Preliminary results
10 March 2021

Ibstock Plc

Ibstock plc

Results for the year ended 31 December 2020

Resilient operational performance and continued strategic progress

Ibstock plc ("Ibstock" or the "Group"), a leading manufacturer of clay bricks and concrete products in the United Kingdom, announces its results for the year ended 31 December 2020.

	Adjusted results[1]			Statutory results		
Year ended 31 December	2020	2019	Change	2020	2019	Change
Revenue	£316m	£409m	(23%)	£316m	£409m	(23%)
Adjusted EBITDA	£52m	£122m	(57%)			
Exceptional Items	(£36m)	(£3m)	(>100%)			
Profit / (loss) before tax	£12m	£85m	(86%)	(£24m)	£82m	(>100%)
EPS	4.0p	18.3p	(78%)	(6.8p)	16.3p	(>100%)
Net debt	£69m	£85m	19%			
Total Ordinary Dividend[2]	1.6p	3.2p		1.6p	3.2p	

All numbers from continuing operations

Operational Headlines

- Resilient operational performance and strategic progress against unprecedented backdrop of COVID-19
- Health and safety of all our people has remained the key priority throughout
- Strong progress against operational strategy, notably in area of ESG; achieved “AA” rating from MSCI
- Following initial sharp contraction in market demand from late March 2020, steady and sustained recovery of demand patterns over remainder of year
- Group wide restructuring programme to reshape and upgrade the business completed in H2, delivering up to £20 million of cost savings in FY21, at a cash cost of £9 million

Financial Headlines

- Revenue decline of 23% reflects impact of COVID-19 pandemic, with significant reductions in both Clay Division, down 29%, and Concrete Division, down 5%
- Adjusted EBITDA[1] of £52 million (2019: £122 million) down 57% reflecting lower sales volumes and impact of operational gearing
- Statutory loss before tax of £24 million (2019: £82 million profit) reflects lower trading performance and exceptional costs of £36 million principally related to COVID-19 and restructuring
- Decisive actions to reshape cost base, combined with demand recovery, enabled Group to exit 2020 with margins in both divisions getting back close to the underlying levels achieved in the prior year
- Strong cash flow performance, materially ahead of expectations, driven by improved trading through the second half and actions to manage costs and working capital
- Robust balance sheet with closing leverage[4] of 1.5x net debt to adjusted EBITDA[1] and liquidity headroom of over £145 million
- Resumption of dividend payments – proposing modest final dividend for 2020 of 1.6p per share

Current Trading and Outlook

- Trading in the initial period of 2021 slightly ahead of run rates achieved in Q4 2020
- Demand backdrop and recent policy announcements are encouraging but we remain mindful of economic uncertainties and disruption associated with COVID-19. As a result, the Board is comfortable with current market consensus expectations[3] for adjusted EBITDA[1] for the year
- With our strong financial position, strengthened operating platform and range of attractive growth opportunities, we are focused on driving sustainable, profitable growth to deliver attractive shareholder returns over the medium term

Joe Hudson, Chief Executive Officer of Ibstock plc, commented:

“2020 was a testing year, as COVID-19 created some exceptional challenges for our business and our people. The health and wellbeing of colleagues, customers and business partners were paramount throughout, and I would like to thank them all for their impressive response to the pandemic and their ongoing effort and commitment.

“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.

“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.”

[1] Alternative Performance Measures are described in Note 3 to the results announcement.
[2] 2020 dividend is proposed, 2019 comparative differs to that announced in the equivalent RNS last year (as the final 2019 dividend was cancelled due to impacts of COVID-19)
[3] Management believes that analysts' consensus expectations for adjusted EBITDA[1] for the year are approximately £93 million
[4] Based on pre-IFRS 16 numbers, in line with RCF covenants

Results presentation

Ibstock is hosting an audio webcast for investors and analysts at 10am UK time today.

To register for the webcast, please see: https://brrmedia.news/fufkk

The presentation can also be heard via a conference call, where there will be the opportunity to ask questions.

