

REGISTERED COMPANY NUMBER: 08960430

FORTERRA BUILDING PRODUCTS LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**



FORTERRA BUILDING PRODUCTS LIMITED

COMPANY DIRECTORS

B J Guyatt
S R Harrison
M R J Clay
S D Dasani (appointed 11 April 2016)
A J Smith (appointed 11 April 2016)
G W A Stewart (appointed 11 April 2016)
E T Haslam (appointed 25 April 2017)

COMPANY SECRETARY

A G Thompson

COMPANY REGISTERED NUMBER

08960430

COMPANY REGISTERED OFFICE

5 Grange Park Court
Roman Way
Northampton
NN4 5EA

INDEPENDENT AUDITOR

Ernst & Young LLP
1 More London Place
London
SE1 2AF

FORTERRA BUILDING PRODUCTS LIMITED

Strategic report	3 - 4
Directors' report and responsibilities statement	5 - 8
Independent auditor's report on the financial statements	9 - 10
Statement of comprehensive income	11
Balance sheet	12
Statement of changes in equity	13
Notes to the financial statements	14 - 29

FORTERRA BUILDING PRODUCTS LIMITED

STRATEGIC REPORT

The Directors present their strategic report for Forterra Building Products Limited for the year ended 31 December 2016.

GENERAL INFORMATION

Forterra Building Products Limited (the Company) is domiciled in the UK. The address of the registered office of the Company is 5 Grange Park Court, Roman Way, Northampton, England, NN4 5EA.

The Company is the immediate subsidiary of Forterra Holdings Limited which in turn is the subsidiary of Forterra plc. Together these companies comprise the Forterra group.

The Company's principal activity is the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complementary building products.

REVIEW OF THE BUSINESS

The following metrics are viewed by the Directors when assessing performance and position, and are therefore the company's key performance indicators (KPIs).

The profit for the year, after taxation, amounted to £27.4 million, an increase of £9.0 million, or 48.9%, from 2015.

Revenue increased by £6.5 million, or 2.3%, to £293.0 million in 2016. Reflecting a strong performance in the second half of the year as volumes to house builders continued at a good rate and the de-stocking at merchants and distributors eased towards the end of the year.

Cost of sales increased by £5.1 million, or 3.1% between 2016 and 2015, amounting to £170.2 million in 2016. The increase was largely in line with the increase in revenue seen in the period.

Distribution costs decreased by £2.2 million, or 4.9%, to £42.4 million in 2016. This decrease was primarily driven by effective cost management and a number exceptional costs incurred within 2015.

Administrative expenses increased by £3.6 million, or 13.0%, to £31.2 million in 2016. This increase was primarily due to the Company being stand-alone for the whole of 2016, whereas in the prior year, a number of administrative expenses, such as staff costs, were absorbed by HeidelbergCement. In addition, in the current year the Company was recharged £1.6 million by Forterra plc for management services provided.

Other operating income increased by £1.7 million to £2.2 million in 2016, primarily as a result of an indemnity payment received from HeidelbergCement in the period which is detailed within note 6 to the financial statements.

Net finance expense decreased by £12.9 million, or 47.3%, to £14.4 million in 2016. This decrease was due to the refinancing undertaken by the Company in April 2016. The interest rate on borrowings decreased from 8% to a rate of 2.25% plus LIBOR during the year as a result of this. A decrease in the level of debt borrowed by the Company also contributed to the decrease in expense.

The Company has moved from a net liability position of £216.6 million in 2015 to a net asset position of £63.2m in 2016. This movement is due to the profit for the year of £27.4 million, and the settlement of the prior year loan balance with Lone Star Funds in part through a capital contribution from Forterra plc. It has been replaced by an external loan, the balance of which was £148.5 million at year end. Further information on this can be found within note 16 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of Directors' for the Company's ultimate parent, Forterra plc, has established both audit and risk committees that meet regularly and work closely together to ensure that there is sufficient focus on procedure, the internal control environment and risk management with the Forterra group. This provides independent assurance that activities are appropriate and effective.

The principal risks facing the Company can be categorised at a high level as market and non-market (not listed in order of priority).

Market risks include risks presented by changing economic conditions, competition, the impact of government policy on demand, threats to the strength of the Company's relationships and reputation.

FORTERRA BUILDING PRODUCTS LIMITED

STRATEGIC REPORT (CONTINUED)

Non-market risks include risks which potentially threaten the Company's ability to operate, such as, availability of raw materials, IT failure, business disruption, quality, environment and health and safety.

By order of the board

A handwritten signature in black ink, appearing to read 'A. G. Thompson', with a long horizontal stroke extending to the right.

A. G. Thompson
Company secretary

Date: 07 July 2017

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

DIVIDENDS

A dividend of £44.73 per share was paid to the Company's parent undertaking, Forterra Holdings Limited in the period.

