FORTERRA plc

26 March 2024

Resilient performance in 2023; well-positioned for market recovery

	Adjusted[1]			Statutory		
	2023 £m	2022 £m	Change (%)	**2023 £m**	2022 £m	Change (%)
Revenue	**346.4**	455.5	(24.0)%	**346.4**	455.5	(24.0)%
EBITDA[2]	**58.1**	89.2	(34.9)%	**44.1**	91.5	(51.8)%
EBITDA margin[2]	**16.8%**	19.6%	(280) bps	**12.7%**	20.1%	(740) bps
Operating profit (EBIT)	**38.1**	72.7	(47.6)%	**24.1**	75.0	(67.9)%
Profit before tax	**31.1**	70.6	(55.9)%	**17.1**	72.9	(76.5)%
Earnings per share (pence)	**11.4**	26.4	(56.8)%	**6.2**	27.2	(77.2)%
Cash flow from operations	**(5.3)**	89.0	n/a	**(11.2)**	89.0	n/a
Net debt before leases				**(93.2)**	(5.9)	n/a
Total dividend (pence)				**4.4**	14.7	(70.1)%

1. Adjusted results for the Group have been presented before exceptional and adjusting items (2023: expense of £14.0m, 2022: income of £2.3m) relative to statutory profit as explained in Alternative Performance Measures within Note 2. Presenting these measures allows a consistent comparison with prior periods.
2. Both EBITDA and adjusted EBITDA are APMs, with EBITDA presented as above under statutory being calculated with reference to statutory results without adjustment.

OPERATIONAL AND TRADING HEADLINES

- Full year revenue of £346.4m (2022: £455.5m), a year-on-year reduction of 24.0%, with the impact of falling sales volumes partially offset by pricing benefits.
- Despite weak demand, pricing across our range of products remained resilient with further modest price increases expected in 2024.
- Figures published by the Department of Business and Trade (DBT) highlight that UK brick despatches in the three-month period to December 2023 were 29% lower than the equivalent period in 2022, with the cumulative full year reduction also at this level, leaving industry despatches at a similar level to that seen in the Global Financial Crisis. As previously highlighted, our own despatches fell by a greater percentage due to our exposure to volume housebuilding which suffered the greatest impact from rising interest rates.

MANAGEMENT ACTIONS

- Production has been reduced through the mothballing of factories, shift reductions and production breaks. In addition, we have delivered further savings through restructuring commercial and back-office functions.
- These actions will deliver annualised fixed costs savings in excess of £20m, with around £6m realised in 2023 and the balance being realised in 2024. One-off cash restructuring costs totalled £9.0m with £5.1m paid in 2023, leaving a further £3.9m to be paid in 2024.
- Assuming demand in 2024 remains consistent with 2023, our management actions will ensure output is broadly matched with sales, limiting future inventory build.
- These temporary reductions will not impact our ability to respond quickly when our markets recover, with the new Desford brick factory also providing a significant capacity uplift.

ORGANIC INVESTMENT

- The £95m investment in New Desford, the largest and most efficient brick factory in Europe is largely complete with the factory operational.
- Our £30m redeveloped Wilnecote factory, designed to service the commercial and specification market, is expected to recommission in H2 2024.

- The £12m investment in innovative brick slip manufacture at our Accrington plant is progressing according to plan with production also expected to commence in H2 2024.
- Our current programme of organic capacity investments totalling almost £140m will come to an end in H2 with the majority of the 2024 spend falling in H1.

BALANCE SHEET

- Reflecting our inventory build, capital expenditure and the management actions taken during 2023, year-end net debt before leases is £93.2m (2022: £5.9m).
- The Board reiterates its long-term leverage target of 1.5 times or below and is confident that with the benefit of the management actions outlined above and with the current strategic capital investments close to completion, there is a clear pathway to achieve this even with only a modest recovery of demand.
- We expect to end 2024 with a similar net debt position to 2023 with a peak around the middle of the year due to the phasing of the expected result and timing of capital spend.
- With leverage expected to peak at the half year, in part due to our £140m capital investment programme, which is nearing completion, the Board has temporarily adjusted the 2023 dividend payout ratio to 40% of adjusted earnings, and is accordingly recommending a final dividend of 2.0p per share (2022: 10.1p). This, in addition to the interim dividend of 2.4p per share paid in October 2023 (2022: 4.6p), will bring the total dividend to 4.4p per share (2022: 14.7p).

CURRENT TRADING AND OUTLOOK

- The outlook for our industry remains subject to considerable uncertainty and, with a general election expected in 2024, demand is anticipated to remain subdued in the near term.
- Trading conditions at the beginning of 2024 continued to be challenging with Department for Business and Trade figures suggesting January domestic brick despatches were 5% behind the 2023 comparative. Our own despatches in February were slightly ahead of the prior year comparative.
- We take some encouragement from recent trading updates from our housebuilding customers reporting greater levels of customer activity in recent months with a downward trend in mortgage interest rates through 2024 expected to improve the affordability of new homes, hopefully increasing demand for our products.
- With the long-term under-supply of housing in the UK continuing to worsen, and with our previous capacity constraints now addressed, the Board remains confident in the Group’s ability to benefit significantly as our markets recover and our strategic investments generate returns.
- We continue to expect demand through 2024 to be broadly aligned to that seen in 2023 although exceptionally wet weather in the first two months of the year makes underlying demand more difficult to gauge.
- The Board's expectations for 2024 remain unchanged with the Group's performance expected to be H2 weighted with this being driven by cost base and efficiency rather than demand.

Neil Ash, Chief Executive Officer, commented:

“Forterra produced a resilient performance in 2023, in what turned out to be a very challenging year for our industry. Demand for new housing in the UK fell substantially, driven by increasing interest rates adversely impacting affordability and therefore demand for new homes.

In light of this lower demand management took decisive action on our cost base. Assuming 2024 demand remains consistent with 2023, our management actions will ensure output is broadly matched with sales, thus limiting future inventory build.

Importantly, however, these temporary reductions will not impact our ability to respond quickly when our markets recover. Indeed, one bright spot during 2023 was the commissioning of the new Desford brick factory, which

gradually ramped up production throughout the year, and which will provide a significant capacity uplift in improved markets.

With the long-term under-supply of housing in the UK continuing to worsen, and with our previous capacity constraints now addressed, the Board remains confident in the Group's ability to benefit as our key markets recover."

ENQUIRIES

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A presentation for analysts will be held today, 26 March 2024, at 10.30am. A video webcast of the presentation will be available on the Investors section of our website (http://forterraplc.co.uk/).

ABOUT FORTERRA PLC

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

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

INTRODUCTION

2023 has been a very challenging year for our industry. Economic turbulence has suppressed demand for new housing resulting in a marked reduction in demand for our products. Despite UK brick industry despatches falling to levels last seen in the Global Financial Crisis (GFC), we were still able to deliver a resilient financial result. Notwithstanding these challenging market conditions, we have made continued progress against our strategic objectives. After a construction period of more than three years, 2023 saw the commissioning of our new Desford brick factory. With a production capacity of 180m bricks per annum, we believe it to be the largest brick factory in Europe and once fully commissioned, the most efficient.

OUR MARKETS

Demand for new housing in the UK fell substantially in 2023 driven by increasing interest rates adversely impacting affordability and therefore demand for new homes.

This decline in housing demand is evidenced by a 19% fall in housing starts and a 15% fall in housing completions. The relationship between these statistics and the demand for the building products we manufacture is a complex one, with housebuilder order books, work in progress, and the inventory they hold of our products all having an impact.

Government statistics demonstrate that this fall in housing output has driven a significant decline in demand for building products with total UK brick consumption (including imports) falling from 2.5bn bricks in 2022 to a figure of 1.7bn in 2023, a fall of 32%. Our own brick despatches in the year fell by a greater percentage as a result of our exposure to mainstream housebuilding, the sector of the market most impacted by increasing mortgage rates. Demand for our other products also fell by approximately 30%.

Imports of bricks into the UK totalled 329m bricks in 2023, a fall of 42% from the 2022 figure of 570m bricks. Imports as a percentage of total UK brick demand fell from 23% in 2022 to 19% in 2023, although it is likely that imports of architecturally differentiated bricks, where demand is less susceptible to the increases in interest rates will have been most resilient, meaning that the fall in imports of bricks which are directly competing with our own products is likely to be greater than suggested by these figures.

Despite current and announced capacity investments, the UK brick industry still lacks the capacity required to meet underlying demand. Current domestic production capacity of approximately 2.2 billion clay bricks per annum remains lower than the pre-financial crisis figure of 2.6 billion.

RESULTS FOR THE YEAR

REVENUE

Sales volumes varied somewhat by product although overall our despatches in the year were a little over 30% down on 2022. Total revenue of £346.4m represents a decrease of 24.0% on the prior year (2022: £455.5m). The impact of declining sales volumes on revenue was partially offset by a positive pricing benefit. After significant price increases, which for some products totalled almost 50% during the prior year, pricing was more stable in 2023. We implemented low single digit price increases at the beginning of 2023 and although there was a slight erosion in some of our prices over the course of the year, pricing remained resilient in the face of a significant drop in demand which has seen UK brick industry despatches at levels last seen around the time of the Global Financial Crisis. Overall, the year-on-year pricing comparison benefits from the full year effect of the multiple in-year price increases implemented during 2022. Bespoke Products and in particular Bison Flooring delivered a particularly resilient performance with the combined tonnage of the products despatched falling only 23.3% relative to 2022 with a growth in hollowcore despatches partially offsetting the fall in floor beam despatches.

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

Adjusted EBITDA was £58.1m (2022: £89.2m) with profitability impacted by the significant reduction in demand for our products leading to a sizeable year-on-year decrease in our sales volumes as outlined above.

Our business is managed as two segments and we allocate our central overheads to each segment based on a historic revenue-driven allocation mechanism, with central overheads allocated to Bricks and Blocks and Bespoke Products in the ratio 80%:20% respectively. In practice, the allocation of overheads to Bespoke Products exceeds the level of overheads that are directly applicable to this segment, such that if this segment was to be discontinued or divested then the saving of overheads, would in reality, be modest. Accordingly, we also disclose the allocation of central overheads to give greater visibility of the underlying profitability of our segments, in particular Bespoke Products.

Bricks and Blocks segmental adjusted EBITDA was £52.1m (2022: £85.6m) and Bespoke Products contributed an adjusted EBITDA of £6.0m (2022: £3.6m). For the second year running, we are very pleased with the performance delivered by the Bespoke Products segment. Prior to a £4.5m (2022: £6.0m) allocation of Group overhead, this segment delivered an adjusted EBITDA of £10.5m (2022: £9.6m).

ADJUSTED PROFIT BEFORE TAX

Adjusted profit before tax was £31.1m (2022: £70.6m) driven primarily by the fall in EBITDA as highlighted above. Further factors included an increase in depreciation in respect of the new Desford factory and an increase in borrowing costs resulting from a combination of a significant increase in borrowings and rising interest rates.

STATUTORY PROFIT BEFORE TAX

On a statutory basis Profit before tax (PBT) was £17.1m (2022: £72.9m). This is stated after charging adjusting and exceptional items as set out under the sections for exceptional and adjusting items.