Conference Call Dial-In Details: +44 (0)330 336 9125
Confirmation code: 3598425

An archived version of today's webcast analyst presentation will be available on www.ibstockplc.com later today.

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About Ibstock plc

Ibstock plc is a leading UK manufacturer of clay bricks and a diversified range of clay and concrete products. Its principal products are clay bricks, brick components, concrete roof tiles, concrete substitutes for stone masonry, concrete fencing and pre-stressed concrete products.

The Group's two divisions are:

Ibstock Clay: The leading manufacturer by volume of clay bricks sold in the United Kingdom. With 16 manufacturing sites Ibstock Brick has the largest brick production capacity in the United Kingdom. It operates a network of 18 active quarries located close to its manufacturing plants. Ibstock Kevington provides masonry and pre-fabricated component building solutions, operating from 6 sites across the United Kingdom.

Ibstock Concrete: A leading manufacturer of concrete roofing, walling, flooring and fencing products, along with lintels and general concrete building products, with 14 manufacturing plants in the United Kingdom.

Chief Executive's Review

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.

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.

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.

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.

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.

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.

[1] Alternative Performance Measures are described in Note 3 to the results announcement.
[3] Management believes that analysts' consensus expectations for adjusted EBITDA[1] 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)

Chief Financial Officer's report

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 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

This results statement contains 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 debt[1] 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 below sets out segmental sales and adjusted EBITDA[1] for the year

	Clay	Concrete	Central costs	Total
	£'m	£'m	£'m	£'m
Year ended 31 December 2020				
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 results announcement.

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 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 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 EBITDA[1] 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;

    c) £0.9 million of other one-off operating costs arising directly as a result of COVID-19; and

    d) £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 costs[1] 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 7.

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**

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.

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

The table above 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 debt[1] to adjusted EBITDA[1] excluding the impact of IFRS 16, 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 12) 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 13 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 2 of the financial statements.

Statement of directors' responsibilities in relation to the financial statements

The 2020 Annual Report and Accounts which will be issued in March 2021, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 9 March 2021, the Directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, 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 performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 9 March 2021 and is signed on its behalf by:

Joe Hudson	Chris McLeish
Chief Executive Officer	Chief Financial Officer
9 March 2021	9 March 2021

CONSOLIDATED INCOME STATEMENT

	Notes	**Year ended 31 December 2020**	Year ended 31 December 2019
		£'000	£'000
Continuing operations			
Revenue	4	316,172	409,257
Cost of sales before exceptional items		(235,667)	(250,008)
Exceptional cost of sales	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	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	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	5	(414)	-
Finance costs		(6,105)	(4,735)
Finance income		1,777	2,703
Net finance cost		**(4,328)**	**(2,032)**
(Loss)/profit before taxation		**(23,940)**	**81,991**
Taxation	6	(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	7	(6.8)	16.3
Basic - discontinued operations	7	-	(0.1)
		(6.8)	**16.2**
Diluted - continuing operations	7	(6.8)	16.1
Diluted - discontinued operations	7	-	(0.1)
		(6.8)	**16.0**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2020**	Year ended 31 December 2019
		£'000	£'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[1]		(45,263)	5,005
Related tax movements[1]	6	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

[1] Impacting retained earnings.

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		36,477	35,409
Adjusted EBITDA[1]		**52,122**	**122,265**

CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2020**	31 December 2019
		£'000	£'000
Assets			
Non-current assets			
Intangible assets		95,163	102,594
Property, plant and equipment		371,395	386,255
Right-of-use assets		26,653	30,479
Post-employment benefit asset	12	43,576	88,656
		536,787	607,984
Current assets			
Inventories		63,386	84,327
Trade and other receivables		58,906	58,088
Cash and cash equivalents		19,552	19,494
		141,844	161,909
Assets held for sale		1,186	1,186
Total assets		679,817	771,079
Current liabilities			
Trade and other payables		(85,423)	(88,150)
Borrowings	8	(135)	(395)
Lease liabilities		(6,728)	(6,586)
Current tax payable		(421)	(6,350)
Provisions	9	(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	8	(88,601)	(103,950)
Lease liabilities		(22,348)	(23,775)
Deferred tax liabilities		(64,755)	(69,655)
Provisions	9	(8,232)	(7,179)
		(183,936)	(204,559)
Total liabilities		(281,946)	(306,778)
Net assets		**397,871**	**464,301**
Equity			
Share capital		4,096	4,093
Share premium		4,333	7,441
Retained earnings		759,483	822,321
Merger reserve		(369,119)	(369,119)
Own shares held		(922)	(435)
Total equity		**397,871**	**464,301**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Retained earnings	Merger reserve	Own shares held	Total equity attributable to owners
	£'000	£'000	£'000	£'000	£'000	£'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 expense	**-**	**-**	(37,336)	-	**-**	**(37,336)**
Total comprehensive expense for the year	**-**	**-**	**(65,357)**	**-**	**-**	**(65,357)**
Transactions with owners:						
Share based payments	-	-	527	-	**-**	**527**
Current tax on share based payment	-	-	24	-	**-**	**24**
Deferred tax on share based payment	-	-	(686)	-	**-**	**(686)**
Transfer from Share premium account	-	(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**
Issue of share capital to Employee Benefit Trust	3	-	-	-	(3)	**-**
At 31 December 2020	**4,096**	**4,333**	**759,483**	**(369,119)**	**(922)**	**397,871**

	Share capital	Share premium	Retained earnings	Merger reserve	Own shares held	Total equity attributable to owners
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	-	-	704	-	-	**704**
Current tax on share based payment	-	-	171	-	-	**171**
Deferred tax on share based payment	-	-	508	-	-	**508**
Equity dividends paid	-	-	(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	**28**	**5,826**	**(1,637)**	**-**	**-**	**4,217**
At 31 December 2019	**4,093**	**7,441**	**822,321**	**(369,119)**	**(435)**	**464,301**

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'000
Cash flow from operating activities		
Cash generated from operations (Note 11)	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	-	(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.

Reconciliation of changes in cash and cash equivalents to movement in net debt[1]

	Year ended 31 December 2020	Year ended 31 December 2019
	£'000	£'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 8)	**(69,184)**	**(84,851)**
Comprising:		
Cash and cash equivalents	19,552	19,494
Short-term borrowings	(135)	(395)
Long-term borrowings	(88,601)	(103,950)
	(69,184)	(84,851)

1. 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 and registered in England. The registered office is Leicester Road, Ibstock, Leicestershire, LE67 6HS and the company registration number is 09760850.

2. BASIS OF PREPARATION

European law requires that the Group's consolidated financial statements for the year ended 31 December 2020 are prepared in accordance with all applicable International Financial Reporting Standards ("IFRS"), as adopted by the European Union. These financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2020 but is derived from those accounts. Statutory accounts for 2020 will be delivered to the registrar of companies in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2019. The consolidated financial statements are presented in Pound Sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated. The significant accounting policies are set out below.

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. 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.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for periods beginning after 1 January 2020, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

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.

The Group applied IFRS 16 Leases in the current and prior periods. In the year ended 31 December 2020, the benefit to Adjusted EBITDA[1] as a result of IFRS 16 was £6,832,000 (2019: £7,121,000). Operating lease charges now expensed via depreciation increased by £6,073,000 (2019: £6,471,000) and interest by £1,103,000 (2019: £1,204,000) resulting in a net reduction in profit before taxation of £344,000 (2019: £554,000).

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. 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, consistent with industry forecasts with regard housing starts, 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.

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.

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.

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 7.

