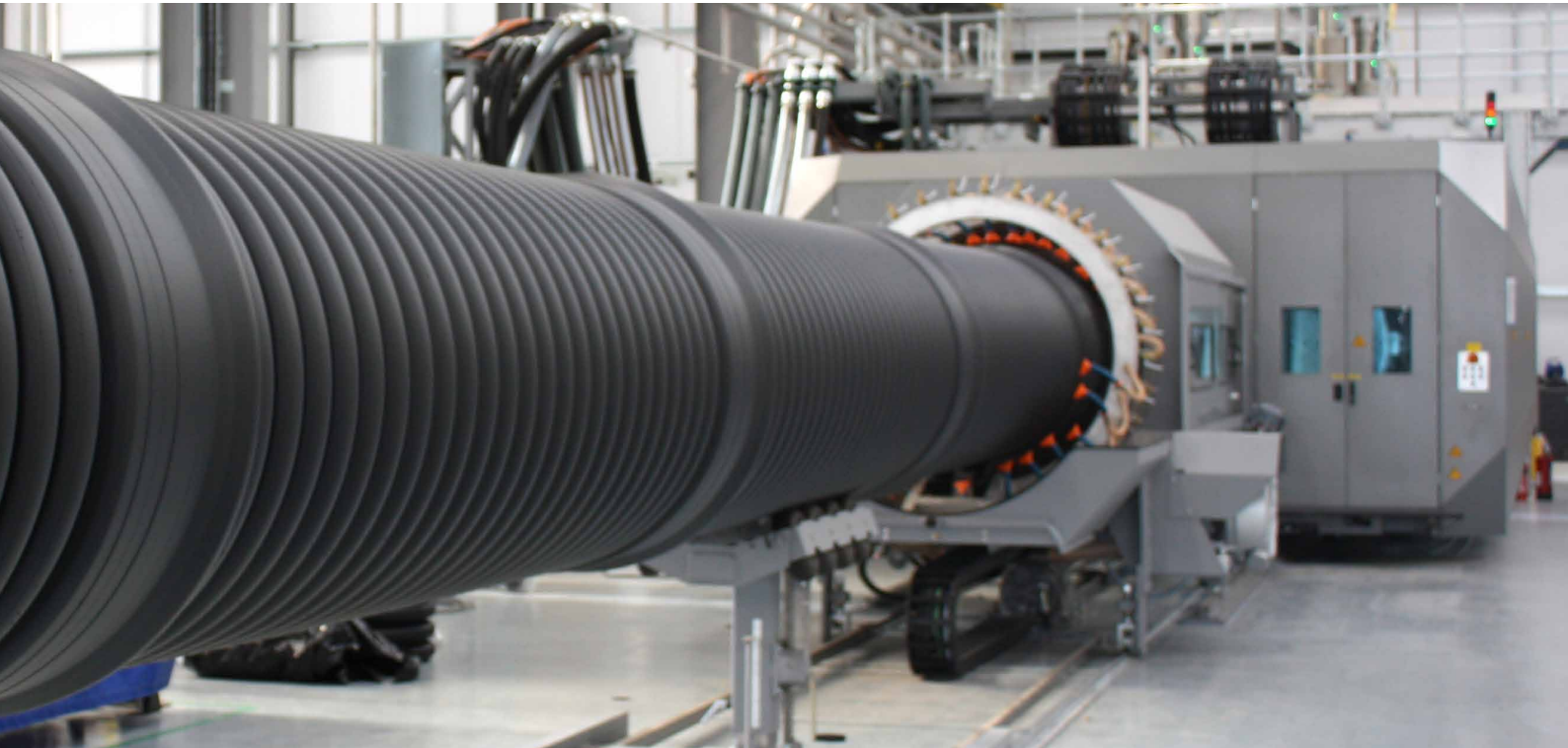


To view the annual
report online:



investors.polypipe.com/year-in-review

Polypipe Group plc




Annual Report and Accounts

FOR THE YEAR ENDED 31 DECEMBER 2017

Stock Code: PLP



WELCOME TO



POLYPIPE IS ONE OF EUROPE'S
LARGEST MANUFACTURERS
OF PIPING SYSTEMS, WATER
AND CLIMATE MANAGEMENT
SYSTEMS, DELIVERING
ENGINEERED SOLUTIONS THAT
ENABLE A SUSTAINABLE BUILT
ENVIRONMENT.

Polypipe has an established market position, spanning the residential, commercial, civils and infrastructure, and public non-housing sectors in the UK and selected markets around the world. Through constant innovation and focused research and development, Polypipe is uniquely positioned to offer solutions that help deal with the pressures placed on urban environments, existing infrastructure and natural resources.

..... **WHAT WE DO**

Polypipe develops engineered solutions for construction projects, including some of the most prestigious buildings and infrastructure schemes, around a core offer of plastic piping systems.



Read more about Water Management Solutions on pages 18 and 19

Placing the management of water and the healthy ventilation of buildings at the heart of its strategy, Polypipe is able to provide solutions to some of the most pressing environmental challenges in these construction projects. Polypipe's focus on the management and movement of water and air has influenced the development of Polypipe's range of systems, enabling the Company to offer products and systems that help to contribute to a safer, healthier, and more sustainable built environment and to help respond to the trends of global warming and increased urbanisation. Polypipe's staff, at all levels, have a clear understanding of the Company's mission to lead the way in the development of future-proof plumbing, drainage and ventilation systems that make use of modern sustainable materials and best practices in engineering, manufacturing and construction.

..... **OUR PURPOSE**

Polypipe harnesses the knowledge of its expert staff to develop a deep understanding of the market sectors the Company serves. In addition to a core offer of drainage, plumbing and heating, Polypipe is able to offer access to one of the largest water management product portfolios, offering solutions to even the most demanding of water management infrastructure projects. Plus, the dedicated teams in our ventilation businesses work directly with M&E contractors and end-customers, which allows them to focus their efforts on new product development to keep them at the forefront of low-energy and carbon efficient ventilation technology.

Polypipe continues to invest in its manufacturing scale, to maintain its competitive position through operational efficiency, operating state-of-the-art manufacturing and fabrication facilities to provide value-engineered, fit-for-purpose solutions for the most diverse and complex challenges, often substituting legacy materials. With a high level of new product development and a solid working knowledge of the legislative requirements within its markets, Polypipe is equipped to help customers not only meet their everyday product requirements but also solve a range of problems they will face today and tomorrow, reinforcing sales through technical expertise that they can trust.



INVESTMENT PROPOSITION

Building from a position of market leadership in the UK, where the Company is the largest plastic piping systems manufacturer (by sales volume) and largest light commercial ventilation manufacturer, Polypipe continues to invest in order to maintain and develop its position as a leader in the management and movement of air and water. This investment and scale provides both operational efficiency and considerable economic reach to serve the broadest range of customers.

Based on a core offer of plastic piping, supported by complete system performance design, incorporating engineered in-house manufactured fittings and ancillaries, Polypipe is uniquely placed to offer a differentiated total solution to those from other plastic pipe manufacturers. It is able to pursue significant growth opportunities by developing effective solutions to new and emerging legislation, in addition to providing customers with a high performance alternative to pipes manufactured from legacy materials such as clay, copper and concrete in each of the sectors the Company serves. In this way, Polypipe's sales growth has consistently outperformed the construction market.

Polypipe's focus on value addition through engineered solutions, its above-market growth and its commitment to investment leverages an existing operational footprint to generate incremental profitability, which allows Polypipe to deliver a strong and resilient financial performance.



Read more online at <http://investors.polypipe.com>

OUR FINANCIAL HIGHLIGHTS

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REVENUE

↑ **6.3%**

2017 £411.7m

2016 £387.2m

UNDERLYING OPERATING PROFIT

↑ **6.0%**

2017 £72.6m

2016 £68.5m

PROFIT BEFORE TAX

↑ **3.9%**

2017 £55.6m

2016 £53.5m

OPERATING CASH FLOW AFTER NET CAPEX*

↓ **14.9%**

2017 £57.7m

2016 £67.8m

UNDERLYING BASIC EPS FROM CONTINUING OPERATIONS

↑ **10.1%**

2017 27.2pps

2016 24.7pps

* Before non-underlying items.

OUR OPERATIONAL HIGHLIGHTS

- Strong performance in UK – revenue growth at 8.1%
- Residential Systems segment revenue growth of 10.3% driven by demand in the new housebuild sector; RMI markets remain subdued
- Disposal of Polypipe France for €16.5m on a cash-free, debt-free, normalised working capital basis expected to complete in the first half of 2018
- Decisive action taken to close Dubai factory and pursue alternative manufacturing strategy in the Middle East
- Management succession implemented; Paul James joined as CFO on 5 March 2018

NAVIGATING THE REPORT



For further information within this document and relevant page numbers



Additional information online

Visit us online at www.polypipe.com



OUR SOLUTIONS

Polypipe SuDS solution enhanced flood protection and ensured minimal intrusion into residents' usable space

The lack of capacity in the existing highway drainage network placed many properties in the residential area of Linnet Rise at risk of flooding. Polypipe supplied a complete prefabricated solution using Polystorm geocellular tanks, together with pipework, manholes and catchpits all manufactured off-site. The final design saw the installation of two Polystorm geocellular tanks at a depth of 3.2 metres, under two resident owned car parks on the Linnet Rise site, providing 366m³ and 479m³ of storage respectively. The solution was retrofitted to the existing area with minimal disruption to local residents to provide long-lasting flood protection.

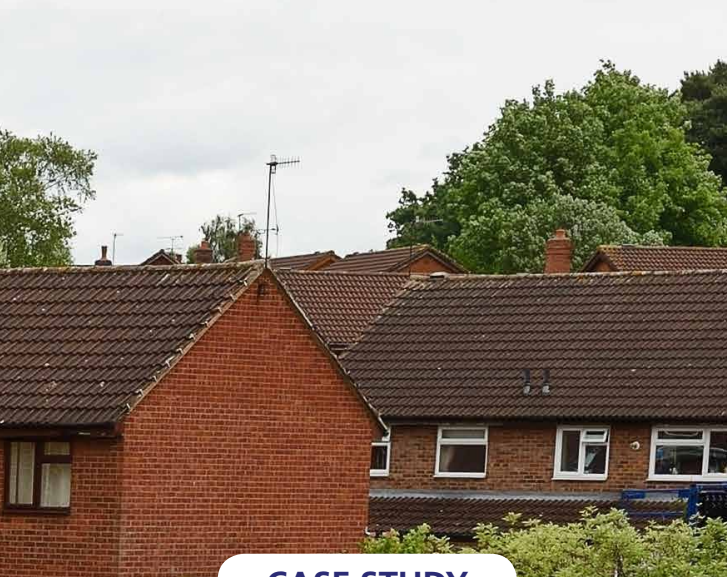
This retrofitted flood alleviation scheme was designed and prepared off-site to minimise disruption for this busy residential area



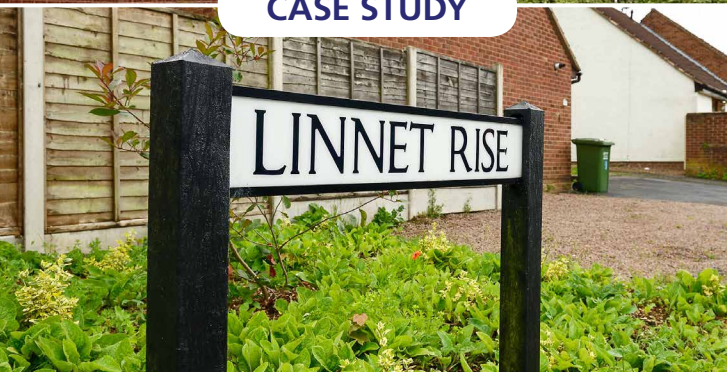
MARKET LEADERSHIP



BESPOKE PRODUCT SOLUTIONS



CASE STUDY



Car park in use after project completion

Project

Linnet Rise Flood Alleviation Scheme,
Kidderminster

Client

NMCNomenca; Severn Trent Water

Application

Sustainable Drainage System (SuDS)

STRATEGIC REPORT

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POLYPIPE AT A GLANCE

RESIDENTIAL SYSTEMS



REVENUE

£223.5m

UNDERLYING OPERATING PROFIT

£44.3m

Areas of application

- Above-ground drainage
- Storm water drainage
- Below-ground drainage systems
- Sewer drain
- Water supply
- Plumbing and heating supply
- Underfloor heating systems
- Mechanical Ventilation with Heat Recovery
- Positive Input Ventilation
- Indoor air quality solutions
- Smart controls
- Merchandised, pre-packaged components

COMMERCIAL AND INFRASTRUCTURE SYSTEMS



REVENUE

£188.2m

UNDERLYING OPERATING PROFIT

£28.3m

Areas of application

- Above-ground drainage
- Surface water drainage
- Storm water drainage
- Land drainage and irrigation
- Sewer drain
- Ducting and conduit
- Pressure systems
- Air Handling Units
- Ventilation solutions with heat recovery
- Indoor air quality solutions
- Smart controls integrated with Building Management Systems
- Green infrastructure

LEADING POSITIONS IN THE UK ACROSS KEY SEGMENTS

Polypipe is firmly established as one of Europe's largest and most innovative manufacturers of plastic piping systems, with over 20,000 product lines and 195 UK and European product approvals.

With our Nuaire business providing energy efficient ventilation systems for the residential, commercial and industrial sectors in the UK, we have a diversity of offering that further strengthens our offer for Climate Management solutions.

By investing in our facilities, our staff and our product development, Polypipe is uniquely placed to help an increasingly broad customer base tackle the many complex questions that climate change and urbanisation pose. This approach sees Polypipe continue to maintain its position as an industry leader within the built environment and construction sectors in the UK and beyond.

- Over 20,000 products (widest range in the UK)
- Logistics capability to deliver to over 10,000 delivery points annually
- Fleet of over 300 trailers and 150 tractor units and rigid vehicles
- 195 UK and European product approvals

**17**

FACILITIES IN THE UK, ITALY AND THE MIDDLE EAST

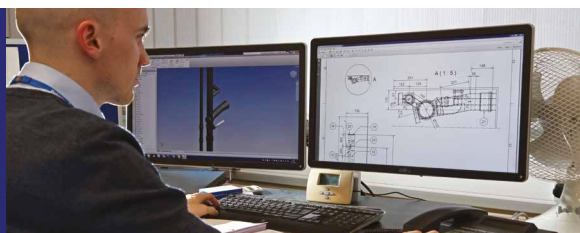
**3,056**

EMPLOYEES IN THE GROUP

**497**

SALES, TECHNICAL SUPPORT PEOPLE

BUILDING AND INSTALLATION

NO.1

Polypipe prefabricated stack design



Polypipe off-site manufacture component chamber

CIVILS AND INFRASTRUCTURE

NO.1

Polypipe drainage solution for M27 road widening scheme



Polypipe's surface water attenuation solution for the Houghton Regis residential development scheme

CHAIRMAN'S INTRODUCTION

OVERVIEW

I am delighted to present the Polypipe 2017 Annual Report and Accounts following another excellent year for the Group. Despite the continued economic and political uncertainty that has prevailed since the EU Referendum and a mixed UK construction market performance, our end markets continue to perform well, with the Group growing UK revenue significantly ahead of the UK construction market. As well as managing this growth, the Group has also seen a number of key leadership changes during the year, including the retirement of David Hall in October 2017 following 12 years as CEO, and the promotion of Martin Payne from CFO to CEO following David's retirement. Glen Sabin was promoted to the role of Chief Operating Officer and appointed to the Board in October 2017, and the Company Secretarial function was also brought in-house following the appointment of Emma Versluys as Company Secretary. Paul James joined the Company and Board as Chief Financial Officer on 5 March 2018, and I believe that the executive management team is now at full complement following this period of change and well placed to drive the Group's strategy forwards.