MANAGEMENT ACTIONS

Our factories faced a number of challenges during 2023. We began the year with record low levels of inventory with production in recent years restricted by our capacity constraint. We began the commissioning of the new Desford brick factory at the start of 2023 and gradually ramped up production throughout the year, with a well-attended opening event taking place in May. The commissioning of any new factory is a complex process and new Desford has had its challenges in this respect. We did however make good progress in the second half, increasing our rate of production and also expanding the range of products that the factory can produce.

Faced with difficult market conditions and with inventories replenished by the end of the first quarter, we took action to limit our inventory to appropriate levels. Decisions regarding output are taken with many factors in mind, although retaining manufacturing efficiency is a key priority. Brick factories especially are high-fixed-cost operations and as such can be inefficient to run at lower levels of output and we have taken decisions at factory level to maximise efficiency whilst reducing output. These decisions are not easy, the mothballing of factories and the making of redundancies have a lasting impact on the lives of affected colleagues and for the Company leads to significant one-off costs which are detailed further in the exceptional items section of this report.

Making decisions to reduce output are challenging, especially where market demand in the near-term is uncertain. With our markets showing signs of recovery in the late spring 2023, we held back in taking some actions. In addition, we faced the complexity of adding new capacity in the form of the new Desford factory, knowing we would ultimately need to reduce output elsewhere but not until we were comfortable Desford was capable of meeting customer demand.

Ultimately, we implemented three separate rounds of restructuring which together will lead to annualised fixed cost savings totalling over £20m with a reduction in our workforce of almost 300 people. These savings have been achieved through the mothballing of two brick factories as well as implementing shift reductions and production breaks at a number of other facilities. In addition, we undertook a restructuring of our sales and back office functions.

OPERATING COSTS

Following the unprecedented increases in our cost base seen in 2022, our cost environment was more stable through 2023 although we did still see further cost increases including labour and energy.

As a result of our forward purchasing, we had good forward visibility with regards to energy costs in 2023 and had expected them to increase relative to 2022, which they did. Whilst spot prices fell through the year, our forward purchasing did not allow us to benefit from these lower prices. In addition, following our reductions in production output, towards the end of the year we had purchased more energy than we were able to consume, with this surplus energy being sold back to the market. Losses realised in respect of this surplus energy have been disclosed as adjusting items.

Our combined gas and electricity spend in the year was approximately £57m, in line with the prior year, with reduced usage in 2023 being offset by higher unit costs. We take a risk-based approach to energy procurement, layering forward purchase positions where we see value ahead of planned usage and providing cost certainty. The Group generally purchases up to 80% of expected energy usage in this manner. Under normal circumstances the Group takes delivery of and consumes all the gas and electricity under each contract, and in doing so the costs associated with the purchase of gas and electricity are accounted for in the profit and loss at the point of consumption. However, following our substantial reductions in output, based on our current expectations of production, we have over-purchased energy and as such, any surplus will be sold back to the market, crystallising a gain or loss at that point. Contracts where this is the case are accounted for as derivative assets or liabilities at the balance sheet date with any associated fair value gains or losses recognised in the profit and loss and presented as adjusting items.

Looking ahead, we have forward purchased around 90% of our energy requirement in 2024 providing a high degree of price certainty. We will begin to receive electricity from the Forterra solar farm in April 2024, with the full financial benefits accruing from April 2025 when the 15-year Power Purchased Agreement (PPA) begins.

BRICKS AND BLOCKS

We possess a unique combination of strong market positions in both clay brick and concrete blocks. We are the only manufacturer of the iconic and original Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England's existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. We operate eight brick manufacturing facilities across the country with a total installed production capacity of approximately 675 million bricks per annum.

We are also a leader nationally in the aircrete block market, operating two Thermalite block facilities in the Midlands and South of England. In addition, our aggregate block business has a leading position in the important Southeast and East of England markets with two well-located manufacturing facilities in this geography. This segment also includes Formpave, the Group's concrete block paving business and following the combination of our Cradley Special Brick with our Red Bank chimney and roofing components business on a single site, this segment now includes the results of the Red Bank business with the prior year comparatives being restated to reflect this.

Our clay reserves are the foundation that our brick business is built upon and are the primary raw material used in manufacturing our bricks. Each of our brick factories is located adjacent to a quarry supplying locally sourced clay directly into the manufacturing process. Sourcing material locally is sustainable and therefore preferable wherever possible as it avoids the costs and carbon emissions associated with transportation. Our mineral reserves also provide a natural barrier reducing the threat of new entrants entering the market as the planning process to secure consent for a 'green-field' quarry and associated brick factory could take as long as 10 years. Each of the new brick factories built in the UK over the last two decades have been redevelopments of existing facilities utilising established quarries. We have access to over 90 million tonnes of minerals, on average, these reserves are sufficient to sustain manufacturing operations for 50 years. The majority of our minerals are owned, although a small amount are secured by way of lease with a royalty payable at the point of extraction.

TRADING AND RESULTS

The performance of the Bricks and Blocks segment was principally driven by the fall in demand highlighted above. Bricks and Blocks sales revenues were £277.4m, a decrease of 26.2% on the prior year (2022: restated £376.1m). The decline in sales volumes was partially offset by a pricing benefit, primarily driven by the significant mid-year price increases implemented in 2022. Segmental adjusted EBITDA totalled £52.1m (2022: restated £85.6m), a decrease of 39.1%. Adjusted EBITDA margin was 18.8% (2022: restated 22.8%).

BRICK AND BLOCK

	2023 £m		Restated[2] 2022 £m	
	Adjusted	**Statutory**	Adjusted	Statutory
Revenue[1]	**277.4**	**277.4**	376.1	376.1
EBITDA[3] before overhead allocations	**70.0**	**56.3**	109.6	111.9
Overhead allocations	**(17.9)**	**(17.9)**	(24.0)	(24.0)
EBITDA[3] after overhead allocations	**52.1**	**38.4**	85.6	87.9
EBITDA[3] margin before overhead allocations	**25.2%**	**20.3 %**	29.1%	29.8 %
EBITDA[3] margin after overhead allocations	**18.8%**	**13.8 %**	22.8%	23.4 %

1. Revenue is stated before inter-segment eliminations
2. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are disclosed below under restatement of prior year comparative
3. Both EBITDA and adjusted EBITDA are APMs, with EBITDA presented as above under statutory being calculated with reference to statutory results without adjustment.

PRICING AND COSTS

Following a period of extreme inflation during 2022, our cost base did stabilise somewhat in 2023, although we continued to see cost inflation, particularly at the beginning of the year. Our energy costs increased year-on-year in line with expectations, with our strategy of forward purchasing energy in order to achieve price certainty limiting our ability to capitalise on falling energy prices in the second half of the year.

Our pricing remained resilient during the year despite the marked reduction in despatches. We implemented modest price increases at the beginning of 2023 and whilst there was a slight erosion of pricing in a very competitive market through the year, pricing remained firm overall, with the exceptional increases of up to 50% implemented during 2022 remaining intact.

Whilst more in line with normalised levels of inflation, we do still see inflation in our cost base as we enter 2024, with business rates seeing a particularly large increase. Accordingly, we have recently announced a modest increase in pricing to take effect from April 2024.

OPERATIONS

Faced with a material decline in demand for our products at the same time when we were also commissioning the new brick factory at Desford, we needed to act swiftly to limit inventory growth.

We have highlighted previously that with a high fixed cost base, it is more difficult to efficiently flex production output in the brick business than elsewhere. Accordingly, alongside the closure of the old Desford factory which was always planned, we mothballed both our Howley Park and Claughton brick factories in the year, and have implemented further cuts to production across our network of factories through a combination of shift reductions and extended maintenance shutdowns.

We must not, however, allow the depressed demand backdrop to overshadow a key highlight of the year which was the opening of the new Desford brick factory. The factory, which, when fully commissioned and running at full output, will be the largest and most efficient brick factory in Europe, capable of producing 180m bricks per annum with a carbon footprint per brick 25% less than the old factory it replaces. Unfortunately, market demand presently dictates that we are not able to utilise the full production capacity of the new factory but we are confident that

having now addressed the capacity constraint that has impeded us for many years, we are well placed to benefit significantly as market demand recovers.

Commissioning a new brick factory is never a simple process and we have faced challenges during the year. It is however pleasing to see the progress made during the second half of the year, with the output of the factory steadily increasing and with the initial product range fully commissioned. We are currently expanding the product offering. Alongside our investment at Desford, the complete redevelopment of our smaller Wilnecote brick factory at a cost of approximately £30m continues to progress, albeit the project has been subject to some supplier driven delays, with recommissioning now expected in the second half of 2024.

This investment will strengthen our position in the architect-led commercial and specification market which includes residential, commercial, school and hospital developments in a sizeable market of around 400 million bricks per annum in a normalised market (approximately 16% of the UK brick demand). This investment will expand the product range manufactured at the factory, providing a degree of diversification, reducing our reliance on mainstream housebuilding whilst also increasing our total brick production capacity by around 1%.

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

Brick slips also offer sustainability benefits, reducing raw material and energy usage relative to the manufacture of traditional bricks with many slips currently being cut from traditional bricks with a high degree of wastage.

BESPOKE PRODUCTS

Following the restructuring that combined our Red Bank chimney and roofing solutions business with the Cradley Special Brick business, the Bespoke Products segment now solely consists of our precast concrete operations.

Precast concrete products are designed, manufactured and shipped nationwide under the Bison Precast brand from two facilities situated in the Midlands. Our products include beam and block flooring including Jetfloor, which was the UK's first suspended ground floor system to use expanded polystyrene blocks combined with a structural concrete topping to provide high levels of thermal insulation; hollowcore floors alongside accompanying staircases and landings are used for upper floors of multi-family and commercial developments, structural precast components including precast concrete walls used in applications such as hotels and prisons, and concrete beams used in the construction of building frames as well as stadia components; architectural precast concrete façades, in a variety of finishes including brick facings.

TRADING AND RESULTS

Precast concrete flooring solutions represent by far the largest component of this segment by revenue and profitability. Despite a weak demand backdrop across our entire range of products, the Bison flooring business demonstrated a high degree of resilience with the delivery of a result ahead of the prior year comparative.

Segmental turnover in the year was £72.7m (2022: restated £84.2m). Floor beam sales volumes decreased in line with the rest of our product range although we were able to shift production to increase our output of hollowcore flooring. Again pricing has remained stable with the input cost inflation seen in the prior year easing. Alongside this, we have efficiently flexed our cost base with falling demand, something which is easier to achieve in this business than in our brick operations.

Segmental adjusted EBITDA stated before allocation of Group overheads was £10.5m (2022: restated £9.6m), meaning the segment delivered a result ahead of the prior year which, given market conditions, is a fantastic result of which we are extremely proud. After an allocation of Group overheads totalling £4.5m (2022 restated: £6.0m) the segment reports an adjusted EBITDA of £6.0m (2022: restated £3.6m).

			Restated[2]	
		2023 £m		2022 £m
	Adjusted	**Statutory**	Adjusted	Statutory
Revenue[1]	**72.7**	**72.7**	84.2	84.2
EBITDA[3] before overhead allocations	**10.5**	**10.2**	9.6	9.6
Overhead allocations	**(4.5)**	**(4.5)**	(6.0)	(6.0)
EBITDA[3] after overhead allocations	**6.0**	**5.7**	3.6	3.6
EBITDA[3] margin before overhead allocations	**14.4%**	**14.0 %**	11.4%	11.4 %
EBITDA[3] margin after overhead allocations	**8.3%**	**7.8 %**	4.3%	4.3 %

1. Revenue is stated before inter-segment eliminations
2. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are disclosed below under restatement of prior year comparative
3. Both EBITDA and adjusted EBITDA are APMs, with EBITDA presented as above under statutory being calculated with reference to statutory results without adjustment.

