

REGISTERED COMPANY NUMBER: 08960430

FORTERRA BUILDING PRODUCTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



FORTERRA BUILDING PRODUCTS LIMITED

COMPANY DIRECTORS

S R Harrison
S D Dasani
B J Guyatt
A J Smith
M E Day (appointed 12 March 2018)
E T Haslam
D P Rix
P S Varnsvery (appointed 7 January 2019)
G W A Stewart
M R J Clay (resigned 31 May 2018)

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 Place
London
SE1 2AF

FORTERRA BUILDING PRODUCTS LIMITED

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FORTERRA BUILDING PRODUCTS LIMITED

STRATEGIC REPORT

The Directors present their strategic report for Forterra Building Products Limited for the year ended 31 December 2018.

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 £52.6 million, an increase of £5.4 million or 11.4%, from 2017.

Revenue increased by £36.5 million or 11.0%, to £367.5 million in 2018. The underlying increase was in high single digits after excluding the benefit of the Bison acquisition completed in September 2017 and was partly due to a modest increase in volumes which reflected the sustained strength of the new build residential market following the strong growth seen in 2017. Price increases were applied across all product ranges to cover increases in the operating cost base.

Cost of sales increased by £33.4 million or 17.0%, to £230.2 million in 2018. The Company experienced higher operating costs in the period than prior year, especially for energy, fuel, carbon credits (under the EU Emissions Trading Scheme) and repair and maintenance, though the impact was mitigated by forward purchases of gas and electricity made previously.

Distribution costs increased by £3.2 million or 6.6%, to £51.9 million in 2018, primarily driven by increased sales volumes.

Administrative expenses decreased by £1.4 million or 6.5%, to £20.2 million in 2018. The decrease was primarily due to an emphasis on cost control within the business and changes in provisions.

Other operating income increased by £1.4 million to £1.7 million in 2018 which was primarily the result of movements within the restoration and decommissioning provisions and an increase in external income generated from provision of engineering services.

Net finance expense decreased by £2.9 million or 55.8%, to £2.3 million in 2018. The prior year included an exceptional charge relating to the write-off of £1.8 million finance costs capitalised when the previous borrowing facility was put in place. The underlying reduction in cost was due to both lower net debt and lower gearing which resulted in the lowest interest rate band under the agreement being charged.

The Company has significantly reduced its net debt in the period from £60.8 million to £38.8 million in 2018, a reduction of £22.0 million or 36.2% on the prior year. This decrease was mainly driven by strong operating cash flows.

Forterra is committed to the highest safety standards for all employees, sub-contractors and visitors to our facilities. The activities being undertaken in this area are described in detail in the Annual Report and Accounts of the parent company, Forterra plc.

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).

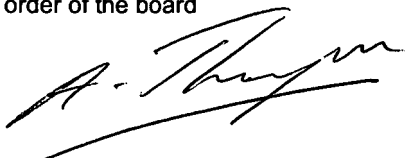
FORTERRA BUILDING PRODUCTS LIMITED

STRATEGIC REPORT (CONTINUED)

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.

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. Thompson', with a long horizontal flourish extending to the right.

A G Thompson
Company secretary

25 June 2019

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 2018.

DIVIDENDS

No dividend (2017: £13.8 million) 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 periodically manage risks if it is judged to be prudent. 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.

Capital management

The Company manages capital (being loans and borrowings, cash and cash equivalents and equity) to ensure a sufficiently strong capital base to support the Company remaining a going concern, maintain investor and creditor confidence, provide a basis for future development of the business and maximise the return to stakeholders.

The Company manages its loans and borrowings to ensure continuity of funding. A key objective is to ensure compliance with the covenants set out in the Company's bank facility agreements.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2017 and 31 December 2018.

Financial risk management

The Company's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The Company uses derivative financial instruments to periodically manage risks if it is judged to be prudent.

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. 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 has secured borrowings from a group of leading banks under a revolving credit facility. 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 refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents) and credit exposure to customers through trade and other receivables. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are impaired when there is no reasonable expectation of recovery.

Credit risk associated with trade receivables results from normal commercial operations. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in place and enforced. Trade and other receivables are stated net of management estimated bad debt impairments. Impairments in the period were less than £0.1m (2017: less than £0.1m).

To dilute and mitigate the financial credit risk associated with cash balances the Company deposits cash and cash equivalents with multiple highly rated counterparties.

