FORTERRA plc

10 September 2020

2020 HALF YEAR RESULTS

Forterra plc, a leading UK producer of manufactured masonry products, announces half year results for the six months ended 30 June 2020.

	Six months ended 30 June 2020 £m			Six months ended 30 June 2019 £m
	Statutory	Exceptional items	Before exceptional items	Statutory*
Revenue	122.4	-	122.4	193.6
EBITDA	(12.4)	20.6	8.2	42.5
Operating (loss)/profit	(21.4)	20.6	(0.8)	33.9
(Loss)/Profit before tax	(23.3)	21.0	(2.3)	32.7
EPS (pence)	(10.3)	10.3	-	13.6
Net debt	80.3	-	80.3	49.6
Interim dividend (pence)	-	-	-	4.0

* There were no exceptional items in H1 2019 so these comparatives are directly comparable with the 2020 result before exceptional items

CURRENT TRADING AND RECENT DEVELOPMENTS

- Trading since emerging from lockdown through to the end of August has exceeded management expectations although uncertainties remain
- Production has now resumed at all factories operating in line with Government guidance to protect employees
- Swift management action to right-size cost base completed, reducing fixed costs by £10.4m
- £55m equity placing and refinancing completed at beginning of July secures bank facilities out to 2024 and strengthens balance sheet
- Desford brick factory project funding secured with construction progressing
- July and August sales revenues highlight encouraging recovery at 89% and 82% of prior year respectively, with Brick and Block revenues exceeding 90% of prior year comparative in both months
- Subject to a continuation of current trading conditions and there being no further COVID-19 driven disruption, the Board expect full year EBITDA, stated before exceptional items, to be in the range of £27m-£32m

FINANCIAL HIGHLIGHTS

- Revenue fell by 37% relative to the prior period due to the impact of COVID-19
- EBITDA before exceptional items decreased by £34.3m to £8.2m
- Result before tax and exceptional items decreased by £35.0m from a profit of £32.7m to a loss of £2.3m
- Exceptional items of £21.0m include non-cash impairment charges of £16.2m, restructuring costs of £4.4m and debt-refinancing costs of £0.4m

- Net debt at 30 June 2020 (stated prior to the receipt of the proceeds from the equity placing) was £68.6m before lease liabilities and £80.3m after including IFRS 16 lease liabilities of £11.7m.

Stephen Harrison, Chief Executive Officer, commented:

“The Group faced unprecedented challenges during the first half and I would like to thank all our employees and other stakeholders for their collaborative approach in overcoming the challenges we faced through this period.

“Inevitably, our results were heavily impacted by COVID-19 and the associated lockdown. We took swift action to ensure the wellbeing of our employees as demand for our products fell dramatically and we ceased production at the majority of our facilities. We also acted decisively to manage our cost base and ensure sales and production remained balanced. We have now substantially completed a range of restructuring actions and production has now resumed at all our factories.

“I am pleased to report that trading since emerging from lockdown has exceeded management’s expectations and we remain very confident in the long-term recovery of our markets.

“Subject to a continuation of current trading conditions and there being no further COVID-19 driven disruption, the Board expects full year EBITDA, stated before exceptional items, to be in the range of £27m-£32m. The Board will continue to monitor our key markets and the economy more generally and believe that the Group’s strong balance sheet, reinforced by the recent equity placing and refinancing, provides both the resilience and agility required in these unprecedented times.”

ENQUIRIES

Forterra plc	**+44 1604 707 600**
Stephen Harrison, Chief Executive Officer Ben Guyatt, Chief Financial Officer	
FTI Consulting	**+44 203 727 1340**
Richard Mountain / Nick Hasell	

A presentation for analysts will be held today, 10 September 2020, 10.00am. The presentation can be accessed via the link below:

https://kvgo.com/IJLO/2020_Half_Year_Results_Announcement

A recording of this webcast will be available later in the day on the Investors section of our website (http://www.forterraplc.co.uk).

ABOUT FORTERRA PLC

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

Within our clay bricks business, Forterra focuses on the efficient manufacture of high volume extruded and soft mud bricks, primarily for the housing market. The business is also the sole manufacturer of the iconic Fletton brick sold under the London Brick brand. Fletton bricks were used in the original construction of nearly a quarter of England’s existing housing stock and are today used to match existing brickwork by homeowners carrying out extension or improvement work. Within our concrete blocks business, Forterra is one of the leading producers of both aircrete and aggregate blocks, the former being sold under one of the country’s principal aircrete brands of Thermalite.

BUSINESS REVIEW

SUMMARY

The results for the first half of 2020 were heavily impacted by the COVID-19 pandemic and the associated lockdown. The period started normally with the business trading broadly in line with expectations in January and February. The impact of COVID-19 was felt suddenly in March with swift action taken to ensure the wellbeing of our employees. Demand for our products fell dramatically and we ceased production at the majority of our facilities.

We are extremely grateful to all of our employees who have in different ways helped us overcome the unprecedented challenges faced during the period. Some of them continued to work through lockdown allowing manufacturing to continue for critical projects, others delivered our products when our customers needed them. Many of our office staff overcame a number of challenges to work flexibly from home and finally we are mindful of the sacrifices made by the large proportion of our workforce who were furloughed. We also wish to acknowledge the collaborative approach taken by many of our customers, suppliers and peers within the construction sector as we looked to overcome the challenges by working together.

Activity levels started to improve in May and continued to recover strongly allowing production to recommence at most of our facilities prior to the period end. This recovery has continued through the summer with trading exceeding management expectations. At the date of this report, production has recommenced at all of our facilities. However, whilst the current buoyancy in the housing market provides cause for optimism the future remains subject to uncertainty. In order to manage our cost base and ensure sales and production remain balanced, we have substantially completed a range of restructuring actions which include around 225 job losses, primarily in the Bespoke Products division. While this is regrettable, this has served to reduce our annual fixed costs by £10.4m. We believe this decisive action has positioned the business well to deal with any future uncertainty.

RESULTS FOR THE HALF YEAR

Revenue was £122.4m, a decrease of 37% against the comparative period for 2019 (2019: £193.6m). The loss before tax for the period before exceptional items of £2.3m was a fall of £35.0m against the comparative period (2019: profit of £32.7m).

Trading during the first two months of the year was broadly in line with expectations despite the particularly wet weather acting as a headwind. The business was first impacted by the pandemic in mid-March. The health, safety and wellbeing of our employees was our primary concern and we took prompt action to allow our colleagues to work from home wherever possible and eliminated all unnecessary travel. As the crisis deepened and lockdown was announced, a decision was taken to cease production at the majority of our manufacturing operations shutting down facilities in a controlled and safe manner.

During late March demand for our products fell suddenly and steeply. Revenue in March was 74% of the 2019 comparative with much of the shortfall occurring in the last week of the month. Whilst the decision to suspend production was initially made on safety grounds, it soon became clear that any early resumption of production would have led to a significant and unwanted inventory build.

Production remained suspended at most of our operations throughout April. Manufacturing did continue throughout this period in accordance with public health guidance at three of our facilities in order to service key Government backed infrastructure projects. We were also able to continue despatching bricks and blocks to our customers who still required them using our own delivery vehicles, again following all applicable safety guidance.

In addition to ensuring the safety of our colleagues, Management's focus turned to cash preservation. The Coronavirus Job Retention Scheme (JRS) allowed for the mitigation of cash outflows whilst allowing our employees to continue to receive an income. During the peak of the pandemic in April approximately 75% of the Group's workforce were furloughed. As at 30 June 2020, 30% of the workforce remained on furlough and by the end of August the vast majority of our employees had returned from furlough. In the period to 30 June 2020 the total claim under the JRS totalled £8.4m.

In recognition of the sacrifices made by the large proportion of the workforce whom were placed on furlough, the Board and Executive Committee took a voluntary 20% pay cut which lasted for three months commencing in April and in addition bonus entitlements for 2019 performance which would have been payable in April were cancelled.

Revenue in April 2020 was 14% of the 2019 comparative. At the end of the month, following Government guidance encouraging construction sites to reopen and in response to many builders' merchants themselves reopening and having undertaken the necessary risk assessments, the first kiln at one of our brick factories was relit. Production of hollowcore precast concrete flooring also recommenced in order to service customer requirements.

Trading recovered through May with revenue for the month being 38% of the 2019 comparative. Further facilities recommenced production although the strategy remained very much one of cash preservation with the aim being to sell from inventory wherever possible, actively managing inventory levels downwards and only recommencing production where necessary to meet customer requirements. The recovery in May was driven predominantly by the builders' merchants where strong sales were underpinned by a recovering Repair Maintenance and Improvement (RM&I) market along with demand from smaller housebuilders. The larger housebuilders appeared at this stage to be focused on finishing existing work in progress and as such their demand for our products remained muted.