In this regard, the Group announced on 31 January 2018 that it had entered into advanced negotiations to dispose of its French subsidiary following a review of the strategic overlap between the UK and French business. Given the French business operates in lower margin product areas, it was agreed to dispose of the business. Completion is expected in the first half of 2018 and, once completed, will allow the Group to focus on its higher margin product areas.

RESULTS

Performance throughout 2017 has been very strong, with a 6.3% increase in revenue to £411.7m and a 6.0% increase in underlying operating profit at £72.6m. UK revenue growth of 8.1% was ahead of the market, primarily as a result of strong growth in the UK residential sector driven by new housebuilds. Underlying operating margin was robust at 17.6%, despite continued input cost inflation, and underlying diluted earnings per share increased by 10.1% to 27.2p per share. Net debt continued to reduce to 1.6 times EBITDA compared with 1.9 times for the prior year.

DIVIDEND

We have again maintained our dividend policy and I am pleased to report that the Board recommends a final dividend of 7.5 pence per share, giving a full year dividend of 11.1 pence per share for the year ended 31 December 2017, a 9.9% increase on the prior year.

STRATEGY

During 2017, the key objectives of the Board included:

- Investigating and prioritising selected development and acquisition opportunities, while the Group continued to reduce leverage.
- Targeting investment to support the continued growth of our key businesses.
- Investigation and development of new export markets.

Good progress was made against these objectives during 2017.

In addition to our ongoing initiatives, in 2018 our attention will be focused upon:

- Continuing to develop our core manufacturing capabilities by investing in further new capacity and automation to help grow both revenues and profit organically.
- Continued progression of the Group's M&A agenda.

PEOPLE

The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Company's strong performance. In 2017, the Board and I spent time visiting our sites both in the UK and France, and continue to be impressed by the knowledge, enthusiasm and commitment of our employees across the Group. Effective and efficient management of our key facilities is critical to the Group's ongoing success, and strong leadership in each business unit by experienced and dedicated management teams is a key differentiator.

In November 2017, the first Save As You Earn (SAYE) options granted in 2014 matured, and employees across the Group were able to benefit from their hard work in driving the Group's growth over the last three years and have the option of becoming shareholders in the Company. The Company issued invitations to join a third SAYE scheme during the year, resulting in 600 (24%) of



eligible employees choosing to participate. Across the Group, we now have 30.7% of all employees currently contributing to one or more schemes.

David Hall retired in October 2017 having been CEO during the Company's prior ownership and through its transformation into a public company. I would like to record both the Board's and my own personal thanks to David for his enormous contribution to making Polypipe the successful Group that it is today, and wish him well in his retirement. Martin Payne was appointed as Group CEO following David's retirement and both I and my Board colleagues have been impressed and encouraged by the significant impact he has made since his appointment while continuing to have responsibility for the CFO function in the period before Paul James joined us. The Board changes have been well received within the Group as well as with advisers and shareholders, and the motivation and enthusiasm of our employees has been unaffected throughout this period of change. The Board and I look forward to the next chapter in the Group's growth story under the stewardship of the new executive management team.

SUMMARY

Once again, the Group has made significant progress during 2017. The strong performance in the year is testament to the strength of the growth drivers on which the Group's strategy is based, namely legacy material substitution, tailwinds from both water management and carbon reduction legislation, and development of selective export markets. With a continued focus on investment into engineered solutions to meet those needs, an experienced and dedicated senior management team, committed workforce, and a clear strategy, I am confident that the Group will continue to thrive during 2018.

Ron Marsh
Chairman

POLYPIPE'S VALUE – CREATION MODEL

Unique and differentiated

The evolution of Polypipe's commercial proposition over the years reflects the Company's new product development strategy, to deliver value-engineered solutions for customers, while generating incremental profitability and maintaining commercial competitiveness and market leadership.

In the 1980s Polypipe's offer was largely a basic product offer of discrete lengths of pipe and fittings sold through distribution, which over the years has become commoditised and more difficult to differentiate. Adoption of kite-marks and continued investment in manufacturing efficiency over this time has retained a competitive position for these products. Further investment in new products and differentiated features continues today, which helps support the Polypipe brand as the leading UK manufacturer of these discrete products.

In the mid-90s, this proposition evolved to combine these discrete products into performance systems, such as pushfit plumbing, for example. Through developing an intimate understanding of the requirements of end customers, plumbers in this case, in 1998 Polypipe launched the very successful range of non-demountable grey fittings, Polyplumb, which has since become an industry standard system offer in the UK.

Later, this evolution continued with large diameter pipe solutions for water attenuation, leading to the development of the Polystorm geocellular range, designed to provide retention, attenuation or infiltration at a variety of depths. Polystorm is suited to deeper burial depths and can accommodate a wide range of traffic loadings, from pedestrianised areas to large HGV parks. As a proposition, it is taken to market as bespoke one-off designs, engineered according to the particular design characteristics for each project, such as soil conditions, flood intensity requirements and flow versus retention requirements, amongst many other parameters.

Understanding the detailed characteristics and complexity of the individual projects requires Polypipe to work closely with the customers' design engineers to understand these problems, in order to be in a position to propose an appropriate engineered solution. Working closely with end customers in this way

helps to generate pull-through demand for Polypipe's solutions through the distribution channel.

Today, this evolution is continuing through the development of smart technologies, to bring together the optimised performance of underfloor heating systems with ventilation systems, for the convenience and comfort of the building occupants.

Throughout this evolution, Polypipe has encountered new competitors, but through its progressive market reach, and managing these activities and manufacturing in-house, Polypipe generates incremental profitability while maintaining commercial competitiveness and market leadership.

This collective learning and track record forms the basis of a set of competencies across the Group, which position Polypipe well for future development in the UK and further afield.

PRODUCTION OF PIPE AND FITTINGS SERVES AS A FOUNDATION FOR THE DEVELOPMENT OF THE GROUP'S SOLUTIONS

VALUE



POLYPIPE'S MARKETPLACE

The UK construction market accounts for 89% of Polypipe's revenue, where the brand is well known and respected for its value, quality of service, innovation and expertise.

OUTPUT TRENDS

Over the next two years, overall construction output is forecast to remain broadly flat in 2018, rising by only 0.2%, before growth of 1.7% in 2019, driven primarily by growth in private housing and infrastructure. Outside of the private housing and infrastructure sectors, slower UK economic growth and investment uncertainty are expected to weigh on construction output in the private sectors. This, combined with the persistent uncertainty associated with the conditions of Brexit, has acted as a considerable hindrance to major new investment in private sector construction, especially for new high-end residential and commercial offices projects within London that are particularly reliant on foreign investment.

From an economic point of view, other uncertainties, such as the implications of continued inflation and the fall in real wages on consumer confidence and general UK economic growth, and the availability of skilled construction labour may also affect the rate of construction growth in 2018 and 2019.

RESIDENTIAL

Output in the private housing sector continued to grow in 2017 and is expected to rise further in 2018 and 2019.

Property transactions in 2017 were slightly lower than transactions in the last two years and indicate a broadly flat to slightly negative general housing market. These transactions have been distorted due to changes in stamp duty in recent years that adversely affected sales at the top end of the market in particular.

UK house price inflation in 2017 was 3.0% compared to 2016 according to Nationwide, indicating that the supply of properties onto the market slowed in line with demand. As long as house price inflation continues, housebuilders will be keen to increase supply, especially given that the Government's Help-To-Buy schemes have skewed demand towards new housebuild and they remain positive with respect to increasing supply. A key part of the housebuilding market that appears to have been adversely affected over the past year is prime London properties. House prices in central London have fallen 15% since their peak in 2014

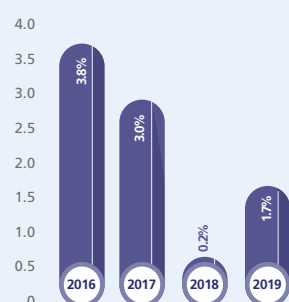
according to Savills. Uncertainty on rates of return on high-end properties from international investors due to short-term economic and longer-term Brexit uncertainty has also affected demand for prime residential real estate in the capital.

The private housing repair, maintenance and improvement (RM&I) sector was worth an estimated £19.9 billion in 2017. The trend of slightly negative property transactions over the past year would suggest falling output in the private RM&I sector, particularly given that a higher proportion of transactions than normal involve new housebuild, encouraged by Help-To-Buy. At the same time there is a slight demographic impact on RM&I particularly among older homeowners in certain areas who prefer to release equity from pensions and stay and improve rather than move. As a result, output from private RM&I is expected to remain flat in 2018 before falling 2.0% in 2019.

As falls in housebuilding in London are offset by growth in housebuilding outside the capital, the private housing sector is forecast to continue its growth from 2017, with 3.0% in 2018 and 2.0% in 2019.

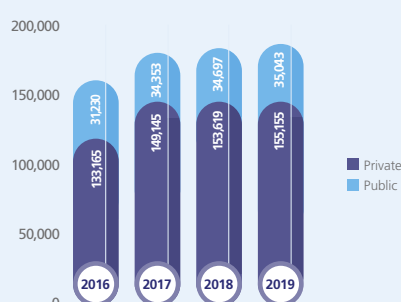
Construction output

% growth – 2015 constant prices



Source: ONS, Construction Products Association
(Winter Forecast 2017 – 2018, Central Scenario)

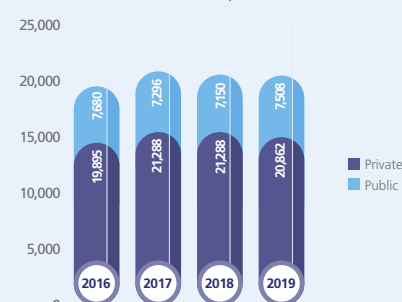
Housing completions in Great Britain



Source: DCLG, Construction Products Association

Private and public housing RM&I construction output

£m – 2015 constant prices



Source: DCLG, Construction Products Association

Greater certainty over grant funding and flexibility under the Shared Ownership and Affordable Homes Programme 2016–21 (SOAHP) had been expected to drive an increase in public housing activity in 2017; however, starts in England were 0.1% lower in the first three quarters of the year following two previous years of declines.

CIVILS AND INFRASTRUCTURE

Overall output in the infrastructure sector is expected to rise by 6.3% in 2018 and 11.1% in 2019 driven by work on large-scale infrastructure projects in the rail, water and sewerage and electricity sub-sectors, in particular.

Within this, output in the rail sector is expected to increase by 5.0% in 2018 and is projected to accelerate to 20.0% in 2019 as main civil engineering work is projected to start on phase 1 of HS2. Recent data indicated that £5.8 billion worth of annual orders have been awarded at the end of 2017 reflecting seven key contracts.

Output in roads construction, where Polypipe has significant exposure, is expected to remain flat in 2018, with delays in some projects pushing demand into future years. Going forward, output in roads is projected to return to growth and increase 3.0% in 2019 driven by a pick-up in activity under the £15.2 billion Road Investment Strategy.

An important recent factor affecting the infrastructure construction sector has been the collapse of Carillion. According to data from Barbour ABI, around 60% of Carillion's active schemes or projects with contracts awarded in which Carillion is the sole major contractor are infrastructure projects. Within their infrastructure work, 53% of the projects are road schemes and 42% of the projects are rail schemes. The full impact of Carillion's liquidation is yet to play out through the long supply chain of sub-contractors, but will almost certainly add to the downside risk of project delivery timing.

COMMERCIAL

Commercial activity peaked during the first half of 2017 based on new orders signed prior to the EU Referendum.

Activity remains at historically high levels as commercial sector output rose by 3.0% in 2017, based on the

ONS's revised output data for the year. However, commercial offices new orders have fallen since the EU Referendum in June 2016 and, following the 12–18 month lag between orders and output in commercial projects, output has fallen since summer last year. Since the EU Referendum vote, international investors and developers adopted more risk-averse behaviour towards new projects and new orders have fallen sharply. Hence, output in the offices sub-sector is expected to fall by 5.0% in 2017, 15.0% in 2018 and a further 10.0% in 2019.

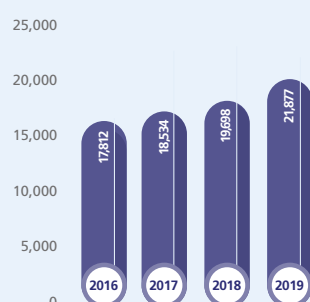
As a result, commercial sector output overall is expected to fall by 5.0% in 2018 and 1.4% in 2019 as the fall in orders feeds through the project pipeline.

BALANCED SALES SPLIT

Polypipe has a balanced mix of business that covers the Residential, Commercial and Infrastructure construction sectors; and within each of these, the activities of New Build and Repair, Maintenance and Improvement (RM&I) sub-sectors. This broad exposure across the construction sectors provides a counter-cyclical balance to the more volatile peaks and troughs of the new-build cycle, and provides even further opportunity for Polypipe to provide effective solutions to new and emerging legislation, substitute legacy building materials, and therefore to deliver above-market growth.

Infrastructure output

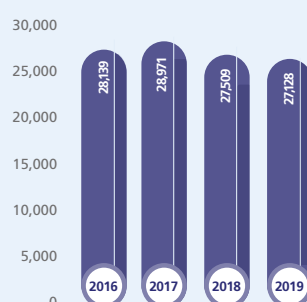
£m – 2015 constant prices



Source: ONS, Construction Products Association (Winter Forecast 2017 – 2018, Central Scenario)

Commercial output

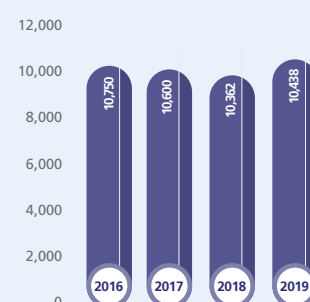
£m – 2015 constant prices



Source: ONS, Construction Products Association (Winter Forecast 2017 – 2018, Central Scenario)

Public non-housing output

£m – 2015 constant prices



Source: ONS, Construction Products Association (Winter Forecast 2017 – 2018, Central Scenario)

POLYPIPE'S BUSINESS MODEL

Creating the competitive advantage



TRUST

- Market Leadership
- Polypipe Brand



RANGE

- Breadth and Depth of Product Systems
- Substituting Legacy Materials



CAPABILITY

- Manufacturing & Logistics Scale
- Bespoke Product Solutions



COMPETENCE

- Industry Authority
- Product Innovation



SUPPORT

- Leading Edge Design Expertise
- Application Based Technical Support



VALUE

- Intelligent Engineered Solutions
- Smarter Thinking Better Solutions



SUSTAINABILITY

- Sustainable Products and Practices
- Enabling Sustainable Building Technology

The strength and long-term value of our business model is in placing our customers, their markets and the environment at the heart of everything that we do.

Polypipe understands its customers' businesses and the challenges they face, making us well placed to help deliver solutions that meet key market drivers. As well as ensuring availability of the broadest product portfolio that carry an extensive list of product approvals, allowing its systems to be widely specified, Polypipe has a team of experienced experts that train, interact with and influence the numerous customer groups in all of our market sectors. From specifiers and engineers, to the merchants, to the installers and plumbers, Polypipe's customers have come to expect quality, support, trust, competence and capability, which are values that are consistently maintained throughout the Company's operations.