ALTERNATIVE PERFORMANCE MEASURES

In order to provide the most transparent understanding of the Group's performance, we use alternative performance measures (APMs) which are not defined or specified under IFRS. The Group believes that these APMs provide additional helpful information on how the trading performance of the business is reported and reviewed internally by management and the Board, allowing non-trading items which are less likely to recur to be assessed separately.

Management and the Board use several profit related APMs in assessing Group performance and profitability. These are considered before the impact of exceptional and adjusting items. Exceptional and adjusting items are detailed below and a full reconciliation between adjusted and statutory results is presented within note 2 to the consolidated financial information.

EXCEPTIONAL ITEMS

Exceptional items in 2023 primarily relate to redundancy and termination costs associated with the restructuring of our operations in order to reduce output in response to the decline in demand for our products. Redundancy and termination costs totalled £8.8m of which £5.1m was paid in 2023 with the balance to be paid in early 2024. In addition, non-cash impairment losses of £5.0m have been recognised in respect of the carrying value of the Howley Park and Claughton brick factories which were mothballed in the year.

The exceptional item in the prior year related to the sale of surplus land for gross proceeds of £2.5m, realising an exceptional profit of £2.3m.

ADJUSTING ITEMS

In addition to exceptional items we have also identified further adjusting items, the separate disclosure of which allows us to present our results in a manner that will allow users of our financial statements to understand the

underlying trading performance of the business applying consistent treatments as used by management to monitor the performance of the Group.

Adjusting items in the current year relate to both realised and open energy positions where committed energy purchased by the Group has or is expected to exceed consumption. This is a direct result of reductions to production made in the year. In 2023, the Group realised a £0.8m loss in respect of surplus energy sold back to the market in the year, alongside a £0.8m gain, being the fair value of open positions at the balance sheet date. For these, the Group expects to sell a portion of the committed volume back to the market and as a result is no longer able to benefit from the own use exemption detailed within IFRS 9 Financial Instruments.

	2023 **£m**	2022 £m
Adjusted EBITDA[1]	**58.1**	89.2
Exceptional costs:		
Restructuring costs	**(9.0)**	–
Impairment of plant and equipment	**(5.0)**	–
Profit on sale of surplus land	**–**	2.3
Other adjusting items:		
Realised loss on the sale of surplus energy	**(0.8)**	–
Derivative gain on future energy contracts	**0.8**	–
EBITDA[1]	**44.1**	91.5

1. Both EBITDA and adjusted EBITDA are APMs, with EBITDA presented as above under statutory being calculated with reference to statutory results without adjustment.

RESTATEMENT OF PRIOR YEAR COMPARATIVES

During 2023 we were required to implement multiple actions to align our production with reduced market demand. One of these actions was the combination of our Cradley Special Brick business with our Red Bank terracotta operation. Historically, Red Bank was included within Bespoke Products, with Cradley consolidated into Bricks and Blocks. Management have determined that the restructured combined 'Cradley Red Bank' business will operate from the Red Bank site at Measham, and be included within the Bricks and Blocks reporting segment. The full year 2023 results of both operations have been included within the Bricks and Blocks segment and the prior year comparative has been restated accordingly, with 2022 Bricks and Blocks revenues increasing by £5.9m and adjusted EBITDA by £0.1m, with the opposite adjustment in Bespoke Products.

FINANCE COSTS

Finance costs totalled £7.0m (2022: £2.1m). The significant increase in our finance costs in the period was the result of a growth in borrowings driven by lower earnings, a significant investment in inventory, and continued strategic capital spend, coupled with an increase in borrowing costs driven by SONIA which increased from 3.43% to 5.19% over the course of 2023. Under the terms of the credit agreement, interest is payable according to a margin grid dependent on leverage starting with a margin of SONIA plus 1.65% applicable whilst leverage (net debt/adjusted EBITDA, pre IFRS 16) is less than 0.5 times, rising to a margin of 3.5% if leverage is greater than 3.5 times. A commitment fee of 35% of the margin was payable on the undrawn credit facility.

TAXATION

The effective tax rate (ETR) including adjusted items was 25.0% (2022: 19.3%) and 24.5% excluding adjusted items (2022: 19.3%). The increase in the ETR is mainly driven by the increase in the UK statutory rate of corporation tax to 23.5% (2022: 19.0%). The ETR is higher than the UK main rate of corporation tax due to the

permanent impact of non-deductible items such as depreciation on non-qualifying assets. Profit before tax in 2023 was lower than that in 2022, therefore the impact of permanent non-deductible as a percentage of profit is higher and has increased the ETR. The 2022 ETR was also more in line with the statutory rate of corporation tax due to the permanent benefit of the UK tax super deduction on qualifying plant and machinery expenditure as announced in the 2021 Budget which ceased in March 2023.

EARNINGS PER SHARE (EPS)

Adjusted basic EPS was 11.4p (2022: 26.4p). Statutory basic EPS was 6.2p (2022: 27.2p). EPS is calculated as the weighted average number of shares in issue during the year (excluding those held by the Employee Benefit Trust (EBT)) which in 2023 was 206.6m shares (2022: 216.2m).

CASH FLOW

Adjusted operating cash outflow totalled £5.3m compared to a cash inflow of £89.0m in the prior year, with the decline due predominantly to a £31.1m decrease in adjusted EBITDA and a significant working capital outflow driven by an increase in inventory. Inventories increased by a total of £52.8m primarily as a result of increases in the quantity of inventory on hand but also due to an increase in valuation driven in part by the full year impact of the cost inflation which impacted the cost of production through 2022. The cash flows driven by movements in receivables and payables are primarily a function of a reduction in activity, with lower sales and purchases reduced with falling production. The new lease liabilities primarily relate to new distribution vehicles as we regularly renew our fleet with efficient and cleaner delivery vehicles.

Net payments to the Employee Benefit Trust (EBT) in the year totalled £1.0m (2022: £11.8m). With the EBT well positioned to satisfy vesting awards under the Group's employee benefit schemes, the number of shares purchased in 2023 fell significantly relative to 2022 and further shares are not currently being purchased. As at the year end, the EBT held 5.5m shares with a market value of £9.7m, with 3.3m of these shares likely to be used to satisfy vesting Sharesave awards in the first half of 2024.

CASH FLOW

	2023 £m	2022 £m
Adjusted EBITDA	**58.1**	89.2
Purchase and settlement of carbon credits	**3.1**	(5.6)
Other cash flow items	**(4.1)**	6.3
Changes in working capital		
– Inventories	**(52.8)**	(10.2)
– Trade and other receivables	**13.3**	(5.2)
– Trade and other payables	**(22.9)**	14.5
Adjusted operating cash flow	**(5.3)**	89.0
Payments made in respect of adjusting items	**(5.9)**	–
Operating cash flow after adjusting items	**(11.2)**	89.0
Interest paid	**(6.1)**	(2.4)
Tax paid	**(2.7)**	(11.0)
Capital expenditure		
– Maintenance	**(14.8)**	(10.5)
– Strategic	**(19.3)**	(33.6)
Dividends paid	**(25.7)**	(24.2)
Net cash flow from sale and purchase of shares by Employee Benefit Trust	**(1.0)**	(11.8)
Payments made to acquire own shares	**–**	(40.3)
New lease liabilities	**(12.3)**	(6.8)
Other movements	**(0.7)**	0.4
Proceeds from sale of property, plant and equipment	**0.3**	2.9
Increase in net debt	**(93.5)**	(48.3)
Debtor days	**33**	36

CAPITAL EXPENDITURE

Capital expenditure in the year totalled £34.1m (2022: £44.1m) with strategic capital expenditure totalling £19.3m (2022: £33.6m) and maintenance capital expenditure totalling £14.8m (2022: £10.5m).

Spend on the new Desford brick factory totalled £5.2m, bringing the total cumulative project spend to £91.0m. There is a small amount of spend still to incur in 2024 and we expect to complete the factory within the original £95m budget. In addition, our 2023 maintenance capital spend includes £2.0m for the installation of roof mounted solar panels which will generate around 16% of the factory's electricity requirement going forward, providing cost effective, transmission cost free, on-site renewable energy.

As Desford nears completion, the ongoing strategic projects comprising the redevelopment of the Wilnecote brick factory and the construction of the slips facility at Accrington will become the largest contributors to capital spend in 2024. Although the project is running a little behind schedule as a result of supplier delays, spend on Wilnecote during 2023 totalled £10.9m (2022: £5.3m) bringing the total spend to £17.9m. The factory is due to recommence production in the second half of 2024 and is expected to be delivered at a total cost of £30m.

Spend to date on the slips facility at Accrington now totals £3.2m with the facility expected to be completed within the £12m original budget and with the first slips expected to be produced in Q3 2024.

Our capex spend in 2024 is expected to be £27m, with £21m of this related to the completion of the strategic projects and £6m of maintenance capex which is sufficient for current needs given the currently mothballed factories and one off items in the 2023 comparative. We expect this capital outflow to be weighted toward H1 as the strategic projects approach completion.

Maintenance capital spend totalled £14.8m (2022: £10.5m) and included significant one-off items of £4.0m on renewing our HGV fleet and also £2.0m in respect of the solar panels at Desford.

BORROWINGS AND FACILITIES

At 31 December 2023 net debt (before leases) was £93.2m (2022: £5.9m). Net debt after adding lease liabilities of £24.2m (2022: £18.0m) was £117.4m (2022: £23.9m). These leases primarily relate to plant and equipment, in particular the fleet of heavy goods vehicles used to deliver our products to our customers.

The Group’s credit facility comprises a committed revolving credit facility (RCF) of £170m extending to January 2027 with an option for an extension to July 2028 subject to lender consent. At the year-end a total of £110m was drawn on the facility. In addition, £9.5m of the facility was carved out to provide a letter of credit related to the construction project at Accrington leaving facility headroom of £50.5m. Of the £9.5m carved out of the facility, the balance outstanding on the letter of credit at the year end was approximately £6.5m. The obligations subject to the letter of credit are expected to be discharged through 2024 allowing the element of the facility required for letters of credit to be reduced if necessary.

The facility is normally subject to covenant restrictions of net debt/EBITDA (as measured before leases) of less than three times and interest cover of greater than four times. The Group also benefits from an uncommitted overdraft facility of £10m. The business has traded comfortably within these covenants throughout 2023 and whilst the Group expects to remain within these covenants during 2024, amended covenants have been agreed with the Group’s lenders to provide additional headroom given the combination of the Group’s reduced EBITDA, increased net debt driven by inventory build, capital outflows and higher interest rates. Accordingly, the Group’s leverage covenant has increased to 4 times in June 2024 and 3.75 times in December 2024 with interest cover decreasing to 3 times in December 2024. In addition, quarterly covenant testing has been introduced for the period of the covenant relaxation. As such, in September 2024, leverage is set at four times and interest cover three times and in March 2025 leverage is set at 3.75 times and interest cover at three times. The covenants return to normal levels from June 2025 with testing reverting to half yearly. The existing restriction prohibiting the declaration or payment of dividends should leverage exceed 3 times EBITDA has been amended to 4 times EBITDA in 2024 before returning to 3 times in 2025.