POLITICAL DONATIONS

The Company made no political donations during the period.

FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks (including movements in foreign currency and interest rates), credit risk and liquidity risk. The Company uses derivative financial instruments to manage certain risks. The risk management framework governing the management of these and all other business risks is set by the Board of the ultimate parent company, Forterra plc. The Company's financial instruments are set out within note 17 of the financial statements.

Foreign exchange risk

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

Interest rate risk

The Company's borrowings include a revolving credit facility and term loan facility agreement with a group of leading banks. These facilities allow the Company to meet short, medium and long-term financing requirements at a margin over LIBOR. The Company manages interest rate risk on an ongoing basis and reviews options available to hedge part of the variable rate risk.

Credit risk

Credit risk associated with trade receivables results from normal commercial operations and procedures exist to ensure that customer credit worthiness is assessed and monitored sufficiently and appropriate credit limits are in place and enforced. Trade and other receivables are stated net of management estimated bad debt provisions. Deposits with banking institutions also give rise to credit risk. To dilute and mitigate the risk the Company deposits cash and cash equivalents with highly rated counterparties.

Liquidity risk

The Company's borrowing facilities are available to ensure that there is sufficient liquidity to exceed maximum forecast cash flow requirements in all reasonably possible circumstances. The Company monitors cash flow on a weekly basis to ensure that headroom exists within current agreed facilities.

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, its financial position and approach to financial risk management are set out in the Strategic report and this Directors report.

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed. The Company therefore adopts the going concern basis in preparing its financial statements.

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who served during the year and to the date of this report were:

B J Guyatt
S R Harrison
M R J Clay
J Bradley (resigned 11 April 2016)
S D Dasani (appointed 11 April 2016)
A J Smith (appointed 11 April 2016)
G W A Stewart (appointed 11 April 2016)
E T Haslam (appointed 25 April 2017)

DIRECTORS INDEMNITIES

Qualifying third party indemnity provisions for the benefit of its Directors are in place under which the Company has agreed to indemnify the Directors to the extent permitted by law and by the Articles of Association, against all liability arising in respect of any act or omission in the course of performing their duties.

RESEARCH AND DEVELOPMENT

The Company is fully committed to research and development. It continually reviews the range of products it produces in order to meet the changing requirements of the market place. Research costs are expensed in the year in which they are incurred. Development costs are capitalised in line with IFRS requirements.

FUTURE DEVELOPMENTS

2017 has started well, building on the momentum seen in the second half of 2016. The Company continues to see strong activity levels from the major housebuilders and positive indications from these customers for at least the first half of the year. It appears that the destocking in the builders' merchants supply chain is now largely complete. As anticipated, price increases for the year were agreed with most customers in order to cover the increases in the cost base.

Based on the order book and current levels of activity, the outlook for the first half of the year is good. The Company has less visibility on the second half, however a more balanced outcome between the first and second halves than in 2016 is anticipated.

POST BALANCE SHEET EVENTS

On 23 January 2017 Lone Star Funds sold 23,000,000 Ordinary shares in the Company's ultimate parent, Forterra plc. On 25 April 2017 Lone Star Funds sold its remaining shareholding of 105,666,827 Ordinary shares. This disposed of the entirety of its shareholding in Forterra plc.

EMPLOYEES

During the year the policy of providing employees with information about the Company has been achieved through newsletters, intranet and employee briefings. Regular employee forum meetings are held between management and employees to allow a free flow of information.

The Company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the Company's policy, wherever applicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion where appropriate.

BRANCHES OUTSIDE THE UNITED KINGDOM

There were no branches outside the United Kingdom during the period.

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

DISCLOSURE OF INFORMATION TO AUDITORS

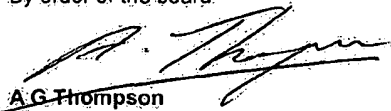
Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- So far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- That Director has taken all steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Ernst & Young LLP, having confirmed their willingness to act, will continue in office as auditors of the Company.

By order of the board



A.G. Thompson
Company secretary

Date: 07 July 2017

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and its profit or loss for the period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and the applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA BUILDING PRODUCTS LIMITED

We have audited the financial statements of Forterra Building Products Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FORTERRA BUILDING PRODUCTS LIMITED (CONTINUED)

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP.

