect of share incentive awards and options (millions)	2.5	1.3	2.3
Diluted weighted average number of ordinary shares (millions)	224.6	229.9	230.4

Earnings per share			
Basic (in pence)	16.0	10.0	19.9
Diluted (in pence)	15.8	10.0	19.7
Adjusted basic earnings per share (in pence)	13.5	9.3	17.5

Adjusted earnings per share (EPS) is presented as an additional performance measure and is calculated by excluding exceptional income of £2.3m (HY 2021: £nil, FY 2021: £6.1m) (Note 7), the effect of accounting for carbon credit liabilities on a weighted average basis of £4.6m (HY 2021: £2.0m, FY 2021: £nil) (Note 4) and the associated tax effect of £1.4m (HY 2021: £0.4m, FY 2021: £0.5m).

11. DIVIDENDS

A dividend of 6.7 pence per share that relates to the period ending 31 December 2021 was paid on 8 July 2022, making a total distribution of 9.9 pence per share for 2021.

An interim dividend of 4.6 pence per share (2021: 3.2 pence per share) has been declared by the Board and will be paid on 14 October 2022 to shareholders on the register at 23 September 2022. This interim dividend has not been recognised as a liability at 30 June 2022. It will be recognised in shareholders equity in the Consolidated Financial Statements for the year ended 31 December 2022.

12. LOANS AND BORROWINGS

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Non-current loans and borrowings:			
External bank loans - principal	10.0	5.0	-
Current loans and borrowings:			
External bank loans - interest	0.2	0.5	0.6
	10.2	**5.5**	**0.6**

The Group has access to a Revolving Credit Facility of £170m, secured until 1 July 2025. Interest is calculated on a margin grid and is based on SONIA plus a small credit adjustment spread.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

13. NET CASH

	As at 30 June 2022 £m	As at 30 June 2021 £m	As at 31 December 2021 £m
Cash and cash equivalents	34.3	31.8	41.5
Loans and borrowings	(10.2)	(5.5)	(0.6)
Lease liabilities	(16.0)	(15.0)	(16.5)
Net cash	**8.1**	**11.3**	**24.4**

Reconciliation of net cash flow to net debt

	Six months ended 30 June 2022 £m	Six months ended 30 June 2021 £m	Year ended 31 December 2021 £m
Operating cash flow before exceptional items	**37.5**	**31.6**	**81.2**
Payments made in respect of exceptional items	-	-	(0.6)
Operating cash flow	**37.5**	**31.6**	**80.6**
Interest paid	(1.2)	(1.5)	(2.8)
Tax paid	(5.7)	(4.8)	(9.6)
Net cash flow from investing activities	(18.5)	(11.6)	(20.0)
Dividends paid	-	-	(13.7)
Purchase of shares by Employee Benefit Trust	(6.3)	(1.4)	(5.0)
Proceeds from sale of shares by Employee Benefit Trust	0.4	0.9	1.2
New lease liabilities	(2.1)	(8.1)	(12.4)
Total costs incurred on share buyback	(20.8)	-	-
Other movements	0.4	(0.4)	(0.5)
(Decrease) / increase in net cash	(16.3)	4.7	17.8
Net cash at the start of the period	24.4	6.6	6.6
Net cash at the end of the period	**8.1**	**11.3**	**24.4**

Capital expenditure commitments for which no provision has been made were £77.1m as at 30 June 2022.

14. SHARE-BASED PAYMENTS

On 17 March 2022, 1,026,194 share awards were granted under the Performance Share Plan (PSP) to the Executive Directors, other members of the Executive Committee and designated senior management which vest three years after the date of grant at an exercise price of 1 pence per share. The total number of shares vesting is dependent upon both service conditions being met and the performance of the Group over the three-year period. Performance is subject to both TSR and EPS conditions, each weighted 50%.

In addition, on 17 March 2022 a grant of 144,402 was granted to the Executive Directors under the Group Deferred Annual Bonus Plan. These awards represent the deferral into ordinary shares of part of the Executive Directors' 2021 bonus entitlements under the rules of the Scheme and will vest after three years subject to service conditions.

