MICHELMERSH
Brick Holdings PLC
Britain's Brick Specialists

**26 March 2014**

**Michelmersh Brick Holdings Plc**
(the "Group" or MBH")

**FINAL RESULTS**
**Well financed and positioned to benefit from demand for bricks in the UK**

Michelmersh Brick Holdings Plc (AIM:MBH), the specialist brick, land development and landfill company, today announces its audited final results for the year ended 31 December 2013, a transformational period for the Group's balance sheet, shareholder base and positioning within an industry that is recording brick stock levels reaching a historic low.

**Financial Highlights:**

- Group turnover of £25.9 million, up 12.6% (2012: £23.0m);
- Operating profit of £1.4 million, a favourable comparison to an operating profit of £1.4 million in 2012 which included £400,000 of carbon surplus;
- Net cash generated by operating activities up from £1.6 million to £3.8 million; and
- Net debt reduced from £18.4 million in 2012 to £4.2 million at 31 December 2013.

**Operational Highlights:**

- 71 million bricks despatched in the period – 7 million more than in 2012;
- Sharp increase in demand for bricks in second half leading to positive movements in pricing;
- Sale of surplus land at the Telford site to Bovis Homes;
- Significantly oversubscribed share placement in November 2013 raising £9.6 million;
- Closure of the smallest, loss-making plant within the Group; and
- Winner in multiple categories at BDA Brick Awards.

Commenting, Martin Warner Group CEO, stated: "**After five very difficult years for the business and the industry, 2014 has started positively. With pricing and demand improving, increased production at our most efficient plant, and the other exciting initiatives for 2014, we believe that we will be able to more than hold our own in the future and the fruits of many years of hard work will start to become apparent.**"

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## CHAIRMAN'S STATEMENT

I am pleased to report the Group's results for the year ended 31st December 2013; a transformational period for MBH.

Despite a challenging first half of the year, turnover for the 12 months increased by just under 13% to £26 million (2012: £23 million) as activity picked up sharply in the second half of the year.

Other key events during the year included the closure of our smallest plant, Dunton, the sale of surplus land at Telford to Bovis Homes and a successful oversubscribed share placement in November to raise £10million.

The combined effect of these measures has been to transform the Group's balance sheet, strengthen our shareholder base and position the Group for the changed industry dynamics as national brick stock levels reach an historic low.

**Financial Highlights:**

| | **2013** | 2012 |
|---|---|---|
| **Turnover** | **£25.9 m** | £23.0 m |
| **Operating profit** | **£1.4 m** | £1.4 m |
| **Basic EPS** | **0.18 p** | 0.51 p |
| **Net assets** | **£45.5 m** | £35.5 m |
| **Net assets per share** | **56.3 p** | 61.0 p |
| **Net Debt** | **£4.2 m** | £18.4 m |
| **Net cash generated by operating activities** | **£3.8 m** | £1.6 m |
| **Net deficit on non-underlying items** | **£1.5 m** | - |

The Group increased turnover by 12.6% over the period despite a very sluggish construction sector in the first half of the year. This was achieved through the despatch of nearly 7 million additional bricks. The Group was thus able to overcome margin pressure caused by increasing energy costs, generating higher levels of cash from operations. The Group reports an operating profit from **continuing** activities of £1.4 million against a comparable £1.0 million in 2012 if the carbon surplus income of £400,000 under the now ceased phase of EUETS is excluded.

Earnings and Net Assets per share were diluted by the significant additional shares in issue following a successful share placement of 22,544,508 new ordinary shares in November 2013, but the effect on net debt has a significant positive impact on future earnings.

Certain items in the year were not related to the underlying core business of brick manufacturing and have been separated in the income statement to allow a better understanding of the accounts. The principal event in this category is the closure of the Dunton brickworks and the associated (largely non-cash) costs of writing down assets to realisable value and meeting the costs of redundancy. The profit on sale of land (£700,000) is also treated as non-underlying. There were some knock on costs of both of these events as the Group sales administration and Telford operations were reconfigured to reflect the change in sales administration structure and physical operational layout of the remaining brick plant at Telford.

