# Sustain, innovate and grow

2020
Annual Report
and Accounts

**Front cover top image:**
**Project name:** Redrow Winchcombe
**Products used:** Shearstone Cotswold Village & Hardrow Slate Barley

**Left image:**
Inside our state of the art Eclipse factory

**Bottom image:**
**Project name:** Wellington House, London
**Product used:** Laybrook Berkshire Orange

# Why we exist

We are driven by our purpose to build a better world by being at the heart of building and have been helping to shape the homes, places and spaces of Britain since we began over 200 years ago.

Having developed and maintained market-leading positions over the course of our history we have a clear strategy defined in three pillars: Sustain, Innovate and Grow aligned with a focus on the social and environmental impacts of our industry and underpinned by a culture that is defined by our core values of Trust, Care, Teamwork and Courage.

It is the combination of all these elements that will provide the tools that we require to achieve our objectives.

**Inside front cover:**
**Project name:** Stanmore Place, Harrow
**Product used:** Millhouse Blend / Staffordshire Slate Blue Smooth

# Our 2020 performance

## Financial headlines

Revenue (23)%

£316m

2019: £409m +5%
2018: £391m

Adjusted EBITDA[1,2] (57)%

£52m

2019: £122m +9%
2018: £112m

Statutory reported (loss) / profit (142)%

£(28)

2019: £66m (14)%
2018: £76m

Statutory reported basic loss per share (142)%

(6.8)p

2019: 16.3p (13)%
2018: 18.8p

Adjusted EPS[1,2] (78)%

4.0p

2019: 18.3p (3)%
2018: 18.8p

Net debt[1] (18)%

£69m

2019: £85m +77%
2018: £48m

Final dividend per share

1.6p[3]

2019: 0.0p
2018: 6.5p

## Non-financial headlines

Lost time injury frequency rate (LTIFR)

2.2

2019: 3.4

Clay reserves in tonnes

c.75m

Raw materials sourced in UK

95%

Apprentices working for Ibstock 3 years after course completion

75%

Reduction in $CO_2$ per tonne of production

6.5%

2019: 6.5%

Waste recycled

64%

Procurement from suppliers meeting Supplier Sustainability Code of Business Conduct (SSCBC)

77%

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 Key Performance Indicator (KPI) impacted in 2019 and 2020 following the implementation of IFRS 16. 2018 figures not restated.
3 The recommendation to pay a final dividend in relation to 2019 was withdrawn in March 2020 due to the onset of the Covid-19 crisis. Similarly no interim dividend was declared and paid in September 2020.

## Inside this report

# Ibstock at a glance

Ibstock is a leading manufacturer and supplier of clay and concrete building products and solutions to the UK construction industry, specialising in products and systems for the residential building envelope and infrastructure markets.

Our core business focuses on the residential construction sector and we have built strong relationships with our house builder, developer, builders' merchant and distributor customers over many years.

Ibstock comprises two divisions – Ibstock Clay and Ibstock Concrete – both with leading market positions in the UK, which provide an excellent base for further development and growth. Through a focus on market-led innovation, we are committed to providing solutions to meet the evolving needs of our customers and the built environment over the long term.

Drawing on over 200 years of experience in building the face of Britain, we know that customers need to get the best value from their supply partners. This understanding, coupled with our highly skilled workforce, including architectural and design professionals providing technical support, has enabled us to establish long-lasting customer relationships, many of which have been in place over 40 years.

Our strong market positions, comprehensive range of products and solutions and commitment to innovation in both products and service put us at the heart of building.

Ibstock
At the heart of building

**Ibstock Clay**
Our Clay division offers the largest range of bricks manufactured in the UK as well as prefabricated elements, precast solutions and brick-faced façade systems for both low-rise and high-rise developments.

A business review for the Clay division can be found on page 48.

Ibstock Kevington

Ibstock Brick

**Ibstock Concrete**
Our Concrete division manufactures high quality, precast concrete products for the residential housing and hard landscaping markets and also has a small but valuable position in infrastructure markets.

A business review for the Concrete division can be found on page 50.

Longley

Anderton

Forticrete

Supreme

**200**
Over 200 years of experience

**36**
Manufacturing sites across the UK

**2,044**
Employees across the UK

**No. 1**
UK brick manufacturer by production capacity

**No. 1**
UK Brickwork Specials and Masonry Fabrication Company by production capacity

**No. 1**
UK concrete floor beam manufacturer by production capacity

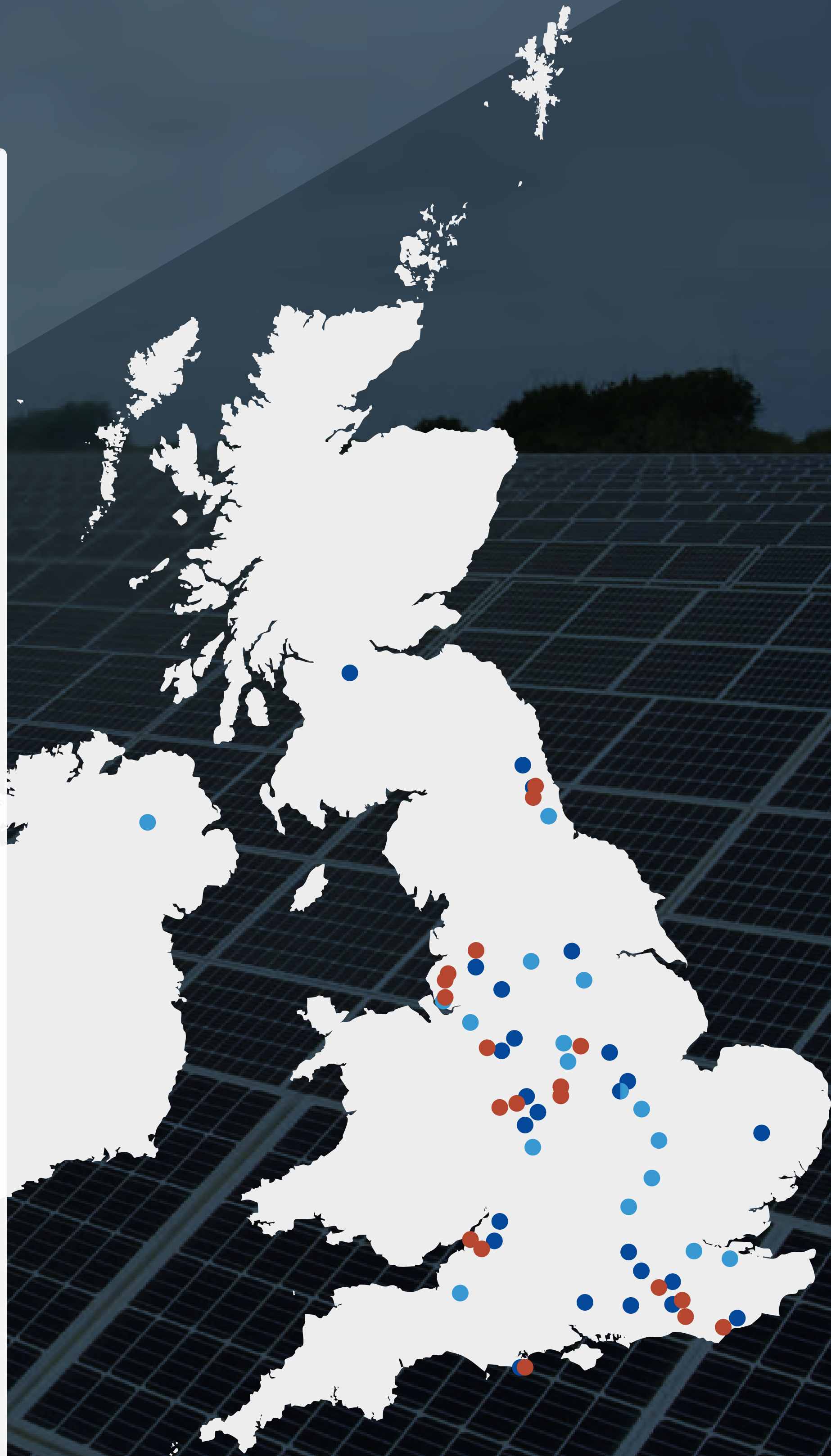
**95%**
of raw materials sourced in UK

**400+**
Over 400 different brick products

**c.75m**
Tonnes of consented clay reserves

## Our core products

| | |
|---|---|
| **Walling** | Facing bricks |
| | Special bricks |
| | Walling stone |
| | Special walling stone |
| | Architectural masonry |
| | Cast stone |
| | Facade systems |
| | Retaining walls |
| | Lintels, sills and arches |
| **Roofing** | Roof tiles |
| | Chimneys |
| | Soffits |
| | Roofing accessories |
| **Garden and landscaping** | Fencing |
| | Caps and copings |
| | Bollards |
| | Balustrades |
| | Path edging |
| | Urban landscaping |
| **Flooring and Internal Structures** | Floor beams |
| | Door steps |
| | Gully surrounds |
| | Screed rails |
| | Insulated flooring |
| | Hollowcore |
| **Rail and infrastructure** | Troughing |
| | Cable theft protection |
| | Boards, blocks and bases |
| | Catchpits |
| | Inspection chambers |
| **Bespoke services** | Engraving and cutting |
| | Floor beam & block design, supply and fitting solutions |
| | Bespoke concrete products |
| | Staircases |
| | Lift shafts |



**Map key**
- Clay factories
- Concrete factories
- Quarries

**Find out more**

# Our purpose framework

**Everything we do is driven by our purpose and vision:**

- It informs our strategy
- It makes us strive to become the leading sustainable business in our sector and underpins the identification of and engagement with our stakeholders
- It has shaped our culture

## Purpose, Vision and Business Model

Ibstock exists to build a better world by being at the heart of building through our vision of enabling the construction of homes and spaces that inspire people to work and live better.

**To find out more, see the Business Model, Sustainability and Governance sections on pages 18, 36 and 66 respectively.**

## Strategy

Our strategy is to optimise our core business whilst providing a strong platform for future growth and value creation. We do this through three clear strategic pillars that we call Sustain, Innovate, Grow.

**See the Strategy overview and Strategy in action sections for more information on pages 20 and 22 respectively. Our KPIs on pages 28 and 29 measure our success against our strategy.**

## Sustainability

Our commitment to sustainability defines who we are and is embedded in our business decisions and activities. Our ambitions are driving our performance to deliver a positive environmental and social impact for all our stakeholders.

**See the Sustainability section on pages 36 to 45 for more information.**

## Stakeholders

The interests of our stakeholders are integral to the way we work and the decisions we make.

**See a list of our key stakeholders and our engagement with them on pages 32 and 33 for more information.**

## Values

Our values reflect what people feel Ibstock represents as a business and a place to work and encompass the behaviours necessary to underpin our culture, decision-making and processes.

**See the Business model on page 18 and Sustainability section for more information.**

## Culture

Our strategy is underpinned by a culture defined by our values of Trust, Care, Teamwork and Courage and a system of effective governance and control.

**To find out more, see the Sustainability and Governance sections.**

## Remuneration

This framework guides our approach to remuneration structure and decisions.

**To find out more, see the Directors' Remuneration Report on page 85.**

# Understanding our growth story

## Our compelling investment case

**A strong, profitable platform from which to grow:**

- Market-leading UK clay brick business
- Significant, diversified and well invested asset base
- High barriers to entry and security of material supply
- Growing presence in attractive concrete and modular product niches
- Excellent people with strong management teams
- Unrivalled UK-wide network driving greener footprint
- Structurally high margins and strong cash generation

## Key levers for self-generated growth

- Strong commercial synergies through common routes to market of clay and concrete businesses
- Opportunity to invest in further efficiencies to drive sustainability and growth
- Ongoing investment in customer-led product and service innovation to attract and retain new customers and partners
- Potential to enter new adjacent markets for both brick and concrete
- Clear focus on organic and inorganic growth

## Key drivers of market-generated growth

- Structural growth of residential construction market
- Clay brick expected to remain the most popular facade in new build residential construction
- Group strategy and product offerings aligned with emerging market trends

**Industrialisation**
- Modern methods of construction
- Modular and off-site construction

Competitive landscape in some markets presents potential to grow through M&A

**Sustainability**
- Increasing social value
- Reducing environmental impact

# Chairman's statement

The response of everyone working for Ibstock since the arrival of the COVID-19 pandemic in March has been outstanding and I am extremely proud of what we have managed to achieve as a business in such unprecedented circumstances.

Jonathan Nicholls
Chairman

Though undoubtedly challenging, our shared experiences over the last year have revealed some of Ibstock's great qualities and shown a practical application of our core values through a commitment to caring for colleagues, a willingness to go above and beyond and our ability to adapt decisively under pressure. A number of the actions that we took to address the risks to the business over the longer term have served to improve areas of our work that required modernisation, and have meant that we come into 2021 with a more supportive and inclusive culture and a heightened appreciation for our ability to evolve as an organisation.

## COVID-19

We took swift and decisive action to ensure the safety and wellbeing of all our employees from the earliest days of the pandemic. Initially this included protecting the most vulnerable of our workforce and introducing travel and other restrictions, but in March we had to take the difficult decision to suspend production in all of our manufacturing sites, furloughing over 78% of employees in the process. This was an extremely tough period for the business and we recognised a need to increase the levels of communication with all our teams so that they could remain connected and engaged with the business as things developed.

Alongside this, we took a number of steps to safeguard the long-term future of the business through a combination of a reduction in costs, conservation of cash and strengthening our liquidity position. This culminated in the decision to undertake a fundamental restructuring of operations in June so that we could reduce the fixed cost base and enhance the resilience of the business, rationalising its production capacity and restructuring our support functions. Whilst this programme means that Ibstock is now in a position to meet the near-term outlook for the construction industry, sadly this process resulted in a number of redundancies across the Group.

More detail regarding the actions taken to protect the Group and our colleagues from COVID-19 can be found on page 14.

**Find out more**

### Governance and culture

We are focused on driving long-term sustainable performance for the benefit of our workforce, customers, shareholders and wider stakeholders. The Board and the Executive Leadership Team (ELT) remain committed to enhancing the strong culture across Ibstock and our experiences during the last year have served to highlight the importance of continual development in this area. We have an ambition to be the most sustainable manufacturer of clay and concrete products in the UK, and to lead our sector in our disclosure and transparency around Environmental, Social and Governance (ESG) issues. Our sustainability priorities and ambitions support our purpose and strategy and are embedded in our business activities. They will continue to define the Group's culture in the years ahead. See page 36 for more details on our sustainability strategy.

Our Stakeholder overview on page 32 provides some insight into how the Board engages with our stakeholders to understand what matters to them, further informing its decision-making and the actions taken as a consequence. You can read more in the Q&A with our CEO Joe Hudson and in our formal s.172 statement on pages 30 and 34 respectively, which sets out our approach to s.172 and provides specific examples of decisions taken by the Board.

The priorities of our stakeholders strongly influenced the development of our Sustainability Roadmap (see pages 20 and 21). You can read more on page 36 or in our separately published Sustainability Report which can be found on our corporate website (www.ibstockplc.co.uk).

Our full Corporate Governance Report including details of our compliance with the UK Corporate Governance Code 2018 starts on page 66.

### Diversity and Board changes

At Board level, although we have a breadth of skills and experience which brings a diversity of views and perspectives to our discussions, we remain conscious that we are not representative of the society in which we operate. We have prioritised the need to develop our Group's diversity and inclusion strategy as well as its practical application in 2021; I look forward to providing an update on this next year.

Although Kate Tinsley left Ibstock and the Board at the end of July, we have no immediate plans to replace her because we feel that the size and the structure of the Board is appropriate for the size and complexity of the business at this point in time.

### Climate change

Our sustainability objectives are clearly set out in our Sustainability Roadmap. We recognise the impacts the global challenges of climate change have on social inequalities and we believe a healthy environment is directly linked to healthy communities and economic prosperity. For Ibstock, that means playing our part in tackling these challenges.

We are fully committed to the goals of the 2015 Paris Agreement on climate change and the UK Government target of reaching net zero emissions by 2050. Ibstock has already begun its own journey to achieve these goals, more information about which can be found on page 44. To help us deliver we are in the process of significantly strengthening our governance in this area with the constitution of a Board ESG Committee, which will direct and monitor activities to address climate change and oversee progress against the Group's Sustainability Roadmap and wider ambitions.

Furthermore, we have launched a new KPI (see page 29) that will track our performance against our existing carbon reduction target (see page 37). This has also been included as an additional measure under the Group's Long Term Incentive Plan (LTIP) for awards being made in 2021. Further information on this can be found in the Directors' Remuneration Report on page 85.

### Business performance

The results for the year reflect the significant impact of COVID-19, with first half revenues falling by 36% as many of our customers temporarily curtailed their operations. Group revenue for the year to 31 December 2020 of £316 million was down by 23% (2019: £409 million), with Group adjusted EBITDA[1] of £52 million, down by 57% (2019: £122 million), reflecting the negative operational gearing impact of the reduced revenue offset, in part, by the actions taken to manage costs. The statutory loss before tax for the year was £24 million (2019: profit of £82 million) reflecting the impact of a number of exceptional costs, principally related to COVID-19 and the restructuring of the business. Prior to exceptional items[1], adjusted profit before taxation[1] was £12 million (2019: £85 million).

### Dividend

In order to safeguard jobs during the most acute period of COVID-19 restrictions, the Group received around £10 million under the Government's Coronavirus Job Retention Scheme ("CJRS") in respect of furloughed employees. Following the subsequent decision to restructure the Group's operations, the Group intends to repay all CJRS amounts received in respect of colleagues subsequently made redundant, which total around £2 million.

The Group also initially took advantage of the HMRC deferred payment provisions during the year, deferring just over £16 million as at 30 June 2020, but subsequently settled all outstanding amounts by year-end.

In light of the strength of the Group's recent trading performance and cash generation, and after taking into account the prospects for the business, the Board is recommending a final ordinary dividend of 1.6 pence per share for the 2020 year, representing 2.5 times cover on adjusted basic earnings per share of 4.0 pence.

### Looking towards the future

Over the course of the last year we have all had to adapt and make changes in our daily lives. As I write this, we are still in the third national lockdown and, although there are real signs of positivity coming from the vaccination programme and an end appears to be in sight, there remains a feeling of uncertainty and anxiety about the future. As a business we can look back and feel justifiably proud of the way we dealt have with recent events. Furthermore, our market fundamentals remain supportive, underpinned by the UK housing deficit, Government policy and low interest rates. We have a strong management team in place with clear strategic drivers which will underpin our progress and continued recovery in our core markets. We believe that Ibstock is well placed to re-establish earnings momentum and deliver sustainable, profitable growth over the medium term.

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Chief Executive's review

2020 was, by any measure, a testing year. However, I am pleased to report that, while the Group had to contend with many unexpected difficulties in the year, it was also a period of continued strategic progress for Ibstock.

Joe Hudson
Chief Executive Officer

## Introduction

2020 was, by any measure, a testing year. However, I am pleased to report that, while the Group had to contend with many unexpected difficulties in the year, it was also a period of continued strategic progress for Ibstock.

The COVID-19 pandemic, whilst presenting challenges for the business and impacting on trading, especially in the first half of the year, also acted as a catalyst for change, prompting us to take decisive action to protect and upgrade the business. This included a reshaping of our cost base, ensuring we are fit for the future and in a strong position to capitalise on continued improvement in our markets.

Our agile approach allowed the Group to address COVID-19 issues effectively and recommence production on a phased basis towards the end of the first half, with volumes building progressively from May onwards. The sustained improvement in trading conditions in the second half allowed us to focus increasingly on those initiatives which will support longer-term growth. While COVID-19 restrictions inevitably impacted the Group's performance in the year, it is encouraging to note that underlying market fundamentals remained robust, supported by demand for new housing, low interest rates and the Government's Help to Buy scheme.

Our strategy has three pillars: Sustain, Innovate and Grow. The strategic progress made, particularly within our key Sustain and Innovate pillars, builds on that achieved over the two preceding years. With a stronger platform in place, we have a range of attractive growth opportunities with the potential to create significant value for our stakeholders over the medium term.

**Find out more**


| | |
|---|---|
| Our markets | p16 |
| Our business model | p18 |
| Strategy overview | p20 |
| Key performance indicators | p28 |
| Sustainability | p36 |
| Principal risks and uncertainties | p56 |

Below: Joe Hudson presenting at our I-Studio in London


## COVID-19 response

At the onset of the crisis, in order to ensure the health and safety of all colleagues, we completed an orderly shutdown of our production facilities in early April to support the national effort against COVID-19 and used the following weeks to develop new working practices and protocols that would allow us to reopen safely. These plans allowed us to recommence production from May 2020, in response to customer demand. A comprehensive range of strict social distancing and hygiene protocols at all of our factory and office locations remains in place and continues to work well.

In response to the effects of the pandemic, the Group took a number of actions, focused initially on conserving cash and protecting the balance sheet, including reducing discretionary spend and implementing a temporary salary reduction for the Board and executive leadership team, and subsequently on restructuring the business to ensure we are well positioned for the future. The results of these efforts are evident in the strong cash flow performance delivered in the second half and our robust balance sheet at year end. COVID-19 has also been the catalyst for a number of process improvements and other new ways of working, enhancing pace, agility and levels of collaboration across the organisation.

In order to safeguard jobs during the most acute period of COVID-19 restrictions, the Group received around £10 million under the Government's Coronavirus Job Retention Scheme ("CJRS") in respect of furloughed employees. Following the subsequent decision to restructure the Group's operations, the Group intends to repay all CJRS amounts received in respect of colleagues subsequently made redundant, which total around £2 million.

The Group initially took advantage of the HMRC deferred payment provisions during the year, deferring just over £16 million as at 30 June 2020, but subsequently settled all outstanding amounts by year-end.

## Financial Performance

The results for the year reflect the significant impact of COVID-19, with first half revenues falling by 36% as many of our customers temporarily curtailed their operations. Activity in the second half was characterised by a steady and sustained recovery in demand with Group revenues recovering from their April lows to reach 90% of prior year levels in the final quarter of the year.

Group revenue for the year to 31 December 2020 of £316 million was down by 23% (2019: £409 million), with Group adjusted EBITDA[1] of £52 million, down by 57% (2019: £122 million), reflecting the negative operational gearing impact of the reduced revenue offset, in part, by the actions taken to manage costs. In addition, during the first half there was an under recovery of costs associated with the substantial reduction of inventory in the second quarter, given the lower activity levels, resulting in around £10 million of additional one-off costs. Performance in 2020 was also modestly impacted by reduced levels of productivity arising from COVID-19, due to the impact of social distancing in the more labour-intensive parts of the Group's operations.

The statutory loss before tax for the year was £24 million (2019: profit of £82 million) reflecting the impact of net exceptional costs[1] of £36 million (2019: £3 million), principally related to COVID-19 and the restructuring of the business. Exceptional items[1] included £12.4 million of cash costs, (2019: £2 million), of which £10 million was settled in the period. Excluding exceptional items[1], adjusted profit before taxation[1] was £12 million (2019: £85 million).

In response to the effects of the pandemic, we took a number of actions, focused initially on conserving cash and protecting the balance sheet, and subsequently on restructuring the business to ensure we are well positioned for the future. Together with the improved volume levels achieved during the final quarter, this resulted in adjusted EBITDA[1] margins in both divisions getting back close to the underlying levels achieved in the prior year towards the end of the year. The full benefit of these restructuring actions will be seen in the 2021 financial year, as detailed further below.

In light of the significant uncertainties created by COVID-19, we also took the difficult but necessary decision to cancel our 2019 final dividend and did not pay an interim dividend. Furthermore, the Group secured agreement from its lending banks for a number of amendments to covenant tests at 31 December 2020 and 30 June 2021 under the Group's Revolving Credit Facility (RCF), and also agreed an extension to this Facility of a period of 12 months to March 2023. The Group also secured eligibility for the Bank of England's Covid Corporate Financing Facility ("CCFF"), although we did not access funding from this scheme and do not anticipate doing so.

The business delivered an excellent cash performance, with net debt[1] reducing by £16 million over the year to £69 million (2019: £85 million), driven by a £34 million reduction in net debt[1] in the second half, and with net debt to adjusted EBITDA[1] of 1.5 times (2019: 0.7 times), excluding the impact of IFRS 16. Fixed costs and working capital were managed tightly, with finished goods inventories reducing by around £20 million during the year. Capital expenditure was held at £24 million (2019: £39 million), including £9 million spent on capital enhancement initiatives.

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Chief Executive's review continued

**Below:**
**Products used:**
N1 Architectural Masonry.

**Photo credit to:** Ivan Jones

## Divisional Review

### Ibstock Clay

Brick demand fell to just 10% of pre-COVID levels in April 2020. From that low point demand recovered steadily and by 30 June 2020 demand levels had recovered back to around 60% of 2019 levels. Revenues had risen back to around 85% of 2019 levels towards the end of 2020, with each market sector increasing activity progressively as we moved through the year.

During the first half year, sales to our builders' merchant customers increased as a proportion of total sales, with volumes supplying both the Repairs, Maintenance and Improvement (RMI) and new build sectors increasing (since smaller builders were typically less affected by the initial impacts of COVID-19 on their business operations). During the second half, the proportion of direct sales to our larger housebuilding customers increased back towards historical levels, as the pace of new build construction among the larger house builders gathered pace.

Throughout the period, we took appropriate actions to balance operational output and inventory levels as demand recovered.

Overall, in 2020 the UK market consumed around 1.88 billion bricks, compared to 2.45 billion in 2019, with 1.54 billion being supplied from domestic production. The level of Imports fell to around 0.34 billion bricks (2019: 0.46 billion bricks), representing around 18% of the total market, which was a modestly lower share than in 2019. Industry domestic finished goods inventory levels fell by over 25% over the course of the 2020 year.

Divisional revenue was £213 million in 2020, 29% down year on year (2019: £300 million). Adjusted EBITDA[1] at £44 million in 2020 was 59% lower than in the prior year (2019: £107 million), reflecting both the significant reduction in sales volumes and the impact of operational gearing. Divisional statutory loss before tax was £12 million (2019: profit of £79 million) as a result of reduced adjusted EBITDA[1] and exceptional costs[1] recognised in 2020.

Completion of the restructuring actions during the final quarter of the year, in combination with the improved volume levels achieved during the same period, enabled the division to achieve adjusted EBITDA[1] margins for the final months of the year of just over 30%, getting back close to the underlying levels achieved in the prior year periods.

Trading in the initial period of the 2021 year has started well, with sales volumes slightly ahead of the run rates achieved in Q4 2020. Our base case planning assumption for the 2021 year is in line with CPA industry projections for Private Housing Starts, being 15% below 2019 levels[4].

### Ibstock Concrete

Divisional performance benefitted from our significant exposure to the broader RMI markets. Consequently, although sales volumes during 2020 were materially impacted by the effects of the COVID-19 pandemic, the concrete division benefited from relatively resilient structural demand within its end markets, as consumers spent a greater proportion of their disposable income on their homes.

Activity levels improved significantly during the second half of the year, with revenues in the final quarter modestly ahead of the prior year period. This reflected a material improvement from the first half, when revenues were 15% behind the prior year, (or 28% behind on a like for like basis[1], adjusting for the acquisition of Longley Concrete in July 2019).

Divisional revenue was £103 million in 2020, representing a 5% reduction year on year (2019: £109 million), or 14% reduction on a like for like basis[1]. Fencing, building and flooring products delivered a resilient performance, with relatively strong momentum as we finished the 2020 year. Adjusted EBITDA[1] of £15 million in 2020 was 31% lower year on year (2019: £22 million) principally reflecting the materially lower sales volumes in the first half. Divisional statutory profit before tax was £1 million (2019: £11 million) as a result of reduced adjusted EBITDA[1] and exceptional costs[1] recognised in 2020.

Adjusted EBITDA[1] margins of around 16% during the second half reflected certain costs of reorganising our manufacturing footprint and some limited impacts of social distancing on productivity in the more labour-intensive parts of the division's operations. Notwithstanding these impacts, margins benefited from the steps taken to restructure the business, along with the improved volume levels achieved during the final quarter, with margins for the final months of the year getting back close to the underlying levels achieved in the prior year periods.

Trading activity in concrete in the initial period of 2021 remains marginally above pre-COVID 19 levels, broadly in line with the trend observed in the final quarter of 2020. Our base case planning assumption for the 2021 year is that concrete volumes on a like-for-like basis (i.e. excluding the impact of Longley concrete) will be modestly below 2019 levels.

## Manufacturing footprint & cost base

As set out in the interim results announcement in August 2020, during the year the Group undertook a fundamental restructuring of its operations in order to reduce the fixed cost base and enhance the resilience of the business, rationalising its production capacity and restructuring support functions. This resulted in the closure of two clay brick factories and one concrete facility; the mothballing of our existing Atlas clay brick manufacturing facility; the rationalisation of capacity at our Leicester site; and significant headcount reductions in support functions.

Whilst these actions were primarily taken to align cost with the short term reduction in demand, flexibility has been retained to ensure we are in a position to respond quickly as markets recover and to transition back effectively to our long term strategic focus on capacity growth and enhancement. Utilising the additional capacity created through our recent capital enhancements, and by recommissioning idled and mothballed capacity, we have the ability to return to 2019 output levels as market conditions improve. Our inventory levels continue to provide an effective buffer to serve customers and manage the balance between supply and demand during the lead time associated with these actions.

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

This restructuring programme has ensured Ibstock is appropriately resourced for the near-term outlook for the industry and will deliver up to £20 million of fixed cost savings in the current financial year (based on operating the network at similar levels to the final quarter of 2020), at a cash cost of £9 million.

As market conditions and visibility improve further, we will continue to assess the case for investment into enhancing and extending our footprint, including the previously announced Atlas re-development project.

### Dividend

In light of the strength of the Group's recent trading performance and cash generation, and after taking into account the prospects for the business, the Board is recommending a final ordinary dividend of 1.6 pence per share for the 2020 year, representing 2.5 times cover on adjusted basic earnings per share[1] of 4.0 pence.

Subject to approval at the Annual General Meeting, this will be paid on 14 May 2021, to shareholders on the register at the close of business on 16 April 2021.

### A clear, long-term investment case

We have a strong business with market-leading positions in sectors of the market which benefit from positive structural growth trends. Our business, which is comprised of our market-leading UK clay brick business and a growing presence in attractive concrete and modular product markets, delivers structurally high margins and strong free cash flows. We benefit from a significant and diversified asset base, and an attractive range of future growth opportunities.

As we emerge from the period of peak pandemic impact, we are re-focusing on the initiatives and actions that will drive sustainable growth and value creation for all our stakeholders. Our significant cash generation capability enables us to outperform our markets through active, intelligent and disciplined investment. Looking ahead, our investments for growth will be focused in two areas: on capacity, efficiency and sustainability enhancement to optimise the performance of our existing business; and on innovation and extension into new markets, to diversify our revenue base within the UK building envelope.

In developing and extending our business, we are focused on the two key trends that we believe will transform our industry over the long-term: firstly, an increasing focus on the social and environmental impacts of all construction activity; and secondly, a new wave of industrialisation redefining the way that residential buildings are constructed.

Our strategy has three pillars: Sustain, Innovate and Grow. This strategy has been in place for some time, and defines how we operate as a business. We have delivered another year of strong progress against this strategy, with a number of notable achievements, and have a clear view of our priorities in the years ahead. These are detailed further in the sections below.

### Strategic Initiatives

#### Driving sustainable performance

As a scale industrial business, sustainable high performance is at the heart of what we do. We are focused on three priorities:

- Health and safety
- Operational excellence
- Sustainability and our social impact

#### Health and safety

In addition to the measures implemented to ensure all sites were COVID secure, significant progress was made within many other areas of the health and safety road map. A number of new systems and procedures were introduced or upgraded including: permit to work; lone working; inductions; and audit processes. A new dynamic risk assessment was introduced to empower employees in approaching tasks and we launched our Ibstock six health and safety rules. Our focus has meant that we are now ahead of our five-year target of a 50% reduction in the Lost Time Injury Frequency Rates (LTIFR) which now stands at 2.2 lost time injuries per one million hours worked (2019: 3.4). Whilst there can never be any grounds for complacency in this area and there is still more to be done, I am delighted to report that our achievements in improving health and safety in the context of the pandemic were recognised by the British Ceramic Confederation awarding us with the overall health and safety award.

Looking forward, we will implement a new health and safety management system over the next 12 months, in order to drive enterprise-wide standards and promote more effective sharing of best practice. We will also be placing further focus on contractor safety, enabling all partners working at our facilities to operate at the high standards we expect at all times.


**Above:** Showing our support for the amazing work done by our Key Workers

# Chief Executive's review continued

**Below:** A member of our Swanage team receiving a BCC Pledge Health and Safety Award


### Operational excellence

Our focus on operational excellence and preventative maintenance enabled us to manage a safe shutdown and restart of our sites, as well as the efficient optimisation of inventory and other working capital, as we responded to the COVID challenge. We continued to enhance standard practices for maintenance and capital expenditure, raw materials and quality systems across the year. We reviewed and upgraded our organisational structures within our plants, alongside standard reporting and tier meetings, to highlight performance gaps and drive faster issue resolution within our day-to-day operations.

During 2021, we will be focusing on several key transformation projects, which will optimise the management of our clay quarries, and improve materials management across our clay factory network. We will also be investing further in developing our talent and leadership programmes, to ensure that we can attract, retain and develop our leaders of tomorrow.

### Sustainability and our social impact

Our commitment to sustainability flows through all that we do as a business. We are strongly committed to leading our sector in Environmental, Social and Governance (ESG) matters and believe performance in this area will be an important differentiator for our business in the years ahead. Our Sustainability Roadmap, which was initially published in 2018, sets out clear objectives and targets for the business in the period to 2025, including a commitment to a minimum 15% reduction in carbon emissions.

We delivered another strong year of progress towards these goals during the year.

Specific initiatives in 2020 included successful trials of our packaging reduction programme which reduces shrink wrap thickness by up to 30%, reducing plastic use significantly. This initiative is now being rolled out across the Group.

We were pleased that our commitment to industry-leading ESG performance was recognised with the Group receiving an "AA" rating from the Morgan Stanley Capital International (MSCI) Sustainability Index during the year.

We are actively mapping our Net Zero Carbon pathway. As part of this process, we will look to optimise the application of existing and emerging manufacturing technologies including energy efficiency, fuel switching, use of lower carbon materials and Carbon Capture, across the business in the coming years. We are already making progress: the solar park at our central site in Ibstock, Leicestershire is now operational and currently supplies around 25% of the power for our head office site; and, from January 2021, we began procuring 100% of the electricity used across all operations from renewable sources.

Our partnership with Well North Enterprise is helping us to bring our purpose and vision to life through place making, which for Ibstock means how our products and our business can build and inspire better lives. This is a long-term commitment and as our partnership evolves we aim to be part of the transformative and sustainable change in local communities.

### Market-led innovation

Innovation has a critical role to play in our future growth and success, with our initiatives centred on three distinct areas:

- Product innovation
- Customer experience
- Digital transformation

### Product innovation

As market leader in clay and concrete building materials, we have the broadest range of products and systems available in the UK, and we continue to invest to enhance our offer. Our recent investments in our production capabilities and focus on innovation have enabled us to: enhance our brick range with the introduction of new products into our 'I-range' which targets the specification market; develop our brick slip capabilities; develop and launch the Nexus XI® brick-faced soffit and lintel system; and grow our position in the façade systems market with our MechSlip® product.

Nexus XI® was launched in November 2020, using a digital approach, and customer feedback received to date has been excellent, with an increasing volume of orders already secured and a growing pipeline of interest.

New product development has also been an area of strategic focus within the Concrete division during the last 12 months. Notable achievements in the year included the development of precast panels to build biomass facilities and the use of novel materials for the supply of foundations and signal bases to the rail market.

New product development is a crucial part of our growth plans and we are committed to the continuous enhancement of our product portfolio to underpin our market and margin leadership.

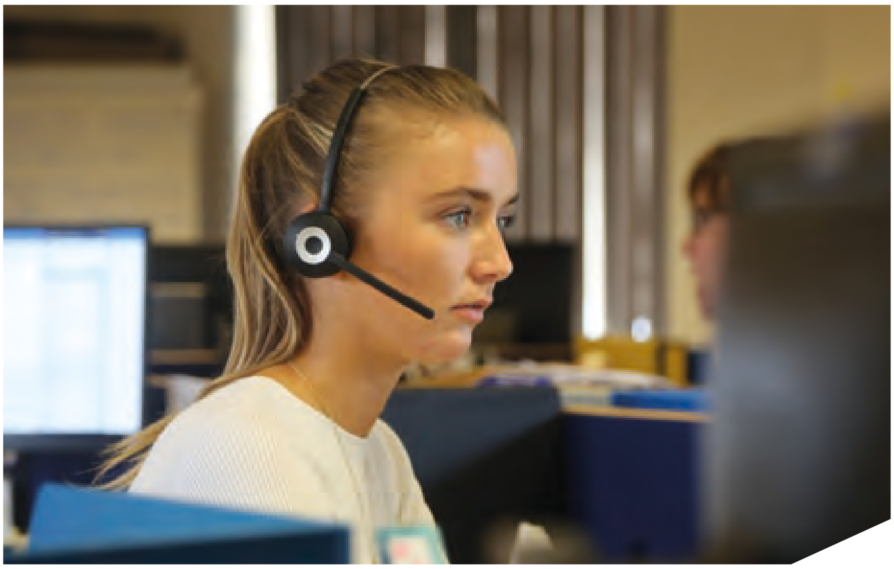
### Customer experience

Whilst COVID-19 impacted our ability to meet face-to-face with customers in our London I-Studio, the launch of a digital platform providing product visualisation and design tools still allowed us to collaborate in a virtual way.

We also reorganised our commercial teams during the year, bringing marketing expertise closer to divisional sales colleagues. This has enabled us to better understand and respond more effectively to the evolving needs of our customers, which has been particularly important during the last year.

The creation of a Group shared services team during the year – bringing together the back-office teams of our two divisions – has also allowed us to standardise processes, generate efficiencies and improve both commercial execution and service levels to customers.

**Below:** We operate sales offices for specific customer groups to provide high quality, tailored service



### Digital transformation

The digitisation of our business will be a key strategic enabler over the coming years, providing us with efficiency, flexibility and increased levels of customer collaboration. Our initial investment in this regard has been focused on improving the efficiency of our operations and using digital tools to reduce friction in the supply chain, whilst promoting stronger partnership with customers.

During 2020, we rolled out cloud-based tools which automate our yard inventory management processes, improving productivity and allowing more effective matching of supply and demand profiles. We also commissioned new, paperless outbound logistics processes at a number of factories, and will be rolling this out more broadly through 2021.

During the year, work commenced on the development of a new digital sales platform and this will be a key focus over the next couple of years.

### Grow

We have a resilient and cash generative business which allows us to invest to drive growth, whilst also delivering attractive returns to shareholders. With a clear, consistent framework for capital allocation, our growth focus encompasses investments to enhance our existing business as well as opportunities to accelerate the growth and diversification of our revenue base within the UK building envelope. We see an attractive range of investment opportunities, and through applying our clear and consistent investment criteria, we have the ability to drive profitable, sustainable growth over the medium term.

We continued to invest in our Clay manufacturing assets in a measured way during 2020, in order to maintain and modernise our production capability, at the same time supporting our strong commitment to sustainability. Capital enhancement investments at two key soft mud factories were completed towards the end of 2020 and are now being commissioned, delivering incremental capacity and reliability benefits. In addition, investment at a third factory continues to progress well, and we expect completion in 2021.

Our broad, differentiated factory footprint provides us with unique optionality to make targeted organic investments to support growth over the medium term, including the previously announced Atlas redevelopment project which we paused during 2020 due to the uncertainty presented by COVID-19.

Within Ibstock Concrete, the acquisition of Longley Concrete in July 2019 has enabled the Group to create a truly national pre-stressed flooring business, offering a range of precast and related products to the housing developer, contractor and builders' merchant customer base. The acquisition has enabled the Group to achieve a position of market leadership in the UK floor beam market, and the combined business has begun to realise synergies with other parts of the Group.

The Longley acquisition is illustrative of the opportunity we see in leveraging Ibstock's operational expertise, national footprint and strong customer relationships to diversify its business effectively, driving incremental growth and returns. We will continue to explore opportunities to bring innovative new product technology into the Group where it meets our disciplined financial and strategic criteria.

We also continue to generate cash through realising the value of our surplus land estate, which can in turn be used to fund growth. During the year, we received proceeds of £4 million from the sale of land. Over the medium term, we expect land sales to generate a further £10 to £20 million of cash proceeds.

### Outlook

Through the actions we have taken, the Group has entered the new financial year with a stronger operational platform in place and a clear focus on the strategic drivers that will re-establish growth and create sustainable, long term earnings momentum in the business.

Market demand recovered faster than our expectations as we progressed through 2020, and trading in the initial period of 2021 has started well, with clay sales volumes slightly ahead of the run rates achieved in Q4 2020. While we remain mindful of the economic uncertainties and disruption associated with COVID-19, we are encouraged by the strength of trading over recent weeks and are confident for the year ahead. As a result, the Board is comfortable with current market consensus[3] expectations for adjusted EBITDA[1] for 2021.

Looking further forward, market fundamentals remain supportive, underpinned by the UK housing deficit, Government policy and low interest rates. With a strong management team, clarity on the strategic drivers which will underpin our progress and continued recovery in our core markets, we believe that Ibstock is well placed to re-establish positive earnings momentum and deliver sustainable, profitable growth over the medium term.

**Joe Hudson**
Chief Executive Officer

1 Alternative Performance Measures are described in Note 3 to the results announcement.
3 Management believes that analysts' consensus expectations for adjusted EBITDA1 for the year are approximately £93 million
4 GB Private Housing Starts of 123k in 2021 versus 144k in 2019 (Construction Products Association Main Scenario, published January 2021)

# A robust response to COVID-19

The COVID-19 pandemic put the health, safety and wellbeing of our colleagues, customers, suppliers and partners into even sharper focus this year. We are particularly proud of the way we managed the impact on our workforce.

Having been monitoring the developing situation at the beginning of the 2020 year, when the World Health Organisation (WHO) declared a Global Health Emergency on 30 January 2020 we took steps to quickly establish travel restrictions and issue guidance to our employees. This was followed weeks later by our decision to identify any of our workforce who may have been vulnerable to the virus and enabling them, on full pay, to remain safe at home regardless of their ability to work from home. Those employees who could work from home were provided with appropriate equipment and support to enable them to do so.

On 24th March 2020, to further protect employees, the Company took the difficult decision to suspend production and temporarily close all of its 40 factories, furloughing over 78% of our then 2,344 strong workforce (across both the Ibstock Clay and Ibstock Concrete divisions) whilst retaining skeleton crews at our sites to maintain safety and security.

### Lockdown

Communication with our key stakeholders throughout this initial period was paramount and we went to great lengths to support the safety, health and wellbeing of our people with daily information updates as the situation shifted and changed. Further information on our communication with key stakeholders can be found in our s172 statement on page 34. We also expedited the launch of a new corporate intranet (MyIbstock) which enabled our colleagues to access relevant and important information when they were both on and offline. MyIbstock was our hub for information updates, Company COVID-19 guidelines and home working advice and support. We provided wellbeing information including mental health support as well as the ability for our colleagues to share their own experiences by posting these directly onto the intranet. An Employee Assistance Programme (see the Sustainability section on page 38) was introduced and we focused on trying to keep everyone's spirits up with interactive competitions and fun, home based activities such as Lego building and tasks involving families. All of this was enabled in a very short timescale so that we were in a position to ease uncertainty and anxiety as best we could.

### Return to work

As part of Ibstock's planning for the phased reopening of our operations we introduced a comprehensive risk assessment to make sure our sites could operate safely and within the Government's guidelines. This has been continually reviewed and adapted taking account of feedback from our colleagues, to ensure it remains relevant, site specific and fully compliant. It was also adapted so that could be applied to all of our office based and remote workers. We put in a range of control measures during the initial lockdown with compulsory fever screening for everyone entering and leaving our sites. This infra-red fever warning system scans individuals, identifying anyone with above normal temperature. By recording live data, this system has enabled us to track and trace individuals who may have been in contact with persons suspected of having the COVID-19 virus. This contributed to the relatively low number of positive cases within the business and has been welcomed by all of our colleagues returning to work.

Further physical controls included the rearrangement of work stations to enable people to maintain the appropriate social distance and, where this was not possible, screens were put in place. Hand sanitiser stations, anti viral wipes and other cleaning related precautions were introduced at all sites and offices. Regular inspections are carried out by members of the Health and Safety team who issue Ibstock's internal COVID-19 secure certificates when sites are assessed to have reached the required standard.


**Left:** Showing our support for the amazing work done by our Key Workers


## Helping to stop the spread

The D.A.S.H. communications campaign designed to encourage all employees to adhere to four key controls:

- Distance
- Air quality
- Surface cleaning
- Hand washing

D.A.S.H. posters are displayed in prominent positions across all sites and installed as screen savers for all users of Ibstock IT equipment.

As well as the role it played during the initial lockdown MyIbstock continued to be extensively used when our people started returning to work and facilitated the efficient and clear dissemination of information to enable them to do so safely.

Part of our Company-wide initiatives introduced during this period included:

- The D.A.S.H. communications campaign which was designed to encourage all employees to adhere to four key controls; Distance, Air quality, Surface cleaning and Hand washing. D.A.S.H. posters are displayed in prominent positions across all sites and installed as screen savers for all users of Ibstock IT equipment.
- A bespoke video covering basic exercises people could do from home to build up their fitness ready for their return to work was hosted on MyIbstock and offered to all employees that were furloughed.
- Manager check-ins with all remote and furloughed staff to support safety, health and wellbeing at home were rolled out.

We adapted our annual 'Safe Start' session to assist our employees who were coming back to work in meeting the demands of this unique situation. This took the form of a half day workshop for every employee on their first day back and covered the enhanced safety protocols implemented to protect against the spread of COVID-19. In addition, the sessions provided an opportunity to go through existing health and safety procedures, reinforcing our commitment to excellence and zero-harm philosophy. Delivered by a member of the site management or the Health and Safety (H&S) team, 'Safe Start' also presented an opportunity for employees to share concerns and ideas with management. Our colleagues reported feeling very safe and reassured by the measures we had taken to ensure their safety, security and wellbeing.

One employee commented:

*I attended the Safe Start session; a fantastic day organised by the site team! The robust control measures and safe systems of work that have been adapted and introduced demonstrate that we have been able to adjust our processes, methods of working and ultimately the way we interact with each other to provide a safe environment for our people to work in.*

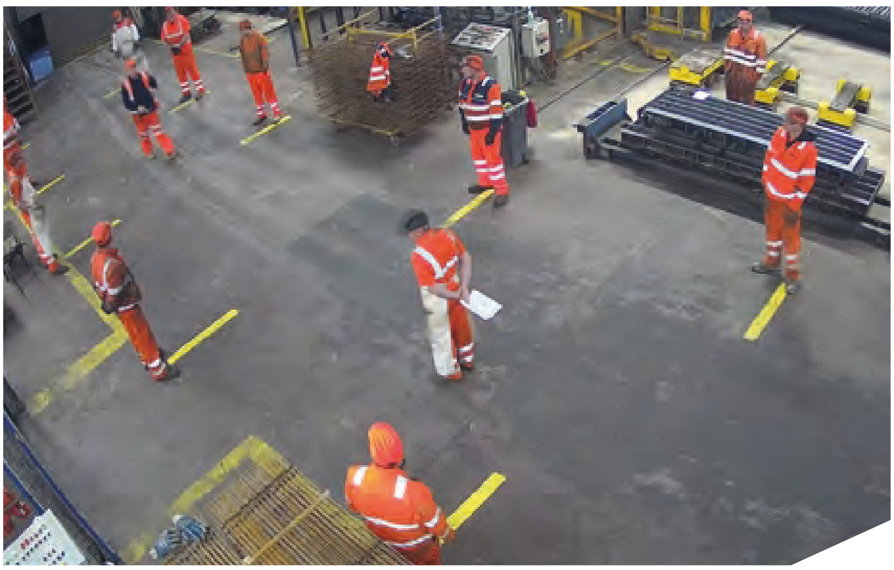
Since the first lockdown, members of the ELT have carried out visits across different sites to see how these controls had been implemented, how they are operating and to ensure our employees understand the measures and feel safe returning to work.

We have also shared our practices with other organisations across our sector and our safety procedures, taken in response to COVID-19, have been recognised by our employees, our engagement forums, and by the British Ceramics Confederation Pledge Awards, as decisive, appropriate, caring and of a very high standard.

We continue to monitor the national situation and develop our processes and measures as appropriate in order to keep our people safe and healthy.

The pandemic has presented the business with many challenges through 2020 but it has also amplified some of our great qualities. As a result we come into 2021 with a more supportive and inclusive culture, based on a fundamental shift in mindset towards the world of work, and a heightened appreciation for our ability to evolve the organisation.

**Below:** A socially distanced team brief at one of our Concrete factories



# Our markets

# We are well positioned in markets with positive fundamental drivers

Through a thorough understanding of the key drivers in our markets, we are able to formulate our strategy based on the most attractive growth opportunities for the business.

### Construction market

The UK Government considers construction a vital sector for economic recovery and has encouraged the construction supply chain to continue operating during COVID-19 lockdowns. As a result, construction activity has recovered more quickly than the economy overall.

The Construction Product Association (CPA) Winter 2020/21 forecast shows total construction output is anticipated to rise by 14.0% in 2021, compared to 2020, with further growth of 4.9% in 2022, which means that construction output at the end of the 2022 year is expected to be modestly ahead of 2019's levels of output.

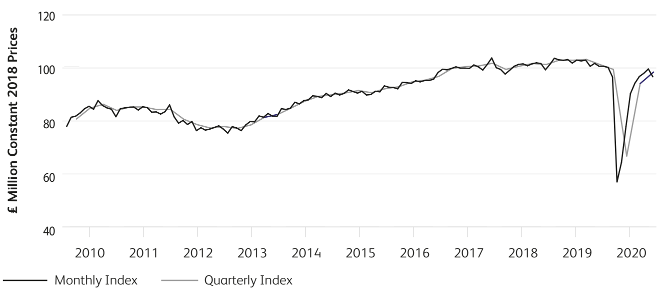
The CPA Winter 2020/21 forecast shows:

- Construction output will rise 14.0% in 2021 and 4.9% in 2022.
- Private housing output will rise by 15.5% in 2021 and 6.0% in 2022.
- Public housing output will rise by 14.8% in 2021 and 10.0% in 2022.
- Private housing repair, maintenance and improvement (RMI) will rise by 10.1% in 2021 and 3.0% in 2022.
- Public housing RMI will rise by 20.6% in 2021 and 2.0% in 2022.
- Infrastructure output will rise by 32.1% in 2021 and 6.0% in 2022.

Our clay and concrete products are integral components for both new build housing and housing repair and maintenance. We also have a small but valuable position in infrastructure. The positive fundamental drivers in these sectors are expected to underpin demand for our products over the medium term.

**V-Shape construction recovery so far...**

Monthly construction output




**Source: ONS**

1 Construction data sourced from Construction Products Association Construction Industry Scenarios Winter 2020/21 Edition.

## New Housing Market[1]

Private house building was one of the sectors to recover quickest in 2020. Although demand is expected to moderate during 2021 following the release of pent up demand in H2 2020, housing starts, completions and output are expected to be significantly higher than in 2020.

| | 2019 | 2020 (E) | 2021 (F) | 2022 (F) |
|---|---|---|---|---|
| Private Housing Starts | 144,371 | 97,524 | 122,986 | 148,449 |
| | -8.8% | -32.4% | 26.1% | 20.7% |
| Private Housing Completions | 165,217 | 129,250 | 147,825 | 158,942 |
| | 6.6% | -21.8% | 14.4% | 7.5% |

Public Housing will benefit from a new five-year Affordable Homes Programme that is due to start in April 2021.

| | 2019 | 2020 (E) | 2021 (F) | 2022 (F) |
|---|---|---|---|---|
| Public Housing Starts | 37,160 | 23,125 | 29,817 | 34,700 |
| | -2.9% | -37.8% | 28.9% | 16.4% |
| Public Housing Completions | 41,550 | 29,477 | 31,038 | 31,405 |
| | 14.2% | -29.1% | 5.3% | 1.2% |

With continuing population growth in the UK resulting in ongoing increases in household formation and a substantial housing deficit, the Government remains committed to significant growth in levels of house building over the mid to long term.

### Why are we well positioned?

- New build housing is a key strategic sector for Ibstock and we hold leading positions in both of our divisions
- We have long-standing strategic relationships with housebuilders, distributors and builders' merchants across the UK
- We have a broad product range across the building envelope which provides choice, differentiation and competitive advantage
- We focus on new product development and sustainability as key strategic enablers

**Find out more**
Our markets p16
Our business model p18
Strategy overview p20
Key performance indicators p28
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## Infrastructure[1]

Infrastructure is a key focus area for the UK Government and is expected to grow to a record high and surpass pre-COVID-19 levels in 2021 driven by a strong pipeline of major projects including accelerated focus on the HS2 project.

The rail sub-sector will also see strong growth driven by Network Rail's five-year Control Period 6 (2019 -2024) providing a strong pipeline of work.

| 2019 | 2020 (E) | 2021 (F) | 2022 (F) |
|---|---|---|---|
| 22,258 | 21,256 | 28,070 | 29,754 |
| 3.0% | -4.5% | 32.1% | 6.0% |

### Why are we well positioned?

- We have strong relationships with customers across the rail and infrastructure sectors
- We focus on innovation and development of new solutions
- We manufacture bespoke products for the infrastructure sector

## Group Opportunities

**Strengthen leading position in our core market**
In the UK, the three largest brick manufacturers account for the vast majority of UK brick production. Ibstock has the largest clay brick production capability in the UK and continues to enjoy a market-leading position. In a structurally undersupplied brick market with imports coming into the UK reaching over 300 million bricks in 2020 we believe there is a need to continue to invest in new capacity.

### Why are we well positioned?

- We have invested significantly in the expansion and improvement of our production facilities over the past few years
- We continue to invest in organic opportunities to enhance production capabilities for the long term

## Off-site Construction

The use of off-site manufactured systems and Modern Methods of Construction continues to grow, albeit at a modest pace at present. The pace of change is expected to accelerate over time, particularly in the off-site residential market supported by Government commitment and investment.

### Why are we well positioned?

- Brick is the dominant façade material in residential projects
- We have established systems suitable for this market
- We are focused on innovation to develop new solutions for the off-site market

## Housing Repair, Maintenance and Improvement (RMI)[1]

Private housing RMI has shown strong recovery since the first lockdown in 2020. Activity in the private residential RMI sector is closely correlated with the level of property transactions as homeowners often renovate their properties prior to sale or improve them after purchase. Alongside the trend during 2020 for greater levels of home working, the increase in property transactions in the second half and homeowners deciding to improve existing properties rather than moving provide good foundations for future growth in this sector.

Growth in public housing RMI is primarily being driven by the pipeline of urgent cladding remediation and fire safety work.

| | 2019 | 2020 (E) | 2021 (F) | 2022 (F) |
|---|---|---|---|---|
| Private Housing RMI | 22,077 | 19,529 | 21,500 | 22,145 |
| | 0.1% | -11.5% | 10.1% | 3.0% |
| Public Housing RMI | 7,940 | 6,735 | 8,120 | 8,282 |
| | 0.5% | -15.2% | 20.6% | 2.0% |

### Why are we well positioned?

- We have long-standing strategic relationships with builders merchants and distributors across the UK
- We have a leading range of products for housing repairs, maintenance and improvement projects
- Our MechSlip® system provides an attractive solution for recladding projects

## Macro trends

### Population growth 2018 – 2028: +3m people

### Household formations per annum: c.200k

### Political support for house building: 300,000 additional homes on average per annum

### Help to Buy to continue until 2023

### Low interest rates: base rate 0.1%

# Our business model

## Creating value for all our stakeholders

Our purpose is to build a better world by being at the heart of building. That drives everything we do, supported by our vision to enable the construction of homes and spaces that inspire people to work and live better.

### Our key strengths and resources

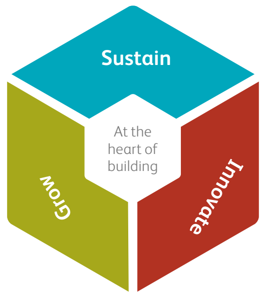
- Strong heritage and brand known for quality and consistency
- Long-standing customer relationships
- Well invested manufacturing facilities and technology to support customer service
- Highly skilled workforce
- Strong design focus including our I-Studio in Central London
- High barriers to entry in our market
- Strong H&S track record
- Strong balance sheet
- Operational footprint and clay reserves

### Operating in markets with strong fundamentals

**Products used:**
Ivanhoe Westminster

- Substantial housing deficit in the UK
- Government commitment to new house building
- Government's support of role of construction sector in UK economic recovery including 'Plan for Jobs' and stamp duty holiday on purchases below £500k and key planning system reforms
- Investment in decarbonisation and infrastructure projects
- Interest rates low and mortgage availability robust

### Our strategic priorities




**Our strategic pillars are** Sustain, Innovate and Grow, explained on page 20.

Central to our strategy is our commitment to act in a way that delivers social progress alongside economic progress and to produce products which promote the long-term sustainability of the built environment, described in the Sustainability section on page 36.

### Underpinned by our values and behaviours:

Our values were developed internally through a series of interviews and face-to-face workshops attended by people from every part of our business.

Everyone came together to make sure that we were clear about what it meant to work at Ibstock and what our people felt needed to be better.

This process provided the key themes formed the four values that we all support today.

**To find out more about our values,** see page 38.

## Teamwork

**We work together to achieve great things**

- We create fun and engaging teams
- We know that honest two-way communication is vital to our success
- We believe in creating strong teams and partnerships with our customer & suppliers
- We are positive people with a "can do" attitude
- We are obsessive about improving in everything we do, and challenge each other to always be better
- We believe in sharing knowledge to create one best way to solve a problem

## What makes us different

Our strong market positions, access to resources, comprehensive range of products and solutions, established customer relationships and commitment to innovation are key differentiating factors that create high barriers to entry and act as drivers of our industry-leading margins and returns. These underpin our ability to invest in both our people and our asset base to deliver future growth. They also underpin our capital allocation and dividend policy and commitment to shareholder returns.

**To find out more,** see our Strategy overview on page 20

## The value we create and share

### Workforce

Alongside our focus on providing a safe and healthy working environment, we invest in ongoing training, development and career progression. We also encourage employee share ownership through our Sharesave scheme to ensure that value flows through to our employee stakeholders.

### Customers

Customers play a crucial role in shaping our growth and driving our innovation. Building our understanding of our customers', priorities is imperative to meeting their needs.

### Suppliers and Partners

We forge long-term relationships with our key suppliers, and conduct business in a fair, open and transparent way. Our policies and procedures are all aimed at ensuring we work safely, equitably and in the best interests of both parties, as well as the Group's other stakeholders.

### Communities

In addition to being an important employer in the many areas where our manufacturing facilities are located, we interact directly with the communities in which we operate, contributing to them through our work with local schools and charities.

### Environment

We aim to minimise our impact on the environment where possible so that our business continues to be sustainable in the longer term.

**To find out more,** see the Stakeholder overview on page 32

### Investors

Although we had to cancel the recommendation of the 2019 final dividend and did not pay an interim dividend for FY 2020 we have a sustainable and progressive dividend policy, businesses with structurally high margins and strong cash generation with a strategy that provides a strong platform for future growth and value creation. We are recommending a final dividend of 1.6p per share for the FY2020.

## Trust

**We earn the trust placed in us by delivering on our promises**

- We empower people to take responsibility and accountability within their roles
- We give people the coaching, development and support they need to achieve their goals
- We trust people to do a great job and make the right decisions within their role
- We own it when we get it wrong and learn from it
- We do what we say we will, our actions are consistent with our words

## Care

**We care about each other, our customers and our wider impact**

- We care about and look after each other
- We treat each other fairly and with respect, including listening and respecting individuals from diverse backgrounds
- We believe in creating a better world including the wider society and our environment
- We care about our local communities and making a difference with them
- We recognise when people go above and beyond and say thank you

## Courage

**We have the courage to do the right thing**

- We try new things and take calculated risks to achieve success
- We do the right thing even when under pressure
- We stand up for what we believe in and we have difficult conversations when we need to
- We positively challenge each other in order to make a difference
- We seek to remove barriers to enable us to be successful

# Strategy overview

We have a clear strategy that is driven by our purpose and vision to deliver performance and create value for all of our stakeholders through three strategic pillars.

| Our strategic pillars | | What this means |
|---|---|---|
| **Sustain** | *Driving sustainable performance:* we will continually develop new organisational capabilities to drive world-class performance across our operations. We will focus on Health and Safety (H&S), operational excellence and sustainability and our social impact | H&S<br>Operational excellence<br>Sustainability and social impact |
| **Innovate** | *Market led innovation:* we will build upon our unrivalled product range, delivering further innovation to support the changing needs of our customers and the built environment. We have developed commercial excellence initiatives and will optimise our supply chain to maximise value. | Product innovation<br>Customer experience<br>Digital transformation |
| **Grow** | *Selective growth:* we are well positioned to invest in further organic growth projects and selective M&A opportunities. | Organic<br>Inorganic |

Our ambition is to be the most sustainable manufacturer of clay and concrete products in the UK. Our progress is measured against the commitments set out in our Sustainability Roadmap to 2025

**To find out more see the Sustainability section on pages 36 to 45.**

### Charity partner
Work alongside Shelter our charity partner to reduce homelessness

### Community Engagement
100% of Ibstock sites to be reporting activities by 2025

### Product innovation
Work towards 20% of the Group's turnover coming from new and sustainable products by 2025

### Supply chain
Work to ensure we have 100% compliance with the Suppliers Sustainability Code of Business Conduct (SSCBC)

**Find out more**
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| 2020 Progress | 2021 Priorities | KPIs |
|---|---|---|
| • All sites made COVID -19 secure<br>• Introduction of new systems and procedures including dynamic risk assessment<br>• Good progress against H&S roadmap | • New health and safety management system<br>• Continued focus on contractor safety | • Revenue<br>• Adjusted EBITDA[1]<br>• Return on Capital Employed (ROCE)[1]<br>• Adjusted EPS[1]<br>• LTIFR<br>• Net promoter Score (NPS)<br>**New from 2020:**<br>• **Carbon reduction** |
| • Completed safe and orderly shutdown of facilities<br>• Optimisation of maintenance and capital management processes<br>• Enhancement projects on track<br>• Upgraded site organisational structures | • Transformational projects (quarry optimisation)<br>• Development in talent and leadership | |
| • Good progress against Sustainability Roadmap targets<br>• Successful trials of packaging reduction initiatives<br>• Ibstock solar park operational and providing 25% of power for Leicester head office | • Development of Path to Net Zero strategy<br>• Commitment to placemaking | |
| • Enhanced existing brick range through new products – 'i-range' and Nexus XI®<br>• Notable achievements in Ibstock Concrete with precast panels and the use of novel materials for the supply of foundation and signal bases to the rail market | • Continuous enhancement of product portfolio<br>• Grow position in façade systems market with MechSlip® | • Revenue<br>• Adjusted EBITDA[1]<br>• NPS<br>**New from 2020:**<br>• **% sales from new and sustainable products** |
| • Digital platform providing product visualisation and virtual design tools enabled collaboration during lockdown<br>• Reorganisation of commercial teams bringing market expertise close to divisional sales teams | • Strengthen customer relationships and service improvements | |
| • Roll out of cloud based tools to automate inventory<br>• Commissioned new paperless outbound logistics processes<br>• Use of digital tools in the supply chain<br>• Creation of Group Shared Services Team | • Digital transformation projects | |
| • Investment in Clay manufacturing assets to sustain and modernise capability | • Strategic investment projects for the future | • Revenue<br>• Adjusted EBITDA[1]<br>• Net debt to EBITDA[1]<br>• ROCE[1]<br>• Adjusted EPS[1] |
| • Integration of Longley Concrete Limited<br>• Realising value from surplus land estate | | |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

**Apprentices**
Continue driving forward our apprentice scheme

**Diversity and inclusion**
Deliver on our ambition to develop a culture of fairness, inclusion and respect by 2025

**Health and safety**
50% reduction in LTIFR by 2023

**Water**
Achieve a 5% reduction in mains water usage per tonne of production by 2025

**Waste**
Achieve zero waste to landfill by 2025

**Carbon**
Achieve a 15% reduction in $CO_2$ per tonne of production by 2025

**Plastic packaging**
40% reduction in preventable plastic packaging by 2025

2025

**Strategy in action**

# Focus on sustainable performance

**Project name:**
Abode, Great Kneighton
**Products used:**
Ivanhoe Cream and Himley Ebony Black



## Sustain

### Ibstock Clay

Despite the challenges presented by COVID-19 we continued our investment in enhancement projects to drive efficiency, reliability and levels of sustainability without significantly impacting our overall production capacity. A good example of this type of project was the significant investment at our factory in Laybrook, West Sussex, in order to remove production bottlenecks in the clay preparation area by the installation of a new large capacity box feeder and upgrading the kiln. This involved:

- Increasing the drying capacity of the factory through the installation of a seventh drying chamber.
- The replacement of the kiln hydro case seal with a conventional sand seal to eliminate issues associated with the hydro case seal arrangement.
- Replacement of the current kiln car fleet with 42 new kiln cars.
- Upgrading to a new plant control system to bring it in line with current Group specifications.
- The introduction of a pack grab on the dehacker.