The recovery continued to gain pace throughout June with revenues recovering to 74% of the prior year allowing production to restart to some degree at the majority of our facilities such that by the beginning of July, 16 of our 18 facilities had manufactured product since the pandemic struck. Demand across our product range varied somewhat although it was noteworthy that sales of the London Brick, sold exclusively into the repair maintenance and improvement channel, were ahead of our pre COVID-19 expectations again demonstrating the strength of this channel in leading the recovery at this time.

RESTRUCTURING AND EXCEPTIONAL COSTS

The Board firmly believes that the ultimate recovery of the Group's key markets is not in doubt. However, with significant uncertainty as to the levels of future demand there is an increased need for the business to be agile in the near term and it is important that the Group's cost base is adjusted accordingly to enable this. We have therefore taken steps to restructure the Group's operations removing £10.4m of fixed costs.

The steps implemented include both changes to shift patterns and adjustments to the size and structure of support functions. We have consolidated the manufacture of all precast concrete flooring products at our Hoveringham facility in Nottinghamshire. This necessitated the mothballing of our hollowcore flooring manufacturing facility at Swadlincote in Derbyshire. In total, these changes regrettably lead to the loss of approximately 225 jobs, primarily from our Bespoke Products division.

As a result of the restructuring an exceptional charge for redundancy and severance costs of £4.4m has been recognised along with an exceptional non-cash impairment charge of £10.2m in respect of an impairment in the carrying value of the Swadlincote hollowcore facility and associated goodwill following the decision to mothball this facility. A further impairment charge of £6.0m is recognised in respect of the historic goodwill balance relating to the Formpave business; which was created on HeidelbergCement's acquisition of Hanson in 2007. This impairment followed a reassessment of the future discounted future cashflows expected to be generated by this business.

Whilst the refinancing and equity raise was completed after the period end and as such is not reflected in these financial statements, exceptional professional costs of £0.4m relating to the refinancing have been recognised in the period.

DIVIDEND

The 2019 final dividend was cancelled upon the onset of the pandemic with the resolution which had previously been proposed being withdrawn ahead of the AGM preserving £14.2m of cash reserves. The Board does not anticipate declaring a dividend for the financial year 2020 with our current strategy focussed on maintaining a strong balance sheet whilst continuing with the construction of our new Desford brick factory. This strategy will ensure that the Group is able to benefit from the anticipated recovery of its key markets but also ensure a strong balance sheet is retained even if the recovery is slower than anticipated. The Board is fully aware of the importance of dividend payments to our shareholders and will endeavour to resume distributions as soon as the current levels of uncertainty subside and results allow.

CASH FLOW, BORROWINGS AND FACILITIES

Net debt as at 30 June 2020 was £80.3m (2019: £49.6m). Excluding leases, net debt at 30 June 2020 was £68.6m (2019: £34.5m) This represents an increase of £25.4m on the 31 December 2019 figure of £43.2m with this increase being driven by seasonal working capital trends, and capital spend on the Desford project along with the impact of the pandemic.

Operating cashflow was significantly impacted by the effects of the pandemic with a net cash outflow from operations of £4.2m compared to an inflow of £27.6m in 2019. During the lockdown the Group was able to protect its cash reserves and despite initial fears, was able to collect the overwhelming majority of customer receivables with only minor delays. Bad debts of £0.2m (2019: £nil) were incurred in the period and a charge of £0.5m (2019: £nil) was recognised as the bad debt provision was increased to address an increased risk of customer default following the pandemic.

Net debt to EBITDA (calculated with reference to the last twelve months of earnings before exceptionals and excluding the effect of IFRS 16 and capitalised finance costs in accordance with the Facility Agreement) was 1.6 times at 30 June 2020 compared with 0.6 times at 31 December 2019.

As at 30 June 2020, the Group's debt facility comprises a committed Revolving Credit Facility (RCF) of £150m extending to July 2022 with a group of major international banks. At 30 June 2020, the facility was fully drawn. On 7 July 2020 following the equity placing which occurred on 1 July 2020 an amendment to the RCF came into effect, increasing the facility size by £20m to £170m and extending maturity to July 2024.

DESFORD FACTORY CONSTRUCTION

Construction of the new Desford brick manufacturing facility in Leicestershire continued through lockdown albeit not without some delays which now mean that the facility is likely to be completed approximately six months later than originally anticipated with commissioning now expected to commence towards the end of 2022.

A further £8.5m was spent on the project in the period taking total spend at 30 June 2020 to £20.7m. As at 30 June 2020 a further spend of £12.1m was contractually committed on the project.

Our current expectation for the timing of the cash outflows on the project is as follows: £26 million in 2020, £24 million in 2021, £28 million in 2022 and £5 million in 2023.

The equity placing and refinancing which was completed after the balance sheet date and which is explained in more detail below provides certainty in that even if the recovery from the pandemic is slower than anticipated, the Group will have the resources to complete the factory whilst still retaining a strong balance sheet. The Desford factory which will be the largest brick manufacturing facility in Europe will be transformational to the business. With the current factory approaching the end of its useful life, the new facility will increase Group brick manufacturing capacity by 16% as well as delivering leading levels of efficiency and profitability.

EQUITY PLACING AND REFINANCING

The Group entered the crisis in mid-March with net debt of approximately £80m (excluding lease liabilities) having increased from a December 2019 position of £43.2m, primarily driven by seasonal working capital movements along with spend on the Desford factory. This afforded liquidity headroom of around £70m (plus an uncommitted overdraft of £10m) giving the Group a strong liquidity buffer especially after the Government had launched the JRS which helped sufficiently mitigate the rate of cash burn during lockdown.

The Company applied for and was confirmed as eligible for the joint HM Treasury and Bank of England COVID Corporate Financing Facility (CCFF) with an issuer limit of £175 million. The Board does not have any present intention to draw upon this facility, which provides the Group with additional emergency liquidity should it be required.

With the spend on the Desford project approximately one third committed, the COVID-19 crisis presented the Board with an additional challenge. The £70m liquidity buffer described above was felt to be sufficient to allow the business to withstand any likely lockdown scenario although the funding of the new Desford factory needed to be considered alongside this. With around £50m of purchase contracts in respect of the manufacturing equipment due to be awarded in the second half of 2020 and with the Group's banking facilities expiring in June 2022 and requiring refinancing in the first half of 2021 at the latest, the Board determined that it would be necessary to strengthen the Group's balance sheet to ensure the Desford project could be funded without jeopardising the financial security of the Group.

On 1 July 2020, the Company completed a £55.0m equity raise by way of issuing 28,205,128 ordinary shares of 1p (14.1% of issued share capital) in a non pre-emptive placing. After fees, the Company received net proceeds of £52.6m. This equity issuance also facilitated a refinancing of the Group's debt facilities with the £150m RCF expiring in July 2022 being increased to £170m with expiry extended to July 2024. The refinancing also provides a package of covenant relaxations covering the next fifteen months with covenants returning to normal in December 2021. Normal covenants are net debt: EBITDA of < 3 times and interest cover of > 4 times.

These proceeds along with the extended tenure and increased quantum of credit facilities will ensure the Group can support its continued investment programme, including the completion of the new brick manufacturing facility at Desford in Leicestershire, which is expected to generate attractive returns over the medium term and position the Group to benefit from the long-term growth in the housing market whilst ensuring the balance sheet remains strong.

Both the equity placing and refinancing took place after the end of the period and are not reflected in these financial statements. As at 31 August 2020 net debt (excluding leases) was £18.1m highlighting the strength of our balance sheet following the placing and refinancing.

CURRENT TRADING AND OUTLOOK

We remain very confident in the long-term recovery of our markets. Trading since emerging from lockdown has exceeded management's expectations. The current recovery in the housing market supported by Government intervention in the form of the SDLT holiday is encouraging although it is unclear how the market will respond post 31 March 2021 when the SDLT holiday ends along with the tapering of the Help to Buy scheme.

The recovery of our key markets and revenues seen in May and June continued through July and August. Revenues in July were 89% of 2019 and 82% in August with the Brick and Block segment exceeding 90% in both months highlighting the continued encouraging recovery. Initially the recovery was driven by our distributors which will have included an element of catch up that we now see stabilising. Demand from our housebuilding customers was slightly slower to recover although sales to this channel increased in July and August. Sales of our precast concrete floor beams, which we view as a leading indicator of housing starts, have been slower to recover than many of our other products although in September we are now seeing a further recovery in the order book for these floor beams suggesting that new housing starts are continuing to recover.

We have restarted production at all of our manufacturing facilities and by the end of August the vast majority of our employees had returned from furlough.

Construction work continues on the new Desford brick factory in line with expectations following the recent equity placing and refinancing which secured the funding to complete this project. The Board remains confident that the new factory and the extra capacity and industry leading efficiency that it will deliver will allow the Group to capitalise on the recovery of our core markets.