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

DIRECTORS

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

S R Harrison
S D Dasani
B J Guyatt
E T Haslam
D P Rix
A J Smith
G W A Stewart
M R J Clay (resigned 31 May 2018)
M E Day (appointed 12 March 2018)

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, 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 where the recognition criteria have been met.

FUTURE DEVELOPMENTS

Trading in the current year has been in line with expectations. The improvement in productivity seen at Bison Precast in the last quarter has been sustained into early 2019 and the business is performing well. As anticipated, price increases were agreed with most customers in order to cover the increase in cost base. Based on the current order book and indications from major customers, the Company's expectations for 2019 are unchanged.

Whilst watchful of the impact of the current political and economic uncertainty on the Company's end markets, the Directors remain confident that the business is well positioned to take advantage of the attractive market fundamentals.

The Company has now received planning consent (subject to legal agreement) for a £95m project to build a new brick facility at its existing site at Desford, Leicestershire, viewed as a significant positive development.

FORTERRA BUILDING PRODUCTS LIMITED

DIRECTORS' REPORT (CONTINUED)

This major investment will lead to the construction of the largest and most efficient brick factory in Europe capable of producing up to 180 million bricks per annum. The existing plant, which has a capacity of 85 million bricks per annum, will remain operational until the new facility constructed alongside is completed. It is anticipated that the new plant will commence full production during 2022 after a period of commissioning.

Contracts for the building work and equipment supply and installation are being finalised, and the project team mobilised in order to drive delivery of the project under the direction of the executive team and the Board of the parent undertaking, Forterra plc.

POST BALANCE SHEET EVENTS

On 21 June 2019 the Directors approved a dividend of 21,598.54 pence per share, making a total payment of £19.4m, to be paid immediately to the Company's parent undertaking, Forterra Holdings Limited.

EMPLOYEES

Employees are provided with information about the Company 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.

DISCLOSURE OF INFORMATION TO AUDITORS

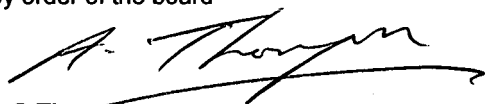
Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- 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

25 June 2019

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

OPINION

We have audited the financial statements of Forterra Building Products Limited for the year ended 31 December 2018 which comprise Profit and Loss Account, the Balance Sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

OPINIONS ON OTHER MATTERS 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

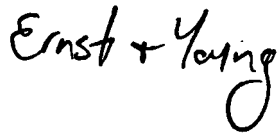
A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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

USE OF OUR REPORT

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

A handwritten signature in black ink that reads "Ernst & Young". The signature is written in a cursive, flowing style.

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 June 2019

FORTERRA BUILDING PRODUCTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Note	2018	2017
		£m	£m
Revenue		367.5	331.0
Cost of sales		(230.2)	(196.8)
Gross profit		137.3	134.2
Distribution costs		(51.9)	(48.7)
Administrative expenses		(20.2)	(21.6)
Other operating income	5	1.7	0.3
Operating profit	4	66.9	64.2
EBITDA before exceptional items		78.6	75.1
Depreciation and amortisation	11,12	(11.7)	(10.9)
Operating profit		66.9	64.2
Finance expense before exceptional items		(2.3)	(3.4)
Exceptional finance items	7	-	(1.8)
Net finance expense	9	(2.3)	(5.2)
Profit before tax		64.6	59.0
Income tax expense	10	(12.0)	(11.8)
Profit for the year attributable to equity shareholders of the parent		52.6	47.2
Total comprehensive income for the year attributable to equity shareholders of the parent		52.6	47.2

FORTERRA BUILDING PRODUCTS LIMITED

BALANCE SHEET At 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Fixed assets			
Property, plant and equipment	11	170.5	165.2
Intangible assets	12	11.3	9.8
		181.8	175.0
Current assets			
Inventories	13	37.4	36.3
Trade and other receivables	14	61.6	33.0
Cash and cash equivalents		26.0	29.0
		125.0	98.3
Creditors: amounts falling due within one year			
Trade and other payables	15	(71.8)	(61.4)
Income tax liabilities		(3.8)	(5.9)
Loans and borrowings	16	(0.3)	(0.4)
Provisions for other liabilities and charges	18	(4.2)	(7.9)
		(80.1)	(75.6)
Net current assets		44.9	22.7
Total assets less current liabilities		226.7	197.7
Creditors: amounts falling due after more than one year			
Loans and borrowings	16	(64.5)	(89.4)
Provisions for other liabilities and charges	18	(8.4)	(9.1)
Deferred tax liabilities	19	(1.8)	(0.9)
		(74.7)	(99.4)
Net assets		152.0	98.3
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	259.2	258.1
Retained earnings		136.5	83.9
Total equity		152.0	98.3