15. RELATED PARTY TRANSACTIONS

The Group has had no transactions with related parties in the periods ending 30 June 2022, 31 December 2021 and 30 June 2021.

16. POST BALANCE SHEET EVENTS

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

PRINCIPAL RISKS AND UNCERTAINITIES

Overview

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

As the direct impact of the Covid-19 pandemic has a lessening effect on our business we are now faced with a host of further, macro-economic, risks of which inflation is currently the most visible having been formed by a combination of the pandemic, Brexit and now the ongoing war in Ukraine.

We continue to monitor these risks along with the other rapidly evolving business risks attributable to these areas; implementing mitigating controls and actions as appropriate.

- Cost inflation: Cost inflation has been a key challenge throughout the last 12-18 months, impacting our business across a wide range of spend categories. We have increased selling prices to recover this and whilst we continue to remain confident of recovering costs in the medium term, we remain watchful of further cost increases. Energy costs in particular remain extremely volatile and although we benefit from having secured c.85% of our exposure in the second half we continue to monitor the longer-term risk with our energy costs expected to rise further in 2023.
- Supply chain risk: The energy market has become increasingly volatile since the invasion of Ukraine in February 2022. Shortages of gas and electricity have driven global prices higher leading to concerns that should these pressures persist, particularly in winter months, supplies could be constrained. Whilst disruption to supply in the UK is still considered unlikely, we continue to liaise with Government bodies through our trade associations and to ensure the least disruption be caused should supplies be constrained.
- New build residential sector activity levels: Despite growing headwinds in the form of macro-economic uncertainty and increasing interest rates impacting the affordability of homes we have yet to see any meaningful adverse impact on demand. We continue to operate in a market characterised by a structural undersupply of housing with historically low inventory levels and record brick imports entering the country. We therefore remain confident that current demand levels will continue into H2 but continue to monitor the macro environment. key risks are addressed within the table on pages 33 to 41. In addition, we continue to place emphasis on the identification and review of emerging risks to ensure these are properly, 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 the extensive disclosure in our most recent annual report. These reflect both the impact of our operations on the environment but also the challenging targets we have set to reduce this, targeting Net Zero by 2050 in line with the Race to Zero.

The Board is committed to compliance with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD) and comprehensive disclosure on both short and long-term climate risks are included in our Sustainability Report. The Board’s Risk and Sustainability Committee continue to provide oversight and governance over the most significant risks the business faces in the short, medium and long-term.

Key risks

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

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

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

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

Risk appetite

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

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

RISK MANAGEMENT AND KEY RISKS

1. HEALTH AND SAFETY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts, noise, dusts and chemicals.	Safety remains our number one priority. We target an accident-free environment and have robust policies in place covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. With the prevalence and severity of Covid-19 receding in 2021 we reduced our assessment of the threat to business operations in this respect. The position has not changed in this period. Our safety focus in 2022 is effective employee engagement and communication focused on our "Road Map to Zero Harm". In the period we have delivered a programme of behavioural safety awareness training emphasising the importance of our safety golden rules. **Executive sponsor: Stephen Harrison**	**Gross change** No change **Net change** No change	Safety first is embedded in all decision making and is never compromised. Reducing accidents and ill-health is critical to strategic success.

2. SUSTAINABILITY / CLIMATE CHANGE

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.	We recognise the positive impact that our products have on the built environment across their lifespan and are keen for the durability, longevity and lower lifecycle carbon footprint of our products to be championed and better understood. Short-term transitional sustainability risks include increasing regulatory burden or cost, an inability to adapt our business model to keep pace with new regulation or customer preferences changing more quickly than anticipated or too quickly for our R&D to keep pace. Several longer-term physical risks could have a material impact on the business. These risks include more severe weather impacts, such as flooding, and potentially changes to the design of buildings in order to adapt to different climatic conditions. A comprehensive sustainability report is included within our last Annual Report and is also available as a separate document, providing detailed disclosure of the sustainability related risks faced by our business. Our desire to reduce our impact upon the environment sits hand in hand with maximising the financial performance of our business; by investing in modernising our production facilities not only do we reduce energy consumption and our CO_2 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**	**Gross change** No change **Net change** No change	Focus from all stakeholders has been maintained in 2022 and sustainability remains a high priority for management in the short, medium and long-term.