The combination of the upgraded kiln, dryers and clay preparation area linked to the existing equipment will ensure that the Laybrook site can operate consistently at its full standard operating capacity.

### Ibstock Concrete

The Sittingbourne facility of Supreme Concrete is approaching the end of a transformational two-year journey of process waste reductions through the restructure and refocusing of the maintenance team to drive reductions in water usage and product waste through initiatives such as rebuilding the site's reclaim system.

The new system works by separating liquid and solid matter, with the latter sent to a filter press where it becomes a 'mat' of concrete and is returned to the site's stock of recycled materials. Moreover, the water is reused in the site's mixer, reducing the amount drawn from the mains by around half. This improvement and other initiatives such as reducing the amount of raw concrete waste that is sent off-site in skips is a great example of operating in alignment with the Company's sustainability objectives.

**Strategy in action**

# Innovation quality and service

**Project name:** Beak Street, London
**Products used:** bespoke blend of glazed bricks & Nexus®

## Innovate

### Ibstock Clay

New product development is a crucial part of our growth plans and we are committed to the continuous enhancement of our product portfolio to underpin our market and margin leadership. Recent investments in our production capabilities and focus on innovation have enabled us to enhance our product range with a number of initiatives, notably the recent development and launch of new brick-faced soffit and lintel systems with Nexus XI®.

This was a response to the opportunity created by changes to building regulations which now require all materials used in residential buildings above 18m (11m in Scotland) to be of limited combustibility. Clay brick is acknowledged to have outstanding combustibility characteristics.

Our technical and design teams worked closely with the British Board of Agrèment (BBA) and National House Building Council to conduct the relevant testing, and were able to take this development from first concept to BBA approval in only seven months; a great achievement.

Nexus XI® was launched in November 2020, using a digital approach, and customer feedback received to date has been excellent, with an increasing volume of orders already secured and a growing pipeline of interest.

These successes have built a strong foundation for future new products and systems and our new product development plans will ensure our range of building solutions will continue to grow in the years to come as we focus on achieving our goal of 20% of revenues to be generated from new and sustainable products by 2025.

### Ibstock Concrete

Since their initial partnership in 2004, Anderton Concrete (Anderton) and Tensar International (Tensar) have become a formidable force throughout the UK's construction industry, collaborating on some of the nation's highest profile infrastructure projects. With over 80 years' combined experience in setting the standard for meeting the most demanding site designs, the relationship between Anderton and Tensar is founded on a joint commitment to continuous product innovation.

Over the last 12 months, Anderton and Tensar have worked together on the development of its new ARES® Retaining Wall System, which combines high-performance retaining walls with ease of installation. This is achieved through the use of large incremental precast concrete panel facings, which are installed in conjunction with Tensar® Geogrids using high-efficiency Bodkin Connectors to provide an easy to install, low cost integral system.

This project required Anderton and Tensar to take an alternative approach to product development and installation, as the wall systems had to successfully minimise the duration of cycle times without compromising on quality or significantly increasing cost. The ability for the system to utilise industry waste products as low cost fill materials, such as unburnt colliery spoil, also presented further cost efficiencies and a significant reduction in carbon due to the reduced amount of imported fill materials. This innovation also contributed to a significant reduction in construction traffic throughout the local area.

## Strategy in action

# Well positioned for growth with strong market fundamentals


Inside our state of the art Eclipse factory

## Grow

### Organic growth

**Ibstock Clay**

Investment in our Ibstock Clay manufacturing assets continued in a measured way during 2020, with capital enhancement investments at two key soft mud factories being completed towards the end of 2020, which are now being commissioned. In addition, investment at a third factory continues to progress well, and we expect completion in 2021. In light of market conditions, we took the decision during the first half to put on hold our proposed £45 million investment to redevelop our existing facility at the Atlas site. However, we retain the optionality for a future development at this site.

Our broad, differentiated factory footprint provides us with unique optionality to make organic investments that will support our growth over the medium term such as the significant investment in our factory at Ellistown in Leicestershire which will result in an increase in annual brick capacity of around 20% on completion. New dryers and automation will improve the environmental and cost base of the factory as well as increasing capacity.

**Ibstock Concrete**

The Thornley plant of Forticrete is part-way through a programme of transformation and investment that transformed its efficiency, cost profile and environmental footprint.

Located near the town of Shotton Colliery in Country Durham, a major part of the facility is now dedicated to bespoke precast projects. A decision to transfer the manufacture of cast stone to other factories within Ibstock Concrete and start to manufacture products for infrastructure-based projects on behalf of Anderton has been key to its rejuvenation. The success of the Thornley site is being further evidenced by the decision to invest in a new batching plant for the facility which will signal Thornley as a fully fledged bespoke precast manufacturer within the Group's asset network.

Thornley's automated batching plant will increase the site's precast capacity from the existing levels. Furthermore, cycle time will dramatically reduce improving both the cost and environmental footprint significantly.

### Inorganic growth

**Ibstock Concrete**

The acquisition of Longley Concrete Limited in July 2019 has enabled the Group to create a truly national pre-stressed flooring business, offering a range of precast and related products to the housing developer, contractor and merchant client base. The acquisition has enabled the Group to achieve a position of market leadership in the UK floor beam market, and the combined business has been effective at accessing synergies with other parts of the Group.

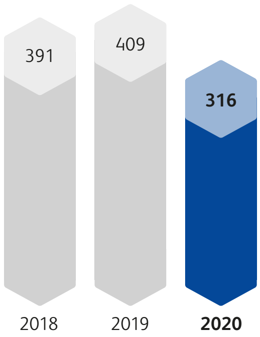
Integration of Longley has continued through 2020 and is in line with the plans put together by management at the time of the acquisition with the harmonisation of health & safety and operational processes in line with the Group as well as the capture of projected synergies. Full integration with the Group's finance function will continue into 2021.

# Key performance indicators

## Financial

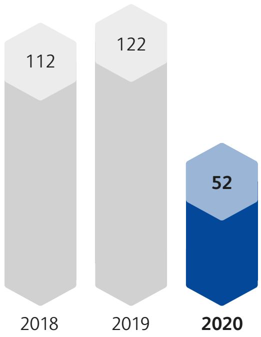
### Revenue[1,2]

£m



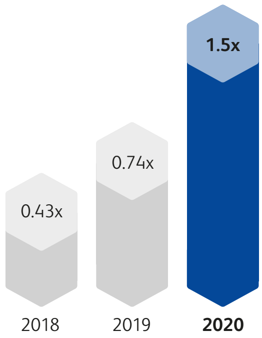

### Adjusted EBITDA[1,2]

£m




### Net debt to adjusted EBITDA[1,2]

Ratio




| | Revenue | Adjusted EBITDA[1,2] | Net debt to adjusted EBITDA[1,2] |
|---|---|---|---|
| Description | Revenue represents the value for the sale of our building products, net of local sales tax and trade discounts. | Represents profit before interest, taxation, depreciation and amortisation after adjusting for exceptional items[1]. | Net debt, comprising short- and long-term borrowings less cash, over adjusted EBITDA[1] (as defined) prior to the impact of IFRS 16. |
| Why important? | Revenue provides a measurement of the financial growth of the Group. | Adjusted EBITDA[1] provides a key measure to assess the Group's profitability. | Net debt to adjusted EBITDA[1] provides a useful measure in assessing the Group's management of its borrowings. |
| Link to strategy | | | |
| Remuneration linkage | No specific linkage to remuneration structures at present. | A key financial measure within the Annual and Deferred Bonus Plan (ADBP). | No specific linkage to remuneration structures at present. |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 KPI impacted in 2019 and 2020 following the implementation of IFRS 16. 2018 figures not restated.

**Key**

**Sustain:** sustainable performance

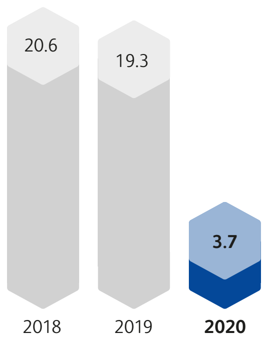
**Innovate:** market-led innovation

**Grow:** selective growth

**Find out more**
Our markets p16
Our business model p18
Strategy overview p20
Key performance indicators p28
Sustainability p36
Principal risks and uncertainties p56



### ROCE[1]
%

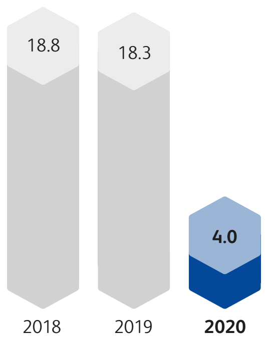



The ratio of profit before interest and taxation, after adjusting for exceptional items[1], to average net assets and debt (excluding pension).

ROCE[1] provides an indication of the relative efficiency of capital use by the Group over the year.

A key measure within the current LTIP construct with a weighting of 20% of total opportunity.

### Adjusted EPS[1]
Pence per share



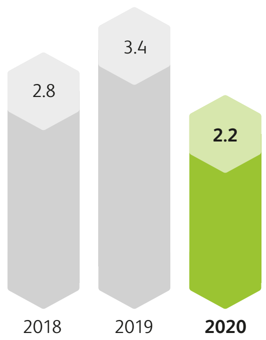

Basic earnings per share adjusted for exceptional items[1], amortisation and depreciation on fair valued uplifted assets and non-cash interest, net of tax (at the Group's effective tax rate).

Adjusted EPS[1] provides useful information in assessing the performance of the Group and when comparing its performance across comparative periods.

A key measure within the current LTIP construct with a weighting of 30% of total opportunity.

## Non-Financial

### Lost time injury frequency rate

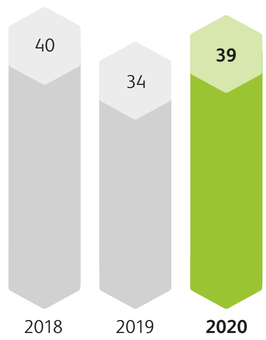



The number of lost time injuries occurring in our workplace per one million hours worked.

The measure gives a picture of how safe a workplace is for its workers.

No specific linkage to remuneration structures at present.

### Net promoter score
%




As part of our annual satisfaction survey, customers are asked how likely they are to recommend the Group to friends and colleagues. Responses are between zero (unlikely) to 10 (very likely). The Net Promoter Score ("NPS") is derived from the proportion of our customers scoring 9 or 10 less those scoring 6 or lower.

It is used as a proxy for gauging our customer's overall satisfaction with our products, service levels and the customer's loyalty to the brand.

No specific linkage to remuneration structures at present.

### New KPIs for 2020

| | | |
|---|---|---|
| **Description** | **Carbon reduction**<br>KPI shows the amount of carbon produced per tonne of finished production in the manufacture of building products. | **Share of revenue from new products**<br>Proportion of revenue as defined above generated from new and sustainable products introduced to the market within the last 5 years |
| **Why important?** | Provides a key measure of our progress against our 15% carbon reduction target (see page 43) and demonstrates our commitment to addressing our impacts on the environment through the reduction in our use of energy. | This demonstrates our progress relative to our new product development goals. |
| **Link to strategy** | | |
| **Remuneration linkage** | New measure in LTIP with 10% weighting of opportunity. | No specific linkage to remuneration structures at present. |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

## Stakeholder engagement

# Q&A with Joe Hudson

2020 has been a testing year for Ibstock, its people, customers, suppliers, communities and members as well as for society as a whole. Despite the challenges presented by the COVID-19 pandemic, especially in the first half of the year, its impacts have also acted as a catalyst for change, prompting the Board and management teams to move decisively and take steps to protect and upgrade the business whilst always staying true to the values that underpin all that we do.

At the onset of the crisis, we decided to identify and protect all employees who were considered in the vulnerable group, sending them on paid leave before taking the decision to temporarily close all operations at the onset of the national lockdown in March. When we began to re-open our sites, we introduced a wide range of strict social distancing and hygiene protocols at all of our factory and office locations that continue to this day.

In order to preserve our strong liquidity and financial position, we took the decision to cancel the 2019 final dividend payment of 6.5 pence per ordinary share that had been proposed at the time of the announcement of the full year 2019 results on 3 March 2020. This dividend was proposed under our sustainable and progressive dividend policy, part of the Group's disciplined approach to capital allocation, which ensures we can continue to meet our obligations to all of the Group's stakeholders including pensioners.

The pages that follow provide some insight into how the Board engages with our stakeholders to understand what matters to them and further inform the Board's decision-making and the actions taken as a consequence. There are no agreements with our major shareholders and no representation of specific shareholder groups within the Group. When making decisions we act fairly between all members of the Company. Further information can be found in the Corporate Governance Report from page 70.

The principles underpinning s.172 are not something that are only considered at Board level, they are part of our culture.

## Q. Can you give an example of how s.172 considerations helped shape a particular decision?

Whilst all decisions are made with regard to s.172 of the Companies Act we have included three specific examples that set out details of our process and approach in order to better demonstrate this and these can be found on page 34. The initial focus of the Board and Executive team was the identification and protection of all employees who were considered in the vulnerable group by sending them on paid leave before we decided to close all of our operations in order to protect our employees and contractors and contribute to the national effort. Whilst cognisant of the possible long term consequences of this decision in the early days of the pandemic our priority was more centred on our employee's safety and wellbeing in the immediate term.

## Q. Which tough decision are you most proud of making in the last year and why?

I am proud of the way we responded to the challenges of COVID-19 and made the difficult but necessary decisions to ensure the future of the business and, in particular, the sensitive way that our people approached the difficulties of restructuring our operations in the summer. This is the hardest decision any business can take. Its impact on our employees, and on the communities within which they work and live, was something we were acutely aware of. So, it was extremely important to me that all our teams approached it with a great sense of fairness and care, which I can honestly say they did.

## Q. Did you feel confident that the material available to the Board allowed you to consider s.172 criteria effectively?

We are provided with regular reminders of our responsibilities under the Companies Act and every Board agenda sets out the requirements of s.172 in full. Specific items for decision will include additional information drawing attention to the particular considerations of certain stakeholder groups. I think that this provides a good level of information to assist in our decision-making.

## Q. How did you ensure that helpful information was fed back to key stakeholder groups?

Although the Board receives feedback from key stakeholders as part of the regular Board cycle, the move to weekly meetings during April and May increased the level of information going between both. There was increased communication with our shareholders through market announcements, bespoke communications with customers and with employees during the redundancy consultation process, discussion with our main banking relationships to amend certain covenants attached to our Revolving Credit Facility and engagement with our suppliers around payment terms.

## Q. How were environmental matters including climate change taken into account in key decision-making?

As a heavy user of energy resources we recognise the impact that Ibstock has on the environment and how critical it is for us to continue to formulate an appropriate strategy to address these impacts and chart a path to Net Zero by 2050. The Board received a briefing on the Group's activities in the area of carbon reduction at its strategy session in November. Decisions, made earlier in the year, to close a number of our ageing manufacturing sites were informed by considerations around their ongoing environmental efficiency. Plans to replace our existing Sustainability Board with a new Board ESG Committee, also chaired by Claire Hawkings, one of our Non-Executive Directors with delegated responsibility to oversee a range of issues including environmental considerations, will strengthen our approach by putting such issues at the centre of Board decision-making. Further information can be found in the Sustainability section on page 36 and our full Sustainability Report, which is available on our corporate website.

## Q. How does the Board approach consider stakeholders strategically?

The Board understands its key stakeholder relationships and these have been summarised on pages 32 and 33. We originally completed a stakeholder mapping exercise in 2019 in order to ensure that we were in compliance with the new Corporate Governance Code. This map was reviewed during the fourth quarter of 2020 and will be presented to the Board on a regular basis during 2021 to make sure we continue to engage with the appropriate range of stakeholders in the future.

# Stakeholder overview

## Workforce

We believe that building a safe, healthy and happy workplace where our people can reach their full potential strengthens our business. Listening and understanding to employee views and ideas is a key part of our culture.

### What matters to them

We understand that our colleagues value our work on social and environmental issues, especially our support of Shelter, our chosen charity partner. They value our culture of looking after people and the sense of team spirit. They want to see increased focus on personal development, consistency around pay and benefits, listening and engagement with senior leaders.

### How we engage at Board level

The Listening Post is our formal mechanism as required under the UK Corporate Governance Code 2018, for sharing employee views with the Board.

Our Best Companies engagement survey results are shared with the Board.

MyIbstock provides employee blogs and thought pieces which the Board are able to interact with.

Board members visit our sites and senior management join meetings for specific items.

### How we engage across the Company

We engage our employees in a range of ways:

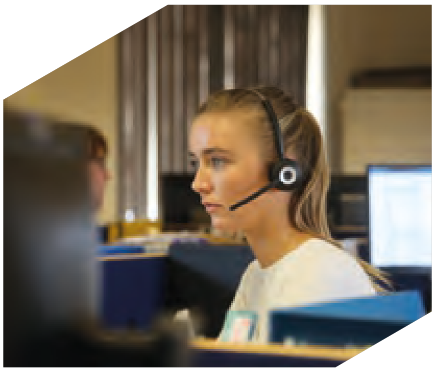
- Weekly CEO update to all staff
- MyIbstock intranet site
- Tiered meetings cascading information
- Senior Leadership site visits and meetings
- Newsletters
- Divisional conferences
- Safe Start engagement sessions

### Link to our Business model

Safe and healthy environment, investment in training for development and share ownership.

### Link to our Principal risks

Recruitment and retention of key personnel and operational disruption.



## Customers

Customers are at the centre of what we do shaping our growth and driving our innovation. Building our understanding of our customers priorities is imperative to meeting their needs.

### What matters to them

We perceive that key material issues for our customers relate to: product value and quality, volume and availability, excellent customer service, and strong, collaborative relationships. Increasingly our customers are interested in the sustainability of our products and business.

### How we engage at Board level

The Board receives updates on the relationships with existing customers. Customer and employee feedback is fed into Board discussions, which ultimately shapes strategic decisions, including plans related to capital investment and innovation.

### How we engage across the Company

We engage with our customers in a variety of ways, through our:

- Account Manager Teams
- Customer Service Team
- Design and Specification Advisors
- Customer feedback
- Quality and complaints team
- Social media

### Link to our Business model

Shaping our growth and driving innovation.

### Link to our Principal risks

Customer relationships and reputation, product quality and anticipating the market and new product development.

## Suppliers and partners

Strong relationships with suppliers and industry partners are key to our sustainable growth. Sharing challenges and opportunities helps deliver better outcomes for all.

### What matters to them

We perceive that key material issues for our external partners relate to: being treated fairly during the sourcing stage, solid two-way communication channels, timely financial payments and strong, collaborative relationships.

### How we engage at Board level

The Board receives regular updates on matters relating to:

- Partnerships and opportunities
- Procurement efficiencies
- Regulatory horizon scanning

### How we engage across the Company

We engage with our suppliers and partners in a variety of ways, through our:

- Regular supplier review meetings
- Procurement Team meetings
- Supplier Sustainability Code of Business Conduct
- Knowledge sharing from key external boards and partner projects e.g. through the Building Alliance Futures Group

### Link to our Business model

Conduct of business in a fair, open and transparent way with policies and procedures to ensure the best interests of all.

### Link to our Principal risks

Customer relationships and reputation, operational disruption and input prices.

## Communities

Engaging with our local communities strengthens our business. Our relationships with communities closest to our sites are vital and we build trust through local dialogue.

### What matters to them

We perceive that key material issues for our communities relate to: responsiveness to local concerns, ongoing open dialogue, local jobs and local contributions (product, skills or financial donations).

### How we engage at Board level

The Board are kept up to date with community projects on a regular basis through the CEO's report or updates from the Sustainability Board. These allow the Ibstock Board to understand how Ibstock's broader social and environmental concerns are addressed in practice. Members of the Board are also provided with the opportunity to join in activities such as the recent sponsored bike ride to raise money for Shelter.

### How we engage across the Company

We engage with our local communities in a range of ways, through our:

- Factory managers local engagement
- Estates team
- Local Facebook interest groups
- Employees local to sites
- Open days and site visits
- Schools visits

### Link to our Business model

Local employment opportunities alongside interaction with community projects.

### Link to our Principal risks

Economic conditions and climate change.

## Environment

We are committed to delivering positive environmental change to help create a sustainable future for all. Leading in sustainability requires ongoing internal and external engagement to enable the pace of change required.

### What matters to them

We perceive that the key material issues for the environment include climate change and reducing our carbon emissions; reducing our water footprint; reducing our waste (including packaging) and contributing further to biodiversity.

### How we engage at Board level

A sustainability update is provided at every Board meeting including bi-annual progress against our Sustainability Roadmap and summary points from the Sustainability Board which is chaired by Claire Hawkings, Non Executive Director, and attended by Joe Hudson CEO.

At our 2020 Board Strategy Day climate change was a key agenda item.

Our Remuneration Committee recently approved a new carbon reduction measure for use in the Long Term Incentive Plan,

### How we engage across the Company

Our Sustainability Working Group engages across divisions and functions to support the integration of sustainability into the business. Organisation-wide briefings on our sustainability report ran in September 2020.

### Link to our Business model

Minimising our impacts to enable sustainable operation for the long term.

### Link to our Principal risks

Climate change.

## Investors

We are openly and actively engaging with our shareholders to build their understanding of our business and trust in our strategy.

### What matters to them

We perceive that key material issues for our shareholders relate to: financial returns, dividends, viability of long term success and products that meet market demand through regular two-way communication.

We also recognise the growing importance of ESG factors in investment decision-making.

### How we engage at Board level

Members of the Board including the CEO and CFO meet with shareholders and analysts as part of the regular annual cycle. Communications are maintained with the market in accordance with all requirements and we publish results and trading updates at certain points in the year.

### How we engage across the Company

CEO briefings to Senior Leaders and weekly updates to all of the workforce share the interests and priorities of our shareholders with the business.

### Link to our Business model

Dividends and strong business with platform for growth.

### Link to our Principal risks

Economic conditions, operational disruption and anticipating the market and new development.

# Section 172 statement

Our stakeholder engagement processes enable our Board to carefully consider the relevant s.172 factors and resulting impacts on our key stakeholders when making decisions so that they can select the course of action that best leads to the high standards of business conduct and success of Ibstock in the long term.

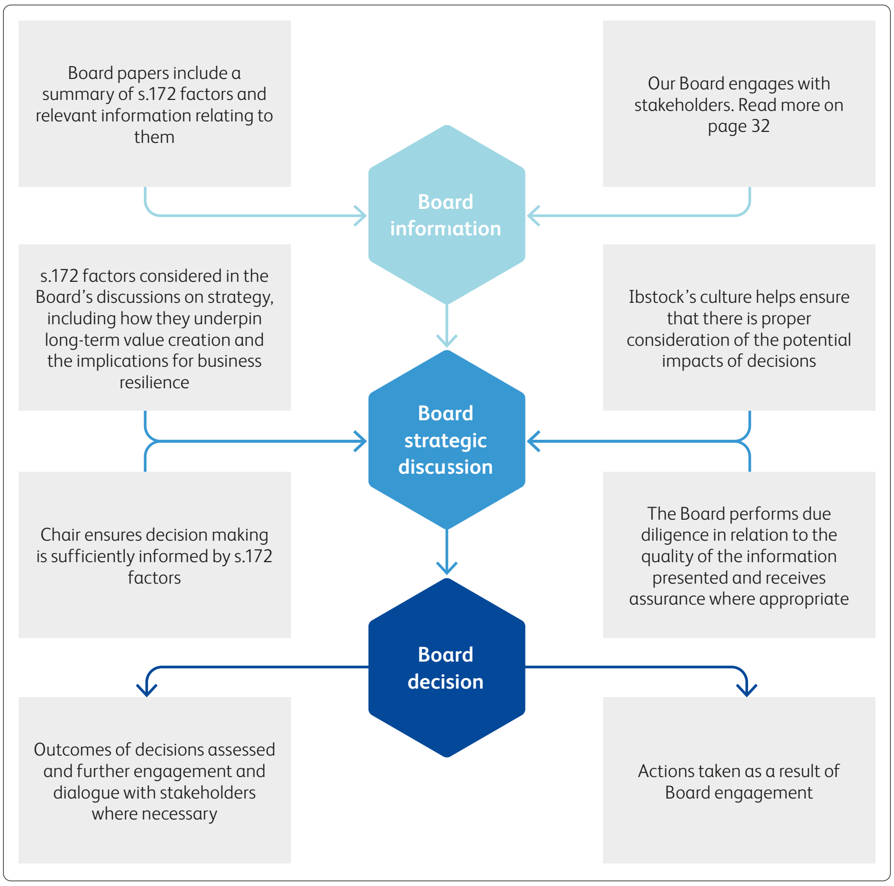
## Our s.172 approach

Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success.

The needs of our different stakeholders as well as the consequences of any decision in the long term are well considered by the Board. This includes those decisions which involve the competing interests and priorities of our key stakeholders.

We remain clear on the overriding duty to promote the success of the Company placed on the Board and other senior managers within the Group and that conflicts between differing interests will often arise.

Our approach to s.172 is set out below. The following strategic decisions taken during the year are intended to provide some insight into the decision-making process at Ibstock.




**Key**

- ▲ Likely consequences of decisions in the long term
- ▲ The interests of the Company's workforce
- ▲ The need to foster relationships with suppliers, customers and others
- ▲ Impact of operations on the community and environment
- ▲ High standards of business conduct
- ▲ The need to act fairly between members of the Company

## Key decisions

### Temporary shutdown of production

**Section 172 considerations**

▲ ▲ ▲

**Consideration of s.172 impacts by the Board**

At the onset of the crisis the Board considered what actions it needed to take as a priority in the face of a quickly developing and changing situation. Having originally moved to secure the safety of those members of the workforce that were considered vulnerable and most at risk from COVID-19, consideration was given to the unprecedented closure of production facilities. The impact of this decision on Ibstock's employees, suppliers and customers as well as its shareholders was uppermost in our minds when making this decision. We worked closely with suppliers and customers in order to understand their concerns and constraints with respect to payment and credit terms so that we could come to a place of mutual agreement and ensure our working relationship could endure such difficult conditions. The escalating challenge presented through COVID-19 made it clear that the impacts of these actions would reflect on the reputation of the Company in the longer term.

**Stakeholder interests**
Communication with employees through this period was paramount in order to ease uncertainty and anxiety, and daily updates to all staff were introduced as the picture shifted and changed. Managers were in ongoing contact with all members of their teams and we fast tracked the launch of our new intranet which enables on and offline colleagues to access information and provide feedback around the clock. Updates from these initiatives were regularly considered at meetings and formed the basis of discussions. We also launched our Employee Assistance Programme (see page 38) and kept spirits up with Lego building competitions and other fun home based activities.

The impacts of the pandemic reinforced the importance of enduring, collaborative relationships with our partners across the supply chain and close contact and ongoing dialogue was maintained with the Group's customers in order to ensure their continued support to protect the Group's balance sheet alongside the need to ensure that key strategic supply relationships were not damaged as a result of actions taken during this difficult period.

We made sure we remained fully compliant with relevant regulatory requirements, releasing market sensitive information in a timely fashion whilst the Executive Directors engaged with major shareholders to discuss these releases through conference calls and virtual meetings.

**Outcomes**
The Board moved quickly and took the decision to complete an orderly shutdown of our production facilities and ensure the health and safety of all colleagues, suppliers and customers. The vast majority of our people were successfully migrated to working from home but for those performing essential tasks which could not be done from home, we introduced measures including increased social distancing across the business in line with Public Health England's appropriate guidelines. We also took a number of actions, focused initially on conserving cash and protecting the balance sheet to give the business the platform required to continue operating. This included placing the recently announced redevelopment of our Atlas clay brick manufacturing facility on hold.

## Use of Government support

**Section 172 considerations**

▲ ▲ ▲ ▲

**Consideration of s.172 impacts by the Board**
The Board considered the various types of support that were being offered to businesses in order to address the impacts of the lockdown and had to decide whether Ibstock was in a position where it needed to take advantage of one or a combination of these schemes. Clearly, the combination of the uncertainty around the duration of the pandemic and the shutdown of the Group's production facilities with the associated impacts on trading performance showed that the impacts on Ibstock's employees and their communities as well as the Company's reputation in the future were critical parts of this process. We were again mindful of the reputation of Ibstock in the longer-term having accessed support and this informed some of the key decisions made with respect to the application of the Remuneration Policy in the year as shown in the Directors' Remuneration Report on page 85. We continue to debate the longer-term effect on our capital allocation decisions as we enter 2021.

**Stakeholder engagement**
We continued to engage with our employees so that we could provide information and answer specific questions on what was happening to employees in businesses in the UK that had been affected as well as providing support and information to managers within the business around the operation of those Government initiatives provided during the crisis. The outcome from these sessions was included as part of the CEO's regular updates to Board whilst there was also engagement with HMRC to manage the deferral of payments accurately and correctly.

**Outcomes**
In order to safeguard jobs during the most acute period of COVID-19 pandemic restrictions the decision was taken to furlough 78% of the workforce of 2,344 people. To maintain financial flexibility, the Group also secured agreement from its lending banks for a number of amendments to covenant tests under the Group's Revolving Credit Facility and was granted access to funding under the Covid Corporate Financing Facility ('CCFF'), although the Company has not drawn down on this. As a result, the Group received around £10 million under the Government's Job Retention Scheme ("JRS") in respect of furloughed employees. The Group also initially took advantage of the HMRC deferred payment provisions during the year, deferring just over £16 million as at 30 June 2020, although has subsequently settled all amounts falling due during the second half of the 2020 year.

## Restructuring

**Section 172 considerations**

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**Consideration of s.172 impacts by the Board**
Following its initial decision to shut down the production capability of the business the Board considered a proposal to restructure the Group's operations and reduce both fixed cost and overhead in the Group to an appropriate level whilst retaining flexibility to increase or decrease capability as required. It was recognised that implementation would be difficult due the wider perception of redundancies, the level of change on the business infrastructure and the need to consult with employees that were furloughed.

**Stakeholder engagement**
Planned communications with employees and materials to provide the necessary support to management were produced and engagement with those members of the senior management population that could potentially be impacted by the proposals were started. Engagement with key members of management and employees at those production sites identified as at risk of closure was paramount as was the recognition of the environmental efficiency of certain factories. The process utilised employee representatives who worked hard in order to provide a valuable link between the concerns and considerations of employees to aid the management and the Board in its decision-making process.

**Outcomes**
During the second half of the year, the Group concluded the restructuring review. This resulted in the closure of two of our clay brick factories and one concrete facility; the mothballing of our existing Atlas clay brick manufacturing facility; the rationalisation of capacity at our Leicester site; and significant Selling, General and Administrative headcount reductions. This restructuring programme has ensured Ibstock is adapted to the near-term outlook for the industry and will deliver up to £20 million of fixed cost savings in the coming financial year but regrettably resulting in a number of redundancies.

# Sustainability

Claire Hawkings
Chair of Ibstock Sustainability Board

### A culture of sustainability

Ibstock is at the heart of building with a vision of enabling the construction of homes and spaces that will inspire people to work and live better.

We have an ambition to be the most sustainable manufacturer of clay and concrete products in the UK, and to lead our sector in our disclosure and transparency around Environmental, Social and Governance issues (ESG). Our sustainability priorities and ambitions (see page 37), support our purpose and vision and flow through each of our strategic pillars. They will continue to define and contribute to the development of the Group's culture in the years ahead.

### Climate change and social inequality

We are increasingly seeing the impacts of global challenges from climate change and destruction of the natural environment, to social inequalities and the impact of the unforeseen COVID-19 pandemic. We believe a healthy environment is directly linked to healthy communities and economic prosperity and for Ibstock that means playing our part in tackling these challenges. The built environment, and construction products within that, contribute significantly to global carbon emissions. We feel that weight of responsibility and, for our part, we are working hard to reduce our impact and are fully committed to the Paris Agreement (2015) as well as the UK Government target of Net Zero emissions by 2050. As we map our own Net Zero Strategy we endeavour to go beyond this minimum requirement and are aware that although we are at an early stage of our journey in this area, we will continue to focus on the development of our Net Zero strategy in 2021. Further detail will be provided in our Sustainability Update Report, which will be published later this year. As part of our Net Zero transition we will look to optimise the application of existing and emerging manufacturing technologies. As a substantial landowner, we are very aware of our impact on biodiversity especially at quarry sites, where we work to strict operating guidelines. Biodiversity performance will be a focus area in our sustainability plans.

We are determined to drive a culture of inclusivity and improve diversity in Ibstock and across our sector in the coming years. This focus will be manifested during 2021 by a commitment to appoint a senior sponsor in the business in this area.

Our partnership with Well North Enterprises, a Community Enterprise Company driving community regeneration, is helping us to bring our purpose and vision to life through place-making, which for Ibstock means how our products and our business can build and inspire better lives. This is a long-term commitment and as our partnership evolves we aim to be part of the transformative and sustainable change in local communities.

### Taskforce for Climate-related Financial Disclosure (TCFD) and Disclosure

We are committed to improving our sustainability disclosure and aligning with the TCFD framework. Details of our progress on TCFD can be found on page 45.

### Stakeholders

During 2020 we conducted an internal review of our key stakeholders to establish whether these remained appropriate and relevant to the business model and mapped these against their influence and impact on the business. We then conducted a materiality assessment for each of these stakeholder groups to ensure we are focusing on the most important issues to the business and our stakeholders.

We know from dialogue with all stakeholders that these challenges are important to them too. In building long-term value creation with a sustainable business model we are prioritising the health and safety of our people; working to transform Ibstock to a Net Zero business and responding to market changes through our leading product innovation.

This section sets out to demonstrate how this approach manifests itself through our interactions with those key stakeholder relationships summarised in the stakeholder overview on page 32 and how we are building a culture formed by a sustainable and socially-responsible approach to business.

### New strategic Key Performance Indicator (KPI) on carbon reduction

We have launched a new KPI (see page 29) that will track our performance against our carbon reduction target set out on page 37. This has been included as an additional measure under the Group's Long Term Incentive Plan. Further information on this can be found in the Directors' Remuneration Report on page 85.

### Enterprise risk

Climate change continues to be included as a part of our principal risks (see page 58) and we will be carrying out further work during the year to consider in more detail the risks specific to the business such as flooding in certain areas of the UK.

### How we manage sustainability

Ibstock's sustainability activities are currently coordinated by our Sustainability Board (ISB) which is chaired by me. The ISB comprises Ibstock's Divisional Managing Directors, the Group HR Director and Isabel McAllister, the Responsible Business Director at Mace plc. Isabel brings an independent perspective as well as invaluable expertise and challenge from her experience and roles outside the Group. The ISB met twice in 2020 and considered progress against the Sustainability Roadmap (see page 20), the publication of the third Ibstock Sustainability Report 2019 and the Sustainability Update Report as well as making programme recommendations to the Executive Leadership Team (ELT) for consideration and discussion with the plc Board, if necessary. The ISB currently covers all issues under the sustainability umbrella including customers, suppliers, people, environment and communities.

Find out more
Our markets p16
Our business model p18
Strategy overview p20
Key performance indicators p28
Principal risks and uncertainties p56

To support management and operational integration of sustainability throughout the business a Sustainability Working Group was established during the year. The working group includes operational leads for each of the Sustainability Roadmap targets and explores emerging technologies, issues, commitments and new proposals relating to sustainability risk and opportunity.

We plan to go even further in 2021 by significantly strengthening the governance around sustainability with the proposed constitution of a Board ESG Committee to oversee our strategy and priorities in this area. This new Committee will be accountable to the PLC Board and will replace the ISB in due course.

Further information on Ibstock's sustainability activities can be found in the separate sustainability report which is available on our website.

**Ibstock plc Board**
Sustainability is a regular agenda item

**ELT**
Reviews performance against roadmap targets

**Ibstock Sustainability Board**
Reviews risks and opportunities, recommendations to ELT

**Operations**
Site level targets on resource efficiency, engagement and community

**Innovation and transformation**
Sustainability criteria integral to all decision-making

**Managers and individuals**
Encouraged and supported to make sustainable changes, share ideas and best practice

**Sustainability Working Group**
Drives sustainability strategy and programmes, supports integration of sustainability across group and divisions

## Our sustainability priorities and targets

| Roadmap Target/priority | 2020 Data | 2021 Priorities |
|---|---|---|
| **Product innovation %** | 11.7% of sales turnover from new and sustainable products | **Customers**<br>• Optimising product design concepts<br>• Material mix designs<br>• Dematerialisation |
| **Supply chain %** | 77% of procurement spend meets SSCBC (see page 41). | **Suppliers**<br>• Materiality assessment of suppliers<br>• Supplier and partner workshops |
| **Carbon** | 6.5% reduction in $CO_2$ per tonne of production from 2015 baseline | **Environment**<br>• 100% Pure Green electricity<br>• Net Zero strategy<br>• Improve measurement across all sites to provide real time data for water use<br>• Work with waste service providers to increase recycling rates<br>• Drive to eliminate single use plastics |
| **Water** | 10% increase in mains water use per tonne of production from 2015 baseline | |
| **Waste** | 64% general waste is recycled. Waste per tonne of production metric increased by 10% but remains very low at 0.001 | |
| **Plastic packaging** | Strong progress in reduction in use of virgin plastics | |
| **Health and Safety** | 41% reduction in LTIFR against 2016 baseline | **People**<br>• Embedding our 6 Health and Safety Rules<br>• Expand our approach to Early Careers including new 2021 Apprentices |
| **Apprentices** | 35 apprentices on programme<br>No 2020 intake due to COVID-19 | |
| **Diversity and Inclusion** | Pandemic accelerated our approach to flexible and remote working | |
| **Community engagement** | 100% of sites reporting on community engagement | **Community**<br>• Launch community donations policy and guidance<br>• Extend Shelter partnership for a third year |
| **Charity partner** | £70K raised in year one of our partnership | |

# Sustainability continued

## People

We have made progress in 2020 towards our 50% reduction target in the Lost Time Injury Frequency Rate (LTIFR)

**41%**

relative to 2016 baseline

**6,712**

training days in 2020

**Over 90**

colleagues participated in our Cycle to Work scheme

### Our values

**Teamwork**
We work together to achieve great things

**Trust**
We earn the trust placed in us by delivering on our promises

**Care**
We care about each other, our customers and our wider impact

**Courage**
We have the courage to do the right thing

We are committed to building a safe, healthy and happy workplace where our people can reach their full potential.

The ELT and the wider senior leadership group take an active responsibility towards our workforce health and wellbeing and play a positive role in not only encouraging physical wellness, but social and mental health as well.

Our people are central to our business success and we are proud of our evolving culture. In 2020 we continued to embed our values that were designed and created by employees from all areas and levels of the business. We are confident that these values reflect what people feel Ibstock represents as a business and a place to work and that they encompass the behaviours necessary to underpin our culture, decision making and processes going forward.

It is the combination of these values along with our priority focus on the health, safety and wellbeing of our employees that makes Ibstock a really special place to work.

### Response to COVID-19

The COVID-19 pandemic put the health and safety of our colleagues, customers and partners into even sharper focus this year. A summary of Ibstock's response to the unprecedented demands of the pandemic on our people can be found on page 14.

### Safety performance

Our ambition is to achieve zero harm for all of our people and once again we had no work related deaths in the 2020 financial year. We are making progress with a 41% reduction in the LTIFR in 2020 relative to our 2016 baseline against which our Health and Safety Roadmap reports. The continued implementation of the roadmap this year has enabled us to drive a sustained and focused approach through a combination of leadership, training and development and strong communication and feedback.

We launched our new 6 H&S Rules, which can be found below, to every employee across the business in Q4 of 2020. All our rules begin with 'I will…' meaning that each and every one of us has personal accountability for making sure that our workplace is safe at all times. We want to eradicate injury, no matter how small, for good. We have invested in a new safety measurement programme Safety, Health, Environment and Quality Assure to make safety reporting much easier for our teams.

### Our 6 H&S Rules

1. **I WILL** not perform any activity that I'm not trained or authorised to do.
2. **I WILL** not start any activity without assessing, understanding and controlling the risk.
3. **I WILL** not bypass any safety devices or Standard Safe Operating Practices and I will wear the required Personal Protective Equipment.
4. **I WILL** not put my colleagues or myself at risk by being under the influence of alcohol or substances.
5. **I WILL** report all incidents and safety observations.
6. Through our Trust, Care, Courage and Teamwork values, **I WILL** lead by these rules.

### Health and wellbeing

During the year our wellbeing agenda has focused on supporting the mental health of our colleagues with the introduction of a number of great engagement initiatives. The uncertainty the pandemic presented required us to take substantive action in order to be able to support the wellbeing of our workforce during lockdown, throughout the furlough period and through the subsequent organisational restructure. A variety of methods and channels were prioritised to get appropriate information, tips, guidance and support to all our employees.

Recognising that uncertainty impacts people in many different ways, Ibstock launched its first Employee Assistance Programme (EAP) during the year. The EAP is a confidential support network offering employees and their families expert advice and compassionate guidance around the clock seven days a week on a wide range of issues including physical and mental health, alcohol/drugs dependency, debt, family issues and bereavement. Since its launch in April 2020, 589 colleagues have accessed the EAP site and 68 have logged on for a phone consultation.

In December Ibstock launched its 12 Days of Care initiative in order to engage colleagues after a tough year with a range of fun, informative and charitable events, including virtual yoga and big breakfasts. In addition, some of our colleagues shared some incredible stories of their own personal care experiences throughout 2020 which all contributed to making it a great success. Feedback from colleagues suggested that 90% would like to see the event repeated in 2021.

**Below:** Staff from our Leicester site taking part in The Big Walk to raise money for Shelter

We also launched our first Cycle to Work scheme, with colleague health and wellbeing in mind and our support and encouragement to get daily exercise. The scheme saw 94 people access the discount and loan allowances.

### Engagement

We believe engaged employees perform better and are more likely to reach their full potential if they feel supported and heard. Whilst engagement and communication with our workforce is hugely important at Ibstock, it has never been more so than during 2020.

Our commitment to communication through the pandemic has been vital and saw the use of multiple channels, approaches and styles to reach and engage with our varied workforce. We prioritised our energy on engagement and support for employees through our consultation period and business restructuring with frequent briefings at team and individual level alongside outplacement support and training.

The Listening Post, our forum established to facilitate two-way communication with employees met twice during the year. This forum meets the requirements of Provision 5 of the UK Corporate Governance Code and provides an opportunity for a number of Ibstock colleagues representing different parts of the business to get together with Joe Hudson, our CEO and an independent Non-Executive Director from the Board, in order to discuss issues, ideas and concerns raised by their colleagues.

The results from our Best Companies Engagement Survey conducted in late 2019 were shared with all teams in early 2020. Action plans were beginning to be activated in March when the first lockdown was implemented which meant that we had to pause this process until late autumn due to the impacts of the pandemic on our teams.

The feedback that came through these and other engagement channels included positive comments regarding the business and leadership looking after people, its approach to sustainability and the sense of team spirit when working at Ibstock. Whilst there was strong support for our response to the COVID-19 crisis there was a general desire to see an increase in the opportunities to engage with senior management within the business, more consistency in some remuneration structures and greater focus on personal development.

Throughout 2020 we have made the following progress:

- Introducing skills based pay for all concrete factories to align with contracts across the Group
- Starting our journey to create a culture of everyday performance development across our entire workforce
- Fast tracking our launch of the MyIbstock intranet site

MyIbstock is available to support and connect both our online and offline employees. The portal enables two-way communication with blogging and response functions. News and information are uploaded including Joe Hudson's weekly communication so that our offline colleagues can access MyIbstock through their smart phones as well as through the tiered manager meetings, which we use to cascade information face to face.

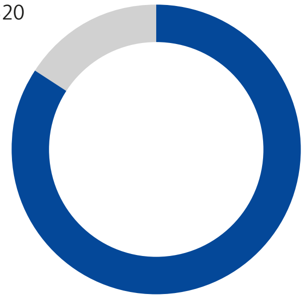
### Inclusion and diversity

We believe the diversity of our people strengthens our judgement, independence and decision-making. We also know that attracting a more diverse workforce widens our pool of talent which is key for our succession planning and sustainable growth. Our commitment is backed by our existing Diversity and Inclusion Policy.

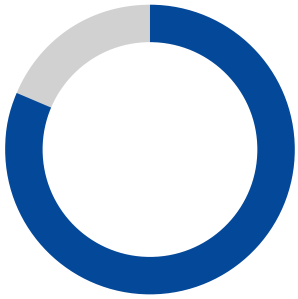
The reality of 2020 has reinforced the importance of inclusion and diversity at Ibstock and is an aspect we will continue to address through 2021.

**Gender split across the Group**

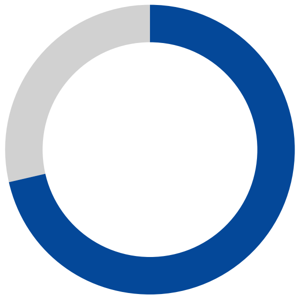
**All employees[1]**
- Male: 1,717
- Female: 320



**Senior Managers**
- Male: 22
- Female: 5



**Directors**
- Male: 5
- Female: 2



1 Headcount as at 31 December 2020.

# Sustainability continued

**Below:** Members of our Clay Leadership Team getting involved in Red Hair Day to raise money for Shelter


Our current employee population reflects the traditional nature of our industry across all diversity characteristics including age, race, gender, sexual orientation and disability. We recognise the challenge we face with 85% of roles being occupied by men including a higher percentage of men in factory-based production roles. Our office-based roles have a more even split of male and female employees including a higher representation of women in customer service roles. During the year the HR team presented a proposed Diversity and Inclusion strategy to the ELT and the ISB. A number of other actions to improve our performance in this area were also completed including:

- Upgrading our maternity policy through the provision of enhanced maternity pay
- Supporting and enabling home working with remote working equipment and software rolled out just prior to the COVID-19 pandemic
- Bringing our recruitment in house giving us greater insight and control and enabling us to see a more diverse range of candidates
- Investing in automation to reduce manual work which enables us to attract more diverse candidates into production roles
- Reviewing our corporate imagery to reflect our commitment to diversity

Events over the past year have raised the significance and awareness of the social divides that exist in the UK for the general public but also for our leaders, our colleagues and our stakeholders. In tandem, we have witnessed work and home life collide in a very unexpected way. We have found that our shared experience in 2020 has reinforced the value of an inclusive corporate culture and we begin 2021 with a commitment to improving diversity in Ibstock and our sector in the coming years.

This focus on building our culture of fairness, inclusion and respect will be supported next year by the appointment of a senior sponsor in the business with responsibility for diversity and inclusion.

### Talent and career development

Our investment in training and development is essential for an engaged workforce, talent development and succession planning. Against a backdrop of unprecedented disruption in 2020, we delivered 6,712 days of training. Although this was below the more than 9,000 days achieved in 2019, this is still something of a great achievement given the circumstances.

Training focused on building our engineering capability and supporting our health and safety priorities.

We are developing our emerging talent to support and strengthen our factory manager pipeline. We are supporting a cohort of colleagues to develop the skills and experience they need to progress within the business and achieve their potential.

We also launched two pilot programmes in 2020:

1. A new management development programme, linked to our values, for new factory team leaders – this will be rolled out further in 2021
2. Upskilling managers on how to build trusting teams – the concrete operations team were the first to receive this, providing excellent feedback that will be fed into future plans

Our early careers programme continues to evolve at Ibstock whilst our apprentices continue to inspire us in their development and growth. Despite not being able to run our apprentice scheme for new joiners in 2020, we prioritised the safety and learning of our 35 existing apprentices and supported them through the year. Ibstock apprentices are selected as part of our succession planning and join the programme with a specific job role in mind. On successful completion of their course 100% of our apprentices have moved into a permanent role with Ibstock. We very much look forward to welcoming 2021's new apprentices.

## 2020 Awards

**British Ceramic Confederation Pledge Awards 2020:**
Health and Safety response to COVID-19 – Winner

Approach to Dynamic Risk Assessment – Winner

Support for colleague mental health and wellbeing – Winner

**Royal Society for the Prevention of Accidents Awards:**
Our Concrete division achieved Bronze for Health and Safety achievement

**Home Building & Renovating Awards:**
Best Brick Supplier

## Customers

### Boosting innovation

As the leading provider of clay and concrete products to the UK residential market we are uniquely positioned to understand the changing trends and demands of the market and evolve and adapt to meet customer needs.

In 2020 we doubled our innovation target and by 2025, 20% of our sales turnover will come from new and sustainable products. Our 2020 performance was up on last year, with close to 12% of sales turnover from new and sustainable products, which is in line with our expectations despite the disruptive year. Looking ahead, our pipeline is strong with many products in the early research and development phase and a number of products in the final approvals phase. Our growth engine (our internal innovation process) includes a range of sustainability criteria and new products will all combine a long life with strong environmental and ethical credentials.

Our focus on new and sustainable product development includes:

- lighter weight products
- lower embodied carbon
- systems to support ease of construction
- digital solutions

Collaboration is key to our new product development. For example, work with our partner Lafarge Holcim (Lafarge) led to the evolution of our concrete roof tiles to produce a more sustainable offering. Through 2020 we rolled out a full switch from a traditional blend to Lafarge's SustainaCem mix providing products with equal strength and durability with a 15% lower carbon cement.

In late 2020 we launched our new Nexus XI® mechanical fix brick-faced soffit and lintel systems in 2020. This product development was in response to the amendments to Approved document B: Fire Safety to state that all materials used in residential buildings above 18m (11m in Scotland) must be of limited combustibility. By providing safety assurance and supporting ease of construction we have seen an extremely positive response from customers to the product launch.

Our biodiversity product range is expanding as our customers seek to integrate nature into residential developments as part of the drive to increase on site biodiversity. Our bat and swift bricks remain in high demand and in 2020 we added our concrete gravel boards featuring holes to enable hedgehogs to travel between gardens, as well as our sparrow and starling boxes, two of our native bird species that have seen dramatic decline over recent years through loss of habitat.

Utilising our product knowledge and experience as well as technology know how, our customers value our ability to give advice that supports their project ideas, technical needs and design requirements. Therefore, our focus and development plan for our support services is a key priority for us.

Our Specification, Design and Technical teams work closely with our customers to bring their design aspirations and Ibstock products to life utlising our product data, aesthetics and geometry through design tools and digital assets. Be it design consulting knowledge transfer through continuing professional development, or collaborating on our new product development, we are delivering added value to customer projects and relationships.

The majority of our products are manufactured at sites with an ISO 9001 accreditation.

## Suppliers

### Responsible sourcing

Our Supplier Sustainability Code of Business Conduct (SSCBC) and Sustainable Procurement Policy (available on the Ibstock Brick website at www.ibstockbrick.co.uk) put business ethics and sustainability at the forefront of our business dealings. Suppliers are asked to confirm their compliance with minimum standards and laws and then provide information where they go beyond compliance including setting carbon targets and environmental training for employees. In 2020 we moved to 77% of our supplier spend being compliant with the SSCBC and policy.

We are working closely with our suppliers on common challenges and priorities. Reduction in use of virgin plastics is one great example with all our plastic edge strips now made from 100% recycled material. Thinking differently with our logistics provider, Wincanton plc, has led to a reduction in vehicle movement through load optimisation providing cost savings for Ibstock and our customers and reducing the impact on the environment.

Ibstock has been a member of the Supply Chain Sustainability School since its inception in 2012. Many of our customers partner with the School to support their supply chain to improve their sustainability performance. As a leading materials supplier we are committed to continuous improvement which we have demonstrated year on year through the School's survey. In 2020 we again improved our score from 3.8 in 2019 to 4.1 in 2020, retaining our Silver rating from the School.

**Right:** Operatives at our Forticrete Anstone factory in Sheffield with our new fork trucks that include enhanced safety features

# Sustainability continued

Below: NHS workers receiving one of our PPE donations

## Communities

### Community partnerships

We are committed to making a positive contribution to the communities around us and supporting the most vulnerable in society. At the same time, the success of communities where our products are used is also hugely significant for Ibstock. This is not just about the look and feel of the built environment but about the ability of people living in those communities to lead healthy and fulfilling lives. Our partnership with Well North Enterprises is helping us bring our purpose and vision to life through place-making, which for Ibstock means how our products and our business, beyond the factory gate, can build and inspire better lives. This is a long-term commitment and as our partnership evolves we aim be part of the transformative and sustainable change in local communities.

Working closely with our local communities in which we operate is an integral part of the way we work. The importance of being a good neighbour cannot be overstated. We believe it creates our licence to operate and is hugely significant to how our employees feel about working for Ibstock.

Despite the COVID-19 restrictions limiting site visits and open days, we maintained our commitment to engagement with our local communities alongside our ongoing support for Shelter, our Group charity partner. We know from our Best Companies employee engagement survey that our cultural ethos of 'giving back' is a source of pride for our employees with this category rating the highest in their feedback.

### Shelter

In July 2020 we exceeded our expectations raising £70,000 for Shelter in the first year of our partnership. A virtual bike ride, with our Chairman and CEO both taking part, and The Big Walk for Shelter have been highlights. Working with Shelter reminds us of the importance of a safe, affordable home for everyone and that the work we do can be part of the solution to putting an end to homelessness.

### Donations

Part of our response to the COVID-19 pandemic was the provision of donations of Personal Protective Equipment, hand sanitiser and IT equipment to local NHS hospitals.

We also saw our products going to a range of lockdown projects including the Saturday Club, which enables young people from deprived backgrounds to more easily access the arts, and saw bags of Ibstock clay distributed across the country for their Antony Gormley virtual Masterclass. Slough Fort Preservation Trust received a large delivery of bricks from our Ashdown team to support restoration work on the Fort being undertaken by the bricklaying students at Sheppey College. Also a feature wall was created in one DIY SOS Ireland project with a donation of Ibstock Kevington Brick Slips.

### Inspiring future generations

Our engagement with the Science Summer School continued for the second year, inspiring young people in Rotherham and Sheffield to gain Science, Technology, Engineering and Maths skills. Working with our partner Wales High School we challenged pupils to design an eco brick, testing and innovating to find new solutions. Over 2,500 young people joined the interactive digital programme, led by Professor Brian Cox, where the pupils from Wales High School shared their experience and findings.

Above: Sponsorship of a local Leicestershire sports team

**Below:** Inside our state of the art Eclipse factory

Strategic Report

Governance

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Additional information

## Environment

The global climate crisis is a challenge we all face. Our commitment is not only to improve the environmental performance of our products and operations but to provide sector leadership. Decarbonisation is our main focus as we begin the journey to becoming a Net Zero carbon business by 2050.

As one of the first in our sector to publish a set of environmental performance targets we are learning and developing as we move forward. Our environmental targets to 2025 are:

- 15% reduction in $CO_2$ per tonne of production against 2015 baseline
- 5% reduction in mains water use per tonne of production against 2015 baseline
- Zero waste to landfill
- 40% reduction in preventable plastic packaging against 2019 baseline (introduced in 2020)

Two key changes in 2020 saw the business adopt a new packaging target to reduce 40% of the absolute tonnage of preventable plastics by 2025 based on 2019 performance and, through our recent materiality analysis, biodiversity, a key priority for our customers, will now be included in our sustainability measurement and reporting.

Our fundamental strengths as a business on environmental leadership remain:

- Our Eclipse factory in Leicester remains the most energy and carbon efficient brick manufacturing facility in Europe
- Our spread of factory locations across the UK enables us to minimise the transferring distances of products from leaving our premises to reaching the customer – reducing the environmental impact of transporting our products
- Sourcing 95% of our raw materials in the UK reduces our carbon footprint and minimises our reliance on imports and international supply chains
- Continuing our history of investment in high efficiency manufacturing facilities enables us to transform sites and operations as new technologies evolve

## 2020 Awards

In early 2020, Group Sustainability Manager Michael McGowan was announced as Energy Manager of the Year at the prestigious Edie Sustainability Awards. This follows our success in 2019 in the Edie Energy Efficiency category.

### Managing environmental performance

Optimising production efficiency of our factories and facilitating continuous improvement helps us meet our environment targets.

The introduction of our Sustainability Working Group this year has helped accelerate integration of our environmental targets into everyday measurement reporting and decision-making. Environmental reporting is now included on every site's monthly operations report and discussed at monthly operations meetings. Targets for carbon and water reduction are set locally and aligned with group sustainability targets (see page 37) so that sites can measure their progress, explore opportunities and are supported and encouraged to make decisions based on environmental improvements.

Ibstock has set a carbon reduction target of a minimum 15% by 2025 based on a base line of 2015 performance for scopes 1 and 2 based on an intensity ratio of tonnes of $CO_2e$ per tonne of production. Emissions are calculated by applying global warming potentials and emissions factors to the activity data. Measurement of the reduction in carbon forms the basis of a new KPI that will be used as a fourth measure in the Long Term Incentive Plan for awards in 2021.

Scope 1 and 2 emissions are calculated in accordance with the methodology set out in the GHG Protocol (January 2015 revised edition). In January 2015, the GHG Protocol published a guidance document on the method used to account for Scope 2 greenhouse gas emissions, which introduces dual reporting:

- Location-based reporting, which reflects emissions due to electricity consumption from a conventional power grid. It therefore uses primarily an average emissions factor of the country's energy mix
- Market-based reporting, which reflects emissions from energy consumption taking into account the specific features of the energy contacts chosen, and also considers the impact of the use of energy from renewable sources
- Electricity emissions factors allow the hierarchy defined in the new scope guidance document of the GHG Protocol for market-based reporting. Suppliers' specific factors must be certified by instruments that prove the origin of electricity (guarantee of origin certificates).

### Scope 1 and 2 Greenhouse Gas (GHG) emissions figures and performance

| | 2015 | 2019 | 2020 |
|---|---|---|---|
| **Scope 1** | | | |
| Tonnes of $CO_2e$ Combustion of fuel and operation of facilities | 329,749 | 349,200 | 222,269 |
| **Scope 2** | | | |
| Tonnes of $CO_2e$ Electricity | 48,530 | 28,429 | 16,430 |
| **Intensity Ratio** | | | |
| Tonnes of $CO_2e$ per tonne of production | 0.170 | 0.159 | 0.153 |

# Sustainability continued

**Below:** Our electric vehicle (EV) charging infrastructure has been well received by our staff

## Environment continued

Overall the business used circa 0.78 TWh gas in 2020, which is a 30% reduction on the 2015 baseline year and a 35% reduction on 2019. For electricity it was 0.07 TWh which is a 36% reduction on the 2015 baseline year and a 36% reduction on 2019.

The methodology used is based on invoiced data then a relevant emissions factor is applied to consumption volumes to calculate an overall energy and or emissions value for each energy category. Relevant factors used are taken from UK DEFRA (Department for Environment, Food and Rural Affairs) emission factor for reporting year.

Throughout 2020 Ibstock procured 10% of its electricity from a green source through its energy supplier Total Gas & Power. From the beginning of January 2021 we will be procuring 100% of our electricity through Total Gas & Power's Pure Green energy tariff. This enables us to report zero emissions for electricity under the GHG Protocol Corporate Standards, Scope 2 as the electricity can be matched to Renewable Energy Guarantee of Origin (REGO) certificates. Pure Green guarantees that the REGOs will only come from solar, wind or hydro sources. The generation mix of Total's Pure Green power is typically hydro/wave power (0.31%); solar (24.69%); and wind (75%).

Our progress in 2020 has been made more challenging with the impacts of the global pandemic being felt across our sector. However, our progress against our 2015 emissions benchmark year continues to show good progress with the following highlights:

- Our metric has shown a 6.5% reduction on 2015 and no improvement on 2019 performance. Absolute carbon which is better than expected due to having to restart all factories due to the pandemic was around 37% less compared to 2019 due to the impacts of the pandemic
- LED lighting represents c.13% of our total electrical power load. Over two-thirds of our brick factories have been upgraded to LED technology and although the impact of COVID-19 has meant we have not achieved our goal of completion by the end of FY2020, our upgrade continues
- Ibstock's first solar park was installed at our head office in Leicestershire. With three manufacturing facilities based here, the solar farm provides between 20-30% of the site's normal electricity demand
- Greening our mobile plant – We are trialling, on several sites, electric fork lift trucks to eliminate diesel and gas oil at all sites. As technology advances, this replacement will accelerate
- Green driving – We are supporting the uptake of electric vehicles (EV) with the installation of EV charging infrastructure throughout our portfolio. More than 25% of our car fleet is now hybrid or full electric
- A number of transformational projects have been identified and are being worked on throughout 2020 to include dematerialisation and alternative fuels

The strategic location of the Group's manufacturing plants, with a wide spread of factory locations across the UK, enables us to minimise the transferring distances of products from leaving our premises to reaching the customer. This assists in reducing the environmental footprint.

### Journey to Net Zero Carbon

The consequences of climate change are clear. We support the Government's commitment to deliver net zero emissions by 2050. As we map our own Net Zero journey, we endeavour to go beyond this minimum requirement. We will establish our position through our Net Zero Strategy, being developed in 2021. As part of our Net Zero transition we will look to optimise the application of existing and emerging manufacturing technologies including energy efficiency, fuel switching, lower carbon materials and carbon capture, use or storage (CCUS).

We have already been making progress. In 2020 Ibstock became the first major brick manufacturer in the UK to introduce on-site solar power.

In 2020 we also committed to be a Net Zero Pilot site so we can test and learn to help inform our scenario planning. Through internal discussions alone, raising awareness of the pace and urgency of decarbonisation, we have been able to identify improvements and efficiencies.

### Water consumption

Water scarcity is a growing concern in the UK. Almost 74%[1] of the water we use comes from a non mains water supply, such as recycling, bore hole and quarry water. We are working to reduce our water consumption in manufacturing with commitment to a further 5% reduction in mains water per tonne of production by 2025. We have made improvements in 2020 compared to 2019 but still remain behind our target with a 10% increase in $m^3$ of mains water per tonne of production compared to our 2015 baseline. We will be well placed in 2021 to properly assess our performance against this target assuming a more 'normal' production year and with the roll out of automatic metre readers for water at every factory.

At Ibstock Concrete's largest facility in Sittingborne, where our Supreme pre-stressed T floor beams are manufactured, investment in the site reclaim system led to a 50% reduction in the mains water usage used at this site. Our Laybrook brick factory also produced a 50% reduction in its mains water use by converting the kiln from wet to sand seal equivalent. Both of these initiatives amounted to approximately 15,000$m^3$ mains water reduction and contributes to our 5% target.