The notes on pages 16 to 33 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 25 June 2019 and signed on their behalf by:



S D Dasani
Director

FORTERRA BUILDING PRODUCTS LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Note	Share capital	Share premium	Merger reserve	Capital contribution reserve	Retained earnings	Total equity
		£m	£m	£m	£m	£m	£m
Balance at 1 January 2017		0.1	46.5	(290.3)	256.40	50.5	63.2
Profit for the year		-	-	-	-	47.2	47.2
Total comprehensive income for the year		-	-	-	-	47.2	47.2
Dividends paid	21	-	-	-	-	(13.8)	(13.8)
Ultimate parent company loan forgiven		-	-	-	1.2	-	1.2
Share-based payments		-	-	-	0.5	-	0.5
Balance at 31 December 2017		0.1	46.5	(290.3)	258.1	83.9	98.3
Profit for the year		-	-	-	-	52.6	52.6
Total comprehensive income for the year		-	-	-	-	52.6	52.6
Share-based payments		-	-	-	1.4	-	1.4
Tax on share-based payments		-	-	-	(0.3)	-	(0.3)
Balance at 31 December 2018		0.1	46.5	(290.3)	259.2	136.5	152.0

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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.

2. Summary of significant accounting policies

(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 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 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101 since equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated:

- 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, 'Key management compensation';
- 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;
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective); and
- 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.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(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.

(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 performance obligations are met, as follows:

- Bricks and Blocks - When the goods are delivered.
- Bespoke Products - For supply contracts, when the goods are delivered, and for supply and fit contracts, when goods are delivered and installed.
- Bill and hold arrangements - When the customer obtains control of the goods.

The Company provides volume-based rebates to certain customers, typically on an annual basis. Revenue is recognised net of rebates paid or accrued.

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.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Depreciation ceases where plant and machinery ordinarily used in production is idle as a result of the temporary cessation of production at a facility. Where assets are idle for any other reason depreciation continues to be charged in line with the requirements of IAS 16.

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.

Repairs and maintenance expenses do not meet the recognition criteria and are recognised as an expense in the statement of comprehensive income.

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of businesses, trade and assets where consideration paid exceeds the fair value at the acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs). Each unit to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of fair value less costs to sell and value in use. Any impairment is recognised immediately as an expense in the statement of comprehensive income and is not subsequently reversed.

(ii) Other intangible assets

Other intangibles consists of clay rights, merchant relationships, order book, patent and software development costs. These are attributable to both reportable segments. All other intangible assets have finite lives and are carried at cost less accumulated amortisation. Amortisation for all intangible assets, including those internally generated, is charged to statement of comprehensive income on a straight-line basis over the estimated useful lives of the assets. These can be up to five years for software and up to 30 years for other intangibles.

(iii) Brand

Intangible assets are not amortised if they have an indefinite useful life but are tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment.

(h) Financial instruments

The Company determines the classification of financial assets and financial liabilities at initial recognition.

Allowances for expected credit losses are made based on the risk of non-payment taking into account ageing, previous experience, economic conditions and forward-looking data. Such allowances are measured as either 12-month expected credit losses or lifetime expected credit losses depending on changes in the credit quality of the counterparty.

The principal financial assets and liabilities of the Company are as follows:

(i) Trade and other receivables (excluding prepayments)

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

Trade receivables are reported net of an allowance for expected credit losses. Losses are calculated by reviewing lifetime expected credit losses using historic and forward-looking data on credit risk. Expected loss allowances are

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

(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. Net realisable value is based on estimated selling price less any costs expected to be incurred in production and sale. The Company applies an inventory provision for damaged, obsolete, excess and slow-moving inventory.

Raw materials are measured at the weighted average cost. This method perpetually applies a cost weighting to obtain an average cost of purchased inventory and inventory on hand in proportion to quantity.

Finished goods are measured at standard cost. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

(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 for rebates are included in accrued liabilities and other payables.

Provisions are not made for future operating losses.

(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

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(i) 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.