3. ECONOMIC CONDITIONS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Demand for our products is closely correlated with residential and commercial construction activity. Whilst the direct risk associated with Covid-19 appears to have receded, we remain watchful of the indirect effects as well as potential changes in the wider macro-economic environment.	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 and in to 2022. Despite growing headwinds in the form of macro-economic uncertainty and increasing interest rates we have yet to see any adverse impact on demand. There remains a shortage of housing in the UK, driven by continuing population growth. Financing remains both affordable. 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 from the effects of a market slowdown. Forterra remains well positioned to take advantage of attractive market fundamentals. **Executive sponsor: Stephen Harrison**	**Gross change** No change **Net change** No change	Whilst demand for our products remains strong, Management must ensure that they continue to consider the risk of economic conditions being unfavourable in planning business activities.

4. GOVERNMENT ACTION AND POLICY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding policy, investment in public housing and availability of finance. Changes in Government support towards housebuilding could lead to a reduction in demand for our products. Changes to Government policy or planning regulations could therefore adversely affect Group performance.	We participate in trade associations, attend industry events and track policy changes which could potentially impact housebuilding and the construction sector. Such policy changes can be very broad, covering macro-economic policy and including taxation, interest rates, mortgage availability and incentives aimed at stimulating the housing market. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision making. Through our participation in these trade and industry associations we ensure our views are communicated to Government and our management often meet with both ministers and MP's. Government have demonstrated that they remain committed to home ownership and housebuilding and this cross-party political agenda has been evidenced by the recent launch of the Mortgage Guarantee Scheme. Whilst we note that the Help to Buy scheme is due to end in 2023, we consider the withdrawal of broader 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 any potential changes in this area and their impact on the construction of new homes. **Executive sponsor: Stephen Harrison**	**Gross change** No change **Net change** No change	We continue to invest significantly in growth – in terms of both capacity and range. This investment is made despite the uncertainty presented by changes made to Government incentives such as Help-to-Buy as the timescales associated with adding additional capacity are significant and long-term planning is vital to achieving our strategic objectives.

5. RESIDENTIAL SECTOR ACTIVITY LEVELS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Residential development (both new build and repair, maintenance and improvement) contributes the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector will affect profitability and in the longer term, strategic growth plans.	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, however with inflationary pressures continuing alongside rising interests rates, we remain watchful of any future changes in this respect. 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**	**Gross change** No change **Net change** No change	Serving the residential construction market lies at the core of our strategy. Whilst we will seek opportunities broaden our offering, we continue to see residential markets as core.

6. PRODUCT AVAILABILITY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Having sufficient inventories of our products is critical to 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.	Stock levels continue to be at record lows across our business. 2020 saw a significant destocking as we emerged from the pandemic which, due to continued strong demand thereafter, we have been unable to address, presenting a short-term risk in meeting our customers' expectations, especially if there is 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 led us to increase this risk at December 2021, and the pressures have remained the same in 2022 meaning that on occasion we have been unable to meet our customers' expectations. We are also aware of shortages of building 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 sponsors: Steven Jeynes and Darren Rix**	**Gross change** No change **Net change** No change	Managing capacity sufficiently to prevent tying up excessive amounts of working capital in stock, but ensuring that customer demand can continue to be met are crucial to our success. This risk increased during 2021 and remains at an elevated level in to 2022.