Raising awareness with colleagues of the cost of water to the business and the environmental impact of, in particular, mains water usage has helped teams drive these changes and look for further improvements.

### Waste management and plastics

Of our general waste of approximately 6,000 tonnes, 64% is recycled with the remainder going to landfill. The general waste is mixed waste from operations, offices and kitchens. We are targeting to send zero waste to landfill by 2025.

Paper and printing waste is something we focused on in 2020. Our move, fast tracked by COVID-19 pressure, to digital delivery transactions, has seen the elimination of 680,000 sheets of paper saving 28 tonne $CO_2$.

Over the last two decades plastic packaging has increasingly crept into everyday use for construction products. Recent public campaigns and conversations with our customers have helped

1 The figure for FY20 is 83% however this is due to the effects of the COVID-19 pandemic. 74% is from FY19 and more accurately reflects our non-mains water supply usage in a normal production year.

us take a fresh look at our use of plastic packaging and specifically shrink wrap. In 2020 we set a target to reduce preventable plastic packaging by 40% by 2025. As well as working collaboratively with the Brick Development Association's Single Use Plastic Working Group, we completed successful trials of our shrink wrap reduction programme and began the roll out across our factories. Reducing the thickness of the wrap, without compromising the packs integrity, significantly reduced our plastic consumption in the last six months. Due to COVID-19, production volumes reduced significantly, meaning that plastic use reduced accordingly. This reduction in plastic consumption, whilst welcome, is not an accurate reflection of our underlying reduction journey.

Our production waste is very low and almost 100% is reused or recycled. We are focussing our efforts on reducing primary material consumption, sourcing secondary aggregate from other industry waste streams to contribute to the circular economy. For example, Ibstock Concrete is using a secondary waste product from the steel industry to reduce the cement content in its products.

### Biodiversity

Environmentally sensitive estate management has always been a priority for Ibstock. Our UK estate supports over nine miles of footpath, 43km of hedgerow and over 300 acres of woodland. We take great care, working with local councils and wildlife partners, to ensure the land we manage is restored or enhanced following materials extraction.

All of our sites operating with due care and consideration for biodiversity and, in addition, a number of sites have enhanced Biodiversity Action Plans including our factory in Birtley, County Durham, which is working to enhance the Birtley Union Brickworks Wildlife Site near Gateshead through wetland enhancement and habitat management plans.

We also know that biodiversity is important to our customers and we support them with a range of biodiversity products from bat bricks to hedgehog gravel boards for fencing. (See page 41)

**Above:** Hedgehog friendly concrete gravel boards are one of many eco-habitat products we produce

**Below:** Biodiversity is part of our ongoing commitment to environmentally friendly estate management

**TCFD recommendations on climate change**

Ibstock is committed to continuing its work to be able to provide disclosures that are consistent with the recommendations of the TCFD next year. Driving this process is a multidisciplinary project team comprising members of our sustainability team as well as colleagues from finance and the Company Secretariat. We will also use the external third parties for support where necessary.

| Thematic Area | Reference |
|---|---|
| **Governance**<br>The organisation's governance around climate-related risks and opportunities | The Board has responsibility to make sure that Ibstock is meeting its obligations and addressing the challenge presented by climate change. This manifests itself in its consideration of these issues at Board meetings as well as through the workings of the Sustainability Board and Sustainability Working Group.<br><br>Management is engaged through the Sustainability Board and the Sustainability Working Group. The ELT receive updates on these matters at regular intervals. |
| **Strategy**<br>The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning | Climate change has been identified as a principal risk (see page 58) and we have identified the risk of the achievement of our Net Zero carbon ambition as an emerging risk. We are committed to progressively aligning with the recommendations of the TCFD, as well as continuously improving our disclosure.<br><br>The finance team at Ibstock are playing a key role in supporting the implementation of the TCFD recommendations, so that we are able to provide full disclosure from the 2021 reporting year. |
| **Risk Management**<br>The processes used by the organisation to identify, assess, and manage climate-related risks | We have a clear framework for the management of risk with in Ibstock (see page 56). As mentioned above, climate change and the achievement of our Net Zero ambitions have been identified as principal and emerging risks respectively as part of this process. This will continue to develop over the year. |
| **Metrics and Targets**<br>The metrics and targets used to assess and manage relevant climates-related risks and opportunities | We are aware of the impact of our business on the environment and record and report our Scope 1 and Scope 2 GHG emissions. We have a set of targets that form part of our strategy in this area and these can be found on page 20. |

# Responsible business practices

As the laws governing business dealings become ever more complex we need to ensure the judgements and decisions we make are taken with both the knowledge and application of the highest ethical principles.

Ibstock operates appropriate policies and procedures to ensure that risks from unethical conduct and illegal business practice are reduced and eliminated as far as possible. These underpin our Code of Business Conduct, which together with our Supplier Sustainability Code of Business Conduct, sets out the behaviours expected of our staff and third parties we do business with.

Oversight of the operation of the Group's key policies in this area has been delegated to the Audit Committee who, in turn, make recommendations to the Board. There have been no reported breaches of the Group's Code of Business Conduct in 2020.

The Code of Business Conduct is underpinned by a number of additional standalone policies covering bribery and corruption, competition law and data protection. Taken together these policies ensure that we operate in an open, fair and honest manner in all of our business dealings.

### Modern Slavery

We support the Modern Slavery Act 2015.

Our Modern Slavery Policy confirms our zero tolerance approach to any potential or actual breaches of the policy and sets out the steps taken by Ibstock to prevent modern slavery and human trafficking in its business and supply chains. The Company's full Modern Slavery Statement can be accessed on the corporate website.

### Whistleblowing

To help us encourage the highest standards of ethical behaviours, corporate governance and accountability in our business activities, the Group operates an anonymous whistleblowing hotline, which is available 24 hours a day, seven days a week. A summary of whistleblowing activity, together with details of related investigations, is provided to the Board on a twice yearly basis. There were seven incidents reported through the external whistleblowing line during the year (2019: 12).

### Anti-Bribery Policy

We prohibit any inducement which results in a personal gain and is intended to influence action which may not be solely in the interests of the code.

### Sustainable Procurement Policy

We have policy and framework guidelines for all procurement activity in order to maintain the highest standards of integrity.

### Sustainability Policy

As part of our vision for sustainable growth, we continuously work to better measure, record and reduce our greenhouse gas emissions.

### Diversity and Inclusion Policy

We are committed to ensure any type of discrimination including harassment, victimisation, favouritism and bullying is not accepted.

### Trade Association Policy

Our Trade Association Policy helps to support employees in their dealings with follow employees, customers, suppliers, regulators and colleagues in competing businesses.

### Health and Safety Policy Statement

We are committed to ensuring the health and safety of all our colleagues.

For more information relating to these policies please see our corporate website.

### Compliance training

Ibstock's web-based compliance training is completed by appropriate employees and covers a wide range of the Group's policies and codes of practice, including anti-bribery, conflicts of interest, business ethics and diversity.

### Human rights

Ibstock is supported by the principles set out in the UK Declaration of Human Rights and the requirements of the Human Rights Act and seeks to act accordingly in all aspects of its operations.

### Tax strategy

Our tax strategy is published on the Group's website. This formalises the Group's approach to conducting its tax affairs and managing our tax risks. Our vision for tax is to be a responsible corporate citizen, contributing the right amount of tax to society on time and in the right tax jurisdiction. Ibstock resides only in the UK and not in countries considered as partially compliant or non-compliant according to the OECD tax transparency report or blacklisted or grey listed by the EU in February 2020.

# Non-financial information statement

This section of the Strategic Report constitutes the non-financial information statement in compliance with Sections 414CA and 414CB of the Companies Act. The information listed in the table below is incorporated by cross reference to the relevant parts of the Annual Report.

| Requirement | Policies | Additional information |
|---|---|---|
| **Environmental matters** | • Sustainability Report<br>• Sustainable Procurement Policy | Sustainability – pages 36 to 45 |
| **Employees** | • Health and Safety Policy Statement<br>• Diversity and Inclusion Policy<br>• Anti-bullying and Harassment Policy<br>• Code of Business Conduct<br>• Whistleblowing Policy | Sustainability – pages 36 to 45 |
| **Human rights** | • Modern Slavery Statement<br>• Data Protection Policy | Sustainability – pages 36 to 45 |
| **Social matters** | • Sustainability Working Group<br>• Sustainability Roadmap 2025 | Sustainability – pages 36 to 45 |
| **Anti-corruption and bribery** | • Anti-bribery and Corruption Policy<br>• Competition Law Compliance Policy<br>• Supplier Sustainability Code of Business Conduct | Sustainability – pages 36 to 45<br>Corporate Governance Report – pages 70 to 75 |
| **Description of the Business model** | | Business model – pages 18-19 |
| **Principal risks and impact of business activity** | | Principal risks and uncertainties – pages 56 to 63<br>Corporate Governance Report – pages 70 to 75<br>Audit Committee Report – pages 78 to 84. |
| **Non-financial key performance indicators** | | Strategic Report – pages 1 to 65<br>Key Performance Indicators – pages 28 to 29 |

The policies mentioned above provide the link between our purpose and values and how Ibstock is managed and does business. A review of all Group policies is being conducted during 2021 in order to ensure that the policies remain appropriate and are consistent with the Company's values and support its long-term sustainable success.

# Business review

# Ibstock Clay

**£ million**

| | 2020 | 2019 |
|---|---|---|
| Revenue | **213** | 300 |
| Statutory (loss)/ profit before tax | **(12)** | 79 |
| Adjusted EBITDA[1,2] | **44** | 107 |
| Adjusted EBITDA margin[1] | **21%** | 36% |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 Impacted in 2019 and 2020 following the implementation of IFRS16. 2018 figures not restated.

**£213m**

Revenues

**No.1**

Leading UK brick manufacturer

**400+**

Product range of 400+ brick types, and "specials" and components

**c.75m tonnes**

Clay reserves

**22**

Extensive manufacturing network of 22 sites strategically located across UK

Ibstock Clay is the leading clay brick manufacturer in the UK, with an extensive product range, and 16 manufacturing sites across the country, strategically located near to extensive self-owned clay reserves. The division also manufactures special brick shapes and bespoke products, including arches, chimneys and cladding solutions out of six sites in the UK, through its Ibstock-Kevington business. The division is a significant supplier to the new build housing sector, the Repair, Maintenance and Improvement (RMI) market through the builders' merchant channel and specification sector through a number of our direct distribution channels.

As a business, we continue to benefit from significant levels of self-owned clay reserves located strategically across the UK providing our manufacturing sites with longevity of supply. We own 18 active quarries with around 75 million tonnes of proven freehold clay reserves alongside a committed interest in c.4.1 million tonnes of proven leasehold clay reserves, which, when combined, would serve the current business for over 40 years. In addition, we have access to 145 million tonnes (estimated) of clay resources, subject to the receipt of acceptable planning permissions being granted at a point in the future when further resources are required and we continue to assess strategic opportunities as they arise to further enhance our clay reserve portfolio.

In light of the impact of COVID-19 on the construction sector, the division undertook a fundamental review of its operations, in order to reduce the fixed cost base and enhance the resilience of the business. This review resulted in the closure of two manufacturing sites, the mothballing of the existing Atlas facility in the West Midlands and the rationalisation of capacity at the Leicester site. Further to the completion of the employee consultation process, these sites are now being actively decommissioned. A similar process was carried out for those functions supporting the division leading to a number of indirect headcount reductions. Despite these difficult decisions and actions, Ibstock Clay has retained the flexibility to scale up operational output as demand recovers.

Further details on the Group's response to the COVID-19 are given on pages 14 and 15.

Whilst retaining a critical focus on cash and liquidity management in 2020, the Clay division has continued to invest in its manufacturing assets in a measured way, in order to sustain and modernise its production capacity, whilst at the same time supporting the Group's ongoing strong commitment to sustainability. Capital enhancement investments at two of our key soft mud factories were completed towards the end of 2020 and are now being commissioned whilst investment at a third factory continues to progress well, and we expect this project to be completed and commissioned by the middle of 2021. Our broad, differentiated manufacturing footprint provides us with unique optionality to make organic investments that will support our growth over the medium term, including continuing to monitor conditions for the previously announced Atlas factory redevelopment that we announced in March 2020 and which we paused due to the uncertainty presented by the COVID-19 pandemic.

Sales recovered to 85% of 2019 levels towards the end of 2020, recovering well from an unprecedented level of just 10% of pre-COVID levels in April 2020, with each of our market sectors increasing on a progressive basis as we moved through the year. The level of house-builder activity returned gradually as we moved through Q2, which, when combined with the more robust RMI sector, meant that we exited H1 2020 with demand levels back to around 60% of 2019 levels. Throughout the period, we took appropriate actions to balance operational output and inventory levels as demand recovered over the balance of the year.

**Below:**
**Project name:**
Hope street
**Products used:**
Capital Brown Multi & MechSlip®

Overall, in 2020 the market consumed c.1.88 billion bricks, with c.1.54 billion being supplied by domestic production compared to 2.45 billion in 2019. The level of imports fell to around 0.34 billion bricks (2019: 0.46 billion bricks, representing around 18% of the total market (which was a modestly lower share than 2019). Domestic inventory levels fell by around 27% over the course of the 2020 year.

Innovation, in our products, and the way that we service our customers, and in our internal processes and systems, has a critical role to play in our future growth and development. Significant progress was achieved during the year in key areas including customer support structures, new product development processes and digitisation. New product development is at the heart of our growth plans and this is particularly significant as we are committed to the continuous enhancement of our product portfolio in order to underpin our market and margin leadership. A focus on attractive market segments as well as the changing legislative landscape in the construction market yielded a number of new product opportunities during the year. To pick just one example of the market-leading innovation we have the capability of delivering within the business, we launched our new Nexus XI® mechanical fix brick-faced soffit and lintel systems. We were able to take this development from first concept to British Board of Agrement approval in only seven months. We launched Nexus XI® in November 2020 using a digital approach which included online briefings and training for over 50 of our commercial and technical staff, and an integrated digital marketing campaign to launch the system to our key target audiences including our first live webinar. We have received excellent feedback from our customers on Nexus XI® resulting in a growing pipeline of orders only weeks after launch.

## Results

Divisional revenue was £213 million in 2020, 29% down year on year (2019: £300m). Adjusted EBITDA[1] at £44 million in 2020 was 59% lower than in the prior year (2019: £107m). Underlying performance was significantly impacted by the COVID-19 pandemic, starting from late-March and continuing for the rest of the year, despite swift management action to reduce costs, furlough colleagues and protect the business. Divisional statutory loss before tax was £12 million (2019: profit of £79 million) as a result of reduced adjusted EBITDA[1] and exceptional costs[1] taken in 2020. We were successful in establishing, and maintaining, a price increase for the 2020 year which covered the impact of cost inflation.

Having completed the restructuring actions during the final quarter of the year, and combined with the continued improved volume levels achieved during the same period, the division achieved adjusted EBITDA[1] margins for the final months of the year back close to the underlying levels achieved in the prior periods[1].

Exceptional costs[1] of £32 million were incurred and covered restructuring (redundancies, asset impairments and decommissioning) and energy as a result of surplus hedged positions from April onwards. The division also completed on some surplus asset disposal opportunities, generating c£4 million cash in the process, further supporting a strong underlying trading cash performance.

**Above:**
**Project name:**
Castle Park View
**Products used:**
Ivanhoe Katrina & MechSlip®

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements

# Business review continued

# Ibstock Concrete

**£ million**

| | 2020 | 2019 |
|---|---|---|
| Revenue | 103 | 109 |
| Statutory (loss)/ profit before tax | 1 | 11 |
| Adjusted EBITDA[1,2] | 15 | 22 |
| Adjusted EBITDA margin[1] | 15% | 20% |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 Impacted in 2019 and 2020 following the implementation of IFRS16. 2018 figures not restated.

**>£103m**

Revenues

**4**

Leading brands

Diverse product range across:

- Roof tiles
- Fence posts
- Prestressed flooring
- Stone walling and cast stone
- Retaining walls, rail and civils products

Ibstock Concrete is one of the largest specialist manufacturers of concrete construction products in the UK occupying strong positions in the new build housing, RMI and infrastructure markets. Ibstock Concrete consists of four well-established and strong brands: Forticrete, Supreme, Anderton and Longley, and is organised into three product groups: Fencing, Roofing, Walling and Cast Stone; Flooring products; and Rail and Structural products. The acquisition of Longley Concrete Limited, a specialist in precast concrete flooring and other precast products, during the second half of 2019 has strengthened our national and regional presence and product offering. Ibstock Concrete operates across 14 manufacturing sites geographically spread across the UK.

While the nature of these markets differs from those of our larger Clay operations, the products remain within our core business and strategic focus area of the residential building envelope, reflecting the same fundamental growth drivers and the division produces similar returns on capital through the cycle. During 2020, although sales volumes were impacted by the effects of the COVID-19 pandemic, the Concrete division benefited from stronger structural demand within RMI end markets as consumers spent a greater proportion of their disposable income on their homes.

In line with the Group during the second half the Concrete Division undertook a fundamental review of its operations, in order to reduce our fixed cost base and enhance the resilience of the concrete business. As part of this review, as well as rationalising our operational footprint, we took steps to reorganise our support functions. Flexibility was maintained to scale up capability and capacity as markets improved.

Activity levels across the business improved significantly during the second half of the year, with sales revenues in the final quarter modestly ahead of the prior year period. This reflected a material improvement from the first half, when revenues were 15% behind the prior year (or 28% behind on a like-for-like basis), reflecting the significant decline in demand resulting from COVID-19. The subsequent recovery across each of the product areas played out at a different pace, with the RMI sector displaying the most resilient and sustained recovery.

Whilst the business closely managed cash flow during the pandemic, including deferring or postponing a number of projects, we continued to invest selectively in enhancing our capital base, adding capacity and capability to our Flooring and Precast Stone product areas.

## Results

Concrete division revenue was £103 million in 2020, representing a 5% reduction year on year (2019: £109 million), with Longley Concrete contributing from August 2019. Performance was adversely affected by the significant disruption caused by the COVID-19, which impacted activity from late March 2020 and continued throughout the second quarter and, to a lesser extent, the second half. Whilst a small number of our operations were able to continue production, including supply into rail and other essential product groups, most operations were only able to return safely to production during the third quarter. Further details on the Groups response to COVID-19 are given on pages 14 and 15.

Divisional performance benefited from our exposure to the broader RMI market through the builders' merchant channel, with supplies of Fencing, Building and Flooring products showing resilient performance, with relatively strong momentum as we entered 2021.

In our smaller infrastructure business, the commencement of the new control period in the rail industry resulted in improved demand and volumes for trough products and we did see some improvement towards the end of the year and momentum as we entered 2021.

**Below:**
**Product used:**
Intermediate fence post
and recessed gravel board

Adjusted EBITDA[1] of £15 million in 2020 was 31% lower year on year (2019: £22 million) principally reflecting the impact of materially lower sales volumes in the first half of the year.

Adjusted EBITDA[1] margins declined from around 20% in 2019 to around 15% in 2020, reflecting the impact of reduced volumes, as well as certain one-off costs of reorganising our manufacturing footprint and some limited impacts of social distancing on productivity in the more labour-intensive part of the division's operations.

The steps taken to restructure the business, along with the improved volume levels achieved during the final quarter, resulted in EBITDA margins for the final months of the year getting back close to the underlying levels achieved in the prior year periods. Divisional statutory profit before tax was £1 million (2019: £11 million) as a result of reduced adjusted EBITDA[1] and exceptional costs[1] taken in 2020. Exceptional costs[1] of £3 million were incurred covering restructuring (redundancies, asset impairments and decommissioning)

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements

# Financial review

The decisive management actions taken at the outset of the pandemic, coupled with the completion of committed restructuring actions in the second half, meant that we exited the year with a strong balance sheet and underlying margins back close to pre-pandemic levels.

Chris McLeish
Chief Financial Officer

## Introduction

The Group's performance for the year ended 31 December 2020 was significantly impacted by the effects of the COVID-19 pandemic, particularly during the first six months of the year. The impact of national lockdowns and restrictions on the construction industry and the wider economy led to a material reduction in both our own production activity and the volumes of our products supplied to customers particularly during the second quarter of the year.

Over the course of the second half of the year, trading conditions steadily improved, and sales revenues increased throughout the second half, reaching 90% of prior year levels in the final quarter of the year. The decisive management actions taken at the outset of the pandemic to reduce costs and preserve cash, coupled with the completion of committed restructuring actions in the second half, meant that we exited the 2020 year with a strong balance sheet and with adjusted EBITDA[1] margins in each division getting back close to pre-pandemic levels. As we enter 2021, we are well positioned to take advantage of both continued improvement in our markets and future growth opportunities.

## COVID-19 and impact on our results

### Trading and operational impact

COVID-19 had a significant impact on the Group's 2020 performance: we saw a sharp decline in sales volumes from late March as the Government measures to control the COVID-19 pandemic began to take effect and our construction and housebuilding customers closed sites.

On 24 March 2020 we announced the temporary suspension of all production across our manufacturing facilities.

During April volumes in our Clay division fell by around 90% year on year, whilst exposure to RMI markets meant the Concrete division remained relatively more resilient with volumes falling by around 70%. Having instituted a comprehensive set of COVID-19 safety protocols, we began a phased restart of our production facilities from the beginning of May. As the construction and house building sectors began to increase their activity levels we saw a sequential improvement in trading activity over the remainder of the year, with volumes in both the clay and concrete divisions recovering steadily.

### Actions taken in response to the effects of the COVID-19 pandemic

In response to the effects of the pandemic, the Group took a number of actions, focused initially on conserving cash and protecting the balance sheet, and subsequently on restructuring the business to ensure we are well positioned for the future.

The initial actions taken to protect the business included: curtailing non-essential discretionary spend; halting recruitment of all but essential new staff; reprioritising capital commitments; and implementing a temporary salary reduction for the Board and the executive leadership team. The Group also utilised around £10 million of funding from the Government's Coronavirus Job Retention Scheme (CJRS). Following the subsequent decision to restructure the Group's operations, the Group intends to repay all CJRS amounts received in respect of colleagues subsequently made redundant, which total around £2 million. This amount is expected to reduce adjusted EBITDA[1] in 2021. The Group initially utilised HMRC's Time to Pay provisions during the period, deferring £16 million as at 30 June 2020, but settled all outstanding amounts by year-end.

During the second half of the year, the Group undertook a fundamental restructuring of its operations, in order to reduce our fixed cost base and enhance the resilience of our business. The actions taken included: the closure of two of our clay brick factories and one concrete facility; the mothballing of our existing Atlas clay brick

## Segmental reporting

| Year ended 31 December 2020 | Clay £'m | Concrete £'m | Central costs £'m | Total £'m |
|---|---|---|---|---|
| Total revenue | 213.2 | 103.0 | – | 316.2 |
| Adjusted EBITDA[1] | 44.0 | 15.1 | (6.9) | 52.1 |
| Year ended 31 December 2019 | | | | |
| Total revenue | 300.5 | 108.8 | – | 409.3 |
| Adjusted EBITDA[1] | 106.7 | 21.9 | (6.4) | 122.3 |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

manufacturing facility; the rationalisation of capacity at our Leicester site; and significant SG&A headcount reductions, as well as introducing more flexible working arrangements across the Group.

The restructuring programme will deliver £20 million of fixed cost savings in the 2021 year, based on operating the network at levels in line with the final quarter of 2020.

Exceptional costs[1] of £36 million were recognised in the 2020 year, principally relating to restructuring (severance cash costs of £9 million and non-cash impairment charges of £20 million) and energy cash costs of £5 million as a result of surplus hedged positions from April onwards.

The Group expects to incur additional expenditure of around £2m over the next 12 months on final closure and decommissioning costs as part of our single coordinated plan for our site closures. These costs have not been accounted for in the 2020 results since the Group was not committed to this specific expenditure at year-end and so no provision could be recognised.

### Alternative performance measures

These results contain alternative performance measures ("APMs"). A description of each APM is included in Note 3 to the financial statements. The Group uses APMs to aid comparability and further understanding of the financial performance of the Group between periods. The APMs represent measures used by management and the Board to monitor performance against budget. Certain APMs are used in the remuneration of management and Executive Directors. It is not believed that APMs are a substitute for, or superior to, statutory measures.

### Strong Balance Sheet

The Group delivered a strong cash flow performance for the year, benefiting from both the improved trading conditions as we progressed through the second half of 2020, and the decisive actions to manage cost and working capital throughout the period. At 31 December 2020, net debt1 was £69 million (2019: £85 million), with net debt to adjusted EBITDA[1] of 1.5 times (2019: 0.7 times), excluding the impact of IFRS 16. This closing net debt[1] position reflects a reduction of approximately £34 million achieved during the second half of the year.

In the second quarter, in order to provide appropriate financial flexibility, the Group secured agreement from its lending banks for a number of amendments to covenant tests at 31 December 2020 and 30 June 2021 under the Group's RCF, and during the period was confirmed as eligible for the Bank of England's Covid Corporate Financing Facility ("CCFF"), although we did not access funding from this scheme and do not expect to do so.

During the final quarter of the year, the Group agreed an extension to its £215 million Revolving Credit Facility of a period of 12 months to March 2023, at interest rates modestly above the previous agreement.

### Group results

The table above sets out segmental sales and adjusted EBITDA[1] for the year

### Revenue

Group revenue from continuing operations decreased by 23% to £316.2 million (2019: £409.3 million). This reduction was most pronounced in the first half of the year (down 36% year on year in H1), reflecting the sharp contraction in sales as our customers curtailed their activities in response to the initial impact of COVID-19 from the end of March. Overall, sales into RMI markets proved relatively more resilient than sales into new build housing markets since end-market demand remained stronger, and tradesmen operating in the RMI market were typically less impacted in their ability to operate throughout the pandemic period.

Clay revenues decreased by 29% year on year, with the reduction greatest in the new build housing sector, as the COVID-19 pandemic impacted house building volumes from the second quarter of the year. Clay revenues recovered over the second half of the year with revenues in the final quarter of the year back to around 85% of the comparative period.

Concrete revenue for the 2020 year was 5% below the prior year. Activity in this division is weighted more towards RMI, and sales performance reflected the relative resilience of this sector compared to new build housing. Having been impacted by the initial impacts of COVID-19 during the second quarter, Concrete volumes recovered well during the second half of the 2020 year, with revenue for the second half 4% above the comparative period.

The recent annual pricing round for the 2021 year with our customers has concluded satisfactorily, achieving price levels which are expected to cover input cost inflation for the 2021 year.

### Adjusted EBITDA[1]

Management measures the Group's operating performance using adjusted EBITDA[1]. For the continuing operations, adjusted EBITDA[1] decreased by 57% to £52.1 million in the year ended 31 December 2020 (2019: £122.3 million).

This reduction was due principally to reduced profitability within the clay division, which saw a decrease in adjusted EBITDA[1] of 59% to £44.0m (2019: £106.7 million). This reduction was primarily driven by the significant volume reduction combined with the impact of operational gearing. In addition, during the first half there was an under recovery of costs associated with the substantial reduction of inventory in the second quarter, given the lower activity levels, resulting in around £10 million of additional one-off costs. Unit margins in the second half were modestly reduced by the impact of social distancing on productivity at some of our more labour-intensive facilities.

Adjusted EBITDA[1] in the clay division increased during the second half of the year, as volumes recovered and margins benefited from the actions taken to restructure the business. Within the concrete division, adjusted EBITDA[1] reduced by 31% to £15.1 million (2019: £21.9 million) principally reflecting lower volumes during the first half of the year (which reduced by around 30% on a like-for-like basis). Concrete revenues in the second half recovered to levels slightly above the comparative period, with unit margins modestly lower reflecting one-off costs of reorganising the operational footprint and the impact of COVID-19 on productivity.

Central costs increased to £6.9 million (2019: £6.4 million) principally due to lower R&D credits reflecting lower qualifying spend in the current year.

### Accounting for energy costs

The Group has a long standing practice of locking in prices for gas and electricity used in the Group's production activities and achieves this by committing to a certain volume of consumption in future months which creates a contractual commitment and secures a certain price. Historically, since the Group has always taken

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Financial review continued

**Table 1: Earnings per share**

| | 2020 pence | 2019 pence |
|---|---|---|
| Statutory basic EPS – Continuing operations | (6.8) | 16.3 |
| Adjusted basic EPS[1] – Continuing operations | 4.0 | 18.3 |

**Table 2: Cash flow (non-statutory)**

| | 2020 £'m | 2019 £'m | Change £'m |
|---|---|---|---|
| Adjusted EBITDA[1] | 52.1 | 122.3 | (70.1) |
| Adjusted change in working capital[1] | 17.3 | (24.3) | 41.6 |
| Net interest | (3.8) | (2.6) | (1.2) |
| Tax | (6.5) | (13.3) | 6.8 |
| Post-employment benefits | (2.2) | (2.2) | – |
| Other[2] | (6.8) | (7.9) | 1.2 |
| Adjusted operating cash flow[1] | 50.2 | 72.0 | (21.8) |
| Cash conversion[1] | 96% | 59% | +37ppts |
| Total capex | (24.1) | (38.8) | 14.7 |
| Adjusted free cash flow[1] | 26.1 | 33.2 | (7.1) |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 Other includes operating lease payments.

delivery of the energy, those purchases were accounted for when the gas and electricity was consumed, at the contracted price.

Because of the significant reduction in activity levels due to the COVID-19 pandemic and resulting production shutdown, the Group had surplus energy contracts, in energy markets which fell sharply as a result of the COVID-19 pandemic. This resulted in exceptional income statement charges in the 12 months to December 2020, totalling £5.2 million. Further details are set out in Note 5.

A further charge (and a derivative liability at 30 June 2020) of £6.4 million was recognised in the period to 30 June 2020, which represented fair value losses on energy positions which were expected to be used by the Group in the second half of 2020. As expected at the time of the interim results announcement in August 2020, the contracted energy was consumed in the second half of 2020, and the associated actual cost recognised within the income statement.

### Exceptional items[1]

Based on the application of our accounting policy for exceptional items[1], certain income and expense items have been excluded from adjusted EBITDA1 to aid shareholders' understanding of the Group's underlying financial performance. The amounts classified as exceptional in the period, totalling £35.7 million, comprised:

1. Exceptional cash items of £12.4 million (of which £9.7 million were cash settled in the period):
   a) £8.7 million of costs associated with the restructuring of the Group's operations, comprising severance, factory clearance and one-off costs to exit contractual commitments;
   b) £5.2 million losses on surplus energy positions, resulting from a sharp, and unanticipated, reduction in energy usage as the plant network was taken down during the second quarter of the year;
   c) £2.8 million of exceptional cash profits arising from disposals of land during the 2020 year;
   d) £0.9 million of other one-off operating costs arising directly as a result of COVID-19; and
   e) £0.4 million of one-off finance costs arising directly as a result of COVID-19.
2. Non-cash exceptional costs of £23.3 million, relating to:
   a) £20.4 million from the impairment of current and non-current assets in light of the Group's closure and mothballing of a number of its manufacturing facilities; and
   b) £2.9 million relating to preparation of pensioner data of the Ibstock pension scheme to enable the buy-in transaction (£1.9 million) and the impact of the recent pensions GMP equalisation ruling (£1 million).

### Finance costs

Net finance costs of £4.3 million were above the level of £2.0 million in the prior year. This increase principally reflected increased interest costs associated with the Group's debt, which was above the levels of average drawn debt in the prior year, and included drawing down significant additional liquidity during the height of the pandemic. The statutory interest expense in 2020 also included £0.4 million of exceptional costs related to amendments to covenants under the Group's RCF and a £0.5 million year-on-year reduction in non-cash net interest income on the defined benefit pension surplus.

### Loss before taxation

Group statutory loss before taxation was £23.9 million (2019: profit of £82.0 million), with the current year result including exceptional costs1 of £35.7 million (2019: £3.2 million). Prior to exceptional items[1], adjusted profit before taxation[1] was £11.7 million (2019: £85.2 million).

### Taxation

The Group recorded a taxation charge of £4.1 million (2019: £15.5 million) on Group pre-tax losses of £23.9 million (2019: profit of £82.0 million). The taxation charge is primarily a result of the restatement of deferred tax liabilities to the prevailing standard rate of UK corporation tax of 19%, following the withdrawal of the previously announced rate reduction to 17% that was due to come into force from 1 April 2020.

The adjusted underlying effective tax rate for the 2020 year was 19.7% (2019: 18.9%), reflecting modestly higher levels of non-deductible expense as a proportion of underlying taxable profits.

### Earnings per share

Group statutory basic EPS for continuing operations decreased to a loss of 6.8 pence in the year to 31 December 2020 (2019: profit of 16.3 pence) principally as a result of the Group's statutory loss after taxation.

Group adjusted basic EPS[1] for continuing operations of 4.0 pence per share reduced significantly from the 18.3 pence reported last year, principally reflecting the reduced adjusted EBITDA[1] achieved in the year. In line with prior years, our adjusted EPS[1] metric removes the impact of exceptional items[1], the fair value uplifts resulting from our acquisition accounting and non-cash interest impacts net of the related taxation charge/credit.

Adjusted EPS[1] has been included to provide a clearer guide as to the underlying earnings performance of the Group. A full reconciliation of our adjusted EPS[1] measure is included in Note 12.

### Cash flow and net debt[1]

Adjusted free cash flow[1] reduced by £7.1 million in the year to £26.1 million (2019: £33.2 million). The reduction in adjusted EBITDA[1] was partly offset by favourable movements in working capital, as we reduced finished goods inventories across the Group, and lower levels of capital expenditure. In light of the strong cash performance, all amounts deferred under the HMRC's Time to Pay provisions at the half year were settled during the second half. Corporation tax totalling £6.5 million was paid in the period (2019: £13.3 million).

Cash conversion[1] increased to 96% in the year ended 31 December 2020 (2019: 59%), primarily as a result of very strong working capital management.

The table opposite excludes the cash flows relating to exceptional items[1] in both years.

The net favourable change in working capital[1] of £17.3 million during 2020 (2019: adverse change of £24.3 million) primarily reflected reduced inventories across the Group, as the Group managed working capital very tightly throughout the year in the service of cash and liquidity management. Net debt[1] (borrowings less cash) of £69.2 million at 31 December 2020 compares to £84.9 million at the prior year end and £102.8 million at 30 June 2020, reflecting focus on working and fixed capital management in the period.

In the 2021 year, we expect to build back a portion of the finished goods inventories reduced in 2020, leading to a modest level of working capital outflows. For 2021, we also expect sustaining capital expenditure to be around £20-£22 million (including the final elements of our existing capital enhancements programme), towards the lower end of our long-term capital expenditure range.

The Group has a £215 million revolving credit facility with a group of seven major banks. The original five-year facility was entered into in March 2017. During the final quarter of the 2020 year, the Group concluded an extension to this Facility by a period of 12 months to March 2023 at interest rates modestly above the existing agreement.

### Return on capital employed[1]

Return on capital employed[1] (ROCE) was 3.7% (2019: 19.3%) with the reduction principally driven by lower adjusted EBITDA[1] in the period.

### Capital allocation

With a strong platform in place as we exited the 2020 year, the Group remains committed to delivering sustainable, profitable growth over the medium term.

Our capital allocation framework remains consistent with that set out in March 2020:

- Firstly, we will invest to maintain and enhance our existing asset base and operations;
- Having done this, we will look to pay an ordinary dividend, setting targeted cover of at least 2 times underlying earnings;
- Thereafter, we will deploy capital for growth, both inorganically and organically, in accordance with our strategic and financial investment criteria;
- And, finally, we will return surplus capital to shareholders.

Our framework remains underpinned by our commitment to maintaining a strong balance sheet, and we will look to maintain leverage at between 0.5 and 1.5 times net debt1 to adjusted EBITDA[1], excluding the impact of IFRS16,through the cycle.

### Dividend

Given the initial impact of COVID-19 on the Group's financial performance and position, and in light of the inherent uncertainty over short-term demand, during the first half of the 2020 year the Board took the difficult decision to cancel the final 2019 dividend of 6.5 pence per ordinary share (2018: 6.5 pence), saving around £27 million. The Group did not pay an interim 2020 dividend.

In light of the strength of the Group's trading performance and position, and after taking into account the prospects for the business, the Board is recommending a final ordinary dividend of 1.6 pence per share for the 2020 year, representing 2.5 times cover on adjusted basic earnings per share of 4.0 pence.

### Pensions

During the year, the Group completed a partial buy-in of the main defined benefit pension scheme ("the scheme"), involving the purchase of an insurance contract with a third-party specialist pensions provider covering just over half of the Group's total pension liability. As well as providing further security for all members of the pension scheme, this transaction represented a significant step in the Group's continuing strategy of de-risking its pensions exposure.

At 31 December 2020, the scheme was in an actuarial accounting surplus position of £43.6 million (31 December 2019: surplus of £88.7 million). At the year end, the scheme had asset levels of £639.2 million (31 December 2019: £625.9 million) against scheme liabilities of £595.6 million (31 December 2019: £537.3 million). Liabilities include an amount of £1.0 million recognised in the 2020 year in relation to the Guaranteed Minimum Pension (GMP) equalisation liability. The reduction in the balance sheet surplus over the period primarily reflected the actuarial losses from a change in market conditions underlying the financial assumptions (as detailed in Note 22) and the impact of the buy-in transaction completed during the year.

These impacts were partially offset by higher than expected investment returns.

The Group will continue its ongoing work with the scheme Trustees to further de-risk the pension position over the medium term, and seek to match asset categories with the associated underlying liabilities.

### Related party transactions

Related party transactions are disclosed in Note 31 to the consolidated financial statements. During the current and prior year, there have been no material related party transactions.

### Subsequent events

On 3 March 2021, the Chancellor of the Exchequer delivered his Budget Statement. The measures announced include an increase in the standard rate of corporation tax from 19% to 25% with effect from 1 April 2023. The full impact of this change will be reflected in the 2021 financial statements once the Finance Bill has been substantively enacted and is expected to give rise to an increase in the Group's net deferred tax liabilities of around £20 million.

Except for the above item and the proposed dividend, there have been no subsequent events requiring further disclosure or adjustments to these financial statements that have been identified since the balance sheet date.

### Going concern

The Directors are required to assess whether it is reasonable to adopt the going concern basis in preparing the financial statements.

In arriving at their conclusion, the Directors have given due consideration to whether the funding and liquidity resources are sufficient to accommodate the principal risks and uncertainties faced by the Group and in particular the potential on-going impact of the COVID-19 pandemic.

Forecast scenarios have been prepared comparing two cases: a) an operating case; and b) a low case to assess how the virus could impact the Group in the period to 30 June 2022. In determining these cases, the Group considered macro-economic and industry wide projections as well as matters specific to the Group.

In addition, the Group has prepared a reverse stress test to evaluate the sales reduction at which the RCF covenants would be breached, before any further mitigating actions were taken.

Having considered the conclusions to this work, the Directors have concluded that it is reasonable to adopt a going concern basis in preparing the financial statements. This is based on an expectation that the Company and the Group will have adequate resources to continue in operational existence for at least twelve months from the date of signing these accounts.

Further information is provided in note 1 of the financial statements.

# Principal risks and uncertainties

## Risk

The Board has established a framework of prudent and effective controls that enable risks to be assessed and managed and confirms that it has completed a robust assessment of the Company's emerging and principal risks as required by the Code. It has also carried out a review of the effectiveness of these controls. This assessment includes those risks that would threaten Ibstock's business model, its future performance, solvency or liquidity.

To support the discharge of these responsibilities, the Audit Committee reviews the company's internal financial controls and internal control and risk management systems, reporting the outcome to the Board. Further information on the role of the Audit Committee and details of the Group's system of internal controls can be found in the Corporate Governance Report on pages 70 to 75.

## Risk management framework

To effectively manage risk, operational level controls are embedded across the Group and form a key part of day to day processes. The Board maintains ultimate responsibility for the Group's control monitoring and provided direction to management in its assessment of Group-wide risk.

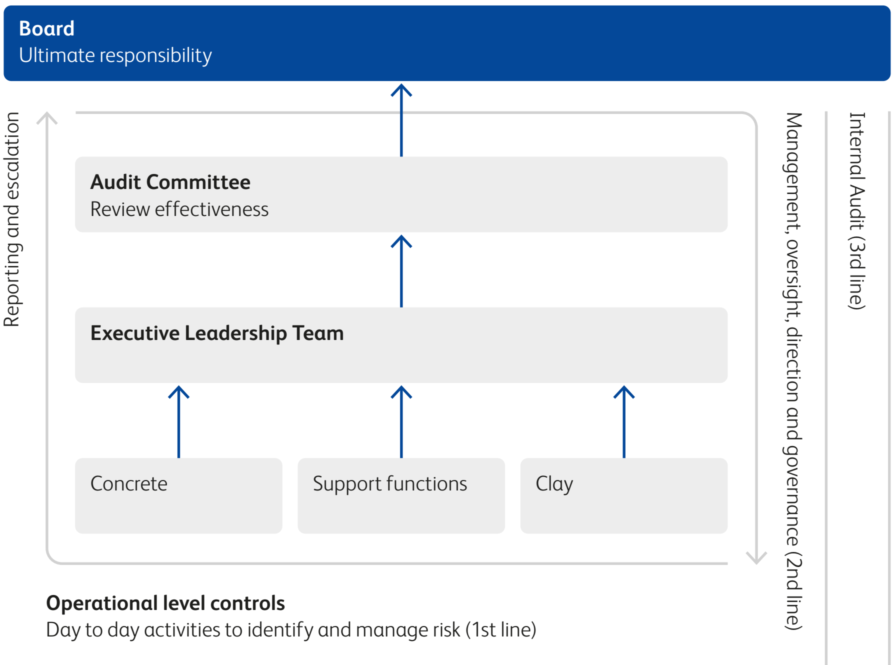
Management operate a 'three lines of defence' structure to its internal controls. The first line of defence is operated by management and covers the day to day risk management activities – implementing and executing internal controls. The second line (health and safety, quality control and other central functions) works alongside the risk owners to support the design and implementation of the controls framework whilst the independent third line is operated by our outsourced Internal Audit provider, RSM LLP (RSM).

During the year, the Directors' reviewed and challenged the Group's assessment of risks as presented by management. This was the final stage in a process that included the review of the divisional and functional registers by senior management prior to the Group's Executive Leadership Team's approval of the Group's principal risks and uncertainties for presentation to the Audit Committee.

The Board is committed to a continual process of improvement and embedding of the risk management framework within the Group. This ensures that the business identifies both existing and emerging risks and continues to develop appropriate mitigation strategies.

## Development and changes

The Group has reviewed its risk management and internal control systems during the COVID-19 pandemic to identify any areas that required further attention or action. Whilst the level of inherent risk for some of Group's principal risks and uncertainties has increased, the Group's controls continue to operate to mitigate this increase in risk. As a result, there has been no removal or addition of any of those risks reported in the 2019 Annual Report and that were restated at the Half Year in August 2020.




## Principal risks

The Group's principal risks are broadly categorised as strategic, operational or financial in nature. Strategic risks arise from decisions taken by the Board and management concerning the Group's strategy and concern the positioning of the Group within the building products market. Operational risks result from the failure of internal processes and controls or external events. Financial risks arise from movements within the financial markets in which the Group operates or the inefficient allocation of the Group's capital resources.

In addition to the principal risks set out below, the Board also considered those areas where an existing or an emerging threat may potentially impact the Group in the longer term.

These emerging risks included:

**Continued disruption caused by COVID-19**
The uncertainty of further strains of COVID-19 and its impact on the economy will continue to remain a concern for the immediate future.

Challenges faced by the 'new normal' continue to evolve. Whilst this has not been included as a principal risk its impact is reflected in the existing risks where appropriate.

**Net Zero carbon strategy**
A failure to adapt to increasing awareness from society and associated expectations of business to play its role in meeting Government ambitions through the development delivery of Ibstock's internal Net Zero strategy.

**The digital agenda**
A failure to embrace innovative technologies to deliver efficiencies and enhanced ways of working to the Group and its customers.

The principal risks can be found on the following pages and include:

- A risk description and its potential impact;
- Examples of current controls and mitigation that the Group has in place;
- An indication of whether a risk has increased or decreased in severity;
- Categorisation of whether the risk is strategic (S), operational (O) or financial (F) in nature; and
- An indication of the link to the Group's strategy, as set out on page 20.

**Find out more**
Our markets p16
Our business model p18
Strategy overview p20
Key performance indicators p28
Principal risks and uncertainties p56



### Mapping risk to our strategy

| Our principal risks and uncertainties | Risk type | | | |
|---|---|---|---|---|
| **Climate change** | O | ⬢ | ⬢ | |
| **Operational disruption** | O | ⬢ | ⬢ | |
| **Economic conditions** | O | ⬢ | ⬢ | ⬢ |
| **Anticipating the market and new product development** | S | | ⬢ | |
| **Financial risk management** | F | ⬢ | | ⬢ |
| **Government regulation and standards** | O | ⬢ | ⬢ | |
| **Customer relationships and reputation** | O | ⬢ | ⬢ | |
| **Recruitment and retention of key personnel** | O | ⬢ | | |
| **Input prices** | F | ⬢ | | ⬢ |
| **Product quality** | O | ⬢ | ⬢ | ⬢ |
| **Cyber security** | O | ⬢ | ⬢ | |

**Key** **S** Strategic **O** Operational **F** Financial

### Brexit

Following the UK's departure from the EU and the end of the transition period on 31 December 2020 we continue to monitor the possibility of negative macroeconomic developments as a result in the changed relationship with the EU that could reduce demand for the Group's products. Our view is unchanged in that overall, the Group has limited exposure as a result of Brexit. We have however been proactive in adapting and reviewing our contingency plans in collaboration with the operating divisions to ensure that, these remain appropriate and fit for purpose.

**Key**

**Sustain:** sustainable performance
**Innovate:** market-led innovation
**Grow:** selective growth

# Principal risks and uncertainties continued

| Title | Detail | Link to strategy | Mitigation |
|---|---|---|---|
| **Climate change** | The Group may not deliver upon its sustainability commitments and those targets set out in the Sustainability Roadmap.<br>An inability to manage energy demand needs within our sustainability targets or changes in consumer demand may reduce our competitive advantage.<br><br>Failure to respond to climate change risks may also result in reductions in investor interest and support.<br><br>As a business engaged in the extraction of natural resources and the manufacture of concrete products, there is a risk that the Group's operations are targeted by environmental activists. This could result in disruption at one or more of the Group's manufacturing facilities inhibiting the ability to manufacture or despatch product or receive supplies.<br><br>The impact of climate change and Government's response to this could also lead to changes to laws and regulations that could require that the Group make significant capital investments or otherwise increase its costs or could result in material liabilities.<br><br>The global increase in focus on corporate social responsibility following the pandemic has greatly raised the profile of the Group's approach and success with its sustainability programme. The approach taken by the Group when dealing with all its stakeholders will be placed under increased scrutiny in the wake of the current crisis and beyond. | | We recognise the importance of being a sustainable business and that climate change affects natural and economic systems, and recognise their implications in all we do.<br><br>As a business, there are a number of International and British standards operated throughout our businesses which include environmental, energy, responsible sourcing and quality. These provide a consistent set of procedures which are regularly reviewed and updated to identify ways in which they can be made more effective.<br><br>The Group aims to provide visibility and assurance to our stakeholders through our disclosure in relation to sustainability (see pages 36 to 45), which is supported by continued investment to improve the sustainability of our operations and internal sustainability KPIs to track measures. A new KPI centred on carbon reduction has been introduced for the FY 2020 and is an additional measure for our LTIP.<br><br>The Group has a proven record of investment in the latest systems, plant, machinery and technology and we continue to address the need for enabling conditions to address climate change concerns through the development of our Sustainability Roadmap 2025.<br><br>The Group Technical team and Group Engineering function are investing in longer-term strategic supplier partnerships in order to deliver longer-term sustainable products to our customers.<br><br>We operate proactive management of the sustainability descriptions associated with the Group's products. Physical security measures are in place at the Group's production facilities, together with real-time monitoring of social media to identify threats of environmental activism.<br><br>The introduction of a new ESG Committee will provide clear and strategic oversight of the Group's sustainability strategy. It will provide the basis to ensure that all existing and emerging issues are covered appropriately so that the Group will be able to continue to meet both its legal obligations and further develop its Sustainability Roadmap.<br><br>The Group will continually keep under review the level of resourcing and structure in place to manage sustainability within the business. |

**Strategy key**

- Sustain
- Innovate
- Grow
- Increase
- Decrease
- No change

| Title | Detail | Link to strategy | Mitigation |
|---|---|---|---|
| **Operational disruption** | A material disruption, including those caused by extreme weather, power outages or a global pandemic, at one of the Group's manufacturing facilities or quarries, or at one of the Group's suppliers' facilities, could prevent the Group from meeting customer demand.<br><br>The Group depends on efficient and uninterrupted operations of its information and communication technology, and any disruption to these operations could have a material adverse effect on the Group's operations and financial performance. Failure to deliver capital enhancements on a timely basis could similarly extend planned closures and adversely impact the Group's production capabilities.<br><br>Additionally, the Group is exposed to the impact of unexpected or prolonged periods of bad weather, which could adversely affect construction activity and, as a result, demand for the Group's products. | | The Group has the ability to transfer some of its production across its network of plants and is able to engage subcontractors to reduce the impact of certain production disruptions. Groupwide business continuity plans are being refreshed and improved to take account of those learnings coming from the COVID-19 pandemic.<br><br>In relation to supplier disruption or failure, further third party suppliers have been identified who can maintain service in the event of a disruption. In relation to IT, a major incident action plan has been developed and the Group maintains data backups and a comprehensive disaster recovery plan covering Group and individual factory locations.<br><br>The Group maintains a capital expenditure development plan, which is focused on integrating the latest technology and replacing end-of-life assets to ensure continued operational capability. The ongoing maintenance programme ensures a disciplined approach to plant outages, whilst ensuring greater investment in maintenance on an ongoing basis. This is supported by qualified project management resource to ensure disruption is minimised.<br><br>Management does not underestimate the potential impact that future prolonged periods of bad weather could have. Weather conditions are beyond the Group's control, although historically adverse weather has not impacted trading in the context of any full year.<br><br>The Group maintains appropriate business interruption insurance, whilst its wide geographical spread mitigates this risk to some extent and allows it to manage its production facilities to mitigate the impact of such disruption. |
| **Economic conditions** | The Group's business could be materially impacted by changes in the macroeconomic environment in the UK. Specifically, demand for the Group's products is strongly correlated with residential construction and renovation activities and non-residential construction, together with the supply chain's attitude to stock levels, which are cyclical.<br><br>Continued uncertainty around the progress of the COVID-19 pandemic and the introduction of further lockdowns and restrictions could further damage the economy with the resulting impacts on the Group's business.<br><br>In addition, should negative impacts on economic conditions arise as a result of the change in the relationship with the EU, this could include a reduction in housing demand, or reduced mortgage availability or affordability. Such consequences would likely reduce demand for the Group's products. | | Wider macroeconomic conditions are largely beyond the control of the Group. However, the Group seeks to analyse construction data using independent forecasts of construction statistics and forecasts of future demand based on stated customer requirements with the aim of anticipating market movements.<br><br>The Group has historically flexed capacity and its cost base where possible during economic downturns to allow more of the Group's manufacturing plants to remain open and viable, maintaining skills, development and training. Actions taken during the year in order to reduce the ongoing fixed cost footprint of the Group through an organisational review and restructuring will provide flexibility for the business so that it can meet future demand levels in a cost-effective way.<br><br>Ibstock ensures that its fulfilment and customer service capabilities to support and serve customers are maintained and actively engage with industry bodies to ensure the promotion of housebuilding and construction, whilst seeking to promote the differentiating qualities of our business in the core markets in which we compete.<br><br>The Group's RMI and specification product ranges diversify end-use exposure and provide greater resilience in light of changing market demand in any of its end-use markets. |

# Principal risks and uncertainties continued

| Title | Detail | Link to strategy | Mitigation |
|---|---|---|---|
| **Anticipating the market and new product development** (No change) | There is a risk that the business is not able to identify opportunities in the housing market or construction sector and miss chances to maximise or exploit opportunities ahead of our competitors. As result, our product offering and the customer journey may not meet changing customer requirements.<br>If the business is not able to respond to changes or opportunities in the market this could result in a direct financial cost whereby revenue numbers stagnate or decline. In addition, there is the risk that the business may not be perceived as market leader and this will directly impact their reputation and ability to expand market share.<br>Failure to be at the forefront of innovation as the Group's markets evolve may lead to a loss in market position or customers resulting in declining revenue or margins.<br>A lack of new product development and failure to optimise our supply chain to support our customers may also be detrimental to the long-term achievement of the Group's strategy. | Innovate | Consideration of relevant market data and trends in the divisions highlights emerging risks as soon as they are identified,providing the leadership teams with the information required to make considered and fact-based decisions.<br>The Group has a culture of innovation through its organisational structure, including suitably qualified and experienced people such as product managers in each of the operating divisions.<br>The Group's Growth Engine to secure sales opportunities enables more effective new and sustainable product development. |
| **Financial risk management** (Increase) | In addition to the input cost risks outlined, the Group is subject to the following other financial risks:<br>Foreign exchange risk: As the Group transacts in currencies other than Sterling, exchange rate fluctuations may adversely impact the Group's results.<br>Credit risk: Through its customers, the Group is exposed to a counterparty risk that accounts receivable will not be settled leading to a financial loss to the Group.<br>Liquidity risk: Insufficient funds could result in the Group being unable to fund its operations.<br>Interest rate risk: Movements in interest rates could adversely impact the Group and result in higher financing payments to service debt.<br>The impacts of COVID-19 and the adoption of home working, changes to volumes and patterns of transactional activity all served to increase the financial control risks, through a heightened potential for fraud and compromising the integrity of data within the organisation. | Sustain, Innovate | Foreign exchange risk: The Group undertakes limited foreign exchange transactions selling domestically with largely local input costs. Some capital expenditure requires foreign exchange purchases and management considers foreign exchange hedging strategies where significant exposures arise.<br>Credit risk: Customer credit risk is managed by each subsidiary subject to the Group's policy relating to customer credit risk management. The Group principally manages credit risk through management of customer credit limits. The credit limits are set for each customer based on the creditworthiness of the customer and the anticipated levels of business activity. These limits are initially determined when the customer account is first set up and are regularly monitored thereafter.<br>Liquidity risk: The Group's policy is to ensure that it has sufficient funding and facilities in place to meet any foreseeable peak in borrowing requirements and liabilities when they become due. At 31 December 2020, the Group has net debt[1] of £69 million – well within the banking facilities of £215 million, as set out in Note 19 of the Group financial statements. During the year it negotiated a number of amendments to a number of covenants under the RCF and secured access to the Covid Corporate Financing Facility.<br>Interest rate risk: The Group finances its operations through a mixture of retained profits and bank borrowings. The Group's bank borrowings, other facilities and deposits are in Sterling and at floating rates. No interest rate derivative contracts have been entered into during the year or at the year end.<br>See mitigations under Cyber risk relative to the increased of financial control. |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

**Strategy key**

| | |
|---|---|
| Sustain | Increase |
| Innovate | Decrease |
| Grow | No change |

| Title | Detail | Link to strategy | Mitigation |
| --- | --- | --- | --- |
| **Government regulation and standards relating to the manufacture and use of building products** | The Group's production, manufacturing and distribution activities are subject to health and safety risks. The Group is subject to environmental, health and safety laws and regulations and these may change. These laws and regulations could cause the Group to make modifications to how it manufactures and prices its products.<br><br>Greater regulation following the Grenfell tragedy has increased the risk that the Group's failure to comply with the relevant regulations would result in the Group being liable to fines or a suspension of operations, which would impact the Group's financial results, together with any associated negative reputational damage.<br><br>Additional regulation and responsibilities as a result of continuing COVID-19 restrictions including health and safety and wellbeing of our workforce may also impact. | | The Group monitors the law across its markets to ensure the effects of changes are minimised and the Group complies with all applicable laws. The Group aligns Company-wide policies and procedures accordingly with training on mandatory topics and compliance requirements undertaken.<br><br>The health and wellbeing of our employees is fundamental to our business. We have stringent health and safety policies and monitor compliance regularly through internal and external auditing activity. This has been particularly important in light of COVID-19.<br><br>We reorganised the management of the health and safety function to provide more coordinated, central oversight to ensure alignment and consistency throughout the business.<br><br>We have also invested considerable resources in employee training across our manufacturing processes. We have invested heavily in safe systems and facilities to protect our employees. These activities have continued virtually, where possible, as a result of COVID-19. |
| **Customer relationships and reputation** | The Group receives a significant portion of its revenue from key customers and the loss of any such customer through our failure to evolve effectively and meet the changing needs of our customers could result in a significant loss of revenue and cash flow. Constriction in activity levels within the construction industry introduces a risk that price levels cannot be maintained, resulting in dilution of margins or level of market share and adversely impacting the Group's financial results.<br><br>Further, the Group does not have long-term contracts with its customers and the Group's revenue could be reduced if its customers switch some or all of their business with the Group to other suppliers or if we are unable to leverage our customer relationships effectively. | | The Group has a service-led ethos with many top customer relationships lasting over 40 years. The Group differentiates itself through the continued quality of its products and service levels with Net Promoter Score (NPS) surveys completed to build customer relationships through proactive response to customer requirements.<br><br>The Group's sales and production teams are highly integrated to ensure that production aligns with customers' needs. Sales teams receive in-depth technical training and are assisted by a design support service team as well as targeted marketing materials to assist with specification and selection.<br><br>The Group's divisions each have their own sales teams aligned by customer group and region in order to focus on key decision-makers and customers. Key account management is supervised at a senior level where long-term relationships benefit from the Group's commitment to quality, service and consistency. During the 2020 year, we amended our organisational structure to move marketing teams into the divisional commercial teams, enabling us to understand and respond more effectively to the evolving needs of our customers.<br><br>Access to 145 million tonnes of clay reserves, Ibstock Clay's primary raw material, ensures an ability to satisfy customer demand. |

# Principal risks and uncertainties continued

| Title | Detail | Link to strategy | Mitigation |
|---|---|---|---|
| **Recruitment and retention of key personnel** (No change) | The Group is dependent on qualified personnel in key positions and employees having special technical knowledge and skills. Any loss of such personnel without timely replacement could disrupt business operations, damage customer relationships or result in the loss of corporate knowledge.<br><br>There is a risk that the Group faces difficulties in attracting and retaining staff in production roles, which are labour-intensive and potentially less attractive to the younger population.<br><br>Recent experience of COVID-19 and the impact of restructuring and redundancies could negatively affect morale. | Sustain, Grow | Focused action plans are in place as a result of the 'Great place to work' employee engagement survey aimed at further building on employee satisfaction.<br><br>Improved methods of communication such as My Ibstock and a focus on employee well being will help in developing our culture and following an extremely difficult year.<br><br>Investment in our people through training and development programmes is in place to upskill our existing workforce whilst we recognise the changing labour markets, and packages for key and senior staff remain competitive. We are proposing a new Senior Managers Share Plan (SMSP) for 2021.<br><br>The Group believes that it is essential to support and develop the management team, where appropriate, ensuring that the team is structured in a way which best takes advantage of the available skills and robustly identifies the team and structure for the future. Succession plans are in place, which is key to ensuring a managed transfer of roles and responsibilities.<br><br>Apprenticeship schemes are in operation with a yearly intake across the business (engineering and technical based). High potential individuals are identified with development plans formulated. External recruits are brought in where any skill gaps are identified and to enhance the talent pool. |
| **Input prices** (No change) | The Group's business may be affected by volatility in extraction expenses and raw material costs. Risks exist around our ability to pass on increased costs through price increases to our customers.<br><br>The Group's business may also be affected by volatility in energy costs or disruptions in energy supplies. Significant changes in the cost or availability of transportation could affect the Group's results. | Sustain, Grow | Significant input costs are under constant review, with continuous monitoring of raw material costs, energy prices and haulage expenses, with the aim of achieving the best possible prices and assuring stability of supply.<br><br>With regard to possible energy shortages, the Group operates forward purchasing to mitigate the impact of sudden price increases and monitors the carbon market on an ongoing basis and has modelled the impact of such rises to assess the financial implications (see Viability Statement on page 64).<br><br>As competitors of the Group are likely to experience similar levels of input price increases, we aim to have appropriate pricing policies to remain competitive within our markets and pass on significant increases in input costs. |
| **Product quality** (No change) | The nature of the Group's business may expose it to warranty claims and to claims for product liability, construction defects, project delay, property damage, personal injury and other damages.<br><br>Ensuring accuracy of the Group's product data is important to the Group's continued success with any inaccurate data potentially placing the end user at risk.<br><br>Any damage to the Group's brands, including through actual or alleged issues with its products, could harm our business, reputation and the Group's financial results. | Sustain, Innovate, Grow | Focus on detailed product information has intensified, with the Group's customers demanding greater information regarding the product specifics.<br><br>The Group operates comprehensive quality control procedures across its sites with both internal and external audit reviews of product quality completed to ensure conformance with internationally recognised standards.<br><br>All accredited staff undergo rigorous training programmes on quality and the Group's Technical teams carry out regular testing of all of our products to provide full technical data on our product range.<br><br>The Group maintains appropriate insurance cover against product liability related claims. |

**Strategy key**

- Sustain
- Innovate
- Grow
- Increase
- Decrease
- No change

| Title | Detail | Link to strategy | Mitigation |
| --- | --- | --- | --- |
| **Cyber security** | High-profile attacks on companies across a number of industry sectors (including one of our own major customers) have highlighted the damage that can now be caused by hackers and cyber terrorists.<br>Unauthorised access to the Group's IT systems, malware attacks or hacking incidents represent the greatest cyber security risks to the Group.<br><br>Such IT security risks have the ability to significantly disrupt the Group's business, resulting in financial loss. Potential penalties could arise from the loss of data as a result of breaches to the Group's IT security or reputational damage as a result of negative publicity associated with control lapses in this area.<br><br>Changes in employees' working patterns and use of technology as a direct result of COVID-19, along with the resulting risks to information security have materially increased cyber risks. The continuing prevalence of many colleagues continuing to work from home in some capacity for the foreseeable future will compound the near term challenges. | | The Group is committed to ensure that its network, applications and data are protected.<br><br>The Group has completed a review using an external cyber security programme framework, which provides coverage across the key areas of cyber security and aligns with industry standards. This has culminated in the Group's achievement of the UK Government's Cyber Essentials accreditation, which is subject to independent audit annually.<br><br>Despite the pace of the change introduced when lockdown commenced in March, all equipment deployed was built to be image compliant with Ibstock policies and standards. In addition, the fast track introduction of new industry leading VPN services to handle the extended homeworking user community, the use of new applications such as Microsoft Teams/OneDrive to enable virtual meetings and collaboration and the disablement of existing vulnerable applications and processes ensure the business could and is expected to continue to operate effectively in the 'new normal'. |

# Viability Statement

## Viability and Going Concern

### Background

The Board's assessment of the longer-term viability of the Group is an intrinsic part of our business planning processes. These processes include financial forecasting and risk management, as well as longer-term scenario planning incorporating market trends, emerging opportunities or threats and potential future economic conditions. The output of the Group's business planning processes reflects the best estimate of the future prospects of the business based on a range of possible future scenarios. To make an assessment of viability, these projections are rigorously tested based upon potential adverse impacts arising from the Group's principal risks and uncertainties which are outlined on pages 56 to 63.

### Assessment

Management's viability exercise, reviewed by the Audit Committee on behalf of the Board, has robustly assessed the market conditions, risks and the liquidity and solvency of the Group. These elements were also carefully considered in light of COVID-19. The Group has leading positions within the markets in which it operates, as noted on pages 16 to 17, and its business strategy (see page 20) is aimed at continuing to strengthen its position in those markets, create value for its shareholders and ensure its operations and finances are sustainable.