(ii) 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 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements 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) ACCOUNTING ESTIMATES

(i) Provisions

Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value, management reference information from the Bank of England when making such estimates.

Management do not engage third party experts to estimate these rates as historic and forecast information has shown that the two rates often move in tandem and therefore do not cause a material net impact. If the rates did not move in tandem and the spread between them increased by 0.5% the value of provisions could change by c.£1.4m.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Provisions for product liability or other legal claims, restructuring, and carbon emissions obligations are all made based on the best estimate of the likely committed cash outflow, using relevant information available at the reporting date. Management engage third party valuation experts, as appropriate, when material and complex estimates are required.

(b) ACCOUNTING JUDGEMENTS

(i) Inventory valuation and provisioning

Inventory carrying value is stated after recognising inventory provisions. The calculation of provisions for the potential inventory obsolescence requires a degree of commercial judgement when determining saleability and price of certain finished goods.

(ii) 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 12.

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.

4. OPERATING PROFIT

Profit from operations is stated after charging:

	2018	2017
	£m	£m
Depreciation and amortisation	11.7	10.9
Operating lease expense	8.2	6.8

5. OTHER OPERATING INCOME

	2018	2017
	£m	£m
Profit on disposal of property, plant and equipment	0.2	0.3
Other income	1.5	-
	<u>1.7</u>	<u>0.3</u>

6. AUDITOR'S REMUNERATION

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

	2018	2017
	£m	£m
Audit of the financial statements	<u>0.2</u>	<u>0.2</u>

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.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. EXCEPTIONAL ITEMS

	2018	2017
	£m	£m
Exceptional finance expenses		
IPO capitalised financing costs written off	-	(1.8)
	-	(1.8)

Following the refinancing of the Company's borrowings facility during 2017, the balance of the capitalised financing cost incurred when the previous facility was put in place at IPO has been written-off. There were no exceptional items in 2018.

8. EMPLOYEES AND DIRECTORS

(a) Staff costs for the Company during the year

	2018	2017
	£m	£m
Wages and salaries	77.7	66.6
Pension costs	5.7	5.3
Social security costs	7.2	6.4
Share-based payments	1.6	1.1
	92.2	79.4

The total share-based payments cost in the year includes national insurance contributions of £0.1m (2017: £0.1m).

(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:

	2018	2017
Administration	223	201
Production and distribution	1,680	1,462
	1,903	1,663

The increase in employment costs and average number of employees is primarily due to the Bison acquisition, which completed in the second half of 2017.

(c) Directors

The Directors' emoluments in the year were as follows:

	2018	2017
	£m	£m
Emoluments (excluding pension contributions)	1.6	1.2
Company pension contributions	0.1	0.1
	1.7	1.3

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2018	2017
	£m	£m
Emoluments (excluding pension contributions)	0.3	0.3
Company pension contributions	-	-
	0.3	0.3

Emoluments above relate to payments made by Forterra Building Products Limited to the Directors of the Company. Included within operating expenses is a recharge from Forterra plc for administration costs including directors' emoluments and other corporate overheads. The total emoluments for the Directors' of Forterra plc are disclosed within the published financial statements of the Group.

9. NET FINANCE EXPENSE

	2018	2017
	£m	£m
Interest payable on external borrowings	(2.2)	(3.4)
IPO capitalised financing costs written off	-	(1.8)
Other finance expense	(0.1)	-
	(2.3)	(5.2)

10. INCOME TAX

	2018	2017
	£m	£m
Current tax:		
UK corporation tax on profit for the year	(11.6)	(11.4)
Prior year adjustment on UK corporation tax	0.2	0.2
Total current tax	(11.4)	(11.2)
Origination and reversal of temporary differences	(0.8)	(0.6)
Effect of change in tax rates	0.1	0.1
Effect of prior period adjustments	0.1	(0.1)
Total deferred tax	(0.6)	(0.6)
Income tax expense	(12.0)	(11.8)

	2018	2017
	£m	£m
Profit on ordinary activities before tax	64.6	59.0
Profit on ordinary activities multiplied by the rate of corporation tax in the UK of 19% (2017: 19.25%)	(12.3)	(11.4)
Effects of:		
Change in tax rate	(0.1)	0.1
Expenses not deductible for tax purposes	0.1	(0.6)
Prior period adjustments	0.3	0.1
Income tax expense	(12.0)	(11.8)