7. CUSTOMER RELATIONSHIPS AND REPUTATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Significant revenues are generated from sales to a number of key customers. Where a customer relationship deteriorates there is a risk to revenue and cash flow.	One of our strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products, we seek to develop our long-standing relationships with our customers. Regular and frequent review meetings focus on our effectiveness in this area. Our approach during the pandemic was well received by customers across all channels and served to strengthen these relationships, the continuation of which, combined with strong communication with customers, remains paramount to our success as a number of additional factors prevail. The high demand, high inflation market we are presently operating in could manifest itself in deteriorating relationships with customers if 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 are not managed correctly. 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**	**Gross change** No change **Net change** No change	Excellent service is a core value and progress against objectives in this area is a priority for all employees. Continued demand seen through 2021 led to an increase in this risk, which has remained to June 2022.

8. SUPPLY CHAIN: AVAILABILITY OF RAW MATERIALS AND ENERGY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Whilst availability of raw materials can vary at times, recent shortages across both our industry and the wider economy have become more common place, 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 driven by the end of the Brexit transition period and the faster than expected recovery of demand following the pandemic.	During the current period we have seen shortages of raw materials marginally ease whilst remaining an area of significant risk. Where materials are in short supply, we seek to limit our risk by utilising more than one supplier and by developing new sources of supply. Where possible we stockpile additional materials as we did in some cases ahead of Brexit, though many of our key materials are needed in such large quantities this isn't possible. We regularly review our production processes to reduce reliance on materials that are in short supply and in the longer term we will seek to adjust our production processes to utilise materials which have a lesser impact on the environment. The exception to this easing is the energy market, which has become increasingly volatile since the Russian invasion of Ukraine in February 2022. Shortages of gas and electricity have driven prices higher leading to concerns that should these pressures persist, particularly in winter months, whilst unlikely, supplies could be interrupted. 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 (PPA) which will secure c.70% of our electricity needs for the next 15 years through the construction of a dedicated solar farm, reducing our reliance on grid capacity (though still supplied through the grid) as well as providing price certainty. Changes in industrial processes required to address climate risks have impacted the availability and price of certain raw materials and we have taken action to mitigate these; sourcing from alternate suppliers or making adjustments that allow us to work with alternate raw materials. We continue to focus on ensuring supply risks are understood, forecast and where possible mitigated. **Executive sponsors: Ben Guyatt**	**Gross change** Increased **Net change** Increased	Sufficient energy supply and quantities of raw materials received at the right time and at the right price are critical to Group operations. We have prioritised risk mitigation to bring risk-exposure and risk appetite in line. Whilst we proactively hedge our price exposure in the energy markets, continued volatility in this area driven by the war in Ukraine and the potential risks to supply have resulted in an increase to this risk.

9. COST INFLATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
We utilise a wide range of inputs in our business from raw materials to energy and labour. Increases to the cost of our inputs will have an adverse effect upon our margins if we are unable to pass these cost increases on to our customers. Sudden fluctuations in our cost base makes budgeting difficult and exposes us to risk as cost increases are unable to be passed on to customers without some time delay.	We seek to manage our costs by putting in place annual pricing agreements with our suppliers, although in recent times 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 our energy requirement providing price certainty. However, as happened in 2020, if our requirement for energy is lower than expected we are exposed to commodity risk and having to sell pre-purchased surplus energy back to the market, potentially at a loss. In 2022 we have seen unprecedented increases in energy costs driven by global markets and the invasion of Ukraine in February 2022, 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. Current forward curves lead us to expect a further increase in our energy costs in 2023. **Executive sponsors: Stephen Harrison and Ben Guyatt**	**Gross change** No change **Net change** No change	Managing cost within our supply chain is core to maintaining profitability and providing optimum value to shareholders. The unprecedented inflationary environment, particularly with respect to energy, led to increase this risk in 2021.