Peter McIver (Senior Statutory auditor)
For and on behalf of
Ernst and Young LLP
1 More London Place
London
SE1 2AF

07 July 2017

FORTERRA BUILDING PRODUCTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Note	2016	2015
		£m	£m
Revenue		293.0	286.5
Cost of sales		(170.2)	(165.1)
Gross profit		122.8	121.4
Distribution costs		(42.4)	(44.6)
Administrative expenses		(31.2)	(27.6)
Other operating income	4	2.2	0.5
Operating profit	3	51.4	49.7
EBITDA before exceptional items		70.8	70.4
Exceptional items	6	(9.0)	(11.3)
Depreciation and amortisation	10,11	(10.4)	(9.4)
Operating profit		51.4	49.7
Net finance expense	8	(14.4)	(27.3)
Profit before tax		37.0	22.4
Income tax expense	9	(9.6)	(4.0)
Profit for the year attributable to equity shareholders of the parent		27.4	18.4
Total comprehensive income for the year attributable to equity shareholders of the parent		27.4	18.4

FORTERRA BUILDING PRODUCTS LIMITED

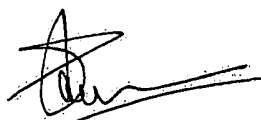
BALANCE SHEET
At 31 December 2016

	Note	2016	2015
		£m	£m
Assets			
Fixed assets			
Property, plant and equipment	10	147.2	149.5
Intangible assets	11	7.7	7.3
Investments	12	-	1.6
Deferred tax assets	19	0.4	1.8
		155.3	160.2
Current assets			
Inventories	13	39.0	40.7
Trade and other receivables	14	36.9	51.3
Cash and cash equivalents		56.2	23.9
		132.1	115.9
Creditors: amounts falling due within one year			
Trade and other payables	15	(57.5)	(70.3)
Income tax liabilities		(3.8)	(1.9)
Loans and borrowings	16	(10.7)	(405.6)
		(72.0)	(477.8)
Net current assets/(liabilities)		60.1	(361.9)
Total assets less current liabilities		215.4	(201.7)
Creditors: amounts falling due after more than one year			
Loans and borrowings	16	(137.8)	-
		(137.8)	-
Provisions for other liabilities and charges	18	(14.4)	(14.9)
Net assets/(liabilities)		63.2	(216.6)
Capital and reserves attributable to equity shareholders of the parent			
Share capital	20	0.1	0.1
Share premium	20	46.5	46.5
Merger reserve	22	(290.3)	(290.3)
Capital contribution reserve	23	256.4	-
Retained earnings		50.5	27.1
Total equity		63.2	(216.6)

The notes on pages 14 to 29 are an integral part of these financial statements.

Approved by the Board of Directors on

and signed on their behalf by:



S D Dasani
Director

07 July 2017

FORTERRA BUILDING PRODUCTS LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Share capital	Share premium	Merger reserve	Capital contribution reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Balance at 1 January 2015		0.1	46.5	(290.3)	-	8.7	(235.0)
Profit for the year		-	-	-	-	18.4	18.4
Total comprehensive income for the year		-	-	-	-	18.4	18.4
Balance at 31 December 2015		0.1	46.5	(290.3)	-	27.1	(216.6)
Profit for the year		-	-	-	-	27.4	27.4
Total comprehensive income for the year		-	-	-	-	27.4	27.4
Dividends paid	21	-	-	-	-	(4.0)	(4.0)
Ultimate parent company loan forgiven	23	-	-	-	256.0	-	256.0
Share-based payments	23	-	-	-	0.4	-	0.4
Balance at 31 December 2016		0.1	46.5	(290.3)	256.4	50.5	63.2

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Forterra Building Products Limited (the Company) is incorporated and domiciled in the UK. The Company's address is 5 Grange Park Court, Roman Way, Northampton, NN4 5EA.

The principal activity of the Company is the manufacture and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complementary building products.

The principal accounting policies are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), under the historical cost convention and in accordance with the Companies Act 2006.

The Company's ultimate parent undertaking, Forterra plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Forterra plc are prepared in accordance with International Financial Reporting Standards.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
 - (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 111 (cash flow statement information); and
 - 134-136 (capital management disclosures);
- IAS 7, 'Statement of cash flows';
- Paragraphs 17 and 18(a) of IAS 24, 'Related party disclosures';
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- Paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36, 'Impairment of assets' (assumptions involved in estimating recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts).
- Paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based payments; the entity is a subsidiary where the share-based payment arrangement concerns equity instruments of another group and equivalent disclosures are included in the consolidated financial statements of the group.

These financial statements are presented in Pounds Sterling (GBP) and all values are rounded to the nearest hundred thousand, unless otherwise indicated.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(b) Going Concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least one year from the date that the financial statements are signed. The Company therefore adopts the going concern basis in preparing its financial statements.

(c) Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at period end, are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings from related parties and cash and cash equivalents are presented in the statement of comprehensive income within net finance expense. All other foreign exchange gains and losses are presented in the statement of comprehensive income within other operating income.

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts for goods supplied, net of rebates, discounts, returns and value added taxes. The Company recognises revenue when the goods have been delivered and the risks and rewards have passed to the purchaser. The Company provides volume based rebates to certain customers normally on an annual basis. The estimated obligation at the year end is recorded within accruals and other payables.