### Lookout period

The Directors believe that a three-year period provides the most appropriate horizon over which to assess viability. The performance of the building products industry is sensitive to the level of macro-economic activity, which is influenced by factors outside of the Group's control, including demographic trends, the state of the housing market, mortgage availability, interest rates and changes in household income, inflation and Government policy. The Directors have also considered the debt financing the Group has in place, which is committed for a period within the time frame of the lookout period adopted. Refinancing is therefore considered as a significant factor in this current assessment with debt leverage compliance and the Group's cash requirements monitored on a continuous basis.

### Stress testing

Although each of the Group's principal risks has a potential effect and has been considered as part of the assessment, only those that result in a severe but plausible scenario have been modelled.

The Group's viability modelling has stress tested the budget and strategic plan in the following scenarios both individually and in combination. This included the Group experiencing reputational damage during a period of economic downturn. The Group's viability modelling also included reverse stress testing to understand financial headroom that exists before viability is threatened, by reducting profitability through reducing in sales.

### Assumptions

In determining the viability of the Group, the Board made the following assumptions:

- The economic climate in which the Group operates remains in line with a broad consensus of external forecasts;
- There is no material change in the legal and regulatory frameworks with which the Group complies;
- There are no material changes in construction methods used in the markets in which the Group operates;
- The Group's risk mitigation strategies continue to be effective; and
- The Group's past record of successfully mitigating significant construction industry declines can be replicated.
- The Group is able to refinance its RCF, which matures in March 2023.

### Scenario 1 – Economic Downturn

*Link to risk – Economic conditions, anticipates the market and new product development*

The impact of a severe and prolonged reduction in demand for its products on the basis of reduced house building activity; unexpected changes to Government policy resulting in reduced volume of product sold or future impacts on customer activities as a result of COVID-19 or other pandemic, as well as a benign environment of prolonged price stagnation on sales.

This considered a sales reduction of 30% in 2021 versus pre-COVID levels in 2019, which is broadly in line with that evidenced in the Clay division during 2020 and 25% thereafter, representing a recovery after the first year. Given the current under supply of housing stock, the Directors believe any reduction in underlying demand above these levels would lead to government stimulus to underpin levels of new build housing.

The Group has proven mitigating strategies including the mothballing or closure of production facilities, together with negotiation of workforce Voluntary Alternative Arrangements, which could reduce operating costs whilst minimising redundancies, allowing the retention of our highly skilled workers through such a potential economic downturn.

### Scenario 2 – Production cost increases

*Link to risk – input prices, government regulation and standards relating to the manufacture and use of building products, climate change*

A situation whereby the cost of production increases by 20% as a result of input cost rises across the Group or additional regulatory costs imposing additional expenditure within the production process e.g., climate change related, which the Group is unable to pass on to its customers. This is based on historical prices seen in wholesale energy markets.

The Group operates a policy of forward purchasing its energy requirements, which is successful in locking-in the costs of production to inform price negotiations with its customers. Further, production plans could be flexed to reduce the available product range – either to focus upon more energy efficient products or to reduce changeovers at factories, which would provide mitigating production efficiencies.

### Scenario 3 – Disruption in business activities

*Link to risk – operational disruption, recruitment and retention, cyber security, climate change, financial risk management*

The impact of an event, such as prolonged bad weather, a cyber-attack, local/national restrictions on the ability to work or other unanticipated event, which prevents production at one or more of the Group's facilities and therefore prevents customer demand being met. Direct action by climate activists is one potential disruption within this scenario which specifically models the impact of a significant production facility being unable to produce for a prolonged period. The impact of which would represent around 12% of production.

The Group aims to mitigate the risk associated with disruption through its business continuity plans, which operate at a factory level, and its ability to transfer some of its production across its network of facilities.

**Scenario 4 – Reputational damage**
*Link to risk – customer relationships and reputation, recruitment and retention, product quality*

A scenario whereby the Group's reputation is damaged, as a result of customer relationship breakdown, significant employee disengagement or product quality issues, resulting in a sudden reduction in sales activity.

The scenario modelled includes a reduction in revenue of 10% for a period of three years, representing potential impact or price reduction to maintain customers.

The Group seeks to mitigate the risks of reputational damage on an ongoing basis with its internal control framework and series of independent reviews and audit.

The Group's viability assessment also considered a compound scenario whereby the Group experienced reputational damage during a period of economic downturn.

The scenarios also consider the covenants with respect to the Group's Revolving Credit Facility (RCF), ensuring these thresholds are met. The scenarios are hypothetical and severe for the purpose of creating of situations that have the ability to threaten the Groups viability.

The results of the stress testing demonstrate that due to the Groups cash generative nature and access to its RCF, it would be able to withstand the impacts of these scenarios and remain cash generative.

### Dividend payments
The Directors considered the resultant profitability reductions associated with each of the individual scenarios. In each instance, the Group remained sufficiently cash generative and profitable to maintain dividend payments to shareholders.

### Viability statement
Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 3-year period ending March 2024.

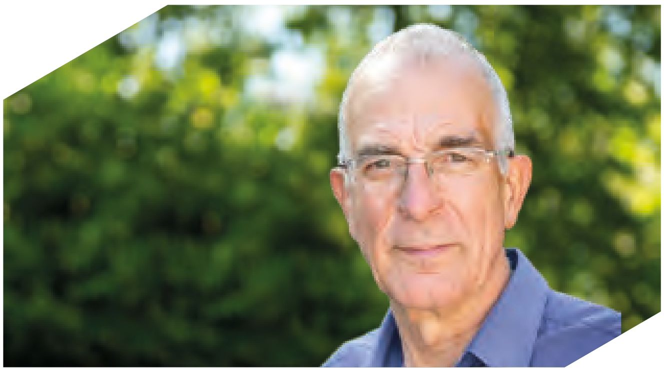
### Going Concern
The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in note 1 to the financial statements.

### Strategic Report
The Strategic Report on pages 1 to 65 has been approved and signed by order of the Board by:

**Nick Giles**
Group Company Secretary

9 March 2021

# Introduction to Governance



### Compliance with the Code

The Corporate Governance Code 2018 (Code) is available on the Financial Reporting Council website at www.frc.org.uk. References to those parts of the Annual Report and Accounts (Annual Report) that demonstrate how we have applied the main principles of the Code can be found below:

**Board Leadership and Company purpose**
Information on the Group's Board of Directors and Company Secretary, the Group's governance framework, Board responsibilities, interests and engagement with stakeholders and its main activities during the year can be found on pages 68 to 72.

**Division of Responsibilities**
The roles and responsibilities of key aspects of the Group's governance framework can be found on page 73.

**Composition, Succession and Evaluation**
Pages 74 and 75 and the Nomination Committee Report on page 76 contain information on board composition, the process for appointments to the Board and wider succession planning, the Board evaluation and effectiveness review procedures and the approach to induction, training and development. The Nomination Committee Report includes a summary of the activities undertaken during the year.

**Audit, Risk and Internal Control**
Pages 74 to 75 and the Audit Committee Report on pages 78 to 84 contain information on financial and business reporting, risk management, internal control and the internal and external audit functions. The Audit Committee Report summarises the activities of the Committee during the year including those areas of significant judgement for the Committee.

**Remuneration**
Pages 74 to 75 and the Directors' Remuneration Report on pages 85 to 101 contain information on the Company's Remuneration Policy as well as its application in 2020 and for the coming financial year.

The Board is satisfied that we have complied with the Code for the year ended 31 December 2020 with the following one exception:

Provision 38 – Alignment of pension rates with the workforce.

The CEO currently receives a cash payment in lieu of pension contribution of 20% of base salary. This will be reduced to 10% of salary and in alignment with the wider workforce and the Code on 31 December 2022.

### Governance

I am pleased to introduce the Governance section of this year's Annual Report which has been structured so as to provide a clear and transparent overview of the Board's oversight of Ibstock's governance framework. We have worked hard to improve our disclosures this year and will continue to do so but we welcome feedback and suggestions from all of our stakeholders. If you would like to do so please get in touch with our Company Secretary, Nick Giles at our Registered Office.

This section includes the Corporate Governance Report, the reports of the main Board Committees, including the Directors' Remuneration Report and a number of other disclosures that we are required to make by law. Taken together and including cross references to relevant parts of the Strategic Report, they contain all of the information that is required to demonstrate how we have applied the principles and complied with the provisions of the Code.

### Review of the year

Successful companies are led by effective and entrepreneurial boards who possess the appropriate level of oversight, practice good communication, focus on the management of risks and have a commitment to transparency. In addition, the Board should demonstrate a commitment to a culture of continuous improvement in standards and performance across all areas of the business. It is my responsibility as Chairman to ensure my colleagues on the Board, both individually and collectively, operate effectively and efficiently in meeting these objectives.

All of the Directors take pride in the discharge of our Board duties and responsibilities in a transparent, open and honest manner and the events of the last year have shown us that the ability to adapt and be flexible, when facing unprecedented challenge, are skills that cannot be underestimated. As a Board, we have been focussed on making the right decisions and taking the right actions to manage the impacts of the pandemic on our business and, most importantly our people and other stakeholders. An increased level of governance, through strengthened internal controls, monitoring of key risks and additional meetings of both the Board and the Executive Leadership Team (ELT) were introduced at the outset. This ensured the leadership throughout the Company was provided with the tools and support it required to deal with the immediate issues presented from March onwards.

The Board and the wider management teams within Ibstock have had to make some difficult decisions during the year, notably the suspension of production in all of our manufacturing sites, furloughing over 78% of employees in the process, followed by undertaking a fundamental restructuring of the Group's operations in June. These decisions combined with other steps that were taken to conserve cash and reduce costs have enhanced the longer-term resilience of the business.

The Board is answerable to shareholders for the successful delivery of the Group's strategy and financial performance; for the efficient use of resources having regard to social, environmental and ethical matters; and for taking account of the interests of all our other stakeholders. Our Key performance Indicators (KPIs) on page 28 set out our priorities. We approve the Group's governance framework, taking into account contributions from Board Committees in their specialist areas such as remuneration policy, internal controls and risk management and succession planning. On a regular basis, we review our level of oversight and the monitoring of risks over a variety of areas including strategy, acquisitions and disposals, capital expenditure on new projects, finance, people, and sustainability matters. This process will continue to adapt to meet the evolving needs of Ibstock. Our aim is to ensure that good governance extends beyond the Boardroom and is continually borne in mind as part of the successful delivery of the Group's strategic pillars over both the short and long term.

### Board changes

Kate Tinsley left Ibstock and the Board at the end of July and we have no immediate plans to replace Kate with an additional Director. Unfortunately this change meant that we were no longer able to meet the recommendations of the Hampton Alexander Review. We feel that the size and the structure of the Board is appropriate for the size and complexity of the business at this point in time although we remain conscious that the Board composition is not representative of the society within which we operate. As a result, we have prioritised an objective to develop the Group's diversity and inclusion strategy as well as its practical application in 2021.

### Sustainability

So that we are able to deliver on our Sustainability Roadmap and better coordinate our ambitions to address our impacts on the environment and the communities in which we live and work, we are in the process of constituting a Board ESG Committee. We feel that this demonstrates not only a commitment to these ambitions but puts them at the heart of our Board decision making process. The new Committee will be chaired by Claire Hawkings, who has a wealth of experience in this area from a long career in the energy industry. Claire has been chairing management's Sustainability Board since 2018 and will be joined on the new Committee by our CEO, and another independent non-executive director. This proposed change forms part of a wider review of our governance framework and processes which will complete in the first part of this year.

The launch of our new Carbon Reduction KPI (see page 28) and its inclusion as a fourth measure under the Group's Long Term Incentive Plan (LTIP) demonstrates the strength of our ambition to become a sector leader in this space. Further information on this can be found in the Directors' Remuneration Report on pages 85 to 101.

### Section 172

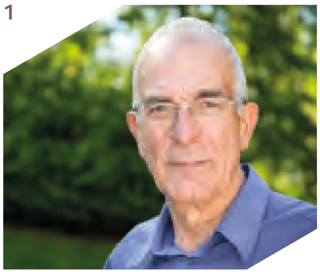
The statement setting out how we had regard to our duties under Section 172 of the Companies Act 2006 when making decisions can be found on page 34.

### Priorities for 2021

The Board will continue to support the ELT and Ibstock's other management teams as we progress through the new financial year. Whilst we are currently in a third national lockdown there is hope and positivity around the future due to the successful roll out of new vaccines to address the effects of COVID-19. We have had to continually adapt and make changes in both our personal and working lives and recent experience has shown that we can continually refine and improve our policies, procedures and processes across the business to better suit the challenges with which we are faced. As part of this and as referred to above we started a review of the Group's governance framework in the last quarter of 2020 to ensure that this remained fit for purpose in light of the changes in the business and the impacts of the pandemic. I will provide a full report on the outcomes and changes that resulted from this in my report next year.

# Board of Directors and Company Secretary

1



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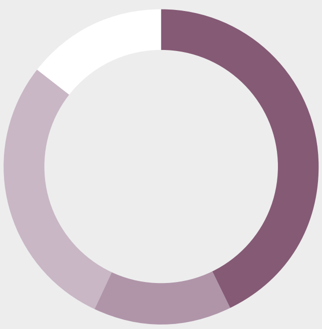
**Board Tenure (years)**

| | |
|---|---|
| **>4yrs** | 3 directors |
| **3-4 years** | 1 director |
| **2-3 years** | 2 directors |
| **1-2 years** | 1 director |



### 1. Jonathan Nicholls BA (Hons), ACA, FCT

| Chairman | Age 63 |
|---|---|
| Date appointed to the Board: | 22 September 2015 (Chairman since 24 May 2018) |
| Tenure on Board: | 5 years 5 months |
| Committee memberships: | Chair of the Nomination Committee<br>Remuneration Committee |
| Independent: | On appointment |

Relevant skills and experience: Degree in Economics and Accounting awarded by Manchester University. Member of the Institute of Chartered Accountants in England and Wales, having qualified with KPMG in 1982. Fellowship member of the Association of Corporate Treasurers. Over 20 years' experience at the senior management or director level of businesses, including those in brick manufacturing, roofing and construction, and property development. Significant experience as CFO and other senior finance roles in public companies.

Current external appointments: Chairman of Shaftesbury PLC (appointed September 2016).

Past board roles include: Non-Executive Director and Chairman of the Audit Committee at SIG plc. Senior Independent Director, Chairman of the Audit Committee and member of the Nomination and Remuneration Committees of DS Smith plc. Senior Independent Director and Chair of Audit Committee at Great Portland Estates plc. Chief Financial Officer of Hanson plc. Chief Financial Officer of Old Mutual plc.

### 2. Joe Hudson BA (Hons), FCIPD

| Chief Executive Officer | Age 51 |
|---|---|
| Date appointed to the Board: | 2 January 2018 (CEO since 4 April 2018) |
| Tenure on Board: | 3 years 2 months |
| Committee memberships: | None |
| Independent: | No |

Relevant skills and experience: BA (Hons) Degree in Education awarded by the University of Exeter. General Management programmes at INSEAD and London Business School. Fellow of the Chartered Institute of Personnel and Development. Varied international career in general management, operations and strategic human resources in Europe, North America and Africa. Operational line management experience in cement, plasterboard, concrete products and construction materials. Experience of large scale business combinations.

Current external appointments: None.

Past board roles include: Managing Director, Cement & Concrete Products, Aggregate Industries UK. Chief Executive Officer, Lafarge Africa plc.

### 3. Christopher McLeish BSc ACA

| Chief Financial Officer | Age 50 |
|---|---|
| Date appointed to the Board: | 1 August 2019 |
| Tenure on Board: | 1 year 7 months |
| Committee memberships: | None |
| Independent: | No |

Relevant skills and experience: Member of the Institute of Chartered Accountants in England and Wales. Wealth of experience in key finance leadership roles with a broad background in manufacturing, media and technology sectors. Extensive experience of Group finance and controls, as well as global shared services operations. Demonstrable success in a range of senior operational, corporate and financial communication roles

Current external appointments: None.

Past board roles include: Finance Director, Tate & Lyle North American Sugars

### 4. Tracey Graham

Senior Independent Director — Age 55

| | |
|---|---|
| Date appointed to the Board: | 3 February 2016 |
| Tenure on Board: | 5 years 1 month |
| Committee memberships: | Chair of the Remuneration Committee<br>Audit Committee<br>Nomination Committee |
| Independent: | Yes |

Relevant skills and experience: Experience of MBO and M&A activity. Led the management buyout of Talaris Limited from De La Rue. Proven track record of creating successful growth in a wide variety of businesses. Significant experience gained in senior positions in banking and insurance with HSBC and AXA Insurance.

Current external appointments: Chair of the Remuneration Committee and member of the Risks and Nomination Committee of Royal London Group (appointed March 2013). Non-Executive Director and member of the Audit, and Chair of the Remuneration and Nomination Committees of discoverIE Group plc (appointed November 2015). Non-Executive Director and member of the Remuneration and Nomination Committees of Link Scheme Limited (appointed January 2016). Chair of LINK Consumer Council (appointed June 2016). Member of the City of London Court of Common Council (appointed 2019).

Past board roles include: Non-Executive Director of Dialight plc. Non-Executive Director of RPS plc. Chief Executive of Talaris Limited.

### 5. Justin Read MA, MBA

Non-Executive Director — Age 59

| | |
|---|---|
| Date appointed to the Board: | 1 January 2017 |
| Tenure on Board: | 4 years 2 months |
| Committee memberships: | Chair of the Audit Committee<br>Remuneration Committee<br>Nomination Committee |
| Independent: | Yes |

Relevant skills and experience: Educated at Oxford University and holds an MBA from INSEAD. 9 years as a CFO of FTSE-listed companies. Financial and management experience working across a number of different industry sectors, including real estate, support services, building materials and banking. Experience of managing businesses across multiple jurisdictions. Experience of strategy, M&A, business development, investor relations and capital raising.

Current external appointments: Non-Executive Director and Chair of the Remuneration Committee and member of the Audit and Nomination Committees of Grainger PLC (appointed February 2017). Chairman of SEGRO Pension Scheme Trustees Limited (appointed March 2017). Non-Executive Director and Chair of the Audit Committee and member of the Nomination Committee of Affinity Water Limited (appointed July 2020).

Past board roles include: Non-Executive Director of Carillion plc (for a six-week period from 1 December 2017). Group Finance Director of Segro plc. Group Finance Director at Speedy Hire plc.

### 6. Louis Eperjesi

Non-Executive Director — Age 58

| | |
|---|---|
| Date appointed to the Board: | 1 June 2018 |
| Tenure on Board: | 2 years 9 months |
| Committee memberships: | Remuneration Committee<br>Audit Committee<br>Nomination Committee |
| Independent: | Yes |

Relevant skills and experience: Experience of manufacture and supply of building products in international markets. 6 years' experience in UK roofing or brick markets. Experience of strategy development, change management programmes and M&A activity. Strong commercial, marketing and product background. 11 years' experience in UK capital markets.

Current external appointments: Chairman of Trustee of The Cheltenham Trust (appointed March 2020). Chairman of CMS Windows Ltd.

Past board roles include: Executive Director of Kingspan Group plc Chief Executive Officer of Tyman plc.

### 7. Claire Hawkings BSc (Hons), MBA

Non-Executive Director — Age 51

| | |
|---|---|
| Date appointed to the Board: | 1 September 2018 |
| Tenure on Board: | 2 years 6 months |
| Committee memberships: | Remuneration Committee<br>Audit Committee<br>Nomination Committee |
| Independent: | Yes |

Relevant skills and experience: BA (Hons) Degree in Environmental Studies awarded by Northumbria University. MBA from Imperial College Management School. Fellow of the Energy Institute. Sustainability leadership and management expertise. Experience in developing and delivery of organisational strategies including business process transformation, leadership succession, and diversity and inclusion. Significant experience (30 years) in the energy sector in a variety of international leadership positions including: P&L responsibilities, M&A, portfolio management and leading complex commercial transactions.

Current external appointments: None.

Past board roles include: Director, Tullow Oil Netherlands. Director, Tullow Oil Bangladesh. Director, Gujarat Gas Co. Ltd. Director, British Gas India Pvt. Ltd.

### 8. Nick Giles MA FCG

Company Secretary — Age 49

| | |
|---|---|
| Date appointed to the Board: | 8 November 2019 |
| Tenure on Board: | 1 year 4 months |
| Committee memberships: | None |
| Independent: | N/A |

Relevant skills and experience: Undergraduate Degree in Business Studies and Master's Degree in Business Law awarded by the University of Portsmouth. Fellow of the Chartered Governance Institute since 2008. Nearly 20 years' experience gained in governance and compliance roles at FTSE listed companies operating in a range of different sectors including publishing, FMCG, engineering, lighting and plastic products.

Current external appointments: None

Past board roles include: N/A.

# Corporate Governance Report

## Governance framework

| | | | | | |
|---|---|---|---|---|---|
| **Board** | → | Board of Directors | | | |
| | | Audit Committee | Nomination Committee | Remuneration Committee | Disclosure Committee |
| **Executive** | → | Chief Executive Officer | | | |
| | | Executive Leadership Team | | Sustainability Board | |
| **Management** | → | Sustainability Working Group | | Health and Safety Steering Committee | |

### Board attendance during the year

The number of scheduled meetings of the Board and its Committees and the attendance by the Directors at meetings that they were eligible to attend during the year is disclosed in the following table:

| Name | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| **Jonathan Nicholls** | 8/8 | N/A | 7/7 | 2/2 |
| **Tracey Graham** | 8/8 | 4/4 | 7/7 | 2/2 |
| **Justin Read** | 8/8 | 4/4 | 7/7 | 2/2 |
| **Louis Eperjesi** | 8/8 | 4/4 | 7/7 | 2/2 |
| **Claire Hawkings** | 8/8 | 4/4 | 7/7 | 2/2 |
| **Joe Hudson** | 8/8 | N/A | N/A | N/A |
| **Chris McLeish**[1] | 7/8 | N/A | N/A | N/A |
| **Kate Tinsley**[2] | 4/4 | N/A | N/A | N/A |

1 Chris McLeish was not able to attend the Board's meeting in December.
2 Kate Tinsley stepped down from the Board on 24 July 2020

### Additional Board meetings in response to COVID-19

**Attendance at the additional meetings is shown in the table below**

| Director | Total |
|---|---|
| **Jonathan Nicholls** | 7/7 |
| **Tracey Graham** | 7/7 |
| **Justin Read** | 7/7 |
| **Louis Eperjesi** | 7/7 |
| **Claire Hawkings** | 7/7 |
| **Joe Hudson** | 7/7 |
| **Chris McLeish** | 7/7 |
| **Kate Tinsley**[1] | 7/7 |

1 Kate Tinsley stepped down from the Board on 24 July 2020.

### Governance framework

The Board would usually hold seven or eight scheduled meetings during the year, one of which will be an off-site strategy session. In order to co-ordinate the response to the COVID-19 pandemic, the Board met more regularly from the beginning of April through to June and as a result the total number of Board meetings held during the year increased to 15. The Board would normally hold a number of meetings at the Group's different locations in the UK, however this was not possible but will be re-introduced as soon as it is practical to do so. If Directors are unable to attend a meeting because of exceptional circumstances, they continue to receive the papers in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Company Secretary any matters on the agenda which they wish to raise. Feedback is also provided to the Director on the decisions taken at the meeting.

## Board Leadership and Company Purpose

**An effective Board**

The Board is collectively responsible for the effective and entrepreneurial leadership of the Group in order to ensure its long-term sustainable success including the generation of value for Ibstock's shareholders and society as a whole. It achieves this by doing business that is consistent with its purpose, vision and values whilst remaining clear on the interests of its key stakeholders as well as its impacts on the environment. Each member of the Board acts in a way which they consider to be in the best long-term interests of the Group and in compliance with their duties under ss 170 to 177 of the Companies Act 2006. Both the stakeholder overview section and the s. 172 statement on pages 32 to 34 provide further information. The main activities of the Board as set out on page 72 also includes which stakeholder groups were considered as part of different agenda items during the year.

Shareholders look to the Board for the successful delivery of the Group's strategy and financial performance so the Board and has established a framework of prudent and effective controls that enable risk to be assessed and managed. More information on the risk management and risk control framework can be found in the Principal Risks and Uncertainties section on page 56 and the Audit, Risk and Internal Control section on page 75. On a regular basis, we review our level of oversight and the monitoring of risks over a variety of areas including strategy, acquisitions and disposals, capital expenditure on new projects, finance, people, and sustainability matters.

**Our purpose, values and strategy**
The construction industry plays a vital part in the UK economy. Ibstock has a clear and simple purpose to be at the heart of building and enable the construction of homes and spaces that help people live better lives with its range of innovative clay and concrete building products as we have been doing for over 200 years. We have a clear strategy that is informed by our purpose and aligned with a range of sustainability ambitions underpinned by a culture that is defined by our core values of Trust, Care, Teamwork and Courage. The Board reviewed the current strategy at a specific meeting in November. As part of the discussion the Board considered the purpose, vision and values in order to confirm that these remained aligned with Ibstock's strategy and culture and were satisfied that this was the case. Our purpose framework can be found on page 4. Annual strategy sessions form part of the annual Board cycle that is prepared by the Chairman, CEO and Group Company Secretary.

We monitor culture through updates on new initiatives and the development of plans provided by the CEO and the Group Human Resources Director. In addition, the Chair of the Sustainability Board updates the Board following its meetings with respect to progress against the Group's sustainability targets and other improvement initiatives. The Listening Post, referenced below, also serves as a good bellwether for views within the wider business. During 2021 we plan to increase the range of methods employed to improve in this area including the introduction of appropriate metrics that would be presented to the Board on a regular basis. The Board aims to ensure that these values are integrated into decision-making and that the policies and procedures we put in place are consistent with and support our culture. Where behaviour is not aligned with these values, the Board and management seek to ensure that appropriate action is taken.

**Stakeholder interests**
The Board has a good understanding of who are considered to be its key stakeholders and recognises the interests, importance and value of each relative to the Group's business and strategy. This is based on regular engagement with these groups over a number of years. An overview of the group's key stakeholders including a summary of the methods of engagement and information on how their interests have been taken into account in board decision making can be found from page 32 of the Strategic Report. Further detail on the Group's approach to sustainability matters and the impacts on these different groups can be found in the Sustainability section on page 36.

**Workforce engagement**
The Listening Post, an employee forum comprising the a non-executive director, the CEO, members of the ELT and employee representatives, is our method of engagement with the workforce for the purposes of provision 5 of the Code. Whilst not one of those methods set out in the Code, the Listening Post is a combination of being a workforce advisory panel with non-exectuive director representation. More detailed information concerning our engagement activities can be found in the Sustainability section from page 36.

## Shareholder engagement

**Investor meetings**
As part of the Group's annual financial calendar, the CEO and CFO conduct a round of meetings with analysts and investors following the announcement of the Full-Year and Half-Year results with other meetings being arranged as and when required. During the 2020 financial year, we held over 100 meetings and met virtually with existing and potential investors.

The Chairman seeks regular engagement with the Company's major shareholders in order to understand their views on governance and performance against the strategy whilst the Committee Chairs also engage on significant matters related to their area of responsibility.

Tracey Graham, our Remuneration Committee Chair, has recently contacted major shareholders in order to notify them of the Committee's decision to include an ESG performance measure in the LTIP for awards being made from the 2021 financial year. As our Senior Independent Director (SID), as well, Tracey is available to shareholders throughout the year if they have concerns that contact through the normal channels has failed to resolve or for which such contact is inappropriate.

**Shareholder feedback**
The Chairman ensures that the whole of the Board has a clear understanding of the views of shareholders. There is an effective flow of communication between it and all shareholders, particularly with regard to business developments and financial results. The Board aims to communicate on a regular basis and at present the Company utilises news releases, investor presentations and Company publications, and will expand communication channels as appropriate.

**Investor visits**
Interested institutional investors are provided with opportunities to visit any of the Group's operational sites and are encouraged to do so in order to better understand Ibstock's business. The ability to conduct such visit during the year under review has been difficult but, current restrictions permitting, it is hoped we will be able to recommence such visits in 2021.

In addition, we are hoping to arrange and hold our first Capital Markets Day later in the year since the Company was initially listed in 2015. This will present an opportunity for our shareholders, analysts and other stakeholders to meet the Board and members of Ibstock's broader management team.

The Company's brokers prepare a report that provides anonymised objective feedback received from investors following those meetings. The report is shared with all members of the Board who act upon the feedback as necessary. The Executive Directors also provide feedback on their conversations with investors which provides an opportunity for all Non-Executive Directors to develop a better understanding of the views of Ibstock's major shareholders. Further information on engagement with shareholders can be found in the Stakeholder overview on page 32.

**Annual General Meeting (AGM)**
In normal circumstances we welcome the opportunity to engage with our shareholders at the AGM. Our preference had been to welcome shareholders in person to our 2021 AGM, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. However, at the current time we are still in a national lockdown. We are therefore proposing to hold the AGM with the minimum attendance required to form a quorum. Shareholders will not be permitted to attend the Annual General Meeting in person but can be represented by the Chair of the meeting acting as their proxy.

Given the constantly evolving nature of the situation, should circumstances change before the time of the AGM we want to ensure that we are able to adapt arrangements and to welcome shareholders to the AGM, within safety constraints and in accordance with government guidelines. Should we consider that it has become possible to do so, we will notify shareholders of the change as early as is possible before the date of the meeting. Any updates to the position will be included on our website.

To increase the level of transparency with shareholders, and encourage engagement, the Company will provide details for individuals wishing to view a webcast of the AGM online. Further information will be published on our website. In addition, any shareholder who wishes to ask a question can do so in advance of the meeting. Please email company.secretariat@ibstock.co.uk with any questions prior to the start of the AGM. We endeavour to answer as many questions as possible and will respond by email if we are unable to answer your question during the meeting.

# Corporate Governance Report continued

Details of the arrangements together with the resolutions to be proposed at the AGM to be held on 22 April 2021 can be found in the Notice of Meeting ('Notice'). The Notice, together with explanatory notes on the resolutions to be proposed and full details of the deadlines for appointing proxies will be circulated to all shareholders at least 20 working days before the AGM, together with this Annual Report. This document will also be available on our website. Results of voting at the AGM are announced to the London Stock Exchange following the meeting and are then published on the Company's website.

### Annual Report

Our Annual Report is available to all shareholders and we aim to make our Annual Report as accessible as possible. Shareholders can opt to receive a hard copy in the post, a PDF copy via email or download a copy from our website. In line with our sustainability ethos we encourage you to view a digital copy of our Annual Report where possible, however, if you require a hard copy of the Annual Report please contact the Company Secretary.

### Corporate website

Our corporate website has a dedicated investor section with Company information and results, our Annual Reports, results presentations (including webcasts) and an investor news section including information which may be of interest to our shareholders. We recognise that continual improvement is necessary and in recognition of feedback received around the current website's suitability and ease of use we have begun a project to upgrade and refresh the website to take account of these comments and to make it more useful and intuitive to all users going forward.

### Conflicts of interest

A register of conflicts of interest is maintained by the Company Secretary and considered by the Board twice a year. The Company's Articles of Association, which are in line with the Companies Act 2006, allow the Board to authorise potential conflicts of interest that may arise and to impose limits or conditions, as appropriate, when giving such authorisation. During the year, and as at the date of this report, no conflicts had been reported to the Board.

Any concerns of the Directors around the operation of the Board or the management of the Company and that cannot be resolved are recorded in the Board minutes. Directors are asked to provide a written statement to the Chairman for circulation to the Board should they have such concerns when they resign from the Board.

### Whistleblowing

Although the Audit Committee reviews the operation of Ibstock's whistleblowing arrangements, the Board retains responsibility and receives a consolidated report setting out those material incidents that have been reported under the Company's Whistleblowing Policy on a half yearly basis. This provides appropriate oversight of the arrangements in place for our employees to raise legitimate concerns, in confidence, about any matter including those related to financial reporting, health and safety or other improper conduct. Having reviewed these reports, the Board concurred with the actions taken by management and were satisfied that this provided an appropriate level of assurance that confirmed the system was working and that all members of the workforce were familiar with the procedures in place.

### Activities of the Board in 2020

The key activities considered by the Board during the year are set out below. The Board recognises the value of maintaining close relationships with its stakeholders, understanding their views and the importance of these relationships in delivering our strategy and the Group's purpose. The Group's key stakeholders and their differing perspectives are taken into account as part of the Board's discussions. You can read more in our s.172 statement on page 34.

Board meetings follow a clear agenda that is agreed in advance by the Chairman, in conjunction with the CEO and Company Secretary. Each meeting will start with a review of the Group's progress against its Health and Safety Roadmap and include a number of standing elements including reports on operational and financial performance from the CEO and CFO and legal and governance updates.

To co-ordinate the Group's response to the COVID-19 pandemic, the Board met remotely and on a weekly basis from the beginning of April to monitor the developing situation and focus on managing our people, the Group's manufacturing operations and its financial position so that the business was able to continue to operate safely and effectively.

Details of the Directors' attendance at the scheduled meetings as well as those additional meetings arranged during the initial lockdown can be found on page 70.

#### Strategy

There is a dedicated two day session assigned to consideration and review of the Group's strategy on an annual basis. During this time the Board will receive inputs from its key advisers, the Executive Directors as well as members of the senior management teams.

#### Health and Safety

The Board considers the health and safety report form the Group's Health and Safety manager covering progress relative to targets, updates on new projects and initiatives and analysis of any incidents. A more detailed summary round up of incidents is presented once a year.

#### Operational

The CEO provides regular reports to the Board providing information on Ibstock's performance on the preceding period with updates on all areas of the business including people, major projects, sustainability initiatives and stakeholder engagement.

#### Financial

The Board receives a pack of financial data on a regular basis that provides sufficient information on Ibstock's trading and financial position for historic periods as well as forward looking forecast and budgets. Longer term plans and information on the Group's banking relationships is also provided.

#### Legal and Governance

Formal annual updates on governance are received from the Group's advisers between which the Board receives regular updates on other major legal and governance developments from the Company Secretary. Papers regarding compliance with Board's administrative procedures are also provided.

**Key Stakeholder Groups**

- Customers
- Communities
- Investors
- Workforce
- Suppliers and Contractors
- Regulators and Government

## Division of Responsibilities

The Board has clearly defined the roles of the Chairman, CEO and SID and, as required by the Code, the roles of Chairman and CEO are not being exercised by the same individual. Full details of the roles and responsibilities of all parts of the Group's governance arrangements including those concerning the Chairman, CEO and SID can be found on the Company's website.

| | |
|---|---|
| **The Board** | There are a number of key areas that are specifically reserved for the decision of the Board and a list of these, that were updated at our December meeting, can be found on our website. Other matters, including the day to day management of the Group, may be delegated to the Executive Directors. Although a wide range of the Board's powers and authorities are delegated to the CEO, the Board retains ultimate responsibility and authority for their exercise. Details of the number of meetings held during the year can be found on page 70. The Board approves the Group's governance framework, taking into account contributions from Board Committees in their specialist areas such as remuneration policy, internal controls and risk management and succession planning. The Board is content with the level of external directorships held by the Chairman and the independent Non-Executive Directors, as these do not impact on the time that any Director devotes to the Company. The Board is satisfied that Directors have sufficient time to perform their duties and furthermore, the Board believes that this external experience serves to enhance the capability of the Board |
| **Board Committees** | The Board has four main committees: the Nomination Committee, Remuneration Committee, Audit Committee and the Disclosure Committee. The terms of reference for each committee are available on the Group's website |
| **Executive Leadership Team** | The ELT has been established to support the CEO in his management of the business on a day to day basis and exercise any authority delegated to him by the Board. Members of the ELT include the CFO, the MD Ibstock Concrete, Group Development Director, Group HR Director and the Group Company Secretary. Following the departure of Kate Tinsley, Joe Hudson assumed the day to day management responsibilities for the Ibstock Clay division and as a result there was no additional representative of that division appointed to the ELT. Meetings are held on a monthly basis. |
| **Chairman** | The Chairman is responsible for the leadership and effectiveness of the Board. The Chairman, with the CEO and the Group Company Secretary, sets the agenda for Board meetings, manages the meetings (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during those meetings. He also holds meetings without the CEO and CFO being present. |
| **Chief Executive Officer** | Joe Hudson, our CEO, has specific responsibility for recommending the Group's strategy to the Board and for delivering the strategy once approved. In undertaking such responsibilities, Joe is supported by the ELT and other Board colleagues. Together with the CFO, he monitors the Group's operating and financial results and directs the day to day business of the Group. The CEO is also responsible for the recruitment, leadership and development of the ELT. |
| **Chief Financial Officer** | Chris McLeish, our CFO, is responsible for the financial matters in the Group. Chris supports the CEO in the achievement of the Group's strategic objectives and manages the relationships with Ibstock's investors and analysts. Further information can be found in the Financial Review on page 52. |
| **Senior Independent Director (SID)** | The SID provides advice to the Chairman and serves as an intermediary for the other Directors and shareholders. The Non-Executive Directors meet without the Chair present at least annually to appraise the Chair's performance, and on other occasions as necessary. |
| **Independent Non-Executive Directors** | The Non-Executive Directors provide an external perspective, sound judgement and objectivity to the Board's deliberations and decision making. With their diverse range of skills and expertise, they support and constructively challenge the Executive Directors and monitor and scrutinise the Group's performance against agreed goals and objectives. The Non-Executive Directors are also responsible for determining appropriate levels of executive remuneration, appointing and removing Executive Directors, and succession planning through their membership of the Remuneration and Nomination Committees. The Non-Executive Directors together with the Chairman meet regularly without any Executive Directors being present. |
| **Board support and the Group Company Secretary** | Our Group Company Secretary, Nick Giles, supports and works closely with the Chairman, the CEO and the Chairs of the Board Committees in setting agendas for meetings of the Board and its Committees. He works to ensure there is accurate, timely and clear information flows to and from the Board and the Board Committees, and between Directors and senior management. In addition, he supports the Chairman in designing and delivering Directors' induction programmes and the Board and Committee performance evaluations. He also advises the Board on corporate governance matters and Board procedures, and is responsible for administering the Share Dealing Code and the AGM.<br><br>The Directors of all Group companies, as well as the Board, have access to the advice and services of the Company Secretary although independent external legal and professional advice can also be taken when necessary to do so. Furthermore, each Committee of the Board has access to sufficient and tailored resources to carry out its duties. The appointment and the removal of the Company Secretary is a matter for the Board as a whole. |
| **Independence** | The independence of the Non-Executive Directors is considered on an annual basis by the Nomination Committee on behalf of the Board and following this year's review, it was concluded that all of the Non-Executive Directors continue to remain independent in character and judgement and are free from any business or other relationships that could materially affect the exercise of their judgement. The balance of skills and experience ensures that no one individual or small group of individuals dominates the Board's decision-making processes. The Board and Nomination Committee also review Committee membership annually to ensure that undue reliance is not placed on individuals. |

# Corporate Governance Report continued

## Composition, Succession and Evaluation

**Nomination Committee**
The Board has established a Nomination Committee to which it has delegated a number of responsibilities. Information on the Committee's composition, together with the principal activities carried out during the year, are included in the Nomination Committee Report on page 76.

**Board composition**
The Board comprised seven Directors at the year end: two Executive Directors and five Non-Executive Directors. Over half of our Board (excluding the Chairman) are deemed independent Non-Executive Directors and the composition of all Board Committees complies with the Code. Additionally, the Chairman was considered independent on his appointment.

The Committee is responsible for regularly reviewing the composition of the Board. The Board and its Committees benefit from a combination of skills, experience and knowledge drawn from across several industries and functional roles. Length of tenure and the range of skills and experience of the Board can be found in the Directors and Company Secretary section on page 68.

**Appointments and succession**
The Nomination Committee leads the process for the appointment of new Directors to the Board. Appointments are made on merit and measured against objective criteria set with regard to the benefits of a diversified Board. The process is a formal, rigorous and transparent procedure. Effective succession plans are maintained for Board and senior management.

The Board and the Nomination Committee considered Board succession and that of the wider ELT during the course of the year to ensure that the Board has the right mix of skills and experience, as well as the capability to provide constructive challenge and promote diversity. Additional detail can be found within the Nomination Committee Report on page 76.

**Evaluation**

**Process and methodology**
During 2020, Boardroom Dialogue conducted an externally facilitated evaluation of the Board's performance, and that of its Committees. Boardroom Dialogue were selected following a tender process involving three potential providers of this service and have no other connection to the Company.

Whilst not currently mandatory, the recommendations of the Board Evaluation review undertaken by the ICSA on behalf of the Department of Business, Energy and Industrial Strategy which were published on January 2021 have been considered and noted. Having discussed these recommendations with Boardroom Dialogue we confirm that the process we followed on appointment fulfil all of the criteria that are set down in the ICSA document.

This was the first externally facilitated review process for Ibstock that involved the use of individual interviews with all members of the Board although an externally questionnaire based review was completed in the 2018 financial year. The next fully externally facilitated review will be undertaken in 2023.

The review was delivered by way of interviews in order to capture non attributable views with additional commentary based on best practice and emerging trends. The focus was on the identification of things the Board and Committees were doing well in addition those to areas that would benefit from further improvement. It was conducted in line with the provisions of the Code and a range of other best practice guidance including the 2020 Glass Lewis Guidelines and the ISS UK and Ireland Proxy Voting Guidelines 2020.

The process included an initial briefing meeting with the Chairman to finalise the scope of work, a desktop review of all Board and Committee papers for a certain period together with related governance documentation, interviews with all Board members plus the Company Secretary and the observation of Board and Committee meetings. These actions were presented in a draft report that was initially discussed with the Chairman and the CEO before its circulation and discussion at a meeting of the Board.

**Outcomes**
Board effectiveness reviews, by their very nature, can feel somewhat negative given that the outcome is primarily a discussion of areas for improvement. As a balance the review identified many positive aspects of the current operation of the Board and showed that the Board is effective in most areas, is well led, and that the Directors challenge constructively. A number of strengths were highlighted by interviewees and included the following:

- The Chairman provides strong leadership, clarity of direction and creates a safe environment which encourages constructive debate.
- The Chairman and CEO work well together.
- The Board and Committee meetings are well chaired
- The Board is open and collegiate where Directors have a high level of trust and confidence in each other.
- The skills around the Board table are felt to be appropriate for the current challenges facing the business.
- The CEO and CFO are open and transparent with the Board

There were also some areas where interviewees had indicated that improvements could be made or where the current processes are not fully in line with best practice. These included a need to continue to monitor the embedding of culture, enabling further discussions on customer experience, tightening up some administrative matters relating to Board meetings and facilitating further discussion on senior executive succession planning.
A number of recommendations were discussed by the Board and it was agreed that a formal action plan would be developed with support from the Company

**Board evaluation**

| Step 1 | Step 2 | Step 3 | Step 4 | Step 5 |
|---|---|---|---|---|
| **Process planning** | **One to one meetings** | **Evaluation and reporting** | **Review of report** | **Agree actions and monitor progress** |
| Tender process arranged and run with Boardroom Dialogue being selected from three other firms. Scope of exercise agreed. | Meetings held with all Non-Executive Directors and the Group Company Secretary during October and November 2020. | Preparation and production of a formal report for the Board setting out the conclusions of the review with outcomes and recommendations. | Consideration and discussion of the report at a Board meeting arranged for the purpose. | Production of a schedule of actions coming out of the recommendations with assigned responsibility that will be reviewed at each meeting. |

Secretary to address the recommendations. This plan would form a standing part of the activities of the Board over the course of the coming year.

**Individual evaluation**
Alongside the formal Board and Committee effectiveness review the Chairman completed individual evaluations of the Non-Executive Directors to determine whether they have made an effective contribution to the Board.

The Chairman spoke with all Non-Executive Directors individually to conduct an appraisal of their performance and these reviews concluded that the Non-Executive Directors continued to be effective and had demonstrated commitment to their roles. The SID also met with the Non-Executive Directors following the Board meeting in December, in the absence of the Chairman, to appraise the Chairman's performance, taking into account the views of Executive Directors. The review concluded that the Chairman's performance continued to be effective and that he demonstrates commitment to the role. The SID informed the Chairman of the review's findings following this meeting.

**Induction, training and development**
All new Directors receive a tailored induction programme upon joining the Board and additional training is made available to members of the Board in accordance with their requirements. The Nomination Committee reviewed the training requirements of the Board and agreed upon a suitable regime for training and information flows to enable the Directors to satisfy their training and development needs. Information provided to the Board included updates on developments on Corporate Governance, the regulatory framework and accounting matters. The Chairman and the Company Secretary will continue to identify broader areas of training for the Board as a whole and the Chairman will discuss and agree the training requirements with individual Directors as and when required.

Directors may, at the Company's expense, take independent professional advice and are encouraged to continually update their professional skills and knowledge of the business.

**Re-election of Directors**
All of the Directors are subject to annual re-election and intend to submit themselves for re-election at the 2021 AGM. The Notice sets out the reasons why the Board considers their respective contributions to be and to continue to be important to the Company's long term sustainable success.

## Audit, Risk and Internal Control

**Audit Committee**
The Board has established an Audit Committee to which it has delegated a number of responsibilities. Information on the Committee's composition, its role, together with information regarding the principal activities that it carried out during the year, are included in the Audit Committee Report on page 78. The Board considers that the Chairman of the Audit Committee, Justin Read, possesses the level of recent and relevant financial experience required and that the Committee, as a whole, has competence relevant to the sector in which the Group operates. Additional information on the skills and experience of the members of the Audit Committee can be found in the Board of Directors and Company Secretary section on page 68.

**Financial and business reporting**
The Board has established arrangements to ensure that reports and other information published by the Group provide a fair, balanced and understandable assessment of Ibstock's position and prospects. The Strategic Report on pages 1 to 65 explains the Group's Business Model and the strategy for delivering the objectives of the Group and a statement on the Group as a going concern and the Viability Statement is set out on page 65.

With the support of the Audit Committee, the Board has reviewed the 2020 Annual Report and considers that, taken as a whole, it is fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Further details of the review work carried out by the Audit Committee in relation to the 2020 Annual Report can be found in the Audit Committee Report on page 82.

**Risk management**
The Board ensures that the necessary resources are in place for the Company to meet its objectives and to measure performance against them. It has established a framework of prudent and effective controls that enable risks to be assessed and managed at Ibstock and completes a robust assessment of the Company's emerging and principal risks as required by the Code as well as a review of their effectiveness. Please refer to page 56 for further information on the Group's ongoing risk management process and the Group's principal and emerging risks and uncertainties together with details around their related mitigating factors.

The Audit Committee provides support in the discharge of these responsibilities by reviewing and monitoring the Group's risk management framework and the reporting of risk internally and externally. The Audit Committee Report on page 83 sets out how these responsibilities have been discharged during the year.

**Internal control**
The Group's internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They are based on assessment of risk and a framework of control procedures to manage risks and to monitor compliance with procedures. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and, by their nature, can provide only reasonable, not absolute, assurance against material loss to the Group or material misstatement in the financial accounts. The overall responsibility for Ibstock's system of internal control and for reviewing its effectiveness rests with the Board but this responsibility has been delegated to the Audit Committee. Further details of the review and monitoring procedures can be found within the Audit Committee report on page 83.

**Audit**
Details of the Internal Audit function and the External Auditors are provided in the Audit Committee Report on page 83. The Board is satisfied that the necessary policies and procedures are in place to ensure the independence and effectiveness of both.

## Remuneration

**The Remuneration Committee**
The Board has established a Remuneration Committee, which has delegated responsibility for determining the policy for executive remuneration and setting remuneration for the Chairman of the Board, CEO and members of the ELT including the Company Secretary. When doing so, the Remuneration Committee takes account of wider workforce remuneration and related policies and the alignment of incentives and rewards with culture. Further details of the work of the Committee are set out from page 85.

**Remuneration Policy**
A summary of the Executive Remuneration Policy and details of the remuneration packages of individual Directors are set out on pages 89 to 90. During the year no individual Director was present when their own remuneration was determined.

# Nomination Committee Report

## Membership, meetings and attendance

Membership comprises the independent Non-Executive Directors with support from the Group's Company Secretary. Details of meeting attendance can be found on page 70. The Committee met on two occasions during the year.

## Role and responsibilities

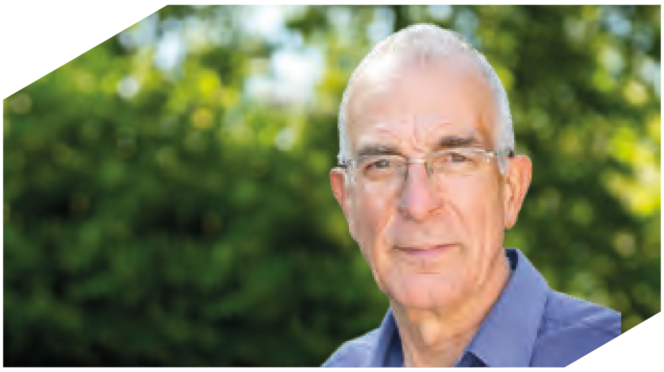
The key responsibilities of the Committee are to:

- Develop and maintain a formal, rigorous and transparent procedure for making recommendations to the Board on appointments and on the structure, size and composition of the Board;
- Ensure that planning is in place for orderly succession to both the Board and senior management positions;
- Oversee the development of a diverse pipeline of talent for succession;
- Evaluate the balance of skills, diversity, knowledge and experience of the Board;
- Prepare a description of the role and capabilities required for a particular appointment and lead the recruitment process;
- Identify and nominate, for the approval of the Board, candidates to fill Board and senior management vacancies, ensuring that candidates have the necessary skills, knowledge and experience to effectively discharge their responsibilities;
- Review the time commitment required from Non-Executive Directors and evaluate the membership and performance of the Board and its Committees; and
- Recommend, where appropriate, the re-election of Directors.

## Activities and focus during 2020

The table above summarises the agenda items covered by the Committee during the year.

| Activity | H1 | H2 |
|---|---|---|
| Considered Kate Tinsley's membership for the Board | X | |
| Reviewed Committee's terms of reference | | X |
| Reviewed size, structure and composition of the Board | | X |
| Reviewed time commitment required from Non-Executive Directors | | X |
| Reviewed the independence of Non-Executive Directors | | X |
| Annual review of the Committee's effectiveness | | X |
| Reviewed succession planning arrangements and organisational changes | | X |



Jonathan Nicholls

Chair of the Nomination Committee

I am pleased to present my report, as Chair of the Nomination Committee (the "Committee"), to you for the year ended 31 December 2020.

The Committee leads the process for appointments, ensures plans are in place for orderly succession to both the Board and senior management positions, and oversees the development of a diverse pipeline for succession.

During the year under review the Committee held two formal meetings although considered a number of matters for which it is responsible as part of the Board Strategy session in November.

## Succession planning

The composition of the Board is constantly under review with the aim of ensuring that it has the depth and breadth of skills to discharge its responsibilities effectively. The Committee, through its oversight of succession planning, applies a similar approach to the layer of management that sits immediately below the Board.

The Committee aims to ensure that the Board and senior management are well balanced and appropriate for the needs of the business and the achievement of the Company's strategy. Furthermore, the Committee ensures that the Board includes Non-Executive Directors who are appropriately experienced and are independent of character and judgement.

As part of the succession planning process, the Committee takes account of the balance of skills, knowledge, experience and diversity. The Committee reviewed the Group's succession plan for the Board and also considered the talent available below the Board level. The conclusion drawn from that review was that the Company has succession planning arrangements in place.

### Time commitment

In making recommendations to the Board on Non-Executive Director appointments, the Nomination Committee specifically considers the expected time commitment of the proposed Non-Executive Director and their existing commitments. Agreement of the Board is required before a Director may accept any additional commitments to ensure possible conflicts of interest are identified at an early stage and that they will continue to have sufficient time available to devote to the Company. Any other potential conflicts of interest are also considered at each Board meeting.

In addition, the Nomination Committee concluded, through discussions with the Chairman and the Board and the Committee evaluation process, that the Non-Executive Directors had committed sufficient time to fulfil their duties and that their performance continued to be effective.

### Board and Committee evaluation

The method and outcomes from the FY 2020 external Board evaluation can be found in the Corporate Governance Report on page 74. The effectiveness of the Committee was reviewed by both the Board and the Committee, in compliance with the Code. The evaluation in respect of the 2020 financial year was conducted externally and facilitated by Boardroom Dialogue. The conclusion drawn from the review was that the Committee operates effectively.

### Diversity and inclusion

The Board has a strong balance of skills, knowledge, experience, and diversity of cognitive type, educational and professional background, age and gender (the Board of Directors and Company Secretary section on page 68 has more detail). Unfortunately, Kate Tinsley stood down from the Board during the year and this, when combined with the effects of the wider restructuring program and other redundancies on the business, has had an adverse impact on our efforts to improve Ibstock's gender balance at the most senior level.

Our current employee population reflects the traditional nature of our industry across all diversity characteristics including age, race, gender, sexual orientation and disability. We recognise the challenge we face with 85% of roles being occupied by men including a higher percentage of men in factory-based production roles. During the year the ELT and the Sustainability Board considered a proposed Diversity and Inclusion strategy and a discussion was facilitated at the Board's strategy session in November. Agreement of a formal plan will be discussed at a meeting of the Committee in FY 2021. Further information on diversity and inclusion progress during the year under review can be found in the Sustainability section on page 39.

The Board acknowledges the aims, objectives and recommendations outlined in the Hampton-Alexander Review and is aware of the need to achieve an appropriate balance of women on our Board and in senior positions throughout the Group. Having been in a position where we met the recommendations for half of the year under review, Ms Tinsley's departure and the challenges of the COVID-19 situation meant it was not practical to address this immediately. Whilst we do not have an immediate plan this situation will form part of our discussions referred above. The Board also acknowledges and supports the aims, objectives and recommendations of the Parker Review on ethnic diversity and the emphasis in the Disclosure Guidance and Transparency Rules on disclosure around diversity with regard to aspects such as age, gender and educational and professional background.

### Diversity Policy

Ibstock operates a Diversity and Inclusion Policy which is applicable to the whole organisation and which informs the Board's approach in this area. We are working hard with our recruitment partners to ensure that we are able to attract high-quality candidates from a wide range of backgrounds, strengths and abilities. We recognise that achievement of our strategic objectives is reliant on the recruitment and retention of a diverse and engaged workforce and efforts in this area will continue.

The Board does not consider that it is in the best interests of the Group, or its shareholders, to set prescriptive diversity targets for Board or senior management level appointments. We will continue to make appointments based on merit, against objective criteria to ensure we appoint the best individual for each role. We do not see this approach as being contradictory to our desire to ensure better diversity across the Board and the workforce.

### Priorities for 2021

We will be focusing on our strategy to improve our diversity and inclusion performance and formulate a forward looking strategy in this area. The Committee will also be working on refining its succession plans at all levels of the organisation.

**Jonathan Nicholls**
Chair of the Nomination Committee

9 March 2021

# Audit Committee Report

## Membership, meetings and attendance

Membership comprises the independent Non-Executive Directors with support from the Group's Company Secretary. Details of meeting attendance can be found on page 68. The Committee met on four occasions during the year and the table setting out the main agenda items for each meeting can be found below.

The Chairman, CEO, CFO and other senior members of the Finance team are routinely invited to attend Committee meetings. The External Auditor and the Internal Auditor attended all meetings during the year. Other individuals are invited to attend the Committee's meetings, as and when required.

The Chairman has regular meetings with the CFO, external audit partner and internal audit partner to discuss key audit related topics ahead of each Committee meeting. In addition, the Committee also holds private sessions with the CEO, CFO, External Audit partner and RSM LLP (RSM), the Internal Auditor on a rotational basis after each meeting.

## Role and responsibilities

The Committee is appointed by the Board and reviews and makes recommendations to the Board on the Group's financial reporting, internal control and risk management systems. Its role, duties and responsibilities are governed by a clear set of terms of reference (available in full on our website) that are reviewed by the Committee and approved by the Board on an annual basis with the last review having taken place in December 2020.

The Committee provides independent monitoring, guidance and challenge to the Executive Directors. In addition, it assesses the effectiveness of the external audit process and the External Auditor. Through these processes the Committee's aim is to ensure high standards of corporate and regulatory reporting, risk management and compliance, and an appropriate control environment. The Committee believes that excellence in these areas enhances effectiveness, reduces risks to the business, and protects the interests of the shareholders with regard to the integrity of financial information published by the Group.

Justin Read

Chair of the Audit Committee

I am pleased to present my report to you, as Chair of the Audit Committee (the "Committee"), for the year ended 31 December 2020. The purpose of the Committee is to make recommendations on the reporting, control, risk management and compliance aspects of the Directors' and the Group's responsibilities. At the same time the Committee provides independent monitoring, guidance and challenge to management in these areas.

The Committee also provides a forum for reporting and discussion with the Group's external auditor in respect of the Group's Half-Year and Full-Year results and certain Executive Directors and senior managers have attended meetings during the year, as and when required, by invitation.

It goes without saying that the Committee has received updates and information regarding the impacts of COVID-19 on the Group's financial reporting, risk and internal control systems, notably the effects on the assessment around going concern and longer-term viability. We also received and discussed the findings from the letter from the Financial Conduct Authority concerning our FY 2019 Annual Report.

Further information regarding the activities of the Committee during the year can be found opposite.

## Activities and focus during 2020

The table below summarises the main agenda items covered at the Committee's meetings during the year.

| 2020 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Financial and narrative reporting | X | X | X | X |
| External audit | X | X | X | X |
| Review of risk | X | X | X | X |
| Independence and objectivity of the external auditor | X | | X | |
| Internal audit | X | X | X | X |
| Annual review of the Committee's effectiveness | X | | | |
| Review of significant accounting matters and judgements | X | X | X | X |
| Review of internal control and compliance systems | | X | | X |

## Financial and narrative reporting

### Financial statements

During the year the Committee:

- Reviewed the Full- and Half-Year results and associated announcements and recommended them to the Board for approval.
- Reviewed the Group's Annual Report to consider whether, taken as a whole, it was fair, balanced and understandable and whether it provided the necessary information required for shareholders to assess the Company's position, performance, business model and strategy and recommended it to the Board for approval. Further information on the format of this review can be found on page 82.
- Considered the appropriateness of the Group's accounting policies and practices, focusing on areas of significant management judgement or estimation, and questioned the rationale for decisions taken in application of the policies. Policies and practices were found to be appropriate and correctly applied (see Significant accounting and key areas of judgement considered by the Committee during the year below).
- Received updates on corporate reporting and corporate governance from the external auditor.
- Considered the process for preparing the 2020 Annual Report.
- Received 'deep dive' updates from management including inventory valuation and provisioning and treasury risk management.
- Received updates on training for Committee members, including changes in financial reporting requirements and Company law.

### Significant accounting and key areas of judgement

A key factor in the integrity of financial statements is ensuring that suitable accounting policies are adopted and applied consistently on a year on year basis. The Committee specifically uses the Audit Planning meetings in June and December each year to consider adoption of any relevant new standards proposed accounting treatments for major transactions, significant reporting judgements and key assumptions related to those judgements. In addition, these matters are reviewed at each Committee meeting throughout the year.

### Pension liability accounting and disclosure

Matter considered

The Group operates a defined benefit pension scheme. Management exercise their judgement around the assumptions used by its actuary, including the sensitivities to these assumptions, to calculate the pension scheme liabilities under IAS 19 (R) Employee Benefits.

Additionally, during the year ended 31 December 2020 as part of its scheme de-risking strategy, the Group entered into a pension buy-in exercise, which attracted a buy-in premium of £338.9 million to cover existing pensioners.

As at 31 December 2020, the scheme had an actuarial accounting surplus of £43.6 million (2019: £88.7 million), including liabilities of £595.6 million (2019: £537.3 million), as detailed in Note 22 to the financial statements. Disclosure regarding the Group's buy-in transaction is similarly included in Note 22.

Committee's response

The Committee concurred with management's assessment that the estimates used within the valuation of the Group's pension liability (including inflation, discount and mortality rates) represented significant sources of estimation uncertainty, as set out within IAS 1 Presentation of Financial Statements. A review of management's proposed disclosure in relation to this estimation uncertainty was completed.

Additionally, the Committee reviewed the assumptions with management and sought views from the External Auditor before it concluded on the appropriateness of the actuarial balances disclosed.

This review considered the financial assumptions used by management as part of the actuarial valuation and the range of possible assumptions using available market data to assess the reasonableness.

The Committee assessed the disclosures related to the pension scheme buy-in transaction during the year, and challenged the description of this event to ensure both its accuracy and the transparency of the activity undertaken.

In conclusion, the Committee determined that the actuarial assumptions used in the valuation of the period end pension liabilities were in an acceptable range, disclosed appropriately and is satisfied that the resulting presentation and disclosure is appropriate. The Committee also concluded that the buy-in transaction was supportable and disclosure was appropriate.

# Audit Committee Report continued

## Impairment of non-current assets

Matter considered

The Group holds significant asset values in the form of brands, customer relationships, mineral reserves, land and buildings and property, plant and equipment. At the interim and year end balance sheet date, these assets were considered for indications of impairment.

At the interim reporting date, an impairment charge of £19.1 million was recognised following the full impairment of assets associated with the Group's production facilities earmarked for closure. Additional detailed impairment tests assessing the value-in-use ("VIU") concluded that there was no impairment at a Cash Generating Unit ("CGU") level across the Group for any of those sites expected to continue in operation.

At 31 December 2020, management performed an assessment of indicators of impairment and determined that no further factors existed. In addition, a set of VIU calculations were performed by management, which similarly indicated no further impairment.

As at 31 December 2020, the value of these non-current assets was £537 million (2019: £608 million).

Committee's response

In approving the interim financial statements of the Group, the Committee considered the analysis of impairment proposed by management at 30 June 2020 in light of the Group's restructuring plans recently approved by the Board.

In addition, the Committee carefully considered management's VIU assessments, the related sensitivity analyses and the disclosure included within the Group's interim financial statements.

The Committee sought views from the external auditor regarding management's process for completion of VIU impairment tests and the conclusions reached.

In conclusion, the Committee assessed the impairment charge as at 30 June 2020 as appropriate and concurred with management's view that no further impairment was required.

At the year end balance sheet date, the Committee considered the processes adopted by management in assessing whether, in their judgement, any indicators of impairment existed and whether any subsequent detailed impairment testing should be undertaken.

The Committee carefully considered management's VIU tests and the associated sensitivity analysis and assessed the impact on the analysis of changes to the underlying assumptions. This compared the assumed performance of the CGUs to the recently Board-approved budget and strategic plan. Additionally, the Committee sought the External Auditor's views as to the process adopted by management at the year end date to assess VIU.

Following its review, the Committee concurred with management's judgement that no indicators of impairment existed at the balance sheet date for the sites that will continue in operation.

In conclusion, after reviewing the reports from management, the Committee was satisfied that the financial statements appropriately reported the value of the assets and that they were fairly stated.

The Committee reflected upon management's proposal to remove the critical accounting estimate disclosure relating to the impairment of non-current assets. In light of the significant headroom present within management's assessment of VIU for the sites that will continue in operation and following challenge and discussion with the External Auditor, the Committee concluded that the judgement would not significantly affect the amounts recognised in the financial statements for the current year and therefore agreed to management's proposal.

## Exceptional items[1]

Matter considered

The Group presents as exceptional items[1] on the face of the income statement those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the financial period, so as to assess better underlying trends in financial performance.

During the year ended 31 December 2020, management clarified the Group's accounting policy on exceptional items[1] in response to the COVID-19 pandemic and regulatory guidance issued.

Details of exceptional items[1] are set out in Note 5 to the financial statements.

Additionally, the Group financial statements present a number of alternative performance measures ("APMs") within its published financial information, including its 2020 Annual Report, with the objective of providing readers with a better understanding of financial performance in the period, in order to facilitate comparison between periods and to assess trends in financial performance. Definitions of APMs used are set out in Note 3 to the financial statements.