**Cash and Borrowings**

The share placement contributed a net cash inflow of £9.6 million, which added to the net cash generated from operations, and proceeds of the land sale to reduce net debt by £14.2 million. At 31 December 2013, the Group had repaid a number of loans leaving a single non-amortising Term Loan of £5 million, some historic asset finance at £0.3 million and cash deposits of £2.2 million. Not only does this reduce the interest burden, but relieves the Group of debt repayments out of future operating cash flow. The Group maintains its overdraft facilities as the seasonal cycle and the capital projects will have cash requirements in the summer months.

**Assets and Working Capital**

There have been some movements in the value of some of the Group's land assets through the year with a net increase of £1.5 million. The closure of the Dunton brickworks released the site for landfill use, which increased the value of the previously impaired asset by £1.7 million. The quarry at Charnwood has also appreciated in value as clay extraction is nearing an end, releasing the land for potential residential development resulting in a £1.8 million revaluation surplus. However at Telford, the option on the site held by Persimmon does not look likely to generate asset disposals in the timeframe previously anticipated and the Directors have accordingly adjusted the book valuation downwards by £2 million.

The sale of former factory land at Telford (not under option) was achieved in the year and yielded £1.6 million in cash leaving £3 million to flow in over two years being reflected at a net present value of £2.7 million in debtors.

Net operating working capital has fallen by over £4 million through 2013 as brick stocks have reduced and assets and liabilities carefully managed.

**Dividend**

The Directors are not recommending the payment of a dividend for this financial year but maintain that the return to dividends is a key target as operating cashflows are unencumbered by debt repayment and profitability provides available retained earnings.

**Land assets**

We completed the sale of the former factory site at Telford in the autumn. The initial consideration of £1.6 million has been received with the remaining £3 million consideration due on the first and second anniversaries respectively.

In the light of reduced production at Telford and increased landfill rates we have very substantial clay reserves available to us and we are comprehensively reviewing our long terms plans at the site with our advisers to ensure that reserves and void space are maximised. This will inform further discussions with Persimmon with regard to available development land.

The Group has received planning consent for our exciting project to expand production at Freshfield Lane. We have for some time been negotiating planning consent for the allocated land at Michelmersh which will yield a further 20 years of clay supply, and expect this to follow shortly. The restoration scheme at our Charnwood Quarry has received consent and we will shortly be submitting a planning application for residential development. Following the closure of our brick operations at Dunton we are in advanced discussions with the Planners and Environment Agency with regard to a landfill restoration scheme.

**People**

MBH has historically been recognised as a key local employer, with approximately 280 staff across our sites. Although the outlook is now much more settled, 2013 was a challenging year when yet again we had to make redundancies as a result of the closure of the Dunton plant. I thank all our employees for the commitment, dedication and hard work, which has enabled us to get the business into the position it is today.

**Outlook**

Despite increased demand during the second half of 2013, industry prices remained flat during 2013. Although there are early signs of increases in 2014, industry brick stocks have reduced from 1.1 billion in 2008 to 332 million at the end of January this year demonstrating that industry dynamics have been completely transformed from a position of overstocking to a threat of shortages when construction indicators are now positive. The rebalancing will take time to feed through into a stable market however at this early part of the year prices have firmed up significantly with customers now focusing on securing supply for their projects.

Having commenced work on our project to increase production at our Freshfield Lane plant this project is on track for completion in 2014 with increased output expected from the beginning of 2015.

The Board believes that over time margins will recover and we will benefit from the increased planned production. We will also continue to look at any industry opportunities which may arise.

The Group is uniquely placed in an industry with high barriers to entry. Our market position, asset base and enhanced shareholder register give me optimism about our future prospects.