The main rate of UK corporation tax for 2018 is 19.0%, which was effective from 1 April 2017.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Total
	£m	£m	£m
Cost			
- At 1 January 2018	92.1	95.9	188.0
- Asset reclasses	0.5	(0.5)	-
- Additions	6.8	9.8	16.6
- Disposals	-	(16.7)	(16.7)
- Changes in the value of decommissioning assets	(0.2)	-	(0.2)
At 31 December 2018	99.2	88.5	187.7
Accumulated depreciation			
- As at 1 January 2018	(5.4)	(17.4)	(22.8)
- Asset reclasses	(0.4)	0.4	-
- Depreciation	(2.1)	(9.0)	(11.1)
- Disposals	-	16.6	16.6
- Changes in the value of decommissioning assets	0.1	-	0.1
At 31 December 2018	(7.8)	(9.4)	(17.2)
Net book amount			
At 1 January 2018	86.7	78.5	165.2
At 31 December 2018	91.4	79.1	170.5

Land and buildings comprise sites used for administration, distribution, manufacturing and mineral extraction. Each asset is used to generate operating cash flows and rates of depreciation reflect this use.

Quarries and manufacturing facilities are classified under land and buildings, quarrying enables manufacturing and is not carried out for any other economic purpose. The two are therefore not considered to be distinct.

Included within property, plant and equipment are assets under the course of construction of £3.4m (2017: £1.6m), comprising £0.4m (2017: nil) for land and buildings and £3.0m (2017: £1.6m) for plant and machinery.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. INTANGIBLE ASSETS

	Brand names	Goodwill	Other	Total
	£m	£m	£m	£m
Cost				
- As at 1 January 2018	6.4	0.8	3.7	10.9
- Additions	-	-	2.2	2.2
- Disposals	-	-	(0.6)	(0.6)
As at 31 December 2018	6.4	0.8	5.3	12.5
Accumulated amortisation				
- As at 1 January 2018	-	-	(1.1)	(1.1)
- Amortisation	-	-	(0.6)	(0.6)
- Disposals	-	-	0.5	0.5
As at 31 December 2018	-	-	(1.2)	(1.2)
Net book amount				
As at 1 January 2018	6.4	0.8	2.6	9.8
As at 31 December 2018	6.4	0.8	4.1	11.3

Intangible assets by segment

	At 31 December 2018	At 31 December 2017
	£m	£m
Brand names:		
Thermalite - Bricks and Blocks	6.0	6.0
Bison Precast - Bespoke Products	0.4	0.4
Goodwill:		
Bison Precast – Bespoke Products	0.8	0.8

Other intangibles are attributable to both reportable segments. They relate to clay rights, merchant relationships, patents, order books and software.

Additions in the period relate to costs incurred upgrading Company IT systems.

Impairment review of goodwill and intangible assets with indefinite useful lives

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

Forecast revenues and EBITDA in the model are based on management's past experience and future expectations of performance. Maintenance CAPEX is based on planned levels in the short-term and recent trends in the longer-term. A pre-tax discount rate, 12.5% in 2018 (2017: 10.4%) has been derived from a WACC calculation and benchmarked against similar organisations operating within the sector and used to discount cash flows. Short-term growth rates vary by CGU and are based on management's past experience and expectations of future market performance. These growth rates were between 4% and 12.5% in 2018 (2017: 2.5% and 5.3%), the increase in the higher end of the range in 2018 reflects investment in both Thermalite and Bison.

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Terminal growth rates of 2% for 2018 (2017: 2%), is consistent across CGUs and reflect management's past experience, expectations of future market performance, longer-term industry forecasts and inflationary expectations. Management consider that it is not reasonably possible for assumptions to change so significantly as to eliminate headroom in each of the years presented.

Included in software is £0.2m (2017: £0.3m) of own work capitalised.

The recoverable amounts in respect of goodwill and indefinite life intangibles, as assessed by management using the above assumptions, is greater than the carrying amount and therefore no impairment has been recognised in 2018 (2017: £nil). 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.

13. INVENTORIES

	2018	2017
	£m	£m
Raw materials and consumables	7.3	5.5
Finished goods	28.2	1.7
Work in progress	1.9	29.1
	37.4	36.3

Costs relating to raw materials and consumables included in cost of sales during the year totalled £76.1m (2017: £69.8m). Employment expenses within cost of sales totalled £66.5m (2017: £56.0m).