Committee's response

In light of the guidance issued by the European Securities and Markets Authority and the UK's Financial Reporting Council, the Committee continues to test management's rationale for including an item as an exceptional item[1] and the wider use of APMs.

Regarding the Group's accounting policy in relation to exceptional items[1], the Committee assessed management's proposed policy clarification against regulatory guidance issued. Additionally, the Committee sought views from the External Auditor or as to the appropriateness of items categorised by management as exceptional. Upon conclusion of this review, the Committee concurred with management's analysis of proposed exceptional items[1].

Through discussion with management and the external auditor, the Committee has also sought to ensure that the policy for APMs is applied consistently and in compliance with the guidance provided.

The Committee challenged management's rationale for the use of specific APMs; and the link between APMs reported within the financial statements and incentive measures within the Directors' Remuneration Report. The Committee concluded that the presentation of APMs gave additional clarity on performance and were reconciled appropriately to reported amounts, with sufficient prominence, and is satisfied that the resulting presentation and disclosure is appropriate.

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

### Accounting for forward energy contracts

Matter considered

The Group has a long-standing practice of locking in prices for gas and electricity used in its production activities and achieves this by committing to a certain volume of consumption in future months which creates a contractual commitment and secures a certain price.

As the Group takes delivery of the energy it is accounted for as though it meets the requirements of the own use scope exemption in IFRS 9 Financial Instruments. As such, these contracts are not held on balance sheet at fair value but rather treated as executory contracts and energy purchases are accounted for in the period in which the gas and electricity is consumed, at the contracted price.

Significant reduction in activity levels due to the COVID-19 pandemic and resulting production facility shutdowns resulted in the Group having energy contracts which failed the own use scope exemption in IFRS 9 ("the failed own use contracts").

During the current year, the failed own use contracts were fair valued ("marked to market") and recognised as a derivative liability on the balance sheet and any gain/loss is recognised as a result of measuring these energy contracts at fair value.

As at 31 December 2020, all failed own use contracts had expired with all contracted energy consumed during the year ended 31 December 2020.

Furthermore, management do not believe the isolated incidence of net settling such contracts and the resultant failed own use contracts precludes the future use of the own use exemption for similar contracts in future periods.

Committee's response

The Committee reviewed management's analysis of the Group's accounting for forward energy contracts during the year ended 31 December 2020.

Due to the complexity of the associated accounting, the Committee paid particular attention to management's proposed communication of this matter within the Group's interim and final results announcements and the related financial statements.

The Committee sought the Auditor's views as to the appropriateness of the accounting treatment included within the Group's financial statements.

In conclusion, the Committee concurred with management's proposed accounting and disclosure.

Additionally, the Committee agreed with management's assessment that the own use exemption within IFRS 9 should continue to apply in 2021 and that the circumstances associated with the failed own use contracts represented an isolated incidence. It was the Committee's view that net settlements of such contracts are infrequent events and that the current contract settlements responded to events that could not have been foreseen at inception of the contract.

### Going concern basis of preparation

Matter considered

In preparation of the 2020 Annual Report, the Directors must consider the appropriateness of preparing the financial statements on a going concern basis.

The going concern assumption is a fundamental principle in the preparation of financial statements which assumes that an entity will continue to operate for a period of at least 12 months from the date at which those financial statements are signed.

International Accounting Standard (IAS) 1 Presentation of Financial Statements requires the directors to make an assessment of the Group's ability to continue as a going concern.

Management prepared the draft 2020 Annual Report on a going concern basis and presented an assessment of the appropriateness of this basis of preparation to the Committee prior to approval of the financial statements.

Management's review of going concern contained two scenarios of financial performance over the going concern assessment period (a 'base case' and a 'low case'), together with stress-testing and an assessment of other options available to the Group to mitigate potential downside scenarios.

Disclosure regarding the Group's basis of preparation is included within Note 1 of the financial statements.

Committee's response

The Committee reviewed and advised the Board on the Group's going concern statement included within this Annual Report and the assessment prepared by management to support this basis of preparation.

The Committee considered the work performed by management in assessing the Group's ability to continue as a going concern, particularly around its consideration of the impact of COVID-19 and the steps taken to protect the Group's liquidity. As part of this review, the Committee reviewed management's 'low case' scenario, representing a severe but plausible downside, which showed the Group had sufficient cash and liquidity headroom to continue for a period of greater than 12 months from the date of approval of the financial statements.

The External Auditor discussed the going concern basis of preparation with the Committee and reviewed the conclusions reached by management.

These activities, combined with the mitigating actions associated with the covenant amendments negotiated for the period to 30 June 2021, enabled the Committee to conclude that there is no material uncertainty around the Group's ability to continue as a going concern.

# Audit Committee Report continued

### Going Concern and Viability Statements
On behalf of the Board, the Committee reviewed the Going Concern and Viability Statements prepared by management, together with the supporting documentation and sensitivity analyses. Details of the review process and the conclusion reached are set out on pages 64 and 65. Following its review, the Committee recommended the approval of both statements to the Board.

### Financial Reporting Council
During the second half of the year, we received a letter from the Financial Reporting Council Corporate Reporting Review team as part of its ongoing programme to monitor UK corporate reporting.

This letter informed us that it had carried out a review of our 2019 Annual Report and the review had not raised any questions or queries which required a substantive response. A small number of disclosure points were also noted as part of the review and, as a result, we have enhanced the relevant disclosures in our 2020 Annual Report.

### Fair, balanced and understandable
It is the Board's responsibility to determine whether the 2020 Annual Report and Accounts are fair, balanced and understandable. The Committee reviewed the process for preparing the 2020 Annual Report, reviewed management's analysis of the 2020 Annual Report and how this met the objectives of providing fair, balanced and understandable disclosures that provided the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Committee took into account the following when completing this process:

- input from the CEO and CFO on the overall messages and tone of the Annual Report;
- that individual sections of the Annual Report were drafted by appropriate senior management with regular review to ensure consistency across the entire document;
- that detailed reviews of appropriate draft sections of the Annual Report were undertaken by the Executive Directors;
- that an advanced draft of the Annual Report was reviewed by the Committee and the auditors on a timely basis to allow sufficient consideration and was discussed with the CFO and senior management prior to consideration by the Board; and

After consideration the Committee arrived at the decision to recommend that the 2020 Annual Report be approved by the Board as fair, balanced and understandable. The Board statement on a fair, balanced and understandable Annual Report is set out on page 75.

### External audit relationship
- Reviewed and concurred with Deloitte LLP's (Deloitte) plans for their review of the 2020 Half Year statement and audit of the 2020 financial results.
- Reviewed and considered the reports presented by Deloitte to the Committee following the Half-Year review and Full-Year audit.
- Reviewed the performance of the External Auditor and the effectiveness of the external audit process.
- Discussed and approved the fees for audit and non-audit services and obtained assurance on the objectivity and independence of the External Auditor, taking into consideration relevant professional and regulatory standards.
- Discussed and approved the Directors' Letter of Representation provided to Deloitte.
- Reviewed and approved the policy for the employment of former employees of the External Auditor, without amendment, confirming with management that no such employees had been appointed during 2020.
- Held planned meetings with Deloitte, following Committee meetings, without management present, on two occasions. No material issues were brought to the Committee's attention at those meetings.
- Recommended to the Board that a shareholder resolution should be proposed for the reappointment of Deloitte.
- Considered the adequacy of the Group's procedures with regard to the objectivity and independence of the External Auditor. The Committee formed the opinion that Deloitte had demonstrated their independence and objectivity.

### Review of Internal Audit activities
- Reviewed reports presented by RSM on Internal Audit assignments that had been completed during the year and discussed the results and agreed actions arising from RSM's recommendations.
- The Committee reviewed, and were satisfied with, management's responsiveness to RSM's findings and recommendations.
- Amended the 2020 Internal Audit programme in light of the impact of COVID-19 on the business.
- Agreed a plan of work for the 2021 Internal Audit programme with RSM. In reviewing the proposed plan of work, the Committee questioned the internal auditor and management as to the composition of the plan. The Committee considered any specific areas of risk identified by either party in formulating the schedule. Following discussion, the Committee was satisfied that the proposed 2021 work programme was appropriate.
- The Committee met with RSM, without management present, on two occasions. No material issues were brought to the Committee's attention at those meetings.

### Oversight of risk and internal control
- Reviewed principal business risks, risk management processes and internal controls. Further information can be found in the Principal Risks and Uncertainties section on page 58.
- Received a report from the CFO on the internal controls operating in the business and any associated action plans.
- Reviewed fraud risks, the Code of Business Conduct and Whistleblowing Policy. The review did not identify any material matters of interest.
- Considered the appropriateness of the Group's Viability Statement at the Full-Year, and Going Concern Statement assumptions at the Half-Year and Full-Year, including a review of the sensitivity analysis and scenarios prepared by management. The Viability Statement and the Going Concern Statement are set out on pages 64 and 65.

## External and Internal Audit

### External Auditor

Following a competitive tender process conducted in 2016, Deloitte was appointed as auditor, and Jonathan Dodworth became the lead audit partner, for the financial year commencing 1 January 2017. The Committee received formal confirmation from Deloitte itself that the audit engagement team, and others in the firm as appropriate, Deloitte and, where applicable, all Deloitte network firms were and remained independent of the Group. The Committee's policy is that the role of External Auditor will be put out to tender at least every 10 years in line with the applicable rules, or at other times should it be required by specific circumstances.

The Company has complied throughout the year under review with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

### Effectiveness of the external auditor

The Committee has the responsibility for overseeing the Group's relationship with the External Auditor and advises the Board on their appointment/ reappointment, their effectiveness, independence and objectivity, and discusses the nature and results of the audit with the External Auditor.

The review of the FY 2020 external audit process included consideration of the following:

- the effectiveness of the External Audit firm;
- quality controls;
- the audit team;
- audit fee;
- audit communications and effectiveness;
- governance and independence;
- ethical standards; and
- potential impairment of independence by non-audit fee income.

As part of the review of the effectiveness of the External Audit process, the Committee received a report on the External Auditor's quality control procedures and conducted a formal evaluation procedure.

In addition to reviewing the formal report received from the External Auditor, which outlines how points raised by them have been addressed by management, feedback is also sought on the conduct of members of the finance team during the audit process. The Committee Chair also met with the lead audit partner outside the formal Committee process.

The Committee also considers the effectiveness of management in the External Audit process in respect of the timely identification and resolution of areas of accounting judgement with input from the external auditor as appropriate; and the timely provision of the draft Half-Year results announcement and Annual Report for review by the auditor and the Committee.

### Auditor independence and non-audit services

The non-audit services policy sets out clearly the non-audit services that may be provided by the External Auditor. Under the policy, prior approval is required by the Committee for any non-statutory assignments where the fee would exceed £10,000, or where such an assignment would take the cumulative total of non-audit fees paid to the External Auditor over 70% of that year's statutory audit fees. However, when appropriate, a detailed calculation will be performed to ensure that the Group is compliant with the European Union's Statutory Audit Framework. This policy is reviewed on an annual basis and was adopted without amendment in December 2020. The External Auditor is responsible for the annual audit of the Group's subsidiaries and other services which the Committee believe it is best placed to provide.

Details of the amounts paid to the external auditor are set out in Note 6 to the Group consolidated financial statements. The ratio of audit fees to non-audit fees was 1:9

The Committee considers that the external auditor continues to be independent. Deloitte has indicated its willingness to continue in office and the Committee has recommended Deloitte's re-appointment to the Board. A resolution to re-appoint Deloitte as the External Auditor will therefore be proposed at the AGM to be held on 22 April 2021.

### Internal Audit

The provision of Internal Audit services is outsourced to RSM and the Internal Audit programme for the subsequent year is approved by the Committee in December each year. This contains a schedule of reviews to audit a range of processes and controls throughout the year covering each component of the Group. Updates on the status of audits against the annual Internal Audit plan are provided to the Committee by RSM on a regular basis. These set out any control weaknesses identified as well as management's actions to address control recommendations.

RSM also provide the Committee with support and advice concerning the Group's assurance framework more generally.

### Risk management and internal control

The Committee supports the Board in monitoring the risk exposures and is responsible for reviewing the effectiveness of the risk management and internal control systems. The Committee, assisted by the Group's outsourced internal auditor, RSM, is evaluating the design and operating effectiveness of the internal controls implemented by management. During 2020, no significant failings in the Group's internal controls were identified. RSM is in the process of completing a project to review the Group's internal financial controls, the findings of which are being systematically addressed by management.

The Committee reviewed and approved the principal risks and uncertainties and their associated mitigation prepared by management in advance of their submission to the Board. This review formed a key component of the Directors' robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These are set out on pages 58 to 63. In addition, the Committee, on the Board's behalf, has conducted a review of the operation and effectiveness of the Group's system of risk management and internal control during the year, in accordance with the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

# Audit Committee Report continued

During the year, the Directors' assessment of risks included review and challenge of management's risk registers including the Group's emerging risks maintained in line with Code requirements. This followed the ELT's review and approval. The key elements that comprise the Group's internal control framework include a clear management structure with appropriate authorities, robust financial controls, an appropriate enterprise risk management system, an internal audit function and appropriate policies and procedures.

The Board has delegated to the Committee the review of the operation of the Group's procedures for detecting fraud and the systems and controls in place to prevent a breach of anti-bribery legislation. The Committee receives regular updates at each meeting and discusses any incidents brought to its attention. It also receives updates on the operation of the Company's confidential whistleblowing arrangements including those material incidents raised through the whistleblowing line since that last meeting. Whilst the Board considers a half-yearly summary of all incidents raised through the whistleblowing line, further details of which can be found on page 72.

The Group is committed to a zero-tolerance position with regard to bribery. Anti-bribery guidance and training is provided to employees, as appropriate, applying what the Group has determined to be a risk-based and proportionate approach. The Group maintains a record of all employees who have received this guidance and training.

### Committee effectiveness

The effectiveness of the Committee was reviewed by both the Board and the Committee, in compliance with the Code. The evaluation in respect of the 2020 financial year was conducted externally and facilitated by Boardroom Dialogue. A report on the outcome of the evaluation of the Board and Committee's effectiveness was presented to the Board. Further information regarding the evaluation process and outcomes can be found in the Corporate Governance Report on page 74. The conclusion drawn from the review was that the Committee operates effectively.

**Justin Read**
Chair of the Audit Committee

9 March 2021

# Annual Statement by the Chair of the Remuneration Committee



**Membership meetings and attendance of the Committee**
Membership comprises the Group's Chairman and the independent Non-Executive Directors with support from the Group's Company Secretary. Details of meeting attendance can be found on page 70. The Committee also receives assistance from the Group HR Director who attends meetings by invitation, except when issues relating to her own remuneration are being discussed. The CEO and CFO attend by invitation on occasions.

**Role and responsibilities**
Our main responsibilities are:

- To determine and agree with the Board the Remuneration Policy(the "Policy") for the Executive Directors and the ELT, including the Group Company Secretary;
- To review the ongoing appropriateness and relevance of the Policy, taking into consideration the UK Corporate Governance Code 2018 (the "Code") and associated guidance;
- To ensure that the Policy drives behaviours consistent with Company purpose, values and strategy;
- To ensure that the Policy promotes effective engagement with shareholders and the workforce;
- To ensure remuneration structures and their operation are simple and easy to understand;
- To ensure that remuneration arrangements prevent excessive rewards and do not reward poor performance;
- To review wider workforce remuneration and related policies;
- The review and approve the gender pay gap report on an annual basis;
- To engage with the workforce regarding Executive Remuneration Policy and wider Company pay policy; and
- To review any major changes in employee benefit structures throughout the Company or Group and to administer all aspects of any share scheme.

Tracey Graham
Chair of the Remuneration Committee

As the Chair of the Remuneration Committee (the "Committee"), I am pleased to present the Directors' Remuneration Report ("DRR") for the year ended 31 December 2020. The report has been prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the Code and the Listing Rules. The report consists of three sections:

- This Annual Statement and associated 'At a glance' section (pages 85 to 88);
- A summary of the Policy on (pages 89 and 90); and
- The Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2020 financial year (pages 92 to 101).

The Chair's Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM on 22 April 2021.

### Background and business performance

The economic uncertainty of the pandemic meant that Ibstock was not immune to its financial impacts. During this very challenging year, I am able to report that the Ibstock management teams took rapid and effective action when dealing with the outbreak of COVID-19 and I am hugely impressed by the extraordinary commitment of our colleagues during what has been an extremely difficult year. As a result I can confirm the following key headlines from the financial year under review:

- A resilient operational performance and strategic progress against the unprecedented backdrop of COVID-19.
- The Health and safety of all our people has remained the key priority throughout the pandemic.
- Following the initial sharp contraction in market demand from late March 2020, there has been a steady and sustained recovery of demand patterns over remainder of year.
- The Group wide restructuring programme to reshape and upgrade the business was completed in H2, delivering up to £20 million of cost savings in FY21, at a cash cost of £9m.
- A revenue decline of 23% reflecting the impact of the COVID-19 pandemic, with significant reductions in both the Clay Division, down 29%, and the Concrete Division, down 5%.
- A statutory loss before tax of £24 million (2019: £82 million profit) reflecting lower trading performance and exceptional costs of £36m related to COVID-19 and restructuring.
- Adjusted EBITDA[1] of £52 million (2019: £122 million) down 57% reflecting lower sales volumes and impact of operational gearing,
- The decisive actions that were taken to reshape the cost base, combined with the recovery in demand, enabled the Group to exit 2020 with margins in both divisions back close to the underlying levels achieved in the prior year,
- A Strong cash flow performance, materially ahead of expectations, driven by improved trading through the second half and actions to manage costs and working capital

Further details of Ibstock's business performance can be found in the CEO review (from page 8), Key Performance Indicators (page 28) and in the Financial Review on page 52.

### Approach to remuneration in FY 2020

Alongside many businesses, we carefully monitored our approach to remuneration in the context of the business impact of COVID-19, as well as the broader impact on our other stakeholders, customers, suppliers, employees and of course our shareholders. During the year we took the following actions in our operation of remuneration:

- Salaries and fees for Executive Directors, the Non-Executive Directors, Chairman and the ELT were reduced by 20% for the period from April 2020 to June 2020 and have been frozen with effect from the new financial year.
- A decision to cancel bonuses for 2020 was taken in light of the Board's decisions to cancel the FY 2019 final dividend and the use of Government support via the Coronavirus Job Retention Scheme (CJRS) during the period when our production was ceased and factories closed.
- Grants under the Long Term Incentive Plan (LTIP) were made in April 2020. The Committee will review the approach taken in the context of further developments to avoid any unacceptable windfall gains.

At all times the Committee has carefully balanced the interests of all stakeholders as well as the wider business and societal context in making these decisions. Further details on our stakeholders can be found on page 32.

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Directors' Remuneration Report continued

### Directors' Remuneration Policy

The current Remuneration Policy was approved at the 2019 AGM. The Company's remuneration strategy is designed to motivate the Company's senior leaders to deliver strategic objectives, ensure customer focus based on quality and consistency, and to drive long-term value for our shareholders. These core elements are captured in our incentive framework for the Executive Directors. Further details of how our incentives and their measures align to the Company's key strategic priorities can be found on page 88.

### Implementation of Policy in FY 2021

**Salary**

There will be no salary or fee increases for the Executive Directors, Non-Executive Directors, the Chairman and the ELT for the coming year.

**Incentive plans**

As we approached the latter part of the year, we undertook a review of our approach to remuneration, including the effectiveness and appropriateness of the annual bonus and the LTIP. I know that many companies found themselves in a similar position as by this time the effect of the global pandemic had become apparent which made the task of setting targets for incentives (particularly LTIPs) even more challenging. Our conclusion was that whilst, on balance, the existing bonus and LTIP remained the most appropriate combination of short- and long-term incentives, they were not without challenges, particularly the setting of long-term targets and so a number of changes were implemented.

**Annual & Deferred Bonus Plan (ADBP) performance targets**

It is the Committee's view that the performance metrics used in all of our incentive plans must adapt in order to support and drive the evolving business strategy. Whilst the broad approach was considered to be fit for purpose, the Committee considered how best to ensure executives were aligned to the delivery of performance targets both within the year and across the year as a whole. Whilst the measures in the ADBP have been retained, we are introducing some changes to the weightings and the way in which performance against the bonus targets will be assessed. To this end, the Committee determined to maintain the existing weighting given to financial measures used in the ABP at 70% of the maximum opportunity. The following changes were implemented for the FY 2021:

- The adjusted EBITDA[1] measure is split between H1, H2 and the full year in order to maximise incentive effectiveness throughout the year and allow for the additional uncertainty which exists, whilst retaining the 'full year' overview.
- An increased weighting has been assigned to the adjusted operating cash flow[1] measure in recognition of the increased criticality of this element.

The Committee's view is that these changes create an annual bonus structure which more effectively supports the key elements of our strategy. It is the Company's intention to retrospectively disclose the targets for the FY 2021 ADBP once pay-outs have been considered as the targets are currently deemed to be commercially sensitive.

**LTIP performance targets**

Having considered the most appropriate measures and their weightings, to ensure continued alignment with our business strategy, it was concluded that the existing measures, namely relative TSR, EPS and ROCE[1] remained appropriate, but that in addition to these the inclusion of an Environmental, Social and Governance (ESG) metric focused on our carbon reduction commitments set out in our Sustainability Roadmap, could also be included.

As a result, the Committee considered the manner in which the existing metrics should be reweighted in order to accommodate the additional ESG metric whilst also retaining overall business alignment. The table below summarises the approach for FY 2021 and supporting rationale.

Details of the targets for the awards to be made in 2021 can be found on page 101.

**New Senior Managers Share Plan (SMSP)**

As part of our review of remuneration, we also looked at the use of equity-based remuneration for employees below our Executive Directors and ELT. Having carefully considered the alternatives, we are planning to introduce a new SMSP for certain key individuals and anticipate making awards under this plan during 2021. This will be a replacement for the existing Share Option Plan that was put in place at the time of the initial public offering in 2015. Although the Executive Directors will not participate in this plan, we will be seeking shareholder approval for the rules at our AGM. Further details regarding this scheme, and its operation, are set out in the Notice of Meeting to the AGM.

### Fairness and diversity

Continuing to create a thriving and diverse workforce is a high priority for Ibstock. However, we recognise that we operate in an industry that historically has been associated with certain inherent challenges around diversity. We are fully committed to embracing best practice to ensure that we, as a business, continue to shift the industry's outlook and approach from the perspective of gender equality and diversity of skills, background and knowledge.

### Stakeholder engagement

The Board regularly engages with our shareholders in a two-way communication process to maintain their support and to ensure we have a transparent executive reward structure aligned to shareholder experience. If you would like to discuss any aspect of our remuneration strategy, I would welcome your views.

We monitor shareholder views and commentary regarding our remuneration practices. At the 2020 AGM shareholders voted overwhelmingly in favour of the 2019 DRR (with 99.67% of the votes cast in favour). Details of the voting outcomes are presented on page 100.

**Tracey Graham**
Chair of the Remuneration Committee

9 March 2021

### 2021 LTIP targets and weightings

| Measure | Weighting (2020 in brackets) | Rationale |
|---|---|---|
| Relative TSR | 40% (33.3%) | A higher weighting has been placed on relative TSR on the basis that the measure is self-calibrating and is an objective measure of relative company performance, which is helpful given the current business and macroeconomic uncertainty. |
| Adjusted EPS[1] | 30% (33.3%) | A slightly reduced weighting has been placed on EPS due to the fact that, whilst it remains a critical measure of long-term profit delivery, challenges associated with predicting long-term performance and hence setting realistic targets exist in the current environment. |
| ROCE[1] | 20% (33.3%) | A reduced weighting has been placed on ROCE since, whilst this remains a vital measure to shareholders for long-term capital efficiency, it should be balanced alongside performance measures which incentivise progress on ESG. |
| ESG (Carbon Emissions Target) | 10% (N/A) | The weighting of 10% ensures that the ESG measure is given meaningful significance to ensure appropriate focus on its delivery, in line with its critical importance to the business and its stakeholders. |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Remuneration at a glance

Remuneration outcomes in 2020 reflect the impact of the COVID-19 pandemic on the Company's performance in the year.

### FY 2020 remuneration outcomes

**Single figure remuneration for our Executive Directors**

| | |
|---|---|
| Joe Hudson (CEO) | £539,524 |
| Chris McLeish (CFO) | £336,805 |

The single total figure of remuneration table for the Executive Directors and Non-Executive Directors is set out on page 94.

**2017 LTIP vesting**

| Measure | Weighting (%) | Threshold (%) | Maximum (%) | Actual (%) | Vesting (% of maximum) |
|---|---|---|---|---|---|
| Relative TSR | 50 | –11.8 | 17.0 | 5.7 | 80.7 |
| Adjusted EPS growth | 50 | 6 | 16 | 0.4 | Nil |

The three-year performance period for the awards granted in 2017 expired on 29 March 2020. The Committee reviewed the performance against the two performance conditions and determined an overall vesting level of 40.35%. None of the Directors who were in office at the end of the financial year under review held any awards granted in 2017. Details of the value of the awards held by past Directors can be found on page 97.

### Share ownership

**Joe Hudson (CEO)**
(% of salary)

| | |
|---|---|
| Shareholder requirement | 200% |
| Current shareholding | 22% |
| Value of/gain on interests over shares (i.e. unvested awards) | 308% |
| Total | |

**Chris McLeish (CFO)**
(% of salary)

| | |
|---|---|
| Shareholder requirement | 200% |
| Current shareholding | 59% |
| Value of/gain on interests over shares (i.e. unvested awards) | 294% |

The number of shares of the Company in which Directors had a beneficial interest as at 31 December 2020 is set out in detail on page 98.

**Annual Deferred Bonus Plan (ADBP) FY 2020 outcome**

Our 2020 ADBP outcomes outlined below reflect the performance targets and measures put in place during the 2020 financial year. The financial objectives include key performance indicators and details can be found on page 28. Further to the receipt of a recommendation from management, the Committee took the decision to cancel bonuses for 2020 during the year. This was a result of the Board's decision to cancel the full year 2019 final dividend and the need for the Company to access Government support via the CJRS scheme during the period when production had been suspended and factories closed.

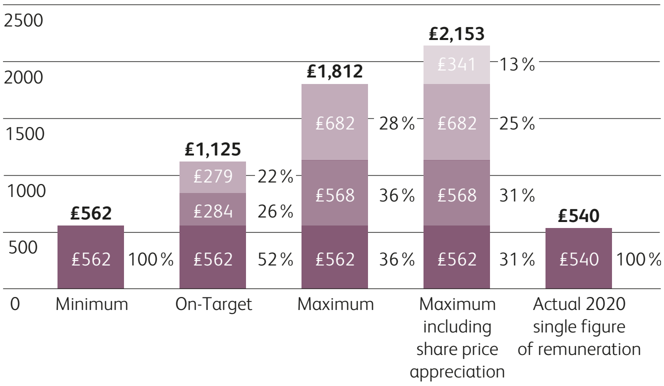
| | Adjusted EBITDA[1] (50%) | Adjusted operating cash flow[1] (20%) | Non-financial objectives (30%) | 2020 Annual bonus outcome (% of maximum) |
|---|---|---|---|---|
| Joe Hudson (CEO) | Nil | Nil | Nil | Nil |
| Chris McLeish (CFO) | Nil | Nil | Nil | Nil |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

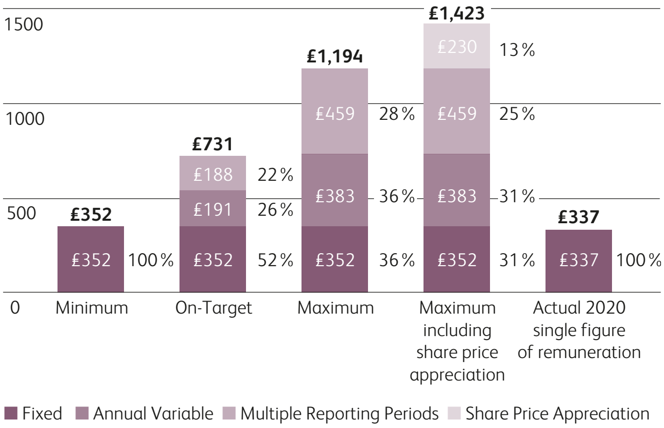
### Illustrations of the application of the Remuneration Policy

The charts below illustrate the total remuneration that would be paid to each of the Executive Directors, based on salaries at the start of the 2020 financial year, under four different performance scenarios: (i) minimum; (ii) on-target; (iii) maximum; and (iv) maximum including the impact of a 50% increase in share price on the LTIP outcome. In addition, the chart shows the actual single figure of remuneration paid in respect of 2020.

**Joe Hudson (CEO)**
£'000




**Chris McLeish (CFO)**
£'000




1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Remuneration at a glance continued

| Element | Minimum | On-target | Maximum | Maximum including share price appreciation |
|---|---|---|---|---|
| **Fixed**<br>(salary[1], benefits and pension[2]) | Included | Included | Included | Included |
| **Annual bonus**<br>(125% of salary) | Not included | 50% of maximum | 100% of maximum | 100% of maximum |
| **LTIP**<br>(150% of salary in 2020) | Not included | 50% of maximum | 100% of maximum | 100% of maximum |
| **Share price gain**<br>(50% over 3 years) | Not included | Not included | Not included | 50% of the maximum LTIP value |

1 Salary is Full Year 2020 base salary.
2 Based on 2020 benefits payments and pension values as per the 2019 Policy.

### Our Remuneration Policy and its link to our Group strategy

The key elements of the Company's strategy and how its successful implementation is linked to the Company's remuneration are set out in the following table.

**Strategic priorities**

| **Remuneration Policy** | **Sustain**<br>World class sustainable performance in our operations focusing in particular on manufacturing, health and safety and the sustainability of our business. | **Innovate**<br>Strengthening commercial functions, delivering an outstanding customer service experience and developing innovative new products and solutions | **Grow**<br>Investment in both organic growth projects and businesses that complement our existing operations | Equity ownership and retention of shares | Retain and reward the Executive team to deliver the strategy |
|---|---|---|---|---|---|
| **Annual bonus**<br>The maximum bonus (including any part of the bonus deferred into an Annual & Deferred Bonus Plan ("ADBP") Award) deliverable under the ADBP will not exceed 125% of a participant's annual base salary. | Non-financial measures target customer satisfaction and Health and Safety in the workplace and therefore support this objective. | **Adjusted EBITDA[1], Adjusted operating cash flow[1]**<br>The efficient development of innovative products measured through Adjusted EBITDA[1] will be reflected in increased profitability and adjusted operating cash flow[1]. | **Adjusted EBITDA[1], Adjusted operating cash flow[1]**<br>The success in maximising operational excellence will be reflected through increased profitability and cash flow. | ✓ | ✓ |
| **LTIP**<br>Maximum annual award is normally 150% of salary<br>Awards will vest at the end of three years with a further two-year holding period.<br>For 2021, the performance conditions for awards are:<br>• Comparative Total Shareholder Return ("TSR") (40%);<br>• Adjusted Earnings per Share ("EPS") growth (30%)[1];<br>• Return on Capital Employed[1] ("ROCE") (20%); and<br>• ESG (carbon reduction) (10%) | **ESG (Carbon reduction)**<br>Achievement of one of the Group's key targets contained on its Sustainability Roadmap. This will help contribute to our objectives of being the sector leader in sustainability matters. | **ROCE[1], TSR**<br>The generation of cash and profit growth targeted by the annual bonus will help enhance the value of the Company which will be measured through the success of the Company's TSR performance against its comparators and strong ROCE[1]. | **ROCE[1], Adjusted EPS[1], TSR**<br>The success in maximising operational excellence will be measured through the long-term Adjusted EPS[1] growth targeted by the LTIP and sustained strong ROCE[1]. In addition, sustained value generation will be reflected in the shareholder returns of the Company which will be measured through the Company's TSR performance under the LTIP. | ✓ | ✓ |
| **Sharesave Plan (Sharesave)** | Encourages employee participation in our success and encourages retention. | | | ✓ | ✓ |
| **Minimum shareholding requirements**<br>200% of salary. | Creates alignment with our shareholders. | | | ✓ | ✓ |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Remuneration Policy Summary

### Introduction

This part of the Directors' Remuneration Report summarises the key components of Executive Director remuneration arrangements, which form part of the Policy. In accordance with the remuneration reporting regulations, the Policy became formally effective at the AGM on 23 May 2019 for a period of three years from the date of approval. A full copy of the Policy can be found on our website at www.ibstockplc.co.uk.

**Summary of 2019 Remuneration Policy for Executive Directors**

| Element of remuneration | Link to strategic objectives | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Base salary** | Provides a base level of remuneration to support recruitment and retention of Executive Directors. | An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility.<br>Salaries for the Executive Directors were frozen for the 2021 financial year. | In general, salary increases for Executive Directors will be in line with the increase for employees across the Group.<br>An alternative approach may be taken in relation to the individuals who are recruited or promoted to the Board. | None |
| **Benefits** | Provides a benefits package in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors. | The Executive Directors receive a company car or car allowance, private health cover and death in service cover. | The maximum will depend on the cost of providing the relevant benefits. The Company has monitoring practices in place to ensure spend on benefits is efficient. | None |
| **Pensions** | Provides retirement benefit to enable the Company to recruit and retain Executive Directors. | The Company operates a defined contribution pension or salary supplement arrangement for Executive Directors. | • 20% of salary for the CEO. It has been agreed that this will be reduced to 10% by the end of 2022.<br>• 10% of salary for the other Directors | None |
| **ADBP** | The ADBP provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. | The annual bonus will be paid in cash and deferred shares.<br>The Committee will determine each year what part of the ADBP is deferred for three years. The minimum value of deferred shares is one-third of the bonus earned.<br>The ADBP contains clawback and malus provisions. | • Up to 125% of salary<br>Percentage of maximum bonus earned for levels of performance:<br>• Threshold: 0%<br>• On-target: 50%<br>• Maximum: 100% | A minimum of 50% of the targets will be financial. The Board will determine the bonus to be delivered following the end of the relevant financial year.<br>Actual targets, performance achieved and awards made will be published at the end of the performance period. |
| **LTIP** | The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long-term performance and achievement of Group strategy. | Awards are granted annually and vest at the end of a three-year period.<br>A post-vesting holding period of two years will apply for the LTIP.<br>The Committee may award dividend equivalents in shares on awards to the extent that these vest.<br>The LTIP contains clawback and malus provisions. | • Up to 150% of salary<br>• Up to 200% of salary in exceptional circumstances<br>25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance. There is straight line vesting between these points. | The performance conditions for the 2021 LTIP awards are Adjusted EPS growth[1], comparative TSR, ROCE[1] and ESG. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. |
| **Sharesave** | The plan is designed to encourage all employees to become shareholders in the Company. | All employees including Executive Directors are eligible to participate in the plans. | Maximum opportunity for awards and purchases are kept in line with HMRC limits. | The Company, in accordance with the legislation, may impose objective conditions on participation in the plans for employees. |
| **Minimum shareholding requirement** | Executive Directors are expected to build up over a five-year period and then subsequently hold a shareholding equivalent to 200% of base salary. This will include deferred shares at their net-of-tax value and shares subject to a holding period at their full value. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements.<br>In addition, a post-cessation minimum shareholding requirement will apply to Executive Directors who leave the Company. Leavers will have a requirement to hold 100% of their pre-cessation shareholding requirement for one year from leaving, reducing to 50% for a second year. | | | |

# Remuneration Policy Summary continued

## Remuneration Policy for Non-Executive Directors

| Element of remuneration | Link to strategic objectives | Operation | Maximum opportunity | Performance metrics |
|---|---|---|---|---|
| **Non-Executive Director and Chairman fees** | Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chairman. | Non-Executive Directors are paid an annual fee and additional fees for chairmanship of Committees. The Chairman does not receive any additional fees for membership of Committees.<br><br>Fees for the Non-Executive Directors were frozen for the 2021 financial year. | The fees for Non-Executive Directors and the Chairman are set at broadly the median of the comparator group.<br><br>In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and the general rise in salaries across the UK workforce.<br><br>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these. | None |

### Alignment of Policy with requirements under the UK Corporate Governance Code

The Remuneration Policy was designed considering the following key factors referenced in the UK Corporate Governance Code:

| | | |
|---|---|---|
| **Clarity** | Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. | • We proactively consult our shareholders on any changes to the Remuneration Policy and seek their views.<br>• We regularly engage with the workforce and seek to bring employee voice in the Boardroom.<br>• We always seek to improve the quality of disclosure in our DRR and conduct an annual review of disclosure provided to add relevant information to increase transparency. |
| **Simplicity** | Remuneration structures should avoid complexity and their rationale and operation should be easy to understand. | • The structure of the ADBP and LTIP are in line with standard UK market practice and hence should be familiar to all stakeholders.<br>• Performance metrics are chosen to focus on the key operational and financial performance objectives of the business. |
| **Risk** | Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. | The Policy helps mitigate risks as follows:<br>• The Committee has discretion to override formulaic outcomes in instances where payouts do not accurately reflect the overall performance of the business.<br>• Malus and clawback in incentive plan rules provide flexibility to prevent excessive payouts in exceptional circumstances.<br>• Post-vesting holding periods and shareholding requirements encourage focus on sustainable performance over the long term.<br>• Incentive performance metrics are aligned with the Company's strategy.<br>• Maximum award limits are set within the Policy. |
| **Predictability** | The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy. | • The Policy sets out potential levels of vesting available for varying degrees of performance (threshold, on-target and maximum) and calculation methodology.<br>• The DRR illustrates graphically the potential levels of remuneration received by Executive Directors under various performance scenarios. |
| **Proportionality** | The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance. | • The ADBP and LTIP reward Executive Directors for delivering the Company's strategy.<br>• The use of deferral and multi-year performance periods ensure Executive Directors are focused on long-term sustainable performance.<br>• The Committee's discretion to adjust outcomes prevents Executive Directors from being rewarded for poor underlying business performance. |
| **Alignment to culture** | Incentive schemes should drive behaviours consistent with Company purpose, values and strategy. | • Alignment of our incentives structure to strategy is illustrated on page 88. Strategic priorities are supported by the Company's culture.<br>• In addition, the Board believes that our remuneration structure is structured to drive the right culture and performance and is aligned with the Company's values. |

# Annual Report on Remuneration

## Company remuneration at Ibstock

### Fairness, diversity and wider workforce considerations

Ibstock is committed to creating an inclusive working environment and rewarding our employees throughout the organisation in a fair manner. In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions. We believe that employees throughout the Company should be able to share in the Company's success. We have, on two occasions since our Initial Public Offering (IPO), operated a very popular Sharesave plan and our intention is to launch a third invitation in March 2021, as well as investigate additional opportunities for our employees to share in our success going forwards. We also believe that employees should have the opportunity to save for their futures and to this end we operate defined contribution Group personal pension plans into which the Company and our employees make contributions.

As part of our commitment to fairness and in line with the evolving reporting regulations, for the fourth year we have included this section into our Annual Report on Remuneration which sets out more information on our wider workforce pay conditions, our CEO to employee pay ratio, our Gender Pay statistics, and our Diversity and Inclusion Policy. Whilst we recognise there is much work still to do, we believe that transparency is an important first step towards making improvements in relation to these important issues.

| Area | Considerations |
|---|---|
| **Competitive pay and cascade of incentives** | The Committee ensures that pay is fair throughout the company and makes decisions in relation to the structure of executive pay in the context of the cascade of incentives throughout the business. The Committee's remit extends down to the senior executives, senior management and other managers and employees for which it recommends and monitors the level and structure of remuneration. |

| Level | Participation in bonus | Participation in LTIP | Participation in Share Option Plan/SMSP | Participation in Sharesave |
|---|---|---|---|---|
| Executive Directors | ✓ | ✓ | | ✓ |
| Senior executives | ✓ | ✓ | ✓ | ✓ |
| Senior managers | ✓ | | ✓ | ✓ |
| Managers | ✓ | | | ✓ |
| Employees | ✓ | | | ✓ |

| Area | Considerations |
|---|---|
| **Remuneration and its link to the Company's objectives** | |

| | | | Objectives | | | |
|---|---|---|---|---|---|---|
| Plan | Purpose | Eligibility | Financial performance | Strategic and operational goals | Long-term value creation (encouraged through equity retention) | Share ownership |
| Sharesave | To broaden share ownership and share in corporate success over the medium-term | All employees | | | ✓ | ✓ |
| Annual bonus | Incentivise and reward short-term performance. At senior level an element of bonus may be deferred in shares | Executive Directors, senior executives, senior managers, managers and employees | ✓ | ✓ | ✓ | ✓ |

| | | | Objectives | | | |
|---|---|---|---|---|---|---|
| Plan | Purpose | Eligibility | Financial performance | Strategic and operational goals | Long-term value creation (encouraged through equity retention) | Share ownership |
| Share Option Plan/SMSP | Broaden share ownership, alignment, retention, long-term performance | Senior executives and senior management | | | ✓ | ✓ |
| LTIP | Incentivise and reward long-term performance | Executive Directors and senior executives | ✓ | | ✓ | ✓ |

The company uses a number of remuneration comparison measurements to assess the fairness of pay structures across the Group. Detailed disclosure of our approach to fairness, diversity and wider workforce considerations is presented above on this page.
In setting the Policy for Directors, the pay and conditions of other employees of the company are taken into account to ensure consistency of approach throughout the company, including data on the remuneration structure for management level tiers below the Executive Directors, average base salary increases awarded to the overall employee population and the cascade of pay structures throughout the business.

As a Committee, we are keenly aware of the sensitivity of shareholders and the wider public regarding executive remuneration. The Committee will continue to monitor external remuneration developments closely and intends to embrace these changes and continue to comply with best practice reporting requirements as they come into force.

| Area | Considerations |
|---|---|
| **Pay comparisons** | **CEO pay ratio** |

| Year | Method | Median ratio | Lower Quartile ratio | Upper Quartile ratio |
|---|---|---|---|---|
| 2018 | Option A | 30:1 | 24:1 | 19:1 |
| 2019 | Option A | 43:1 | 35:1 | 23:1 |
| 2020 | Option A | 21:1 | 16:1 | 13:1 |

In line with the remuneration reporting regulations, we report the ratio of CEO single figure pay to the pay of our employees for the third year in 2020. As in 2019, we have calculated the ratios set out above using Option A, as described in the Directors' Remuneration Reporting Regulations, as we believe that this reflects the most comprehensive approach.

The ratios were determined as at 31 December 2020.

**CEO pay in the last four years**

The table below sets out the single total figure of remuneration and incentive outcomes for the Director holding the post of CEO in each year since Ibstock listed on the London Stock Exchange in 2015.

| | Wayne Sheppard[2] | | | | Joe Hudson[3] | | |
|---|---|---|---|---|---|---|---|
| Year | 2015 £'000 | 2016 £'000 | 2017 £'000 | 2018 £'000 | 2018 £'000 | **2019 £'000** | **2020 £'000** |
| Single figure remuneration | 773 | 789 | 906 | 184 | 592 | **737** | **540** |
| % of maximum annual bonus earned | 100% | 33% | 58% | 32.5% | 32.5% | **33.1%** | **0.0%** |
| % of maximum LTIP awards vesting[1] | N/A | N/A | N/A | N/A | N/A | **N/A** | **N/A** |

1 Following the IPO in 2015, no award under the LTIP vested in the period 2016 to 2018.
2 Wayne Sheppard stepped down as CEO and Board Director on 4 April 2018 and his 2018 remuneration has been pro-rated to reflect this.
3 Joe Hudson became CEO on 4 April 2018. His single figure only includes compensation paid to him in 2018 in his capacity as the CEO from 4 April to 31 December 2018 and doesn't include compensation paid to him as CEO designate before 4 April 2018.

**Percentage change in CEO's remuneration**

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2019 and 2020 compares with the percentage change in the average of each of those components of pay for the employees.

| | Salary | | | Taxable benefits | | | Bonus | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | 2019 £'000 | **2020 £'000** | Percentage change | 2019 £'000 | **2020 £'000** | Percentage change | 2019 £'000 | **2020 £'000** | Percentage change |
| CEO[1] | 446 | **432** | (3.1)% | 18 | **17** | (5.6)% | 184 | **0** | (100)% |
| Average per eligible employee[2] | 40 | **37** | (7.5)% | 7 | **7** | – | 45 | **0** | (100)% |

1 The Chief Executive Officer's remuneration disclosed in the table above has been calculated to take into account base salary and taxable benefits excluding pension and annual bonus (including any amount deferred). The reduction in CEO base salary is due to the introduction of a temporary pay reduction. No bonuses were paid for the FY 2020.
2 The pay for eligible employees in continuing operations has been calculated using the following elements: annual salary – base salary and standard monthly allowances; taxable benefits – car allowance and private medical insurance premiums; annual bonus – Company bonus, management bonus, commission and incentive payments. Employee salaries have been impacted by the use of CJRS and subsequent changes in the workforce size and shape due ot the Group wide restructuring. The adverse percentage change is not indicative of a reduction in salaries for the employee population.

| Area | Considerations |
|---|---|
| **Gender pay** | The UK Government Equalities Office legislation requires employers with 250 or more employees in the UK to disclose annually information on their gender pay gap. The fourth disclosure of the pay gap is based on amounts paid in the year to 5 April 2020. The bonus gap is based on incentives paid in respect of the year to 5 April 2020. As Ibstock Brick is the largest employing entity, we have chosen to report these figures in this report. We are committed to regular analysis and monitoring of pay where we will continue to work to remedy any gap that we have. |

The mean gender pay gap at Ibstock Brick is 14% which is lower than the UK average of 15.5%. We continue to work hard to encourage more females into the business. Our current employee population reflects the traditional nature of the industry, with 85% of roles being occupied by men, including a high percentage of males employed in factory based production roles. This can clearly be seen in the quartiles set out below, which show the number of male and female employees in each pay quartile:

| | | | |
|---|---|---|---|
| **Quartile A (lowest)** | 1 Male: 46%<br>2 Female: 54% | **Quartile B** | 1 Male: 88%<br>2 Female: 12% |
| **Quartile C** | 1 Male: 86%<br>2 Female: 14% | **Quartile D (highest)** | 1 Male: 89%<br>2 Female: 11% |

Note: The figures quoted above are for Ibstock Brick Limited, a subsidiary of Ibstock plc, only.

| Area | Considerations |
|---|---|
| **Diversity policy** | We believe the diversity of our people strengthens our judgement, independence and decision making. We also know that attracting a more diverse workforce widens our pool of talent which is key for our succession planning and sustainable growth.<br>Our commitment is backed by our Diversity and Inclusion Policy and will be supported during the coming year by the commitment to appoint a senior sponsor in the business for diversity and inclusion. |

# Annual Report on Remuneration continued

**Informing the Committee on the wider workforce**
To build the Committee's understanding of reward arrangements applicable to the wider workforce, the Committee was provided with data on the remuneration arrangements for all employees across the Group. The Committee annually reviews the pay proposals for the senior executives/senior management team, including annual bonus targets and outcomes and long-term incentives, and is aware of the pay increases awarded to the broader employee population. The Committee uses this information to ensure consistency and fairness of approach throughout the Company in relation to remuneration.

**Workforce engagement**
In August 2019 the Group launched its first ever employee forum called The Listening Post. Under the initiative the CEO and one of the Non-Executive Directors, together with certain members of the ELT, meets twice a year with nominated employee champions elected from all parts of the Business to discuss the Group, how it is performing and to identify potential areas for improvement. During the year feedback from our employees through the Listening Post and through surveys has included topics including remuneration. Further information can be found in the Sustainability section on page 39.

**Remuneration justification**
The Committee is comfortable that the pay relativity reference points set out above provide justification that the application of the Policy is appropriate.

### Annual Report on Remuneration

The Board has delegated to the Committee, under agreed terms of reference, responsibility for the Policy and for determining specific packages for the Executive Directors and members of the ELT. The Company consults with key shareholders in respect of the Policy and the introduction of new incentive arrangements. The annual review of the terms of reference was conducted at the December meeting and these are available on the Company's website. The Committee's main responsibilities are also set out on page 85.

On the following pages we provide a detailed description of the 2020 Executive Directors' pay outcomes and supporting information.

### Application of the Policy in FY 2020

**Single total figure of remuneration (audited)**
The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the financial year to 31 December 2020.

Figures provided have been calculated in accordance with the UK disclosure requirements: the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Schedule 8 to the Regulations).

| | | Fixed remuneration | | | | Variable remuneration | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive Directors | Year | Salary/Fees | Taxable benefits[1] | Pension | Sub-total | ADBP | Other[2] | LTIP | Sub- total | Total |
| Joe Hudson (CEO) | **2020** | **£432,053** | **£16,513** | **£90,959** | **£539,524** | **–** | **–** | **–** | **–** | **£539,524** |
| | 2019 | £445,875 | £17,806 | £89,172 | £552,853 | £184,434 | – | | £184,434 | £737,287 |
| Chris McLeish (CFO)[3] | **2020** | **£290,700** | **£15,505** | **£30,600** | **£336,805** | **–** | **–** | **–** | **–** | **£336,805** |
| | 2019 | £125,000 | £6,250 | £12,500 | £143,750 | £49,831 | £237,819 | | £287,650 | £431,400 |
| Kate Tinsley[4] | **2020** | **£151,597** | **£7,241** | **£10, 813** | **£169,651** | **–** | **–** | **–** | **–** | **£169,651** |
| | 2019 | – | – | – | – | – | – | – | – | – |
| Non-Executive Directors | | | | | | | | | | |
| Jonathan Nicholls | **2020** | **£173,814** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **£173,814** |
| | 2019 | £179,375 | – | – | – | – | – | – | – | £179,375 |
| Tracey Graham | **2020** | **£71,493** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **£71,493** |
| | 2019 | £66,625 | – | – | – | – | – | – | – | £66,625 |
| Justin Read | **2020** | **£59,594** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **£59,594** |
| | 2019 | £61,500 | – | – | – | – | – | – | – | £61,500 |
| Louis Eperjesi | **2020** | **£49,106** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **£49,106** |
| | 2019 | £51,250 | – | – | – | – | – | – | – | £51,250 |
| Claire Hawkings | **2020** | **£49,661** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **£49,661** |
| | 2019 | £51,250 | – | – | – | – | – | – | – | £51,250 |

1 Taxable benefits in the 2020 financial year comprised a Company car allowance, private health cover and death in service cover. Joe Hudson and Chris McLeish were entitled to receive car allowances of £18,000 and £15,000 per annum, respectively. The actual amounts received for the 2020 financial year are shown as part of the total taxable benefits figure above.
2 For Chris McLeish this includes a buyout award granted in 2019 to compensate, on a fair value basis, the value foregone for share awards forfeited on cessation of employment with his previous employer. Details regarding the buyout award were included on page 81 of the 2019 Directors' remuneration report.
3 Chris McLeish joined the Board on 1 August 2019 and became CFO on 31 August 2019. His 2019 remuneration is pro-rated to reflect this.
4 Kate Tinsley stepped down from the Board on 24 July 2020. Her remuneration reflects the fact that she did not serve as a director for a full financial year.

**Pension entitlements (audited)**
The Company's Defined Benefit Scheme was closed in 2017. Executive Directors receive a salary supplement in lieu of pension contributions with the CEO and CFO receiving contributions of 20% and 10% of base salary respectively. In order to ensure all executives contributions are at the same level as the majority of the wider workforce, contributions payable to the CEO will reduce to 10% of base salary by the end of 2022.

**ADBP (audited)**
Details of the targets used to determine bonuses in respect of the 2020 financial year and the extent to which they were satisfied are shown in the table below. As previously stated and following a recommendation received from management, the Committee took the difficult decision to cancel bonuses for FY 2020 in light of the Board's decisions to cancel the full year 2019 final dividend and the need to take Government support via the CJRS scheme during the period when the Group suspended production and factories were closed. This position is reflected in the single figure table on page 94. Whilst not relevant for the purposes of the year under review, 0% for each element is payable for achieving the threshold performance, 50% for achieving target performance and 100% for achieving maximum performance. One third of any bonus payable would be deferred for three years into Company shares subject to continued employment.

| | | | | | | Bonus value achieved | |
|---|---|---|---|---|---|---|---|
| Performance condition | Weighting | Threshold performance required (£'m) | Maximum performance required (£'m) | Actual performance (£'m) | Percentage of maximum performance achieved | Joe Hudson | Chris McLeish |
| Adjusted EBITDA[1] | 50% | £119.0 | £129.0 | £52.1 | 0.0% | – | – |
| Adjusted operating cash flow[1] | 20% | £71.9 | £81.1 | £50.2 | 0.0% | – | – |
| Non-financial objectives | 30% | A summary of the personal objectives for 2020 are outlined below. | | | | | |
| Total | 100% | | | | | – | – |

As it had already been determined that no bonuses would be payable for FY 2020, a detailed assessment of performance against the original personal objectives was not undertaken. In addition the objectives had shifted considerably to reflect the changed priorities as a result of the global pandemic. Nevertheless, the Committee fully supports the actions taken and the significant hard work of the entire management and all employees across the business. As set out above, no discretion was exercised by the Committee in relation to the outcome of the bonus awards.

**Summary of personal objectives**

| | Objective area | Measure(s) of success |
|---|---|---|
| **CEO** | Innovating and improving our world<br>• Delivery of year one of Enterprise transformation plan<br>• Delivery of sustainability and H&S roadmaps | • Clear year one focus areas for Concrete and Clay and central functions with deliverables and financial targets<br>• Organisation structures and processes set up<br>• Clear communication to stakeholders (Investors, Board, Internal)<br>• Achievement and recalibration against targets for sustainability for 2020<br>• H&S 2020 targets, LTIFR reduction and leading indicators |
| | Inspiring our people/Incredible for our customers<br>• Ensure the organisational effectiveness of Divisional, and functional teams | • Concrete – ensure the new structure is in place with P&L alignment and optimised customer service back office functions<br>• Clay – NPD delivery, use of technology and CRM, Specification performance, Maintenance and quality improvements<br>• Central – Development of new finance team, IT and central shared services, enhanced role of Company Secretariat. Marketing and innovation effectiveness and support for the broader role in HR<br>• Overall improved performance in key financial and operational performance metrics |
| | Investing in our performance<br>• Conduct a next step in the strategic review with the Ex co and the Board looking at alternative and adjacent developments<br>• Review M&A options and execute in line with 5-year strategic investment horizon | • ELT/Board alignment on strategic plan, further road map for Clay and next phase capacity/enhancements |
| | Investing in our performance<br>• Capital Investment projects | • Execute plan and roadmap for organic investment in Clay and concrete<br>• Investment files for approval/time-lines for project delivery<br>• Delivery of the existing enhancement projects in Clay |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Annual Report on Remuneration continued

| | Objective area | Measure(s) of success |
|---|---|---|
| | Inspiring our people<br>• Introduce the Ibstock Way next steps (Values and behaviours roll out, talent and performance management system, Leadership development program and reward review). | • Improvement in engagement scores to get to "ones to watch" in 2020<br>• Recommendations from the reward review by Q3<br>• Robust performance calibrations and use of clear review (quality performance objectives.<br>• Talent management and succession planning process in place |
| **CFO** | Establish and lead the enterprise transformation programme | • Delivery against agreed milestones and plans |
| | Deliver significant improvement in performance management processes and associated business outcomes | • Group delivers commercial performance in line with commitment (2020 budget)<br>• Cost and cash performance at least in line with budget |
| | Communicate refreshed strategy and equity story to capital markets | • Group's strategy and prospects are clearly understood and appropriately valued<br>• Market expectations of FY20 and FY21 are clearly and effectively managed |
| | Ensure Finance and IS/IT team has clear set of strategic ambitions (aligned with enterprise strategy and goals) and a plan to realise them | • Strategic objectives approved and communicated |
| | Continue to embed high quality risk management and controls framework, ensuring broad based ownership for effective risk management across the enterprise | • Risk framework and controls embedded and communicated |

**LTIP (audited)**
**Awards granted in 2020**
The table below sets out the details of the long-term incentive awards granted in the 2020 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods.

| Name | Award type | Award size (% of base salary) | Date of grant | Shares awarded | Face value on the date of grant[1] | Percentage of award vesting at threshold performance Percentage | Maximum percentage of face value that could vest Percentage | Performance conditions |
|---|---|---|---|---|---|---|---|---|
| Joe Hudson (CEO) | LTIP | 150% | 14/04/2020 | 357,167 | £682,190 | 25 | 100 | Relative TSR, EPS and ROCE[1] |
| Chris McLeish (CFO) | LTIP | 150% | 14/04/2020 | 240,314 | £459,000 | 25 | 100 | Relative TSR, EPS and ROCE[1] |

1 Share price by reference to which the awards were granted is £1.91 (closing share price on 9 April 2020).

**Performance conditions**
Vesting of the 2020 awards will be subject to the achievement of a challenging sliding scale of adjusted EPS[1], relative TSR against the FTSE 250 construction and building materials companies and ROCE[1] over a three-year performance period ending on 14 April 2023. 25% of the award will vest for threshold performance; 100% of the award will vest for maximum performance, with straight line vesting between these points. The performance schedule for these measures is as follows:

| Measure | Weighting | Threshold | Maximum |
|---|---|---|---|
| Relative TSR[1,2] | 33.3% | Median | Upper quartile |
| Adjusted EPS growth[1] | 33.3% | 3% per annum | 10% per annum |
| ROCE[1] | 33.3% | 18.76% per annum | 20.77% per annum |

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.
2 Relative TSR will be measured from the date of grant over a three-year period (with one-month averaging of TSR used to derive the start and the end values for the calculation). Adjusted EPS growth will be measured over three consecutive financial years with the base point for the 2020 award derived from the adjusted EPS as at 31 December 2019. ROCE performance will be taken to be the average of each of the three years of the performance period.
3 A two-year post-vesting holding period applies to 2020 LTIP awards.

**Awards that vested in 2020**

The three-year performance period for the awards granted in 29 March 2017 expired on 29 March 2020. The Committee reviewed the performance against the two performance conditions and determined an overall vesting level of 40.35%.

**2017 LTIP vesting**

| Measure | Weighting (%) | Threshold (%) | Maximum (%) | Actual (%) | Vesting (% of maximum) |
|---|---|---|---|---|---|
| Relative TSR | 50 | –11.8 | 17.0 | 5.7 | 80.7 |
| Adjusted EPS[3] growth | 50 | 6 | 16 | (0.4) | Nil |
| Total | 100 | – | – | – | 40.35 |

None of the Directors who were in office at the end of the financial year under review held any awards granted in 2017. Details of the value of the awards held by past Directors can be found below.

**Payments of loss of office (audited)**

Kate Tinsley stepped down from her role as a Director on 24 July 2020. In line with Ibstock's policy for loss of office and the rules of the ADBP and the LTIP, the Committee determined she was a good leaver. As a result, Kate was entitled to the following:

| Element | Treatment applied |
|---|---|
| Salary and pension | Salary and pension paid in full between 1 January 2020 and 23 July 2020. Kate was placed on garden leave and received salary and pension payments for two calendar months from 24 July 2020 until 24 September 2020 totalling £67,263.78. This amount included holiday pay accrued but not taken. |
| Benefits | Life assurance and medical benefits were provided up to 24 September 2020 as well as the use of her Company car for the same period. |
| ADBP cash awards | No cash awards under the terms of the ADBP were made. |
| ADBP share awards | Kate will be entitled to receive 12,100 deferred shares paid under the Annual and Deferred Bonus Plan for 2019 at the end of the deferral period on 14 April 2023. |
| LTIP | Kate will be treated as a good leaver for the purpose of awards made to her under the Company's LTIP. The LTIP Awards made in 2019 and 2020 may vest, subject to the achievement of the performance conditions, on the original vesting date and will be reduced pro-rata for the proportion of the vesting period she was a Director of the Company. As such up to 35,021 shares may vest, subject to performance in respect of the 2019 LTIP and up to 26,814 shares may vest, subject to performance in respect of the 2020 LTIP. |
| Buyout awards | Kate will be treated as a good leaver in respect of the buyout award that she received when joining the Company in August 2019. This award may vest, subject to the achievement of the performance conditions, on the original vesting date. The number of shares subject to this award may be adjusted up or down following assessment of these performance conditions. As such, up to 35,408 shares may vest, subject to the relevant performance conditions on 9 April 2021. |

The full section 430 (2B) Companies Act 2006 disclosure can be found on the Group's website.

**Payments to past Directors (audited)**

Kevin Sims and Wayne Sheppard stepped down from their roles as CEO and CFO upon retirement on 4 April 2018 and 31 August 2019 respectively. Both remained as employees of the Company until 31 December 2018 and 31 December 2019 respectively. The leaving arrangements, which were fully disclosed in the 2018 and 2019 Annual Reports, included that any outstanding awards that were held under the Company's share plans were retained, but time apportioned up to 31 December 208 and 31 December 2019 respectively.

During the period ending 31 December 2020, Wayne Sheppard and Kevin Sims 2017 LTIP vested. The three-year performance period for the awards granted in 2017, expired on 29 March 2020. The Committee reviewed the performance against the two performance conditions and determined an overall vesting level of 40.35%.

The table below sets out the number of shares vested for the former CEO and CFO.

| Name | Award type | Date of grant | Date of vesting | Shares awarded | Shares vested (after pro-ration for time served and performance assessment)[1] | Value of shares at the vesting date[2] |
|---|---|---|---|---|---|---|
| Wayne Sheppard (former CEO) | Nil–cost options | 29/03/17 | 29/03/20 | 205,075 | 60,832 | £90,031 |
| Kevin Sims (former CFO) | Nil–cost options | 29/03/17 | 29/03/20 | 139,933 | 65,228 | £96,537 |

1 Figure includes 12,563 and 13,471 dividend equivalent shares awarded pursuant to the rules of the LTIP and the Policy.

2 The value for the 2017 LTIP awards is based on the Company's share price of £1.48 pence per share, the closing share price on 27 March 2020. being the closest day prior to the vesting date.

3 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Annual Report on Remuneration continued

## Directors share interests

**Executive Directors incentive awards at 31 December 2020**

The following table shows details of those options held by the directors under the Company's share plans as at 31 December 2020:

| Joe Hudson | Date of Award | Interest at 1 January 2020 | Awarded during the year | Vested during the year | Lapsed during the year | Exercised during the year | Interest at 31 December 2020 | Market price on award date | Exercise/ option price | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| **LTIP** | 2018 | 150,000 | – | – | – | – | 150,000 | 2.9000 | Nil cost | 09/04/28 |
| | 2019 | 170,181 | – | – | – | – | 170,181 | 2.0351 | Nil cost | 03/05/29 |
| | 2020 | – | 357,167 | – | – | – | 357,167 | 1.9100 | Nil cost | 14/04/30 |
| **ADBP** | 2019 | 28,942 | – | – | – | – | 28,942 | 2.0351 | Nil cost | 03/05/29 |
| | 2020 | – | 21,571 | – | – | – | 51,571 | 2.8500 | Nil cost | 14/04/30 |

| Chris McLeish | Date of Award | Interest at 1 January 2020 | Awarded during the year | Vested during the year | Lapsed during the year | Exercised during the year | Interest at 31 December 2020 | Market price on award date | Exercise/ option price | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| **LTIP** | 2018 | – | – | – | – | – | – | N/A | Nil cost | N/A |
| | 2019 | 170,145 | – | – | – | – | 170,145 | 2.2000 | Nil cost | 12/08/29 |
| | 2020 | – | 240,314 | – | – | – | 240,314 | 1.9100 | Nil cost | 14/04/30 |
| **ADBP** | 2019 | – | – | – | – | – | – | N/A | Nil cost | N/A |
| | 2020 | – | 5,829 | – | – | – | 5,829 | 2.8500 | Nil cost | 14/04/30 |

**Statement of Directors' shareholdings and share interests (audited)**

Directors' share interests and, where applicable, achievement of shareholding requirements are set out below. The CEO and CFO, having only joined the Company in 2018 and 2019 respectively, are expected to build up over a five-year period and then subsequently hold a shareholding equivalent to 200% of base salary.