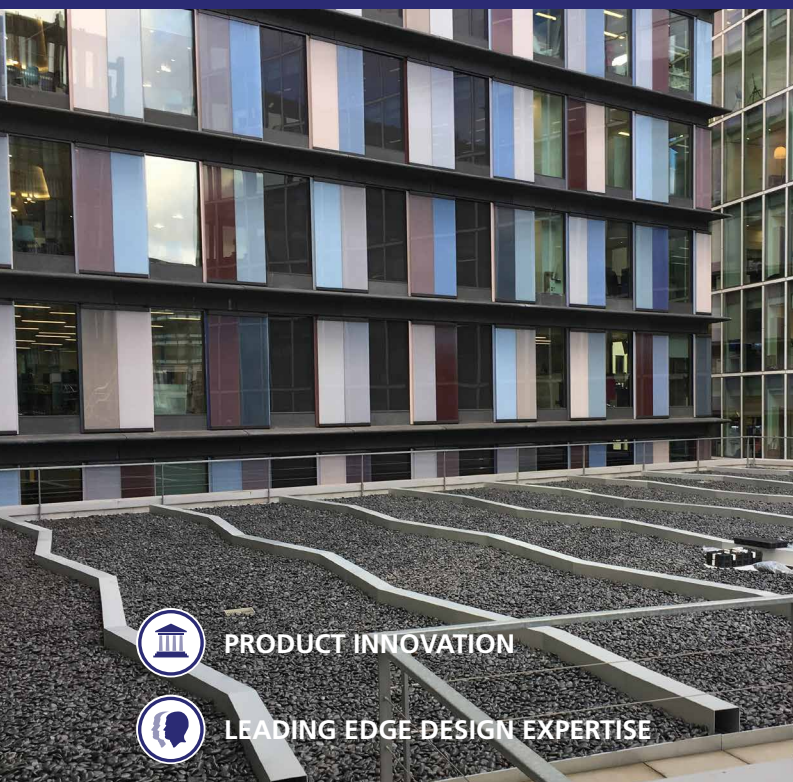
In combining all of the above, Polypipe continues to maintain the market leading position for creating plastic pipe technology and sustainable products that are intelligently engineered.

With storm events and water shortages occurring more frequently due to environmental change, Polypipe's engineered solutions help its customers ensure their developments are resilient. The Company can act as a key partner in providing modern building practices in regards to managing water as a scarce resource, empowering town planners and regional authorities to create drainage systems that support modern city living. As the trend of urbanisation continues on a global scale, Polypipe maintains its position as an authority on water management in these environments, helping an expanding population deal with flood events and enjoy healthy, green space in and around the built environment.

Polypipe's ventilation solutions boosted by the acquisition of Nuaire, help to provide comfortable environments for occupants of buildings, by for example regulating temperature, humidity,

odours and contaminants in the air. With average air temperatures projected to rise significantly over the coming decades due to climate change, and the 'urban heat island effect' likely to exacerbate the intensity of heatwaves in cities, the convergence of low energy heating and ventilation solutions that maintain comfortable internal temperatures and help avoid overheating all year round becomes increasingly important.

Furthermore, Polypipe's Permavoid system used on podium decks or at roof level, provides a solution for water capture ('rainwater harvesting') and allows for a planted 'green roof' that not only acts as an insulation barrier, but the combination of plant processes (photosynthesis and evapotranspiration) and soil processes (evapotransmission) reduce the amount of solar energy absorbed by the roof membrane, leading to cooler temperatures beneath the surface, further reducing the energy required for cooling.



CASE STUDY SEACOAL HOUSE

Client: Gustafson Porter + Bowman

Application: Roof Garden

Polypipe helped provide Seacoal House in the heart of London with a state-of-the-art hard landscaped roof and stormwater management system, improving the efficiency of the building's drainage system, while providing a roof garden design as a recreational space. At just 85mm deep, and with a very high void ratio, Permavoid was the ideal solution for this roof garden application.

DEMONSTRATING: THOUGHT LEADERSHIP ENGINEERING DESIGN SUSTAINABILITY IN THE BUILT ENVIRONMENT UNIQUE DIFFERENTIATION OF POLYPIPE



CASE STUDY O₂ HOTEL

Client: H.E. Simm & Son Ltd.

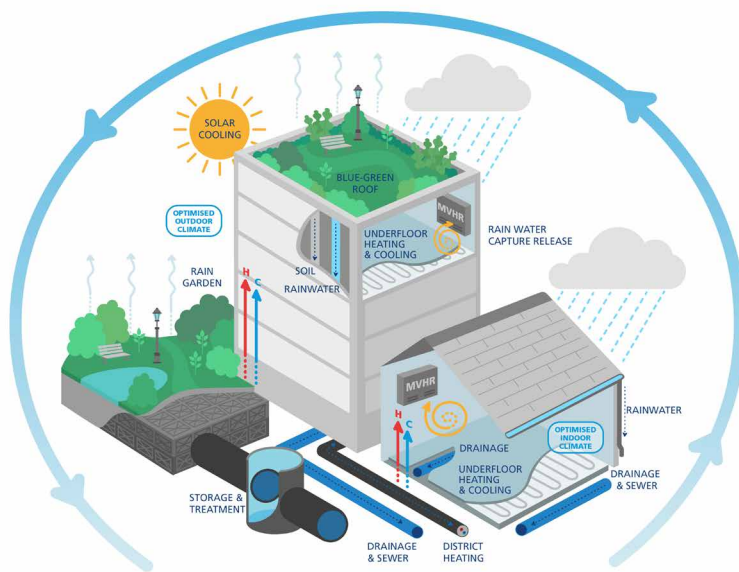
Products: Terrain FUZE HDPE, Soil & Waste

For this prestigious 19-storey hotel, with 453 bedrooms and suites, it was of paramount importance that the drainage system installed could be trusted not to leak, and so M&E Contractor, H.E. Simm & Son Ltd., approached Polypipe to manufacture a suitable solution. Terrain FUZE HDPE, made of high-density polyethylene, is lighter in weight than the cast iron equivalent and is available in longer lengths, meaning less jointing is required, which in turn provides fewer opportunities for the system to leak.

VISION

To be the leading provider of sustainable and resilient water and climate management solutions for the built environment

We will do this by building a world-class sustainable business and by leveraging our core UK competencies across key markets around the world.



Polypipe

STRATEGY

A combination of emerging factors such as climate change, increasing urbanisation, skills shortages on-site, and changes in legislation is leading the construction sector to seek innovations and modern methods to tackle these challenges, while ensuring safe on-site working methods, reduced time to install and reduced total cost of ownership. Polypipe's position as a market leader with strong heritage, broad product and service portfolio, advanced research and development capability and growing international presence, makes it ideally placed to help its customers tackle many of these challenges.

While Polypipe is well known and respected as a manufacturer of plastic pipe products particularly for plumbing, drainage and water management solutions, the Company's acquisition of Nuaire greatly increases its ability to offer broader engineered solutions to customers who also face the challenge of climate management associated with heating, ventilation, cooling and air quality. The innate product benefits of plastic offer the Company the opportunity to make gains against manufacturers of 'legacy material' solutions in many of the markets it already leads – offering further growth where the brand is already well established. As awareness continues to heighten around environmental factors, and increased legislation is applied in a variety of sectors, Polypipe is well placed to continue to grow in the UK, and abroad.

OUR STRATEGIC OBJECTIVES

1

SUSTAINABLE WATER MANAGEMENT SOLUTIONS

The demand for comprehensive water management solutions continues to rise. Extreme rainfall events, driven by climate change, are becoming more frequent. In response, the Government has introduced new legislation. The Floods and Water Management Act 2010 sets out new ways to manage surface water through sustainable drainage systems (SuDS). Polypipe has responded to this challenging market by developing engineered Water Management solutions, including geocellular and large diameter pipe systems for retention, attenuation and infiltration applications, surface water treatment products and rainwater reuse solutions, all supported by in-house design, technical, fabrication and product support teams.

2

SUSTAINABLE CLIMATE MANAGEMENT SOLUTIONS

Although currently no Government legislation is in place, there is growing public awareness of the need for better indoor air quality. Particularly in urban areas, the levels of toxins, nitrogen dioxide and particulates from heavy traffic in particular can cause health problems for occupants who may be particularly susceptible. Through its Nuaire business, Polypipe can propose solutions that address indoor air quality through active filtration systems to remove particulates, and humidity and temperature management systems. Many ventilation systems specified today include heat recovery systems, Mechanical Ventilation with Heat Recovery (MVHR) that, as well as improving air quality, also recover heat from the air being expelled so it can be used to heat the incoming air, offering significant savings on the costs of heating the properties or operating the premises.

3

LEGACY MATERIAL SUBSTITUTION

Using engineered plastics rather than traditional materials such as concrete or clay can lead to innovative project solutions that offer transportation, installation and cost-saving benefits. As thermoplastic pipes are inherently lighter in weight than legacy materials, they are quicker and easier to install. Polypipe produces pipes and fittings utilising recycled materials where appropriate and all products are recyclable at the end of their useful life. These benefits combined with Polypipe's strong brand and technical expertise, offer potential for Polypipe's propositions to penetrate further against legacy materials such as concrete, clay, or copper pipes.

4

PROPOSITION AHEAD OF LEGISLATIVE TAILWINDS

As legislation continues to tighten to meet the international performance targets on water management, air quality, carbon reduction, and city resilience, Polypipe continues its long-term investment into Water Management and Climate Management solutions.

For example, Government planning policy has defined the need for sustainable drainage systems (SuDS) to ensure that flood risk is taken into account during all stages of the planning process. This planning policy is further interpreted into national frameworks, local legislation and regulations, which provide a dynamic legislative environment. Polypipe's solutions are engineered to address these challenges, providing an effective controlled retention, attenuation or infiltration system to suit site-specific requirements.

5

GEOGRAPHIC REACH

With Polypipe's UK standard-based products, and the esteem that UK manufacturing is held in within a number of growing markets around the world, the Company seeks to expand in selected further markets. Many factors supporting Polypipe's growth are not unique to the UK, such as urbanisation, managing water as a scarce resource, combined sewer systems already at capacity, urban island heat effect, and poor air quality.

The track record of growth in the UK, and the collective learning that the Group has developed over time, form the basis of a set of unique competencies across the Group, which position Polypipe well for future development outside the UK.

6

COMPLEMENTARY ACQUISITIONS

Acquisition of market-leading companies such as Nuair has seen Polypipe do more than broaden its manufacturing base, with the Company also diversifying its offer and giving the brand further scope to sell an increasingly broad range of systems to its customers resulting from the growing convergence of requirements of separate systems. Supplementing the Group's existing product portfolio, these acquisitions help to accelerate the Group's strategic priorities, capability and product ranges' offerings – particularly in the areas of material substitution and Water Management and Climate Management solutions.

7

CONTINUOUS INVESTMENT IN PROCESSES AND EFFICIENCY INITIATIVES

A key component of Polypipe's success has been its efficiency initiatives, with the Company committed to reducing its environmental impact in producing its systems. This, in turn, has led to reductions in waste – both material and financial. Continuous improvement initiatives across the Group, through factory automation, as well as investments in fleet and logistics, have led to significant improvements in overall operational efficiency. Polypipe has been able to streamline its processes by increasingly selling complete engineered solutions to customers. Rather than simply selling pipe, Polypipe has made best use of its manufacturing facilities and expertise to manufacture in-house a complete range of complementary fittings and ancillaries, enabling design of bespoke systems, and improved services for customers.



New continuous corrugation investment at Horncastle



Investment in robotic automation at Broomhouse Lane

KEY PERFORMANCE INDICATORS

As a Board we continually review our performance measures that are critical to the measurement and delivery of our strategic objectives and delivery of sustainable shareholder returns.

We have defined our Key Performance Indicators (KPIs) to measure alignment between our operating activity and strategic goals.

FINANCIAL KPI	PERFORMANCE	COMMENTARY
SALES GROWTH The annual percentage growth in both Group and UK (by destination) revenue from continuing operations.	Group – % 2017 6.3 2016 25.3 2015 10.3 UK – % 2017 8.1 2016 22.3 2015 9.2	The Group's UK market leadership and international development, coupled with its strategy of legacy material substitution and new product development, allow sales to grow ahead of the overall construction market.
UNDERLYING OPERATING MARGIN Underlying operating profit as a percentage of revenue from continuing operations.	% 2017 17.6 2016 17.7 2015 17.2	Topline growth leverages the Group's installed manufacturing and logistics facilities to sustain higher drop-through profits.
CASH CONVERSION Operating cash flow excluding non-underlying items less net capital expenditure to underlying operating profit.	% 2017 78 2016 97 2015 102	Optimised working capital management combined with sustained operational profitability allow the Group to be cash generative.
RETURN ON CAPITAL EMPLOYED Return on capital employed is the ratio of underlying operating profit, adjusted for the full year benefit from acquisitions during the year, where relevant, to net assets excluding net borrowings and taxation.	% 2017 16.2 2016 15.3 2015 13.7	The Group continues to invest in its asset base to fulfil growth ambitions; yet sustained operational profitability maintains double-digit ROCE.
UNDERLYING EPS Diluted earnings per share from continuing operations adjusted for non-underlying items.	pps 2017 26.9 2016 24.6 2015 18.9	Cash from operations can be reinvested in the business and distributed as earnings.
NON-FINANCIAL KPI	PERFORMANCE	COMMENTARY
ACCIDENT FREQUENCY Accident frequency rate is defined as the number of HSE reportable accidents and dangerous occurrences based on the current seven-day absence from work reporting requirement in the UK and although there is no direct equivalent in Mainland Europe and the Middle East, the same definition is applied.	Frequency per 100,000 hours worked 2017 0.53 2016 0.65 2015 0.65	Our overarching objective is to achieve zero accidents every year. As the Group grows, efforts continue on continuous improvement initiatives towards achieving a Group-wide, shared safety culture.
GREENHOUSE GAS EMISSIONS The Intensity Ratio is defined as the total tonnes of scope 1, 2 and 3 CO ₂ e produced per total tonnes of production.	Intensity Ratio 2017 0.36 2016 0.39 2015 0.43	Operating in an environmentally sustainable manner is central to Group strategy. Consequently, these considerations are key in our investment decisions for our production processes.

OUR SUSTAINABLE JOURNEY

At Polypipe, our commitment to sustainability flows from our way of working, to build and develop a sustainable business, through to taking solutions to market that are by nature of their application enabling a sustainable and resilient built environment.

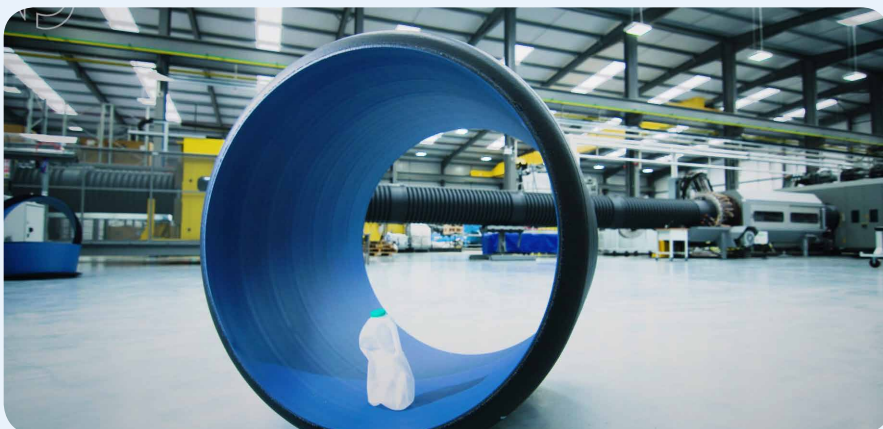
The start of this journey is rooted in the way we process our polymer raw materials.

The reputation of plastic as a material has suffered a deterioration in its public perception in recent times. However, the very characteristics that can lead to plastics being a problem for the environment can also be applied to solve key environmental challenges, such as the management of water, or the management of various attributes of climate.

By their nature, plastics are chemically inert, which means that by themselves they do not pollute, in the way that hydrocarbons that run off from roads, or fertilisers that run off from fields do. Furthermore, since plastics repel water and do not readily biodegrade, they are ideally suited for applications that manage water in a sustainable manner.

Therefore, in an environment where extreme storm events are becoming frequent, and existing combined sewage outfall infrastructure is reaching capacity, the use of plastics can be engineered as a very effective part of the solution to manage water.

Along with ensuring that virgin plastics and polymers are sourced only from reputable suppliers, Polypipe has invested heavily and optimised its own recycling and polymer processing plant at the Horncastle site. Furthermore, Polypipe works with industry leading partners such as Veolia to source quality recyclable bales of plastic bottles and containers. This allows the Company to create products from recycled plastics, reducing transport and the number of processing steps to convert recycle into a high performing product, ensuring quality control throughout.