Write downs of inventories recognised as an expense in the year were £1.0m (2017: £1.7m). Reversals of previous inventory write downs in the period were £1.3m (2017: £2.1m).

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

14. TRADE AND OTHER RECEIVABLES

	2018	2017
	£m	£m
Trade receivables	35.6	31.7
Amounts due from group undertakings	23.7	-
Other receivables	0.7	0.2
Prepayments	1.6	1.1
	61.6	33.0

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

	2018	2017
	£m	£m
Trade payables	38.9	30.0
Amounts owed to group undertakings	-	0.6
Other taxation and social security payable	6.7	7.3
Accruals and other payables	26.2	23.5
	71.8	61.4

16. LOANS AND BORROWINGS

	2018	2017
	£m	£m
Non-current loans and borrowings:		
External bank loans - principal	65.0	90.0
- unamortised debt issue costs	(0.5)	(0.6)
	64.5	89.4
Current loans and borrowings:		
External bank loans - interest	0.3	0.4
	0.3	0.4
	64.8	89.8

On 26 July 2017 the Company refinanced by repaying amounts outstanding under existing facilities and entering into a committed £150m revolving credit facility with a new group of leading banks. The new facility was extended by a year over the previous facility and therefore is in place until July 2022. An accordion facility of £50m was also agreed.

Interest is payable on amounts drawn down under the agreement at a rate of LIBOR plus a variable margin ranging from 1.25% to 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.

A reconciliation of liabilities arising within loans and borrowings has been detailed below:

	2017	Cash flow	Interest charge	Amortisation of issue costs	2018
Non-current loans and borrowings					
- Revolving credit facility	90.0	(25.0)	-	-	65.0
- Unamortised debt issue costs	(0.6)	-	-	0.1	(0.5)
Current loans and borrowings					
- Interest	0.4	(2.2)	2.1	-	0.3
	89.8	(27.2)	2.1	0.1	64.8

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. FINANCIAL INSTRUMENTS

	2018	2017
	£m	£m
Financial assets at amortised cost		
Cash and cash equivalents	26.0	29.0
Trade and other receivables (excluding prepayments)	36.3	31.9
	<u>62.3</u>	<u>60.9</u>
	2018	2017
	£m	£m
Financial liabilities at amortised cost		
Trade and other payables (excluding non-financial liabilities)	65.1	54.1
Loans and borrowings	64.8	89.8
	<u>129.9</u>	<u>143.9</u>

Capital management

The Company manages capital (being loans and borrowings, cash and cash equivalents and equity) to ensure a sufficiently strong capital base to support the Company remaining a going concern, maintain investor and creditor confidence, provide a basis for future development of the business and maximise the return to stakeholders.

The Company manages its loans and borrowings to ensure continuity of funding. A key objective is to ensure compliance with the covenants set out in the Company's bank facility agreements. There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2017 and 31 December 2018.

Financial risk management

The Company's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. The Company uses derivative financial instruments to periodically manage risks if it is judged to be prudent.

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. 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.

Principal rate of exchange: Euro/sterling

	2018	2017
Period ended	1.11	1.12
Average	1.13	1.14

Interest rate risk

The Company has secured its borrowings from a group of leading banks under a revolving credit facility. This facility allows 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 refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises on cash balances (including bank deposits and cash and cash equivalents) and credit exposure to customers through trade and other receivables. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are impaired when there is no reasonable expectation of recovery.

Credit risk associated with trade receivables results from normal commercial operations. Procedures are in place to ensure that customer credit worthiness is assessed and monitored sufficiently and that appropriate credit limits are in

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

place and enforced. Trade and other receivables are stated net of management estimated bad debt impairments. Impairments in the period were less than £0.1m (2017: less than £0.1m).

To dilute and mitigate the financial credit risk associated with cash balances the Company deposits cash and cash equivalents with multiple 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.