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	Year ended 31 December 2019
	£'000	**£'000**
Net debt	**(69,184)**	(84,851)
Adjusted EBITDA	**52,122**	122,265
Impact of IFRS 16 (Note 27)	**(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 Directors' 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	Year ended 31 December 2019
	£'000	**£'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
ROCE	**3.7%**	**19.3%**

Average capital employed figures comprise:	31 December 2020	30 June 2020	31 December 2019	30 June 2019
	£'000	**£'000**	**£'000**	**£'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 £1,864,000 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. The Longley operations contributed £17.0 million of revenue in the year ended 31 December 2020 (year ended 31 December 2019: £8.3 million).

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: £510,000). 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 £9,737,000 (2019: £1,106,000) 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 £4,080,000 (2019: £5,294,000). 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 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**	Exceptional	Reclassification	**Adjusted**
	£'000	**£'000**	**£'000**	**£'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

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			
	Clay	Concrete	Unallocated & elimination	Total
	£'000	£'000	£'000	£'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, £0.3m 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.

	Year ended 31 December 2019			
	Clay	Concrete	Unallocated & elimination	Total
	£'000	£'000	£'000	£'000
Continuing operations				
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**
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 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.

5. EXCEPTIONAL ITEMS[1]

	Year ended 31 December 2020	Year ended 31 December 2019
Continuing operations	**£'000**	£'000
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 (see Note 10)	**(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	**(1,902)**	(737)
GMP equalisation costs	**(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 impacting EBITDA	**(35,257)**	**(2,833)**
Exceptional finance costs	**(414)**	**-**
Total exceptional items relating to continuing operations	**(35,671)**	**(2,833)**
Exceptional items relating to discontinued operations	-	(383)
Total exceptional items	**(35,671)**	**(3,216)**
Reconciliation of adjusted profit before taxation[1]:		
(Loss)/profit before taxation	(23,940)	81,991
Add back exceptional items	35,671	3,216
Adjusted profit before taxation[1]	**11,731**	**85,207**

2020

Included within the current year are the following exceptional items:

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 10. 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. 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 their 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 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:

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.

Tax on exceptional items

2020

In the current period, the COVID-19 related energy contract losses, redundancy costs, COVID-19 administrative expenses and exceptional finance costs were all tax deductible.

The working capital impairment costs were 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 were not tax deductible but gave rise to a deferred tax credit in the current period and as such were not tax rate impacting.

Other 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 gave rise to a chargeable gain which is taxable in the current period.

Costs associated with the discontinued operations were not tax deductible.

2019

The pension related expenses along with the corporate and restructuring costs were tax deductible.

The legal costs incurred on acquisition of the subsidiary undertaking were not tax deductible.

The expenses relating to discontinued operations were not tax deductible.

6. TAXATION

The Group recorded a taxation charge of £4.1 million (2019: £15.5 million) on a pre-tax loss of £23.9 million (2019: profit of £82.0 million), resulting in an effective tax rate ("ETR") of -17.1% (2019: 18.9%). The taxation charge is impacted by the change in deferred taxation rate applied following the Chancellor's announcement in March 2020 repealing the previously enacted rate reduction from 19% to 17%. This rate change resulted in a taxation charge of £7.7 million, which impacted the ETR by 32.0%pts.

7. 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 (000s)	Year ended 31 December 2019 (000s)
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, 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	Year ended 31 December 2019		
	Total 2020	Continuing	Discontinued	Total
	£000	£000	£000	£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	Year ended 31 December 2019		
	Total 2020	Continuing	Discontinued	Total 2019
	pence	pence	pence	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

8. BORROWINGS

	31 December 2020	31 December 2019
	£'000	£'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.

9. PROVISIONS

	31 December 2020	31 December 2019
	£'000	£'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

(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.

(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.

10. 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**	**Right-of-use assets**	**Working capital**	**Total cost of sales**
	£’000	**£’000**	**£’000**	**£’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.

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 impairment assessment was performed in 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.