Substantially all revenue recognised in the statement of comprehensive income arose from the sale of goods within the United Kingdom.

(e) Exceptional costs

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

(f) Property, plant and equipment

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

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

Land and construction in progress are not depreciated. For the other categories of property, plant and equipment, depreciation is charged to the statement of comprehensive income on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

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

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

Borrowing costs and repairs and maintenance expenses are recognised as an expense in the statement of comprehensive income.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets

(i) Clay rights, merchant relationships and other intangible assets

These intangible assets have finite lives and are carried at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost of these intangible assets over their estimated useful lives of 4 to 30 years. Amortisation of clay rights are treated as cost of sales. Amortisation of all other intangible assets are treated as administrative expenses.

(ii) Brand names

The Thermalite brand is classified as an indefinite life intangible asset due to the longevity of the brand and there not being a time limit on when benefit will be gained.

Intangible assets with indefinite useful lives are not amortised but are tested at least annually for impairment or whenever events or circumstances indicate that the carrying amount may not be recoverable.

(h) Financial instruments

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

(i) Trade and other receivables (excluding prepayments)

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

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

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

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

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits. Prior to February 2015 the treasury activities were centralised by HeidelbergCement AG and net cash collections were automatically distributed and reflected as a cash pooling related party receivable/payable.

(iv) Loans and borrowings

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

(v) Derivative financial instruments

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred in production and sale. The Company applies an inventory provision for damaged, obsolete, excess and slow-moving inventory.

(j) Provisions

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

Provisions are not made for future operating losses.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(k) Share capital

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

(l) Operating leases

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

(m) Net finance expense

Finance expense

Finance expense comprises interest payable on borrowings from external and related parties, direct issue costs and unwinding of discounts on long-term provisions. Finance expense is recognised in the statement of comprehensive income as it accrues using the effective interest method.

Finance income

Finance income comprises interest receivable on funds invested.

(n) Current and deferred income tax

Income tax for the periods presented comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, unless it relates to items in other comprehensive income or equity.

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

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

(o) Employee benefits

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial information in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(a) Impairment of Property, plant and equipment

Where there is evidence of potential diminution in value, the Company reviews an item of property, plant and equipment, to assess whether the recoverable amount exceeds the 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 the assumptions made about the revenue growth, EBITDA margin, the long-term growth rate of the relevant market, and the discount rate considered appropriate to reflect the time value of money and any risks specific to the asset that are not reflected in the cash flows.

The Company did not recognise an impairment charge in relation to property, plant and equipment in the year.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Impairment of Intangible assets

The Company evaluates its intangible assets with finite lives for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. Where there is evidence of diminution in value, the intangible asset is reviewed to assess whether the recoverable amount exceeds the carrying value.

Assets not subject to amortisation including goodwill and brands are tested annually for impairment, as discussed in note 11.

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 the assumptions made about the revenue growth, EBITDA margin, the long-term growth rate of the relevant market, and the discount rate considered appropriate to reflect the time value of money and any risks specific to the asset that are not reflected in the cash flows.

(c) Provisions for restoration and decommissioning obligations

The provisions for restoration and decommissioning obligations are made based on the Company's best estimate of the likely committed cash outflow. These estimated outflows are discounted to net present value. The key estimates requiring judgement associated with calculating the provision relate to the cost to perform the necessary remediation work as at the reporting date together with determining the year of retirement. This estimation process requires specialist input and takes into consideration the discount rate, inflation rate and the useful lives of sites.

(d) Accounting for customer rebates

The Company has a number of contracts with its customers which contain volume driven rebate mechanisms. Management are required to make judgements regarding the expected rebate achievement and make appropriate allowance for these uncertain liabilities.

(e) Inventory valuation and provisioning

The carrying value of the Company's finished goods inventory, specifically the level of provisions recognised against potential obsolescence, requires commercial judgement.

(f) Exceptional items

Exceptional items are disclosed separately in the financial statements where management believes it is necessary to do so to better understand the financial performance of the Company.

Management has considered both the costs associated with the IPO of the Company's ultimate parent undertaking, Forterra plc, in April 2016 and costs relating to the separation from HeidelbergCement AG in 2015 and Forterra Inc in 2016 and has judged that presenting these transactions as exceptional items within the statement of comprehensive income enables a full understanding of the Company's financial performance.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. OPERATING PROFIT

Profit from operations is stated after charging:

	2016	2015
	£m	£m
Depreciation and amortisation	10.4	9.4
Operating lease expense	6.7	5.2

4. OTHER OPERATING INCOME

	Note	2016	2015
		£m	£m
Profit on disposal of property, plant and equipment		0.2	-
Other income		0.6	0.5
Indemnity payment received	6	1.6	-
Loss on disposal of subsidiary	6	(0.2)	-
		2.2	0.5

5. AUDITOR'S REMUNERATION

The Company paid the following amounts to its auditors in respect of the audit of the financial statements.