**Eric Gadsden**
**Chairman**
**25 March 2014**

**CHIEF EXECUTIVE'S REVIEW**

**Clay Products**
The year was one of the most successful in the Group's history as we took the annual BDA Brick Awards by storm, winning categories such as Best Public Building, Best Education Building and the coveted Supreme Winner with the Ortus, Maudsley Learning Centre in London. Furthermore, deliveries commenced to the Lend Lease Elephant and Castle regeneration project, with further orders being placed for phases of the project well into 2015. The new Synthesis range was specified on several notable projects such as The BBG Academy in Bradford and the new ITV Coronation Street Set in Trafford, whilst the Coleg Cymunedol Y Dderwen project in Bridgend utilised our Blockleys Smooth Charcoal product winning a BREEAM award with an "excellent" rating. Hathern Terra Cotta had another strong year supplying bespoke products to prestigious projects such as Nottingham Railway Station refurbishment and has just received a significant new order for Brighton College.

The Group experienced a sharp increase in demand after a very difficult first four months of the year. Excluding Dunton, which was closed in May, we produced 65.4 million units (2012: 66.1 million) and despatched 71.5 million (2012: 63.9 million) at an average selling price of £348 per thousand (2012: £343 per thousand). However, in the last two months of 2013 we started to benefit from better selling prices as new work at revised prices were despatched and price increases implemented at the beginning of this year have held. Against industry practice for many years, we have not fixed prices forwards in 2014 and believe we are in a position to continue to push margin.

The industry has entered a new phase as national stock levels have reduced. In spite of the low demand in the past five years, sales this year have exceeded production. This should release downward price pressure and allow the industry to achieve realistic margins against increased energy costs.

The forward order book remains robust across all plants with some key products on a 20-week availability schedule. The strong deliveries seen in Q3 and Q4 of 2013 continue into Q1 of 2014 with our margin recovery slightly ahead of projections.

The Group embarked on and completed a £100,000 investment in our Blockleys plant during the summer replacing the existing brick unloading machine with a PLC controlled robotic system. The project was successfully achieved at a much reduced cost using decommissioned robots from the soft mud plant that was closed in 2010. The robots have increased unloading speed by 25% and operate with 83% less electricity.

In January this year, we commenced a 20% expansion investment at Freshfield Lane. The £2.2 million investment will increase the Group's 2015 output by 6 million bricks.

**Management Systems**

During 2013, following the closure of Dunton, the sales administration structure was reviewed and the Group engaged in the implementation of a fully integrated centralised administration function (CSO) based at the Freshfield Lane Head Office. The Group also carried out a number of other business improvements such as IT cloud hosting and functionality improvements to the BIM site.

The Group's technical team has again strengthened our management systems and the Michelmersh site is now fully operational to ISO 9001 and ISO 14001. An external accreditation process is currently under way across the Group and, when complete, all products will be fully compliant and independently accredited to international standard ISO 9001 Quality Management and ISO 14001 Environmental Management.

We are pleased that once again our Health and Safety external audit scores have improved and we are operating to HSG65 level across all of our manufacturing sites. This level of performance means that the Group meets all statutory requirements and is pro-active in its approach to health and safety.

**Staff Development**

We are continually developing and upskilling our staff across the Group, with a particular focus on succession planning in key areas of the business such as management and technical skills. The Group has Apprenticeship programmes underway at Charnwood and Freshfield Lane in Business Administration and Electrical Engineering and we are upskilling existing staff with targeted NVQ based qualifications.

**Landfill**

The Group's landfill operator, New Acres, had a pleasing result from our operations at Telford with turnover of £632,000 (2012: £626,000) on a tonnage of 177,000 (2012: 200,000). This provided a contribution for the year of £261,000 (2012: £253,000). With the improved access arrangements resulting from the site reconfiguration, demand has been strong in the early part of the current year at improved rates.

At Dunton, detailed discussions are well advanced with the relevant Authorities to restore the site by landfilling as permitted under our planning consent and commencement of activity is targeted for 2015.

**Land Assets**

During 2013 we have brought forward plans on all our sites.

At Telford outline planning consent was granted for a 185 dwelling scheme with a favourable S106 Agreement and planning conditions. The land was sold for £4.6 million with phased receipts. The reconfiguration works at the remaining plant have been completed ahead of schedule.