10. ATTRACTING, RETAINING AND DEVELOPING EMPLOYEES

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. A national shortage of labour has manifested following the pandemic on top of a market that was already adjusting to the impact of the Brexit transition period.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. The Covid-19 pandemic has focussed our attention on establishing safe working practices for return to work, employee support and strong communication / employee engagement. We continue to invest in HR and payroll systems, with significant resource now in place to see this investment through to delivery. Challenges associated with labour shortages are presently faced across the business in particular around the availability of engineers. 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**	**Gross change** No change **Net change** No change	Our people have always been pivotal to our business, and changes in the labour market resulting from Brexit and the pandemic mean we must remain cautious of the previously increased risk associated with ensuring we attract, retain and develop our employees.

11. INNOVATION

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This could in turn cause revenues and margins to suffer.	Strong relationships with customers as well as independently administered customer surveys ensure that we understand current and future demand. Close ties between the Strategy, Operations and Commercial functions ensure that the Group focuses on the right areas of research and development. 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**	**Gross change** No change **Net change** No change	The Group is willing to invest in order to grow where the right opportunities present themselves. We have invested in the appropriate skills so that opportunities can be identified and progressed, and we are committed to deploying R&D to reduce the environmental footprint of our operations.

12. IT INFRASTRUCTURE AND SYSTEMS

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years, attaining ISO 27001 Information Security accreditation in 2019. This investment has further allowed our office staff to work remotely where required whilst continuing to effectively service our customers. During 2021 the business faced a significant cyber security breach (and increased this risk at December 2021 as such). **Executive sponsor: Matthew Day**	**Gross change** No change **Net change** No change	Investment in IT has been a priority in recent periods to mitigate risk. The downside to IT risks significantly outweigh any upside and our risk appetite reflects this. Our assessment of the risk in this area increased in 2021 and remains at that level.

13. BUSINESS CONTINUITY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Having made plans to allow key centralised functions to continue to operate in the event of business interruption, we were able to establish remote working capability effectively during the Covid-19 pandemic developed. These capabilities have been retained since with the business able to continue operating with minimal disruption. Non Covid-19 related disruption risks remains unchanged although some greater resilience is provided by the now tried and tested ability of office staff to work from home. Where a scenario without a pre-envisaged plan is faced, our business continuity policy allows managers to apply clear principles to develop plans quickly in response to emerging events. We consider climate related risks when developing business continuity plans and have learnt lessons from weather related events in recent years which inform these plans. Loss of one of our operating facilities through fire or other catastrophe would impact upon production and our ability to meet customer demand. Working with our insurers and risk advisors we undertake regular factory risk assessments, addressing recommendations as appropriate. We accept it is not possible to mitigate all the risks we face in this area and as such we have a comprehensive package of insurance cover including both property damage and business interruption policies. **Executive sponsor: Stephen Harrison and Ben Guyatt**	**Gross change** No change **Net change** No change	Using business continuity plans in response to the pandemic provides real life evidence as opposed to a desktop exercise. Having reduced this risk in 2021 against backdrop of the receding pandemic, in 2022 this risk now remains unchanged.

14. PROJECT DELIVERY

Principal risk and why it is relevant	Key mitigation, change and sponsor	Change from Dec 21	Rationale for rating
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 ever made and project has continued to progress to schedule, due for commissioning towards the end of the year. Management closely monitor all three current strategic projects for potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. During the period we took the decision to pro-actively delay the Wilnecote project by 3 months in light of supply chain issues around key pieces of equipment, ensuring that the factory is not closed for longer than the planned. As further projects are announced, management recognise the additional risks posed by running concurrent major projects. To mitigate, separate project management structures are in place for respective projects and where common suppliers are involved procedures are in place to ensure they retain sufficient capacity to deliver on both projects without significant risk. We recognise that we will need to increase the resources in our business to support multiple major expansion projects, recruitment for which has commenced and is additionally exemplified by the creation of a designated Strategic Projects Director role sitting on our Executive Committee. **Executive sponsor: George Stewart**	**Gross change** No change **Net change** No change	Management and the Board are closely monitoring expansion projects at Desford, Wilnecote and Accrington. External project management expertise has been engaged on Desford from the outset recognising learning from previous major projects.