Clearly the possibility of further COVID-19 related disruption to our business remains although we take comfort from the fact that our industry and the wider construction market has made great steps in learning to operate in an environment where COVID-19 is present and we are confident that our safe operating procedures will allow us to keep our employees safe and limit disruption should infection rates increase again. Our customers have adapted their ways of working which should mean demand for our products will show greater resilience in future.

Subject to a continuation of current trading conditions and there being no further COVID-19 driven disruption, the Board expects full year EBITDA, stated before exceptional items, to be in the range of £27m-£32m. The Board will continue to monitor our key markets and the economy more generally and believes that the Group's strong balance sheet, reinforced by the recent equity placing and refinancing, provides both the resilience and agility required in these unprecedented times.

BRICKS AND BLOCKS

	Six months ended 30 Jun 2020 £m Statutory	Exceptional items	Before exceptional items	Six months ended 30 Jun 2019 £m Statutory	Change %
Revenue	90.5	-	90.5	143.9	-37.1%
EBITDA	3.4	7.7	11.1	41.6	
EBITDA margin	3.8%		12.3%	28.9%	

Revenue in the first half decreased by 37.1% compared with the same period last year. At the beginning of the period price increases were applied across the brick product range to offset the effect of input cost inflation. Pricing was more challenging in aircrete blocks with greater levels of inventory in the supply chain limiting scope for increases.

Trading started the year broadly in line with expectations. Following a slower end to 2019 driven by uncertainty around Brexit and the General Election, expectations were that 2020 would start relatively slowly but demand would gain momentum in the spring as the housebuilders increased output and opened new sites. Exceptionally wet weather did nothing to enhance demand in January and February and then in March the effects of the COVID-19 crisis became apparent followed by a swift progression into lockdown.

Segment revenues were around 70% of 2019 in March, 16% in April, 42% in May and 74% in June as a steady recovery continued. The recovery in demand in May and June was driven by the merchanting sector feeding off strong RM&I demand along with that from smaller housebuilders. Demand from the larger housebuilders remained constrained as they focused on completing existing work in progress although this has improved significantly post period end.

Production at our factories was severely disrupted though April and May. As a result, a cost of £2.1m in respect of onerous energy contracts was incurred. The business makes use of forward contracts to fix the price of its electricity and gas purchases. The COVID-19 pandemic resulted in an unprecedented and sudden decline in manufacturing activity levels and accordingly our consumption of energy was significantly reduced. Where activity levels did not require the levels of energy which had been forward purchased, we were able to sell the unused commodity back to the market at the prevailing market rate realising a loss of £2.1m. It is currently anticipated that the energy forward purchased for the second half of the year will be utilised and the cost of energy will be charged to the Income Statement at the contracted rates in the second half.

BESPOKE PRODUCTS

	Six months ended			Six months ended	
	30 Jun			30 Jun	
	2020			2019	
	£m			£m	
	Statutory	Exceptional items	Before exceptional items	Statutory	Change %
Revenue	33.0	-	33.0	50.9	-35.2%
EBITDA	(15.4)	12.5	(2.9)	0.9	
EBITDA margin	-46.7%		-8.8%	1.8%	

Overall revenue for Bespoke Products decreased by 35.2% as a result of the impact of the pandemic.

Demand for our precast concrete flooring products fell to almost nothing in April and only partly recovered in May. Volumes recovered further in June although the recovery, especially in floor beam products, lagged behind the recovery seen in bricks and blocks highlighting a slower recovery in new housing starts relative to the RM&I market.

The majority of the headcount reductions have been made from the Bespoke Products segment and in particular Bison Precast with the mothballing of the hollowcore facility at Swadlincote and the consolidation of precast concrete flooring manufacture at the more flexible Hoveringham facility.

As reported previously, trading conditions in the hollowcore flooring market have been deteriorating for the last few years with margins declining through this period. A probable outcome of the COVID-19 crisis in the medium term is that there is likely to be a reduction in demand for both apartments and offices, building types that utilise hollowcore flooring in their construction. The recovery in the residential construction sector is expected to be driven by single family housing with home buyers keen to secure more space at the expense of being further from city centres. In addition, the growth in home working driven by necessity through lockdown is likely to lead to a reduction in demand for new urban office space. Considering this likely fall in demand coupled with the low margins associated with the hollowcore product prior to the crisis, management are confident that this consolidation of production and the significant cost rationalisation it provides will help to mitigate the impact of declining demand.

Non-housing products however have proved to be more resilient. Working in accordance with public health guidelines, manufacturing continued throughout lockdown on key government infrastructure projects including the new prison at Wellingborough where we recently supplied the last of almost 5,000 bespoke precast concrete components. In addition, products continued to be manufactured and supplied into the Hinkley Point nuclear power station project along with a flood defence scheme in Leeds.

Looking forward, following on from the successful Wellingborough prison project we are now pleased to have been awarded a large order working with Lendlease on the construction of the Ministry of Justice's next new prison construction project at Glen Parva in Leicestershire.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the business have changed as a result of the COVID-19 pandemic. As such the Group has appended to this interim statement a summary of risks emerging as a result of COVID-19 and an update to each of the risks recently presented in the 2019 Annual Report and Accounts.

GOING CONCERN

The Group meets its working capital requirements through its cash reserves and borrowings. The Group closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. Responding to potential short to medium term liquidity needs identified in the financial forecasts and stress tests the Group has secured a refinancing of its existing bank facilities by way of amendment and restatement of existing documentation on 7 July 2020. The amended and restated facility provides (i) an extended maturity by two years to July 2024; (ii) an increase in the facility of £20 million to £170 million; and (iii) a package of covenant relaxations. Further, and in order to support this refinancing, Forterra plc has also carried out a placing of new ordinary shares of £0.01 each in its share capital to raise £55.0m gross proceeds on 1 July 2020. The Group also has access to £175m through the joint HM Treasury and Bank of England COVID Corporate Financing Facility (CCFF) which could be drawn down if required; subject to continuing to meet the lender's criteria. Refer to note 12 which details current funding arrangements.

The Group has modelled financial scenarios that reflect the impact of the COVID-19 pandemic on the rate of recovery in both the Brick and Block and Bespoke Products divisions. These financial scenarios also stress-test the Group's resilience. The two main scenarios link to the most recent forecasts for the residential construction market published by the Construction Products Association, one following the forecasts and one representing downside risks. These have been termed the "Accelerated Recovery Scenario" and "Slower Recovery Scenario" and show the Group recovering to pre-pandemic levels in 2022 under the accelerated scenario and 2023 under the slower scenario. The Group have taken steps under both scenarios to manage costs and other controllable expenditure, such as CAPEX. Under both scenarios the Group can meet its current funding needs through available funds and is able to meet the relaxed covenants agreed on refinancing in July 2020. COVID-19 safe working practices are now firmly in place, the Group's customers and suppliers have made similar alterations to their procedures and the Government have made clear that the industry should continue where these safe working practices are in place. As such, Management do not anticipate that there will be a need to concurrently close all operations once more and believe the likelihood of a deterioration in financial performance to the levels seen in March, April and May 2020 is remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group and with the post balance sheet refinancing and equity placing successfully completed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed. The Group therefore adopts the going concern basis in preparing the interim financial statements.

FORWARD LOOKING STATEMENTS

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

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE INTERIM REPORT

We confirm to the best of our knowledge:

- the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure and Transparency Rules, being material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the annual report.

By order of the Board

Stephen Harrison
Chief Executive Officer

Ben Guyatt
Chief Financial Officer

10 September 2020

INDEPENDENT REVIEW REPORT TO FORTERRA PLC

INTRODUCTION

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and related notes 1 - 16. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

DIRECTORS' RESPONSIBILITIES

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

10 September 2020

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 30 JUNE 2020 (UNAUDITED)

	Note	Six months ended 30 June		Year ended 31 December
		2020	2019	2019
		Unaudited	Unaudited	Audited
		£m	£m	£m
Revenue	6	122.4	193.6	380.0
Cost of sales		(112.5)	(121.4)	(243.8)
Gross profit		**9.9**	**72.2**	**136.2**
Distribution costs		(17.5)	(27.6)	(54.4)
Administrative expenses		(13.9)	(11.3)	(21.8)
Other operating income		0.1	0.6	0.7
Operating (loss)/profit		**(21.4)**	**33.9**	**60.7**
EBITDA before exceptional items		**8.2**	**42.5**	**82.7**
Exceptional items	7	**(20.6)**	-	(4.3)
EBITDA		(12.4)	42.5	**78.4**
Depreciation and amortisation		(9.0)	(8.6)	(17.7)
Operating (loss)/profit		**(21.4)**	**33.9**	**60.7**
Finance expense before exceptional items		**(1.5)**	**(1.2)**	**(2.5)**
Exceptional finance expense	7	(0.4)	-	-
Finance expense	8	(1.9)	(1.2)	(2.5)
(Loss)/profit before tax		**(23.3)**	**32.7**	**58.2**
Income tax credit/(expense)	9	2.8	(6.0)	(11.4)
(Loss)/profit for the financial period attributable to equity shareholders		**(20.5)**	**26.7**	**46.8**
Total comprehensive (loss)/income for the period attributable to equity shareholders		**(20.5)**	**26.7**	**46.8**
(Loss)/earnings per share:				
Basic (in pence per share)	10	(10.3)	13.6	23.8
Diluted (in pence per share)	10	(10.3)	13.4	23.7

The notes on pages 19 to 30 are an integral part of these condensed consolidated financial statements.