The facility is linked to our sustainability targets with the opportunity to adjust the margin by 5 bps subject to achieving annual sustainability targets covering decarbonisation, plastic reduction and increasing the number of employees in earn and learn positions. Unfortunately, primarily as a consequence of our response to market conditions and the subsequent changes to our manufacturing footprint these targets were not achieved in 2023. Further information is included in our Sustainability Report.

STRATEGY AND CAPITAL ALLOCATION

Our strategy which is designed to deliver long-term earnings and cash flow growth is summarised as follows:

- Strengthen the core: Investing in new capacity to deliver growth in sales volumes along with enhanced efficiency
- Beyond the core: Expanding our product range beyond our traditional focus of mainstream residential construction focusing on new and evolving solutions such as brick slips
- Sustainability: Making our business more sustainable in everything we do

- Safety and engagement: Safety remains our number one priority and through prioritising employee engagement we will maximise the potential of our workforce

This, along with our capital allocation policy, which is centred on providing compelling returns for our shareholders, leaves the Group well placed to deliver long-term shareholder value.

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

- strategic organic capital investment to deliver attractive returns;
- attractive ordinary dividend policy with a mid-term pay-out ratio of 55% of earnings;
- bolt-on acquisitions as suitable opportunities arise in adjacent or complementary markets; and
- supplementary shareholder returns as appropriate.

During 2023 we returned cash in the form of dividends totalling £25.7m (2022: £24.2m) to shareholders whilst spending total capital expenditure of £34.1m, (2022: £44.1m) which includes spend of £19.3m (2022: £33.6m) on our strategic projects at Desford, Wilnecote and Accrington.

This strategic investment, together with an investment of £52.8m in inventory has driven an increase in our net debt before leases to £93.2m at the year end. Our present capital allocation priority is to reduce this level of leverage, and with our strategic capital projects nearing completion, we are confident we will reduce our debt levels in 2025 even with only a modest market recovery. In the meantime, we expect net debt at the end of 2024 to be broadly in line with the 2023 figure although we do expect an increase in net debt at the 2024 mid-year driven by the phasing of trading results and the timing of capital payments.

Beyond the current strategic capital investment projects, we continue to work on our pipeline of attractive organic investment opportunities although any decision to commit to these will be taken with both our balance sheet as well as market conditions in mind. Similarly, whilst we remain open to the possibility of bolt-on acquisitions, we will only progress such opportunities where there is a clear strategic rationale and where the acquisition would not put pressure on the balance sheet.

DIVIDEND

Our established dividend policy has been to distribute 55% of our adjusted earnings. In light of current trading conditions and the Group's presently elevated levels of indebtedness, the Board have considered the Group's dividend policy and have elected to temporarily reduce the level of dividend distribution. The Board is proposing to distribute 40% of adjusted earnings for 2023 and accordingly is recommending a final dividend of 2.0p per share (2022: 10.1p) which, in addition to the interim dividend of 2.4p per share paid in October (2022: 4.6p), will bring the total dividend to 4.4p per share (2022: 14.7p). Subject to approval by shareholders, the final dividend will be paid on 5 July 2024 to shareholders on the register as at 14 June 2024.

The Board remain confident in the long-term prospects of the Group and in its ability to benefit from the recent capacity investments as the market recovers although retains a degree of caution in the short-term with borrowings expected to peak in mid 2024 before reducing steadily thereafter. The Board intends to keep its dividend policy under review and will look to return the level of distribution to the previous 55% as soon as the market conditions permit.

SUSTAINABILITY

Our carbon reduction journey should be seen as a marathon not a sprint facilitated by investments in new, more efficient manufacturing capacity coupled with ongoing research into emerging technologies.

We have clear targets including a 32% reduction in our carbon emissions intensity (from a 2019 baseline) by the end of the decade. 2023 saw a significant reduction in our absolute carbon emissions relative to the prior year although this was primarily driven by a reduction in production and the mothballing of factories, highlighting exactly why we focus on the output adjusted measure of carbon emission intensity.

Whilst our total carbon emissions fell by 13% relative to the prior year as a result of our reduced output, our carbon emission intensity did increase marginally during 2023, partially as a consequence of our decision not to "green" our grid supplied electricity as explained below, along with a variation in product mix following the reductions in production but these short-term fluctuations should not distract from our longer-term carbon reduction targets.

Each of our organic investments provides a meaningful sustainability benefit with the new Desford and Wilnecote brick factories both reducing carbon emissions by approximately 25% relative to their predecessor factories. Our innovative brick slip production facility at Accrington offers real sustainability benefits in manufacturing brick slips with around a 75% reduction in energy and raw material usage and embodied carbon relative to traditional bricks.

2023 saw the commissioning of roof mounted solar panels at our new Desford factory. At a cost of £2.5m they will generate around 16% of the factory's electricity requirement at full production going forward. Our investment in renewable energy extends beyond on-site solar panels. The 150-acre Forterra solar farm, the construction of which was enabled by our 15-year Power Purchase Agreement, will supply almost 70% of our Group electricity demand assuming our business is operating at full production output and an even higher percentage at current levels of output, and will begin supplying us in the coming weeks.

The majority of our year-on-year increase in our carbon emission intensity is driven by our decision not to "green" our grid supplied electricity by purchasing Renewable Energy Guarantee of Origin (REGO) certificates. When we first adopted this policy in 2020, the cost of these certificates was less than £20,000, whereas in 2023 this cost would have increased to approximately £1m. With the forthcoming commissioning of our solar farm and the recent installation of our on-site solar generation at Desford, we determined that in the current economic environment this additional spend would not have represented the most appropriate use of capital. Going forward, our own renewable energy generation, will substantially negate our need to purchase REGOs and a decision will be taken as to whether to purchase any shortfall in due course.

As we strive for a lower carbon future, we are committing more time and resources to researching the innovative technologies that will ultimately help us reach our goal of becoming a net zero business by 2050. Although we firmly believe that through innovation, exploration and investment, we will take a sector-leading approach to decarbonisation, we also recognise that there are many challenges to overcome, and that not every initiative we pursue will ultimately be successful. During 2023 we have continued to explore and undertake trials with a range of alternative fuels including hydrogen, synthetic gas and biomass. Alongside alternative fuels, we also expect carbon capture technology to be crucial in our industry's pathway to a net-zero future and we continue to partner with organisations who seek to develop these technologies. We have also made progress with our initiative to create a cement substitute from the calcined clay found in brick production waste and we expect this to begin delivering cost and sustainability benefits in 2024.

HEALTH, SAFETY AND WELLBEING

The continuous improvement of our health and safety performance remains our number one priority, working towards our goal of zero harm. We recognise that our workforce is our greatest asset, and we aim to provide a working environment that is free of accidents and ill health.

Our Lost Time Incident Frequency Rate (LTIFR) in 2023 showed an improvement, running at 3.24 incidents for every million man hours worked, compared to 3.79 in 2022. Of the 29 separate business areas monitored, 20 were Lost Time Incident (LTI) free during 2023, 7 have been LTI free for over five years and three for over 10 years.

2024 is the final year of planned zero harm strategy that we set out in 2020, our focus in this final year will be on visible felt leadership.

BOARD CHANGES

As previously reported, after 10 years in role and a total of 21 years with the Company, Stephen Harrison stepped down as Chief Executive Officer in April 2023. Having led the carve out from our former parent, steered the Company on to the public market and embarked on a strategy of organic investment with Desford at its heart, Stephen has left a positive legacy.

The Board were delighted to appoint Neil Ash as Chief Executive Officer after a short handover period. Neil has almost three decades' experience in the building materials sector and brings an impressive track record of improving performance and delivering growth at Etex, the Belgian lightweight building materials manufacturer. Neil's extensive building materials sector knowledge gained throughout previous economic cycles equips him to lead the Group through the current challenging times and into the recovery phase as he joins a business well placed to benefit from recent investments. He has certainly hit the ground running.

We also welcomed Gina Jardine to the Board in April as an Independent Non-Executive Director. Gina is an HR professional with extensive experience gained within global building materials and mining companies.

Through her experience and significant knowledge, obtained in some of the largest global corporates, Gina complements and adds to the existing skillset of our Board, and has already offered valuable insight as we redefined our values and continue upon our employee engagement journey. The Board is committed to furthering diversity at all levels. Financial Conduct Authority guidance is that at least 40% of the Board within FTSE 350 companies should be female. Although not currently within the FTSE 350, our Board composition is presently 38% female. In addition, the Senior Independent Director is female and one member of the Board is from a non-white ethnic minority background. Notwithstanding the foregoing, I believe that the skills, knowledge, experience, educational background and upbringing of the individual members of this Board bring a diverse contribution to the debate and discussion around the Board table.

CORPORATE CULTURE

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

As noted earlier, we have recently revised and relaunched our corporate values being the principles of behaviour that will allow us to achieve our strategic goals. These are defined as follows and have been rolled out to all employees in early 2024:

- Innovate to lead: We're empowered to continuously improve
- Pride in excellence: We relish achievement and success
- Collaborate and care: We work in partnership and look after each other

Our purpose is to manufacture and supply building products used to construct homes and other structures, helping to create lasting legacies in the form of communities that will exist for centuries to come.

Health and safety remains our number one priority and the Board is determined to lead by example in ensuring that everyone in our business is under no doubt as to our commitment to zero harm. To this end, the Board continued to ensure it remains highly visible in the business, with each Director completing two factory health and safety walks in addition to full Board visits to four of our factories during the year.

OUTLOOK

The outlook for our industry remains subject to considerable uncertainty and, with a general election expected in 2024, demand is anticipated to remain subdued in the near term. Trading conditions at the beginning of 2024 continued to be challenging with DBT figures suggesting that UK industry brick despatches in January were 5% behind of the 2023 comparative with our own despatches in February slightly ahead of the prior year comparative. We continue to expect demand through 2024 to be broadly aligned to that seen in 2023 although unusually wet weather in the first two months of the year makes underlying demand more difficult to gauge.

We take some encouragement from recent trading updates from our housebuilding customers reporting greater levels of customer activity in recent months with a downward trend in mortgage interest rates through 2024 expected to improve the affordability of new homes, hopefully increasing demand for our products.

With the long-term under-supply of housing in the UK continuing to worsen, and with our previous capacity constraints now addressed, the Board remains confident in the Group's ability to benefit significantly as our key markets recover. The Board's expectations for 2024 remain unchanged with the Group's performance expected to be H2 weighted with this being driven by cost base and efficiency rather than demand.

GOING CONCERN

The Group's debt facility comprises a committed revolving credit facility (RCF) of £170m extending to January 2027 with an option for an extension to July 2028 subject to lender consent. At the balance sheet date, the cash balance stood at £16.0m and after allowing for £9.5m of the facility which is currently carved out to be used for the provision of letters of credit, an undrawn balance of £50.5m was available against the Group's facility, with reported net debt before leases of £93.2m (2022: £5.9m) (net debt is presented inclusive of capitalised arrangement fees).

The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term.

The facility is normally subject to covenant restrictions of leverage (net debt / EBITDA) (as measured before leases) of less than three times and interest cover of greater than four times. The Group also benefits from an uncommitted overdraft facility of £10m.