	2016	2015
	£m	£m
Audit of the financial statements	0.2	0.3

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of its ultimate parent Forterra plc.

6. EXCEPTIONAL ITEMS

	2016	2015
	£m	£m
Transaction costs	(9.1)	(5.2)
Separation costs	(1.3)	(4.0)
Indemnity payment received	1.6	-
Loss on disposal of investment in Structerm Ltd	(0.2)	-
Impairment of Structerm Ltd investment	-	(2.1)
	(9.0)	(11.3)

Transaction costs in both years relate to the IPO completed in April 2016 and associated non-recurring professional fees. Management incentives related to the IPO amounted to £1.1m.

Separation costs relate to the separation from HeidelbergCement AG in 2015 and Forterra Inc in 2016 and include rebranding, new office fit out costs, set up of standalone IT operations and staff recruitment.

A cash tax indemnity payment was received in the year from HeidelbergCement AG relating to previous tax paid. It was initially recognised as a contingent asset at zero value, but later revalued to £1.6m upon confirmation of receipt.

An impairment charge of £2.1m was recognised in 2015 in relation to the Company's investment in Structerm Limited. In October 2016 the Company disposed of its investment in Structerm Limited. A loss of £0.2m was recognised as a result of the disposal.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. EMPLOYEES AND DIRECTORS

(a) Staff costs for the Company during the year

	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Wages and salaries	59.9	57.9
Pension costs	5.0	4.3
Social security costs	5.6	5.4
Share-based payments	0.4	-
	<u>70.9</u>	<u>67.6</u>

(b) Average number of employees

The average monthly number of persons (including Directors) employed by the Company in the year is set out in the table below:

	<u>2016</u>	<u>2015</u>
Administration	132	85
Production and distribution	1,433	1,490
	<u>1,565</u>	<u>1,575</u>

(c) Directors

The Directors' emoluments in the year were as follows:

	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Emoluments (excluding pension contributions)	1.7	0.8
Company pension contributions	0.1	0.1
	<u>1.8</u>	<u>0.9</u>

The highest paid Director's emoluments in the year were as follows:

	<u>2016</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>
Emoluments (excluding pension contributions)	0.5	0.4
Company pension contributions	-	-
	<u>0.5</u>	<u>0.4</u>

Emoluments above relate to payments made by Forterra Building Products Limited to the Directors of the Company. From May 2016 those Directors who are also Directors of the ultimate parent company, Forterra plc, received remuneration from Forterra plc. Included within operating expenses is a recharge from Forterra plc which encompasses administration costs including Directors emoluments and other corporate overheads. It is not possible to separately identify the amount of Directors emoluments within this and accordingly no details are provided. The total emoluments for the Directors of Forterra plc are disclosed within the published financial statements of that company.

Included within the Directors emoluments for the current year is a bonus of £0.8m which was paid to certain Directors by Forterra Building Products Limited on the listing of Forterra plc on the London Stock Exchange.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. NET FINANCE EXPENSE

	2016	2015
	£m	£m
Interest payable on related party borrowings	(10.4)	(27.5)
Interest payable on external borrowings	(3.8)	-
Other finance (expense)/income	(0.2)	0.2
	(14.4)	(27.3)

9. INCOME TAX

	2016	2015
	£m	£m
Current tax:		
UK corporation tax on profit for the year	(8.3)	(5.2)
Prior year adjustment on UK corporation tax	0.1	-
Total current tax	(8.2)	(5.2)
Origination and reversal of temporary differences	(1.0)	(1.2)
Market value uplift to land tax base following de-grouping	-	2.2
Effect of change in tax rates	0.1	(0.3)
Effect of prior period adjustments	(0.5)	0.5
Total deferred tax	(1.4)	1.2
Income tax expense	(9.6)	(4.0)

	2016	2015
	£m	£m
Profit on ordinary activities before tax	37.0	22.4
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 20% (2015: 20.25%)	(7.4)	(4.5)
Effects of:		
Change in tax rate	0.1	(0.3)
Expenses not deductible for tax purposes	(1.9)	(1.9)
Market value uplift to land tax base following de-grouping	-	2.2
Prior period adjustments	(0.4)	0.5
Income tax expense	(9.6)	(4.0)