All results relate to continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020 (UNAUDITED)

		As at 30 June		As at 31 December
	Note	**2020**	**2019**	**2019**
		Unaudited	**Unaudited**	**Audited**
		£m	**£m**	**£m**
Assets				
Non-current assets				
Intangible assets		11.3	17.9	18.2
Property, plant and equipment		182.7	172.0	182.6
Right-of-use assets		11.2	14.8	13.7
		205.2	**204.7**	**214.5**
Current assets				
Inventories		44.2	42.1	47.8
Trade and other receivables		38.5	55.1	40.4
Cash and cash equivalents		81.9	32.2	26.6
Income tax receivable		2.9	-	-
		167.5	**129.4**	**114.8**
Total assets		**372.7**	**334.1**	**329.3**
Current liabilities				
Trade and other payables		(60.8)	(93.0)	(71.5)
Income tax liabilities		-	(5.9)	(3.5)
Loans and borrowings	12	(0.7)	(0.1)	(0.1)
Lease liabilities		(4.4)	(5.4)	(5.1)
Provisions for other liabilities and charges		(4.2)	(3.7)	(4.3)
		(70.1)	**(108.1)**	**(84.5)**
Non-current liabilities				
Loans and borrowings	12	(149.8)	(66.6)	(69.7)
Lease liabilities		(7.3)	(9.7)	(9.0)
Provisions for other liabilities and charges		(8.1)	(8.4)	(8.1)
Deferred tax liabilities		(1.9)	(1.8)	(1.8)
		(167.1)	**(86.5)**	**(88.6)**
Total liabilities		**(237.2)**	**(194.6)**	**(173.1)**
Net assets		**135.5**	**139.5**	**156.2**
Capital and reserves attributable to equity shareholders				
Ordinary shares		2.0	2.0	2.0
Retained earnings		136.3	149.6	157.8
Reserve for own shares		(2.8)	(12.1)	(3.6)
Total equity		**135.5**	**139.5**	**156.2**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2020 (UNAUDITED)

	Share capital	Reserve for own shares	Retained earnings	Total equity
	£m	£m	£m	£m
Current half year:				
Balance at 1 January 2020	**2.0**	**(3.6)**	**157.8**	**156.2**
Total comprehensive loss for the financial period	-	-	(20.5)	(20.5)
Dividend payable	-	-	-	-
Purchase of shares by Employee Benefit Trust	-	(0.8)	-	(0.8)
Proceeds from sale of shares by Employee Benefit Trust	-	0.7	-	0.7
Share-based payments charge	-	-	0.5	0.5
Share-based payments exercised	-	0.9	(0.9)	-
Tax on share-based payments	-	-	(0.6)	(0.6)
Balance at 30 June 2020	**2.0**	**(2.8)**	**136.3**	**135.5**
Prior half year:				
Balance at 1 January 2019	**2.0**	**(5.8)**	**137.4**	**133.6**
Total comprehensive income for the financial period	-	-	26.7	26.7
Dividend payable	-	-	(14.2)	(14.2)
Purchase of shares by Employee Benefit Trust	-	(7.6)	-	(7.6)
Share-based payments charge	-	-	1.0	1.0
Share-based payments exercised	-	1.3	(1.3)	-
Balance at 30 June 2019	**2.0**	**(12.1)**	**149.6**	**139.5**
Prior year:				
Balance at 1 January 2019	**2.0**	**(5.8)**	**137.4**	**133.6**
Total comprehensive income for the year	-	-	46.8	46.8
Dividend paid	-	-	(22.0)	(22.0)
Purchase of shares by Employee Benefit Trust	-	(9.7)	-	(9.7)
Proceeds from sale of shares by Employee Benefit Trust	-	4.9	-	4.9
Share-based payments charge	-	-	1.5	1.5
Share-based payments exercised	-	7.0	(7.0)	-
Tax on share-based payments	-	-	1.1	1.1
Balance at 31 December 2019	**2.0**	**(3.6)**	**157.8**	**156.2**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2020 (UNAUDITED)

	Six months ended 30 June		Year ended 31 December
	2020	**2019**	**2019**
	Unaudited	**Unaudited**	**Audited**
	£m	**£m**	**£m**
Cash flows from operating activities			
Operating (loss)/profit before exceptional items	(0.8)	33.9	65.0
Adjustments for:			
Depreciation and amortisation	9.0	8.6	17.7
Movement on provisions	(0.1)	(0.5)	(0.3)
Share-based payments	0.5	0.8	1.3
Other non-cash items	0.1	(0.5)	(1.6)
Changes in working capital:			
Inventories	3.6	(4.7)	(10.4)
Trade and other receivables	1.9	(17.6)	(2.9)
Trade and other payables	(18.4)	7.6	(3.9)
Cash (outflow)/generated from operations before exceptional items	**(4.2)**	**27.6**	**64.9**
Cash flows relating to exceptional items	(0.6)	-	(1.1)
Cash (outflow)/generated from operations	**(4.8)**	**27.6**	**63.8**
Interest paid	(0.7)	(1.1)	(2.4)
Tax paid	(4.1)	(3.1)	(8.8)
Net cash (outflow) / inflow from operating activities	**(9.6)**	**23.4**	**52.6**
Cash flows from investing activities			
Purchase of property, plant and equipment	(11.9)	(7.6)	(22.5)
Purchase of intangible assets	(0.3)	(1.0)	(1.8)
Net cash used in investing activities	**(12.2)**	**(8.6)**	**(24.3)**
Cash flows from financing activities			
Reduction in lease liabilities	(2.8)	(3.0)	(5.9)
Dividends paid	-	-	(22.0)
Drawdown of borrowings	80.0	7.0	17.0
Repayment of borrowings	-	(5.0)	(12.0)
Purchase of shares by Employee Benefit Trust	(0.8)	(7.6)	(9.7)
Proceeds from sale of shares by Employee Benefit Trust	0.7	**-**	4.9
Net cash generated from/(used in) financing activities	**77.1**	**(8.6)**	(27.7)
Net increase in cash and cash equivalents	**55.3**	**6.2**	**0.6**
Cash and cash equivalents at beginning of the period	26.6	26.0	26.0
Cash and cash equivalents at the end of the period	**81.9**	**32.2**	**26.6**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2020 (UNAUDITED)

1. GENERAL INFORMATION

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

The condensed consolidated financial statements were approved by the Board on 10 September 2020.

The condensed consolidated financial statements for the six months ended 30 June 2020 and comparative period have not been audited. The auditor has carried out a review of the financial information and their report is set out on pages 13 to 14.

These condensed consolidated financial statements are unaudited and do not constitute statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006. The auditors have carried out a review of the financial information in accordance with the guidance contained in ISRE 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Financial Statements for the year ended 31 December 2019 were approved by the Board of Directors on 10 March 2020, delivered to the Registrar of Companies and include an explicit and unreserved statement of compliance with EU-adopted IFRS. The Auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Companies Act 2006.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the half year ended 30 June 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority (DTR), and the requirements of IAS 34 Interim Financial Reporting.

The condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements and they should be read in conjunction with the Group's Financial Statements for the year ended 31 December 2019 and any public announcements made by the Company during the interim period.

The condensed consolidated financial statements are prepared on the historical cost basis.

Going concern basis

The Group meets its working capital requirements through its cash reserves and borrowings. The Group closely manages working capital to ensure sufficient daily liquidity and prepares financial forecasts and stress tests to ensure sufficient liquidity over the medium-term. Responding to potential short to medium term liquidity needs identified in the financial forecasts and stress tests the Group has secured a refinancing of its existing bank facilities by way of amendment and restatement of existing documentation on 7 July 2020. The amended and restated facility provides (i) an extended maturity by two years to July 2024; (ii) an increase in the facility of £20 million to £170 million; and (iii) a package of covenant relaxations. Further, and in order to support this refinancing, Forterra plc has also carried out a placing of new ordinary shares of £0.01 each in its share capital to raise £55.0m gross proceeds on 1 July 2020. The Group also has access to £175m through the joint HM Treasury and Bank of England COVID Corporate Financing Facility (CCFF) which could be drawn down if required; subject to continuing to meet the lender's criteria. Refer to note 12 which details current funding arrangements.