Not only is the polymer material recyclable at the end of its product life, which is designed to be at least 50 years, the benefits of plastic make it a much more considerate choice for the environment versus alternative materials. Concrete, clay, copper, steel and ductile iron pipe systems all require significantly more haulage and specialist lifting equipment than much lighter plastics, which means that the use of Polypipe systems greatly reduces carbon emissions in delivery and installation.

For example, producing a kilogram of virgin plastic releases 2–3 kilograms of carbon dioxide, which is about as much as the same amount of steel. However, a single kilogram of plastic can produce 10 times more usable product in application than steel and 100 times more than concrete, so the embedded carbon dioxide in application is significantly less with plastic pipes than with the alternative legacy materials.

In addition, the light weight attribute of plastics means that plastic pipes can be 70% cheaper to transport than equivalent size concrete pipes and can be handled and stored much more safely on-site.

Producing pipe with recycled plastics instead of virgin plastic reduces the embedded carbon dioxide further still. Recent life cycle analysis (LCA) reports suggest that there are clear environmental benefits to producing plastic products from recovered plastics, compared with using virgin polymers and disposing of the product post-use via incineration or landfill; and these environmental gains are particularly high for high density polyethylene (HDPE), such as that used to make plastic bottles. For each tonne of HDPE that is recycled, one tonne of carbon dioxide is saved versus producing and disposing of the same quantity of virgin material. HDPE is the material that Polypipe uses to produce its large diameter pipes. In 2017, Polypipe recycled 44,000 tonnes of plastic, of which 17,500 tonnes came from recyclable plastic bottles and containers. As such, recycled plastic accounted for 75% of the raw material consumed by our Civils and Infrastructure Division in 2017, to produce pipes that were destined to be buried in the ground in applications that will manage and treat rainwater and stormwater.



OUR SUSTAINABLE JOURNEY

During the manufacturing process, Polypipe works hard to limit environmental impact. Taking an engineered approach to manufacturing ensures that Polypipe customers are able to receive systems that meet their needs exactly, minimising waste. Polypipe staff recognise the importance of design through to manufacturing and installation and the impact that these processes have on the environments in which their products are manufactured and used, continuously searching for the optimum methods of reducing their environmental impact.

Polypipe believes that to fulfil its responsibilities to the wider industry it should actively participate in relevant trade bodies such as the British Plastics Federation, encouraging best practice and a uniform approach to sustainability across the industry.

All of this starts with an understanding of the built environment. While global warming may mean increasing temperatures, it also means increased rainfall events that have the potential to be erratic. Flooding, which has become more frequent in the UK in recent years, can cause mass disruption in the areas it affects, causing damage to homes, commercial premises and vital infrastructure.

In residential dwellings and tall commercial buildings, Polypipe's solutions start the process of managing water at roof level. The Company's market leading geocellular solutions, Permavoid, enables architects and M&E consultants to create podium decks within roofs that can capture water and release it into surrounding drainage systems at a controlled rate to ensure

systems are not overwhelmed. In addition, these podium decks can encourage biodiversity in urban environments through the creation of green roofs. Building owners can cultivate roof gardens that can actively help to mitigate issues such as the Heat Island Effect. This helps to maintain a stable climate and constant temperature inside the building and can be part of a carbon efficient solution to further reduce the energy requirement for cooling and air conditioning.

In addition, the Group's Nuaire ventilation business enhances Polypipe's ability to provide solutions for energy efficient ventilation alongside its heating products which are suited to low carbon heating. While apartment blocks are ideal to meet the housing demands of cities, developers must deal with the complex issues of optimising space, managing air quality and overheating, without creating nuisance ambient noise. Nuaire's energy-efficient and low-noise ventilation systems, with integral heat recovery and air filtration, provide solutions to these issues, offering developers low-energy solutions which safeguard the health of residents, in terms of providing sufficient fresh air.

With an increasing awareness of the need for cities to not only be resilient to flooding events, but to plan for these events in advance using principles like water sensitive urban design (WSUD), Polypipe and its experts can provide solutions for the creation of spaces that are healthy and safe by mitigating water abundance, water scarcity and poor air quality from manufacture through to system performance.

STEP 1



STEP 2



STEP 3



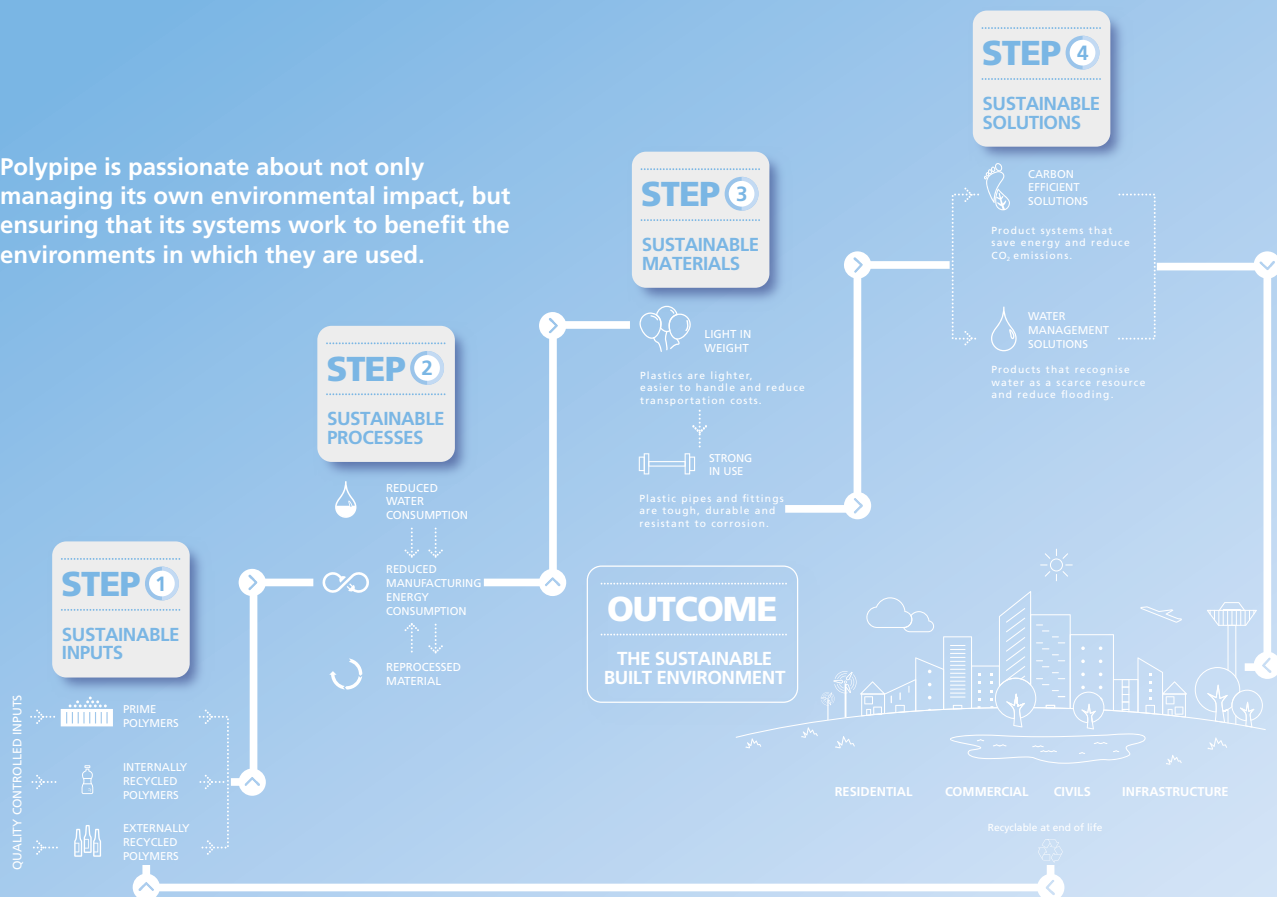
STEP 4



Climate Management Solutions
see pages 20 and 21

Water Management Solutions
see pages 18 and 19

Polypipe is passionate about not only managing its own environmental impact, but ensuring that its systems work to benefit the environments in which they are used.



SUSTAINABLE INPUTS

Enforcing quality reinforces productivity. All of our raw materials, whether prime or recycled polymers, are sourced to a strict sustainable policy and this ensures all suppliers meet the highest standards. With ISO 9001 Quality Management and ISO 14001 Environmental Management accreditation, we only manufacture with the very best materials.

SUSTAINABLE PROCESSES

Polypipe does not just recycle all in-process material waste; we monitor every process and pursue continuous improvement in our operations to make a bigger difference. For example, we reduce power and water consumption by metering usage at machine level.

SUSTAINABLE MATERIALS

Polypipe is proud to manufacture plastic pipes that are strong yet light in weight. This fact alone helps towards considerably reducing fuel consumption in transportation, lowering health and safety risks on-site and, as we know, our products can be recycled at the end of the life.

SUSTAINABLE SOLUTIONS

Our products are not only sustainably produced, but they enhance sustainability in their installation and everyday use. For example, they save energy, reduce CO₂ emissions and manage water as a valuable resource. Systems such as our underfloor heating, Mechanical Ventilation with Heat Recovery and geocellular solutions provide the most comprehensive range available in our market to meet these requirements. Recycling is also an integral part of this philosophy.

THE OUTCOME

The built environment across the residential, commercial, civils and infrastructure markets contributes significantly to the environmental impact of our habitat.

At Polypipe, we are confident that our materials, processes, products and their applications in use are serving the demands of today and enhancing our environment into the future.



OUR SUSTAINABLE JOURNEY IN ACTION

With an increase in urbanisation across the globe, and the challenges that increased population density places on resources, national and regional governments are increasingly aware of the issues surrounding sustainability and the need for urban centres to be resilient to extreme events such as flooding and overheating.

Our expertise and product range make us the ideal partner to help manage the movement of water and provide engineered solutions that enable the reduction of carbon in these environments, providing a truly global opportunity to deliver a sustainable and resilient built environment in established and growing markets around the world.



WATER MANAGEMENT SOLUTIONS

As cities become more populated and as weather events become more extreme more frequently, no single technical solution can claim to resolve these issues by itself. Nevertheless, steps can be taken to mitigate the potential impact. Polypipe's extensive range of Water Management solutions are designed to reduce or intercept the potential impact of extreme flooding and to help cities recover more quickly.

In fact, to help cities become ever more resilient, Polypipe has developed systems to manage surface water, flooding, rainwater harvesting and treatment as well as recycling for reuse.



**BREADTH AND DEPTH
OF PRODUCT SOLUTIONS**



**SMARTER THINKING
BETTER SOLUTIONS**



CASE STUDY **GLASGOW HOUSING ASSOCIATION**

Client: Glasgow Housing Association (GHA)

Application: Plumbing and above ground drainage

Part of major regeneration works by Transforming Communities Glasgow, the project saw the creation of 141 new homes for social rent in Sighthill, plus a further 157 new homes being built on the site of a former primary school. Polypipe's solutions were selected for their light weight, durability and ease of installation, allowing new tenants to move into their homes as quickly as possible.

LEADERSHIP IN WATER MANAGEMENT SOLUTIONS



CASE STUDY MELINA ROAD, LONDON

Project: Counters Creek Flood Alleviation Scheme, Thames Water

Application: Source control, attenuation and irrigation for rain gardens

Product: Permavoid, Permafoam and Permatex Geotextile

Melina Road is part of a three-street scheme designed to alleviate flood risk in streets built over the Counters Creek river system in London. In order to compensate for the loss of permeable green space that would have alleviated the risks of excess stormwater, Polypipe was able to supply a unique SuDS geocellular solution at this busy residential street in Hammersmith, which includes a local school and a public open space. 2,345 Permavoid cells were installed to provide 88m³ of rainwater storage and irrigation, in four separate storage tanks beneath the new rain gardens.



INDUSTRY AUTHORITY



SUSTAINABLE PRODUCTS
AND PRACTICES

OUR SUSTAINABLE JOURNEY IN ACTION



CLIMATE MANAGEMENT SOLUTIONS

As with our Water Management solutions, Polypipe's Climate Management solutions satisfy the most stringent of Government legislation. We continue to invest in developing products and systems that enable and control heating, ventilation and cooling. Such solutions make built environments more energy efficient, cleaner and more comfortable to live in. This results in a more sustainable and resilient built environment, not just for the benefit of Governments, but for everyone.



INTELLIGENT ENGINEERED SOLUTIONS



MARKET LEADERSHIP

OUR SOLUTIONS

Specsavers employees moving into the new manufacturing and distribution centre in Kidderminster are now enjoying optimum indoor air quality and a comfortable working environment created by Nuaire's BPS air handling units.



Nuaire Boxer Packaged Solutions (BPS) air handling unit



Nuaire Aire-Volve AVT twin fan



Direct Expansion (DX) reverse cycle coils

CASE STUDY Specsavers

Project: Glazing Services and Lens Online Distribution Centre, Kidderminster, West Midlands

Client: Specsavers International

M&E Consultants: KGF Cox Ltd, Greenways & Partners Ltd.

Nuaire supplied four Boxer Packaged Solutions (BPS) air handling units to provide balanced ventilation with heat recovery and cooling to the warehouse and office facilities.

Employed directly by Specsavers, building services consultancy KGF Cox Ltd designed the mechanical and electrical services for the Lens Online warehouse, while also overseeing the design of the office services delivered by Greenways.

Nuaire's BPS units were specified with Condenser / Direct Expansion (DX) reverse cycle coils, which are capable of providing heating and cooling.

LEADERSHIP IN CLIMATE MANAGEMENT SOLUTIONS



Underfloor heating installed across the whole floor produces a consistent and ambient heat throughout the entire room



CASE STUDY WINDMILL OVERLAY UFH

Project: The Windmill, Doncaster

Application: Underfloor heating

Products: Polypipe's Overlay™ system

The very tall layout of the building meant that the heating system had to be installed to avoid the heat rising only along the wall, leaving the middle of the room cold. Polypipe's Overlay™ system is only 18mm in depth, and so does not raise the floor to an unacceptable level, removing the need for messy and expensive excavation. With the room being completely round, it was impossible to locate radiators to fit the curve of the wall. Underfloor heating resolved this issue completely, with no large wall mounted equipment required, and so provided the optimal retrofit solution.



POLYPIPE BRAND



ENABLING SUSTAINABLE
BUILDING TECHNOLOGY

CHIEF EXECUTIVE OFFICER'S REVIEW

"Polypipe's balanced business model, underpinned by the long-term growth drivers of legacy material substitution and continuing legislative tailwinds, has helped produce another record performance in 2017."



In my first review since appointment as Chief Executive Officer, I am pleased to report that Polypipe has delivered another record performance in 2017, with revenue from continuing operations 6.3% higher than the prior year at £411.7m (2016 restated: £387.2m) and underlying operating profit 6.0% higher at £72.6m (2016 restated: £68.5m). Against a background of mixed conditions in the UK construction market, this performance shows the robust nature of the Polypipe business model and the strength of its long-term strategic drivers of legacy material substitution and continuing legislative tailwinds in water management and carbon efficiency. Polypipe continues to be cash generative and has reduced leverage to 1.6 times EBITDA (2016: 1.9 times) leaving the Group well invested and able to pursue bolt-on acquisitions that complement the Group's current activities. The Group will continue to focus on its key strategic and operational priorities, and I am confident that we will maintain revenue growth ahead of the overall UK construction market.

In January 2018, the Group announced that it was in advanced negotiations to dispose of its French subsidiary (Polypipe France) to Ryb S.A., a private French business that operates in similar French markets to Polypipe France, for €16.5m on a cash-free, debt-free, normalised working capital basis. In 2017, Polypipe France generated revenue of £58.4m and underlying operating profit of £1.4m. There is very little strategic overlap between our UK and French businesses as they operate in different product areas, the latter operating in the significantly lower margin electrical

conduit, potable water, gas and irrigation pipe product groups. Following a full review of the business, the Board decided Polypipe France was not core to the Group and to dispose of it. Completion of the transaction is expected in the first half of 2018. I believe this deal represents excellent shareholder value and once completed will allow the Group to concentrate on its higher margin product areas. For the purposes of this report, the results of Polypipe France have been treated as discontinued.