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:

2018	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	2018 £m
Trade and other payables (excluding non-financial liabilities)	65.1	-	-	-	-	65.1
Loans and borrowings	1.7	1.8	1.7	66.0	-	71.2
	66.8	1.8	1.7	66.0	-	136.3
2017	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	2017 £m
Trade and other payables (excluding non-financial liabilities)	54.1	-	-	-	-	54.1
Loans and borrowings	2.1	2.1	2.1	2.1	91.2	99.6
	56.2	2.1	2.1	2.1	91.2	153.7

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

18. PROVISIONS FOR LIABILITIES

	Restoration and Decommissioning £m	Other £m	Total £m
At 1 January 2018	11.5	5.5	17.0
Charged/(credited) to the income statement			
- Additional provisions	1.2	0.5	1.7
- Release of provisions	(1.6)	(2.4)	(4.0)
- Utilised amounts	(0.1)	(2.1)	(2.2)
- Unwind of discount	0.1	-	0.1
At 31 December 2018	11.1	1.5	12.6

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Analysed as:

	2018	2017
	£m	£m
Non-current	8.4	9.1
Current	4.2	7.9
	12.6	17.0

All non-current provisions are discounted at a rate of 2.65% (2017: 2.65%).

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

Non-cash movements on provisions is the sum of additional provisions and release of provisions in the period.

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. Provisions for restoration and decommissioning obligations are made based on the best estimate of the likely committed cash outflow. Management seek specialist input from third party experts to estimate the cost to perform necessary remediation work at the reporting date. The useful lives of quarrying sites are based on the estimated mineral reserve remaining and manufacturing facilities linked to the useful life of site property, plant and equipment. Estimates of appropriate inflation and discount rates can also be judgemental, and can have a significant impact on net present value, management reference information from the Bank of England when making such estimates. 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 62 years.

The impact of changes in discount rate and inflation rates on the provision at year-end was £nil (2017: £nil).

FORTERRA BUILDING PRODUCTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. DEFERRED TAX

The analysis of deferred tax liabilities is as follows:

	<u>2018</u>	<u>2017</u>
	<u>£m</u>	<u>£m</u>
Deferred tax liabilities to be recovered after more than 12 months	<u>(1.8)</u>	<u>(0.9)</u>

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

	Fixed assets	Provisions	Intangible assets	Share- based payments	Land	Total
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Deferred tax assets:						
At 1 January 2017	(0.7)	1.8	(0.7)	0.1	(0.1)	0.4
Prior period adjustment	(0.1)	-	-	-	-	(0.1)
(Charged) / credited to the income statement	(0.9)	0.1	-	0.2	-	(0.6)
Other movements	(0.1)	0.1	-	-	-	-
Goodwill on business acquisition	(1.2)	-	-	-	-	(1.2)
Tax on items taken directly to equity	-	-	-	0.5	-	0.5
Effect of rate changes	0.1	-	-	-	-	0.1
At 1 January 2018	(2.9)	2.0	(0.7)	0.8	(0.1)	(0.9)
Prior period adjustment	0.1	-	-	-	-	0.1
(Charged) / credited to the income statement	(0.8)	(0.2)	-	0.2	-	(0.8)
Other movements	-	-	-	-	-	-
Tax on items taken directly to equity	-	-	-	(0.3)	-	(0.3)
Effect of rate changes	0.1	-	-	-	-	0.1
At 31 December 2018	(3.5)	1.8	(0.7)	0.7	(0.1)	(1.8)

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)

20. SHARE CAPITAL AND SHARE PREMIUM

Called up share capital consists of 89,627 Ordinary shares of £1 each. Each Ordinary share has entitles the holder to one vote.

	Ordinary shares	Share premium
	£m	£m
Allotted, called up and fully paid		
At 1 January 2018	0.1	46.5
At 31 December 2018	0.1	46.5

21. DIVIDENDS

	2018	2017
	£m	£m
Amounts recognised as distributions to Forterra Holdings in the year:		
Nil interim dividend per share (2017: £69.18)	-	6.2
Nil final dividend per share in respect of prior year (2017: £84.80)	-	7.6
	-	13.8

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:

	2018	2017
	£m	£m
Land and buildings		
Within one year	0.7	0.7
Between one and five years	2.6	2.8
After five years	4.9	5.3
	8.2	8.8
Other		
Within one year	6.5	6.6
Between one and five years	7.9	12.9
After five years	-	0.3
	14.4	19.8

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

	2018	2017
	£m	£m
Property, plant and equipment	4.4	2.1
Intangible assets	-	0.3

Other commitments include the Company's leased distribution fleet, company vehicles and plant and machinery.

25. POST BALANCE SHEET EVENTS

On 21 June 2019 the Directors approved a dividend of 21,598.54 pence per share, making a total payment of £19.4m, to be paid immediately to the Company's parent undertaking, Forterra Holdings Limited.

26. CONTROLLING PARTIES

The ultimate controlling party of the Company is Forterra plc.