The Group has traded comfortably within these covenants throughout 2023 and whilst it anticipates remaining within these covenants during 2024, given the combination of the Group's reduced EBITDA and increased net debt, driven by inventory build, capital outflows and higher interest rates, amended covenants have been agreed with the Group's lenders to provide additional headroom in the short-term. Accordingly, the Group's leverage covenant has increased to four times at June 2024 and 3.75 times at December 2024 with interest cover decreasing to three times at December 2024. In addition, quarterly covenant testing has been introduced for the period of the covenant relaxation. As such, for September 2024, leverage is set at four times and interest cover three times and in March 2025 leverage is set at 3.75 times and interest cover at 3 times. The covenants return to normal levels from June 2025 with testing reverting to half yearly.

Management has modelled three financial scenarios for the period to 30 June 2025, comprising a base case and two plausible downside scenarios, reflecting both macroeconomic and industry-specific projections. In addition to this, a reverse stress test has also been modelled.

Assumptions underpinning these scenarios are outlined as follows:

- The base case scenario is aligned to our current demand expectations with short-term market conditions remaining challenging and demand in 2024 being broadly consistent with that seen in 2023;

- 2023 was characterised by a large growth in inventory and the management actions taken in 2023 will address this such that in 2024 production will be more closely aligned to sales;

- Capex outflows on the Group's three strategic investments will be almost complete during 2024, with capital spend significantly reduced thereafter until a recovery in market conditions facilitates a reduction in the Group's net debt; and
- The Group's plausible downside scenarios take into account the current levels of market demand which are already approximately 30% below the levels last seen in 2022, meaning current industry demand is presently in line with levels last seen in the global financial crisis. As such, it is not considered plausible that demand could fall further than within the assumptions within the scenarios laid out below.

Scenario	**Sales volume assumptions**	**Management mitigations**
Base	Volumes reducing by 24-36% in 2024 relative to 2022, recovering in 2025 but remaining 20-27% below 2022	None necessary
Plausible downside	Volumes reducing by 29-40% in 2024 relative to 2022, recovering in 2025 but remaining 25-37% below 2022	None necessary
Plausible downside with management mitigations	Volumes reducing by 29-43% in 2024 relative to 2022, recovering in 2025 but remaining 24-37% below 2022	A number of controllable management mitigations assumed

Under each of the above scenarios, there is no breach in covenants throughout 2024 and in the period up to June 2025. In addition to this, the Group has prepared a reverse stress test to determine the level of market decline that could potentially breach covenants, before further mitigating actions are taken. The reverse stress test indicated, that should volumes fall by between 36% and 46% (product line dependent) versus those seen in 2022, the Group would be at risk of breaching its covenants. This is viewed by the Board to be a highly unlikely scenario, taking into consideration encouraging recent trading updates from housebuilding customers which report greater levels of customer activity in recent months, with a downward trend in mortgage interest rates throughout 2024 expected to increase affordability of new homes. Alongside this, the continuing under-supply of housing in the UK continues to worsen, and the Board are confident in the Group's ability to benefit significantly as markets recover and strategic investments generate returns. Additionally, in the event of the volumes falling in line with those modelled in the reverse stress test, the Group would seek to enact further mitigating actions including additional cost savings, production reductions, curtailment in the quantum of dividend distribution and the sale of land and buildings.

Taking the above into consideration, alongside trading performance for the first two months of 2024 which has seen subdued levels in line with 2023 volumes, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 30 June 2025. The Group therefore adopts the going concern basis in preparing this consolidated financial information.

FORWARD LOOKING STATEMENTS

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

1. the Consolidated Financial Statements of the Group, which have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

2. the announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Neil Ash	Ben Guyatt
Chief Executive Officer	Chief Financial Officer
25 March 2024	

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	**2023 £m**	2022 £m
Revenue		**346.4**	455.5
Cost of sales		**(245.7)**	(292.9)
Gross profit		**100.7**	162.6
Distribution costs		**(48.6)**	(57.7)
Administrative expenses		**(28.5)**	(33.6)
Other operating income		**0.5**	3.7
Operating profit		**24.1**	75.0

	Note	**2023 £m**	2022 £m
EBITDA before exceptional items		**58.1**	89.2
Exceptional items	4	**(14.0)**	2.3
EBITDA		**44.1**	91.5
Depreciation and amortisation		**(20.0)**	(16.5)
Operating profit		**24.1**	75.0

	Note	**2023 £m**	2022 £m
Finance expense	5	**(7.0)**	(2.1)
Profit before tax		**17.1**	72.9
Income tax expense	6	**(4.3)**	(14.1)
Profit for the financial period attributable to equity shareholders		**12.8**	58.8
Other comprehensive (loss)/income			
Effective portion of changes of cash flow hedges (net of tax impact)		**(0.7)**	0.8
Total comprehensive income for the period attributable to equity shareholders		**12.1**	59.6
Earnings per share		**Pence**	Pence
Basic (in pence)	8	**6.2**	27.2
Diluted (in pence)	8	**6.2**	26.8

FORTERRA PLC CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2023

	Note	**2023 £m**	2022 £m
Non-current assets			
Intangible assets		**19.2**	23.6
Property, plant and equipment		**249.7**	233.7
Right-of-use assets		**24.1**	18.1
Derivative financial assets		**5.0**	–
		298.0	275.4
Current assets			
Inventories		**95.8**	43.0
Trade and other receivables		**31.0**	44.3
Income tax asset		**2.3**	–
Cash and cash equivalents		**16.0**	34.3
Derivative financial assets		**1.6**	0.6
		146.7	122.2
Total assets		**444.7**	397.6
Current liabilities			
Trade and other payables		**(66.3)**	(89.6)
Loans and borrowings	9	**(0.4)**	(0.2)
Lease liabilities		**(5.7)**	(4.7)
Provisions for other liabilities and charges		**(15.7)**	(14.3)
Derivative financial liabilities		**(5.8)**	–
		(93.9)	(108.8)
Non-current liabilities			
Loans and borrowings	9	**(108.8)**	(40.0)
Lease liabilities		**(18.5)**	(13.3)
Provisions for other liabilities and charges		**(9.4)**	(10.0)
Deferred tax liabilities		**(6.3)**	(5.0)
		(143.0)	(68.3)
Total liabilities		**(236.9)**	(177.1)
Net assets		**207.8**	220.5
Capital and reserves attributable to equity shareholders			
Ordinary shares		**2.1**	2.1
Retained earnings		**219.8**	233.4
Cash flow hedge reserve		**(0.1)**	0.6
Reserve for own shares		**(14.2)**	(15.8)
Capital redemption reserve		**0.2**	0.2
Total equity		**207.8**	220.5

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023 £m	2022 £m
Cash (used in)/generated from operations	10	**(11.2)**	89.0
Interest paid		**(6.1)**	(2.4)
Tax paid		**(2.7)**	(11.0)
Net cash (outflow)/inflow from operating activities		**(20.0)**	75.6
Cash flows from investing activities			
Purchase of property, plant and equipment		**(33.0)**	(42.1)
Purchase of intangible assets		**(1.1)**	(2.0)
Proceeds from sale of property, plant and equipment		**0.3**	0.4
Exceptional proceeds from sale of property, plant and equipment		**–**	2.5
Net cash used in investing activities		**(33.8)**	(41.2)
Cash flows from financing activities			
Repayment of lease liabilities		**(5.9)**	(5.3)
Dividends paid	7	**(25.7)**	(24.2)
Drawdown of borrowings		**137.0**	40.0
Repayment of borrowings		**(67.0)**	–
Purchase of shares by Employee Benefit Trust		**(2.1)**	(12.2)
Proceeds from sales of shares by Employee Benefit Trust		**1.1**	0.4
Payments made to acquire own shares		**–**	(40.3)
Financing fees		**(1.9)**	–
Net cash generated from/(used in) financing activities		**35.5**	(41.6)
Net decrease in cash and cash equivalents		**(18.3)**	(7.2)
Cash and cash equivalents at the beginning of the period		**34.3**	41.5
Cash and cash equivalents at the end of the period		**16.0**	34.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	Ordinary shares £m	Capital redemption reserve £m	Reserve for own shares £m	Cash flow hedge reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2022		2.3	–	(4.6)	(0.2)	23.9	213.4	234.8
Profit for the year		–	–	–	–	–	58.8	58.8
Other comprehensive income		–	–	–	0.8	–	–	0.8
Total comprehensive income for the year		–	–	–	0.8	–	58.8	59.6
Dividends paid	7	–	–	–	–	–	(24.2)	(24.2)
Movement in other reserves		–	–	–	–	(23.9)	23.9	–
Purchase of shares by Employee Benefit Trust		–	–	(12.2)	–	–	–	(12.2)
Proceeds from sale of shares by Employee Benefit Trust		–	–	0.4	–	–	–	0.4
Payments made to acquire own shares		(0.2)	0.2	–	–	–	(40.3)	(40.3)
Share-based payments charge		–	–	–	–	–	3.4	3.4
Share-based payments exercised		–	–	0.6	–	–	(0.6)	–
Tax on share-based payments		–	–	–	–	–	(1.0)	(1.0)
Balance at 31 December 2022		2.1	0.2	(15.8)	0.6	–	233.4	220.5

	Note	Ordinary shares £m	Capital redemption reserve £m	Reserve for own shares £m	Cash flow hedge reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2023		**2.1**	**0.2**	**(15.8)**	**0.6**	**–**	**233.4**	**220.5**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**12.8**	**12.8**
Other comprehensive loss		**–**	**–**	**–**	**(0.7)**	**–**	**–**	**(0.7)**
Total comprehensive (loss)/income for the year		**–**	**–**	**–**	**(0.7)**	**–**	**12.8**	**12.1**
Dividend paid	7	**–**	**–**	**–**	**–**	**–**	**(25.7)**	**(25.7)**
Purchase of shares by Employee Benefit Trust		**–**	**–**	**(2.1)**	**–**	**–**	**–**	**(2.1)**
Proceeds from sale of shares by Employee Benefit Trust		**–**	**–**	**1.1**	**–**	**–**	**–**	**1.1**
Share-based payments charge		**–**	**–**	**–**	**–**	**–**	**1.7**	**1.7**
Share-based payments exercised		**–**	**–**	**2.6**	**–**	**–**	**(2.6)**	**–**
Tax on share-based payments		**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Balance at 31 December 2023		**2.1**	**0.2**	**(14.2)**	**(0.1)**	**–**	**219.8**	**207.8**

1. General information

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

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

2. Basis of preparation

The consolidated financial information for the year ended 31 December 2023 has been extracted from the audited consolidated financial statements, which were approved by the Board of Directors on 25 March 2024. The audited consolidated financial statements have not yet been delivered to the Registrar of Companies but are expected to be published in April 2024. The auditors have reported on those accounts; their report was unqualified and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Sections 434 to 436 of the Companies Act 2006 and is an abridged version of the consolidated financial statements for the year ending 31 December 2023. Copies of the Annual Report for the year ended 31 December 2023 will be mailed to those shareholders who have opted to receive them by the end of April 2024 and will be available from the Company's registered office at Forterra plc, 5 Grange Park Court, Northampton and the Company's website (http://forterraplc.co.uk/) after that date.

The consolidated financial information is presented in pounds sterling and all values are rounded to the nearest hundred thousand unless otherwise indicated.

Going concern

The Group's debt facility comprises a committed revolving credit facility (RCF) of £170m extending to January 2027 with an option for an extension to July 2028 subject to lender consent. At the balance sheet date, the cash balance stood at £16.0m and after allowing for £9.5m of the facility which is currently carved out to be used for the provision of letters of credit, an undrawn balance of £50.5m was available against the Group's facility, with reported net debt before leases of £93.2m (2022: £5.9m) (net debt is presented inclusive of capitalised arrangement fees).