The lapse of detailed planning permission on the 15 acres of land will delay a sale beyond where previously expected but it is clear that the planning obligations can be re-negotiated and may improve the long term potential of the site. We are now nearing the conclusion of a comprehensive review of landfill, clay extraction and development opportunities with our professional team of advisors, which extend beyond the time frame of the option.

At Charnwood we have agreed a closure plan to our quarry, which is separate from the works and with main road frontage, with the Environment Agency. We have also been permitted to revise our restoration scheme to a lower level which will provide a better platform for potential housing development. The site has already been accepted into the SHLAA and we are working on an outline scheme with the same team which successfully obtained consent at Telford.

We have obtained planning consent for our increased production facility at Freshfield Lane.

At Michelmersh, now that land has been designated in the Mineral Plan for potential clay extraction, we are finalising a detailed planning application for local consultation and submission in the next few weeks which will give clay supply together with existing reserves of a further 25 years.

**Outlook**

After five very difficult years for the business and the industry, 2014 has started positively. The road to recovery will take time but is now firmly moving in the right direction from very low levels.

With pricing and demand improving, increased production at our most efficient plant, and the other initiatives which we are working on, we believe that we will be able to more than hold our own in the future and the fruits of many years of hard work will start to become apparent.

**Martin Warner**
**Chief Executive**
**25 March 2014**

**Consolidated Income Statement**
**for the year ended 31 December 2013**

| | Underlying 2013 £'000 | Non-underlying Items* 2013 £'000 | 2013 £'000 | 2012 £'000 |
|---|---|---|---|---|
| **Revenue** | 25,929 | - | **25,929** | **23,001** |
| Cost of sales | (19,205) | - | **(19,205)** | **(16,513)** |
| Gross profit | 6,724 | - | **6,724** | **6,488** |
| Administrative expenses | (5,656) | (443) | **(6,099)** | **(5,482)** |
| Other income | 65 | 694 | **759** | **403** |
| **Operating profit** | 1,133 | 251 | **1,384** | **1,409** |
| Finance costs | (977) | - | **(977)** | **(986)** |
| **Profit before taxation** | 156 | 251 | **407** | **423** |
| Taxation | (86) | (216) | **(302)** | **(133)** |
| **Profit for the financial year from continuing operations** | 70 | 35 | **105** | **290** |
| Loss for the period from discontinued operations | (117) | (1,536) | **(1,653)** | **(281)** |
| **(Loss)/profit for the financial year** | (47) | (1, 501) | **(1,548)** | **9** |
| Basic earnings per share from continuing operations | | | 0.18 p | 0.51 p |
| Basic loss per share from discontinued operations | | | (2.80 p) | (0.48 p) |
| Basic (loss) /earnings per share attributable to equity holders of the company | | | (2.62 p) | 0.02 p |

*Please see note 4

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| **Consolidated Statement of Comprehensive Income for the year ended 31 December 2013** | | |
| **(Loss)/profit for the financial year** | (1,548) | 9 |
| **Other comprehensive income:** | | |
| Items which will not subsequently be reclassified to profit or loss | | |
| Revaluation surplus of property, plant and equipment | 3,500 | 800 |
| Revaluation deficit of property, plant and equipment | (2,000) | (800) |
| Deferred tax on revaluation movement | 415 | 764 |
| | 1,915 | 764 |
| **Total comprehensive profit for the year** | 367 | 773 |