11. NOTES TO THE GROUP CASHFLOW STATEMENT

	Year ended 31 December 2020	Year ended 31 December 2019
Cash flows from operating activities	£'000	£'000
(Loss)/profit before taxation	(23,940)	81,608
Adjustments for:		
Depreciation	29,046	28,999
Impairment of property plant and equipment	16,263	-
Impairment of right-of-use assets	1,681	-
Impairment of 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 trade and other receivables	(877)	2,222
Decrease in trade and other 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 £59,000 (2019: £383,000) 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 £10,482,000 (2019: £nil) was received in relation to the Coronavirus Job Retention Scheme and payment of taxes totalling £16,525,000 (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.

12. POST EMPLOYMENT BENEFITS

The Group participates in the Ibstock Pension Scheme (the 'Scheme'), a defined benefit pension scheme in the UK. During the year ended 31 December 2020, the Scheme surplus of £88,656,000 has reduced to a surplus of £43,576,000. Analysis of movements during the year ended 31 December 2020:

	£'000
Scheme surplus at 31 December 2019	88,656
Charge within labour costs and operating profit	(3,772)
Interest income	1,767
Remeasurement due to:	
- Change in financial assumptions	(89,088)
- Change in demographic assumptions	3,750
- Experience gains	3,216
- Return on plan assets	36,859
Company contributions	2,188

Scheme surplus at 31 December 2020	43,576

The reduction in the balance sheet surplus over the year is primarily due to a significant actuarial loss arising from a change in financial assumptions, as well as the buy-in occurring during the year. This has been partially offset by an improvement in the Scheme's assets and contributions into the Scheme made by the Company.

Key assumptions used at 31 December 2020:

	31 December 2020	**31 December 2019**
	Per annum	**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

13. RELATED PARTY TRANSACTIONS

In the year ended 31 December 2020

There were no related party transactions during the year ended 31 December 2020 nor any balances with related parties.

In the year ended 31 December 2019

There were no related party transactions during the year ended 31 December 2019 nor any balances with related parties.

14. DIVIDENDS PAID AND PROPOSED

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 (2019: 6.5 pence). In the prior year, payment of the final dividend in relation to 2018 distributed £26.6 million 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.

15. 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 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 (see note 14), no further subsequent events requiring further disclosure or adjustments to these financial statements have been identified since the balance sheet date.

[1] Alternative Performance Measures are described in Note 3

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF IBSTOCK PLC ON THE PRELIMINARY ANNOUNCEMENT OF IBSTOCK PLC

As the independent auditor of Ibstock plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Ibstock plc's preliminary announcement statement of annual results for the period ended 31 December 2020.

The preliminary statement of annual results for the period ended 31 December 2020 includes management commentary, the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, and notes. We are not required to agree to the publication of presentations to analysts.

The directors of Ibstock plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Ibstock plc is complete and we signed our auditor's report on 9 March 2021. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

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). 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. Therefore, there is a risk that items are inappropriately classified as exceptional in the financial statements. 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.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • obtained an understanding of the management review controls over the classification of items as exceptional; • 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; • evaluated regulatory guidance released by the FRC and ESMA; • assessed the consistency of the proposed disclosures against emerging practice in this area and the disclosures made by other Groups in 2020; and • 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.

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. 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.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • obtained an understanding of the relevant controls over the review of forecasts used in the going concern assessment; • assessed the appropriateness of forecasts based on industry and analyst forecasts, considering the impact of Covid-19; • evaluated the accuracy of the forecasts for the second half of 2020 compared to initial forecasts prepared by management in June 2020; • 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; • assessed the feasibility of any mitigating actions that management have at their disposal should the financial covenants be close to being breached; and • 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.

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). 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.
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: • obtained an understanding of the relevant controls over the inputs adopted to calculate the defined benefit pension liability; • 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 • 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 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.

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.

	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.
How the scope of our audit responded to the key audit matter	We have performed the following procedures to address this key audit matter: • obtained an understanding of the relevant controls over the revenue recognition process to address the key audit matter; • performed year-on-year analysis of revenue and rebates to understand any material changes in the rebate provision at a customer level; • 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; • 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; • 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 • 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.

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 did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Ibstock plc we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures (“APMs”), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and

- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is 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 our audit report or 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