The Group meets its working capital requirements through these cash reserves and facilities and closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts under various scenarios to ensure sufficient liquidity over the medium-term.

The facility is normally subject to covenant restrictions of leverage (net debt / EBITDA) (as measured before leases) of less than three times and interest cover of greater than four times. The Group also benefits from an uncommitted overdraft facility of £10m.

The Group has traded comfortably within these covenants throughout 2023 and whilst it anticipates remaining within these covenants during 2024, given the combination of the Group's reduced EBITDA and increased net debt, driven by inventory build, capital outflows and higher interest rates, amended covenants have been agreed with the Group's lenders to provide additional headroom in the short-term. Accordingly, the Group's leverage covenant has increased to four times at June 2024 and 3.75 times at December 2024 with interest cover decreasing to three times at December 2024. In addition, quarterly covenant testing has been introduced for the period of the covenant relaxation. As such, for September 2024, leverage is set at four times and interest cover three times and in March 2025 leverage is set at 3.75 times and interest cover at 3 times. The covenants return to normal levels from June 2025 with testing reverting to half yearly.

Management has modelled three financial scenarios for the period to 30 June 2025, comprising a base case and two plausible downside scenarios, reflecting both macroeconomic and industry-specific projections. In addition to this, a reverse stress test has also been modelled.

Assumptions underpinning these scenarios are outlined as follows:

- The base case scenario is aligned to our current demand expectations with short-term market conditions remaining challenging and demand in 2024 being broadly consistent with that seen in 2023;

- 2023 was characterised by a large growth in inventory and the management actions taken in 2023 will address this such that in 2024 production will be more closely aligned to sales;

- Capex outflows on the Group's three strategic investments will be almost complete during 2024, with capital spend significantly reduced thereafter until a recovery in market conditions facilitates a reduction in the Group's net debt; and

- The Group's plausible downside scenarios take into account the current levels of market demand which are already approximately 30% below the normalised levels last seen in 2022, meaning current industry demand is presently in line with levels last seen in the global financial crisis. As such, it is not considered plausible that demand could fall further than within the assumptions within the scenarios laid out below.

Scenario	**Sales volume assumptions**	**Management mitigations**
Base	Volumes reducing by 24-36% in 2024 relative to 2022, recovering in 2025 but remaining 20-27% below 2022	None necessary
Plausible downside	Volumes reducing by 29-40% in 2024 relative to 2022, recovering in 2025 but remaining 25-37% below 2022	None necessary
Plausible downside with management mitigations	Volumes reducing by 29-43% in 2024 relative to 2022, recovering in 2025 but remaining 24-37% below 2022	A number of controllable management mitigations assumed

Under each of the above scenarios, there is no breach in covenants throughout 2024 and in the period up to June 2025. In addition to this, the Group has prepared a reverse stress test to determine the level of market decline that could potentially breach covenants, before further mitigating actions are taken. The reverse stress test indicated, that should volumes fall by between 36% and 46% (product line dependent) versus those seen in 2022, the Group would be at risk of breaching its covenants. This is viewed by the Board to be a highly unlikely scenario, taking into

consideration encouraging recent trading updates from housebuilding customers which report greater levels of customer activity in recent months, with a downward trend in mortgage interest rates throughout 2024 expected to increase affordability of new homes. Alongside this, the continuing under-supply of housing in the UK continues to worsen, and the Board are confident in the Group's ability to benefit significantly as markets recover and strategic investments generate returns. Additionally, in the event of the volumes falling in line with those modelled in the reverse stress test, the Group would seek to enact further mitigating actions including additional cost savings, production reductions, curtailment in the quantum of dividend distribution and the sale of land and buildings.

Taking the above into consideration, alongside trading performance for the first two months of 2024 which has seen subdued levels in line with 2023 volumes, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the going concern period to 30 June 2025. The Group therefore adopts the going concern basis in preparing this consolidated financial information.

Alternative performance measures

In order to provide the most transparent understanding of the Group’s performance, the Group uses alternative performance measures (APMs) which are not defined or specified under IFRS and may not be comparable with similarly titled measures used by other companies. The Group believes that its APMs provide additional helpful information on how the trading performance of the business is reported and internally assessed by management and the Board.

- **Profit related APM's**

Management and the Board use several profit related APMs in assessing Group performance and profitability. Those being adjusted EBITDA, adjusted EBITDA margin, adjusted operating profit (EBIT), adjusted profit before tax, adjusted earnings per share and adjusted operating cash flow. These are considered before the impact of exceptional and adjusting items as outlined below.

(I) Exceptional items

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

In the current year, management considers restructuring costs incurred as a result of market decline to meet this definition. Exceptional items are further detailed in note 4.

(II) Adjusting items

Adjusting items are disclosed separately in the Annual Report and Accounts where management believes it is necessary to show an alternative measure of performance in presenting the financial results of the Group. The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. In the current year, management has presented the below as adjusting items:

- the realised loss recognised within the Statement of Total Comprehensive Income for the sale of excess energy volumes in 2023, where committed volume exceeded actual consumption by the Group £(0.8)m; and
- the fair value of forward energy contracts held where committed future volume is expected by management, as at 31 December 2023, to exceed total consumption by the Group. For these future contracts, the Group can no longer apply the own use exemption under IFRS 9 and instead recognise these as derivatives held at fair value on the balance sheet at 31 December 2023. The fair value gain of

£0.8m, recognised in the Statement of Total Comprehensive Income, has been presented as an adjusting item for the year ended 31 December 2023.

For reporting purposes, 'adjusted results' are those presented before both adjusting and exceptional items. A full reconciliation through to statutory results is shown as follows.

Although both EBITDA and adjusted EBITDA are APMs, EBITDA presented as below under the statutory heading is calculated with reference to statutory results without adjustment.

Group: Revenue, EBITDA, EBITDA margin, operating profit, profit before tax

	Adjusted £m	**Exceptional items £m**	**Adjusting items £m**	**Adjusting items £m**	**Statutory £m**
2023		**Restructuring and impairment costs**	**Realised loss on sale of surplus energy**	**Fair value of energy contract derivatives**	
Revenue	**346.4**	**–**	**–**	**–**	**346.4**
EBITDA	**58.1**	**(14.0)**	**(0.8)**	**0.8**	**44.1**
EBITDA margin %	**16.8 %**	**–**	**–**	**–**	**12.7 %**
Operating profit (EBIT)	**38.1**	**(14.0)**	**(0.8)**	**0.8**	**24.1**
Profit before tax	**31.1**	**(14.0)**	**(0.8)**	**0.8**	**17.1**

	Adjusted £m	Exceptional items £m	Statutory £m
2022		Sale of disused land	
Revenue	455.5	–	455.5
EBITDA	89.2	2.3	91.5
EBITDA margin %	19.6 %	–	20.1 %
Operating profit (EBIT)	72.7	2.3	75.0
Profit before tax	70.6	2.3	72.9

Segmental: Revenue, EBITDA, EBITDA margin

Bricks and Blocks

	Adjusted £m	Exceptional items £m	Adjusting items £m	Adjusting items £m	Statutory £m
2023		Restructuring and impairment costs	Realised loss on sale of surplus energy	Fair value of energy contract derivatives	
Revenue	**277.4**	**–**	**–**	**–**	**277.4**
EBITDA	**52.1**	**(13.7)**	**(0.8)**	**0.8**	**38.4**
EBITDA margin %	**18.8 %**	**–**	**–**	**–**	**13.8 %**

	Restated[1]		
	Adjusted £m	Exceptional items £m	Statutory £m
2022		Sale of disused land	
Revenue	376.1	–	376.1
EBITDA	85.6	2.3	87.9
EBITDA margin %	22.8 %	–	23.4 %

1.Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are contained within note 3.

Bespoke Products

	Adjusted £m	Exceptional items £m	Adjusting items £m	Adjusting Items £m	Statutory £m
2023		Restructuring and impairment costs	Realised loss on sale of surplus energy	Fair value of energy contract derivatives	
Revenue	**72.7**	**–**	**–**	**–**	**72.7**
EBITDA	**6.0**	**(0.3)**	**–**	**–**	**5.7**
EBITDA margin %	**8.3 %**	**–**	**–**	**–**	**7.8 %**

The Bespoke Products segment did not contain exceptional or adjusting items in 2022.

Reconciliation of adjusted operating cash flow to statutory operating cash flow:

	Adjusted £m	Adjusting items £m	Before exceptional items £m	Exceptional items £m	Statutory £m
EBITDA	**58.1**	–	**58.1**	(14.0)	**44.1**
Impairment of property, plant and equipment	**–**	–	**–**	5.0	**5.0**
Purchase and settlement of carbon credits	**3.1**	–	**3.1**	–	**3.1**
Other cash flow items[1]	**(4.1)**	(0.8)	**(4.9)**	3.9	**(1.0)**
Changes in working capital					
– Inventories	**(52.8)**	–	**(52.8)**	–	**(52.8)**
– Trade and other receivables	**13.3**	–	**13.3**	–	**13.3**
– Trade and other payables	**(22.9)**	–	**(22.9)**	–	**(22.9)**
Operating cash flow	**(5.3)**	(0.8)	**(6.1)**	(5.1)	**(11.2)**

1. For reconciliation purposes, 'Other cash flow items' is reported as the sum of: loss/(profit) on disposal of property, plant and equipment and leases, movement on provisions, share-based payments and other cash items as are detailed within note 10.

Other APM's

Net debt before leases: Net debt before leases is presented as the total of cash and cash equivalents and borrowings, inclusive of capitalised financing costs and excluding lease liabilities reported at the balance sheet date.

Operating cash conversion: Operating cash conversion is calculated as operating cash flow before exceptional items, less capital expenditure (excluding spend on strategic projects), divided by adjusted operating profit.

3. Segmental reporting

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

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

The principal activity of the operating segments are:

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

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

In 2023 the Red Bank business was reclassified from the Bespoke Products segment to the Brick and Block segment after an internal restructure that combined the Cradley Special Brick and Red Bank operations. The segmental revenue and results, assets and other information that follows have been restated to reflect this change comparatively across periods.

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

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

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

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

Segmental revenue and results

		2023			Restated[1] 2022		
	Note	**Bricks and Blocks £m**	**Bespoke Products £m**	**Total £m**	Bricks and Blocks £m	Bespoke Products £m	Total £m
Segment revenue		**277.4**	**72.7**	**350.1**	376.1	84.2	460.3
Inter-segment eliminations				**(3.7)**			(4.8)
Revenue				**346.4**			455.5
EBITDA before exceptional items		**52.1**	**6.0**	**58.1**	85.6	3.6	89.2
Depreciation and amortisation		**(18.6)**	**(1.4)**	**(20.0)**	(15.1)	(1.4)	(16.5)
Operating profit before exceptional items		**33.5**	**4.6**	**38.1**	70.5	2.2	72.7
Exceptional items	4	**(13.7)**	**(0.3)**	**(14.0)**	2.3	–	2.3
Operating profit		**19.8**	**4.3**	**24.1**	72.8	2.2	75.0
Finance expense	5			**(7.0)**			(2.1)
Profit before tax				**17.1**			72.9

1. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are contained within note 3.