I am pleased to say that the Group has risen to several commercial and operational challenges during the year. Following the EU Referendum in June 2016 and the subsequent devaluation of Sterling, materials costs rose substantially in the second half of 2016 and into 2017. While we do all we can to ameliorate price increases through cost reduction, selling price increases were inevitable. These were successfully implemented across the Group in the first half of 2017 to mitigate materials and other inflationary increases, taking effect progressively throughout the period. Although exchange rates were relatively stable throughout 2017, increasing oil prices as well as tight polymer markets in the second half of the year pushed materials prices higher still, and impacted on second half performance. Further selling price increases are being actioned in early 2018 to address this and other inflationary effects. The Group has a good history of cost inflation recovery, even in difficult market conditions, and I have confidence the Group will be successful with this latest challenge.

In June 2017, a trade embargo was introduced between Qatar and many of the Gulf states following ongoing political disagreements. With approximately 60% of our pipeline projects emanating from Qatar, and the more general project financing issues in the wider Gulf in the first half of the year, the decision was taken to temporarily cease manufacturing in our Dubai facility, and a non-underlying charge of £0.9m was recorded in our interim results covering redundancy costs and stock provisions. During the second half of the year there has been no change to the situation between Qatar and the other Gulf states; the trade embargo remains in force, and general project financing still appears to be slow as the region adjusts to a lower oil price. While the Middle East still represents a significant opportunity for the Group, we have decided to pursue an alternative manufacturing strategy in the region through use of sub-contractors and to close permanently our Dubai manufacturing facility. All equipment will be relocated back to our Horncastle plant where Polystorm is manufactured for the UK market, enabling us to remove the need for more expensive sub-contract manufacturing in the UK. A further non-underlying charge of £3.1m has been recorded covering machinery relocation costs, further redundancy, onerous lease costs and asset impairments, leaving the total non-underlying charge for the year at £4.0m, of which £1.7m is non-cash.

As well as expanding capacity where necessary, we continue to invest in both new product technology and automation in our businesses. Our new £2.2m multi-layer extrusion lines in our main Doncaster plant became operational in the early part of 2017 which has allowed us to significantly increase the amount of recycled material used in manufacturing our drainage and latterly our soil and

waste pipes. Towards the end of the year, our new £5.0m large diameter continuous corrugator came into operation at our Horncastle plant. This increases our capacity to manufacture 750mm and 900mm drainage pipes and allows the Group to make further inroads in this area of the market. These new pipes, as well as much of our existing civils drainage pipe offer, are manufactured from recycled milk bottles and other polyethylene consumer liquid bottles using our wash plant recycling facility at Horncastle. We consume approximately 44,000 tonnes of recycled material representing one-third of the overall material requirement across the Group, and both of these projects further enhance our already strong sustainability and recycling credentials, something that is important to Polypipe, our customers and our wider stakeholders.

As well as new product technology, there has been further investment in automation in the year to expand capacity, but also to test out new automation techniques. We took delivery of our first collaborative robot in December, which when fully integrated into our manufacturing process will further improve productivity and quality. This advanced, lower cost automation technology has the potential to unlock productivity opportunities that have not been achievable previously because of technical or financial constraints.

The treatment of Polypipe France in this report has caused the Group to review its segmental analysis. The remaining part of the previously reported Commercial and Infrastructure – Mainland Europe segment, being our Italian business Effast, will be consolidated with the existing Commercial and Infrastructure – UK segment to create one segment called Commercial and Infrastructure Systems.

CHIEF EXECUTIVE OFFICER'S REVIEW

The following tables set out Group revenue and underlying operating profit by operating segment:

REVENUE

	2017 £m	2016 restated £m	Change %
Residential Systems	223.5	202.7	10.3
Commercial and Infrastructure Systems	188.2	184.5	2.0
Revenue	411.7	387.2	6.3

UNDERLYING OPERATING PROFIT

	2017 £m	2016 restated £m	Change %
Residential Systems	44.3	39.1	13.3
Commercial and Infrastructure Systems	28.3	29.4	(3.7)
Underlying operating profit	72.6	68.5	6.0

The Group gains significant resilience by having a balanced exposure to the different elements of the UK construction market, all of which have different drivers and move at different paces, and this year's performance perhaps more than most demonstrates this.

RESIDENTIAL SYSTEMS

Revenue in our Residential Systems segment, which is almost exclusively derived from the UK market, was 10.3% higher than the prior year at £223.5m (2016: £202.7m), of which 6.6% is volume growth, considerably ahead of the market.

Strong demand in the new housebuild sector continued to drive growth in the year as the Government's Help-to-Buy scheme continues to support first time buyers' demand. The Repair, Maintenance and Improvement (RMI) market however continues to be slow, with weak consumer confidence and falling real wages constraining private RMI, and austerity in Government spending on social housing stock constraining public RMI.

Continued growth in this segment, exacerbated by merchant pull forward of orders ahead of the February 2017 selling price increase, led to some challenges in the earlier part of the year, notably in capacity planning and logistics. The year started with below normal levels of stock following some pull forward of orders into December 2016, but as a number of areas moved into seven day working these stock levels normalised. Capital expenditure on new capacity allowed us to revert back to more normal shift patterns in those areas during the year, and leaves the business well placed to continue to benefit from the buoyant UK residential market.

Residential Systems delivered an underlying operating profit 13.3% higher than the prior year of £44.3m (2016: £39.1m) representing a 19.8% margin (2016: 19.3%).

COMMERCIAL AND INFRASTRUCTURE SYSTEMS

Revenue in our Commercial and Infrastructure Systems segment was 2.0% higher than the prior year at £188.2m (2016 restated: £184.5m).

UK revenue, which accounts for 79% of the overall segment revenue, was 4.1% higher than the prior year, against strong comparatives in 2016. In the infrastructure sector, our Civils business has seen strong demand for stormwater collection, storage and attenuation products from the new housebuild sector. However, strong demand in 2016 from the Aberdeen Bypass road project, which finished in early 2017, and delays in the A14 road upgrade and other projects has meant the roads sector has been more challenging. The dip in commercial project awards seen around the time of the EU Referendum in the middle of 2016, together with a 12 to 18 month lag before delivery to site for our products, led to subdued demand in the commercial sector. Although the project pipeline improved towards the back end of the year, it is clear that projects are being delayed as the continuing political and economic situation in the UK causes uncertainty.

Export revenue, which accounts for approximately 21% of overall segment revenue, was 5.4% lower than the prior year, with the performance in the Middle East driving this. The large Jebel Ali Hills project in 2016 that was supplied initially from our Horncastle plant, and later in the year from our Dubai manufacturing facility, completed in early 2017. A combination of project customer funding issues, and latterly the Qatar trade embargo, meant new projects did not come through at a pace to compensate. More encouragingly, exports to Europe performed well, and in particular our Italian business, Effast, made good progress.

GROUP REVENUE

£411.7m**⬆ 6.3%**UNDERLYING OPERATING
PROFIT**£72.6m****⬆ 6.0%**

Commercial and Infrastructure Systems delivered an underlying operating profit of £28.3m (2016 restated: £29.4m) and represents a 15.0% margin (2016 restated: 15.9%). The financial performance of our Dubai manufacturing facility, including the temporary cessation of manufacturing in the second half of the year, is the main driver behind this reduction in operating profit and, as described earlier, decisive actions have been taken to improve future performance in the Middle East.

OUTLOOK

Following the Group's record performance in 2017, the current year has started ahead of the same period last year. Forecasts for 2018 show a broadly flat construction market although the Group has a strong track record of outperforming the market. While the UK RMI market is likely to remain tough throughout the coming year, the strength of the UK new housebuild sector will continue to drive demand for our Residential Systems segment, for which the year has started well. Conditions in the UK commercial and infrastructure sectors remain positive in terms of project pipeline, and demand from key road projects such as the A14 road upgrade should gather pace this year, but there is evidence that project starts continue to be delayed, impacting performance in our Commercial and Infrastructure Systems segment in the early part of the year. The news of Carillion's demise in January may potentially lead to further project delays as main contracts are renegotiated and the impact on sub-contractors works through the market.

Having successfully delivered the necessary actions in 2017 to mitigate polymer and other cost inflation arising from the post EU Referendum weakening of Sterling, we again need to pass through polymer and other cost inflation seen during 2017 and into early 2018. While doing everything we can to alleviate the need for selling price increases, we are confident that our customers expect us to pass on essential increases, and we expect to see the benefit of these price increases coming through as we move into the second quarter of 2018.

Our continued focus on delivering innovative new products and excellent customer service, together with the strength of our growth drivers of legacy material substitution, continuing legislative tailwinds and our balanced exposure to the different sectors of the construction industry, gives the Board confidence that despite a mixed market outlook, 2018 will be another year of progress for the Group and our expectations for the year remain unchanged.

Martin Payne
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REPORT

REVENUE GROWTH AND OPERATING MARGIN

	2017 £m	2016 restated £m	Change
Revenue	411.7	387.2	+6.3%
Underlying operating profit	72.6	68.5	+6.0%
Underlying operating margin	17.6%	17.7%	-10bps

	2017 £m	2016 restated £m	Change
UK	365.7	338.3	+8.1%
Rest of Europe	18.9	17.0	+11.2%
Rest of World	27.1	31.9	-15.0%
Group	411.7	387.2	+6.3%



UNDERLYING OPERATING PROFIT GROWTH OF

↑ **6.0%**

UNDERLYING BASIC EARNINGS PER SHARE (p)

↑ **10.1%**

SUSTAINED INVESTMENT IN STRATEGIC GROWTH OPPORTUNITIES

1.4
TIMES DEPRECIATION

NET DEBT REDUCED TO

1.6
TIMES EBITDA

Group revenue at £411.7m was 6.3% higher than the prior year. With Polypipe France now classified as discontinued there is little foreign currency translation effect on reported revenue, and the structure of the Group on a continuing operations basis is the same in both periods, meaning like-for-like growth was also 6.3%. Within this, revenue derived from the UK market grew 8.1%, with approximately 3.7% driven by price increases and 4.4% by volume growth. This volume growth was materially ahead of the overall UK construction market, which the Construction Products Association (CPA) winter forecast suggests has grown by 3.0% in the year.

The Group underlying operating margin remained robust at 17.6% (2016 restated: 17.7%). The dilutive effect of increasing selling prices to recover absolute cost inflation and the financial performance of our Dubai manufacturing facility has been offset by operational leverage and cost reduction initiatives in our core businesses.

NON-UNDERLYING ITEMS

Non-underlying items in both 2017 and 2016 included non-cash amortisation charges in respect of intangible assets recognised with the acquisitions made during 2015. In 2017, they also included restructuring costs of £4.3m, in respect of the closure of our Dubai manufacturing facility (£4.0m, of which £1.7m is non-cash) and relocation of our Domus Ventilation manufacturing facilities to Nuaire (£0.3m). In 2016, they included a non-cash charge of £0.9m in respect of the impairment of a surplus freehold property that is held-for-sale.

Non-underlying items comprised:

	2017 £m	2016 £m
Amortisation of intangible assets	5.5	6.8
Restructuring costs	4.3	–
Aborted acquisition costs	0.3	–
Impairment of freehold land and buildings	–	0.9
Profit on disposal of property, plant and equipment	–	(0.3)
Non-underlying items before taxation	10.1	7.4
Taxation	(1.2)	(1.6)
Non-underlying items after taxation	8.9	5.8

Taxation on non-underlying items is covered in the note on taxation below.

DISCONTINUED OPERATIONS

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS (Polypipe France) to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. The cash consideration payable by Ryb S.A. will be €16.5m on a cash-free, debt-free and normalised working capital basis. It was determined that the sale was highly probable at 31 December 2017 and accordingly the net assets of Polypipe France have been classified as held-for-sale in the consolidated balance sheet. In accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, an impairment loss of £12.5m to remeasure the carrying amount of the assets to fair value less costs to sell has been recognised. A loss from discontinued operations of £11.3m (2016 restated: £0.8m profit) is recorded in the income statement, being the impairment loss of £12.5m (2016 restated: £nil), net of the post-tax results of Polypipe France for the period of £1.2m profit (2016 restated: £0.8m profit).

EXCHANGE RATES

The Group is exposed to movements in exchange rates when translating the results of its Mainland Europe operations from Euros to Sterling. Following the EU Referendum in June 2016, Sterling depreciated further against the Euro during 2017 with the average exchange rate used for translation purposes moving from £1:€1.23 in 2016 to £1:€1.15 in 2017. With Polypipe France now classified as discontinued, the impact of this exchange rate movement is now negligible on both reported revenue and underlying operating profit.

The Group trades predominantly in Sterling but has some revenues and costs in other currencies, mainly the US Dollar and the Euro, and takes appropriate forward cover on these flows using forward currency derivative contracts.

Forward foreign currency derivatives are classified as held for trading. There was no unrealised gain or loss on these derivative contracts at 31 December 2017 (2016: £1.5m loss included in financial liabilities). The unrealised gains or losses are treated as underlying and recorded in cost of sales in the income statement.

FINANCE COSTS

Finance costs of £6.9m (2016: £7.6m) were lower than the prior year driven by lower average net debt in the year, and the lower interest rate margin payable on our borrowings as leverage reduces. This reflects the continued cash generative nature of our business. Interest is payable on the revolving credit facility (RCF) at LIBOR plus an interest rate margin ranging from 1.25% to 2.75%. The interest rate margin at 31 December 2017 was 1.75% (2016: 2.00%).

In order to reduce exposure to future increases in interest rates the Group has entered into interest rate swaps at fixed rates ranging between 1.735% and 2.21% (excluding margin) with notional amounts hedged ranging from £60.0m to £91.7m over the period of the interest rate swaps.

The unrealised mark to market adjustment on these forward interest rate swaps at 31 December 2017 was £2.5m negative (2016: £4.2m negative). The movement in the mark to market adjustment during the year of £1.7m is included in the Group Statement of Comprehensive Income.

TAXATION

Underlying taxation:

The underlying tax charge in 2017 was £11.8m representing an effective tax rate of 18.0% (2016 restated: 19.2%). This is below the blended UK standard tax rate of income tax of 19.25% (2016: 20.00%) due primarily to the benefit of patent box relief.

CHIEF FINANCIAL OFFICER'S REPORT

Taxation on non-underlying items:

The non-underlying taxation credit of £1.2m in 2017 represents an effective rate of 11.9%, primarily due to a substantial proportion of restructuring costs being incurred in the Jebel Ali tax-free zone in the Middle East.

EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	2017	2016
Pence per share:		
Basic	22.7	21.8
Underlying basic	27.2	24.7
Diluted	22.5	21.7
Underlying diluted	26.9	24.6

The Directors consider that the underlying earnings per share (EPS) measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

Underlying basic EPS improved by 10.1% in 2017 due to the improved underlying operating result, lower interest costs and lower underlying tax rate as explained above.

DIVIDEND

The final dividend of 7.5 pence per share is being recommended for payment on 25 May 2018 to shareholders on the register at the close of business on 20 April 2018. The ex-dividend date will be 19 April 2018.

Our dividend policy is to pay a minimum of 40% of the Group's annual underlying profit after tax. The Directors intend that the Group will pay the total annual dividend in two tranches, an interim dividend and a final dividend, to be announced at the time of announcement of the interim and preliminary results respectively with the interim dividend being approximately one half of the prior year's final dividend. The Group may revise its dividend policy from time to time.