| Consolidated Balance Sheet<br>as at 31 December 2013 | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Intangible assets | 2,438 | 2,468 |
| Property, plant and equipment | 41,831 | 41,538 |
| | 44,269 | 44,006 |
| **Amounts falling due after one year** | | |
| Derivatives | 91 | 165 |
| Other receivables | 1,267 | - |
| **Total non-current assets** | 45,267 | 44,171 |
| | | |
| **Current assets** | | |
| Assets held for sale | - | 3,350 |
| Inventories | 6,307 | 9,132 |
| Trade and other receivables | 6,361 | 4,743 |
| Investments | 46 | 74 |
| Cash and cash equivalents | 2,170 | 70 |
| **Total current assets** | 14,884 | 17,369 |
| | | |
| **Total assets** | 60,511 | 61,540 |
| | | |
| **Liabilities** | | |
| | | |
| **Current liabilities** | | |
| Trade and other payables | 3,900 | 2,572 |
| Provisions | 337 | - |
| Corporation tax payable | - | 47 |
| Interest bearing borrowings | 1,212 | 7,461 |
| **Total current liabilities** | 5,449 | 10,080 |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 4,434 | 4,935 |
| Interest bearing borrowings | 5,125 | 10,991 |
| | 9,559 | 15,926 |
| **Total liabilities** | 15,008 | 26,006 |
| | | |
| **Net assets** | 45,503 | 35,534 |
| | | |
| **Equity attributable to equity holders** | | |
| Share capital | 16,162 | 11,645 |
| Share premium account | 11,495 | 6,440 |
| Reserves | 20,930 | 19,103 |
| Retained earnings | (3,084) | (1,654) |
| **Total equity** | 45,503 | 35,534 |

| Consolidated Statement of Changes in Equity | Share capital | Share option reserve | Merger reserve | Share premium | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **As at January 2012** | 11,645 | 186 | 979 | 6,440 | 17,278 | (1,797) | 34,731 |
| Profit for the year | - | - | - | - | - | 9 | 9 |
| Revaluation surplus | - | - | - | - | 800 | - | 800 |
| Revaluation deficit | - | - | - | - | (800) | - | (800) |
| Deferred taxation on revaluation | - | - | - | - | 764 | - | 764 |
| Total comprehensive income | - | - | - | - | 764 | 9 | 773 |
| Share based payment | - | 30 | - | - | - | - | 30 |
| Transfer to retained earnings | - | - | - | - | (134) | 134 | - |
| **As at 31 December 2012** | **11,645** | **216** | **979** | **6,440** | **17,908** | **(1,654)** | **35,534** |
| Loss for the year | - | - | - | - | - | (1,548) | (1,548) |
| Revaluation surplus | - | - | - | - | 3,500 | - | 3,500 |
| Revaluation deficit | - | - | - | - | (2,000) | - | (2,000) |
| Deferred taxation on revaluation | - | - | - | - | 415 | - | 415 |
| Total comprehensive income | - | - | - | - | 1,915 | (1,548) | 367 |
| Share based payment | - | 30 | - | - | - | - | 30 |
| Shares issued during the year | 4,517 | - | - | 5,055 | - | - | 9,572 |
| Transfer to retained earnings | - | - | - | - | (118) | 118 | - |
| **As at 31 December 2013** | **16,162** | **246** | **979** | **11,495** | **19,705** | **(3,084)** | **45,503** |

| Consolidated Statement of Cash Flows<br>for the year ended 31 December 2013 | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | 407 | 423 |
| Loss from discontinued activities | (152) | (372) |
| Loss on disposal plant and machinery | - | 53 |
| Profit on sale of fixed assets | (724) | (11) |
| Finance costs | 977 | 986 |
| Depreciation | 916 | 1,017 |
| Amortisation | 2 | 3 |
| Provision for impairment of investments | 28 | - |
| Market value adjustment of Intangible assets | 28 | - |
| Usage of carbon emissions quota | - | 402 |
| Grant of carbon emissions quota | - | (533) |
| Share based payment charge | 30 | 30 |
| **Cash flows from operations before changes in working capital** | 1,512 | 1,998 |
| Decrease in inventories | 2,151 | 455 |
| (Increase)/decrease in receivables | (232) | 489 |
| Increase/(decrease) in payables | 1,340 | (362) |
| **Net cash generated by operations** | 4,771 | 2,580 |
| Taxation paid | (35) | - |
| Interest paid | (986) | (994) |
| **Net cash generated by operating activities** | 3,750 | 1,586 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (927) | (248) |
| Proceeds of sale of land | 1,600 | - |
| Proceeds of disposal of property, plant and equipment | 145 | 11 |
| **Net cash generated/(used in) investing activities** | 818 | (237) |
| **Cash flows from financing activities** | | |
| Repayment of interest bearing borrowings | (10,348) | (3,198) |
| Proceeds of interest bearing borrowings | - | 2,000 |
| Proceeds of share issue | 9,572 | - |
| Repayment of hire purchase and finance lease obligations | (19) | (23) |
| **Net cash used in financing activities** | (795) | (1,221) |
| **Net increase in cash and cash equivalents** | 3,773 | 128 |
| Cash and cash equivalents at the beginning of the year | (2,769) | (2,897) |
| **Cash and cash equivalents at the end of the year** | 1,004 | (2,769) |
| **Cash and cash equivalents comprise:** | | |
| Cash at bank and in hand | 2,170 | 70 |
| Bank overdraft | (1,166) | (2,839) |
| | 1,004 | (2,769) |