The main rate of UK corporation tax for 2016 is 20%. The Finance Act (No 2) 2015 which received Royal assent on 18 November 2015 includes legislation reducing the main rate of corporation tax to 19% effective from 1 April 2017 and then 18% effective from 1 April 2020. The Finance Bill 2016 (Royal Assent received 15 September 2016) introduced legislation to further reduce the main rate of corporation tax to 17% effective from 1 April 2020.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Total
	£m	£m	£m
Cost			
- At 1 January 2016	81.8	78.1	159.9
- Additions	0.7	7.5	8.2
- Disposals	-	(2.4)	(2.4)
- Changes in the value of decommissioning assets	(0.3)	-	(0.3)
At 31 December 2016	82.2	83.2	165.4
Accumulated depreciation			
- As at 1 January 2016	(2.4)	(8.0)	(10.4)
- Depreciation	(1.9)	(8.2)	(10.1)
- Disposals	-	2.3	2.3
- Changes in the value of decommissioning assets	-	-	-
At 31 December 2016	(4.3)	(13.9)	(18.2)
Net book amount			
At 1 January 2016	79.4	70.1	149.5
At 31 December 2016	77.9	69.3	147.2

Included within property, plant and equipment are assets under the course of construction of £2.7m (2015: £11.6m), comprising £0.1m (2015: £0.1m) for land and buildings and £2.6m (2015: £11.5m) for plant and machinery.

11. INTANGIBLE ASSETS

	Clay rights	Merchant relationships	Brand names	Other	Total
	£m	£m	£m	£m	£m
Cost					
- As at 1 January 2016	0.3	0.8	6.0	0.6	7.7
- Disposals	-	-	-	0.7	0.7
As at 31 December 2016	0.3	0.8	6.0	1.3	8.4
Accumulated amortisation					
- As at 1 January 2016	-	(0.2)	-	(0.2)	(0.4)
- Amortisation	-	-	-	(0.3)	(0.3)
As at 31 December 2016	-	(0.2)	-	(0.5)	(0.7)
Net book amount					
As at 1 January 2016	0.3	0.6	6.0	0.4	7.3
As at 31 December 2016	0.3	0.6	6.0	0.8	7.7

Impairment review of intangible assets with indefinite useful lives

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

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

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The forecast revenues in the model are based on management's past experience and future expectations of performance. The discount rate used in 2016 is pre-tax 10.6% (2015: 10%) derived from a WACC calculation and benchmarked against similar organisations operating within the sector. The terminal growth rate used in 2016 is 2% (2015: 2%). The short-term growth rate is 3% in 2016 (2015: 2%).

The recoverable amount in respect of the indefinite life intangibles, as assessed by management using the above assumptions, is greater than the carrying amount and therefore no impairment charge has been booked in 2016 (2015: £2.4m). Management consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate headroom in each of the years presented in these financial statements.

12. INVESTMENTS

In October 2016 the Company disposed of its investment in Structherm Limited. The value of the investment held by the Company at the date of disposal was £1.6m. A loss of £0.2m was recognised within other operating income as a result of the disposal.

In addition to this the Company also holds immaterial investments in a number of dormant companies.

13. INVENTORIES

	2016	2015
	£m	£m
Raw materials and consumables	6.0	6.3
Finished goods	31.5	32.7
Work in progress	1.5	1.7
	<u>39.0</u>	<u>40.7</u>

Write downs of inventories recognised as an expense in the year were £1.3m (2015: £2.3m). Reversals of previous inventory write downs in the period were £2.1m (2015: £1.0m).

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

14. TRADE AND OTHER RECEIVABLES

	2016	2015
	£m	£m
Trade receivables	30.0	26.8
Amounts owed by group undertakings	5.3	23.0
Other receivables	0.3	0.2
Prepayments and accrued income	1.3	1.3
	<u>36.9</u>	<u>51.3</u>

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for. These balances relate to customers who have no recent history of default and whose debts are considered to be recoverable. Trade receivables are considered for impairment either where there is an identifiable risk of non-payment or the balance is overdue by greater than 60 days.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. TRADE AND OTHER PAYABLES

	2016	2015
	£m	£m
Trade payables	26.3	27.8
Amounts owed to group undertakings	5.6	15.0
Amounts owed to related parties	0.7	-
Other taxation and social security payable	3.7	2.1
Accruals and other payables	21.2	25.4
	57.5	70.3

16. LOANS AND BORROWINGS

	2016	2015
	£m	£m
Non-current loans and borrowings:		
External bank loans - principal	140.0	-
- unamortised debt issue costs	(2.2)	-
	137.8	-
Current loans and borrowings:		
Borrowings from related parties	-	405.6
External bank loans - principal	10.0	-
- interest	0.7	-
	10.7	405.6
	148.5	405.6

On 26 April 2016 the Company entered into a new facilities agreement with a group of leading banks under which it has access to a £150 million term loan facility and a £30 million revolving credit facility for five years. Interest is payable on amounts drawn down under the agreement at a rate of LIBOR plus a variable margin ranging from 1.50% to 2.75%. The margin for 2016 was set at 2.25%.