In line with the Policy, interests which count towards the shareholding requirement include deferred shares at their net-of-tax value and shares subject to a holding period at their full value. Additionally, Executive Directors' shares will be subject to a post-cessation of employment shareholding requirement of 100% of pre-cessation shareholding requirement for one year following cessation, reducing to 50% for a second year.

| | | | Shares held directly | Other interests held | | | | |
|---|---|---|---|---|---|---|---|---|
| Directors | Shareholding requirement % salary | Current shareholding[1] % salary | Beneficially owned | Interests subject to performance conditions | Interests not subject to performance conditions | Vested but unexercised interests | Outstanding SAYE awards | Shareholding requirement met? |
| Joe Hudson | 200% | 22% | 9,257 | 677,348 | 50,513 | 21,570 | N/A | No |
| Chris McLeish | 200% | 59% | N/A | 435,479[2] | 5,829 | 64,790[3] | N/A | No |
| Kate Tinsley[4] | 200% | 54% | 0 | 77,060 | 12,100 | N/A | N/A | No |
| Jonathan Nicholls | N/A | N/A | 10,000 | N/A | N/A | N/A | N/A | N/A |
| Tracey Graham | N/A | N/A | 10,000 | N/A | N/A | N/A | N/A | N/A |
| Justin Read | N/A | N/A | 17,500 | N/A | N/A | N/A | N/A | N/A |
| Louis Eperjesi[5] | N/A | N/A | 20,000 | N/A | N/A | N/A | N/A | N/A |
| Claire Hawkings | N/A | N/A | 10,000 | N/A | N/A | N/A | N/A | N/A |

1 As at 31 December 2020 (unless stated otherwise). This was based on a closing share price of £2.06 at 31 December 2020 and the year end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.
2 This includes a buyout award granted in 2019 to Chris McLeish to compensate, on a fair value basis, the value foregone for share awards forfeited on cessation of employment with his previous employer. This is subject to Tate & Lyle plc performance conditions.
3 This represents the number of shares vesting under the first tranche of Chris McLeish's Buyout award that vested during the year including those shares awarded as dividend equivalents.
4 Kate Tinsley stepped down from her role as a Director on 24 July 2020 and her shareholding is disclosed as at that date.
5 Note holding is legally held by Louis Eperjesi's spouse.

There were no changes in shareholdings from the year end to the date of this report.

### Details of Director service contracts and letters of appointment

**Executive Directors**

| | | | Notice periods | | |
|---|---|---|---|---|---|
| Name | Date of service contract | Nature of contract | From Company | From Director | Compensation provisions for early termination |
| Joe Hudson | 2 January 2018 | Rolling | 12 months | 12 months | None |
| Chris McLeish | 1 August 2019 | Rolling | 12 months | 12 months | None |

**Non-Executive Directors**

| Name | Date of original appointment |
|---|---|
| Jonathan Nicholls | 22 September 2015 |
| Tracey Graham | 3 February 2016 |
| Justin Read | 1 January 2017 |
| Louis Eperjesi | 1 June 2018 |
| Claire Hawkings | 1 September 2018 |

The Committee's policy for setting notice periods is that a 12-month period will apply for Executive Directors.

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. These are available for inspection at the Company's registered office. Each independent Non-Executive Director's term of office runs for a three-year period. The initial terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

All Directors wishing to continue to serve will be put forward for election/re-election by shareholders on an annual basis.

### Fees retained for external Non-Executive Directorships

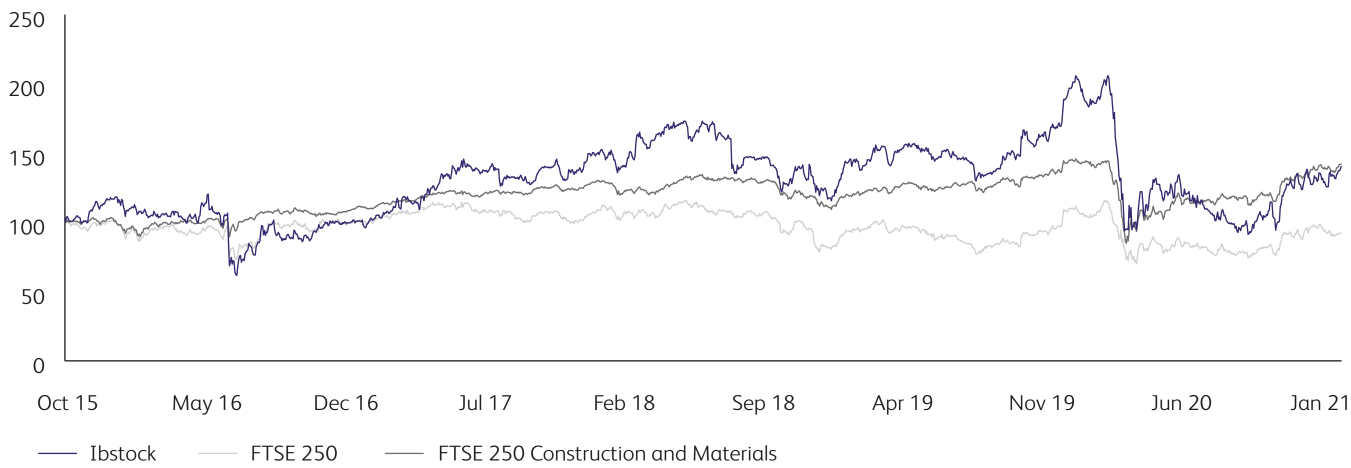
Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees. Current Executive Directors do not hold any external directorships in other listed companies.

### Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index and the FTSE 250 Construction and Building materials companies. The graph shows the Total Shareholder Return generated by both the movement in share value and reinvestment over the same period of dividend income.

**Total Shareholder Return**

£100 invested in the Company's shares since listing compated with the FTSE 250 index and the FTSE 250 Construction and Building Materials companies




Source: Thomson Reuters Datastream data as of 9 February 2021

The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member of this index since listing. This graph has been calculated in accordance with the Regulations. It should be noted that the Company listed on 27 October 2015 and therefore only has a listed share price for the period of 27 October 2015 to 31 December 2020. Additionally, the FTSE 250 Construction and Building materials comparator group is shown as it reflects the sector in which the Company operates..

# Annual Report on Remuneration continued

### Chief Executive Officer historic remuneration

The table below sets out the total remuneration delivered to the CEO over the period 26 February 2015 to 31 December 2020, valued using the methodology applied to the single total figure of remuneration. There is no relevant data before 2015.

| | Wayne Sheppard[1] | | | | | | Joe Hudson[2] |
|---|---|---|---|---|---|---|---|
| Chief Executive Officer | 2015 | 2016 | 2017 | 2018 | 2018 | 2019 | 2020 |
| Single total figure | £773,309 | £788,685 | £906,300 | £183,640 | £592,039 | £737,287 | £539,524 |
| Annual bonus payment level achieved (% of maximum opportunity) | 100% | 33% | 58% | 32.5% | 32.5% | 33.1% | 0.0% |
| LTIP vesting level achieved (% of maximum opportunity) | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

1 Wayne Sheppard stepped down as CEO and Board Director on 4 April 2018 and his remuneration for 2018 has been pro-rated.
2 Joe Hudson became CEO on 4 April 2018. His single figure only includes compensation paid to him in 2018 in his capacity as the CEO from 4 April to 31 December 2018 and doesn't include compensation paid to him as CEO designate before 4 April 2018.

### Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2020 and 2019 financial years. All figures provided are taken from the relevant Company's accounts.

| | Disbursements from profit in 2019 financial year £'m | Disbursements from profit in 2020 financial year £'m | % change |
|---|---|---|---|
| Profit distributed by way of dividend | 60.1 | 6.8 | (89) |
| Overall spend on pay including Executive Directors (continuing operations) | 104.3 | 87.5 | (16) |

### Director percentage change versus employee group

The table below shows how the percentage change in each Director's salary/fee, taxable benefits and annual incentive plan between 2019 and 2020 compares with the average percentage change in each of those components of pay for the UK-based employees of the Group as a whole.

Disclosure for all Directors in addition to the CEO has been added this year in line with new requirements under the EU Shareholder Rights Directive II and over time a five-year comparison will be built up.

| | % increase/(decrease) in remuneration in 2020 compared with remuneration in 2019 | | |
|---|---|---|---|
| Director | Salary | Benefits | Bonus |
| Jonathan Nicholls | (3.1)% | N/A | N/A |
| Joe Hudson | (3.1)% | (5.5)% | (100)% |
| Chris McLeish[1] | N/A | N/A | N/A |
| Kate Tinsley[2] | N/A | N/A | N/A |
| Tracey Graham[3] | 7.3% | N/A | N/A |
| Justin Read | (3.1)% | N/A | N/A |
| Louis Eperjesi | (3.3)% | N/A | N/A |
| Claire Hawkings | (3.1)% | N/A | N/A |
| All employees | (8.7)% | 0% | (100)% |

1 Chris McLeish was appointed to the Board on 1 August 2019 therefore no comparison to 2020 can be made
2 Kate Tinsley was appointed to the Board in January 2020 and resigned from the Board on 24 July 2020 therefore no previous year comparison is possible.
3 Tracey Graham was awarded an additional fee during the financial year to reflect her increased responsibilities as Senior Independent Director.

The Committee monitors the changes year on year between our Director pay and the average employee increase.

### Statement of voting at the General Meeting

The current policy was put to a binding vote at the 2019 AGM on 23 May 2019 and as such is due for renewal at the 2022 AGM. The ARR was also put to an advisory vote at the 2020 AGM on 21 May 2020. The voting outcomes are set out in the table below.

| AGM resolution | Votes for | % of votes cast | Votes against | % of votes cast | Total votes cast (excluding withheld) | Votes withheld |
|---|---|---|---|---|---|---|
| Annual Report on Remuneration (2020) | 331,749,727 | 99.67% | 1,095,305 | 0.33% | 332,845,032 | 2,487,114 |
| Directors' Remuneration Policy (2019) | 325,074,186 | 99.71% | 947,646 | 0.29% | 326,021,832 | 2,207,066 |

### Advisers to the Remuneration Committee

Following a selection process carried out by the Board prior to the IPO of the Company in 2015, the Committee has engaged the services of PricewaterhouseCoopers LLP ("PwC") as independent remuneration adviser. During the financial year, PwC advised the Committee on all aspects of the Remuneration Policy for Executive Directors and members of the Executive team. PwC also provided the Company with tax and accountancy advice during the year. The Committee is satisfied that no conflict of interest exists or existed in the provision of these services.

PwC is a member of the Remuneration Consultants Group and the voluntary Code of Conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. Fees of £59,250 (2019: £84,000) were provided to PwC during the year in respect of remuneration advice received and were charged on a fixed fee basis. There are no connections between PwC and individual Directors to be disclosed.

### Implementation of our Remuneration Policy for 2021 financial year

Our proposed implementation of the new Remuneration Policy for the 2021 financial year is set out below.

| | Key elements and time period<br>Year +1 +2 +3 +4 +5 | Overview of Remuneration Policy implementation for 2020 |
|---|---|---|
| **Base salary** | | Current salaries are illustrated in respect of 2020:<br>• Joe Hudson: £454,920<br>• Chris McLeish: £306,000 |
| **Pension** | | The maximum contribution into the defined contribution plan or salary supplement in lieu of pension is 20% of gross base salary for Joe Hudson and 10% of gross base salary for Chris McLeish. From 1 January 2023 this will reduce to a 10% contribution with respect to Joe Hudson. |
| **Benefits** | | Standard benefits will be provided, including car allowance (£18,000 for Joe Hudson and £15,000 for Chris McLeish), private health cover and death in service cover. |
| **Annual and Deferred Bonus Plan ("ADBP")** | Cash<br>Deferred award | For 2021 the maximum bonus opportunity will be 125% of salary for Joe Hudson and Chris McLeish.<br>For 2021, the level of deferral in shares will be one-third of the bonus earned which will vest after three years based on continued employment with the Company.<br>The Committee can determine the proportion of the bonus earned under the ADBP provided as an award of deferred shares to a maximum of 50% of bonus earned.<br>The performance conditions and their weightings for the 2020 annual bonus are as follows:<br>• Adjusted EBITDA[1] (40%);<br>• Adjusted operating cash flow (30%)[1];<br>• Non-financial objectives: defined operational/strategic objectives alongside other key areas for executives (30%).<br>• The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the ADBP in advance would not be in shareholders' interests. Actual targets, performance achieved and awards made will be published at the end of the relevant performance period so shareholders can fully assess the basis for any payouts under the annual bonus. |
| **LTIP** | | • In 2021 the maximum annual LTIP award of 150% of salary will be awarded to Joe Hudson and Chris McLeish.<br>• The performance conditions for awards will be weighted between Adjusted Earnings per Share ("EPS")[1] growth (30%), comparative Total Shareholder Return ("TSR") (40%), ROCE[1] (20%) and ESG (carbon reduction)(10%)and assessed over a three-year performance period.<br>• TSR performance of the Company compared to the FTSE 250 construction and building materials sector companies – with threshold vesting for median performance against the index and full vesting for upper quartile performance.<br>• EPS[1] growth – threshold performance at 16.0 pence and maximum performance at 19.6 pence, with straight line vesting between the points.<br>• ROCE[1] – threshold performance at 15.77% and maximum performance of 17.43% with straight line vesting between.<br>• ESG – threshold performance of 0.152 and maximum performance at 0.142 with straight line vesting between the points.<br>• A two-year holding period will apply to the 2021 LTIP awards following vesting. |
| **Non-Executive Directors' fees** | | The 2020 fee levels are:<br>• Chairman – £182,963<br>• Board fee (including Committee membership) – £52,275<br>• Committee Chairmanship (per Committee) – £10,250<br>• Senior Independent Director – £10,000 |

Thank you for your continued support. I hope that you find this report to be clear in understanding our remuneration practices and that you will be supportive at the coming AGM.

**Tracey Graham**
Chair of the Remuneration Committee and Senior Independent Non-Executive Director
9 March 2021

1 Alternative Performance Measures are described in Note 3 to the consolidated financial statements.

# Other Statutory Disclosures

The Directors' Report for the year ended 31 December 2020 comprises pages 66 to 104 together with the sections of the Annual Report incorporated by reference. The Corporate Governance Report on pages 70 to 75 and the Other Statutory Disclosures on pages 102 to 104 are incorporated into the Directors' Report by reference. As permitted by legislation, some of the matters required to be included in the Directors' report have instead been included in the Strategic Report on pages 1 to 65. The Strategic Report includes an indication of future likely developments in the Company, details of important events and the Company's business model and strategy.

The Strategic Report and the Directors' Report together form the Management Report for the purposes of the Disclosure Guidance and Transparency Rules (DTR) 4.1.8R.

### Principal activity
The principal activity of the Group is the manufacture and supply of clay and concrete building products primarily to customers in the UK residential construction sector. Details of the Group's principal subsidiaries can be found in Note 30 to the financial statements.

### Results and Dividend
The results for the year can be found in the financial review on pages 52 to 55 and these ar incorporated by reference into this report.

### Going Concern and Viability Statement
Information relating to the Going Concern and Viability Statement is set out on pages 64 and 65 of the Strategic Report and is incorporated by reference into this report.

### Research and development
Information relating to research and development is set out on page 41 of the Strategic Report and is incorporated by reference into this report.

### Greenhouse gas emissions
Information relating to the greenhouse gas emissions of the Company is set out on page 43 of the Strategic Report and is incorporated by reference into this report.

### Board of Directors and their interests
The names and biographies of the Directors as at the date of this report are shown on pages 68 and 69. Kate Tinsley served as a Director during the year but resigned from the Board on 24 July 2020. The interests of the Directors holding office at the end of the year in the issued Ordinary Share capital of the company and any interests in Ibstock's share incentive plans are given in the Directors' Remuneration Report on page 98.

### Powers of the Directors
The powers given to the Directors are contained in the Company's Articles of Association and are subject to relevant legislation and, in certain circumstances, including in relation to the issuing or buying back by the Company of its shares, subject to authority being given to the Directors by shareholders in general meeting. The Articles of Association also govern the appointment and replacement of Directors.

### Re-election of Directors
All Directors will retire and submit themselves for election or re-election, annually, by shareholders at the AGM. Specific reasons why each Director's contribution is, and continues to be, important to the Company's long-term sustainable success are set out in the Notice.

### Amendment of the Articles of Association
The Articles of Association may be amended in accordance with the provisions of the Companies Act 2006 by way of a special resolution of the Company's shareholders.

### S.172 statement
During the financial year, the Directors have considered the needs of the Company's stakeholders as well as the factors set out in Section 172 of the Companies Act 2006. Details can be found on page 34.

### Share capital and control
Details of the Company's share capital are contained in Note 25 to the Group consolidated financial statements. The rights attaching to the shares are set out in the Articles of Association.

The Company has established a trust in connection with the Group's Share Incentive Plan (the "SIP"), which holds Ordinary Shares on trust for the benefit of employees of the Group. The Trustees of the SIP trust may vote in respect of Ibstock shares held in the SIP trust, but only as instructed by participants in the SIP in accordance with the SIP trust deed and rules. The Trustees will not otherwise vote in respect of shares held in the SIP trust.

The Trustee of the Employee Benefit Trust (the "Trust"), which is used to purchase shares on behalf of the Company as described in Note 25, has the power to vote or not vote, at its absolute discretion, in respect of any shares in the Company held unallocated in the Trust. However, in accordance with good practice, the Trustee adopts a policy of not voting in respect of such shares. In accordance with Listing Rule 9.8.4(c), the Company notes that the Trustee has a dividend waiver in place in respect of shares which are the beneficial property of the Trust.

### Purchase of own shares
At the AGM held on 21 May 2020, shareholders passed a special resolution in accordance with the Companies Act 2006 to authorise the Company to purchase in the market a maximum of 40,925,979 Ordinary Shares, representing 10% of the Company's issued Ordinary Share capital as at the latest practicable date prior to publication of the AGM circular. The Directors are seeking renewal of the authority at the forthcoming AGM, in accordance with relevant institutional guidelines.

## Substantial shareholdings

As at 31 December 2020, the Company had been notified, in accordance with the Disclosure Guidance and Transparency Rules, of the following interests in its Ordinary Share capital.

| Name of shareholder | Number of shares disclosed | % interest in issued share capital | Nature of holding |
|---|---|---|---|
| Vulcan Value Partners, LLC | 28,421,865 | 6.94% | Indirect |
| Aviva plc and its subsidiaries | 23,253,224 | 5.68% | Direct and Indirect |
| Lansdowne Partners | 20,591,969 | 5.21% | Indirect |
| J O Hambro Capital Management Limited | 20,367,209 | 4.98% | Indirect |
| Franklin Templeton Fund Management Limited | 17,674,986 | 4.32% | Indirect |
| Norges Bank | 12,218,525 | 2.98% | Direct |
| Janus Henderson Group plc | – | Below 5% | Indirect |
| Blackrock, Inc | – | Below 5% | Indirect |

In the period from 31 December 2020 to the date of this report there has only been one notification that had been made to the Company pursuant to DTR 5. Notification was received in February 2020 that Vulcan Value Partners LLC had reduced their holding to 28,173,420 shares (6.78%) of the issued share capital. Information provided to the Company under the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information service and on the Company's website.

## Significant agreements (change of control)

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid.

The Company has committed debt facilities all of which are directly or indirectly subject to change of control provisions, albeit the facilities do not necessarily require mandatory prepayment on a change of control.

In the event of a takeover or other change of control (usually excluding an internal reorganisation), outstanding awards under the Group's incentive plans vest and become exercisable (including Annual & Deferred Bonus Plan (ADBP) awards, ADBP share awards and Long Term Incentive Awards (LTIP) awards), to the extent any performance conditions (if applicable) have been met, and subject to time pro-rating (if applicable) unless determined otherwise by the Board in its discretion, in accordance with the rules of the plans. In certain circumstances, the Board may decide (with the agreement of the acquiring company) that awards will instead be cancelled in exchange for equivalent awards over shares in the acquiring company.

## Directors' and Officers' liability insurance and indemnities

The Company has purchased and maintains appropriate insurance cover in respect of Directors' and Officers' liabilities. The Company has also entered into qualifying third party indemnity arrangements for the benefit of all its Directors, in a form and scope which comply with the requirements of the Companies Act 2006. These indemnities came into force on 22 October 2015 and remain in force as at the date of this Annual Report.

## Financial instruments

Details of the financial instruments used by the Group are set out in Note 24 to the Group consolidated financial statements, which are incorporated into this Directors' Report by reference. The Group's financial risk management objectives and policies are included in the risk management section on page 60 and in Note 24 of the Group consolidated financial statements.

## Political donations

No political donations were made during the year ended 31 December 2019 (2018: £nil).

## Annual General Meeting 2021

The AGM will be held on 22 April 2021 at 11:00 a.m. at Hatton Garden, London. The Notice convening the meeting together with explanatory notes on the resolutions to be proposed and full details of the deadlines for appointing proxies is contained in a circular which will be circulated to all shareholders at least 20 working days before such meeting together with this report.

## Employees

The average number of employees within the Group is shown in Note 7 to the Group financial statements.

The Group is an equal opportunities employer and considers applications for employment from disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, wherever practicable, the recruitment, training, career development and promotion of disabled people and the retention of and appropriate training from those who become disabled during their employment.

## Employee engagement

Due to our commitment to transparent and best practice reporting, we have included our section on employee engagement on page 39 of the Strategic Report as the Board considers these disclosures to be of strategic importance and is therefore incorporated into the Directors' Report by cross-reference.

The Stakeholder overview section on page 32 demonstrates how the Directors have engaged with employees and how they have had regard to employee interests and the effect of that regard including the principal decisions by the Company during the financial year.

The Company is also keen to encourage greater employee involvement in the Group's performance through share ownership. To help align employees' interests with the success of the Company's performance, we operate an HMRC approved all-employee plan, the Ibstock plc Sharesave Scheme ('Sharesave'), which is offered to UK employees.

# Other Statutory Disclosures continued

**Business relationships**
Pages 41 and 42 as well as The Stakeholders review and S172 Statement demonstrate how the Directors have had regard to its engagement with suppliers, customers and others and how the effect of that regard had influenced the principal decisions taken by the Company during the financial year. The Board considers this disclosure to be of strategic importance and is therefore incorporated into the Directors' Report by cross-reference.

**Directors' responsibilities**
The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, and applicable law. Under company law the Directors must not approve the Annual Report unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year.

In preparing the Parent Company 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 applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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.

In preparing the Group consolidated financial statements, International Accounting Standard No.1 requires Directors to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and to disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. 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.

**Website publication**
The Directors are responsible for ensuring the Annual Report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at https://www.ibstockplc.co.uk/) is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

**Disclosure of information to auditors**
Each person who is a Director of the Company as at the date of approval of this report confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are not aware; and

(b) the Director has taken all the steps that he or she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Directors' Responsibility Statement**
The Directors in office as at 31 December 2020 and whose names and functions are given on pages 68 and 69 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Group and Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business and strategy.

The Strategic report (pages 1 to 65) and the Directors' report (pages 66 to 104) have been approved and are signed by order of the Board by:

**Nick Giles**
Group Company Secretary

9 March 2021

Registered Office: Leicester Road, Ibstock, Leicestershire, LE67 6HS
Company registration number 09760850

# Independent Auditor's Report to the members of Ibstock Plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Ibstock plc (the 'Company') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Company balance sheets;
- the consolidated and Company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 33 to the consolidated financial statements and 1 to 11 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

### 2. 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.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and Company for the year are disclosed in note 6 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Company.

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

### 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• Presentation of exceptional items;<br>• Going concern;<br>• Inflation, discount rate and mortality assumptions used in defined benefit pension scheme valuations; and<br>• Revenue recognition – rebates. |
| **Materiality** | The materiality that we used for the Group financial statements was £3.3 million which was determined on the basis of 1.1% of revenue. |
| **Scoping** | We performed full scope audit procedures for the Clay and Concrete divisions (with the exception of Longley Concrete on which we performed a desktop review on the results for the year ended 31 December 2020 and the financial position at 31 December 2020), Head Office entities and the consolidation process. The full scope procedures covered 95% of revenue, 79% of loss before tax and 96% of net assets. |
| **Significant changes in our approach** | We have changed the basis on which we have determined materiality in the current year to reflect the impact of Covid-19 on the Group's activity given the unusual fluctuations within pre-tax profit from continuing operations for 2020. For further details, refer to section 6 of this report.<br>As a result of the impact of Covid-19 on the Group's activities, we have identified new key audit matters for 2020:<br>• Presentation of exceptional items; and<br>• Going concern.<br>In 2019, we identified a key audit matter in relation to revenue recognition on bill and hold arrangements. There has been an immaterial amount of bill and hold revenue recognised in 2020 and therefore we no longer consider this to be a key audit matter. Revenue recognition – rebates has instead been included as a key audit matter in 2020 due to the high level of complexity involved. |

# Independent Auditor's Report to the members of Ibstock Plc continued

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.2.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**5.1. Presentation of exceptional items**

| | |
|---|---|
| **Key audit matter description** | The Group has identified £35.7 million of exceptional items in the Group Income Statement in 2020 (2019: £3.2 million).<br><br>The FRC and ESMA have advised companies against presenting the impacts of Covid-19 as exceptional on the basis that the impacts are macroeconomic and likely to have a wide range of potentially long-term consequences which will be considered to form part of underlying business performance on an ongoing basis. A key principle is that the Group should not split discrete items on an arbitrary basis in an attempt to quantify the portion relating to Covid-19. The preferred treatment by regulators is to explain the impact of Covid-19 through additional narrative in the "front half" rather than exceptional items on the face of the financial statements.<br><br>Therefore, there is a risk that items are inappropriately classified as exceptional in the financial statements.<br><br>The presentation of exceptional items is a new key audit matter in 2020 given the significant increase in the quantum of exceptional items identified compared to 2019.<br><br>Further information on exceptional items can be found in the Audit Committee Report on page 80, the Group's accounting policies in note 1 on page 120, note 2 (Critical accounting judgements and key sources of estimation uncertainty) on page 121, note 3 (Alternative Performance Measures) on page 121 and note 5 (Exceptional items) on page 126. |
| **How the scope of our audit responded to the key audit matter** | We have performed the following procedures to address this key audit matter:<br><br>• obtained an understanding of the management review controls over the classification of items as exceptional;<br>• assessed the classification of items management proposed to include as exceptional, assessing whether any items classified as Covid-19 exceptional items are discrete expenses, directly caused by the Covid-19 pandemic and not relating to the ongoing macroeconomic impacts on performance;<br>• evaluated regulatory guidance released by the FRC and ESMA;<br>• assessed the consistency of the proposed disclosures against emerging practice in this area and the disclosures made by other Groups in 2020; and<br>• assessed the adequacy of the disclosures to explain the nature of the exceptional items. |
| **Key observations** | We concur with management that the classification of items as exceptional is appropriate for the year ended 31 December 2020. |

### 5.2. Going concern

| | |
|---|---|
| **Key audit matter description** | The Directors have concluded that the going concern basis of preparation is appropriate for both the Group and Company.<br><br>The Covid-19 pandemic has led to significant operational disruption for the Group, including a sharp decline in sales volumes, particularly in the second half of 2020. Despite performance since 30 June 2020 being ahead of forecast, there remains significant uncertainty in the level of forecast demand from the Group's customers over the going concern assessment period and therefore the Group's ability to remain compliant with its financial covenants. We have therefore identified the ability of the business to continue as a going concern as a new key audit matter for 2020.<br><br>Further information on going concern, including management's assessment of future covenant compliance, can be found in the Financial Review on page 55, the Audit Committee Report on page 81, the Group's accounting policies in note 1 on page 115 and note 2 (Critical accounting judgements and key sources of estimation uncertainty) on page 121. |
| **How the scope of our audit responded to the key audit matter** | We have performed the following procedures to address this key audit matter:<br><br>• obtained an understanding of the relevant controls over the review of forecasts used in the going concern assessment;<br>• assessed the appropriateness of forecasts based on industry and analyst forecasts, considering the impact of Covid-19;<br>• evaluated the accuracy of the forecasts for the second half of 2020 compared to initial forecasts prepared by management in June 2020;<br>• challenged the appropriateness of the sensitivities used in management's low case scenario, with reference to the historical trading performance, market expectations and peer comparison;<br>• assessed the feasibility of any mitigating actions that management have at their disposal should the financial covenants be close to being breached; and<br>• evaluated the disclosures on going concern to confirm that they concur with the knowledge we have acquired during the course of our audit. |
| **Key observations** | We concur with the Directors' conclusion that it is appropriate to prepare the financial statements for the 12 months ended 31 December 2020 on a going concern basis. |

### 5.3. Inflation, discount rate and mortality assumptions used in defined benefit pension scheme valuations

| | |
|---|---|
| **Key audit matter description** | The Group has a net defined benefit pension asset of £43.6 million (2019: £88.7 million) as at 31 December 2020, which is made up of defined benefit obligations of £595.6 million (2019: £537.3 million) and defined benefit assets of £639.2 million (2020: £625.9 million).<br><br>We consider inflation, discount rate and mortality assumptions used in the defined benefit pension scheme valuation a key audit matter due to the sensitivity of the liability balance to changes in these inputs. Judgements made in valuing the defined benefit pension scheme liabilities can have a significant impact on the valuation of the liability.<br><br>Further information on inflation, discount rate and mortality assumptions used in defined benefit pension scheme valuations can be found in the Audit Committee report on page 79, the Group's accounting policies in note 1 on page 119, note 2 (Critical accounting judgements and key sources of estimation uncertainty) on page 121 and note 22 (Post employment benefit obligations) on page 138. |
| **How the scope of our audit responded to the key audit matter** | We worked with our actuarial specialists and have performed the following procedures to address this key audit matter:<br><br>• obtained an understanding of the relevant controls over the inputs adopted to calculate the defined benefit pension liability;<br>• assessed the appropriateness of the inflation, discount rate and mortality assumptions used in respect of the UK scheme by comparing rates adopted by Ibstock plc for the year ended 31 December 2020 against our expectation determined by internal benchmarks and comparator schemes; and<br>• assessed the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit scheme liabilities to changes in these key assumptions. |
| **Key observations** | We concur that the key assumptions applied in respect of the valuation of the defined benefit pension scheme liabilities are in the middle of our reasonable range. |

# Independent Auditor's Report to the members of Ibstock Plc continued

#### 5.4. Revenue recognition – rebates

| | |
|---|---|
| **Key audit matter description** | The Group has recognised revenue for the 12 months ended 31 December 2020 of £316.2 million (2019: £409.3 million). The Group enters into various agreements whereby it offers customers retrospective rebates according to the volume of transactions completed with that customer. The rebate agreements are complex in nature, with different types of rebates being offered to each customer, with the nature of those rebates differing across different product ranges. Due to the high level of complexity involved, we have determined that there was a potential for fraud through possible manipulation of this balance.<br><br>The key audit matter in relation to customer rebates is focussed on the accuracy and completeness of the reduction against revenue in respect of rebates for customers in Ibstock Brick Limited and Supreme Concrete Limited.<br><br>Further information on rebates can be found in the Group's accounting policies in note 1 on page 119. |
| **How the scope of our audit responded to the key audit matter** | We have performed the following procedures to address this key audit matter:<br><br>• obtained an understanding of the relevant controls over the revenue recognition process to address the key audit matter;<br>• performed year-on-year analysis of revenue and rebates to understand any material changes in the rebate provision at a customer level;<br>• selected a sample of customer rebate agreements, inspected the terms and dates, and recalculated selected rebates in accordance with the contract terms, including evaluating the sales data on which the rebate calculations are based;<br>• identified the largest customers in each of Ibstock Brick Limited and Supreme Concrete Limited and requested written confirmations from a sample of the largest customers to confirm that the rebate provided by the Group is the full rebate due to the customer for 2020;<br>• assessed the completeness of rebates by evaluating credit notes raised during 2020 and post year-end, assessing whether payments had been made to customers where we had been informed that no rebate agreement was in place and made enquiries of management as to the existence of any other rebate arrangements; and<br>• agreed a sample of rebates to settlement post year end. |
| **Key observations** | We concur with management that the revenue recognition in relation to customer rebates is appropriate for the year ended 31 December 2020. |

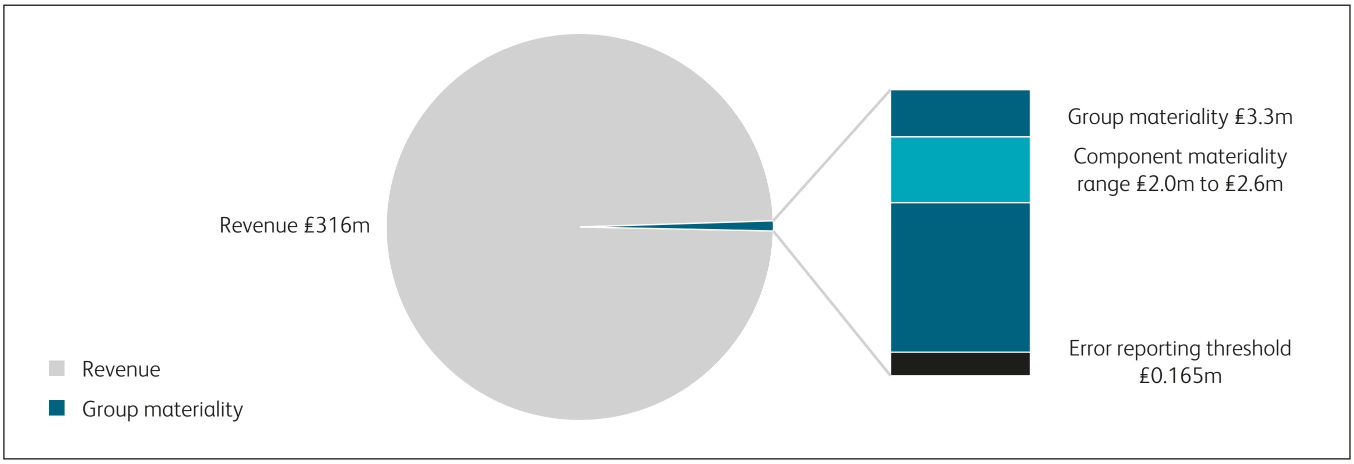
### 6. Our application of materiality

#### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Company financial statements |
|---|---|---|
| **Materiality** | £3.3 million (2019: £4.4 million) | £2.3 million (2019: £3.5 million) |
| **Basis for determining materiality** | Approximately 1.1% of revenue (2019: 5.5% of pre-tax profit from continuing operations which equated to 1.1% of 2019 revenue) | 3.0% of net assets (2019: 3.0%), capped at 70% of Group materiality (2019: 80%). |
| **Rationale for the benchmark applied** | The benchmark has changed to focus on revenue rather than profit before tax. Given the unusual fluctuations within pre-tax profit from continuing operations for 2020, materiality is based on Group revenue for 2020. In our professional judgement we believe that revenue is the most appropriate benchmark to determine materiality for the year. | Net assets are considered to be an appropriate benchmark for the Company given that it is mainly a holding Company. A set percentage of Group materiality was applied to the Company based upon the scoping of components and assessing the risk within the Company compared to others within the Group. |



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). Performance materiality for the Company was also set at 70% of Company materiality for the 2020 audit (2019: 70%). In determining performance materiality for both the Group and Company, we considered the following factors:

a. The impact of Covid-19 on the control environment;

b. No significant deficiencies identified within the control environment with a controls reliance approach taken over the business cycles specifically noted in section 7.2 of this report;

c. No significant changes in the business; and

d. A low number of uncorrected misstatements identified in previous years and in the current year.

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £165,000 (2019: £220,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at a group level.

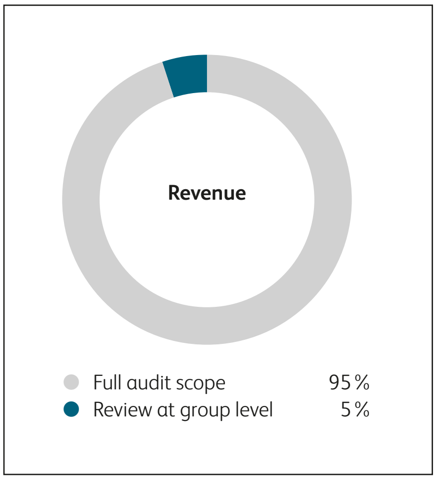
**Scope A:**
Full scope audit procedures were performed on the UK Clay (Ibstock Brick) and UK Concrete excluding Longley Concrete (Forticrete, Supreme and Anderton) components. Component materiality was £2.6 million for UK Clay and £2.0 million for UK Concrete. Our audit work for Ibstock Brick, Forticrete, Supreme and Anderton was executed at levels of materiality applicable to each individual entity which were lower than the respective component materiality, in accordance with local GAAP. At the Group level, we also tested the Head Office entities and the consolidation process.

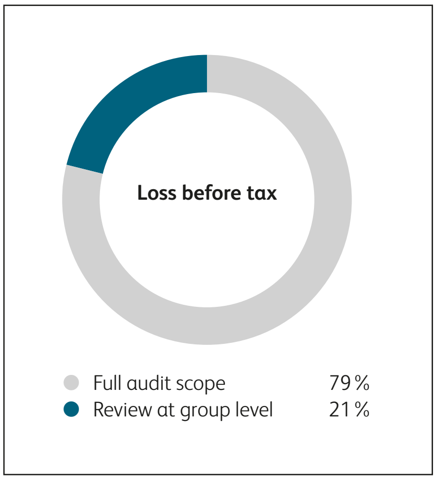
Scope A Entities: UK Clay and UK Concrete components (excluding Longley Concrete), Head Office entities and the consolidation process

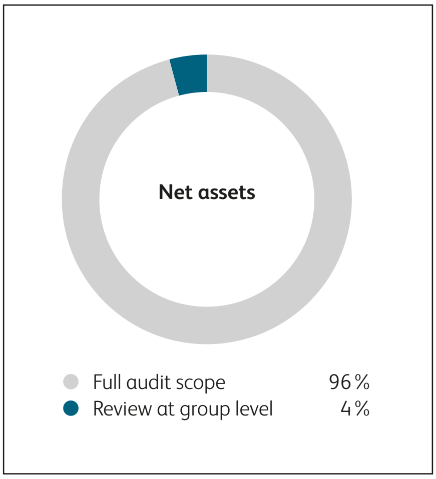
**Scope B:**
Desktop review procedures for Longley Concrete have been performed by the Group audit team to group materiality.

Scope B Entity: Longley Concrete

All work has been performed by the Group engagement team. The full scope procedures covered 95% of revenue, 79% of loss before tax and 96% of net assets.




### 7.2. Our consideration of the control environment

The group uses JD Edwards in all of its legal entities, with the exception of Longley Concrete which was acquired during 2019.

We involved our IT specialists to assess and test relevant controls over the JD Edwards system.

From our walkthroughs and understanding of the entity and the controls at the business cycle and account balance levels, we relied on controls over the following business cycles in Ibstock Brick within the UK Clay component and Forticrete within the UK Concrete component:

- trade receivables; and
- payroll.

For each relevant control identified in the business cycles where we planned to take controls reliance, we obtained an understanding of the relevant controls and tested the relevant controls. We tested the relevant controls on a three-year rotation cycle with at least one relevant control from each business cycle in scope each year.

We obtained our audit assurance through a combination of testing of controls and substantive procedures. Where we initially intended to rely on controls but were unable to do so in respect of the 2020 year (for example, in respect of the expenditure cycle) we elected to adopt an audit approach focused on substantive testing.

We did not plan to take a controls reliance approach in Supreme and Anderton due to the businesses transferring onto the JD Edwards accounting system on 1 January 2019, with an exercise undertaken to implement new controls throughout 2019 and 2020 to strengthen further the control environment.

# Independent Auditor's Report to the members of Ibstock Plc continued

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

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 course of 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

## 10. 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including the Group's Code of Business Conduct, the Anti-bribery and Corruption Policy, the Trade Association Policy, the Competition Law and Compliance Policy and the whistleblowing procedure.
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: presentation of exceptional items and revenue recognition – rebates. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included employment law, occupational health and safety regulations, the Environment Act, the Water Framework Directive, the Waste Directive, the Environmental Protection Act and the Energy Efficiency Directive.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified the presentation of exceptional items and revenue recognition – rebates as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and the Group Company Secretary concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

# Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 the directors' report have been prepared in accordance with applicable legal requirements.

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

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting set out on page 115;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 64;
- the directors' statement on fair, balanced and understandable set out on page 75;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 75;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 83; and
- the section describing the work of the audit committee set out on page 78.

### 14. Matters on which we are required to report by exception

#### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in this regard.

#### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in this regard.

### 15. Other matters which we are required to address

#### 15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 24 May 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods.
The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering the years ended 31 December 2017 to 31 December 2020.

#### 15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 16. 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.

**Jonathan Dodworth**
**(Senior statutory auditor)**
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
9 March 2021

# Consolidated income statement

| | Notes | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 4 | **316,172** | 409,257 |
| Cost of sales before exceptional items | | **(235,667)** | (250,008) |
| Exceptional cost of sales[1] | 5 | **(32,062)** | – |
| **Cost of sales** | | **(267,729)** | (250,008) |
| **Gross profit** | | **48,443** | 159,249 |
| Distribution costs | | **(31,427)** | (42,052) |
| Administrative expenses before exceptional items | | **(35,296)** | (34,633) |
| Exceptional administrative items[1] | 5 | **(6,003)** | (2,833) |
| **Administrative expenses** | | **(41,299)** | (37,466) |
| | | | |
| Profit on disposal of property, plant and equipment before exceptional items | | **113** | 1,773 |
| Exceptional profit on disposal of property, plant and equipment[1] | 5 | **2,808** | – |
| **Total profit on disposal of property, plant and equipment** | | **2,921** | 1,773 |
| | | | |
| Other income | | **2,118** | 3,458 |
| Other expenses | | **(368)** | (939) |
| **Operating (loss)/profit** | | **(19,612)** | 84,023 |
| | | | |
| Finance costs before exceptional items | | **(5,691)** | (4,735) |
| Exceptional finance costs[1] | 5 | **(414)** | – |
| **Finance costs** | 8 | **(6,105)** | (4,735) |
| Finance income | 9 | **1,777** | 2,703 |
| **Net finance cost** | | **(4,328)** | (2,032) |
| | | | |
| **(Loss)/profit before taxation** | | **(23,940)** | 81,991 |
| Taxation | 10 | **(4,081)** | (15,516) |
| **(Loss)/profit from continuing operations** | | **(28,021)** | 66,475 |
| | | | |
| **Discontinued operations** | | | |
| **Loss from discontinued operations, net of tax** | | **–** | (383) |
| | | | |
| **(Loss)/profit** | | **(28,021)** | 66,092 |
| | | | |
| **(Loss)/profit attributable to:** | | | |
| Owners of the parent | | **(28,021)** | 66,092 |
| | | | |
| **(Loss)/profit attributable to:** | | | |
| Continuing operations | | **(28,021)** | 66,475 |
| Discontinued operations | | **–** | (383) |
| | | **(28,021)** | 66,092 |

| | Notes | pence per share | pence per share |
|---|---|---|---|
| **(Loss)/earnings per share** | | | |
| Basic – continuing operations | 12 | **(6.8)** | 16.3 |
| Basic – discontinued operations | 12 | **–** | (0.1) |
| | | **(6.8)** | 16.2 |
| | | | |
| Diluted – continuing operations | 12 | **(6.8)** | 16.1 |
| Diluted – discontinued operations | 12 | **–** | (0.1) |
| | | **(6.8)** | 16.0 |

The notes on pages 117 to 155 form an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income

| | Notes | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **(Loss)/profit for the financial year** | | **(28,021)** | 66,092 |
| | | | |
| **Other comprehensive (expense)/income:** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurement of post-employment benefit assets and obligations[2] | 22 | **(45,263)** | 5,005 |
| Related tax movements[2] | 10 | **7,927** | (851) |
| | | **(37,336)** | 4,154 |
| | | | |
| **Other comprehensive (expense)/income for the year, net of tax** | | **(37,336)** | 4,154 |
| **Total comprehensive (expense)/income for the year, net of tax** | | | |
| | | **(65,357)** | 70,246 |
| | | | |
| **Total comprehensive (expense)/income attributable to:** | | | |
| Owners of the parent | | **(65,357)** | 70,246 |

The notes on pages 117 to 155 form an integral part of these consolidated financial statements.

### Non-GAAP measure

Reconciliation of adjusted EBITDA[1] to Operating (loss)/profit for the financial year for continuing operations

| | Notes | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **Operating (loss)/profit** | | **(19,612)** | 84,023 |
| Add back exceptional items[1] impacting EBITDA | 5 | **35,257** | 2,833 |
| Add back depreciation and amortisation | 6 | **36,477** | 35,409 |
| **Adjusted EBITDA[1]** | | **52,122** | 122,265 |

1 Alternative performance measures are described in Note 3 to the consolidated financial statements.
2 Impacting retained earnings.

# Consolidated balance sheet

| | Notes | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 13 | **95,163** | 102,594 |
| Property, plant and equipment | 14 | **371,395** | 386,255 |
| Right-of-use assets | 28 | **26,653** | 30,479 |
| Post-employment benefit asset | 22 | **43,576** | 88,656 |
| | | **536,787** | 607,984 |
| | | | |
| **Current assets** | | | |
| Inventories | 15 | **63,386** | 84,327 |
| Trade and other receivables | 16 | **58,906** | 58,088 |
| Cash and cash equivalents | | **19,552** | 19,494 |
| | | **141,844** | 161,909 |
| Assets held for sale | 17 | **1,186** | 1,186 |
| **Total assets** | | **679,817** | 771,079 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **(85,423)** | (88,150) |
| Borrowings | 20 | **(135)** | (395) |
| Lease liabilities | 28 | **(6,728)** | (6,586) |
| Current tax payable | | **(421)** | (6,350) |
| Provisions | 21 | **(5,303)** | (738) |
| | | **(98,010)** | (102,219) |
| **Net current assets** | | **45,020** | 60,876 |
| **Total assets less current liabilities** | | **581,807** | 668,860 |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 20 | **(88,601)** | (103,950) |
| Lease liabilities | 28 | **(22,348)** | (23,775) |
| Deferred tax liabilities | 23 | **(64,755)** | (69,655) |
| Provisions | 21 | **(8,232)** | (7,179) |
| | | **(183,936)** | (204,559) |
| **Total liabilities** | | **(281,946)** | (306,778) |
| | | | |
| **Net assets** | | **397,871** | 464,301 |
| | | | |
| **Equity** | | | |
| Share capital | 25 | **4,096** | 4,093 |
| Share premium | 26 | **4,333** | 7,441 |
| Retained earnings | | **759,483** | 822,321 |
| Merger reserve | 26 | **(369,119)** | (369,119) |
| Own shares held | 26 | **(922)** | (435) |
| **Total equity** | | **397,871** | 464,301 |

The notes on pages 117 to 155 form an integral part of these consolidated financial statements.

These financial statements were approved by the Board and authorised for issue on 9 March 2021. They were signed on its behalf by:

**J Hudson**
Director

**C McLeish**
Director

# Consolidated statement of changes in equity

| | Notes | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Merger reserve (See Note 26) £'000 | Own shares held (see Note 26) £'000 | Total equity attributable to owners £'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | | **4,093** | **7,441** | **822,321** | **(369,119)** | **(435)** | **464,301** |
| Loss for the year | | **–** | **–** | **(28,021)** | **–** | **–** | **(28,021)** |
| Other comprehensive loss | | **–** | **–** | **(37,336)** | **–** | **–** | **(37,336)** |
| **Total comprehensive loss for the year** | | **–** | **–** | **(65,357)** | **–** | **–** | **(65,357)** |
| **Transactions with owners:** | | | | | | | |
| Share based payments | 27 | **–** | **–** | **527** | **–** | **–** | **527** |
| Current tax on share based payment | | **–** | **–** | **24** | **–** | **–** | **24** |
| Deferred tax on share based payment | 23 | **–** | **–** | **(686)** | **–** | **–** | **(686)** |
| Transfer from Share premium account | 1 | **–** | **(3,108)** | **3,108** | **–** | **–** | **–** |
| Purchase of own shares | | **–** | **–** | **–** | **–** | **(1,020)** | **(1,020)** |
| Issue of own shares held on exercise of share options | 26 | **–** | **–** | **(454)** | **–** | **536** | **82** |
| Issue of share capital to Employee Benefit Trust | 25 | **3** | **–** | **–** | **–** | **(3)** | **–** |
| **At 31 December 2020** | | **4,096** | **4,333** | **759,483** | **(369,119)** | **(922)** | **397,871** |
| | | | | | | | |
| **At 1 January 2019** | | 4,065 | 917 | 813,851 | (369,119) | (1,683) | 448,031 |
| Profit for the year | | – | – | 66,092 | – | – | 66,092 |
| Other comprehensive income | | – | – | 4,154 | – | – | 4,154 |
| **Total comprehensive income for the year** | | – | – | 70,246 | – | – | 70,246 |
| **Transactions with owners:** | | | | | | | |
| Share based payments | 27 | – | – | 704 | – | – | 704 |
| Current tax on share based payment | | – | – | 171 | – | – | 171 |
| Deferred tax on share based payment | 23 | – | – | 508 | – | – | 508 |
| Equity dividends paid | 32 | – | – | (60,068) | – | – | (60,068) |
| Purchase of own shares | | – | – | – | – | (1,176) | (1,176) |
| Issue of own shares held on exercise of share options | | – | 698 | (1,454) | – | 2,424 | 1,668 |
| Issue of share capital on exercise of share options | 25 | 28 | 5,826 | (1,637) | – | – | 4,217 |
| **At 31 December 2019** | | 4,093 | 7,441 | 822,321 | (369,119) | (435) | 464,301 |

The notes on pages 117 to 155 form an integral part of these consolidated financial statements.

# Consolidated cash flow statement

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Cash generated from operations (Note 29) | **55,215** | 92,077 |
| Interest paid | **(4,189)** | (2,605) |
| Tax paid | **(6,478)** | (13,266) |
| **Net cash inflow from operating activities** | **44,548** | 76,206 |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(24,072)** | (38,797) |
| Proceeds from sale of property, plant and equipment | **1,165** | 2,447 |
| Proceeds from sale of property, plant and equipment – exceptional | **2,808** | – |
| Proceeds from sale of intangible assets | **–** | 475 |
| Payment for acquisition of subsidiary undertaking, net of cash acquired | **–** | (13,219) |
| Interest received | **10** | 47 |
| **Net cash outflow from investing activities** | **(20,089)** | (49,047) |
| | | |
| **Cash flows from financing activities** | | |
| Dividends paid (Note 32) | **–** | (60,068) |
| Drawdown of borrowings | **100,000** | 70,000 |
| Repayment of borrowings | **(115,000)** | (50,417) |
| Repayment of lease liabilities | **(8,063)** | (8,263) |
| Proceeds from issuance of equity shares | **141** | 5,824 |
| Purchase of own shares by Employee Benefit Trust | **(1,020)** | (1,176) |
| **Net cash outflow from financing activities** | **(23,942)** | (44,100) |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **517** | (16,941) |
| Cash and cash equivalents at beginning of the year | **19,494** | 36,048 |
| Exchange (losses)/gains on cash and cash equivalents | **(459)** | 387 |
| **Cash and cash equivalents at end of the year** | **19,552** | 19,494 |

Discontinued operations do not have material cash flows during the current or prior period.

The notes on pages 117 to 155 form an integral part of these consolidated financial statements.

**Reconciliation of changes in cash and cash equivalents to movement in net debt[1]**

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | **517** | (16,941) |
| Proceeds from borrowings | **(100,000)** | (70,000) |
| Repayment of borrowings | **115,000** | 50,417 |
| Non-cash debt movement | **609** | (332) |
| Effect of foreign exchange rate changes | **(459)** | 387 |
| **Movement in net debt[1]** | **15,667** | (36,469) |
| Net debt[1] at start of year | **(84,851)** | (48,382) |
| **Net debt[1] at end of year (Note 3)** | **(69,184)** | (84,851) |
| | | |
| Comprising: | | |
| Cash and cash equivalents | **19,552** | 19,494 |
| Short-term borrowings (Note 20) | **(135)** | (395) |
| Long-term borrowings (Note 20) | **(88,601)** | (103,950) |
| | **(69,184)** | (84,851) |

1 Alternative performance measures are described in Note 3 to the consolidated financial statements.

# Notes to the consolidated financial statements

## 1. Summary of significant accounting policies

### Authorisation of financial statements

The consolidated financial statements of Ibstock plc, which has a premium listing on the London Stock Exchange, for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 9 March 2021. The balance sheet was signed on behalf of the Board by J Hudson and C McLeish.

Ibstock plc is a public company limited by shares, which is incorporated in the United Kingdom and registered in England. The registered office is Leicester Road, Ibstock, Leicestershire LE67 6HS and the company registration number is 09760850.

The principal activities of the Company and its subsidiaries (the "Group") and the nature of the Group's operations are set out in the Strategic Report on pages 1 to 65.

### Basis of preparation

The consolidated financial statements of Ibstock plc for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

These consolidated financial statements are prepared on a going concern basis, under the historical cost convention. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand, except where otherwise indicated.

The significant accounting policies are set out below.

### Current period adjustment for prior period misclassification

Management has identified a required reclassification related to the information presented within the 2019 Annual Report and Accounts in relation to the share premium account upon exercise of share options. An element of prior year transactions for the exercise of share options was accounted for with excess amounts transferred from retained earnings to the share premium account. This reclassification is amended within the current period consolidated statement of changes in equity – increasing the retained earnings reserve by £3.1 million and reducing the share premium account by the same amount. The reclassification required at 31 December 2019 was not material to the financial statements within the 2019 Annual Report and Accounts.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Ibstock plc and its subsidiaries as at 31 December 2020. The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-Group balances, transactions, income and expenses and profit and losses resulting from intra-Group transactions have been eliminated in full. Subsidiaries are consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which the Group no longer retains control. Details of all the subsidiaries of the Group are given in Note 30.

The subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

### Going concern

The potential impact of COVID-19 on the Group has been considered in the preparation of the financial statements, including within the evaluation of critical accounting estimates and judgements, which are set out below. The Group's financial planning and forecasting process consists of a budget for the next year followed by a medium term projection. The Directors have reviewed and robustly challenged the assumptions about future trading performance, operational and capital expenditure and debt requirements within these forecasts including the Group's liquidity and covenant forecasts, which have been updated for the expected impact of COVID-19 and stress-tested.

The Group's committed facilities at 31 December 2020 comprise a syndicated Revolving Credit Facility ("RCF") of £215 million which matures in March 2023. At 31 December 2020 £90 million was drawn down under the RCF with £125 million of headroom remaining. At 31 December 2020 covenant requirements were met with significant headroom.

Covenants under the Group's RCF facility going forward require: leverage of no more than 3 times net debt to adjusted EBITDA[1], except at 30 June 2021 which was amended to no more than 3.75 times during the period; and interest cover of no less than 4 times, tested bi-annually at each reporting date with reference to the previous 12 months.

In addition, the Group secured eligibility for the Bank of England's Covid Corporate Financing Facility ("CCFF") in 2020, although have no present intention to access funding from this scheme.

In arriving at their conclusion on going concern, the Directors have given due consideration to whether the funding and liquidity resources above are sufficient to accommodate the principal risks and uncertainties faced by the Group, particularly those relating to economic conditions and operational disruption.

Group forecasts have been prepared which reflect both actual experienced impact of the pandemic and estimates of the future reflecting macroeconomic and industry-wide projections, as well as matters specific to the Group.

Cash flow and covenant compliance forecast scenarios have been prepared comparing two cases: a) an operating case; and b) a low case to assess how the virus could impact the Group in the period to 30 June 2022.

In the operating case, industry demand for the Group's brick products in 2021 is projected to be around 15% below the level in 2019, recovering in 2022 to being around 7% below the level in 2019.

In the severe but plausible low case, industry demand for all the Group's products is projected to be around 30% lower than 2019 in the 2021 year, which is broadly in line with the sales reduction seen in the Clay division in 2020, recovering to around 25% lower in 2022.

In both scenarios, the Group has sufficient liquidity and headroom against its covenants to expect to remain in compliance with the RCF covenants at June and December 2021 and June 2022, with covenant headroom expressed as a percentage of annual adjusted EBITDA[1] being in excess of 45% for the low case and 70% for the operating case.

The key uncertainty faced by the Group is the industry demand for its products in light of macroeconomic factors, therefore in addition, the Group has prepared a reverse stress test to evaluate the industry demand reduction at which it would be likely to breach the RCF covenants, before any further mitigating actions were taken. This test indicates that, at a reduction of 41% in sales volumes in 2021 and 37% in the first half of 2022 versus 2019 levels, the Group would be at risk of breaching its covenants.

The Directors consider this to be an unlikely scenario, and in the event of an anticipated covenant breach, the Group would seek to take further steps to mitigate, including the disposal of valuable land and building assets and additional restructuring steps to further reduce the fixed cost base of the Group. In such circumstances, the Group would also reasonably expect to renegotiate the terms of the RCF, providing amended covenant terms.

Having taken account of the various scenarios modelled, and in light of the mitigations available to the Group, the Directors are satisfied that the Group has sufficient resources to continue in operation for a period of not less than 12 months from the date of this report. Accordingly, the consolidated financial information has been prepared on a going concern basis.

# Notes to the consolidated financial statements continued

**New standards, amendments and interpretations not yet adopted**
In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Definition of a Business
- Amendments to IAS 1 and IAS 8 Definition of Material

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in the current or future reporting periods.

At the end of the Brexit transition period on 31 December 2020, IFRS Standards as adopted by the EU were brought into UK law and UK-adopted IFRS Standards came into effect for the period beginning 1 January 2021.

**Discontinued operations**
During the year ended 31 December 2020, amounts relating to discontinued operations are not significant and have been incorporated within the results of continuing operations. No further transactions of significance are anticipated in relation to the U.S Glen-Gery operations disposed of during the year ended 31 December 2018.

**Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers ("CODMs"), who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer and Chief Financial Officer of the Group.

The CODMs review the key profit measure, 'Adjusted EBITDA[1]' and consider the Group's reportable segments to be UK Clay and UK Concrete.

**Foreign currency translation**
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling (£), which is the Group's presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. The Group does not currently undertake such hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within net finance costs. All other foreign exchange gains and losses are presented within the income statement.

**Property, plant and equipment**
Property, plant and equipment is stated at the cost to the Group less depreciation. The cost of property, plant and equipment includes directly attributable costs. Costs incurred to gain access to mineral reserves (typically stripping costs) are capitalised and depreciated over the life of the quarry, which is based on the estimated tonnes of raw material to be extracted from the reserves.

Details of cost and accumulated depreciation are included in Note 14.

Depreciation is provided on the cost of all assets (except assets in the course of construction and land), so as to write off the cost, less residual value, on a straight line basis over the expected useful economic life of the assets concerned, as follows:

| Asset classification | Useful life |
|---|---|
| Land | Not depreciated |
| Freehold buildings | 20 – 50 years |
| Plant, machinery and equipment | 5 – 40 years |
| Mineral reserves | Amortised on a usage basis |

Exploration expenditure relates to the initial search for mineral deposits with economic potential and is not capitalised. Evaluation expenditure relates to a detailed assessment of deposits or other projects that have been identified as having economic potential and in obtaining permissions to extract clay. Capitalisation of evaluation expenditure within 'Mineral reserves' commences when there is a high degree of confidence that the Group will determine that a project is commercially viable, i.e., the project will provide a satisfactory return relative to its perceived risks, and therefore it is considered probable that future economic benefits will flow to the Group.

Mineral reserves may be declared for an undeveloped project before its commercial viability has been fully determined. Evaluation costs may continue to be capitalised during the period between declaration of reserves and approval to extract clay as further work is undertaken in order to refine the development case to maximise the project's returns.

The carrying values of capitalised evaluation expenditure are reviewed for impairment by management. Mineral reserves are amortised on a usage basis.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Useful lives and residual values are reviewed at each balance sheet date and revised where expectations are significantly different from previous estimates. In such cases, the depreciation charge for current and future periods is adjusted accordingly.

**Intangible assets**
Separately acquired brands and non-contractual customer relationships are shown at historical cost. Brands and customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of brands and customer relationships over their estimated useful lives as follows:

| Asset classification | Useful life |
|---|---|
| Brands | 10 – 50 years |
| Customer contracts and relationships | 10 – 20 years |

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three to five years.

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. There has been no impairment of goodwill in the current or prior year.

For further details, see Note 13.

**Impairment of non-financial assets**
Assets that are subject to amortisation or depreciation, such as brands and non-contractual customer relationships and property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised immediately within the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date at which point they are immediately recognised within the income statement.

For further details, see Note 18.

**Leases**
The Group as lessee
The Group leases various offices, warehouses, factories, mobile plant and cars. Rental contracts are typically made for fixed periods of 3 to 20 years, but may have extension options, as described below, and contain a range of terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as right-of-use assets and a corresponding liability at the date which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost.

The finance cost is charged to the income statement over the lease period, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that are based on an index or rate;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight line basis as an expense within the income statement. Short-term leases are leases with a term of 12 months or less. Low-value assets generally comprise of IT equipment.

(i) Variable lease payments
Some property leases contain variable lease payment terms that are linked to the extraction of raw materials. For individual properties, a percentage of the lease payments are on the basis of the variable payment terms.

Variable lease payments that are dependent upon the level of extraction are recognised within the income statement in the period in which the extraction which triggers that payment occurs. At 31 December 2019 and 31 December 2020, the value of variable lease payments and the impact of movements in the Group's levels of extraction are insignificant.

(ii) Extension and termination options
Extension and termination options are included in a small number of property leases across the Group. The majority of such options are exercisable only by the Group and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the future cash outflows if the lease is reasonably certain to be extended (or not terminated). This assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was insignificant.

The impact of rental concessions granted as a result of the COVID-19 pandemic are not material to the Group.

# Notes to the consolidated financial statements continued

### The Group as lessor
The Group enters into lease agreements as a lessor with respect to some of its surplus properties.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

## Inventories
Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Raw materials, consumables and goods for resale are recognised on a weighted average cost basis, while work in progress and finished goods are held at direct cost plus an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Group records provisions for obsolete and slow-moving inventory on the basis of historical sales values and volumes, respectively. These inventory provisions are updated regularly to reflect management's most recent data.

## Investments and other financial assets
### Classification
The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised within the income statement.

### Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset.

### Forward energy contracts
The Group has a long-standing practice of locking in prices for gas and electricity used in its production activities and achieves this by committing to a certain volume of consumption in future months which creates a contractual commitment and secures a certain price.

The Group takes delivery of the energy and so the Directors believe it meets the requirements of the own use scope exemption in IFRS 9 Financial Instruments. As such, these contracts are not held on the balance sheet at fair value but rather treated as executory contracts and energy purchases are accounted for in the period in which the gas and electricity is consumed, at the contracted price.

Significant reduction in activity levels, due to the COVID-19 pandemic and resulting production facility shutdowns resulted in the Group having energy contracts which failed the own use scope exemption in IFRS 9 ("the failed own use contracts"). During the current year, the failed own use contracts were fair valued ("marked to market") and recognised as a derivative liability on the balance sheet and any gains or losses are recognised as a result of measuring these energy contracts at fair value.

As at 31 December 2020, all failed own use contracts had expired with all contracted energy consumed during the year ended 31 December 2020. The Directors do not believe the isolated incidence of net settling such contracts and the resultant failed own use contracts precludes the future use of the own use exemption for similar contracts in future periods.

### Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The measurement category into which the Group classifies its debt instruments is amortised cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement.

### Impairment
The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 24 for further details.

No impairment losses were recorded in the current or prior year. Should they arise, impairment losses are presented as a separate line item in the Group consolidated income statement.