BALANCE SHEET

The Group's balance sheet is summarised below:

	2017 £m	2016 £m
Property, plant and equipment	98.6	101.0
Goodwill	319.7	329.3
Other intangible assets	36.8	42.3
Net assets classified as held-for-sale	13.1	0.7
Net working capital	0.4	0.5
Taxation	(12.6)	(14.3)
Other current and non-current assets and liabilities	(5.6)	(7.8)
Net debt (loans and borrowings, net of cash and cash equivalents)	(148.4)	(164.3)
Net assets	302.0	287.4

Property, plant and equipment reduced by £2.4m and, excluding the transfer to assets classified as held-for-sale of £9.2m in respect of Polypipe France, increased by £6.8m predominantly due to capital expenditure exceeding depreciation by a similar amount, which included the £3.0m of expenditure deferred from 2016 as discussed in last year's Annual Report and Accounts. Other intangible assets decreased by £5.5m, compared to a decrease of £6.8m in 2016, reflecting that some of the assets in respect of the 2015 acquisitions are now fully amortised. Net working capital reduced by £0.1m but excluding the transfer to assets classified as held-for-sale of £7.2m, increased by £7.1m, driven by higher material costs of inventories and normalisation of stock levels. Net debt is discussed below.

PENSIONS

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £2.7m (2016: £2.5m).

CASH FLOW AND NET DEBT

The Group's cash flow statement is summarised below:

	2017 £m	2016 £m
Operating cash flows before movement in net working capital	90.4	86.7
Add back non-underlying cash items	0.5	–
Underlying operating cash flows before movement in net working capital	90.9	86.7
Movement in net working capital	(10.0)	(0.2)
Underlying cash generated from operations	80.9	86.5
Capital expenditure net of disposals	(23.2)	(18.7)
Underlying cash generated from operations after net capital expenditure	57.7	67.8
Income tax paid	(12.6)	(10.1)
Interest paid	(6.6)	(7.3)
Non-underlying cash items	(0.5)	–
Dividends paid	(21.0)	(17.1)
Purchase of own shares net of option exercise proceeds	(0.7)	(2.9)
Other	(0.4)	(0.4)
Movement in net debt	15.9	30.0

Underlying cash generated from operations after net capital expenditure at £57.7m (2016: £67.8m) represents a conversion rate of 78% (2016: 97%). The lower conversion rate compared to the prior year is due to a higher working capital outflow and higher capital expenditure than the prior year. The higher working capital outflow is largely due to increases in stock, partly driven by higher material costs, and also finished goods stock build. This was necessary to replenish stock back to normal levels in the earlier part of the year following pre-price increase buying in December 2016, and further stock build in the latter part of the year in anticipation of further pre-price increase buying ahead of the February 2018 price increase.

As discussed in last year's Annual Report and Accounts, in a measured response to the uncertainty created by the EU Referendum in June 2016, we took the decision to delay certain capacity expansion capital expenditure projects, while continuing to spend on development growth projects and essential replacement. The performance of the Group since the EU Referendum and the more positive economic outlook compared to the period immediately afterwards gave us the confidence to resume those delayed projects, and therefore net capital expenditure in 2017 at £23.2m was £4.5m higher than the prior year.

In 2016, one million shares were purchased at a cost of £2.9m and held for the purpose of satisfying future employee share option scheme awards. In 2017, a further 748,000 shares were purchased at a cost of £0.7m net of the proceeds from the maturing Sharesave Plan.

Net debt of £148.4m comprised:

	2017 £m	2016 £m	Change £m
Bank loans	(185.0)	(192.0)	7.0
Cash and cash equivalents	35.7	26.5	9.2
Net debt (excluding unamortised debt issue costs)	(149.3)	(165.5)	16.2
Unamortised debt issue costs	0.9	1.2	(0.3)
Net debt	(148.4)	(164.3)	15.9
Net debt (excluding unamortised debt issue costs): EBITDA	1.6	1.9	

At 31 December 2017, liquidity headroom (cash and undrawn committed banking facilities) was substantial and improved to £140.7m (2016: £134.5m) despite the £10.0m contractual reduction in the facility during the year. Continued focus on deleveraging following the Nuaire acquisition in August 2015 has seen our net debt to EBITDA ratio reduce substantially to 1.6 times EBITDA at 31 December 2017 (2016: 1.9 times), demonstrating the continued cash generative nature of our business. This headroom, together with the disposal proceeds from Polypipe France when received, enables us to develop our acquisition pipeline and continue to seek out compelling opportunities to accelerate growth in our strategic development areas.

FINANCING

The Group has an RCF committed through to August 2020 with a facility limit at 31 December 2017 of £290m, reducing by £10m per annum at 31 December 2018 and 2019. At 31 December 2017, £185m of the RCF was drawn down.

The Group is subject to two financial covenants. At 31 December 2017 there was significant headroom:

Covenant:	Covenant requirement	Position at 31 December 2017
Interest cover*	>4.0:1	11.5:1
Leverage†	<3.0:1	1.6:1

* Underlying operating profit: Finance costs excluding debt issue cost amortisation.

† Net debt: EBITDA.

FORWARD-LOOKING STATEMENTS

This report contains various forward-looking statements that reflect management's current views with respect to future events and financial and operational performance. These forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the Group's control and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made and reflect knowledge and information available as of the date of preparation of this report and the Group disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this report should be construed as a profit forecast.

Paul James
Chief Financial Officer

PRINCIPAL RISKS & UNCERTAINTIES

FRAMEWORK FOR MANAGING RISK

The Board is responsible for ensuring that the Group maintains an effective risk management system. It determines the Group's approach to risk, its policies and the procedures that are implemented to mitigate exposure to risk.

PROCESS

The Board continually assesses and monitors the key risks in the business and Polypipe has developed a risk management framework to identify, report, and manage its principal risks and uncertainties. This includes the recording of all principal risks and uncertainties on a Group Risk Register and a Group Risk Profile which are both updated at least every six months. Risks are fully analysed, allocated owners, scored for both impact and probability to determine the exposure to the business, which should be prioritised, and what mitigation is required.

External risks include economic conditions, the weather, Government action, policies and regulations, raw material prices and information systems disruption. Internal risks include reliance on key customers, and recruitment and retention of key personnel.

The Board seeks to mitigate the businesses' exposure to strategic, financial and operational risk, both external and internal. The effectiveness of key mitigating controls is continually monitored and subjected to periodic testing by the Group Financial Controller.

The table below highlights the principal risks and uncertainties that could have a material impact on the Group's performance and prospects and the mitigating activities which are aimed at reducing the impact or likelihood of a major risk materialising. These risks have all been considered by the Board when developing the Group's Viability Statement. The Board does recognise however that it will not always be possible to eliminate these risks entirely. In addition, the principal risks listed below do not comprise all of the risks that the Group may face and they are not listed in order of priority, probability or magnitude of potential impact.

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
Raw material prices			
The Group is exposed to volatile raw material prices, particularly polymers, due to fluctuations in the market price of crude oil and other petroleum feedstocks, foreign currency exchange rate movements, and changes to suppliers' manufacturing capacity.	Any increase in the market price of crude oil or other petroleum feedstocks, foreign currency exchange rate movements, or changes to suppliers' manufacturing capacity could have a direct impact on the prices the Group pays for raw materials which could adversely affect its financial results.	The Group seeks to pass on raw material price increases to its customers wherever possible. There is usually at least a three-month time lag from notification of the raw material price increase before selling prices can be adjusted in the market. Competitors of the Group are likely to experience the same pressures of any sustained raw material price increases.	No change
Business disruption			
The Group's manufacturing and distribution operations could be subjected to disruption due to incidents including, but not limited to, fire, failure of equipment, power outages, workforce strikes, or unexpected or prolonged periods of severe weather.	Such incidents could result in the temporary cessation in activity, or disruption, at one of the Group's production facilities impeding the ability to deliver its products to its customers, thereby adversely affecting the Group's financial results. In addition, prolonged periods of severe weather could result in a slowdown in site construction activity reducing the demand for the Group's products thereby adversely affecting its financial results.	The Group has developed business continuity, crisis response, and disaster recovery plans. The Group performs regular maintenance to minimise the risk of equipment failure. Finished goods holdings across the operations act as a limited buffer in the event of operational failure. The Group has the ability to transfer some of its production to alternative sites and could also subcontract out some of its tooling to reduce any potential loss in production capacity. The Group maintains a significant amount of insurance to cover business interruption and damage to property from such incidents. Independent insurer inspections take place across all sites to identify and assess potential hazards and business interruption risks.	No change

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
Reliance on key customers			
Some of the Group's businesses are dependent on key customers in highly competitive markets.	Failure to manage relationships with key customers, while continuing to provide high quality products delivered on time in full, and developing new innovative products, could lead to a loss of business thereby adversely affecting the Group's financial results.	<p>The Group's strategic objective is to broaden its customer base wherever possible.</p> <p>The Group focuses on delivering exceptional customer service and maintains strong relationships with major customers through direct engagement at all levels.</p> <p>The Group maintains customer service matrices which are continually tracked and monitored with intervention made where required.</p> <p>The Group closely manages its pricing, rebates, and commercial terms with its customers to ensure that they remain competitive.</p> <p>The Group continually seeks to innovate and develop its product lines to ensure its products are to the standard our customers expect.</p>	No change
Recruitment and retention of key personnel			
The Group is dependent on the continued employment and performance of our senior management team and other key skilled personnel.	Loss of any key personnel without adequate and timely replacement could disrupt business operations and the Group's ability to implement and deliver its growth strategy.	<p>The Group has a formal succession plan in place facilitating staff retention and progression through the Group.</p> <p>The Group aims to provide competitive remuneration packages and incentive schemes to retain and motivate key personnel.</p>	Increased
Economic conditions			
The Group is dependent on the level of activity in the construction industry and is therefore susceptible to any changes in its cyclical economic conditions.	Lower levels of activity within the construction industry could reduce sales and production volumes thereby adversely affecting the Group's financial results.	<p>The Group closely monitors trends in the industry, invests in market research and is an active member of the Construction Products Association. The Group uses Construction Products Association and Euroconstruct forecasts in its budgeting process.</p> <p>The Group closely manages its demand forecasts and costs through weekly operational review meetings.</p>	No change
Government action and policies			
The Group is in part dependent on Government action and policies relating to public and private investment and is therefore susceptible to changes in Government spending priorities.	Significant downward trends in Government spending on public and private investment arising from economic uncertainty and ongoing austerity policies could have an adverse impact on the construction industry which could impact on sales and production volumes thereby adversely affecting the Group's financial results.	<p>The Group's strategy is to have its operations structured so that it has a balanced exposure to the residential, commercial and infrastructure construction sectors so as to reduce the impact of any adverse Government action or policy on any one of the construction sectors.</p> <p>The Group closely monitors trends in the industry, invests in market research and is an active member of the Construction Products Association.</p> <p>The Group closely manages its demand forecasts and costs through weekly operational review meetings.</p>	No change

PRINCIPAL RISKS & UNCERTAINTIES

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
Government regulations and standards relating to the manufacture and use of building materials			
The Group is subject to the requirements of UK and European environmental and occupational safety and health laws and regulations, including obligations to investigate and clean up environmental contamination on or from properties.	Failure of the Group to comply with changes to environmental regulations and other obligations relating to environmental matters could result in the Group being liable for fines, require modification to operations, increase manufacturing and delivery costs, and could result in the suspension or termination of necessary operational permits, thereby adversely affecting the Group's financial results.	<p>The Group has a formal Health, Safety and Environmental policy, and procedures are in place to monitor compliance with the policy.</p> <p>The Group performs internal environmental audits and is subjected to external environmental audits on a periodic basis.</p> <p>The Group performs weekly and monthly reporting on key Health, Safety and Environmental matters which require the attention of the Board.</p>	No change
Product liability			
The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes. These products are often incorporated into the fabric of a building or dwelling, or buried in the ground as part of an infrastructure system and in each case, it would be difficult to access, repair, recall or replace such products.	A product failure or recall could result in a liability claim for personal injury or other damage leading to substantial financial settlements, damage to the Group's brand reputation, costs and expenses and diversion of key management's attention from the operation of the Group, which could all adversely affect the Group's financial results.	<p>The Group operates comprehensive quality assurance systems and procedures at each site.</p> <p>Wherever required, the Group obtains certifications over its products to the relevant national and European standards including Kitemarks, BBAs, WRCs and WRACs.</p> <p>The Group maintains product liability insurance to cover third party claims arising from potential product failures or recalls.</p>	No change

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
Information systems			
The Group is dependent on the continued efficient operation of its information systems and is therefore vulnerable to potential failures due to power losses, telecommunication failures, or from an external security breach due to the increasing levels of sophisticated cyber-crime now threatening businesses.	Disruption or failure of the information systems could affect the Group's ability to conduct its ongoing operations which could adversely affect the Group's financial results.	<p>The Group contracts with several third party providers to supply off-site, business continuity arrangements for wholesale or partial recovery of the key servers and applications which are used within the various business units of the Group. These continuity arrangements are subject to periodic validation and testing. Some business units of the Group also take advantage of their multi-site operations to provision server and applications recovery between those sites.</p> <p>There are a range of local, business unit specific, backup processes which are performed on a daily, weekly and monthly basis.</p> <p>Firewalls are in place to protect the perimeter of the Group's networks and any off-site access to the Group's servers and applications is through secure Virtual Private Network connections. In addition, email and internet traffic filtering is in place to protect against potential viruses or malware entering the Group's networks. User and server computing devices have anti-virus software installed to protect from potential infection.</p> <p>The Group continually invests in the maintenance and upgrade of IT infrastructure and information systems. All upgrades are carefully planned and actively managed by senior personnel to minimise potential business disruption.</p>	Increased
Acquisitions			
The management of acquisitions' activity and their integration play a part in delivering the Group's growth strategy and there is a risk that any acquisitions may not perform as expected.	Ineffective management of acquisitions could lead to management distraction, a drain on financial resources, and impact on the Group's ability to successfully implement and deliver its growth strategy.	<p>Full due diligence is performed before any acquisition is made.</p> <p>The Group seeks contractual assurances from the sellers to mitigate against any identified issues or risks.</p> <p>Formal Board level approvals are required in accordance with the Group's delegation of authority structure for any acquisition activity.</p> <p>The progress of any integration is closely monitored at Board and senior management team level.</p>	No change

PRINCIPAL RISKS & UNCERTAINTIES

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
Financial risk management			
The Group's operations expose it to a variety of financial risks that include the effects of:		The Group has in place financial risk management procedures that seek to limit the potential adverse effects of the financial risks as follows:	
Foreign currency exchange risk – The risk that the fair value of a financial instrument or future cash flows will fluctuate because of changes in foreign currency exchange rates. The Group's risk relates primarily to its operating activities where the revenue or expense is denominated in a currency other than the functional currency of the entity undertaking the transaction.	Foreign currency exchange rate fluctuations could adversely affect the Group's financial results.	The Group enters into forward foreign currency exchange rate contracts for the purchase and sale of foreign currencies in order to manage its exposure to fluctuations in foreign currency exchange rates primarily in respect of US Dollars and Euros relative to Pounds Sterling. It is not possible for the Group to mitigate foreign currency exchange rate movements which impact the translation of its overseas subsidiaries' results and net assets as all of the Group's long-term borrowings are Pounds Sterling denominated.	Increased
Credit risk – The risk that a counterparty of the Group will not be able to meet its obligations under a financial instrument or customer contract. The Group is exposed to credit risk from its trading activities (primarily from trade receivables) and from its financing activities, including deposits with banks.	The failure of a counterparty to meet their financial obligations could lead to a financial loss for the Group.	Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major export customers are generally covered by letters of credit or credit insurance. Where the Group perceives there to be a significant credit exposure it will take out credit insurance or obtain an irrevocable letter of credit prior to any transaction. Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Investments of surplus funds are made only with banks that have as a minimum a single A credit rating.	No change
Liquidity risk – The risk that the Group will not be able to meet its financial obligations as they fall due.	Insufficient funds could result in the Group not being able to fund its operations.	The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.	Reduced
Interest rate cash flow risk – The risk that interest rates could rise impacting on the Group's borrowings.	Increases to interest rates could result in significant additional interest rate cash payments being required on any borrowings.	To reduce the Group's exposure to future increases in interest rates, the Group has entered into interest rate swaps from variable to fixed interest rates.	Increased

EU REFERENDUM AND UK DEPARTURE FROM THE EU

The result of the Referendum on the UK's membership of the EU leading to the expected departure of the UK from the EU (Brexit), could cause disruptions to and create uncertainty around our business, including affecting our relationships with our existing and future customers, suppliers and colleagues. These disruptions and uncertainties could adversely affect the Group's financial results. As further details of the Brexit terms emerge, management will continue to assess the potential risks and impact of these on the Group.