The Group has modelled financial scenarios that reflect the impact of the COVID-19 pandemic on the rate of recovery in both the Brick and Block and Bespoke Products divisions. These financial scenarios also stress-test the Group's resilience. The two main scenarios link to the most recent forecasts for the residential construction market published by the Construction Products Association, one following the forecasts and one representing downside risks. These have been termed the "Accelerated Recovery Scenario" and "Slower Recovery Scenario" and show the Group recovering to pre-pandemic levels in 2022 under the accelerated scenario and 2023 under the slower scenario. The Group have taken steps under both scenarios to manage costs and other controllable expenditure, such as CAPEX. Under both scenarios the Group can meet its current funding needs through available funds and is able to meet the relaxed covenants agreed on refinancing in July 2020. COVID-19 safe working practices are now firmly in place, the Group's customers and suppliers have made similar alterations to their procedures and the Government have made clear that the industry should continue where these safe working practices are in place. As such, Management do not anticipate that there will be a need to concurrently close all operations once more and believe the likelihood of a deterioration in financial performance to the levels seen in March, April and May 2020 is remote.

Taking account of all reasonably possible changes in trading performance, the current financial position of the Group and with the post balance sheet refinancing and equity placing successfully completed, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed. The Group therefore adopts the going concern basis in preparing the interim financial statements.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated Financial Statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

In the period the Group participated in the Government's Coronavirus Job Retention Scheme (JRS) to mitigate cash outflows. Participation in this scheme allowed the Group to reclaim an element of employee pay from the Government, offsetting the gross cost. The Group takes advantage of an option under IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) to recognise the offset of the reclaimed amount under JRS against the associated expenditure. The total reclaimed and offset in the period amounted to £8.4m and £0.2m is recognised in Trade and other receivables on the Balance Sheet as due under JRS at 30 June 2020. There are no unfulfilled conditions attached to the Group's participation in JRS, staff payroll for June had been settled with employees before 30 June 2020.

4. JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty have changed since the consolidated financial statements of Forterra plc for the year ended 31 December 2019 were approved.

Restoration and decommissioning provisions

Estimates associated with long-term restoration and site decommissioning provisions have remained consistent despite some change in the discount rates as a result of COVID-19. Management take a long-term view of discount rates in this area and this maintains consistency with prior periods.

Inventory valuation and provisioning

Judgements associated with inventory valuation and provisioning remain consistent in 2020.

Impairment of intangible assets

The Group continues to evaluate tangible and intangible assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Judgements have remained consistent with prior periods, however, management have considered the COVID-19 pandemic a trigger event for undertaking an impairment assessment and have therefore reviewed all cash-generating-units to determine if recoverable amounts exceed carrying value. The recoverable amount is defined as the higher of fair value less costs to sell and value in use, which in turn is the present value of the future cash flows expected to be derived from the asset. The estimate of value in use, and hence the outcome of the impairment test, is sensitive to assumptions and changes in assumptions. Notable changes in assumed revenue growth and the WACC discount rate are sensitive when modelling cash flows across the short-medium term planning horizon. The absence of any forecast cash flows associated with hollowcore manufacture at Swadlincote results in an impairment of assets in the Bespoke products segment. An increase in the WACC discount rate of 2.5% from 31 December 2019 eliminates headroom at Formpave and results in an impairment of goodwill in the Bricks and Blocks segment.

Exceptional items

Exceptional items are disclosed separately in the financial statements where management believes it is necessary to do so to better understand the underlying financial performance of the Group. Management consider the nature, size and incidence of items when judging what should be disclosed separately. Management consider the restructuring and impairment charges in 2020 to be exceptional by nature, size and incidence.

5. SEASONALITY OF OPERATIONS

The Group is typically subject to seasonality consistent with the general construction market, with stronger volumes witnessed across the spring and summer months when conditions are more favourable. The impact of COVID-19 in spring 2020 is expected to alter the typical pattern in 2020 and could potentially also impact 2021.

6. SEGMENTAL REPORTING

Management has determined the operating segments based on the management reports reviewed by the Executive Committee (comprising the executive team responsible for the day-to-day running of the business) that are used to assess both performance and strategic decisions. Management has identified that the Executive Committee is the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'.

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

The principal activity of the operating segments are:

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

The Executive Committee considers that, for reporting purposes, the operating segments above can be aggregated into two reporting segments: Bricks and Blocks and Bespoke Products.

The aggregation of Bricks and Blocks is due to these operating segments having similar long-term average margins, production process, suppliers, customers and distribution methods.

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

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

The revenue recognised in the condensed consolidated income statement is all attributable to the principal activity of the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complimentary building products.

Substantially all revenue recognised in the condensed consolidated income statement arose from contracts with external customers within the UK.

Segment revenue and results:

	Six months ended 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	90.5	33.0	123.5
Intercompany eliminations	-	-	(1.1)
Revenue			**(122.4)**
EBITDA before exceptional items	**11.1**	**(2.9)**	**8.2**
Depreciation and amortisation	(7.5)	(1.5)	(9.0)
Operating profit/(loss) before exceptional items	**3.6**	**(4.4)**	**(0.8)**
Allocated exceptional items	(7.7)	(12.5)	(20.2)
Unallocated exceptional items			(0.4)
Operating loss			(21.4)
Net finance expense			(1.9)
Loss before tax			**(23.3)**

Segment assets:

	As at 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	163.1	19.6	182.7
Intangible assets	10.5	0.8	11.3
Right-of-use assets	9.6	1.6	11.2
Inventories	39.0	5.2	44.2
Segment assets	222.2	27.2	249.4
Unallocated assets			121.8
Total assets			371.2

Other segment information:

	As at 30 June 2020		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	13.9	1.0	14.9
Intangible asset additions	0.6	0.1	0.7
Right-of-use asset additions	0.2	0.2	0.4

Segment revenue and results:

	Six months ended 30 June 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	143.9	50.9	194.8
Intercompany eliminations			(1.2)
Revenue			**193.6**
EBITDA before exceptional items	**41.6**	**0.9**	**42.5**
Depreciation and amortisation	(7.3)	(1.3)	(8.6)
Operating profit before exceptional items	**34.3**	**(0.4)**	**33.9**
Allocated exceptional items	-	-	-
Unallocated exceptional items	-	-	-
Operating profit	**34.3**	**(0.4)**	**33.9**
Net finance expense			(1.2)
Profit before tax			**32.7**

Segment assets:

	As at 30 June 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	138.9	33.1	172.0
Intangible assets	17.1	0.8	17.9
Right-of-use assets	13.3	1.5	14.8
Inventories	35.6	6.5	42.1
Segment assets	204.9	41.9	246.8
Unallocated assets			87.3
Total assets			**334.1**

Other segment information:

	As at 30 June 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	8.0	2.1	10.1
Intangible asset additions	1.1	0.1	1.2
Right-of-use asset additions	2.8	0.6	3.4

Segment revenue and results:

	Year ended 31 December 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Segment revenue	279.1	103.5	382.6
Intercompany eliminations			(2.6)
Revenue			**380.0**
EBITDA before exceptional items	**80.4**	**2.3**	**82.7**
Depreciation and amortisation	(15.0)	(2.7)	(17.7)
Operating profit before exceptional items	**65.4**	**(0.4)**	**65.0**
Allocated exceptional items	(3.3)	(0.3)	(3.6)
Unallocated exceptional items			(0.7)
Operating profit			**60.7**
Net finance expense			(2.5)
Profit before tax			**58.2**

Segment assets:

	As at 31 December 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment	148.6	34.0	182.6
Intangible assets	16.6	1.6	18.2
Right-of-use assets	11.9	1.8	13.7
Inventories	41.5	6.3	47.8
Segment assets	218.6	43.7	262.3
Unallocated assets			67.0
Total assets			**329.3**

Other segment information:

	As at 31 December 2019		
	Bricks & Blocks	**Bespoke products**	**Total**
	£m	**£m**	**£m**
Property, plant and equipment additions	19.7	3.4	23.1
Intangible asset additions	1.5	0.2	1.7
Right-of-use asset additions	4.2	1.2	5.4

7. EXCEPTIONAL ITEMS

	Six months ended 30 June		Year ended 31 December
	2020	**2019**	**2019**
	£m	**£m**	**£m**
Exceptional operating costs:			
Restructuring costs	(4.4)	-	(3.6)
Aborted transaction costs	-	-	(0.7)
Asset impairment charges	(16.2)	-	-
	(20.6)	-	(4.3)
Exceptional finance expense:			
Debt refinancing costs	(0.4)	-	-
	(0.4)	-	-
Exceptional items	(21.0)	-	(4.3)

The Group incurred exceptional expenses of £21.0m in 2020 (2019: nil). £4.4m of the cost relates to restructuring costs, where regrettably a total of around 225 jobs are expected to be lost across the business.