The facility is subject to both financial and non-financial covenants and is secured by fixed charges over the shares of both the Company and the Company's parent undertaking, Forterra Holdings Limited.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. FINANCIAL INSTRUMENTS

	2016	2015
	£m	£m
Financial assets at amortised cost		
Cash and cash equivalents	56.2	23.9
Trade and other receivables (excluding prepayments)	35.6	50.0
	91.8	73.9
	2016	2015
	£m	£m
Financial liabilities at amortised cost		
Trade and other payables (excluding non-financial liabilities)	53.1	68.2
Loans and borrowings	148.5	405.6
	201.6	473.8

Financial risk management

The Company's activities expose it to a variety of financial risks (including movements in foreign currency and interest rates), credit risk and liquidity risk. The Company uses derivative financial instruments to manage certain risks. The risk management framework governing the management of these and all other business risks is set by the Board of the ultimate parent company, Forterra plc.

Foreign exchange risk:

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

Principal rate of exchange: Euro/sterling

	2016	2015
Period ended	1.19	1.36
Average	1.23	1.38

The Company has entered into forward foreign currency contracts and options to mitigate exchange rate risk for certain foreign currency payables. At 31 December 2016, outstanding contracts maturing within 6 months amounted to €1.7m (2015: €nil) and outstanding contracts maturing between 6-12 months amounted to €1.3m (2015: €nil). In addition the Company had currency options for the same amounts maturing over the same periods (2015: €nil).

Interest rate risk:

The Company's borrowings include a revolving credit facility and term loan facility agreement with a group of leading banks. These facilities allow the Company to meet short, medium and long-term financing requirements at a margin over LIBOR. The Company manages interest rate risk on an ongoing basis and reviews options available to hedge part of the variable rate risk.

Credit risk:

Credit risk associated with trade receivables results from normal commercial operations and procedures exist to ensure that customer credit worthiness is assessed and monitored sufficiently and appropriate credit limits are in place and enforced. Trade and other receivables are stated net of management estimated bad debt provisions. Deposits with banking institutions also give rise to credit risk. To dilute and mitigate the risk the Company deposits cash and cash equivalents with highly rated counterparties.

Liquidity risk:

The Company's borrowing facilities are available to ensure that there is sufficient liquidity to exceed maximum forecast cash flow requirements in all reasonably possible circumstances. The Company monitors cash flow on a weekly basis to ensure that headroom exists within current agreed facilities.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The maturity profile of contractual undiscounted cash outflows, including expected interest payments, which are payable under financial liabilities at the balance sheet date is set out below:

	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	2016
	£m	£m	£m	£m	£m	£m
Trade and other payables (excluding non-financial liabilities)	53.1	-	-	-	-	53.1
Loans and borrowings	13.4	13.0	12.8	12.6	110.8	162.6
Derivative financial instruments	2.6	-	-	-	-	2.6
	<u>69.1</u>	<u>13.0</u>	<u>12.8</u>	<u>12.6</u>	<u>110.8</u>	<u>218.3</u>
	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	2015
	£m	£m	£m	£m	£m	£m
Trade and other payables (excluding non-financial liabilities)	68.2	-	-	-	-	68.2
Loans and borrowings	438.0	-	-	-	-	438.0
Derivative financial instruments	-	-	-	-	-	-
	<u>506.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>506.2</u>

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

Derivative financial instruments result in contractual cash inflows and outflows in 2017. At 31 December 2016 there is no material difference between the cash inflows and outflows and the difference between fair value and carrying value is insignificant.

18. PROVISIONS FOR LIABILITIES

	Restoration and Decommissioning	Other	Total
	£m	£m	£m
At 1 January 2016	11.7	3.2	14.9
Charged/(credited) to the income statement			
- Additional provisions	-	1.1	1.1
- Release of provisions	(0.5)	(1.0)	(1.5)
- Utilised amounts	-	(0.3)	(0.3)
- Unwind of discount	0.2	-	0.2
At 31 December 2016	<u>11.4</u>	<u>3.0</u>	<u>14.4</u>

Analysed as:

	2016	2015
	£m	£m
Non-current	8.7	11.7
Current	5.7	3.2
	<u>14.4</u>	<u>14.9</u>

All non-current provisions are discounted at a rate of 2.65% (2015: 2.65%).

The total provisions balance is made up of provisions for restoration and decommissioning, carbon emissions, dilapidation, defective materials, restructuring and legal provisions.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

When re-estimating the remaining lives of the Company's facilities, where the cessation of extraction creates an expectation that short term restoration activities are probable, management have reclassified some restoration provisions from non-current in 2015 to current in 2016.

Restoration and decommissioning

The Company is required to restore quarrying sites to a state agreed with the planning authorities after extraction of raw materials ceases and to decommission manufacturing facilities that have been constructed. The provisions for restoration and decommissioning are made based on the Company's best estimate of the amount required to settle the obligations, taking account of suitably qualified and experienced consultants and after establishing the costs in line with current practice and standards. These provisions are discounted by applying a discount rate that reflects the passage of time. Estimates are revised annually and in the case of decommissioning provisions are adjusted against the asset to which the provision relates, which is then subject to an impairment assessment. Future costs are expected to be incurred over the useful life of the sites which is a period of up to 50 years.