CORPORATE RESPONSIBILITY STATEMENT

POLICY

Polypipe's policy is to enhance shareholder value while ensuring we provide a safe working environment and continually seeking to minimise the impact of our operations and products on the environment.

The Board considers that operating efficiently with high quality standards includes promoting high standards of health and safety and helping to protect the environment.

This section of the Strategic Report sets out our approach to corporate responsibility and includes regulatory information on carbon emissions, employee diversity and our policies in relation to the recruitment and retention of our employees.

EMPLOYMENT

Our vision for our businesses and employees is to have a culture of customer focused continuous improvement, driven by teamwork, effective communication and personal development. Our core values are hard work, honesty, trust and integrity and maintaining a working environment based on mutual respect.

Polypipe is committed to providing the appropriate skills and technical training that allow employees to operate effectively and safely in their roles and deliver excellent customer service. As part of our ongoing commitment to customer service excellence, all our new starters in front-line service areas receive The Institute of Customer Service training on joining the Group, resulting in over 200 of our employees benefiting from this programme in the last four years.

Polypipe has consistently provided apprenticeships to the communities around our businesses by supporting enthusiastic, highly motivated people who are keen to learn a trade. We have an outstanding record of retaining apprentices in ongoing, long-term, full-time employment; indeed, many of our management team started with the business as apprentices. We consider it an essential part of finding and retaining people with the sector specific skills that we need.

During 2017 we had 32 apprentices employed in our businesses in the UK and we intend to increase the number further. The majority of our apprenticeships are in electrical, mechanical and tool-making trades but we continue to support a number of apprenticeships in other disciplines.

Underlining our commitment to advanced manufacturing engineering, we continue to place apprentices at the new University of Sheffield Advanced Manufacturing Research Centre, a state-of-the-art centre that offers the very best in practical and academic training. In support of our engineering focus we continue to work closely with Cogent Skills, strategic partner to the science industry, supporting ongoing development of industry specific apprenticeship frameworks for the future.

The Group involves employees through formal and informal systems of communication and consultation. Each of our main operating sites have display boards which set out our continuous improvement strategy and include KPIs

updated each month on areas relevant to the strategy such as health and safety performance, products and process improvement initiatives, and customer satisfaction performance.

While the Group does not have a specific human rights policy, it does have an Anti-Slavery policy and Modern Slavery Act Transparency statement available on the Company's website, within which we state our zero tolerance policy towards any modern slavery or human trafficking rights violations.

The Group gives every consideration to applicants for employment regardless of their sex, sexual orientation, religion, colour, race, nationality, marital status or disability having regard for their aptitude and ability to adequately perform the role while maintaining a safe working environment. Where employees become disabled, the Group makes appropriate and reasonable adjustments to their work environment and/or duties, endeavouring to maintain their employment provided there are duties they can perform.



Girls from the Eskdale School at The Big Bang Fair



Knowledge sharing

CASE STUDY SOCIAL ENGAGEMENT

The Big Bang Fair is an annual event designed to inspire students to take up a career in Science, Technology, Engineering and Maths (STEM).

As a major Doncaster employer with a huge variety of career options, Polypipe was delighted to meet young visitors at the Doncaster Big Bang Science Fair and tell them all about the career options that are open to them, with staff from human resources, manufacturing and supply chain on hand to answer their questions.

We also challenged students to see who could fit together PolyMax push-fit in the quickest time, with the winners taking home prize bundles from our charity partner Help for Heroes, which included hoodies, teddies, pens, and mugs.

CORPORATE RESPONSIBILITY STATEMENT

The Group's split between male and female employees at 31 December 2017 is shown below:

	Female	Male	Total
Directors & Officers	2	5	7
Senior Managers	44	177	221
Employees	628	2,200	2,828
Total	674	2,382	3,056

HEALTH AND SAFETY

The Group aims to continuously improve the quality and safety of the working environment for all employees. The Group has a published Health, Safety and Environment policy that sets out the overriding principles of health and safety for all employees. The business units operate to externally accredited ISO / OHSAS standards.

Health and Safety achievements in the year included:

Following five consecutive RoSPA Gold Awards, the Group achieved the Gold Medal Award for exceptional performance and dedicated support for health and safety within the organisation.

Polypipe's tool making and repair business, Mason Pinder, based in Thorne, achieved over 3,400 days without a lost time accident. This is an outstanding achievement and a significant milestone, of which everyone at Mason Pinder can be proud. These safety achievements have resulted in donations to the Children's Heart Surgery Fund under the Charity Award for Safety and Health (CASH) scheme of over £3,600.

The Group continued the implementation of a focused formalised safety tour programme for management. These safety tours, undertaken by Executive Directors through to department managers, engage staff and further encourage health, safety and environmental discussion and improvement.

The Group operates a formal system for reporting and recording hazards and near misses. The 'See it, Sort it, Report it' scheme encourages individuals across the business at all levels to report hazards, suggest solutions and allows trends to be analysed. In 2017, the number of such reports reached record levels at 5,321

reports resulting in improvement projects being delivered across the Group which in turn enhanced employee working environment safety.

Accident frequency performance and details of all significant incidents are reviewed during the weekly executive meeting attended by the Executive Directors and certain senior managers.

The table below sets out the KPIs used by the Group to monitor accident performance:

	2015	2016	2017
Frequency per 100,000 hours worked			
– all accidents	8.24	6.43	5.93
– RIDDORS*	0.65	0.65	0.53

* RIDDORS – HSE reportable accidents and dangerous occurrences based on the current seven-day absence from work reporting requirement in the UK and although there is no direct equivalent in Mainland Europe and the Middle East, the same definition is applied.

THE ENVIRONMENT AND GREENHOUSE GAS EMISSIONS

We aim to minimise the lasting impact of our operations on the environment, and sustainability is a key feature of our products and their impact on the environment. See pages 15 to 21 for further details of our sustainable solutions for the environment.

Our modern and efficient injection moulding and extrusion operations use significant amounts of electricity. We monitor very closely our electricity usage, even at a machine level, and take a proactive approach to improve energy efficiency. The Group collects electricity and natural gas usage information from each business unit on a monthly basis.



CASE STUDY HELP FOR HEROES

The Polypipe Regatta has become a popular event in the industry calendar, raising Polypipe's profile and offering a great way for staff to engage with existing and new customers, while raising much-needed funds for worthwhile causes, which for 2017 included Polypipe's new charity partner, Help for Heroes.

As well as organising charitable events such as the Regatta, Polypipe will sponsor ex-servicemen and women through a British Plumbing Employers Council (BPEC) course at the Polypipe Professional Development centre in Doncaster. Those who are looking to embark on a career in plumbing can attend taster courses, with Polypipe facilitating work experience and vocation experiences for veterans who show an interest in a career in plumbing and groundworks, supporting the long-standing connection between the British Armed Forces and the UK construction industry.

Greenhouse gas (GHG) emissions for the Group during 2017, in tonnes of carbon dioxide equivalent (tCO₂e), were as follows:

	tCO ₂ e	%
Source		
– fuel combustion (stationary)	2,328	4
– fuel combustion (mobile)	13,761	24
– fugitive emissions (F-gas)	432	1
– purchase electricity	40,550	71
	57,071	100

Our GHG emissions annual comparison and intensity were as follows:

	2016	2017	change
tCO ₂ e			
Total emissions	62,524	57,071	(8.7)%
Emissions intensity*	0.39	0.36	(9.0)%

* Expressed in tCO₂e per tonne of output.

Our GHG emissions were calculated using the methodology set out in the updated GHG reporting guidance issued in June 2013 by the Department for Environment, Food and Rural Affairs (DEFRA). Emission factors were taken from the Department for Business, Energy and Industrial Strategy / DEFRA's 2017 update of GHG Conversion Factors for Company Reporting, with the exception of international electricity which were taken from the International Energy Agency's 2017 update.

RELATIONSHIPS WITH OUR CUSTOMERS AND SUPPLIERS

Suppliers are key to our business and we endeavour to build long-term relationships with them based on trust. We will seek to extend our supplier base if risks of undercapacity or resilience arise in our supply chain. Polypipe has no significant suppliers who are wholly dependent on the Group's business. Suppliers are paid in line with contractual obligations.

We stay close to our existing and potential customers and distributors and strive to meet their needs. Our businesses are focused on achieving market leading delivery service levels for our customers and to respond quickly to their emerging requirements.

POLYPIPE AND THE LOCAL COMMUNITY

Each operation is aware of its role within its local community. Wherever possible they seek to recruit locally and retain a skilled local workforce. They are encouraged to build relationships with local community organisations and to support charitable initiatives. These activities range from the organisation of our Annual Charity Sailing Regatta in which over 700 people from our customers and associates participated, marathon running, through to quiz nights, cake sales and summer gala days. Our employees raised over £30,000 (2016: £38,000) for worthwhile causes during the year from these activities.

Charitable donations by Group companies during the year were £27,000 (2016: £27,000).

ANTI-BRIBERY AND CORRUPTION POLICY

The Group seeks to prohibit all forms of bribery and corruption within its business and complies with the requirements of all applicable anti-bribery and corruption laws.

The Group requires all relevant employees and agents to confirm each year that they remain in compliance with the Group's Anti-Bribery policy.

Approved by the Board and signed on its behalf.

Martin Payne
Chief Executive Officer
20 March 2018



CASE STUDY APPRENTICES

Rob Bell received recognition at the National EEF Awards, as 'Highly Commended for Business Apprentice Final Year'.

Rob started his 2½-year Advanced Apprenticeship with Polypipe Civils in Loughborough in January 2015, as a Trainee Quality Inspector. Rob completed the academic element of his apprenticeship in July 2017, and has been working as a Quality & Process Technician since.

Polypipe has operated and grown its apprenticeship scheme since the 80s and has seen a 14% increase in apprentice numbers across the Group between 2016 and 2017, with the first female engineering apprentices joining at both the Civils and Building Products businesses.



OUR SOLUTIONS

The developer chose to include Polypipe underfloor heating in this prestigious project

Located in a picturesque forest in South Lanarkshire, and on the site of a prestigious golf club, this lodge is intended to be a flagship holiday let home. Underfloor heating was the perfect solution for this green development, as the pipes are entirely underfoot and out of sight, maximising space and leaving walls available for furniture or artwork, rather than being lost to wall mounted radiators. Underfloor heating is also a sustainable heating option as it operates at a much lower water temperature than a radiator system, so the heat source is working more efficiently and consuming less energy to generate the warm water required to heat the space.

Freedom Joinery chose Polypipe underfloor heating to bolster its green credentials and maximise available living space.

This luxury lodge is made from Canadian pine and is the first of its kind to be imported from Canada to the UK



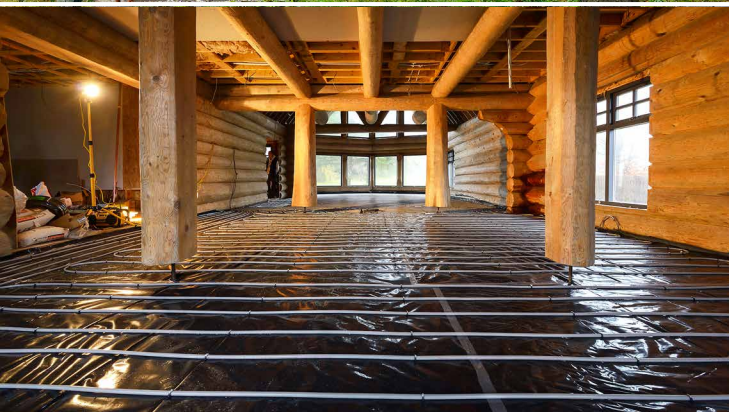
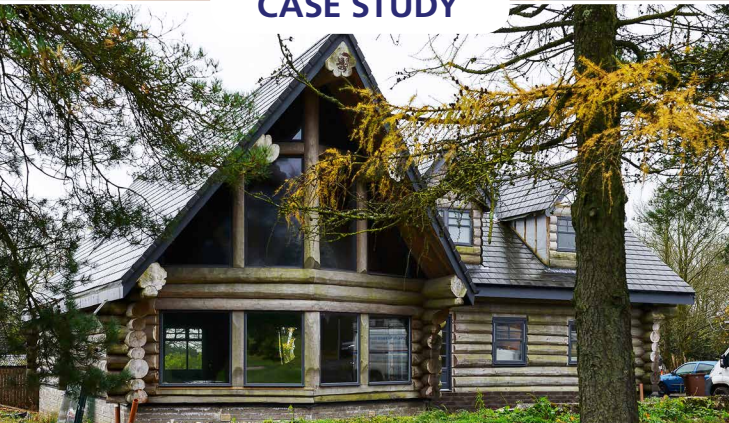
ENABLING SUSTAINABLE
BUILDING TECHNOLOGY



SUBSTITUTING
LEGACY MATERIALS



CASE STUDY



.....

Project

Canadian Lodge, Shotts, Lanarkshire

Client

Freedom Joinery, Developer

Product

Solid floor underfloor heating,
Staple System

.....

OUR GOVERNANCE

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DIRECTORS & OFFICERS



Ron Marsh N R

Independent Non-Executive Chairman

Committees: Nomination, Remuneration

Ron Marsh was appointed to our Board of Directors on 28 March 2014 as the Senior Independent Director and as Independent Non-Executive Chairman on 27 May 2015 and is Chair of the Nomination Committee. Mr Marsh is currently a Non-Executive Director of R.Faerch Plast A/S, the Senior Independent Director of Walstead Group Limited and was, from 1989 until 2013, Chief Executive of RPC Group. Mr Marsh is also Chairman of the UK-based Packaging Federation and the Alliance for European Polymers which was established under the auspices of EuPC (European Plastic Converters) in 2015. Mr Marsh has a Bachelor of Arts in History from Oxford University.



Martin Payne N

Chief Executive Officer

Committees: Nomination

Martin Payne is a member of our Board of Directors and our Chief Executive Officer, a position he has held since 2 October 2017. Mr Payne was formerly Chief Financial Officer, having joined Polypipe in this role in May 2016. Before joining Polypipe, Mr Payne served as Group Finance Director at Norcros plc, a leading supplier of branded showers, taps, bathroom accessories, tiles and adhesives. His previous experience includes holding senior financial positions at JCB, the construction equipment manufacturer, and at IMI plc, the British-based engineering company. He is a Fellow of the Chartered Institute of Management Accountants and has a Bachelor of Arts in Economics from Durham University.



Paul James

Chief Financial Officer

Paul James is a member of our Board of Directors and our Chief Financial Officer, having been appointed to the Board on 5 March 2018. Before joining Polypipe, Mr James served as Group Financial Controller of Dixons Carphone plc, and prior to this role held the position of Group Financial Controller and Treasury Director of Inchcape plc and senior financial positions at British American Tobacco plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales and has a Bachelor of Science in Civil Engineering from Edinburgh University.



Glen Sabin

Chief Operating Officer

Glen Sabin is our Chief Operating Officer and was appointed to our Board of Directors on 2 October 2017, having been Managing Director of the Plumbing and Drainage Division since 2016. Mr Sabin joined the Group in November 2004 as Managing Director of our UK Civils business before moving to become Managing Director of our Building Products business in 2013, with additional overall responsibility for Civils and Terrain. Mr Sabin has over 40 years' experience in the construction industry, having started as an engineer with George Wimpey before moving into a commercial career, initially with Redland plc, followed by 22 years with Marshalls plc.