Following the COVID-19 pandemic management's immediate priorities were reassessed and a £16.2m impairment has been charged against assets in business areas with more challenging market conditions and weaker margins. These fully write-off the carrying value of goodwill within the business and write down assets associated with hollowcore production at the mothballed facility in Swadlincote. The Goodwill impairments (£6.8m) substantially relate to the historic acquisition of Hanson plc by HeidelbergCement AG in 2007, £6.0m. This is recognised within the Brick and Block segment as the Goodwill had been allocated to the Formpave business. The remaining £0.8m of goodwill relates to the acquisition of the Swadlincote facility in 2017 and is recognised within the Bespoke products segment, along with the remaining £9.4m impairment relating to idle assets at the Swadlincote facility following the decision to mothball this facility in response to the COVID-19 pandemic.

The impairment of goodwill results from an expected decrease in future cashflows across the planning period in conjunction with an increase in the WACC rate (weighted average cost of capital) used to discount these cashflows. Both the decreased cashflows and increased WACC rate have been triggered by COVID-19. Similarly, a decision to mothball the hollowcore production facility at Swadlincote results from a weaker outlook for this market since the onset of the COVID-19 pandemic. This decision to mothball triggers an impairment of assets as there are no expected cashflows from production of hollowcore at Swadlincote across the short-medium term planning horizon. Management remain confident in the long-term prospects of the Group and the business model as a whole.

Aborted transaction costs of £0.7m were incurred in the second half of 2019 in respect of an acquisition which was not completed.

On 7 July 2020 the Group refinanced its existing banking facilities. Costs of £0.4m associated with this refinancing had been incurred prior to 30 June 2020 and are recognised as an exceptional item.

Tax on exceptional items:

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

8. NET FINANCE EXPENSE

	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	£m	£m	£m
Interest payable on external borrowings	(1.3)	(1.0)	(2.0)
Interest payable on lease liabilities	(0.2)	(0.2)	(0.4)
Other finance expense	-	-	(0.1)
Exceptional finance expense	(0.4)	-	-
	(1.9)	(1.2)	(2.5)

The Group drew down on its revolving credit facility in its entirety from mid-March to the period end, securing cash in response to the COVID-19 pandemic, but resulting in higher interest charges.

On 7 July 2020 the Group refinanced its existing banking facilities. £0.4m of costs associated with this refinancing had been incurred prior to 30 June 2020 and are recognised as exceptional items.

9. TAXATION

The Group recorded a tax credit of £2.8m (2019: charge of £6.0m) on pre-tax losses of £23.3m (2019: profit of £32.7m). This results in an effective tax rate (ETR) of 12.0% (2019: 18.3%) including exceptional items, compared to the UK corporation tax rate of 19%. The main reason for the lower than expected tax credit is the impact of expenses incurred in the period that are not deductible for tax purposes, namely the impairment of goodwill and non-qualifying land and buildings.

	Six months ended 30 June		Year ended 31 December
	2020	**2019**	**2019**
	£m	**£m**	**£m**
Tax credit / (charge):			
(Loss) / profit before taxation	(23.3)	32.7	58.2
Expected tax credit / (charge)	4.4	(6.2)	(11.1)
Expenses not deductible for tax purposes	(2.1)	(0.3)	(0.3)
Reversal of uncertain tax provision	0.7	0.5	-
Impact of change in deferred tax rate	(0.2)	-	-
Total tax credit / (charge) for the period	2.8	(6.0)	(11.4)
Effective tax rate	12.0%	18.3%	19.6%

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

In the March 2020 Budget, the Chancellor of the Exchequer repealed the previously enacted reduction to the standard rate of corporation tax to 17% that was due to come into force from 1 April 2020. The standard rate of corporation tax has been maintained at 19%.

10. EARNINGS PER SHARE

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

	Six months ended 30 June		Year ended 31 December
	2020	**2019**	**2019**
	Basic	**Basic**	**Basic**
	£m	**£m**	**£m**
Operating (loss)/profit for the period	(21.4)	33.9	60.7
Net finance expense	(1.9)	(1.2)	(2.5)
(Loss)/profit before taxation	(23.3)	32.7	58.2
Tax credit/(charge)	2.8	(6.0)	(11.4)
(Loss)/profit for the period	**(20.5)**	**26.7**	**46.8**

Weighted average number of ordinary shares in issue (millions)	199.7	196.8	196.8
Effect of share incentive awards and options (millions)	0.3	2.9	0.8
Diluted weighted average number of ordinary shares (millions)	200.0	199.7	197.6
(Loss)/earnings per share			
Basic (in pence)	(10.3)	13.6	23.8
Diluted (in pence)	(10.3)	13.4	23.7
Basic earnings per share before exceptional items (in pence)	-	13.6	25.6

Earnings per share (EPS) before exceptional items is presented as an additional performance measure and is calculated by excluding the exceptional charge of £21.0m (2019: nil) and the associated tax effect (the effective tax rate before the impact of exceptional items was 18.3% in both periods).

11. DIVIDENDS

A dividend of 7.2 pence per share was proposed in financial statements for the year ending 31 December 2019 before being cancelled, with the resolution being withdrawn and not presented for shareholder approval at the 2020 AGM. No liability was recognised for the dividend in those financial statements, as such there is no adjustment in the current period. The total dividend for 2019 was therefore 4.0 pence per share.

An interim dividend will not be proposed in 2020 (2019: 4.0 pence per share).

12. LOANS AND BORROWINGS

	As at 30 June		**As at 31 December**
	2020	**2019**	**2019**
	£m	**£m**	**£m**
Non-current loans and borrowings:			
External bank loans - principal	(150.0)	(67.0)	(70.0)
- unamortised debt issue costs	0.2	0.4	0.3
	(149.8)	**(66.6)**	**(69.7)**
Current loans and borrowings:			
- interest	(0.7)	(0.1)	(0.1)
	(0.7)	**(0.1)**	**(0.1)**
	(150.5)	**(66.7)**	**(69.8)**

Since 26 July 2017 the Group has had access to a revolving credit facility of £150m with a group of leading banks. This facility was due to expire in July 2022, before a refinancing of the existing facility was secured, by way of amendment and restatement of the existing agreement and under which the placing of new shares after the balance sheet date on 1 July 2020 was a condition precedent. This amendment and restatement extends maturity to July 2024, increases the revolving credit facility by £20m to £170m and secures a relaxation of covenants until December 2021.

Interest was payable on amounts drawn down under the agreement at a rate of LIBOR plus a variable margin ranging from 1.25% to 2.25% during the period. Following the refinancing the variable margin ranges from 1.75% to 4%.

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

The Group has also been confirmed as eligible for the joint HM Treasury and Bank of England CCFF programme with an issuer limit of £175 million.

13. NET DEBT

	As at 30 June		**As at 31 December**
	2020	**2019**	**2019**
	£m	**£m**	**£m**
Cash and cash equivalents	81.9	32.2	26.6
Loans and borrowings	(150.5)	(66.7)	(69.8)
Lease liabilities	(11.7)	(15.1)	(14.1)
Net debt	**(80.3)**	**(49.6)**	**(57.3)**

Reconciliation of net cash flow to net debt

	Six months ended 30 June		**Year ended 31 December**
	2020	**2019**	**2019**
	£m	**£m**	**£m**
Operating cash flow before exceptional items	**(4.2)**	**27.6**	**64.9**
Payments made in respect of exceptional items	(0.6)	-	(1.1)
Operating cash flow after exceptional items	**(4.8)**	**27.6**	**63.8**
Interest paid	(0.7)	(1.1)	(2.4)
Tax paid	(4.1)	(3.1)	(8.8)
Net cash flow from investing activities	(12.2)	(8.6)	(24.3)
Dividends paid	-	-	(22.0)
Purchase of shares by Employee Benefit Trust	(0.8)	(7.6)	(9.7)
Proceeds from sale of shares by Employee Benefit Trust	0.7	-	4.9
New lease liabilities	(0.4)	(3.4)	(5.4)
Other movements	(0.7)	-	-
Decrease in net debt	(23.0)	3.8	(3.9)
Net debt at the start of the period	(57.3)	(53.4)	(53.4)
Net debt at the end of the period	**(80.3)**	**(49.6)**	**(57.3)**

14. SHARE-BASED PAYMENTS

No additional share awards have been granted in 2020 under the Performance Share Plan (PSP) or Deferred Annual Bonus Plan (DABP).

15. RELATED PARTY TRANSACTIONS

The Group has had no transactions with related parties in the periods ending 30 June 2019, 31 December 2019 and 30 June 2020.

16. POST BALANCE SHEET EVENTS

Immediately prior to the Balance sheet date the Group agreed a refinancing of its existing bank facilities. This refinancing was conditional on a placing of new ordinary shares, which completed after the balance sheet date on 1 July 2020.

Following this refinancing, by way of amendment and restatement of the Group's existing credit agreement, the Group has access to an additional £20m above the existing £150m revolving credit facility, has extended maturity from July 2022 to July 2024, secured a package of covenant relaxations and raised gross proceeds from the equity placing of £55.0m.

This refinancing package maintains the strong balance sheet of the Group whilst the strategic capital investment programme at Desford, Leicestershire is continued and positions the Group to benefit from an accelerated recovery in the housing market or to ensure a strong balance sheet in the event of a slower recovery.