Segmental assets

	2023			Restated[1] 2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**	Bricks and Blocks £m	Bespoke Products £m	Total £m
Intangible assets	**16.8**	**2.4**	**19.2**	21.7	1.9	23.6
Property, plant and equipment	**240.8**	**8.9**	**249.7**	224.7	9.0	233.7
Right-of-use assets	**22.9**	**1.2**	**24.1**	17.6	0.5	18.1
Inventories	**92.1**	**3.7**	**95.8**	37.6	5.4	43
Segment assets	**372.6**	**16.2**	**388.8**	301.6	16.8	318.4
Unallocated assets			**55.9**			79.2
Total assets			**444.7**			397.6

1. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are contained within note 3.

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

Other segmental information

	2023			Restated[1] 2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**	Bricks and Blocks £m	Bespoke Products £m	Total £m
Intangible asset additions	**5.3**	**0.8**	**6.1**	11.4	1.1	12.5
Property, plant and equipment additions	**32.6**	**0.9**	**33.5**	40.3	1.1	41.4
Right-of-use asset additions	**11.2**	**1.1**	**12.3**	6.6	0.2	6.8

1. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are contained within note 3.

Customers representing 10% or greater of revenues

	2023			Restated[1] 2022		
	Bricks and Blocks £m	**Bespoke Products £m**	**Total £m**	Bricks and Blocks £m	Bespoke Products £m	Total £m
Customer A	**40.1**	**0.2**	**40.3**	50.0	1.5	51.5
Customer B	**–**	**–**	**–**	43.8	1.0	44.8

1. Restated to report Red Bank results within the Bricks and Blocks segment as a result of internal restructure. Further details are contained within note 3.

4. Exceptional items

	2023 £m	2022 £m
Sale of disused land	–	2.3
Restructuring costs	**(9.0)**	–
Impairment of plant and equipment	**(5.0)**	–
	(14.0)	2.3

2023 Exceptional items
Exceptional items in 2023 relate to costs associated with the restructuring of our operations. Restructuring activities were undertaken to reduce output in response to the decline in demand for our products. Cash restructuring costs totalled £9.0m, of which £8.8m related to redundancies and terminations made across the Group. In addition to this, non-cash impairment losses of £5.0m have been recognised in respect of the carrying value of plant and equipment at the Howley Park and Claughton brick factories which were mothballed in the year.

Impairment of tangible assets
Any impairment of tangible assets is determined in line with Group accounting policies. In the current year, following restructuring actions taken by the Group and the mothballing of both sites, plant and machinery associated with the Howley Park Brick factory CGU and the Claughton brick factory CGU, which both sit within the Bricks and Blocks reportable segment, has been impaired. The plant and machinery at both sites has been fully written down as it is not expected to generate cash flows in the medium-term or have a material and readily realisable market value. In total £0.9m was impaired at Howley Park and £4.1m at Claughton. Following the decision to mothball the factories, the associated land and buildings are not being utilised in generating cash flows and management have estimated, supported by management experts and through undertaking 'Red Book' assessments, fair value less costs to sell for both sites. The fair value less costs to sell are estimated to be above the carrying values held at 31 December 2023 and the Group has therefore not recognised any impairment of land and buildings in the year. At 31 December 2023 the property, plant and equipment of these mothballed factories held carrying values of £4.5m in relation to Howley Park and £0.5m in relation to Claughton.

2022 Exceptional items
In 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.

Presentation of exceptional items

	Cost of sales £m	Distribution costs £m	Administrative expenses £m	Other operating income £m	Total £m
2023					
Restructuring costs	**(7.0)**	**(1.6)**	**(0.4)**	**–**	**(9.0)**
Impairment of plant and equipment	**(5.0)**	**–**	**–**	**–**	**(5.0)**
	(12.0)	**(1.6)**	**(0.4)**	**–**	**(14.0)**
2022					
Sale of disused land	–	–	–	2.3	2.3

Tax on exceptional items

The restructuring costs incurred in the year including redundancies, legal costs and onerous leases were tax deductible. The asset impairment of plant and machinery is not deductible against corporation tax however it reduces the deferred tax liability on qualifying plant and machinery.

5. Finance expense

	2023 **£m**	2022 £m
Interest payable on loans and borrowings	**5.7**	1.6
Interest payable on lease liabilities	**0.7**	0.4
Other finance expense	**–**	0.1
Amortisation of capitalised financing costs	**0.6**	–
	7.0	2.1

6. Taxation

	2023 **£m**	2022 £m
Current tax		
UK corporation tax on profit for the year	**3.5**	12.3
Prior year adjustment on UK corporation tax	**(0.7)**	0.5
Total current tax	**2.8**	12.8
Deferred tax		
Origination and reversal of temporary differences	**0.9**	1.3
Effect of change in tax rates	**0.1**	0.3
Effect of prior period adjustments	**0.5**	(0.3)
Total deferred tax	**1.5**	1.3
Income tax expense	**4.3**	14.1

	2023 **£m**	2022 £m
Current tax		
Profit before taxation	**17.1**	72.9
Expected tax charge	**4.0**	13.9
Expenses not deductible for tax purposes	**0.4**	(0.3)
Effect of prior period adjustments	**(0.1)**	0.2
Effect of change on deferred tax rate	**–**	0.3
Income tax expense	**4.3**	14.1

The expected tax charge is calculated using the statutory tax rate of 23.5% (2022: 19%) for current tax. Deferred tax is calculated at the rate at which the provision is expected to reverse. The UK main rate of corporation tax increased to 25% on 1 April 2023. There has been no change in the Finance Bill 2023.

7. Dividends

	2023 **£m**	2022 £m
Amounts recognised as distributions to equity holders in the year		
Interim dividend of 2.4p per share (2022: 4.6p)	**4.9**	9.6
Final dividend of 10.1p per share in respect of prior year (2022: 6.7p)	**20.8**	14.6
	25.7	24.2

The Directors are proposing a final dividend for 2023 of 2.0p per share, making a total payment for the year of 4.4p (2022: 14.7p). This is subject to approval by the shareholders at the AGM and has not been included as a liability in this consolidated financial information.

8. Earnings per share

The calculation of earnings per Ordinary Share is based on profit or loss after tax and the weighted average number of Ordinary Shares in issue during the year. Adjusted earnings per share is presented as an alternative performance measure to provide an additional year-on-year comparison. A reconciliation between adjusted and statutory results is presented within note 2.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. The Group has four types of dilutive potential Ordinary Shares: those share options granted to employees under the Sharesave scheme; unvested shares granted under the Deferred Annual Bonus Plan; unvested shares granted under the Share Incentive Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period. If, for any of the above schemes, the average share price for the year is greater than the option price, these shares become anti-dilutive and are excluded from the calculation.

		Adjusted		**Statutory**	
	Note	**2023** **£m**	2022 £m	**2023** **£m**	2022 £m
Operating profit for the year		**38.1**	72.7	**24.1**	75.0
Finance expense	5	**(7.0)**	(2.1)	**(7.0)**	(2.1)
Profit before taxation		**31.1**	70.6	**17.1**	72.9
Income tax expense	6	**(7.6)**	(13.6)	**(4.3)**	(14.1)
		23.5	57.0	**12.8**	58.8
Weighted average number of shares (millions)		**206.6**	216.2	**206.6**	216.2
Effect of share incentive awards and options (millions)		**1.4**	3.2	**1.4**	3.2
Diluted weighted average number of shares (millions)		**208.0**	219.4	**208.0**	219.4
Earnings per share		**Pence**	Pence	**Pence**	Pence
Basic (in pence)		**11.4**	26.4	**6.2**	27.2
Diluted (in pence)		**11.3**	26.0	**6.2**	26.8

Adjusted earnings per share is presented as an APM and is calculated by excluding both exceptional and adjusting items as detailed within note 2 to this consolidated financial information. The associated adjusted tax charge is calculated using the rate excluding these exceptional and adjusting items of 24.5% (2022: 19.3%).

9. Loans and borrowings

	2023 £m	2022 £m
Current loans and borrowings:		
Interest	**0.4**	0.2
Non-current loans and borrowings:		
Capitalised financing costs	**(1.2)**	–
Revolving credit facility	**110.0**	40.0
	109.2	40.2

In the prior period and until January 2023, the Group operated under a £170m revolving credit facility which was committed until 1 July 2025. The interest rate under this facility was calculated based on SONIA plus a margin with a credit spread adjustment.

In January 2023 the Group completed a refinancing of these existing banking facilities. The facility remains at £170m until January 2027 with an extension option, subject to bank approval, extending the facility to June 2028. The interest rate is calculated using SONIA plus a margin, with the margin grid ranging from 1.65% at a leverage of less than 0.5 times to 3.5% where leverage is between 3.5 times and 4 times (in line with the covenant relaxations outlined below).

The facility is normally subject to covenant restrictions of net debt/EBITDA (as measured before leases) of less than three times and interest cover of greater than four times. The Group also benefits from an uncommitted overdraft facility of £10m. The business has traded comfortably within these covenants throughout 2023 and whilst the Group expects to remain within these covenants during 2024, amended covenants have been agreed with the Group's lenders to provide additional headroom given the combination of the Group's reduced EBITDA, increased net debt driven by inventory build, capital outflows and higher interest rates. Accordingly, the Group's leverage covenant has increased to 4 times in June 2024 and 3.75 times in December 2024 with interest cover decreasing to 3 times in December 2024. In addition, quarterly covenant testing has been introduced for the period of the covenant relaxation. As such, in September 2024, leverage is set at four times and interest cover three times and in March 2025 leverage is set at 3.75 times and interest cover at three times. The covenants return to normal levels from June 2025 with testing reverting to half yearly. The existing restriction prohibiting the declaration or payment of dividends should leverage exceed 3 times EBITDA has been amended to 4 times EBITDA in 2024 before returning to 3 times in 2025.

In addition to the above, the loan facility is sustainability-linked and subject to a margin adjustment of 5 bps if the annual sustainability targets are met. There has also been a change to the lenders with Santander being replaced by Sabadell and Virgin Money (Clydesdale Bank plc).

Debt issue costs incurred in relation to the refinancing, being £1.8m in total, were capitalised at the date of refinancing and are being amortised over the period of the facility.

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

10. Notes to the Consolidated Statement of Cash Flows

	Note	**2023 £m**	2022 £m
Cash flows from operating activities			
Profit before tax		**17.1**	72.9
Finance expense	5	**7.0**	2.1
Exceptional items	4	**14.0**	(2.3)
Operating profit before exceptional items		**38.1**	72.7
Adjustments for:			
Depreciation and amortisation		**20.0**	16.5
Loss/(profit) on disposal of property, plant and equipment and leases		**0.2**	(0.4)
Movement in provisions		**(3.7)**	4.1
Purchase of carbon credits		**(5.2)**	(10.3)
Settlement of carbon credits		**8.3**	4.7
Share-based payments		**0.9**	3.4
Other non-cash items		**(2.3)**	(0.8)
Changes in working capital:			
Inventories		**(52.8)**	(10.2)
Trade and other receivables		**13.3**	(5.2)
Trade and other payables		**(22.9)**	14.5
Cash (used in)/generated from operations before exceptional items		**(6.1)**	89.0
Cash flows relating to operating exceptional items		**(5.1)**	–
Cash (used in)/generated from operations		**(11.2)**	89.0

11. Net debt

	2023 £m	2022 £m
Cash and cash equivalents	**16.0**	34.3
Loans and borrowings	**(109.2)**	(40.2)
Lease liabilities	**(24.2)**	(18.0)
Net debt	**(117.4)**	(23.9)

Reconciliation of net cash flow to net debt

	Note	2023 £m	2022 £m
Cash flow (used in) / generated from operations before exceptional items		**(6.1)**	89.0
Payments made in respect of exceptional items		**(5.1)**	–
Cash flow (used in) / generated from operations after exceptional items		**(11.2)**	89.0
Interest paid		**(6.1)**	(2.4)
Tax paid		**(2.7)**	(11.0)
Net cash outflow from investing activities		**(33.8)**	(41.2)
Dividends paid	7	**(25.7)**	(24.2)
Purchase of shares by Employee Benefit Trust		**(2.1)**	(12.2)
Proceeds from sale of shares by Employee Benefit Trust		**1.1**	0.4
New lease liabilities		**(12.3)**	(6.8)
Payments made to acquire own shares		**–**	(40.3)
Other financing movement		**(0.7)**	0.4
Increase in net debt		**(93.5)**	(48.3)
Net debt at the start of the period		**(23.9)**	24.4
Net debt at the end of the period		**(117.4)**	(23.9)

12. Related party transactions

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

	2023 £m	2022 £m
Emoluments including taxable benefits	**2.8**	3.4
Share-based payments	**0.4**	1.4
Pension and other post-employment benefits	**0.2**	0.2
	3.4	5.0

Information relating to Directors' emoluments, pension entitlements, share options and long-term incentive plans appear in the Annual Report on Remuneration within the Annual Report and Accounts to be published in April 2024.