## Trade and other receivables
Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. Collection is expected in one year or less and trade receivables are classified as current assets accordingly. Trade receivables are measured at amortised cost using the effective interest method, less provision for impairment. In the current and prior periods, the Group did not engage in material factoring arrangements.

## Cash and cash equivalents
In the consolidated balance sheet, cash and cash equivalents reflects cash in-hand at the balance sheet date, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

## Trade payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities where payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. In the current and prior periods, the Group did not engage in material reverse factoring arrangements.

**Borrowings**
Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. All other costs are expensed as incurred. Borrowings are subsequently carried at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Finance cost on borrowings is treated as an expense in the income statement, with the exception of interest costs incurred on the financing of major projects, which are capitalised within property, plant and equipment, where material. There were no borrowing costs capitalised during the current or prior years.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. Fees relating to short term variations in financing conditions and terms are recognised in profit or loss in the period in which they are incurred.

An exchange of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

**Employee benefits**
The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

Pensions
A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The amount recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Where defined benefit schemes have a surplus, the surplus is recognised if future economic benefits are available to the entity in the form of a reduction in the future contributions or a right to refund.

Past-service costs are recognised immediately in the income statement. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets, taking account of any changes in the defined benefit asset/liability during the period as a result of contributions and benefit payments. This cost is included in interest expense in the income statement.

When the benefits of a defined benefit plan are changed or when the plan is curtailed, the change in the present value of the defined benefit obligation arising that relates to the plan amendment or curtailment is recognised immediately within the income statement on its occurrence.
Before determining the past service cost (including curtailment gains or losses) or a gain or loss on settlement, the net defined benefit obligation (asset) is remeasured using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited in other comprehensive income in the period in which they arise.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group recognises contributions payable to defined contribution plans in exchange for employee services in employee benefit expense.

**Provisions**
Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the risk-assessed expenditures expected to be required to settle the obligation using a pre-tax risk free discount rate to reflect current market assessments of the time value of money. The increase in the provision due to passage of time is recognised as interest expense.

The restoration provision is to fund future obligations at a number of sites that the Group is associated with and where the Group has any constructive obligation to restore once it has fully utilised the site. Provisions for dilapidations are recognised on a lease by lease basis and are based on the Group's discounted best estimate of the likely committed cash outflows.

**Revenue**
Revenue represents the fair value of consideration receivable for goods supplied by the Group, exclusive of local sales tax and trade discounts and after eliminating sales within the Group. All of revenue is attributable to the principal activities of the Group being the manufacture and sale of concrete products, clay facing bricks and associated special shaped and fabricated clay products. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is usually on despatch of goods. In a bill and hold arrangement, revenue is recognised when a customer has obtained control of a product, which arises when all of the following criteria are met: (a) the reason for the arrangement is substantive, (b) the product has been identified separately as belonging to the customer, (c) the product is ready for delivery in accordance with the terms of the arrangement, and (d) the Company does not have the ability to use the product or sell the product to another customer.

**Customer rebates**
Provisions for rebates to customers are based upon the terms of individual contracts, with rebates granted based upon a tiered structure dependent upon an individual customer's purchases during the rebate period. Customer rebates are recorded in the same period as the related sales as a deduction from revenue and the vast majority are coterminous with the Group's financial year end. For those individual contracts that are non-coterminous, the Group estimates the provision for this variable consideration based on the most likely outcome amount determined by the terms of each agreement at the time the revenue is recognised. At the financial year end, due to settlement of rebates with customers, the level of remaining estimation is limited and the risk of a significant reversal of recognised revenue is negligible.

# Notes to the consolidated financial statements continued

### Other income

Other income is attributable to rental income from properties, landfill and gas activity. Other expenses represent associated expenses. This is not deemed to be a principal activity of the Group. Rental income received under operating leases is recognised on a straight line basis over the term of the relevant lease. Assets leased by the Group to third parties are depreciated in line with the Group's normal depreciation policy.

### Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project. Development costs capitalised are not material.

### Exceptional items[1]

The Group presents as exceptional on the face of the income statement those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the period, so as to facilitate comparison with future years and to assess trends in financial performance. Specifically, in the current period, management has further defined its policy criteria for the recognition of exceptional items[1] in relation to the COVID-19 pandemic. See Note 5 for further details of exceptional items[1] recognised in the current period.

In order to qualify for exceptional classification, any such items must be discrete, capable of objective segregation from underlying cost, and be not expected to recur in subsequent periods. Such items are included as exceptional where items have either: a) arisen as a direct result of COVID-19; or b) arisen in a period, or through a manner, different to that anticipated. Any items which have been incurred within the normal course of the Group's operations, and in the manner anticipated, throughout the period, even if the efficiency of the related operations has been materially reduced by COVID-19, do not meet the Group's definition of exceptional items[1] and are included within underlying performance.

The Directors believe that the use of alternative performance measures ("APMs"), such as exceptional items[1], provide useful information for shareholders. The Group uses APMs to aid comparability of its performance and position between periods. The APMs used represent measures used by management and Board to monitor performance and plan. Additionally, certain APMs are used by the Group in setting Director and management remuneration. Detailed descriptions of APMs used throughout these financial statements are included within Note 3.

APMs used by the Group are generally not defined under IFRSs and may not be comparable with similarly titled measures reported by other companies.

It is not believed that adjusted measures are a substitute for, or superior to, statutory measurements.

### Government grants

Government grants are recognised within the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Grants are presented as part of the income statement and are deducted in reporting the related expense.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised within the income statement in the period in which they become receivable. Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except for tax relating to items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable or recoverable on the taxable income or loss 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.

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. The calculation of the tax charge therefore necessarily involves a degree of estimation and judgement. The tax liabilities are based on estimates of whether additional taxes will be due and tax assets are recognised on the basis of probable future recoverability. This requires management to exercise judgement based on their interpretation of tax laws and the likelihood of settlement of tax liabilities or recoverability of tax assets. To the extent that the final outcome differs from the estimates made, tax adjustments may be required which could have an impact on the tax charge and profit for the year in which such a determination is made.

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts included in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The amount of deferred tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled. Deferred tax assets and liabilities are not subject to discounting.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the temporary difference can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities where these have been levied by the same tax authority on either the same taxable entity or different taxable entities within the Group where there is an intention to settle the balances on a net basis.

### Dividend distribution

Dividend distributions to Ibstock plc shareholders are recognised in the Group's financial statements in the period in which the dividends are approved in general meeting, or when paid in the case of an interim dividend.

### Assets held for sale

Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets and disposal groups are measured at the lower of carrying amount and fair value less the costs to sell. Non-current assets classified as held for sale (or that form part of a disposal group classified as held for sale) are not depreciated or amortised.

### Share based payments

The Group operates a number of equity-settled share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (for example options or shares) of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the instruments granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the year between service commencement period and grant date. For the equity-settled share based payment transactions, the fair value of the share instruments granted is derived from established option pricing models. Further details on share based payments are set out in Note 27.

## 2. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, as described in Note 1, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making these critical judgements and estimates, actual outcomes could be different.

### Critical judgements in applying the Group's accounting policies

The following critical judgements, that the Directors made in the process of applying the Group's accounting policies, have the most significant effect on the amounts recorded in the financial statements.

### Exceptional items[1]

Exceptional items[1] are disclosed separately in the financial statements where the Directors believe it is necessary to do so to provide further understanding of the financial performance of the Group. The Group presents as exceptional items[1] on the face of the income statement those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the financial period, so as to facilitate comparison with future years and assess better underlying trends in financial performance.

Further details on exceptional items[1] are given within Note 5.

### Going concern

In order to assess whether it is appropriate for the Group to report on a going concern basis, the Directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Group's principal risks and uncertainties.

In arriving at this judgement there are a large number of assumptions and estimates involved in calculating these future cash flow projections. This includes management's expectations of future performance and availability of future funding.

Details of the Directors' considerations in assessing going concern are set out in Note 1, above.

### Key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed by management on an ongoing basis, with revisions recognised in the period in which the estimates are revised, and in any future period affected. The areas that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

### Defined benefit pension schemes – valuation of liabilities

For defined benefit schemes, management is required to make annual estimates and assumptions about future changes in discount rates, inflation, the rate of increase in pensions in payment and life expectancy. The assumptions used may vary from year to year, which would affect future net income and net assets. Any differences between these assumptions and the actual outcome also affect future net income and net assets. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. These assumptions are subject to periodic review.

Note 22 describes the assumptions used together with an analysis of the sensitivity of the defined benefit scheme liability (£595.6 million at 31 December 2020) to changes in key assumptions.

## 3. Alternative performance measures

Alternative performance measures ("APMs") are disclosed within the consolidated financial statements where management believes it is necessary to do so to provide further understanding of the financial performance of the Group. APMs are reported for continuing operations. Management uses APMs in its own assessment of the Group's performance and in order to plan the allocation of internal capital and resources. Certain APMs are used in the remuneration of management and Executive Directors. It is not intended that APMs are a substitute for, or superior to, statutory measures. None of the APMs are outlined within IFRS and they may not be comparable with similarly titled APMs used by other companies. Changes to our Adjusted EPS definition in the current period are described below.

Within the notes to the consolidated financial statements, all APMs are identified with a superscript.

### Exceptional items

The Group presents as exceptional on the face of the income statement those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better elements of financial performance in the year, so as to facilitate comparison with future periods and to assess trends in financial performance. Specifically, in the current period, management has further defined its policy criteria for the recognition of exceptional items in relation to the COVID-19 pandemic.

In order to qualify for exceptional classification, any such items must be discrete, capable of objective segregation from underlying cost, and be not expected to recur in subsequent periods. Such items are included as exceptional where items have either: a) arisen as a direct result of COVID-19; or b) arisen in a period, or through a manner, different to that anticipated. Any items which have been incurred within the normal course of the Group's operations, and in the manner anticipated, throughout the period, even if the efficiency of the related operations has been materially reduced by COVID-19, do not meet the Group's definition of exceptional items and are included within underlying performance. Details of all exceptional items are disclosed in Note 5.

# Notes to the consolidated financial statements continued

### Adjusted EBITDA

Adjusted EBITDA is the earnings before interest, taxation, depreciation and amortisation adjusted for exceptional items. During the current period, the definition was expanded to remove fair valuation losses on failed own use contracts in order to remove in-period distortions in the Adjusted EBITDA arising from such contracts. For the year ended 31 December 2020, these losses were £nil (2019: £nil). The Directors regularly use Adjusted EBITDA as a key performance measure in assessing the Group's profitability. The measure is considered useful to users of the financial statements as it represents a common APM used by investors in assessing a company's operating performance, when comparing its performance across periods and in determination of Directors' variable remuneration. A full reconciliation is included at the foot of the Group's consolidated statement of comprehensive income within the consolidated financial statements.

### Adjusted profit before taxation

Adjusted profit before taxation is the profit/(loss) before taxation from continuing operations removing the impact of exceptional items and the fair valuation losses on failed own use contracts. The Directors have presented adjusted profit before taxation as they believe the APM represents useful information to the user of the financial accounts in assessing the performance of the Group and when comparing its performance across periods. A reconciliation of adjusted profit before taxation is provided at the foot of the exceptional items table in Note 5.

### Adjusted EPS

Adjusted EPS is the basic earnings per share adjusted for exceptional items, fair value adjustments being the amortisation and depreciation on fair value uplifted assets and non-cash interest net of taxation (at the Group's adjusted effective tax rate). During the current period, the definition was expanded to remove fair valuation losses on failed own use contracts in order to remove in-period distortions in the Adjusted EBITDA arising from such contracts. For the year ended 31 December 2020, these losses were £nil (2019: £nil). Also in the current period, in order to remove distortions to the effective tax rate applied resulting from changes to the rate of deferred taxation, management has applied the effective tax rate prior to such changes. The impact of this change on the comparative figure is immaterial and it has not been restated. The Directors have presented Adjusted EPS as they believe the APM represents useful information to the user of the financial statements in assessing the performance of the Group, when comparing its performance across periods, and used within the determination of Directors' variable remuneration. A full reconciliation is provided in Note 12.

### Net debt and Net debt to adjusted EBITDA ("leverage") ratio

Net debt is defined as the sum of cash and total borrowings at the balance sheet date. This does not include lease liabilities arising upon application of IFRS 16 in order to align with the Group's banking facility covenant definition. Net debt to adjusted EBITDA is the ratio of net debt to adjusted EBITDA (defined above). The net debt to adjusted EBITDA ratio definition similarly removes the benefit of IFRS 16 within adjusted EBITDA so as to align the definition with the Group's banking facility covenant definition. The Directors disclose the net debt APM to provide information as a useful measure for assessing the Group's overall level of financial indebtedness and when comparing its performance across periods. Net debt is shown at the foot of the Group consolidated cash flow statement. A full reconciliation of the net debt to adjusted EBITDA ratio (also referred to as 'leverage') is set out below:

| | **Year ended 31 December 2020 £'000** | Year ended 31 December 2019 £'000 |
|---|---|---|
| Net debt | **(69,184)** | (84,851) |
| | | |
| Adjusted EBITDA | **52,122** | 122,265 |
| Impact of IFRS 16 | **(6,832)** | (7,121) |
| Adjusted EBITDA prior to IFRS 16 | **45,290** | 115,144 |
| | | |
| Ratio of net debt to adjusted EBITDA | **1.5x** | 0.7x |

### Return on capital employed

Return on capital employed ("ROCE") is defined as earnings before interest and taxation adjusted for exceptional items as a proportion of the average capital employed (defined as net debt plus equity excluding the pension surplus). The average is calculated using the period end balance and corresponding preceding reported period end balance (year end or interim). The Directors disclose the ROCE APM in order to provide users of the financial statements with an indication of the relative efficiency of capital use by the Group over the year, assessing performance between periods and it is used within the determination of executives' variable remuneration. The calculation of ROCE together with a reconciliation to the measure prior to the application of IFRS 16 is set out below:

| | **Year ended 31 December 2020 £'000** | Year ended 31 December 2019 £'000 |
|---|---|---|
| Adjusted EBITDA | **52,122** | 122,265 |
| Less depreciation | **(29,046)** | (28,999) |
| Less amortisation | **(7,431)** | (6,410) |
| *Adjusted earnings before interest and taxation* | **15,645** | 86,856 |
| | | |
| Average net debt | **85,974** | 73,416 |
| Average equity* | **394,471** | 465,093 |
| Average pension | **(52,396)** | (89,626) |
| *Average capital employed* | **428,049** | 448,883 |
| | | |
| **Return on capital employed** | **3.7%** | **19.3%** |

Average capital employed figures comprise:

| | 31 December 2020 £'000 | 30 June 2020 £'000 | 31 December 2019 £'000 | 30 June 2019 £'000 |
|---|---|---|---|---|
| Net debt | **69,184** | **102,764** | 84,851 | 61,980 |
| Equity | **397,871** | **391,070** | 464,301 | 465,885 |
| Pension | **43,576** | **61,216** | 88,656 | 90,596 |

* Average equity in the comparative period differs to that reported within the 2019 Annual Report and Accounts by £1.9 million due to the reclassification of balances within the 2019 interim financial statements, as set out within Note 2 of the Group's 2020 Interim results. There is no impact on the reported comparative ROCE figure as a result of this reclassification.

### Like-for-like sales

In the current year, the Directors have introduced a like-for-like revenue measure, which sets out the performance without the contribution of the Longley Concrete operations, which were acquired in July 2019. The Directors have included this APM in order to remove the distortions arising from ownership for a period of fewer than 12 months in the comparative period.

Like-for-like sales reconciliation:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Like-for-like revenue | **299,216** | 400,929 |
| Contribution from Longley operations | **16,956** | 8,328 |
| Revenue | **316,172** | 409,257 |

### Cash flow related APMs

#### Adjusted change in working capital

Adjusted change in working capital is the statutory change in working capital removing cash flows associated with exceptional items arising in the year of £2,650,000 (2019: £1,106,000). The Directors use this APM to allow shareholders to understand better elements of the Group's working capital performance in the period, so as to facilitate comparison with future years and to assess trends in financial performance. The analysis of adjusted change in working capital is included in Table 2 of the Financial Review and reconciliation to the statutory cash flow statement, below.

#### Adjusted operating cash flow

Adjusted operating cash flows are the cash flows arising from operating activities adjusted to exclude cash flows relating to exceptional items of £9.7 million (2019: £1.8 million) and inclusion of cash flows associated with interest income, proceeds from the sale of property, plant and equipment and lease payments reclassified from investing or financing activities of £4.1 million (2019: £5.3 million). The Directors use this APM to allow shareholders to understand better elements of the Group's cash flow performance in the period, so as to facilitate comparison with future years and to assess trends in financial performance. The analysis of adjusted operating cash flows is included in Table 2 of the Financial Review and reconciliation to the statutory cash flow statement, below.

#### Cash conversion

Cash conversion is the ratio of Adjusted operating cash flow (defined above) to Adjusted EBITDA (defined above). The Directors believe this APM provides a useful measure of the Group's efficiency of its cash management during the period. Cash conversion is set out in Table 2 of the Financial Review.

#### Adjusted free cash flow

Adjusted free cash flow represents Adjusted operating cash flow (defined above) less total capital expenditure. The Directors use the measure of Adjusted free cash flow as a measure of the funds available to the Group for the payment of distributions to shareholders, for use within M&A activity and other investing and financing activities. Adjusted free cash flow is reconciled in Table 2 of the Financial Review and illustrated within the reconciliation to the statutory cash flow statement, below.

### Reconciliation of statutory cash flow statement to adjusted cash flow statement

| Year ended 31 December 2020 | Statutory £'000 | Exceptional £'000 | Reclassification £'000 | Adjusted £'000 |
|---|---|---|---|---|
| Adjusted EBITDA | **16,865** | **35,257** | **–** | **52,122** |
| Change in working capital | **19,945** | **(2,650)** | **–** | **17,295** |
| Impairment charges | **20,382** | **(20,382)** | **–** | **–** |
| Net interest | **(4,189)** | **414** | **10** | **(3,765)** |
| Tax | **(6,478)** | **–** | **–** | **(6,478)** |
| Post-employment benefits | **1,584** | **(2,902)** | **(870)** | **(2,188)** |
| Other | **(3,561)** | **–** | **(3,220)** | **(6,781)** |
| Adjusted operating cash flow | **44,548** | **9,737** | **(4,080)** | **50,205** |
| Cash conversion | | | | **96%** |
| Total capex | **(24,072)** | **–** | **–** | **(24,072)** |
| Adjusted free cash flow | **20,476** | **9,737** | **(4,080)** | **26,133** |

# Notes to the consolidated financial statements continued

## 4. Segment reporting

The Directors consider the Group's reportable segments to be the Clay and Concrete divisions.

The key Group performance measure is adjusted EBITDA[1], as detailed below, which is defined in Note 3. The below tables present revenue and adjusted EBITDA[1] and profit/(loss) before taxation for the Group's operating segments.

Included within the unallocated and elimination columns in the tables below are costs including share based payments and Group employment costs. Unallocated assets and liabilities are pensions, taxation and certain centrally held provisions. Eliminations represent the removal of inter-company balances. Transactions between segments are carried out at arm's length. There is no material inter-segmental revenue and no aggregation of segments has been applied.

| | Year ended 31 December 2020 | | | |
|---|---|---|---|---|
| Continuing operations | Clay £'000 | Concrete £'000 | Unallocated & elimination £'000 | Total £'000 |
| **Total revenue** | 213,197 | 102,975 | - | 316,172 |
| **Adjusted EBITDA**[1] | 43,968 | 15,055 | (6,901) | 52,122 |
| Exceptional items[1] impacting EBITDA (see Note 5) | (29,498) | (2,518) | (3,241) | (35,257) |
| Depreciation and amortisation pre fair value uplift | (20,056) | (6,454) | (136) | (26,646) |
| Incremental depreciation and amortisation following fair value uplift | (5,152) | (4,679) | – | (9,831) |
| Net finance costs | (1,687) | (638) | (2,003) | (4,328) |
| **(Loss)/profit before tax** | (12,425) | 766 | (12,281) | (23,940) |
| Taxation | | | | (4,081) |
| **Loss for the year** | | | | (28,021) |
| | | | | |
| **Consolidated total assets** | 504,106 | 132,310 | 43,401 | 679,817 |
| | | | | |
| **Consolidated total liabilities** | (127,573) | (54,584) | (99,789) | (281,946) |
| | | | | |
| **Non-current assets** | | | | |
| Consolidated total intangible assets | 57,652 | 37,511 | – | 95,163 |
| | | | | |
| Property, plant and equipment | 325,859 | 45,536 | – | 371,395 |
| | | | | |
| Right-of-use assets | 15,993 | 10,279 | 381 | 26,653 |
| | | | | |
| **Total** | 399,504 | 93,326 | 381 | 493,211 |
| | | | | |
| **Total non-current asset additions** | 23,610 | 5,911 | – | 29,521 |

Included within the revenue of our Clay operations during the year ended 31 December 2020 were £1.2 million of bill and hold transactions. At 31 December 2020, £0.3 million of inventory relating to these sales remained on the Group's premises. The unallocated segment balance includes the fair value of the Group's share based payments and associated taxes of (£0.5 million), plc Board and other plc employment costs (£3.8 million), pension costs (£0.9 million) and legal/administrative expenses (£3.0 million). These costs have been offset by the research and development taxation credits of (£1.2 million). During the current year, no one customer accounted for greater than 10% of Group revenues.

| Continuing operations | Year ended 31 December 2019<br>Clay<br>£'000 | Concrete<br>£'000 | Unallocated & elimination<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **Total revenue** | 300,470 | 108,787 | – | 409,257 |
| **Adjusted EBITDA**[1] | 106,717 | 21,942 | (6,394) | 122,265 |
| Exceptional items[1] impacting EBITDA (see Note 5) | (881) | (999) | (953) | (2,833) |
| Depreciation and amortisation pre fair value uplift | (20,744) | (5,727) | (128) | (26,599) |
| Incremental depreciation and amortisation following fair value uplift | (5,152) | (3,658) | – | (8,810) |
| Net finance costs | (1,019) | (249) | (764) | (2,032) |
| **Profit/(loss) before tax** | 78,921 | 11,309 | (8,239) | 81,991 |
| Taxation | | | | (15,516) |
| **Profit for the year from continuing operations** | | | | 66,475 |
| **Discontinued operations** | | | | |
| Loss for the year from discontinued operations, net of tax | | | | (383) |
| **Profit for the year** | | | | 66,092 |
| | | | | |
| **Consolidated total assets** | 548,731 | 142,243 | 80,105 | 771,079 |
| | | | | |
| **Consolidated total liabilities** | (140,059) | (46,312) | (120,407) | (306,778) |
| | | | | |
| **Non-current assets** | | | | |
| Consolidated total intangible assets | 60,284 | 42,310 | – | 102,594 |
| | | | | |
| Property, plant and equipment | 339,089 | 47,166 | – | 386,255 |
| | | | | |
| Right-of-use assets | 19,388 | 10,574 | 517 | 30,479 |
| | | | | |
| **Total** | 418,761 | 100,050 | 517 | 519,328 |
| | | | | |
| **Total non-current asset additions (excluding business combinations)** | 41,577 | 7,304 | 92 | 48,973 |

Included within the revenue of our Clay operations during the year ended 31 December 2019 were £2.2 million of bill and hold transactions. At 31 December 2019, all inventory relating to these sales remained on the Group's premises. The unallocated segment balance includes the fair value of the Group's share based payments and associated taxes of (£0.8 million), plc Board and other plc employment costs (£4.2 million), pension costs (£0.7 million) and legal/administrative expenses (£2.3 million). These costs were offset by the research and development taxation credits of (£1.7 million). During the prior year, one customer accounted for greater than 10% of Group revenues with £42.4 million from the Clay segment and £0.6 million from the Concrete segment.

# Notes to the consolidated financial statements continued

## 5. Exceptional items[1]

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| *Continuing operations* | | |
| **Exceptional cost of sales** | | |
| Impairment charges – Property, plant and equipment | **(16,263)** | – |
| Impairment charges – Right-of-use assets | **(1,681)** | – |
| Impairment charges – working capital | **(2,438)** | – |
| Total impairment charges (Note 18) | **(20,382)** | |
| Energy contract losses | **(5,160)** | – |
| Redundancy costs | **(6,073)** | – |
| Other costs associated with closure of sites | **(447)** | – |
| **Total exceptional cost of sales** | **(32,062)** | – |
| | | |
| **Exceptional administrative expenses:** | | |
| Pension closure costs – legal and actuarial costs (Note 22) | **(1,902)** | (737) |
| GMP equalisation costs (Note 22) | **(1,000)** | – |
| Redundancy costs | **(2,224)** | (1,880) |
| COVID-19 administrative expenses | **(818)** | – |
| Exceptional items relating to discontinued operations | **(59)** | – |
| Acquisition of subsidiary undertaking – legal costs | **–** | (179) |
| Exceptional corporate costs | **–** | (37) |
| **Total exceptional administrative expenses** | **(6,003)** | (2,833) |
| | | |
| **Exceptional profit on disposal of property, plant and equipment** | **2,808** | – |
| **Exceptional items[1] impacting EBITDA** | **(35,257)** | **(2,833)** |
| | | |
| Exceptional finance costs (Note 8) | **(414)** | – |
| | | |
| **Total exceptional items[1] relating to continuing operations** | **(35,671)** | **(2,833)** |
| | | |
| Exceptional items[1] relating to discontinued operations | **–** | (383) |
| | | |
| **Total exceptional items[1]** | **(35,671)** | **(3,216)** |
| | | |
| **Reconciliation of adjusted profit before taxation[1]:** | | |
| (Loss)/profit before taxation | (23,940) | 81,991 |
| Add back exceptional items[1] | 35,671 | 3,216 |
| **Adjusted profit before taxation[1]** | 11,731 | **85,207** |

**2020**
Included within the current year are the following exceptional items[1]:

### Exceptional cost of sales
Impairment charges arising in the current year relate to the impairment of non-current assets and working capital items, as set out in Note 18. Due to the materiality and non-recurring nature, these costs have been categorised as exceptional.

Energy contract losses have arisen during the current period as a result of losses on contracts for the purchase of the Group's energy requirements, which due to the COVID-19 lockdown (and consequent sharp reduction in energy usage as the plant network was taken down during 2Q 2020), resulted in contractual energy positions in excess of production needs. These costs have been categorised as exceptional due to their anticipated non-recurring nature.

Redundancy costs relate to employees engaged in production activities following the Group's announced restructuring activity in response to the deterioration in near-term demand outlook caused by COVID-19. These costs have been categorised as exceptional due to their materiality, and the unusual and non-recurring nature of the events giving rise to the costs.

Costs associated with the closure of sites relate to other costs incurred as a result of the Group's restructuring decisions during the year. These costs include closed site security and decommissioning activities.

### Exceptional administration expenses
Pension closure related costs which arose in the current year, comprising legal and actuarial costs associated with the pension data cleansing exercise and subsequent pension buy-in transaction completed as part of the Group's pension de-risking exercise following the closure of the scheme to future accrual from 1 February 2017. These costs have been categorised as exceptional due to the non-recurring nature of the event giving rise to them.

Guaranteed Minimum Pension ("GMP") equalisation costs arose as a result of the High Court ruling in November 2020 requiring pension schemes to revisit individual transfer payments since May 1990 to identify any additional value due as a result of GMP equalisation.

Further detail of exceptional pension related costs is included within Note 22. These pension costs have been assessed as exceptional due to the non-recurring nature of the event giving rise to the costs.

Exceptional redundancy costs arising in the current period relate to costs of redundancy of employees within the Group's selling, general and administrative ("SG&A") functions following the Group's announced restructuring in June 2020. The costs have been treated as exceptional due to their materiality, and the unusual and non-recurring nature of the event giving rise to the costs.

COVID-19 related administrative costs relate to costs incurred in acquiring personal protective and health screening equipment associated with the return to work, and the costs of acquiring information technology equipment to be used in the short term during the COVID-19 lockdown. These costs have been categorised as exceptional due to the non-recurring nature of the event giving rise to the costs.

Exceptional items[1] relating to discontinued operations comprise residual costs incurred during the current year in concluding the disposal of the Group's Glen-Gery operations, which were sold in November 2018.

### Exceptional profit on disposal of property, plant and equipment
The exceptional profit on disposal relates to the finalisation of overage payments contained within the sale and purchase agreement associated with the Group's past disposal of its property in Bristol. The profit on disposal have been categorised as exceptional due to the materiality of the amounts recorded.

### Exceptional finance costs
Exceptional finance costs include professional fees associated with the Group's renegotiation of banking covenant requirements and application to join the CCFF (see Note 20), both of which have been incurred as a result of the impact of COVID-19 on the Group's financial position and prospects. These costs have been categorised as exceptional due to the non-recurring nature of the event giving rise to the costs.

**2019**
Included within the prior year are the following exceptional items[1]:

### Exceptional administration expenses
Pension related costs which arose in the current year include costs associated with the pension data cleansing exercise completed as part of the Group's pension de-risking exercise, which followed the closure of the scheme to future accrual from 1 February 2017.

All exceptional pension costs have been assessed as exceptional due to the non-recurring nature of the event giving rise to the costs.

Legal costs associated with the acquisition of the Longley Concrete subsidiary undertaking in July 2019 have been treated as exceptional on the basis of the infrequent nature of the event giving rise to these costs.

Exceptional corporate costs in the prior year relate to the duplication of Chief Financial Officer's expenses, which was categorised as exceptional on the basis of the non-recurring nature of the event giving rise to the costs.

Exceptional restructuring costs, which arose in the prior year relate to redundancy and other transformative project costs following the establishment of a new Ibstock Concrete division from 1 January 2019. Additionally, costs of transformative restructuring within the Ibstock Clay division were also categorised as exceptional. These costs have been treated as exceptional due to the unusual and non-recurring nature of the event giving rise to the costs.

Exceptional costs relating to discontinued operations relate to residual costs incurred during the prior year in concluding the disposal of the Group's Glen-Gery operations, which were sold in November 2018.

# Notes to the consolidated financial statements continued

### 5. Exceptional items[1] continued

**Tax on exceptional items**[1]

2020

In the current period, the COVID-19 related energy contract losses, redundancy costs, COVID-19 administrative expenses and exceptional finance costs are all tax deductible.

The working capital impairment costs are also tax deductible, primarily in the current period.

The COVID-19 related impairment charges arising on non-current assets, pension closure costs and GMP equalisation costs are not tax deductible but give rise to a deferred tax credit in the current period and as such are not tax rate impacting.

Costs associated with the closure of sites are tax deductible either in the current or a future period. A deferred tax credit has been recognised for costs that are tax deductible in a future period.

The profit on disposal of property, plant and equipment gives rise to a chargeable gain which is taxable in the current period.

Costs associated with the discontinued operations are not tax deductible.

2019

The pension related expenses along with the corporate and restructuring costs are tax deductible.

The legal costs incurred on acquisition of the subsidiary undertaking are not tax deductible.

The expenses relating to discontinued operations are not tax deductible.

### 6. Operating profit

Operating profit includes the effect of crediting/(charging):

| | **Year ended 31 December 2020 £'000** | Year ended 31 December 2019 £'000 |
|---|---|---|
| *Continuing operations* | | |
| Changes in inventories of finished goods and work in progress | **(20,531)** | 11,377 |
| Raw material and consumables used | **(50,060)** | (62,727) |
| Employee benefit expense (Note 7) | **(65,049)** | (78,078) |
| Depreciation – Property, plant and equipment (Note 14) | **(21,326)** | (21,525) |
| Depreciation – Right-of-use assets (Note 28) | **(7,720)** | (7,474) |
| Amortisation (Note 13) | **(7,431)** | (6,410) |
| Exceptional production costs (Note 5) | **(32,062)** | – |
| Other production costs | **(63,550)** | (85,171) |
| **Total cost of sales** | **(267,729)** | (250,008) |
| | | |
| Transportation expenses | **(31,427)** | (42,052) |
| Other employee benefit expenses (Note 7) | **(22,499)** | (26,229) |
| Profit on disposal of property, plant and equipment (Note 14) | **113** | 1,773 |
| Advertising costs | **(931)** | (1,450) |
| Operating lease income | **198** | 408 |
| Research and development costs | **–** | (33) |
| Exceptional administrative expenses (Note 5) | **(6,003)** | (2,833) |
| Exceptional (loss)/profit on disposal of property, plant and equipment (Note 5) | **2,808** | – |

**Auditor's remuneration**

During the year the Group obtained the following services from the Company's auditor.

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| **Fees payable to the Company's auditor and its associates for the audit of Parent company and consolidated financial statements:** | **180** | 110 |
| | | |
| **Fees payable to Company's auditor and its associates for other services to the Group:** | | |
| - Audit of the Company's subsidiaries | **530** | 495 |
| **Total audit fees** | **710** | 605 |
| | | |
| - Audit related assurance services | **80** | 60 |
| **Total non-audit fees** | **80** | 60 |

## 7. Employees and Directors

Employee benefit expenses for the Group during the period:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Wages and salaries – gross | **80,853** | 88,576 |
| Furlough payments received | **(10,482)** | – |
| Wages and salaries – net amount recognised within the income statement | **70,371** | 88,576 |
| Social security costs | **8,046** | 8,226 |
| Pensions costs – defined benefit plans (Note 22) | **3,772** | 1,511 |
| Pensions costs – defined contribution plans (Note 22) | **4,832** | 5,290 |
| Share based payments (Note 27) | **527** | 704 |
| | **87,548** | 104,307 |

Average monthly number of people (including Executive Directors) employed:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Sales staff | **259** | 264 |
| Administrative staff | **187** | 269 |
| Production staff | **1,803** | 1,777 |
| | **2,249** | 2,310 |

Key management compensation:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Short-term employee benefits | **1,617** | 2,640 |
| Post-employment benefits | **207** | 122 |
| Share based payment | **259** | 173 |
| | **2,083** | 2,935 |

Key management personnel has been defined as the Board of Ibstock plc, together with the Group's Executive Leadership Team ("ELT"). Members of the ELT are shown on page 73 of the Annual Report and Accounts 2020. Details of remuneration for Ibstock plc Directors are presented in the Remuneration Report on pages 85 to 101. The aggregate remuneration of the Directors for the purposes of the financial statements is £1.4 million (year ended 31 December 2019: £2.1 million).

# Notes to the consolidated financial statements continued

## 8. Finance costs

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Interest costs: | | |
| Interest payable on Revolving Credit Facility | **(3,106)** | (2,850) |
| Foreign exchange translations | **(459)** | – |
| Total interest payable on bank borrowings | **(3,565)** | (2,850) |
| Other interest payable | **(110)** | (87) |
| *Interest expense on financial liabilities at amortised cost* | **(3,675)** | (2,937) |
| | | |
| Interest on lease liabilities | **(1,215)** | (1,294) |
| Unwinding of discount on provisions/changes in discount rate (Note 21) | **(762)** | (504) |
| Unwinding of discount on contingent consideration | **(39)** | – |
| Exceptional finance cost (Note 5) | **(414)** | – |
| *Other interest payable* | **(2,430)** | (1,798) |
| Total finance costs relating to continuing operations | **(6,105)** | (4,735) |

**2020**

Included within the current year were finance costs in respect of leasing liabilities and associated with the Group's Revolving Credit Facility (see Note 20), which incurred interest at a 1.00%–2.50% margin during the course of the year and the recognition of interest in respect of leasing liabilities as a result of the implementation of IFRS 16. Additionally, in the year ended 31 December 2020, finance costs of £0.4 million were incurred in relation to the costs of renegotiation of the RCF's covenant requirements and associated with the Group's successful application for qualification for funding under the UK Government's Covid Corporate Financing Facility ("CCFF"), which were treated as exceptional.

**2019**

Included within the prior year were finance costs associated with the Group's Revolving Credit Facility (see Note 20), which incurred interest at a 1.00%–1.25% margin during the course of the year and the recognition of interest in respect of leasing liabilities as a result of the implementation of IFRS 16.

In both the current and prior years, borrowing costs related to capital expenditure are insignificant and have not been capitalised.

## 9. Finance income

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Interest income: | | |
| Foreign currency gains | **–** | 387 |
| Net interest income arising on the UK pension scheme (Note 22) | **1,767** | 2,269 |
| Other interest receivable | **10** | 47 |
| Total finance income relating to continuing operations | **1,777** | 2,703 |

## 10. Taxation

**Analysis of income tax charge**

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| **Continuing operations** | | |
| Current tax on (loss)/profit for the year | **1,577** | 16,045 |
| Adjustments in respect of prior period | **163** | (1,218) |
| **Total current tax** | **1,740** | 14,827 |
| | | |
| Deferred tax on (loss)/profit for the year | **(5,165)** | (74) |
| Impact of change in tax rate | **7,667** | (108) |
| Adjustments in respect of prior period | **(161)** | 871 |
| **Total deferred tax** | **2,341** | 689 |
| | **4,081** | 15,516 |

**Income tax recognised within the consolidated statement of other comprehensive income**

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Tax adjustments arising on the UK pension scheme assets and liabilities: | | |
| Deferred tax (credit)/charge | **(7,927)** | 851 |

**Income tax recognised within the consolidated statement of changes in equity**

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Current tax credit on share based payments | **(24)** | (171) |
| Deferred tax charge/(credit) on share based payments | **686** | (508) |

The tax expense for the period differs from the applicable standard rate of corporation tax in the UK of 19% for the year ended 31 December 2020 (2019: 19%). The differences are explained below:

| | Year ended 31 December 2020 £'000 | Percentage | Year ended 31 December 2019 £'000 | Percentage |
|---|---|---|---|---|
| (Loss)/profit before tax from continuing operations | **(23,940)** | **100%** | 81,991 | 100% |
| (Loss)/profit before tax multiplied by the rate of corporation tax in the UK | **(4,549)** | **19.00%** | 15,578 | 19.00% |
| Effects of: | | | | |
| Expenses not deductible | **948** | **(3.96%)** | 393 | 0.48% |
| Changes in estimates relating to prior periods | **2** | **(0.01%)** | (347) | (0.43%) |
| Total tax (credit)/charge before deferred tax rate change and exceptional items[1] | **(3,599)** | **15.03%** | 15,624 | 19.05% |
| Non-tax deductible exceptional costs associated with discontinued operations | **13** | **(0.05%)** | – | – |
| Rate change on deferred tax provision | **7,667** | **(32.03%)** | (108) | (0.13%) |
| **Total taxation expense from continuing operations** | **4,081** | **(17.05%)** | 15,516 | 18.92% |

There are no income tax consequences for the Company in respect of dividends declared prior to the date of authorisation of these financial statements and for which a liability has not been recognised.

The reduction in the standard rate of corporation tax in the UK from 20% to 19% came into force with effect from 1 April 2017. In the March 2020 Budget, the Chancellor of the Exchequer repealed the previously enacted reduction to the standard rate of corporation tax from 19% to 17% that was due to come into force from 1 April 2020. The standard rate of corporation tax has been maintained at 19% and the impact of this is reflected in these financial statements.

On 3 March 2021, the Chancellor of the Exchequer delivered his Budget Statement. The measures announced include an increase in the standard rate of corporation tax from 19% to 25% with effect from 1 April 2023. The full impact of this change will be reflected in the 2021 financial statements once the Finance Bill has been substantively enacted and is expected to give to an increase in the Group's net deferred tax liabilities of around £20 million.

The Group expects its effective tax rate in the future to be affected by the outcome of any future tax audits as well as the impact of changes in tax law.

## 11. Business combinations

On 31 July 2019, the Group acquired 100% of the share capital of Longley Holdings Limited and its subsidiaries Longley Concrete Limited and Longley Precast Limited for cash consideration of £13.2 million, net of £2.8 million cash acquired, which was paid during the prior year. Deferred consideration of £0.5 million is also payable two years from the date of acquisition. The values of acquired assets associated with the acquisition were finalised during the current period with no updates to provisional values assigned, which are set out on page 115 of the Group's 2019 Annual Report and Accounts.

# Notes to the consolidated financial statements continued

## 12. Earnings per share

The basic earnings per share figures are calculated by dividing profit for the year attributable to the parent shareholders by the weighted average number of Ordinary Shares in issue during the year.

The diluted earnings per share figures allow for the dilutive effect of the conversion into Ordinary Shares of the weighted average number of options outstanding during the year. Where the average share price for the year is lower than the option price the options become anti-dilutive and are excluded from the calculation.

The number of shares used for the earnings per share calculation are as follows:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Basic weighted average number of Ordinary Shares | **409,333** | 408,367 |
| Effect of share incentive awards and options | **1,989** | 3,570 |
| Diluted weighted average number of Ordinary Shares | **411,322** | 411,937 |

The calculation of adjusted earnings per share[1] is a key measurement used by management that is not defined by IFRS. The adjusted earnings per share[1] measures should not be viewed in isolation, but rather treated as supplementary information.

Adjusted earnings per share[1] figures are calculated as the Basic earnings per share adjusted for exceptional items[1], fair value adjustments being the amortisation and depreciation on fair value uplifted assets and non-cash interest expenses. Adjustments are made net of the associated taxation impact at the adjusted effective tax rate. In the current year, in order to remove distortions to the effective tax rate applied resulting from changes to the rate of deferred taxation, management has applied the effective tax rate prior to such changes. The impact on comparative figures is immaterial and balances have not been restated. As described in Note 3, during the year ended 31 December 2020 the Adjusted earnings per share[1] definition was expanded to add back fair valuation of energy contracts (net of tax). At 31 December 2020 and 2019 the impact of this adjustment was nil.

A reconciliation of the statutory profit to that used in the adjusted earnings per share[1] calculations is as follows:

| | Year ended 31 December 2020 Total 2020 £'000 | Continuing £'000 | Year ended 31 December 2019 Discontinued £'000 | Total £'000 |
|---|---|---|---|---|
| **(Loss)/profit for the period attributable to the parent shareholders** | **(28,021)** | 66,475 | (383) | 66,092 |
| Add back exceptional items[1] (Note 5) | **35,671** | 2,833 | 383 | 3,216 |
| Add back tax credit on exceptional items[1] | **(6,119)** | (536) | – | (536) |
| Add fair value adjustments (Note 4) | **9,831** | 8,810 | – | 8,810 |
| Less tax credit on fair value adjustments | **(1,693)** | (1,667) | – | (1,667) |
| Less net non-cash interest | **(954)** | (1,238) | – | (1,238) |
| Add back tax expense on non-cash interest | **164** | 234 | – | 234 |
| Add back impact of deferred taxation rate change | **7,667** | – | – | – |
| **Adjusted profit for the period attributable to the parent shareholders** | **16,546** | 74,911 | – | 74,911 |

| | Year ended 31 December 2020 Total 2020 pence | Continuing pence | Year ended 31 December 2019 Discontinued pence | Total pence |
|---|---|---|---|---|
| **Basic EPS on (loss)/profit for the year** | **(6.8)** | 16.3 | (0.1) | 16.2 |
| **Diluted EPS on (loss)/profit for the year** | **(6.8)** | 16.1 | (0.1) | 16.0 |
| **Adjusted basic EPS[1] on profit for the year** | **4.0** | 18.3 | – | 18.3 |
| **Adjusted diluted EPS[1] on profit for the year** | **4.0** | 18.2 | – | 18.2 |

## 13. Intangible assets

| | Goodwill £'000 | Customer contracts and relationships £'000 | Brands £'000 | Licences £'000 | Total £'000 |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| At 1 January 2019 | – | 87,650 | 35,800 | 1,124 | 124,574 |
| Arising on business combination | 2,964 | 5,218 | 1,359 | – | 9,541 |
| Disposals in the year | – | – | – | (1,124) | (1,124) |
| At 31 December 2019 | 2,964 | 92,868 | 37,159 | – | 132,991 |
| **At 31 December 2020** | **2,964** | **92,868** | **37,159** | **–** | **132,991** |
| *Accumulated amortisation and impairment* | | | | | |
| At 1 January 2019 | – | (20,459) | (3,528) | – | (23,987) |
| Charge for the year | – | (5,434) | (976) | – | (6,410) |
| At 31 December 2019 | – | (25,893) | (4,504) | – | (30,397) |
| Charge for the year | **–** | **(6,377)** | **(1,054)** | **–** | **(7,431)** |
| **At 31 December 2020** | **–** | **(32,270)** | **(5,558)** | **–** | **(37,828)** |
| *Net book amount* | | | | | |
| At 31 December 2019 | 2,964 | 66,975 | 32,655 | – | 102,594 |
| **At 31 December 2020** | **2,964** | **60,598** | **31,601** | **–** | **95,163** |

Amortisation is included within cost of sales in the income statement.

The remaining amortisation period of customer contracts and relationships is 5 to 15 years. At 31 December 2020, the remaining amortisation period of brands is outlined below:

| Brands | **Net book value at 31 December 2020 £'000** | Remaining amortisation period (years) £'000 |
|---|---|---|
| Ibstock Brick | **28,266** | 44.20 |
| Forticrete | **334** | 4.20 |
| Supreme | **1,835** | 9.20 |
| Longley | **1,166** | 8.60 |
| | **31,601** | |

# Notes to the consolidated financial statements continued

## 14. Property, plant and equipment

| | Land and buildings £'000 | Mineral reserves £'000 | Plant, machinery and equipment £'000 | Assets in the course of construction ("AICC") £'000 | Total £'000 |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| At 1 January 2019 | 187,007 | 68,198 | 160,435 | – | 415,640 |
| Arising on business combination | 2,466 | – | 1,217 | – | 3,683 |
| Additions | 4,283 | 4,677 | 20,517 | 11,952 | 41,429 |
| Transfer to Assets held for sale | (1,186) | – | – | – | (1,186) |
| Transfer of Right-of-use assets | – | – | (1,917) | – | (1,917) |
| Disposals | (970) | – | (2,338) | – | (3,308) |
| Transfer from inventories | – | 1,193 | – | – | 1,193 |
| At 31 December 2019 | 191,600 | 74,068 | 177,914 | 11,952 | 455,534 |
| Additions | 1,702 | 966 | 12,249 | 8,822 | 23,739 |
| Transfer to/(from) AICC | 1,272 | – | 4,813 | (6,085) | – |
| Disposals | (1,206) | – | (7,401) | – | (8,607) |
| **At 31 December 2020** | **193,368** | **75,034** | **187,575** | **14,689** | **470,666** |
| *Accumulated depreciation & impairment* | | | | | |
| At 1 January 2019 | (22,143) | (11,428) | (16,591) | – | (50,162) |
| Charge for the year | (5,553) | (4,178) | (11,794) | – | (21,525) |
| Disposals | 631 | – | 1,777 | – | 2,408 |
| At 31 December 2019 | (27,065) | (15,606) | (26,608) | – | (69,279) |
| Charge for the year | **(7,230)** | **(4,459)** | **(9,637)** | **–** | **(21,326)** |
| Disposals | **289** | **–** | **7,308** | **–** | **7,597** |
| Impairment | **(8,659)** | **(1,083)** | **(6,521)** | **–** | **(16,263)** |
| **At 31 December 2020** | **(42,665)** | **(21,148)** | **(35,458)** | **–** | **(99,271)** |
| *Net book amount* | | | | | |
| At 31 December 2019 | 164,535 | 58,462 | 151,306 | 11,952 | 386,255 |
| **At 31 December 2020** | **150,703** | **53,886** | **152,117** | **14,689** | **371,395** |

Management reviews the business performance based on segments reported in Note 4. Details of impairment tests performed in the current year are set out in Note 18. In the prior year, detailed impairment tests were not conducted as management believed that no indication of impairment of assets existed. A profit on disposal of property, plant and equipment of £2.9 million has been recognised in the year ended 31 December 2020 (year ended 31 December 2019: profit on disposal of £1.8 million). The current year profit on disposal of property, plant and equipment includes £2.8 million of exceptional profit, as set out in Note 5.

There are no assets which are used as security.

## 15. Inventories

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Raw materials | **22,994** | 23,021 |
| Work in progress | **2,526** | 3,488 |
| Finished goods | **37,866** | 57,818 |
| | **63,386** | 84,327 |

The replacement cost of inventories is not considered to be materially different from the above values. At 31 December 2020, a provision of £3,9 million (31 December 2019: £0.8 million) is held against the inventory balance.

## 16. Trade and other receivables

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Trade receivables | **55,441** | 54,147 |
| Provision for impairment of receivables | **(691)** | (288) |
| **Net trade receivables** | **54,750** | 53,859 |
| Prepayments and accrued income | **3,745** | 3,214 |
| Other receivables | **411** | 1,015 |
| **Total trade and other receivables** | **58,906** | 58,088 |

## 17. Assets held for sale

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Assets classified as held for sale as of the beginning of the period | **1,186** | – |
| Additions | **–** | 1,186 |
| Disposals | **–** | – |
| Assets classified as held for sale as of the end of the period | **1,186** | 1,186 |

At 31 December 2020, the Group's surplus property in Staffordshire was categorised as held for sale. The disposal of this asset was formally completed in January 2021.

During the year ended 31 December 2019, the Group had first classified the same surplus property in Staffordshire as held for sale. This asset was expected to be disposed of within 12 months of the balance sheet date.

The assets were all held within the Clay segment.

The fair value of the asset less costs to sell is assessed as above the assets' carrying values, and there are no liabilities directly associated with the assets categorised as held for sale.

## 18. Impairment

As a result of the COVID-19 pandemic and the resulting significant decrease in activity levels across the UK Construction industry, management identified indicators of potential impairment and subsequently performed detailed impairment testing across the Group's cash-generating units ("CGUs").

The carrying values of assets associated with factories subject to closure were assessed for impairment and the recoverable amount was determined based on the fair value less costs to dispose ("FVLCTD"). Determination of FVLCTD by management reflected full impairment of all items of plant and machinery, right-of-use assets and working capital for which management's assessment was that no alternative use, future salvage value or disposal proceeds are expected for the impacted assets.

This assessment of impairment resulted in the recognition of an exceptional impairment charge of £20.4 million within cost of sales within the Group consolidated income statement.

The impairment of assets valued at historical cost impacted both operating segments of the Group in the current year as follows:

| Year ended 31 December 2020 | Property, plant and equipment £'000 | Right-of-use assets £'000 | Working capital £'000 | Total cost of sales £'000 |
|---|---|---|---|---|
| **Division** | | | | |
| Clay | **16,107** | **411** | **2,363** | **18,881** |
| Concrete | **156** | **1,270** | **75** | **1,501** |
| **Total** | **16,263** | **1,681** | **2,438** | **20,382** |

Additionally, management completed detailed testing of value-in-use ("VIU") for the Group's operating CGUs at 30 June 2020. This detailed testing resulted in no further impairment charges being recognised.

Subsequently, management has revisited its analysis of indicators of impairment as at 30 November 2020. This has not identified further indicators of impairment, which would require full detailed impairment testing. However, management took the decision to test those CGUs which demonstrated the lowest levels of headroom when performing its detailed testing of impairment as at 30 June 2020.

# Notes to the consolidated financial statements continued

### 18. Impairment continued

These assets were tested for impairment as at 30 November 2020 based on VIU calculations. The key assumptions used within the VIU calculations are noted below:

1. Management has used the latest budgetary and strategic planning forecasts in its estimated future cash flows. These Board-approved estimates cover the period from 2021 to 2025 and are based upon construction industry forecasts for activity levels over that time horizon. Incorporated within the Board-approved plans are consideration of currently communicated changes to climate-related legislation (e.g., red diesel entitlements, EUETS target reductions).
2. A pre-tax weighted average cost of capital ("WACC") of 9.2–10.2% was used within the VIU calculation based on an externally derived rate, and benchmarked against industry peer group companies.
3. Terminal growth rates of 2% were used reflecting management's past experience, expectations of future market performance and longer-term industry forecasts and inflationary expectations.

As a result of the detailed impairment testing performed, no further impairment charges were recognised. No impairment reversals arose during the year. Management is of the view that no reasonably possible change in the key assumptions would result in impairment of the CGU's non-current assets.

No detailed testing of impairment was performed during the year ended 31 December 2019 as there were no indicators of impairment.

**Goodwill**

The Group's goodwill balance of £3.0m, relating to the acquisition of the Longley CGU in July 2019, was tested for impairment at 30 November 2020. Based upon management's detailed testing of the recoverable value of the CGUs to which goodwill is allocated, no impairment was indicated. Key assumptions used within the testing of goodwill for impairment are consistent with those set out above.

A pre-tax discount rate of 9.2% has been used, together with a long-term growth rate of 2%. CGU-specific cash flows for the detailed five-year time period used by management contain a revenue compound growth rate of 4.3%.

Based on management's projections, no reasonably possible change in key assumptions within the VIU calculation supporting the impairment calculation could cause the carrying value of goodwill to exceed its recoverable amount.

### 19. Trade and other payables

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Trade payables | **53,191** | 55,975 |
| Deferred consideration | **500** | 461 |
| Other tax and social security payable | **8,136** | 7,667 |
| Accruals and other payables | **23,596** | 24,047 |
| | **85,423** | 88,150 |

There are no material differences between the fair values and book values stated above. All items are payable within six months of the balance sheet date, with the exception of deferred consideration of £0.5 million (31 December 2019: £0.5 million) related to the consideration payable to the vendor following the acquisition of the Longley businesses completed in July 2019. The deferred consideration is payable in July 2021.

### 20. Borrowings

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| **Current** | | |
| Revolving Credit Facility | **135** | 395 |
| | **135** | 395 |
| | | |
| **Non-current** | | |
| Revolving Credit Facility | **88,601** | 103,950 |
| | **88,601** | 103,950 |
| | | |
| **Total borrowings** | **88,736** | 104,345 |

As at 31 December 2020 and 31 December 2019, the Group held a Revolving Credit Facility ("RCF") for £215 million. The original five-year RCF, which was due to expire in March 2022, was extended for a further 12 months in December 2020.

The initial facility attracted interest at LIBOR plus a margin ranging from 100 to 225bps depending upon the ratio of net debt to Adjusted EBITDA[1] (see Note 3 for definitions). This was amended upon extension of the facility to a margin ranging from 200 to 325bps.

The Directors note that the UK's Financial Conduct Authority has announced plans to phase out the LIBOR benchmark by the end of 2021. The Group is monitoring developments in relation to the replacement of LIBOR but has yet to conclude negotiations with counterparties in relation to amendments to the reference rate for the RCF. The expectation is that a new alternate reference rate, Sterling Overnight Index Average ("SONIA"), will replace LIBOR. This is not expected to have a material impact on the finance costs recognised in the consolidated income statement.

The facility contains debt covenant requirements of leverage (net debt to adjusted EBITDA[1]) and interest cover (adjusted EBITDA[1] to net finance charge) of 3x and 4x, respectively, to be tested semi-annually on 30 June and 31 December in respect of the preceding 12-month period.

Due to COVID-19 and in order to provide appropriate financial flexibility, in June 2020 the Group agreed covenant amendments with its lending banks. Under these amendments, the leverage test as at December 2020 was replaced by a liquidity test requiring the Group to have Minimum Liquidity of £60 million. Liquidity is defined as: (Cash and Equivalents) + (Available Existing RCF Commitments) + (Any Outstanding Drawings under the CCFF). The interest cover test as at December 2020 was amended to no less than 1.25 times, after which it reverts to 4 times. The leverage test that will apply as at 30 June 2021 was amended to no more than 3.75 times net debt to adjusted EBITDA[1]. Due to the improving financial performance during the second half of 2020, the covenant amendment in relation to liquidity agreed for the test at 31 December 2020 was waived by the Group.

The Group was also confirmed as eligible to access funding under the Covid Corporate Financing Facility ("CCFF"). This facility would provide additional liquidity, should it be required, but is currently undrawn. The Group notes that the offer is subject to the Bank of England's standard terms where it reserves the right to deem any security ineligible. The Bank of England currently intends to purchase eligible securities until 23 March 2021. Securities can be up to one year in length from this date. The Bank of England has communicated its intention to give six months' notice of the withdrawal of the scheme. The CCFF contains no covenant tests or requirements.

The carrying value of financial liabilities have been assessed as materially in line with their fair values.

No security is currently provided over the Group's borrowings.

## 21. Provisions

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Restoration (i) | **4,575** | 3,393 |
| Dilapidations (ii) | **4,913** | 4,524 |
| Restructuring (iii) | **2,406** | |
| Other (iv) | **1,641** | – |
| | **13,535** | 7,917 |
| | | |
| Current | **5,303** | 738 |
| Non-current | **8,232** | 7,179 |
| | **13,535** | 7,917 |

| | **Restoration (i) £'000** | **Dilapidations (ii) £'000** | **Restructuring (iii) £'000** | **Other (iv) £'000** | **Total £'000** |
|---|---|---|---|---|---|
| At 1 January 2020 | **3,393** | **4,524** | **–** | **–** | **7,917** |
| Charged to the income statement | **616** | **193** | **9,550** | **1,660** | **12,019** |
| Utilised | **–** | **–** | **(5,891)** | **(19)** | **(5,910)** |
| Unwind of discount/change in rate | **566** | **196** | **–** | **–** | **762** |
| Reversed unused | **–** | **–** | **(1,253)** | **–** | **(1,253)** |
| **At 31 December 2020** | **4,575** | **4,913** | **2,406** | **1,641** | **13,535** |

The current expected timeframe of provision requirements is as follows:

| | Restoration (i) £'000 | Dilapidations (ii) £'000 | Restructuring (iii) £'000 | Other (iv) £'000 | Total £'000 |
|---|---|---|---|---|---|
| Within one year | 595 | 661 | 2,406 | 1,641 | 5,303 |
| Between two and five years | 519 | 601 | – | – | 1,120 |
| Between five and ten years | – | 1,225 | – | – | 1,225 |
| Between ten and twenty years | 918 | 2,334 | – | – | 3,252 |
| Over twenty years | 2,543 | 92 | – | – | 2,635 |
| | 4,575 | 4,913 | 2,406 | 1,641 | 13,535 |

(i) The restoration provision comprises obligations governing site remediation and improvement costs to be incurred in compliance with applicable environmental regulations together with constructive obligations stemming from established practice once the sites have been fully utilised. The key estimates associated with calculating the provision relate to the cost per acre to perform the necessary remediation work as at the reporting date together with determining the year of retirement. Climate change is considered at the planning stage of developments when restoration provisions are initially estimated. This includes projection of costs associated with future water management requirements and the form of the ultimate expected restoration activity. Estimates are updated annually based on the total estimated available reserves and the expected extraction rates. Whilst a significant element of the total provision will reverse in the medium-term (two to ten years), the majority of the legal and constructive obligations applicable to mineral-bearing land will unwind over a 30-year timeframe. In discounting the related obligations, expected future cash outflows have been determined with due regard to extraction status and anticipated remaining life.

# Notes to the consolidated financial statements continued

### 21. Provisions continued

(ii) Provisions for dilapidations arose as contingent liabilities recognised upon the business combination in the period ended 31 December 2015, are recognised on a lease by lease basis and are based on the Group's best estimate of the likely contractual cash outflows, which are estimated to occur over the lease term.

(iii) The restructuring provision comprises obligations arising as a result of the site closures and associated redundancy costs announced following the completion of the Group's review of operations during the second half of 2020. The key estimate associated with the provision relates to the redundancy cost per impacted employee. The majority of the cost is expected to be incurred within one year of the balance sheet date.

(iv) Other provisions include provisions for legal and warranty claim costs, which are expected to be incurred within one year of the balance sheet date.

### 22. Post-employment benefit obligations

**(a) Defined Benefit plan**

Analysis of movements in the net obligation during the year:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| **Funded plan at 31 December** | | |
| Opening balance | **88,656** | 80,705 |
| Charge within labour costs and operating profit | **(3,772)** | (1,511) |
| Interest income | **1,767** | 2,269 |
| Remeasurement (loss)/gain recognised in the statement of comprehensive income | **(45,263)** | 5,005 |
| Contributions | **2,188** | 2,188 |
| Carried forward at 31 December | **43,576** | 88,656 |

The Group participates in the Ibstock Pension Scheme (the "Scheme"), a defined benefit pension scheme in the UK. The Scheme closed to future accrual from 1 February 2017. The Scheme has four participating employers – Ibstock Brick Limited, Forticrete Limited, Anderton Concrete Products Limited and Figgs Bidco Limited – and was funded by payment of contributions to a separate Trustee administered fund. The Scheme is a revalued earnings plan and provides benefits to its members based on their length of membership in the Scheme and their average salary over that period. The Scheme is administered by Trustees who employ independent fund managers for the investment of the pension scheme assets. These assets are kept entirely separate from those of the Group.

Total annual contributions to the Scheme are based on independent actuarial advice, and are gauged to fund future pension liabilities in respect of service up to the balance sheet date. The Scheme is subject to an independent actuarial valuation at least every three years using the projected unit method.

The valuation used as at 31 December 2020 has been based on the results of the 30 November 2017 valuation, as updated for changes in demographic assumptions, as appropriate. The triennial valuation as at 30 November 2020 is currently in progress and is expected to be completed in 2H 2021.

Through its defined benefit pension plan, the Group is exposed to a number of risks that are inherent in such plans and arrangements. There are, however, no unusual, entity-specific or plan-specific risks, and no significant concentrations of risk. The risks can be summarised as follows:

- The Scheme holds return-enhancing assets (equities) and risk-reducing assets (cash flow-driven and liability-driven investments). Long-term returns from return-enhancing assets are expected to exceed the returns from risk-reducing assets, although returns and capital values may demonstrate higher volatility. The return-enhancing assets are not well correlated with movement of the liabilities. As such the deficit may increase as a result of asset volatility. The current allocation is approximately 25% return-enhancing/75% risk-reducing assets and the Trustees' long-term target is to reach an allocation of 10% return-enhancing/90% risk-reducing assets.
- Risk of volatility in inflation rates as the majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). The Scheme's inflation risk is further mitigated by the asset holdings in the cash flow-driven and liability-driven investments, as well as insurance policies for the majority of the Scheme's current pensioner members.
- Longevity risk – increases in life expectancy will increase the period over which benefits are expected to be payable, which increases the Scheme's liabilities.

The Company and Trustees intend to de-risk the Scheme's investment strategy by moving towards a position that is predominantly liability matching in nature based on the Trustees' long-term funding target. This involves an Asset Liability Management ("ALM") framework that has been developed to achieve a holding in long-term investments that are in line with the obligations under the Scheme.

Within this framework the ALM objective is to match assets to the pension obligations by investing in risk-reducing assets (such as the cash flow-driven and liability-driven investments). The Company and Trustees actively monitor the investment strategy to ensure that the expected cash flows arising from the pension obligations are sufficiently met.

In October 2020, the Scheme Trustees completed a partial buy-in transaction with a specialist third party provider. This transaction, which insures just over half of the Group's defined benefit liability, represents a significant step in the Group's continuing strategy of de-risking its pensions exposure. The cover for current pensioners at the date of the transaction attracted a buy-in premium of £338.9 million, which was met by the transfer of certain Scheme invested assets. The difference between the buy-in premium and the IAS 19 liability for these members has been taken through the consolidated statement of other comprehensive income as an asset loss (£25.2 million).

The defined benefit pension scheme (measured under IAS 19 Employee Benefits) is in a net surplus position as the Trust Deed provides Ibstock with an unconditional right to a refund of surplus asset. This assumes the full gradual settlement of plan liabilities over time until all members have left the plan in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to the members of, the Scheme. In line with IFRIC 14, a net pension asset has been recognised. The corresponding deferred tax liability should be measured by applying either the standard rate of corporation tax to the taxable temporary difference, or the 35% rate applicable to refunds from pension schemes. As the Directors do not consider it likely that there will be a refund from the Scheme, the deferred tax liability of £8.3m (2019: £15.1m) has been measured at the standard rate of corporation tax.