**NOTES TO THE FINANCIAL STATEMENTS**

**1. ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. There have been no changes to the accounting policies adopted since the last consolidated financial statements were published.

**2. FINANCIAL INFORMATION**

The financial information set out in this Preliminary Announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2013 or 2012. The financial information has been extracted from the Group's statutory financial statements for the years ended 31 December 2013 and 2012. The auditors have reported on those financial statements; their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 31 December 2012 have been delivered to the Registrar of Companies, whereas those for the year ended 31 December 2013 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial information is presented in sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

**3. EARNINGS PER SHARE**

**Basic**

The calculation of earnings per share from continuing operations based upon the profit for the year of £105,000 (2012: profit of £290,000) and 59,098,895 (2012: 58,227,154) weighted average number of ordinary shares.

**Diluted**

At 31 December 2013 there were 159,000 (2012:187,000) existing options which are under water and are not included in the diluted figures for 2013.

**4. NON-UNDERLYING ITEMS**

**Items that do not relate directly with the core brick manufacturing and distribution business of the Group have been separately identified as non-underlying. These are described below:**

| **NON UNDERLYING ITEMS** | Notes | **Cost of Sales £'000** | **Administration expenses £'000** | **Other income £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **Reconstruction costs** | | | | | |
| Write down of assets and inventories | (i) | £1,367) | - | - | **(1,367)** |
| Redundancy payments | | (140) | (50) | - | **(190)** |
| Other costs of closure | | - | (344) | - | **(344)** |
| | | (1,507) | (394) | - | **(1,901)** |
| **Taxation** | | | | | **365** |
| **Loss for the period from discontinued operations** | | | | | **(1,536)** |
| **Others** | | | | | |
| Profit on sale of land | (ii) | - | - | 694 | **694** |
| Less stock adjustment at Telford | (iii) | - | (200) | - | **(200)** |
| Write off legal expenses on aborted sale of land | (iv) | - | (132) | - | **(132)** |
| Re-structured sales administration | | - | (57) | - | **(57)** |
| Fee for early repayment of bank loans | | - | (54) | - | **(54)** |
| | | **-** | **(443)** | **694** | **251** |

(i) As a result of the decision to cease brick manufacturing at the Dunton site, the value of plant and machinery and inventories were written down to their estimated realisable values.

(ii) Former factory land categorised as a Current Asset at 31 December 2012 was sold in 2013, which generated a profit on sale net of associated disposal costs.

(iii) The disposal of land at Telford has resulted in a reconfiguration of the remaining brickwork site including the construction of a new entrance way and new stock yard. The new stock yard is somewhat smaller than the old yard and restricted the range of special brick accessories that could be retained. A number of these products were scrapped and the cost written off.

(iv) A plot of land under option to Persimmon Homes was the subject of an expert determination to establish the value under the terms of the option agreement. Sine to the determination of the price, the option has not exercised and the planning permission on the site expired in January 2014. The Directors now consider the disposal unlikely in the near future and have decided not to carry forward the costs of that determination and they have been expensed in the period.

**5. REPORT & ACCOUNTS**

Copies of this announcement are available and the Annual Report will be available in due course on the Group's website www.mbhplc.co.uk and from the Company's registered office at Freshfield Lane, Danehill, Haywards Heath, West Sussex RH17 7HH.