13. Post balance sheet events

With the exception of the covenant relaxations outlined within note 9, there are no events which have occurred since the balance sheet date that would merit separate disclosure.

RISK MANAGEMENT AND KEY RISKS

Overview

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

In a year where we have experienced a macro-economic shock, impacting demand with high inflation and the associated increases to interest rates, we remain watchful of further impacts to our core markets and how demand for our products continues to develop.

We continue to monitor this alongside numerous other rapidly evolving business risks; implementing mitigating controls and actions as appropriate. Details of our principal key risks are shown further in the table below.

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 key focus within our business with the increasing need to make Forterra more resilient against the potential effects of climate change, and evolving sustainability driven risks are highlighted within extensive disclosure in our 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. Throughout 2023, the Board’s Risk and Sustainability Committee provided oversight and governance over the most significant risks the business faces in the short, medium and long-term, and recognising the importance of the subject matter, from January 2024 this will be governed by a standalone Sustainability Committee.

Key risks

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

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

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 in place procedures 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.

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

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

KEY RISKS AND UNCERTAINTIES

1. HEALTH AND SAFETY	Gross change: Static	Net change: Static
Principal Risk and why it is relevant	Key mitigation, change and sponsor	
We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts and noise, dusts and chemicals.	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. Our safety focus in 2023 continued to be around effective employee engagement and communication focused on our Golden Rules and Zero Harm. In the period we have delivered a further programme of behavioural safety awareness training emphasising the importance of our safety related golden rules. Executive sponsor: Neil Ash	

<table>
<tr><td>2. SUSTAINABILITY / CLIMATE CHANGE</td><td>Gross change: Static</td><td>Net change: Static</td></tr>
<tr><td>Principal Risk and why it is relevant</td><td colspan="2">Key mitigation, change and sponsor</td></tr>
<tr><td>We recognise the importance of sustainability and climate change and both the positive and negative impacts our products and processes have on the environment.</td><td colspan="2">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 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 CO2 emissions, but we also benefit financially from reducing the amount of energy and carbon credits we need to purchase.
Acknowledging the continued importance of the subject matter, from January 2024, all sustainability risks will be governed by the newly formed standalone Sustainability Committee.
Executive sponsor: Neil Ash and George Stewart</td></tr>
</table>

3. ECONOMIC CONDITIONS	Gross change: Decrease	Net change: Decrease
Principal Risk and why it is relevant	Key mitigation, change and sponsor	
Demand for our products is closely correlated with residential and commercial construction activity. Changes in the wider macro-economic environment can have significant impact in this respect and we monitor these closely as a result.	Understanding business performance in real-time, through our customer order book, strong relationships across the building sector, and a range of internal and external leading indicators, help to inform management and ensure that the business has time to respond to changing market conditions. 2023 saw the continuation of the cyclical downturn in the UK housing market, driven by Government economic policy which resulted in significant increases in borrowing costs and accordingly mortgage affordability; impacting demand for housing in the short-term. However, we recognise that ultimately there remains a shortage of housing in the UK, financing is accessible (though now more expensive) and the population continues to grow and as such we remain confident in the medium to long-term outlook and have decreased this risk accordingly. We additionally remain watchful of the wider geopolitical landscape, accepting the impact that changes in this respect can have on our business. Across 2023 we displayed our ability to flex output and slow production when customer demand requires this. This has been effective in the past and we believe the changes made to our operational footprint during the year leave us well positioned to take advantage of attractive market fundamentals in the medium to long-term. Executive sponsor: Neil Ash	

4. GOVERNMENT ACTION AND POLICY	Gross change: Decrease	Net change: Decrease
Principal Risk and why it is relevant	Key mitigation, change and sponsor	
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. Through our participation in these trade and industry associations we ensure our views are communicated to Government and our Executive team often meet with both ministers and MPs. Where identified, we factor any emerging issues into models of anticipated future demand to guide strategic decision-making. As we head into an election year in the UK, lack of quality housing remains a key political issue and as such we anticipate current and future governments will continue to incentivise construction of new homes, even if different political ideologies demand different models of home ownership. Changes in monetary policy and the rapid associated increase to interest rates have had a significant impact on mortgage affordability, an additional challenge in a period that has also seen the end of the Help to Buy scheme. We therefore consider a lack of broader support in the longer term 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 further potential changes in this area and their impact on the construction of new homes. Executive sponsor: Neil Ash	

5. RESIDENTIAL SECTOR ACTIVITY LEVELS	Gross change: Decrease	Net change: Decrease
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Residential development (both new build and repair, maintenance and improvement) contributes the majority of Group revenue. The dependence of Group revenues on this sector means that any change in activity levels in this sector will affect profitability and in the longer-term, strategic growth plans.	We closely follow the demand we are seeing from our key markets, along with market forecasts, end user sentiment, mortgage affordability and credit availability in order to identify and respond to opportunities and risk. Group strategy focuses upon our strength in this sector whilst also continuing to strengthen our commercial and specification offer. The impact of increasing interest rates and the wider macroeconomy on this sector had a notable impact on demand levels across 2023. Whilst we remain watchful entering 2024, we are seeing evidence from our customers that this decline has plateaued and have reduced this risk accordingly. The investment in the redevelopment of the Wilnecote brick factory which will supply the commercial and specification market will provide a degree of diversification away from residential construction, further insulating the Group from the impact of future demand cycles. Executive sponsor: Neil Ash	

6. INVENTORY/WORKING CAPITAL MANAGEMENT	Gross change: Increase	Net change: Increase
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Ensuring sufficient inventories of our products is critical to meeting our customers' needs, though this should not be at the expense of excessive cash tied up in working capital. Whilst the ability to serve our customers is key, where excessive inventory starts to be built, management must ensure that production is aligned to forecast demand. Cash tied to surplus working capital increases financing costs and could ultimately impact the Group's liquidity, restricting the amount of cash available for other purposes.	After a long period of historically low stock levels, the recent softening in demand has allowed these stocks to be replenished. Strong customer relationships and some degree of product range substitution have historically mitigated the risk of inventory levels being too low, and now that levels are growing these relationships remain key, ensuring that visibility of our customers' needs and demand levels can accurately be matched to our production levels. Where demand does fall, it is crucial to manage working capital levels carefully and ensure excessive cash is not tied up in inventory. We have historically demonstrated our ability to flex capacity effectively, allowing optimum efficiency and utilisation of our operational footprint. This has been further exemplified in the period with the mothballing of our Howley Park and Claughton brick production facilities, reducing our fixed cost base whilst ensuring our customers' needs can still be met. Executive sponsor: Adam Smith, Darren Rix and Steve Jeynes	

7. CUSTOMER RELATIONSHIPS AND REPUTATION	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
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. In a softer demand environment, an inability to maintain these relationships could manifest itself in loss of market share, and if not managed correctly, be detrimental in the longer term in periods of stronger demand. To mitigate these risks we remain in constant communication with our customers ensuring they are well informed of the challenges faced by our business. We remain particularly conscious of potential impacts on our customer service and selling prices as we aim to retain our margins in a time where our customers are also facing challenging conditions. Executive sponsor: Adam Smith and Darren Rix	

8. ATTRACTION, RETAINING AND DEVELOPING EMPLOYEES	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We recognise that our greatest asset is our workforce and a failure to attract, retain and develop talent will be detrimental to Group performance.	We understand where key person dependencies and skills gaps exist and continue to develop succession, talent acquisition, and retention plans. We continue to focus on safe working practices, employee support and strong communication/employee engagement. Notwithstanding a softer demand environment, challenges associated with labour availability remain across the business in key skilled areas and it is crucial that this continues to be addressed to ensure the continued success of the Group which is dependant on our people. Executive sponsor: Neil Ash	

9. INNOVATION	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Failure to respond to market developments could lead to a fall in demand for the products that we manufacture. This in turn could cause revenue 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. In a period of softer demand for our products, providing innovative products for both our core markets and the wider construction market is of increased importance and we strive to ensure that we are in a position to do so. New product development and related initiatives therefore continue and we continue to commit to further investment in research and development with clear links between investment in R&D and the work undertaken in relation to sustainability. Executive sponsor: Neil Ash	

10. IT INFRASTRUCTURE AND SYSTEMS	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Disruption or interruption to IT systems could have a material adverse impact on performance and position.	We have undertaken a period of investment in consolidating, modernising and extending the reach of our IT systems in recent years, maintaining ISO 27001 Information Security accreditation. This investment has ensured our ability to maintain the level of customer service that our customers expect, one of our core business values. We continue to increase our resilience in this area, ensuring that our people understand their role in any attempt to compromise our cyber security and regular training and tests are carried out as such. Executive sponsor: Ben Guyatt	

11. BUSINESS CONTINUITY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
Performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should we experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Having made plans to allow key centralised functions to continue to operate in the event of business interruption, remote working capabilities have been maintained and continually strengthened in recent years, ensuring the business is able to continue operating with minimal disruption. 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: Neil Ash and Ben Guyatt	

12. PROJECT DELIVERY	Gross change: Static	Net change: Static
Principal risk and why it is relevant	Key mitigation, change and sponsor	
We have an extensive program of capital investment ongoing within our business which will see three large projects to add production capacity. Ensuring these projects are delivered as intended is essential to the future success of the business.	The 2023 commissioning of our Desford brick factory represents the largest capital investment that we have ever made. Despite the virtually complete Desford project, our vigilance in managing project delivery across the business has not diminished and the focus of this risk has in turn shifted to ongoing projects at both Wilnecote and Accrington. Management closely monitor all current strategic projects for potential challenges, cost over-runs and delays and act promptly to ensure that risks are mitigated. Unexpected supplier delays have delayed the recommissioning of the new Wilnecote factory into H2 of 2024 with management actively liaising with suppliers to ensure delays are mitigated wherever possible. Management recognise the additional risks posed by running concurrent major projects, and to mitigate, separate project management structures are in place for each respective project and where common suppliers are involved procedures are in place to ensure they retain sufficient capacity to deliver on both projects without significant risk. Executive sponsor: George Stewart	