Balance sheet assets/(obligations):

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Equities | **85,337** | 134,273 |
| Liability driven investment | **90,749** | 201,403 |
| Bespoke cash flow driven investment | **139,143** | 285,728 |
| Insured pensioners | **320,856** | 193 |
| Cash | **3,094** | 4,352 |
| Total market value of assets | **639,179** | 625,949 |
| Present value of Scheme liabilities | **(595,603)** | (537,293) |
| **Net Scheme asset** | **43,576** | 88,656 |

All equities have a quoted market price in an active market, whilst cash and cash equivalents are unquoted. Liability Driven Investments (LDI) are funds constructed to reduce the risk within the Scheme. They help to mitigate against movements in inflation or interest rates by moving in a similar way to the liabilities following market movements. The funds are constructed from gilts and swaps. Equities are valued at Level 1 in the fair value hierarchy and all other assets held by the Scheme are Level 2 in the hierarchy. The Scheme's LDI fund is managed by BMO. It is predominantly unquoted and is set up as a 'bespoke pooled fund' with valuations undertaken on a regular basis with rebalancing occurring on a quarterly basis to reflect the movements in the Scheme's other assets and cash flows. To reduce volatility risk, a LDI strategy forms part of the Trustees' management of the Scheme assets, comprising UK gilts, repurchase agreements and derivatives. At 31 December 2020, the LDI had a net asset value of £90.7 million (2019: £201.4 million). The liabilities comprised repurchase agreements, which are entered into to better offset the Scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Additionally, during the year ended 31 December 2018, the Group restructured its bond holdings and entered into a Bespoke cash flow driven investment held with M&G Investment managers in order to provide a flow of income to the Scheme and meet the liability requirements. This investment is structured in such a way as to satisfy the requirements of the Ibstock Scheme member population.

The amounts recognised in the income statement are:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Administrative expenses | **870** | 774 |
| Exceptional administrative expenses (Note 5) | **1,902** | 737 |
| Exceptional past service cost (Note 5) | **1,000** | – |
| Defined contribution scheme costs | **4,832** | 5,290 |
| **Charge within labour costs and operating profit** | **8,604** | 6,801 |
| Interest income | **(1,767)** | (2,269) |
| **Total charge to the income statement** | **6,837** | 4,532 |

On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of Guaranteed Minimum Pension ("GMP") equalisation. This latest judgement follows just over two years on from the landmark case which confirmed that schemes need to equalise pensions for the effects of unequal GMPs. The most recent ruling is expected to increase benefits for some members. This has increased liabilities by £1.0 million. The increase has been allowed for as an exceptional past service cost in the expense recognised in the income statement for the year ended 31 December 2020.

Remeasurements recognised in the statement of comprehensive income:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Remeasurement gain on defined benefit scheme assets | **36,859** | 66,068 |
| Remeasurement loss from changes in financial assumptions | **(89,088)** | (67,412) |
| Remeasurement gain from changes in demographic assumptions | **3,750** | 3,700 |
| Experience gains | **3,216** | 2,649 |
| Other comprehensive (expense)/income | **(45,263)** | 5,005 |

# Notes to the consolidated financial statements continued

## 22. Post-employment benefit obligations continued

Changes in the present value of the defined benefit obligations are analysed as follows:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Present value of defined benefit obligation at beginning of year | **(537,293)** | (493,721) |
| Past service cost | **(1,000)** | – |
| Interest cost | **(10,396)** | (13,395) |
| Experience gains | **3,216** | 2,649 |
| Benefits paid | **35,208** | 30,886 |
| Remeasurement loss arising from change in financial assumptions | **(89,088)** | (67,412) |
| Remeasurement gain arising from change in demographic assumptions | **3,750** | 3,700 |
| **Present value of defined benefit obligations carried forward at 31 December** | **(595,603)** | (537,293) |

Changes in the fair value of plan assets are analysed as follows:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Fair value of pension scheme assets at beginning of the year | **625,949** | 574,426 |
| Interest income | **12,163** | 15,664 |
| Remeasurement gain on pension scheme assets | **36,859** | 66,068 |
| Employer contributions | **2,188** | 2,188 |
| Benefits paid | **(35,208)** | (30,886) |
| Administrative expenses | **(2,772)** | (1,511) |
| **Fair value of pension scheme assets carried forward** | **639,179** | 625,949 |

Plan assets are comprised as follows:

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | Quoted £'000 | Unquoted £'000 | Total £'000 | % £'000 |
| **Equity instruments** | **85,337** | **–** | **85,337** | |
| – UK equities | **18,619** | | **18,619** | **3%** |
| – Overseas equities | **66,718** | | **66,718** | **10%** |
| | | | | |
| **Liability driven investment** | **–** | **90,749** | **90,749** | **14%** |
| **Bespoke cash flow driven investment** | **107,997** | **31,146** | **139,143** | **22%** |
| **Insured pensioners** | **–** | **320,856** | **320,856** | **50%** |
| **Cash and net current assets** | **–** | **3,094** | **3,094** | **1%** |
| **Total** | **193,334** | **445,845** | **639,179** | **100%** |

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Quoted £'000 | Unquoted £'000 | Total £'000 | % £'000 |
| **Equity instruments** | 134,273 | – | 134,273 | |
| – UK equities | 21,456 | – | 21,456 | 3% |
| – Overseas equities | 112,817 | – | 112,817 | 18% |
| | | | | |
| **Liability driven investment** | – | 201,403 | 201,403 | 32% |
| **Bespoke cash flow driven investment** | 26,351 | 259,377 | 285,728 | 45% |
| **Insured pensioners** | – | 193 | 193 | 0% |
| **Cash and net current assets** | – | 4,352 | 4,352 | 1% |
| **Total** | 160,624 | 465,325 | 625,949 | 100% |

During the year ended 31 December 2018, based on the previous valuation (as at November 2017), a payment schedule was agreed with the Trustees of the Ibstock Pension Scheme so that the Scheme's deficit could be eliminated. This schedule of contributions is revised at the time of finalising each funding valuation and the contribution level of £1.75 million per annum applied from February 2019. This level of contribution will continue to apply in the year ending 31 December 2021 and future periods until a revised contribution level is agreed.

The weighted average duration of the defined benefit obligation is 18 years (2019: 18 years). In the year ended 31 December 2020, other costs related to the closure of the Scheme to future accrual and activities to de-risk the Scheme in preparation for a buy-in of £1.9 million (2019: £0.7 million) were incurred and classified as exceptional (see Note 5).

The principal assumptions used by the actuary in his calculations were:

| | **31 December 2020 Per annum** | 31 December 2019 Per annum |
|---|---|---|
| Discount rate | **1.20%** | 2.00% |
| RPI inflation | **2.90%** | 3.00% |
| CPI inflation | **2.20%** | 2.00% |
| Rate of increase in salary | **N/A** | N/A |
| Rate of increase in pensions in payment | **3.50%** | 3.55% |
| Commutation factors | **17.31** | 15.52 |
| **Mortality assumptions: life expectancy from age 65** | | |
| For a male currently aged 65 | **21.6 years** | 21.6 years |
| For a female currently aged 65 | **23.9 years** | 23.8 years |
| For a male currently aged 40 | **23.5 years** | 23.5 years |
| For a female currently aged 40 | **25.9 years** | 25.8 years |

The post-retirement mortality assumptions allow for expected changes to life expectancy. The life expectancies quoted for members currently aged 40 assume that they retire at age 65 (i.e. 25 years after the balance sheet date).

The principal financial assumption is the real discount rate, being the excess of the discount rate over the rate of inflation. The discount rate is based on the market yields on high-quality corporate bonds of appropriate currency and term to the defined benefit obligations. The obligations are primarily in Sterling and have a maturity in line with the duration of Scheme liabilities. If the real discount rate increased/decreased by 0.25%, the defined benefit obligations at 31 December 2020 would decrease/increase by approximately 5%.

The impact on the defined benefit obligation to changes in the financial and demographic assumptions is shown below:

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Present value of defined benefit obligations at 31 December | **(595,603)** | (537,293) |
| 0.25% increase in discount rate | **28,983** | 22,504 |
| 0.25% decrease in discount rate | **(31,012)** | (24,018) |
| 0.25% increase in pension growth rate | **(15,233)** | (13,742) |
| 0.25% decrease in pension growth rate | **14,642** | 13,208 |
| 0.25% increase in inflation rate | **(15,804)** | (13,301) |
| 0.25% decrease in inflation rate | **17,135** | 12,428 |
| 1 year increase in life expectancy | **(25,960)** | (23,419) |
| 1 year decrease in life expectancy | **25,720** | 23,202 |

**(b) Defined contribution plan**

The Group operates defined contribution schemes under the Ibstock Pension Scheme, the Supreme Concrete Limited Pension Scheme, the Anderton Concrete Pension Scheme, the Supreme Concrete Group Personal Plan and the Longley Concrete Pension scheme. Contributions by both employees and Group companies are held in externally invested, externally administered funds.

The Group contributes a specified percentage of earnings for members of the above defined contribution schemes, and thereafter has no further obligations in relation to the Scheme. The total cost charged to income in relation to the defined contribution scheme in the year was £4.8 million (year ended 31 December 2019: £5.3 million).

# Notes to the consolidated financial statements continued

### 23. Deferred tax assets/liabilities

The movement on the deferred tax account is shown below:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Net deferred tax liability at beginning of period | **(69,655)** | (67,336) |
| Arising on business combination | **–** | (1,287) |
| Tax charged to the consolidated income statement | **(2,341)** | (689) |
| Tax credited/(charged) within other comprehensive income | **7,927** | (851) |
| Tax (charged)/credited directly to equity | **(686)** | 508 |
| Net deferred tax liability at period end | **(64,755)** | (69,655) |
| | | |
| Presented in the consolidated balance sheet after offset as: | | |
| Deferred tax assets | **–** | – |
| Deferred tax liabilities | **(64,755)** | (69,655) |
| | **(64,755)** | (69,655) |
| | | |
| Deferred tax assets and liabilities before offsetting of balances within the same tax jurisdiction are as follows: | | |
| Deferred tax assets | **3,688** | 2,982 |
| Deferred tax liabilities | **(68,443)** | (72,637) |
| Net deferred tax liability at period end | **(64,755)** | (69,655) |
| | | |
| Deferred tax assets expected to unwind within one year | **233** | 901 |
| Deferred tax assets expected to unwind after one year | **3,455** | 2,081 |
| | **3,688** | 2,982 |
| | | |
| Deferred tax liabilities expected to unwind within one year | **(1,703)** | (1,497) |
| Deferred tax liabilities expected to unwind after one year | **(66,740)** | (71,140) |
| | **(68,443)** | (72,637) |

The movement in the net deferred tax liability analysed by each type of temporary difference is as follows:

| | Year ended 31 December 2020 | | | | | As at 31 December 2020 | | |
|---|---|---|---|---|---|---|---|---|
| Deferred tax assets/(liabilities) | Net balance at 1 January 2020 £'000 | Arising on business combination £'000 | Recognised in income statement £'000 | Recognised in OCI £'000 | Recognised directly in equity £'000 | Net £'000 | Deferred tax assets £'000 | Deferred tax liabilities £'000 |
| Intangible fixed assets | **(16,971)** | **–** | **(547)** | **–** | **–** | **(17,518)** | **–** | **(17,518)** |
| Tangible fixed assets | **(38,612)** | **–** | **(1,695)** | **–** | **–** | **(40,307)** | **288** | **(40,595)** |
| Right-of-use assets | **16** | **–** | **390** | **–** | **–** | **406** | **406** | **–** |
| Rolled over and held over capital gains | **(1,835)** | **–** | **(216)** | **–** | **–** | **(2,051)** | **–** | **(2,051)** |
| Employee pension liabilities | **(15,072)** | **–** | **(1,134)** | **7,927** | **–** | **(8,279)** | **–** | **(8,279)** |
| Provisions | **1,573** | **–** | **1,119** | **–** | **–** | **2,692** | **2,692** | **–** |
| Share incentive plans | **1,246** | **–** | **(258)** | **–** | **(686)** | **302** | **302** | **–** |
| Deferred tax assets/(liabilities) before offsetting | **(69,655)** | **–** | **(2,341)** | **7,927** | **(686)** | **(64,755)** | **3,688** | **(68,443)** |
| Offset of balances within the same tax jurisdiction | | | | | | | **(3,688)** | **3,688** |
| Net deferred tax liabilities | | | | | | | **–** | **(64,755)** |

| Deferred tax assets/(liabilities) | Net balance at 1 January 2019 £'000 | Year ended 31 December 2019 Arising on business combination £'000 | Recognised in income statement £'000 | Recognised in OCI £'000 | Recognised directly in equity £'000 | As at 31 December 2019 Net £'000 | Deferred tax assets £'000 | Deferred tax liabilities £'000 |
|---|---|---|---|---|---|---|---|---|
| Intangible fixed assets | (17,063) | (1,126) | 1,218 | – | – | (16,971) | – | (16,971) |
| Tangible fixed assets | (37,663) | (162) | (787) | – | – | (38,612) | 147 | (38,759) |
| Right-of-use assets | – | – | 16 | – | – | 16 | 16 | – |
| Rolled over and held over capital gains | (1,317) | – | (518) | – | – | (1,835) | – | (1,835) |
| Employee pension liabilities | (13,720) | – | (501) | (851) | – | (15,072) | – | (15,072) |
| Provisions | 1,600 | 1 | (28) | – | – | 1,573 | 1,573 | – |
| Share incentive plans | 827 | – | (89) | – | 508 | 1,246 | 1,246 | – |
| Deferred tax assets/(liabilities) before offsetting | (67,336) | (1,287) | (689) | (851) | 508 | (69,655) | 2,982 | (72,637) |
| Offset of balances within the same tax jurisdiction | | | | | | | (2,982) | 2,982 |
| Net deferred tax liabilities | | | | | | | – | (69,655) |

There are no unrecognised deferred tax assets or liabilities as at 31 December 2020 or the prior year end.

## 24. Financial instruments – risk management

### Financial assets

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Trade and other receivables (Note 16) | **54,879** | 54,693 |
| Cash and cash equivalents | **19,552** | 19,494 |
| Total | **74,431** | 74,187 |

### Financial liabilities

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Trade and other payables (Note 19) | **77,287** | 80,591 |
| Lease liabilities (Note 28) | **29,076** | 30,361 |
| Borrowings (Note 20) | **88,736** | 104,345 |
| Total | **195,099** | 215,297 |

All financial assets and liabilities are held at amortised cost.

### Credit risk

Credit risk arises from cash and cash equivalents, credit sales and deposits with banks and is managed on a Group basis. This risk arises from transactions with banks, such as those involving cash and cash equivalents and deposits. To reduce the credit risk, the Group has concentrated its main activities with a Group of banks that have strong, independently verified credit ratings. For each bank, individual risk limits are set based on its financial position, credit ratings, past experience and other factors. The utilisation of credit limits is regularly monitored.

The Group has significant sales contracts with a number of 'blue-chip' companies and accordingly the Directors believe there is a limited exposure to credit risk, but this is actively monitored at the operational company Board level. The Group's policy on credit risk requires appropriate credit checks on potential customers before sales commence. The Group also maintains credit insurance.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 December 2020 is determined as follows; the expected credit losses below also incorporate forward-looking information.

# Notes to the consolidated financial statements continued

## 24. Financial instruments – risk management continued

The ageing analysis of the trade receivables (from date of past due) assessed for impairment, but concluded as no impairment required, is as follows:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Not past due | **28,466** | 37,162 |
| Less than one month past due | **17,204** | 13,960 |
| One to six months past due | **8,695** | 3,365 |
| Six to twelve months past due | **335** | 168 |
| More than 12 months past due | **50** | 38 |
| | **54,750** | 54,693 |

The ageing analysis of the trade receivables (from date of past due) determined to be impaired is as follows:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Less than one month past due | **81** | – |
| One to six months past due | **30** | 117 |
| Six to twelve months past due | **548** | 93 |
| More than 12 months past due | **32** | 78 |
| | **691** | 288 |

Movements in the provision for impairment of trade receivables are as follows:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| Opening balance | **(288)** | (289) |
| Charged to the income statement | **(643)** | (14) |
| Utilised | **240** | 2 |
| Released | **–** | 13 |
| Exchange movements | **–** | – |
| Closing impairment provision | **(691)** | (288) |

The gross carrying amount of trade receivables, reflecting the maximum exposure to credit risk, is £55.4 million (2019: £55.0 million).

Other financial assets at amortised cost are insignificant and the associated credit risk is considered immaterial.

**Market risk**

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, being currency risk, interest rate risk and other price risk. The Group's interest rate risk arises principally from the Revolving Credit Facility and bank borrowings which attract floating rate interest, see note 20. The Group manages its interest rate risk by using a floating rate debt with varying repayment terms. The Group does not trade in derivative financial instruments and is not considered to be significantly exposed to this and other price risks. The exposure to currency risk is considered low.

Interest rate sensitivity analysis:

For the Group's borrowings, sensitivity analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 0.25%pt increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25%pt higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2020 would decrease/increase by £0.3 million (2019: decrease/increase by £0.2 million), which is attributable to the Group's exposure to interest rates on its variable rate borrowings.

The exposure in different currencies of financial assets and liabilities is as follows:

| At 31 December 2020 | Sterling £'000 | US$ £'000 | Euro £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | **19,265** | **69** | **218** | **–** | **19,552** |
| Trade and other receivables (Note 16) | **54,879** | **–** | **–** | **–** | **54,879** |
| | **74,144** | **69** | **218** | **–** | **74,431** |
| **Financial liabilities** | | | | | |
| Borrowings (Note 20) | **(88,736)** | **–** | **–** | **–** | **(88,736)** |
| Lease liabilities (Note 28) | **(29,076)** | **–** | **–** | **–** | **(29,076)** |
| Trade and other payables (Note 19) | **(75,690)** | **(289)** | **(1,295)** | **(13)** | **(77,287)** |
| | **(193,502)** | **(289)** | **(1,295)** | **(13)** | **(195,099)** |

| At 31 December 2019 | Sterling £'000 | US$ £'000 | Euro £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 22,826 | 104 | (3,436) | – | 19,494 |
| Trade and other receivables (Note 16) | 53,547 | – | 1,146 | – | 54,693 |
| | 76,373 | 104 | (2,290) | – | 74,187 |
| **Financial liabilities** | | | | | |
| Borrowings (Note 20) | (104,345) | – | – | – | (104,345) |
| Lease liabilities (Note 28) | (30,361) | – | – | – | (30,361) |
| Trade and other payables (Note 19) | (78,837) | (322) | (1,411) | (21) | (80,591) |
| | (213,543) | (322) | (1,411) | (21) | (215,297) |

There are no material differences between the fair values and the book values stated above.

At 31 December 2020, the Group has negligible risk to currency fluctuations as the majority of assets and liabilities are held in the same functional currency.

**Liquidity risk**

The Group has generated sufficient cash from operations to meet its working capital requirements and finance its investing activities. The Group manages liquidity risk by entering into committed bank borrowing facilities to ensure the Group has sufficient funds available, and monitoring cash flow forecasts to ensure the Group has adequate borrowing facilities.

The maturity of the Group's borrowings is as follows:

| At 31 December 2020 | Less than six months £'000 | Six months to one year £'000 | One to two years £'000 | Two to five years £'000 | Greater than five years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| *Borrowings* | | | | | | |
| Bank borrowings | **135** | **–** | **–** | **88,601** | **–** | **88,736** |
| Total | **135** | **–** | **–** | **88,601** | **–** | **88,736** |

| At 31 December 2019 | Less than six months £'000 | Six months to one year £'000 | One to two years £'000 | Two to five years £'000 | Greater than five years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| *Borrowings* | | | | | | |
| Bank borrowings | 395 | – | – | 103,950 | – | 104,345 |
| Total | 395 | – | – | 103,950 | – | 104,345 |

At 31 December 2020 and 31 December 2019, the Group had a £215 million RCF facility. The facility was utilised throughout the year, resulting in an interest charge of £3,565,000 (2019: £2,850,000). During the current year, the Group was confirmed as eligible to access funding under the Government's Covid Corporate Financing Facility ("CCFF"), although this facility remained undrawn. See Note 20 for further details.

For details of the maturity of other financial liabilities, see Notes 19 and 28.

# Notes to the consolidated financial statements continued

## 24. Financial instruments – risk management continued

The contractual non-discounted minimum future cash flows in respect of these borrowings are:

| At 31 December 2020 | Less than one year £'000 | One to two years £'000 | Two to five years £'000 | Greater than five years £'000 | Total £'000 |
|---|---|---|---|---|---|
| *Borrowings* | | | | | |
| Bank borrowings | **3,281** | **3,275** | **90,583** | **–** | **97,139** |
| Total | **3,281** | **3,275** | **90,583** | **–** | **97,139** |

| At 31 December 2019 | Less than one year £'000 | One to two years £'000 | Two to five years £'000 | Greater than five years £'000 | Total £'000 |
|---|---|---|---|---|---|
| *Borrowings* | | | | | |
| Bank borrowings | 2,156 | – | 107,525 | – | 109,681 |
| Total | 2,156 | – | 107,525 | – | 109,681 |

### Fair value hierarchy

IFRS 13 Financial Instruments: Disclosures requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At 31 December 2020 and 31 December 2019, all of the Group's fair value measurements have been categorised as Level 2 with the exception of certain equities within the Group's pension scheme, which were categorised as Level 1 valuations. During the year ended 31 December 2020, the Group's forward energy contracts were fair valued and categorised as Level 2. At 31 December 2019 and 2020, no energy contracts were subject to fair valuation.

### Capital risk management

The capital structure of the Group consists of net debt[1] (borrowings disclosed in Note 20 after deducting cash and bank balances) and equity of the Parent Company, comprising issued capital, reserves and retained earnings as disclosed in Note 26.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or borrow additional debt.

The Group must comply with two covenants each half year. The covenants are certain ratios of interest cover and leverage, which are monitored on a regular basis by the Board. At the year end date, management believes significant headroom exists on both covenant conditions. During the year ended 31 December 2020, the Directors agreed covenant amendments with its lending banks in order to provide appropriate financial flexibility in light of the uncertainties experienced as a result of COVID-19. See Note 20 for further details.

### Dividend policy

As announced on 24 March 2020, given the COVID-19 pandemic and in order to preserve the Group's liquidity and financial position, the 2019 final dividend payment that was proposed within the announcement of the full-year 2019 results was cancelled. The Directors did not propose an interim dividend in respect of 2020 as a result of the uncertainty associated with the COVID-19 pandemic. See Note 32 for details of dividends in the comparative period.

In line with our capital allocation framework, we will look to pay ordinary dividends in line with a targeted cover of at least 2 times adjusted profit after tax. These are expected to grow over time in line with the Group's earnings. This adjusted profit measure can be seen in Note 12 to the Group financial statements. After investing to maintain, enhance and grow our assets, we will return surplus capital to shareholders.

In light of the strength of the Group's trading performance and position, and after taking into account the prospects for the business, the Board is recommending a final ordinary dividend of 1.6 pence per share for the 2020 year. At 31 December 2020, the parent maintains significant distributable reserves of c.£410 million (2019: c.£412 million).

## 25. Share capital

| | Number of shares | Share Capital £'000 |
|---|---|---|
| **At 1 January 2019** | | |
| Issued, called up and fully paid: | | |
| Ordinary Shares of £0.01 each | 406,485,519 | 4,065 |
| | 406,485,519 | 4,065 |
| | | |
| Issue of Ordinary Shares of £0.01 each | 2,774,266 | 28 |
| **At 31 December 2019** | 409,259,785 | 4,093 |
| | | |
| Issue of Ordinary Shares of £0.01 each | **300,000** | **3** |
| **At 31 December 2020** | **409,559,785** | **4,096** |
| | | |
| **Comprising:** | | |
| Issued, called up and fully paid: | | |
| Ordinary shares of £0.01 each | **409,559,785** | **4,096** |

In the year ended 31 December 2020, share capital increased by 300,000 shares (2019: 2,774,266 shares) as a result of the issue of Ordinary Share capital of £0.01 each to the Employee Benefit Trust in order to satisfy share options exercises. The Company does not have a limited amount of authorised capital.

## 26. Reserves

### Share premium

The share premium account is used to record the aggregate amount or value of premiums paid when the Company's shares are issued/redeemed at a premium (2020: £4.3 million; 2019: £7.4 million). See Note 1 for details of the current period adjustment to share premium.

### Merger reserve

The merger reserve of £369.1 million arose on the acquisition of Figgs Topco Limited by Ibstock plc in the period ended 31 December 2015 and is the difference between the share capital and share premium of Figgs Topco Limited and the nominal value of the investment and preference shares in Figgs Topco Limited acquired by the Company.

### Own shares held

The Group's holding in its own equity instruments is shown as a deduction from shareholders' equity at cost totalling £0.9 million at 31 December 2020 (31 December 2019: £0.4 million). These shares represent shares held in the Employee Benefit Trust to meet the future requirements of the employee share based payment plans. Consideration, if any, received for the sale of such shares is also recognised in equity with any difference between the proceeds from sale and the original cost being taken to the profit and loss reserve. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of equity shares.

## 27. Share incentive plans

Share based payment charges:

| | **Year ended 31 December 2020 £000** | Year ended 31 December 2019 £000 |
|---|---|---|
| Long Term Incentive Plan 27(a)) | **310** | 56 |
| Share Option Plan (27(b)) | **51** | 114 |
| Annual and Deferred Bonus Plan (27(c)) | **85** | 321 |
| Save As You Earn (27(d)) | **81** | 213 |
| | **527** | 704 |

# Notes to the consolidated financial statements continued

## 27. Share incentive plans continued

### Executive share option plans

The Group operates a number of share based payment awards for selected management.

***(a) Long-Term Incentive Programme ("LTIP")***

The Group granted LTIPs during the year for key management at the discretion of the Board and this has been approved by the shareholders at the Annual General Meeting. Awards under the scheme are granted in the form of nil-priced share options. The LTIP awards contain performance conditions dependent upon the growth of the Group's adjusted earnings per share[1] ("EPS") and total shareholder return ("TSR"). Please refer to the information given in the Directors' Remuneration Report on pages 85 to 101 for details in relation to the vesting conditions in relation to the LTIP.

During the year, 1,042,791 options (2019: 822,890) over Ordinary Shares of 1p each were granted to management under the LTIP and 347,906 shares (2019: 212,414) were exercised at a weighted average share price at the date of exercise of 197p (2019: 236p). During the year ended 31 December 2020, 650,836 options (2019: 369,225) lapsed and at 31 December 2020, the weighted average contractual life remaining was 1.5 years (2019: 1.4 years).

***(b) Share Option Plan ("SOP")***

The Group maintains a Share Option Plan at the discretion of the Board and this has been approved by shareholders at the Annual General Meeting. During the year ended 31 December 2020, no options were granted to management under the SOP (2019: 260,526 options over Ordinary Shares of 1p each). In the year ended 31 December 2020, 41,603 options (2019: 791,399) were exercised under the SOP at a weighted average share price at the date of exercise of 308p (2019: 251p). In the year ended 31 December 2020, 141,171 options (2019: 89,813 options) lapsed. The weighted average exercise price of options outstanding is 239p (2019: 239p). At 31 December 2020, the weighted average contractual life remaining was 0.4 years (2019: 1.3 years). The SOP has an employment condition of three years and no other performance conditions.

***(c) Annual and Deferred Bonus Plan ("ADBP")***

The ADBP incorporates the Company's executive bonus scheme as well as a mechanism for the deferral of bonus into awards over Ordinary Shares. The ADBP operates in respect of the annual bonus earned for the financial year. The Board can determine that part of the bonus earned under the ADBP is provided as an award of deferred shares, which take the form of a £nil cost option. The maximum value of deferred shares is 50% of the bonus earned. In the year ended 31 December 2020, 90,555 options (2019: 61,759 options) were awarded over Ordinary Shares under the ADBP was in relation to the 2019 year end bonus with options issued in April 2020. The main terms of these awards are a minimum deferral period of three years, during which no performance conditions will apply; and the participants' employment at the end of the deferral period. In the year ended 31 December 2020, 77,794 options (2019: nil) were exercised under the ADBP at a weighted average share price at the date of exercise of 204p (2019: N/A). At 31 December 2020, the weighted average contractual life remaining was 1.0 years (2019: 1.2 years). In the current year, 7,357 options lapsed (2019: nil options) and at 31 December 2020, an amount of nil (2019: £42,000) had been recorded in accruals for the award relating to the bonus earned for the year ended 31 December 2020.

### All employee share schemes

In addition to the executive share option plans, the Group has two all-employee share based payment arrangements - the Save As You Earn and Share Incentive Plan awards:

***(d) Save As You Earn ("SAYE")***

In order to participate in the Group's Sharesave Plan, an employee must enter into a linked savings contract with a bank or building society to make contributions from salary on a monthly basis over a three year period. A participant who enters into a savings agreement is granted an option to acquire Ordinary Shares of 1p each under the Sharesave Plan at a specified exercise price. In the year ended 31 December 2020, no awards were issued under this scheme (2019: nil). In the year, 301,687 (2019: 269,790) have lapsed and no shares were exercised (2019: 2,774,266). As at 31 December 2020 , the weighted average exercise price of outstanding options was £2.30 and the remaining option life was 0.3 years.

***(e) Share Incentive Plan ("SIP")***

Following the Group's Initial Public Offering, the Company announced a SIP. Subject to qualifying employment conditions, all employees were entitled to apply for free shares up to a value of £800 depending on their period of service. The number of shares issued under the SIP in the year ended 31 December 2016 was 553,150. The free shares have a three-year employment condition and no further vesting conditions. In the year ended 31 December 2020, 1,650 shares lapsed (2019: 41,602) and 47,050 shares were exercised (2019: 82,900) at a weighted average share price at date of exercise of 189p.

The assumptions used to calculate the fair value of the LTIP, SOP and ADBP awards granted during the year ended 31 December 2020 are detailed below:

| | LTIP | ADBP |
|---|---|---|
| Grant date | 14-Apr-20 | 14-Apr-20 |
| Share price at grant date | 1.77 | 1.77 |
| Exercise price | nil | nil |
| Number of shares issued | 1,010,966 | 71,447 |
| Vesting period | 3 years | 3 years |
| Pricing model | Monte Carlo | Share Price |
| % expected to vest | 22% | 100% |
| Expected share price volatility | 34.11% | N/A |
| Expected dividend yield | N/A | N/A |
| Expected option life | 3 years | N/A |
| **Fair value per share** | 1.52 | 1.77 |
| Risk free rate | 0.10% | N/A |

Awards under the executive share option plans and all-employee share schemes are as follows:

| | Executive share options | All-employee schemes |
|---|---|---|
| Outstanding at 1 January 2020 | **3,214,430** | **1,387,463** |
| Awards granted | **1,133,346** | **–** |
| Awards exercised | **(483,508)** | **(47,050)** |
| Awards lapsed/forfeited | **(783,159)** | **(303,337)** |
| Awards outstanding at 31 December 2020 | **3,081,109** | **1,037,076** |

The expected volatility level has been calculated using historical daily data over a term commensurate with the expected life of each award.

## 28. Leases and commitments

**Amounts recognised within the consolidated balance sheet**

The balance sheet shows the following amounts relating to leases:

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Right-of-use assets | | |
| Buildings | **16,665** | 18,011 |
| Equipment | **6,157** | 9,911 |
| Vehicles | **3,831** | 2,557 |
| Total right-of-use assets | **26,653** | 30,479 |
| | | |
| Lease liabilities | | |
| Less than six months | **(3,326)** | (3,390) |
| Six months to one year | **(3,402)** | (3,196) |
| Current | **(6,728)** | (6,586) |
| One to two years | **(4,920)** | (4,914) |
| Two to five years | **(9,254)** | (10,080) |
| Greater than five years | **(8,174)** | (8,781) |
| Non-current | **(22,348)** | (23,775) |
| | | |
| Total lease liabilities | **(29,076)** | (30,361) |

Additions to the right-of-use assets during the year ended 31 December 2020 were £5,783,000 (2019: £7,544,000).

# Notes to the consolidated financial statements continued

## 28. Leases and commitments continued

Movement in lease liabilities in the year ended 31 December 2020:

| | £'000 |
|---|---|
| As at 1 January 2020 | (30,361) |
| Additions | (5,783) |
| Disposals | 220 |
| Interest payments | (1,215) |
| Cash rental payments | 8,063 |
| As at 31 December 2020 | (29,076) |

**Amounts recognised within the consolidated income statement**

Depreciation charge of right-of-use assets

| | **Year ended 31 December 2020 £'000** | Year ended 31 December 2019 £'000 |
|---|---|---|
| Buildings | **3,516** | 2,492 |
| Equipment | **3,516** | 3,599 |
| Vehicles | **2,369** | 1,383 |
| | **7,720** | 7,474 |
| Impairment charge | **1,681** | – |
| Depreciation expense (included within cost of sales) | **9,401** | 7,474 |
| Interest expense (included within finance costs) | **1,215** | 1,294 |

In the year ended 31 December 2020, the benefit to Adjusted EBITDA[1] as a result of IFRS 16 leases was £6.8 million (2019: £7.1 million). Operating lease charges now expensed via depreciation increased by £6.1 million (2019: £6.5 million) and interest by £1.1 million (2019: £1.2 million) resulting in a net reduction in profit before taxation of £0.3 million (2019: £0.6 million).

The Group is lessee on a number of properties in addition to plant and machinery which it uses in its operations. The operating leases run for a variety of terms and their non-cancellable commitments are set out above. There is no material contingent rent payable, renewal or purchase options, escalation clauses or restrictions imposed by the lease agreements.

**The Group as lessor**

The Group acts as lessor on a number of properties where it leases surplus land not currently utilised by the business. The operating leases run for a variety of terms and their future minimum lease payments receivable are set out as follows:

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Within one year | **67** | 6 |
| Between one and five years | **78** | 114 |
| After five years | **–** | 540 |
| | **145** | 660 |

**Capital commitments**

Capital expenditure contracted for but not yet incurred at the balance sheet date is as follows:

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Amount contracted for which has not been provided | **11,756** | 19,602 |

### 29. Notes to the Group cash flow statement

| Cash flows from operating activities | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| (Loss)/profit before taxation | **(23,940)** | 81,608 |
| Adjustments for: | | |
| Depreciation | **29,046** | 28,999 |
| Asset impairment – property, plant and equipment | **16,263** | – |
| Asset impairment – right-of-use assets | **1,681** | – |
| Asset impairment – working capital | **2,438** | – |
| Amortisation of intangible assets | **7,431** | 6,410 |
| Finance costs | **4,328** | 2,032 |
| Gain on disposal of property, plant and equipment | **(2,921)** | (1,773) |
| Research and development expenditure credit | **(1,167)** | (1,650) |
| Share based payments | **527** | 704 |
| Post-employment benefits | **1,584** | (677) |
| Other | **–** | 199 |
| | **35,270** | 115,852 |
| Decrease/(increase) in inventory | **18,503** | (16,092) |
| (Increase)/decrease in debtors | **(877)** | 2,222 |
| Decrease in creditors | **(2,537)** | (8,942) |
| Increase/(decrease) in provisions | **4,856** | (963) |
| **Cash generated from operations** | **55,215** | 92,077 |

The loss before taxation in 2020, above, includes a loss before tax of £0.1 million (2019: £0.4 million) incurred in relation to discontinued operations, which do not have material cash flows during the current or prior years.

During the current year, Government assistance of £10.5 million (2019: £nil) was received in relation to the Coronavirus Job Retention Scheme and payment of taxes totalling £16.5 million (2019: £nil) relating to employment taxes, income taxes and value added tax were deferred. All deferred amounts were fully settled as at 31 December 2020.

# Notes to the consolidated financial statements continued

## 30. Group subsidiaries

Ibstock plc had the following subsidiaries as at 31 December 2020:

| Entity | Principal activity | Registration number | Country of incorporation | Proportion of Ordinary Shares held directly by the parent | Proportion of Ordinary Shares held by the Group |
|---|---|---|---|---|---|
| Ibstock Building Products Ltd[1] | Holding Company | 09329395 | UK | 100% | 100% |
| Figgs Bidco Ltd | Holding Company | 09332893 | UK | 100% | 100% |
| Ibstock USA Ltd | Non-trading | 09415340 | UK | 100% | 100% |
| Ibstock Group Ltd | Holding Company | 00984268 | UK | 100% | 100% |
| Forticrete Ltd | Manufacturer of concrete products | 00221210 | UK | 100% | 100% |
| Home Building Supplies Ltd | Non-trading | 07350732 | UK | 100% | 100% |
| Baldwin Industries Ltd | Holding Company | 01516334 | UK | 100% | 100% |
| Anderton Concrete Products Ltd | Manufacturer and supplier of precast and prestressed concrete products | 01900103 | UK | 100% | 100% |
| Oakhill Holdings Ltd | Holding Company | 04077204 | UK | 100% | 100% |
| Supreme Concrete Ltd | Manufacturer and supplier of precast and prestressed concrete products | 01410463 | UK | 100% | 100% |
| Gee-Co Holdings Ltd | Dormant | 02480251 | UK | 100% | 100% |
| Ibstock Brick Holding Company Ltd | Holding Company | 00784339 | UK | 100% | 100% |
| Ibstock Brick Ltd | Brick manufacturer | 00063230 | UK | 100% | 100% |
| Ibstock Manufacturing Services Ltd | Brick manufacturer | 12292985 | UK | 100% | 100% |
| Ibstock Leasing Ltd | Intergroup leasing entity | 05378321 | UK | 100% | 100% |
| Ibstock Management Services Ltd[2] | Dormant | 11953 | Jersey | 100% | 100% |
| Ibstock Finance Co Ltd[2] | Dormant | 51710 | Jersey | 100% | 100% |
| Kevington Building Products Ltd | Dormant | 02122467 | UK | 100% | 100% |
| Ibstock Brick Leicester Ltd | Dormant | 00106667 | UK | 100% | 100% |
| Ibstock Brick Aldridge Ltd | Dormant | 00614225 | UK | 100% | 100% |
| Ibstock Brick Himley Ltd | Dormant | 00092769 | UK | 100% | 100% |
| Ibstock Westbrick Ltd | Dormant | 01606990 | UK | 100% | 100% |
| Ibstock Brick Aldridge Property Ltd | Dormant | 00251918 | UK | 100% | 100% |
| Moore & Sons Ltd | Dormant | 00118818 | UK | 100% | 100% |
| Manchester Brick & Precast Ltd | Dormant | 02888297 | UK | 100% | 100% |
| Ibstock Brick Nostell Ltd | Dormant | 00531826 | UK | 100% | 100% |
| Ibstock Brick Roughdales Ltd | Dormant | 00598862 | UK | 100% | 100% |
| Ibstock Brick Cattybrook Ltd | Dormant | 00011298 | UK | 100% | 100% |
| Ibstock Hathernware Ltd | Dormant | 00424843 | UK | 100% | 100% |
| Ibstock Bricks (1996) Ltd | Dormant | 00246855 | UK | 100% | 100% |
| Wealdbeam Systems Ltd | Dormant | 06932047 | UK | 100% | 100% |
| Loopfire Systems Ltd | Dormant | 04105160 | UK | 100% | 100% |
| Longley Holdings Ltd | Holding Company | 2027916 | UK | 100% | 100% |
| Longley Precast Ltd | Dormant | 00888875 | UK | 100% | 100% |
| Longley Concrete Ltd | Manufacturer and supplier of precast and prestressed concrete products | 00440463 | UK | 100% | 100% |

1 Ibstock Building Products Ltd is owned directly by Ibstock plc. All other companies are indirectly owned.

All entities have a place of business in the UK. The registered office address for all entities is the same as for the ultimate Parent Company, Leicester Road, Ibstock, Leicestershire, LE67 6HS except those subsidiary entities with the following numerical superscript: 2 – 47 Esplanade, St Hellier, Jersey, Channel Isles, JE1 0BD.

All subsidiary undertakings are included in the consolidated financial statements. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company do not differ from the proportion of Ordinary Shares held. At 31 December 2019, the Parent Company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

### 31. Related party transactions

Balances and transactions between Ibstock plc (the ultimate parent) and its subsidiaries (listed in Note 30), which are related parties, are eliminated on consolidation and are not disclosed in this note.

See note 7 for details of Director and key management personnel remuneration.

There are no further related party transactions in the year ended 31 December 2020 or 31 December 2019.

### 32. Dividends paid and proposed

| Cash flows from operating activities | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| **Declared and paid during the year** | | |
| Equity dividends on Ordinary Shares: | | |
| Final dividend for 2019: nil (2018: 6.5 pence) | **–** | 26,540 |
| Supplementary dividend paid in the year: nil pence (2019: 5.0 pence) | **–** | 20,444 |
| Interim dividend for 2020: nil (2019: 3.2 pence) | **–** | 13,084 |
| | **–** | 60,068 |
| | | |
| **Proposed (not recognised as a liability as at 31 December)** | | |
| Equity dividends on Ordinary Shares: | | |
| Final dividend for 2020: 1.6 pence (2019: 6.5 pence) | **6,553** | 26,602 |
| | **6,553** | 26,602 |

In April 2020, the Directors notified shareholders that the final dividend in relation to 2019, which was announced in March 2020 alongside the Group's 2019 Preliminary results, was cancelled. Subsequently, no final dividend in relation to 2019 was paid by the Group.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2020 of 1.6 pence per Ordinary Share, which will distribute an estimated £6.6 million (2019: £nil) of shareholders' funds. Subject to approval at the Annual General Meeting, this will be paid on 14 May 2021, to shareholders on the register at the close of business on 16 April 2021.

### 33. Post balance sheet events

On 3 March 2021, the Chancellor of the Exchequer delivered his Budget Statement. The measures announced include an increase in the standard rate of corporation tax from 19% to 25% with effect from 1 April 2023. The full impact of this change will be reflected in the 2021 financial statements once the Finance Bill has been substantively enacted and is expected to give to an increase in the Group's net deferred tax liabilities of around £20 million.

Except for the above item and the proposed dividend (see Note 32), no subsequent events requiring further disclosure or adjustments to these financial statements that have been identified since the balance sheet date.

# Company balance sheet

## (prepared in accordance with UK GAAP – FRS 102)
## Company number: 09760850

| As at 31 December 2020 | Notes | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **626,722** | 626,195 |
| | | | |
| **Current assets** | | | |
| Debtors | 5 | **3,793** | 3,860 |
| Cash at bank and in hand | | **139** | 887 |
| | | **3,932** | 4,747 |
| | | | |
| **Creditors – amounts falling due within one year** | 6 | **(213,604)** | (208,130) |
| **Net current liabilities** | | **(209,672)** | (203,383) |
| **Total assets less current liabilities** | | **417,050** | 422,812 |
| **Net assets** | | **417,050** | 422,812 |
| **Capital and reserves** | | | |
| Called up share capital | 8 | **4,096** | 4,093 |
| Share premium | | **4,333** | 7,441 |
| Own shares held | | **(922)** | (435) |
| Profit and loss account | | **409,543** | 411,713 |
| **Total equity** | | **417,050** | 422,812 |

The notes on pages 158 to 161 are an integral part of these financial statements. As permitted by Section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been presented in these financial statements. The Parent Company's loss after tax for the year was £5.4 million (year ended 31 December 2019: loss of £5.6 million).

These financial statements were approved by the Board and authorised for issue on 9 March 2021, They were signed on its behalf by:

**J Hudson**
Director

**C McLeish**
Director

# Company statement of changes in equity

| At 31 December 2020 | Notes | Share capital £'000 | Share Premium £'000 | Retained earnings £'000 | Own shares held £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2020** | | **4,093** | **7,441** | **411,713** | **(435)** | **422,812** |
| Loss for the year | | **–** | **–** | **(5,351)** | **–** | **(5,351)** |
| Other comprehensive expense | | **–** | **–** | **–** | **–** | **–** |
| **Total comprehensive expense for the financial year** | | **–** | **–** | **(5,351)** | **–** | **(5,351)** |
| **Transactions with owners:** | | | | | | |
| Issue of share capital to Employee Benefit Trust | 8 | **3** | **–** | **–** | **(3)** | **–** |
| Share based payments | | **–** | **–** | **527** | **–** | **527** |
| Transfer from Share premium account (see Note 1 of Group financial statements) | | **–** | **(3,108)** | **3,108** | **–** | **–** |
| Purchase of own shares | | **–** | **–** | **–** | **(1,020)** | **(1,020)** |
| Issue of own shares held on exercise of share options | | **–** | **–** | **(454)** | **536** | **82** |
| **Transactions with owners** | | **3** | **(3,108)** | **3,181** | **(487)** | **(411)** |
| **Balance at 31 December 2020** | | **4,096** | **4,333** | **409,543** | **(922)** | **417,050** |
| | | | | | | |
| **Balance as at 1 January 2019** | | 4,065 | 917 | 479,746 | (1,683) | 483,045 |
| Profit for the year | | – | – | (5,578) | – | (5,578) |
| Other comprehensive income | | – | – | – | – | – |
| **Total comprehensive income for the financial year** | | – | – | (5,578) | – | (5,578) |
| **Transactions with owners:** | | | | | | |
| Issue of share capital | 8 | 28 | 5,826 | (1,637) | – | 4,217 |
| Share based payments | | – | – | 704 | – | 704 |
| Purchase of own shares | | – | – | – | (1,176) | (1,176) |
| Issue of own shares held on exercise of share options | | – | 698 | (1,454) | 2,424 | 1,668 |
| Equity dividends | | – | – | (60,068) | – | (60,068) |
| **Transactions with owners** | | 28 | 6,524 | (62,455) | 1,248 | (54,655) |
| **Balance at 31 December 2019** | | 4,093 | 7,441 | 411,713 | (435) | 422,812 |

The notes on pages 158 to 161 form an integral part of these financial statements.

# Notes to the Company financial statements

## 1. Authorisation of financial statements

The Parent Company financial statements of Ibstock plc (the "Company") for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 9 March 2021 and the balance sheet was signed on its behalf by J Hudson and C McLeish.

Ibstock plc is a public company limited by shares, which is incorporated and domiciled in England whose shares are publicly traded. The Company's Ordinary Shares are traded on the London Stock Exchange. The registered office is Leicester Road, Ibstock, Leicestershire LE67 6HS and the Company registration number is 09760850.

## 2. Summary of significant accounting policies

The financial statements have been prepared in accordance with applicable accounting standards, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102") and the Companies Act 2006. As a qualifying entity, as defined by FRS 102, the Company has elected to adopt the reduced disclosure exemptions set out with paragraph 1.12 of FRS 102, as described below.

These financial statements are prepared on a going concern basis, under the historical cost convention.

The Company has not disclosed the information required by regulation 5(1)(b) of the Companies (Disclosure of Auditors Remuneration and Liability Limitation Agreements) Regulations 2008 as the Group accounts of the Company are required to comply with regulation 5(1)(b) as if the undertakings included in the consolidation were a single group.

### Going concern

The Directors reviewed detailed cash flows and forecasts of financial performance and stress-tested the projections. The forecasts include estimates of trading performance, operational and capital expenditure and debt requirements within the period to 30 June 2022.

Throughout this review period, the Company is forecast to be able to meet its liabilities as they fall due. Therefore, having assessed the principal risks and all other relevant matters, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Parent Company. The Group going concern assessment can be found in Note 1 of the Group financial statements.

### Fixed asset investments

Investments in subsidiaries are included at cost stated at the historical value at the time of investment less any provisions for impairment and net of merger and Group reconstruction relief available.

### Share based payments

The Company operates a number of equity-settled share based compensation plans on behalf of the Group. The fair value of the employee services received under such plans is capitalised as an investment in the Company's subsidiary until such time as intra-Group recharges are levied by the Company to recover this cost from its subsidiaries. Upon recharge, the amounts recharged are treated as a return of capital contribution and recorded as a credit to equity (up to the value of the initial share based payment treated as a capital contribution). Any recharge in excess of the capital contribution is recognised within the Company income statement. The amount to be recognised over the vesting period is determined by reference to the fair value of share based payments. For further details of share based payments, see Note 27 of the Group financial statements.

### Dividend distribution

Dividend distributions to Ibstock's shareholders are recognised in the Company's financial statements in the periods in which the final dividends are approved in the Annual General Meeting, or when paid in the case of an interim dividend.

### Financial instruments

***(i) Objectives and policies***

The Company, in common with its Group subsidiaries, must comply with the Group's finance guidelines that set out the principles and framework for managing Group-wide finances. Further information on the Group's policies and procedures is available in the Group financial statements. The Company does not enter into speculative treasury arrangements.

***(ii) Foreign exchange, credit, liquidity and financial risks***

Foreign exchange risk management

The Company primarily transacts in Sterling and therefore exposure to foreign exchange risk is regarded as low.

Credit risk management

For the Company, this risk arises from cash and cash equivalents and deposits with banks. This is managed on a Group basis and there are a number of initiatives underway to mitigate this risk. These include concentrating activities with a group of banks that have strong, independently verified credit ratings. For each bank, individual risk limits are set based on its financial position, credit ratings, past experience and other factors.

Liquidity planning, trends and risks

The Company has sufficient committed borrowing facilities to meet planned liquidity needs with headroom, through facilities provided by the Group.

The Company has adopted IAS 39 for 'recognition and measurement of financial instruments'.

***(iii) Financial assets***

Financial assets, including trade and other receivables, loans to fellow Group companies and cash and bank balances, are initially recognised at fair value.

Such assets are subsequently carried at amortised cost using the effective interest method.

***(iv) Financial liabilities***

Financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at fair value.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method in accordance with IAS 39.

### Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting year. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. The calculation of the tax charge therefore necessarily involves a degree of estimation and judgement. The tax liabilities are based on estimates of whether additional taxes will be due and tax assets are recognised on the basis of probable future recoverability. This requires management to exercise judgement based on their interpretation of tax laws and the likelihood of settlement of tax liabilities or recoverability of tax assets. To the extent that the final outcome differs from the estimates made, tax adjustments may be required which could have an impact on the tax charge and profit for the period in which such a determination is made.

***(i) Current tax***

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***(ii) Deferred tax***
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing differences.

**Share capital**
Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of new Ordinary Shares or options are shown in equity as a deduction, from the proceeds.

**Related parties**
The Group discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

**Disclosure exemptions**
In preparing the Parent Company financial statements, the Company has elected to adopt the reduced disclosure exemptions set out in paragraph 1.12 of FRS 102, because the Company prepares Group consolidated financial statements, as described below:

(a) Under FRS 102 (Section 1.12(b)), the Parent Company is exempt from the requirements to prepare a cash flow statement on the grounds that it cash flows are included within the Ibstock plc Group consolidated financial statements.

(b) The Parent Company is a qualifying entity and has taken advantage of the exemption from disclosing key management compensation (other than Directors' emoluments) under FRS 102 (Section 1.12(e)), as it is a parent entity whose separate financial statements are presented alongside the consolidated financial statements, which contain the requisite equivalent disclosures.

(c) The Parent Company is a qualifying entity and has taken advantage of the exemption from disclosing certain financial instrument disclosures under FRS 102 (Section 1.12(c)), as it is a parent entity whose separate financial statements are presented alongside the consolidated financial statements, which contain the requisite equivalent disclosures.

(d) The Company has elected to avail itself of the disclosure exemption within FRS 102 (Section 1.12(d)) in relation to certain share based payment disclosure requirements as it is a parent entity whose separate financial statements are presented alongside the consolidated financial statements, which contain the requisite equivalent disclosures.

(e) The Company has taken advantage of the reduced disclosure exemption under FRS 102 (Section 1.12(a)) and is not required to follow the requirements of paragraph 4.12(a)(iv) of FRS 102 and as such only disclose a reconciliation of shares outstanding between the beginning and end of the year and not the prior year.

In addition, the Company has taken the exemption within Section 33 of FRS 102 from disclosing intra-Group transactions with wholly owned subsidiaries.

**Critical accounting judgements and estimation uncertainty**
In applying the Company's accounting policies, as described above, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making these critical judgements and estimates, actual outcomes could be different.

***a. Critical judgements in applying the Parent Company's accounting policies***
The following critical judgements, that the Directors made in the process of applying the Company's accounting policies, have the most significant effect on the amounts recorded in the financial statements.

Going concern
Consistent with the preparation of the Group financial statements, in order to assess whether it is appropriate for the separate financial statements of the Parent Company to report on a going concern basis, the Directors apply judgement, having undertaken appropriate enquiries and having considered the Parent Company's activities, its investments and the associated principal risks and uncertainties.

In arriving at this judgement there are a large number of assumptions and estimates involved in calculating these future cash flow projections. This includes management's expectations of future performance and availability of future funding. Details of the Directors' considerations in assessing going concern are set out above.

There are no critical accounting judgements in the current year and no critical judgements or estimates were made in applying the company's accounting policies in the prior year.

## 3. Employee information
The Company has no employees. Non-Executive Directors of the Company are employed under letters of appointment. Full details of Executive and Non-Executive remuneration is disclosed in the Annual Report on Remuneration on pages 92 to 101. For further details of Directors' remuneration, refer to Note 7 of the Group financial statements.

# Notes to the Company financial statements continued

## 4. Fixed asset investments

| Cost | Investment in subsidiary undertakings |
|---|---|
| **At 1 January 2019** | 625,491 |
| Additions – fair value of share incentives issued to Group employees | 704 |
| **At 31 December 2019** | 626,195 |
| Additions – fair value of share incentives issued to Group employees | 527 |
| **At 31 December 2020** | 626,722 |

## 5. Debtors

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Amounts owed by subsidiary undertakings | **2,219** | 2,202 |
| Group relief receivable | **1,284** | 1,348 |
| Prepayments and other debtors | **290** | 310 |
| | **3,793** | 3,860 |

Amounts owed by subsidiary undertakings are unsecured, repayable on demand and interest free.

## 6. Creditors – amounts falling due within one year

| | **31 December 2020 £'000** | 31 December 2019 £'000 |
|---|---|---|
| Trade creditors | **414** | – |
| Amounts owed to subsidiary undertakings | **211,428** | 203,316 |
| Accruals and other creditors | **1,762** | 2,664 |
| Bank overdraft | **–** | 2,150 |
| | **213,604** | 208,130 |

Amounts owed to subsidiary undertakings are unsecured, repayable on demand and interest free. The Group has a cash pooling arrangement with the bank.

## 7. Financial instruments

The Company has the following financial instruments:

| | Loans and receivables | |
|---|---|---|
| | **31 December 2020 £'000** | 31 December 2019 £'000 |
| Financial assets that are debt instruments measured at amortised cost: | | |
| Amounts owed by subsidiary undertakings | **2,219** | 2,202 |
| Group relief receivable | **1,284** | 1,348 |
| Cash and bank balances | **139** | 887 |
| | **3,642** | 4,437 |

| | Loans and payables | |
|---|---|---|
| | **31 December 2020 £'000** | 31 December 2019 £'000 |
| Financial liabilities measured at amortised cost: | | |
| Trade creditors | **414** | – |
| Amounts owed to subsidiary undertakings | **211,428** | 203,316 |
| Accruals and other creditors | **1,762** | 2,664 |
| Bank overdraft | **–** | 2,150 |
| | **213,604** | 208,130 |

The Company has no derivative financial instruments. The fair value of the financial instruments is equal to their carrying values.

### 8. Called up share capital

| | | Number of shares | Share capital £'000 |
|---|---|---|---|
| Issued, called up and fully paid: | | | |
| **At 1 January 2020** | Ordinary Shares of £0.01 each | **409,259,785** | **4,093** |
| Shares issued in the year | Ordinary Shares of £0.01 each | **300,000** | **3** |
| **At 31 December 2020** | | **409,559,785** | **4,096** |

In the current year, share capital has increased by 300,000 Ordinary Shares of £0.01 as a result of the issue of shares to satisfy share options exercised in the year. Details of outstanding share options and other awards relating to the Company's share awards are included in Note 27 to the Group financial statements.

### 9. Contingent liabilities

The Company has guaranteed all Group bank borrowings as detailed in Note 20 of the Group financial statements. As part of the Group's joint and several liability, the Company is a party to the guarantee of the Group's VAT liability, which was approximately £30 million in the year ended 31 December 2020 (year ended 31 December 2019: c.£40 million).

### 10. Related party transactions

The Company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the Group. See Note 31 of the Group financial statements.

The ultimate Parent Company and the smallest and largest group to consolidate these financial statements is Ibstock plc.

Share awards to key management personnel resulted in an amount of £0.3 million in the year ended 31 December 2020 (year ended 31 December 2019: £0.2 million), which has been taken to the fixed asset investment. See Note 27 of the Group financial statements and the Directors' Remuneration Report on pages 85 to 101 for further details of share based payments.

### 11. Post balance sheet events

A final dividend of 1.6 pence per ordinary share is proposed in respect of the financial year ended 31 December 2020. See Note 32 of the Group financial statements.

See Note 33 of the Group financial statements for details of other post balance sheet events.

# Group five-year summary

| Results summary | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| | Year ended 31 December | | | | |
| *Continuing operations* | | | | | |
| Revenue | 344,148 | 362,589 | 391,402 | 409,257 | **316,172** |
| Adjusted EBITDA[1] | 98,882 | 107,899 | 112,371 | 122,265 | **52,122** |
| Exceptional items[1] impacting EBITDA | 28,223 | 1,529 | 8,025 | (2,833) | **(35,257)** |
| Depreciation and amortisation | (21,118) | (21,005) | (24,405) | (35,409) | **(36,477)** |
| Operating profit/(loss) | 105,987 | 88,423 | 95,991 | 84,023 | **(19,612)** |
| Exceptional finance costs | – | (6,386) | – | – | **(414)** |
| Net finance costs | (3,183) | (4,377) | (3,475) | (2,032) | **(3,914)** |
| Profit/(loss) before taxation | 102,804 | 77,660 | 92,516 | 81,991 | **(23,940)** |
| Taxation | (18,733) | (12,594) | (16,102) | (15,516) | **(4,081)** |
| Profit/(loss) from continuing operations | 84,071 | 65,066 | 76,414 | 66,475 | **(28,021)** |
| Profit/(loss) from discontinued operations | 6,292 | 8,484 | 652 | (383) | **–** |
| Profit/(loss) | 90,363 | 73,550 | 77,066 | 66,092 | **(28,021)** |

| Employment of capital | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| | At 31 December | | | | |
| Goodwill and intangible assets | 123,286 | 116,010 | 100,587 | 102,594 | **95,163** |
| Property, plant and equipment | 392,303 | 400,480 | 365,478 | 386,255 | **371,395** |
| Deferred tax asset | – | 1,412 | – | – | **–** |
| Right-of-use assets | – | – | – | 30,479 | **26,653** |
| Non-current assets | 515,589 | 517,902 | 466,065 | 519,328 | **493,211** |
| Inventories | 88,757 | 91,118 | 68,426 | 84,327 | **63,386** |
| Receivables | 52,148 | 53,416 | 55,733 | 58,088 | **58,906** |
| Deferred tax asset | 1,560 | – | – | – | **–** |
| Assets held for sale | 1,203 | 4,853 | – | 1,186 | **1,186** |
| Current assets | 143,668 | 149,387 | 124,159 | 143,601 | **123,478** |
| Payables | (80,220) | (85,342) | (92,447) | (88,150) | **(85,423)** |
| Lease liabilities | – | – | – | (30,361) | **(29,076)** |
| Other liabilities excluding debt | (78,735) | (81,407) | (82,069) | (83,922) | **(78,711)** |
| Net assets excluding pension and debt | 500,302 | 500,540 | 415,708 | 460,496 | **423,479** |
| Net debt[1] | (132,771) | (117,041) | (48,382) | (84,851) | **(69,184)** |
| Pension | (38,074) | 37,329 | 80,705 | 88,656 | **43,576** |
| Total net assets | 329,457 | 420,828 | 448,031 | 464,301 | **397,871** |
| Called up share capital | 4,063 | 4,064 | 4,065 | 4,093 | **4,096** |
| Reserves | 325,394 | 416,764 | 443,966 | 460,208 | **393,775** |
| Total equity | 329,457 | 420,828 | 448,031 | 464,301 | **397,871** |

1 Alternative performance measures are described in Note 3 to the consolidated financial statements.

| Business ratios | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| | At 31 December | | | | |
| Adjusted EBITDA[1] margin | 28.7% | 29.8% | 28.7% | 29.9% | **16.5%** |
| Interest cover (times) | 23x | 28x | 35x | 37x | **10x** |
| Net debt to adjusted EBITDA[1] | 1.34x | 1.08x | 0.43x | 0.74x | **1.53x** |
| Return on capital employed[1] | 18.9% | 20.6% | 20.6% | 19.3% | **3.7%** |
| Adjusted operating cash flow[1,2] (£m) | 97 | 93 | 84 | 72 | **50** |
| Capital expenditure (£m) | (59) | (38) | (31) | (39) | **(24)** |
| Adjusted free cash flow[1,2] (£m) | 38 | 55 | 53 | 33 | **26** |
| Statutory basic earnings per share | 20.7p | 16.0p | 18.8p | 16.3p | **(6.8p)** |
| Adjusted basic earnings per share[1] | 16.7p | 18.9p | 18.8p | 18.3p | **4.0p** |
| Interim dividend per share | 2.4p | 2.6p | 3.0p | 3.2p | **–** |
| Final dividend per share | 5.3p | 6.5p | 6.5p | – | **1.6p** |
| Supplementary dividend per share | – | – | 6.5p | – | **–** |
| Total dividend per share | 7.7p | 9.1p | 16.0p | 3.2p | **1.6p** |
| Closing share price | 186p | 267p | 199p | 315p | **207p** |
| Closing market capitalisation (£m) | 756.9 | 1,083.1 | 807.7 | 1,289.3 | **846.2** |

1 Alternative performance measures are described in Note 3 to the consolidated financial statements.
2 Adjusted operating and free cash flow measures are shown for continuing operations following the disposal of the US Glen Gery business in November 2018. Prior periods have not been restated.

# Shareholder information

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Nick Giles

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Calls are charged at the standard geographical rate and will vary by provider.

Calls outside the United Kingdom will be charged at the applicable international rate.

Open between 09:00–17:30, Monday to Friday excluding public holidays in England and Wales or email Link at enquiries@linkgroup.co.uk.

**Corporate website**
www.ibstockplc.co.uk

**Brand websites**

| | |
|---|---|
| Ibstock Brick | www.ibstockbrick.co.uk |
| Ibstock Kevington | www.ibstockbrick.co.uk/kevington |
| Forticrete | www.forticrete.co.uk |
| Supreme | www.supremeconcrete.co.uk |
| Anderton | www.andertonconcrete.co.uk |
| Longley | www.longley.uk.com |

**Analysis of shareholders – 31 December 2020**

| 2020 | Number of holdings | % | Balance as at 31 December 2020 | % |
|---|---|---|---|---|
| 1-1,000 | 328 | 27.4938 | 175,393 | 0.0428 |
| 1,001–5,000 | 350 | 29.3378 | 1,576,098 | 0.2352 |
| 5,001–20,000 | 195 | 16.3453 | 1,980,713 | 0.4836 |
| 20,001–50,000 | 59 | 4.9455 | 2,092,755 | 0.5109 |
| 50,001–Highest | 258 | 21.6261 | 404,305,528 | 98.717 |
| Total | 1,193 | 100.00 | 409,559,785 | 100.00 |

| Holder type | Number of holdings | % | Balance as at 31 December 2020 | % |
|---|---|---|---|---|
| Individuals | 538 | 45.0963 | 1,913,683 | 0.4672 |
| Nominee and institutional investors | 655 | 54.9034 | 407,646,102 | 99.5327 |
| Total | 1,193 | 100.00 | 409,559,785 | 100.00 |

**Cautionary statement**

This Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report and Accounts involve uncertainty, since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

**Design and production**
Luminous

Printed on FSC® certified paper by an EMAS certified printing company. Its Environmental Management System is certified to ISO 14001. 100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and on average 99% of any waste associated with this production will be recycled. This document is printed on Lumi Silk, a paper containing 100% virgin fibre sourced from well-managed, responsible, FSC® certified forests. The pulp used in this product is bleached using an elemental chlorine free ("ECF") process.

**Back cover image:**
**Project name:** Castle Park View
**Products used:** Ivanhoe Katrina

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