APPENDIX 1
PRINCIPAL RISKS AND UNCERTAINTIES

As the pandemic emerged the Group deployed its business continuity plans to ensure that customer needs could continue to be met. Following this immediate response, the Group began crisis management efforts, using established risk management procedures to assess the likelihood, impact and proximity of the risks that were emerging and mitigating these without delay.

Management held daily crisis meetings for over a period of several weeks where emerging risks were identified and responses to risks were coordinated. A crisis management risk register was developed and used which focused exclusively on short-term risk and mitigation.

The table below summarises the main risks posed by COVID-19 and the effect of mitigating actions:

PRINCIPAL RISK AND WHY IT IS RELEVANT	GROSS RISK	KEY MITIGATION, CHANGE AND SPONSOR	NET RISK / POST MITIGATION RISK	RISK APPETITE	RATIONALE FOR RATING
1.COVID-19 PANDEMIC **EMPLOYEE HEALTH, SAFETY AND WELFARE** The risk that employees may contract or spread COVID-19 in the workplace emerged as a critical risk early in 2020 and has remained a business priority since. Successfully mitigating this risk ensures the Group can continue operating in accordance with COVID-19 regulations.	Critical	Action to protect the workforce in March 2020 was decisive. Facilities were immediately closed and only work that could be performed safely at the workplace or from home continued. New safe working practices have been developed, employees are safe and a zero-harm workplace continues to be management's top priority. **Executive sponsor: Stephen Harrison**	Medium	Very low	Safety first is enshrined in all decision making and is never compromised. Actions taken in 2020 evidence this and management are satisfied that risk mitigation reduces risk sufficiently. The residual net risk is above the risk appetite as management acknowledge that the pandemic has not reached an end. As such, this area will continue to be a daily focus area; ensuring the net risk continues to reduce and any changes to guidance and legislation are identified and responded to promptly.
2.COVID-19 PANDEMIC **MAINTAINING CUSTOMER SERVICE LEVELS** This risk emerged as a critical risk resulting from the COVID-19 pandemic and mitigating this risk has been a business priority since. Successfully mitigating this risk ensures the Group can maintain existing levels in the short-term and continue to demonstrate continuous improvement longer-term.	High	Customer facing activities were maintained throughout the pandemic; with employees operating from home and communication technology used effectively. Despite production being halted at many facilities customer demand continued to be met from existing stocks held on our yards and deliveries made safely. Reopening facilities has allowed availability to improve. Operations have now substantially resumed to allow the Group to replenish stock levels and continue to meet customer demand. The Group continued to invest in IT to ensure that staff could work remotely where necessary and maintain customer service levels. Offices have now reopened safely, but the ability to reinstate working-from-home procedures remains if required. **Executive sponsor: Adam Smith**	Low	Low	By continuously engaging with our long-standing loyal customer base we aim to offer industry leading customer service. Our objectives in this area have not changed as a result of the pandemic and we have ensured that customer demand is met throughout. The residual/net risk is in line with the risk appetite.

PRINCIPAL RISK AND WHY IT IS RELEVANT	GROSS RISK	KEY MITIGATION, CHANGE AND SPONSOR	NET RISK / POST MITIGATION RISK	RISK APPETITE	RATIONALE FOR RATING
3.COVID-19 PANDEMIC **MAINTAINING LIQUIDITY** This risk emerged as a critical risk resulting from the COVID-19 pandemic and mitigating this risk was a business priority through March, April, May and June 2020 Successfully mitigating this risk ensures the Group can survive the pandemic and continue as a going concern.	High	The Group had cash deposits, undrawn facilities, good relationships with customers/debtors and good credit lines from suppliers when the pandemic first began to impact customer demand and operations. By drawing undrawn facilities, managing debtors, prioritising working capital management and cash forecasting, deferring tax payments and accessing the Government Jobs Retention Scheme the Group was able to continue to meet commitments with suppliers and other contractual liabilities in the period. To ensure that liquidity remains sufficient to meet ongoing requirements, maintain covenant compliance and support the investment at Desford, the Group refinanced and raised equity in July 2020. **Executive sponsor: Ben Guyatt**	Low	Low	The Group has sufficient liquidity to meet ongoing financing requirements for the foreseeable future. The residual/net risk is inline with the risk appetite.

As the Group recovers and resumes activities it has now reverted to its established risk registers and updated these to reflect the impact that COVID-19 has had on each principal risk. Each of the principal risks and uncertainties presented in the Annual Report and Accounts 2019 is represented below after updating to reflect the impact of COVID-19.

PRINCIPAL RISK AND WHY IT IS RELEVANT	**GROSS RISK** **+/- FROM DEC-19**	**KEY MITIGATION, CHANGE AND SPONSOR**	**NET RISK / POST MITIGATION RISK** **+/- FROM DEC-19**	**RISK APPETITE**	**RATIONALE FOR RATING**
1.HEALTH AND SAFETY Our key risks remain the same as before the emergence of COVID-19. We continue to work to ensure the safety of employees exposed to risks such as the operation of heavy machinery, moving parts and noise, dusts and chemicals. Our employees work in close proximity to each other at times and the emergence of COVID-19 has seen proximity become an additional risk requiring mitigation in both office and manufacturing environments.	Increased High	Safety remains the Group's top priority. The Group targets an accident free environment and has a robust policy covering expected levels of performance, responsibilities, communications, controls, reporting, monitoring and review. Management responded quickly to the emergence of COVID-19, establishing remote working procedures and systems that facilitated this as part of the Group's business continuity response before introducing safe working practices for social-distancing in the workplace. Initially arrangements for social-distancing in the workplace were made at manufacturing facilities servicing essential Government projects, these were then replicated elsewhere before production restarted. Supporting this restart an Employee Code of Conduct was agreed that sets clear expectations around personal behaviours and return to work inductions were conducted to mitigate additional COVID-19 risks. Employees continue to be reminded that existing risks remain and controls to mitigate these are maintained and consistently operated. **Executive sponsor:** **Stephen Harrison**	No change Medium	Low	Safety first is enshrined in all decision making and is never compromised. Actions taken in 2020 evidence this. Reducing accidents and ill health is critical to strategic success.
2. SUSTAINABILITY The Group recognises the importance of sustainability and the positive and negative impacts that its products and processes have on the environment.	No change Medium	Whilst recognising the positive impact that the Group's products have on the built environment across their lifespan, the Group is also undertaking several initiatives to assess the detrimental impact that its existing business model has on the environment and working with stakeholders to revise its model and mitigate any detrimental impacts. This initiative has seen management established an ESG (Environmental, Social and Corporate Governance) working group to make progress in this area and appointed an executive sponsor to ensure that progress is suitably prioritised. Existing sustainability targets run from 2010 through to 2020. As this period comes to an end the Group are taking the opportunity to reassess the current sustainability strategy and link long-term ambitions with the UN Sustainable Development Goals. **Executive sponsor:** **Stephen Harrison**	No change Medium	Low	Our products are typically made from natural materials, are long-lasting, durable, high quality, thermally efficient and maintenance free. However, our manufacturing, transportation and packaging processes present opportunities for improvement.

PRINCIPAL RISK AND WHY IT IS RELEVANT	**GROSS RISK** **+/- FROM DEC-19**	**KEY MITIGATION, CHANGE AND SPONSOR**	**NET RISK / POST MITIGATION RISK** **+/- FROM DEC-19**	**RISK APPETITE**	**RATIONALE FOR RATING**
3. ECONOMIC CONDITIONS Demand for the Group's products is closely correlated with residential and commercial construction activities. The emergence of COVID-19 saw customer demand fall in late March before slowly rebuilding. Whilst demand has recovered substantially in some areas, management remain watchful of both immediate and longer-term changes in demand.	Increased Critical	Business performance, the customer order book, strong relationships with customers and across the building sector, and a range of internal and external lead indicators help to inform management and ensure that the business has time to respond to changing market conditions. The Group has flexed costs and capacity effectively in 2020 and can continue to match production and customer demand in the near-term. While the shape of the recovery from COVID-19 remains uncertain, there is wide recognition that the housing market will recover over the medium term. There remains a shortage of housing in the UK, with the market supported by Help to Buy, Government initiatives to release development land, low interest rates supporting mortgage availability, and favourable population growth. The Group also expects brick imports to reduce more significantly than sales of domestically manufactured bricks, as they have in prior cyclical downturns. Forterra is well positioned to take advantage of attractive market fundamentals to continue delivering shareholder value. **Executive sponsor:** **Stephen Harrison**	Increased High	Balanced	Current levels of customer demand suggest that a recovery is underway but management will ensure that they are not complacent and suitably consider the risk of economic conditions being unfavourable for the longer-term before seeking to operate at full capacity indefinitely.
4. GOVERNMENT ACTION AND POLICY The general level and type of residential and other construction activity is partly dependent on the UK Government's housebuilding initiatives, investment in public housing and availability of finance. Proximity to the end of the current phase of Help to Buy and temporarily reduced rates of Stamp Duty Land Tax may stimulate demand ahead of March 2021 but may also see demand for the Group's products fall or change after this date. The Housing Infrastructure Fund could also have an impact. Changes to Government policy or planning regulations could adversely affect Group performance.	No change Medium	The Group participates in trade associations, attends industry events and tracks any policy changes associated with housebuilding and the construction sector more broadly. Where identified, the Group factors any emerging issues into models of anticipated future demand to guide strategic decision making. The Group worked to actively mitigate the short-term risks posed by Brexit through 2019 and will mitigate this risk in the same manner in H2 2020. Although the end of Government schemes designed to support the housing sector near the risk level is considered to remain static as the Government have demonstrated that they remain committed to housebuilding and management consider the withdrawal of support is unlikely where economic uncertainty remains high. **Executive sponsor:** **Stephen Harrison**	No change Medium	High	The Group continues to invest significantly in growth— in terms of both capacity and range. This investment is made despite the uncertainty presented by Brexit and COVID-19 as the timescales associated with adding additional capacity are significant and long-term planning is vital to achieving the Group's strategic objectives.