The impact of changes in discount rate and inflation rates on the provision at year-end was nil (2015: £0.5m).

When re-estimating the remaining useful lives of the Company's facilities, where the cessation of extraction creates an expectation that short-term restoration activities are probable, management have reclassified some restoration provisions from non-current in 2015 to current in 2016.

19. DEFERRED TAX

The analysis of deferred tax assets is as follows:

	2016	2015
	£m	£m
Deferred tax assets to be recovered after more than 12 months	0.4	1.8

The movement in deferred tax assets and liabilities during the year is as follows:

	Fixed assets	Provisions	Intangible assets	Share-based payments	Land	Total
	£m	£m	£m	£m	£m	£m
Deferred tax assets:						
At 1 January 2015	2.4	1.5	(1.5)	-	(1.8)	0.6
Prior period adjustment	0.7	0.2	0.1	-	(0.5)	0.5
(Charged) / credited to the income statement	(1.3)	-	0.1	-	-	(1.2)
Effect of market uplift to land tax base following de-grouping	-	-	-	-	2.2	2.2
Effect of rate changes	(0.2)	(0.2)	0.1	-	-	(0.3)
At 1 January 2016	1.6	1.5	(1.2)	-	(0.1)	1.8
Prior period adjustment	(1.3)	0.3	0.5	-	-	(0.5)
(Charged) / credited to the income statement	(1.2)	0.1	-	0.1	-	(1.0)
Effect of rate changes	0.2	(0.1)	-	-	-	0.1
At 31 December 2016	(0.7)	1.8	(0.7)	0.1	(0.1)	0.4

Deferred tax is calculated on temporary differences between the tax base of assets and liabilities and their carrying amounts, using the corporation tax rate applicable to the timing of their reversal.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where it is probable that these assets will be recovered.

20. SHARE CAPITAL AND SHARE PREMIUM

Called up share capital consists of 89,627 Ordinary shares of £1 each. Each Ordinary share has 1 vote attaching.

	Ordinary shares £m	Share premium £m
Allotted, called up and fully paid:		
At 1 January 2016	0.1	46.5
At 31 December 2016	<u>0.1</u>	<u>46.5</u>

21. DIVIDENDS

	2016 £m	2015 £m
Amounts recognised as distributions to Forterra Holdings in the year:		
Dividend of £44.73 per share	4.0	-
	<u>4.0</u>	<u>-</u>

22. MERGER RESERVE

On 1 September 2014, HeidelbergCement, the Company's parent undertaking at that date, transferred certain trade and assets relating to the production and sale of bricks, both dense and lightweight blocks, precast concrete, concrete paving and other complimentary building products, from subsidiary undertakings to the Company for consideration of £447.7m. The assets and liabilities were measured at their previous carrying amounts and the difference between the consideration and the net assets acquired is reflected in the merger reserve. This accounting treatment reflects the fact that the Company was under the control of HeidelbergCement at the point that this reorganisation was effected.

23. CAPITAL CONTRIBUTION RESERVE

On the IPO of the ultimate parent undertaking, Forterra plc, the Company's loan balance of £405.0m was settled. This was partly met by the proceeds received on refinancing, with Forterra plc forgiving the remaining debts due. The forgiving of this loan created a capital contribution reserve.

In addition, Forterra plc compensates certain key management and other employees for services provided to the Company. The value of service is recognised as an increase in the capital contribution reserve.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. CAPITAL AND OTHER COMMITMENTS

The Company's total commitments under non-cancellable operating leases are set out below:

	2016	2015
	£m	£m
Land and buildings		
Within one year	0.7	0.8
Between one and five years	2.1	2.4
After five years	5.5	4.2
	8.3	7.4
Other		
Within one year	6.2	6.0
Between one and five years	16.3	19.7
After five years	0.9	2.0
	23.4	27.7

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2016	2015
	£m	£m
Property, plant and equipment	1.3	2.3
Intangible assets	0.4	-

25. RELATED PARTIES

The Company has taken advantage of the exemptions available to subsidiary undertakings under FRS 101 by not disclosing transactions with related parties.

26. POST BALANCE SHEET EVENTS

On 23 January 2017 Lone Star Funds sold 23,000,000 Ordinary shares in the Company's ultimate parent, Forterra plc. On 25 April 2017 Lone Star Funds sold its remaining shareholding of 105,666,827 Ordinary shares. This disposed of the entirety of its shareholding in Forterra plc.

27. ULTIMATE CONTROLLING PARTY

From 25 April 2017 when Lone Star Funds sold its shareholding in the Company's ultimate parent, Forterra plc was no longer under the control of an ultimate controlling party.