PRINCIPAL RISK AND WHY IT IS RELEVANT	**GROSS RISK** **+/- FROM DEC-19**	**KEY MITIGATION, CHANGE AND SPONSOR**	**NET RISK / POST MITIGATION RISK** **+/- FROM DEC-19**	**RISK APPETITE**	**RATIONALE FOR RATING**
5. RESIDENTIAL SECTOR ACTIVITY LEVELS Residential development (both new build construction and repair, maintenance and improvement) contribute a significant portion of Group revenue. The weighting of Group revenues towards this sector means that any change in activity levels in this sector affect profitability and strategic growth plans.	Increased High	The Group closely follows the demand it is seeing from this sector, market projections, sentiment, mortgage affordability, and credit availability in order to identify and respond to opportunities and risk. Group strategy encourages initiatives that strengthen the Group's position in this sector whilst also seeking to strengthen our commercial offer. The impact of COVID-19 has been significant in H1 2020. The recovery from May onwards has been promising, and although management remain very confident in the long-term recovery of activity levels they are cautious in the near term. **Executive sponsor:** Stephen Harrison	Increased High	High	Serving the residential market lies at the core of the Group's strategy. Whilst the Group will seek opportunities to add to its commercial offer it will continue to see residential markets as core.
6. PRODUCT AVAILABILITY Many of the Group's product ranges are manufactured at single facilities and where there are low buffer stock levels and high capacity utilisation a breakdown can cause product shortages and have a detrimental impact on the Group's performance and reputation.	Increased High	In the short-term, the Group remains well stocked for current levels of demand. However, there is enhanced risk due to COVID-19 as illness in the workforce could restrict manufacturing or despatch. Strong customer relationships and some degree of product range substitution can mitigate this risk, as do business precautions that decrease the rate of potential COVID-19 infection and allow distribution to continue in most circumstances. However, despite this heightened risk, the risks that have previously been identified relating to plant running at full capacity for prolonged periods have reduced and occurrence is less likely in the short-term. **Executive sponsors: George Stewart and Peter Varnsverry**	No change Medium	Balanced	Managing capacity sufficiently to prevent tying-up excessive amounts of working capital in stock but ensuring that customer demand can continue to be met are crucial to the Group's success.
7. CUSTOMER RELATIONSHIPS AND REPUTATIONS 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.	Increased Medium	One of the Group's strategic priorities is to be the supply chain partner of choice for our customers. By delivering excellent customer service, enhancing our brands and offering the right products the Group seeks to develop our long-standing relationships with major customers and replicate these with newer customers. Regular and frequent review meetings focus on the Group's effectiveness in this area and external expertise has been engaged to support these appraisals. Business continuity plans were quickly and smoothly implemented as the pandemic gathered pace allowing good customer service levels to continue. These were supported by the external sales team, the customer's primary contact, continuing to work remotely throughout the lockdown period; allowing customers to obtain immediate answers in the more dynamic environment. This service proposition has been well received by customers across all channels and strengthened relationships further. **Executive sponsor: Adam Smith**	No change Low	Low	Excellent service is a core value and progress against objectives in this area is a priority for all employees.

PRINCIPAL RISK AND WHY IT IS RELEVANT	GROSS RISK +/- FROM DEC-19	KEY MITIGATION, CHANGE AND SPONSOR	NET RISK / POST MITIGATION RISK +/- FROM DEC-19	RISK APPETITE	RATIONALE FOR RATING
8. COST AND AVAILABILITY OF RAW MATERIAL Availability of raw materials can vary at times and where shortages exist the Group is susceptible to significant increases in price and threats to its ability to meet customer expectations. Managing these risks in the supply chain have been a priority during the COVID-19 pandemic.	Increased High	The Group continues to focus on ensuring it sees stable prices for and continuity of supply for certain key raw materials. Although the Group owns much of the raw materials it uses to manufacture, management continue to recognise a number of long-term supply risks. Focus on these risks has been maintained through the period to ensure risks in these areas are mitigated. **Executive sponsors: George Stewart and Peter Varnsverry**	No change Medium	Balanced	Sufficient quantities of raw materials received at the right time and at the right price are critical to Group operations. The Group has prioritised risk mitigation to bring risk and risk appetite in line.
9. PEOPLE TRAINING AND DEVELOPMENT The Group recognises that its greatest asset is its workforce and a failure to attract, retain and develop talent will be detrimental to Group performance. During the COVID-19 pandemic management have prioritised the health and safety of the workforce, clear and regular communication and overall employee welfare.	No change Medium	The Group understands where key person dependencies and skills gaps exist and continues to develop its succession, talent acquisition, and retention plans. During the COVID-19 epidemic the people strategy has increasingly focused on managing furlough leave arrangements, establishing safe working practices for return to work, employee support and strong communication/employee engagement. Staff have remained well-informed and the Group has been able to restart operations effectively as a result. 'On-the-job' training has now resumed and apprentice and graduate schemes have continued throughout 2020. Staffing risks continue to be mitigated at all levels and this supports management in executing Group strategy. **Executive sponsor: Stephen Harrison**	No change Medium	Balanced	The Group has been investing in this area in recent years and will continue to mitigate risk in this fashion.
10. RESEARCH AND DEVELOPMENT Demand for the products that the Group manufactures may decline if the Group fails to respond to market developments and revenues and margins may suffer.	No change Low	Strong relationships with customers and independently administered customer surveys ensure that the Group understands current and future demand. Close ties between the Strategy, Operations and Commercial functions ensure that the Group focuses on the right areas of research and development. New product development and other development initiatives have restarted by the balance sheet date where they had been paused earlier in 2020. **Executive sponsor: Darren Rix**	No change Low	High	Where the right opportunities present themselves the Group is willing to invest to grow. The Group has invested in people so that the right opportunities can be identified and progressed.

PRINCIPAL RISK AND WHY IT IS RELEVANT	GROSS RISK +/- FROM DEC-19	KEY MITIGATION, CHANGE AND SPONSOR	NET RISK / POST MITIGATION RISK +/- FROM DEC-19	RISK APPETITE	RATIONALE FOR RATING
11. IT INFRASTRUCTURE AND SYSTEMS Disruption or interruption to IT systems could have a material adverse impact on performance and position.	Increased High	The Group has undertaken a period of investment in consolidating, modernising and extending the reach of IT systems in recent years and attainted Information Security ISO accreditation in 2019. Increased risk as a consequence of greater global instances of malicious attacks following COVID-19 is balanced by continued investment in infrastructure. **Executive sponsor: Matthew Day**	No change Low	Low	Investment in IT has been a priority in recent periods to mitigate risk. The downside to IT risks significantly outweigh any potential upside and the Group's risk appetite reflects this.
12. BUSINESS CONTINUITY Group performance is dependent on key centralised functions operating continuously and manufacturing functions operating uninterrupted. Should the Group experience significant disruption there is a risk that products cannot be delivered to customers to meet demand and all financial KPIs may suffer.	Increased Critical	The Group made plans to allow key centralised functions to continue to operate in the event of business interruption in prior years and was able to establish remote working capability effectively as the COVID-19 pandemic developed. Plans at operational facilities that focused on continuity of despatch were also in place and effective and the Group moves forward with proven capability for mobilising people and procedures. The Group's Business Continuity policy allows managers to apply clear principles to develop plans quickly in other areas, where a scenario without a pre-prepared plan is faced. **Executive sponsor: Ben Guyatt**	No change Medium	Low	Risk has been mitigated to ensure production and despatches continue and products are available to meet customer demand. Using business continuity plans in response to the pandemic represents a useful test, rather than a desktop exercise. This better informs management on capability and reduces residual/net risk.