COMMITTEES

In addition to the Polypipe Group plc Board, there are three Committees:

KEY: A Audit Committee N Nomination Committee R Remuneration Committee ● Chairman of Committee



Paul Dean A N R

Senior Independent Director

Committees: Audit, Nomination, Remuneration

Paul Dean was appointed to our Board of Directors on 28 March 2014 as an Independent Non-Executive Director and is Chair of the Audit Committee. Mr Dean was appointed Senior Independent Director on 27 May 2015. Mr Dean is also a Non-Executive Director and Audit Chair of Porvair plc, Focusrite plc and Wincanton plc. He is the Senior Independent Director at Porvair plc. Mr Dean was Group Finance Director of Ultra Electronics Holdings plc from 2009 to 2013. Previously he had the same role at Foseco Group from 2001 to 2008, including when it floated in 2005. Mr Dean has a Master of Arts in History from Oxford University.



Moni Mannings A N R

Non-Executive Director

Committees: Audit, Nomination, Remuneration

Moni Mannings was appointed to our Board of Directors on 28 March 2014 as a Non-Executive Director and is Chair of the Remuneration Committee. Mrs Mannings was a senior partner of Olswang LLP until 31 March 2016 and had been a partner there since 2000. Previously she was also a Board Member of the Solicitors Regulation Authority and Chair of its Equality, Diversity and Inclusion Committee. Mrs Mannings is a Non-Executive member of the Boards of Investec Bank plc, Dairy Crest Group plc and Cranfield University. She is also a Board Trustee of the charity Barnardo's. Mrs Mannings has a Bachelor of Law from the University of Southampton.



Mark Hammond A N R

Non-Executive Director

Committees: Audit, Nomination, Remuneration

Following listing, Mark Hammond was appointed as a Non-Executive Director of our Board of Directors. Mr Hammond has recently retired as Deputy Managing Partner of Caird Capital LLP, which is the adviser to Cavendish Square Partners LP. Mr Hammond joined HBOS plc in June 2003 and served as Head of Integrated Finance from 2006 until 2010. Prior to joining HBOS plc, Mr Hammond held roles with Gresham Trust plc, The Royal Bank of Scotland plc and PricewaterhouseCoopers LLP where he qualified with the Institute of Chartered Accountants of Scotland in 1991. Mr Hammond graduated with a Master of Arts in Economics and Accountancy from the University of Aberdeen in 1988. Mr Hammond has previously been a Director of The Big Green Parcel Holding Company Limited and David Lloyd Leisure Group Limited. Mr Hammond currently sits on the Board of Governors of Beechwood Park School, Markyate, Hertfordshire.



Emma Versluys
Company Secretary

Emma Versluys is our Company Secretary and is Secretary to the Board and its three Committees, a position she has held since June 2017. Before joining Polypipe, Ms Versluys was Deputy Company Secretary at Provident Financial plc, and has also held company secretarial roles at Serco plc and Alliance UniChem plc. She is an Associate of the ICSA: The Governance Institute and is also a solicitor.

INTRODUCTION FROM THE CHAIRMAN

DEAR SHAREHOLDER

I am pleased to present the Company's Corporate Governance Report for the year ended 31 December 2017, on behalf of the Board.

This year has seen further changes to the Board, with Martin Payne being appointed as Chief Executive Officer following the retirement of David Hall in October 2017 after 12 years' service as Chief Executive Officer. At the same time, Glen Sabin was promoted to Chief Operating Officer and appointed to the Board. Mr Payne continued to oversee and manage the group finance function following his appointment as CEO until the appointment of Paul James as Chief Financial Officer on 5 March 2018.

The Company Secretarial function was also brought in-house for the first time since the IPO with the appointment of Emma Versluys as Company Secretary. I am delighted to say that these changes have been well received by employees and shareholders, and that there was a seamless transition of CEO responsibilities from David to Martin. I remain confident that we have a strong and diverse Board in place, with the necessary motivation and an appropriate balance of experience and skills to lead the Company through the next phase of its development.

Following the externally facilitated review of our Board's performance in 2016, an internal review of the Board, its Committees and individual Directors was carried out in 2017 using an evaluation questionnaire. The results of the evaluation, which were discussed by the Board at its meeting in November 2017, concluded that the Board continues to function strongly and collaboratively. Suggestions for minor improvements were also made, and the outcome of the evaluation process is discussed in more detail on pages 46 and 47 of this Report.

The terms of reference for each of the Board committees were reviewed and updated as necessary to reflect legislative changes and best practice.

During the year the Board has placed much focus on the consistent leadership of the Group through this period of change, as well as its strategic development, in light of which presentations by the Group's financial advisers and brokers and the annual strategy day proved very valuable.

The following pages of this report and the Directors' Remuneration Report set out in greater detail how the principles and provisions of the UK Corporate Governance Code (April 2016) (the UK Code) have been applied and how the Board and its committees have fulfilled their responsibilities during the year to ensure that robust governance practices are embedded across the Group. The report also serves to provide insight into how the Board and management team run the business for the benefit of shareholders. As always, we welcome questions or comments from shareholders either via our website at www.polypipe.com or in person at the Annual General Meeting (AGM).

Ron Marsh

Chairman

20 March 2018



CORPORATE GOVERNANCE STATEMENT

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

This report, which is also available on the Company's website, explains key features of the Company's governance structure and is designed to provide a greater understanding of how the principles of the UK Code published in April 2016 by the Financial Reporting Council (FRC), have been applied and the areas of focus during the year. The UK Code can be found on the FRC's website at www.frc.org.uk.

In accordance with the Listing Rules of the UK Listing Authority, the Board confirms that throughout the year ended 31 December 2017 and as at the date of this report, the Company has complied with the principles of the UK Code.

The report also includes items required by the FCA's Disclosure Guidance and Transparency Rules. The Board has ultimate responsibility for the approval of the Annual Report and Accounts. It has considered the content of the Annual Report and Accounts and confirms that, taken as a whole, it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

HOW THE BOARD WORKS

The Board and its Committees

The Board is responsible for the leadership and direction of the Group and is ultimately responsible to the Company's shareholders for the Group's long-term success. The Board takes the lead in areas such as strategy, financial policy and making sure we maintain a sound system of internal control. By delegating authority to its Committees, the Board directs and reviews the Group's operations within an agreed framework of controls, allowing risk to be assessed and managed within agreed parameters.

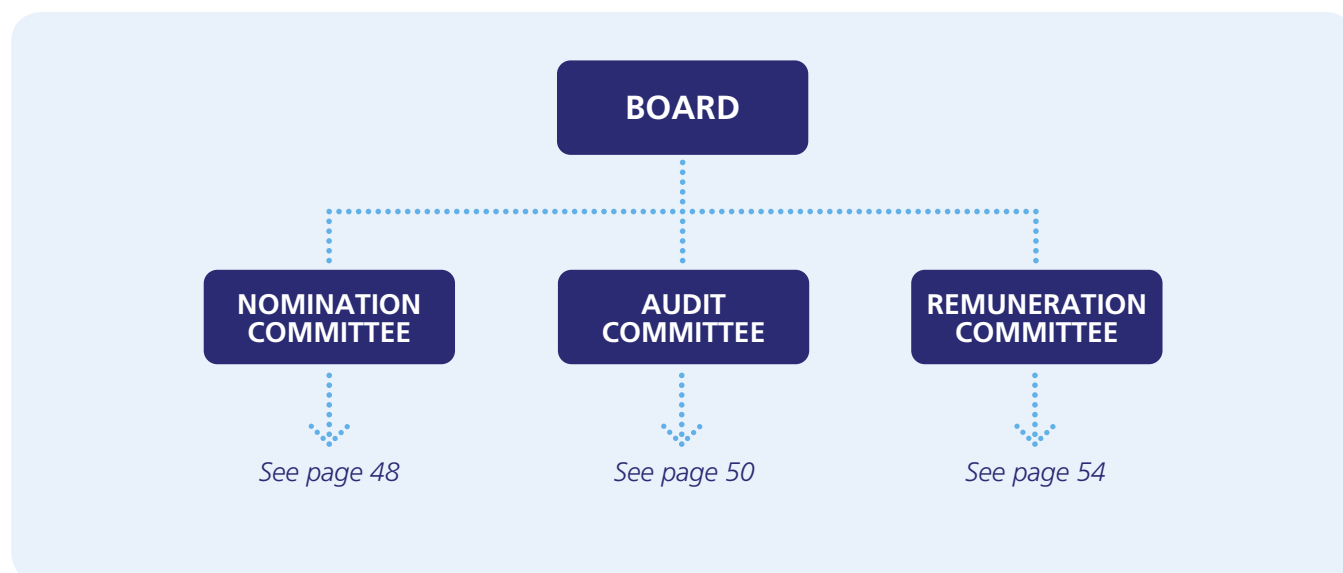
The Board has established a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its principal committees: the Audit, Nomination and Remuneration Committees. These are clearly defined within the terms of reference of the respective Committees. The schedule of matters reserved for the Board includes the consideration and approval of:

- strategy and overall management and leadership of the Group;
- financial items – including the Group's annual budget, dividend policy, annual and half-yearly accounts, accounting policies, and monetary limits;

- the risk management system and internal controls;
- contracts with third parties not in the ordinary course of business;
- legal, administration and pension arrangements;
- the Group's corporate governance arrangements;
- the operation of the Company's share option schemes as recommended by the Remuneration Committee;
- Directors' and Officers' insurance coverage and the commencement or settlement of any litigation;
- communications with shareholders and the issue of shareholder circulars;
- Board and senior management appointments and arrangements; and
- conflicts of interest where permitted by the Company's Articles of Association.

The Board has also delegated to the Chief Executive Officer the responsibility for implementing the Group's business model and for the day-to-day operational management of the Group. The Chief Executive Officer is supported in carrying out his responsibilities by the Chief Financial Officer, the Chief Operating Officer and the senior management team.

Polypipe's Governance Structure



CORPORATE GOVERNANCE STATEMENT

The Board has direct access to the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Board may take independent professional advice in the furtherance of its duties if necessary, at the Company's expense.

Board Composition, Qualification and Experience

At the year end, the Board comprised the independent Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. Biographical details of the individual Directors, as well as Paul James, who joined the Board on 5 March 2018, can be found on pages 40 and 41. The Non-Executive Directors were appointed for the diversity of their backgrounds as well as their personal attributes and experience. The current Board members bring a wide range of skills and experience to the Board and all actively contribute in discussion.

In accordance with UK Code Provision B.1.1 the Nomination Committee and the Board have considered the independence of each of the Non-Executive Directors. The Board considered the Chairman and all the Non-Executive Directors to be independent throughout the period.

In accordance with UK Code Provision B.7.1, at the 2018 AGM and all future AGMs, the Board is proposing that all of the Directors will be subject to re-election. Paul James and Glen Sabin will both offer themselves for election at the 2018 AGM and for re-election annually thereafter.

Role of the Chairman and Chief Executive Officer

The roles and responsibilities of the Chairman and the Chief Executive Officer are separate and clearly defined.

It is the Chairman's duty to provide overall leadership and governance of the Board. In performing this role, the Chairman sets the Board agenda, ensures that adequate time is available for discussion of all agenda items and promotes a culture of openness,

challenge and debate at Board meetings. The Chairman is also responsible for ensuring that the Directors have an understanding of the views of major shareholders.

The Chief Executive Officer is responsible for executive management of the Group's business, consistent with the strategy and commercial objectives agreed by the Board. He leads the senior management team in effecting decisions of the Board and its Committees and is responsible for the maintenance and protection of the reputation of the Group. The Chief Executive Officer is also responsible for ensuring that the affairs of the Group are conducted with the highest standards of integrity, probity and corporate governance.

Interaction between the Chairman and the Chief Executive Officer

As noted above, the roles of Ron Marsh as the Chairman and Martin Payne as the Chief Executive Officer are separate, with a distinct division of responsibilities. The partnership between both is based on mutual trust and facilitated by regular contact between them. The separation of authority enhances the independent oversight of the executive management by the Board and helps to ensure that no one individual on the Board has unfettered authority.

Role of the Senior Independent Director

Paul Dean is the Senior Independent Director (SID) of the Company and is available to shareholders if they have concerns that cannot be addressed through normal channels. The role of the SID is to act as a sounding board for the Chairman and an intermediary for the other Directors when necessary. The SID is also available to chair the Board in the absence of the Chairman and has authority to add items to the agenda of any regular or special meeting of the Board. The role of the SID is considered to be an important check and balance in the Group's governance structure.

Appointment and Tenure

The Non-Executive Directors serve on the basis of letters of appointment which are available for inspection at the Company's registered office. The letters of appointment set out the expected time commitment of the Non-Executive Directors who, on appointment, undertake that they have sufficient time to carry out their duties. There is no fixed expiry date and no notice period in their letters of appointment.

The Executive Directors' service contracts are also available for inspection at the Company's registered office. The notice period for the Executive Directors is 12 months.

Directors' Induction and Training/ Professional Development

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the ongoing development of all Directors. Glen Sabin joined the Board during the year and received training on directors' duties and obligations. Paul James is currently in the process of receiving a comprehensive induction, having joined the Company on 5 March 2018, and further information on this will be provided in the 2018 Annual Report and Accounts.

As the internal and external business environment changes, it is important to ensure the Directors' skills and knowledge are refreshed and updated regularly. The Board was therefore given presentations during the year by the Company's financial advisers and brokers, as well as several presentations by senior management, in addition to the annual strategy day. During Board meetings held during the year the Company Secretary updated the Board on new legislation and regulations as well as changes to the current legislative and regulatory regimes to which the Company is subject.

Directors' Conflicts of Interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where he or she may have a direct or indirect interest that conflicts with the interests of the Company. The Company has robust procedures in place to identify, authorise and manage such conflicts of interest, and these procedures have operated effectively during the year.

All potential conflicts approved by the Board are recorded in a Conflicts of Interest Register which is maintained by the Company Secretary and reviewed by the Board on a regular basis. Directors have a continuing duty to update the Board with any changes to their conflicts of interest.

Directors' Indemnity and Insurance

Details of the Directors' indemnity arrangements can be found on pages 74 and 75 of the Directors' Report.

Internal Controls and Risk Management

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. It is also responsible for maintaining sound risk and internal control systems in accordance with section C.2.3 of the UK Code and confirms that:

- there is an ongoing process for identifying, evaluating, and managing the principal risks faced by the Group;
- the systems have been in place for the year under review and up to the date of approval of the Annual Report and Accounts;
- the systems are regularly reviewed by the Board; and
- the systems accord with the FRC guidance on risk management, internal control and related financial and business reporting.

The effectiveness of these systems is also reviewed through the work of the Audit Committee described on pages 51 to 53.

The key risks which the Board has focused on this year together with their potential impact and mitigating actions are set out on pages 30 to 34.

The Company has a risk management framework which adopts a top down and a bottom up view of the key risks which involves both the downward cascade and upward escalation of risks between Group and the business units. It comprises a risk register template, a risk profile template and assessment guidelines to be used by both the Group and business units when considering risk. It also includes a detailed approach to formally recording and independently assessing Group level risks.

The Board has conducted a review of the effectiveness of the system of internal controls and risk management and is satisfied that it complies with Provision C.2.3 of the UK Code.

FINANCIAL AND BUSINESS REPORTING PROCESS

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Company. In addition to the Annual Report and Accounts, the Company also ensures that other price-sensitive reports and other information are published externally.

The Group has a thorough assurance process in place in respect of the preparation, verification and approval of periodic financial reports which is set out in the Report of the Audit Committee on pages 51 to 53.

This process includes:

- the involvement of qualified, professional employees with an appropriate level of experience (both in Group Finance and throughout the Group's businesses);
- formal sign-off from appropriate business segment senior executives;
- comprehensive review and, where appropriate, challenge from appropriate Group senior executives and Executive Directors;
- a transparent process to ensure full disclosure of information to the external auditor;
- oversight by the Audit Committee, involving (amongst other duties):
 - a detailed review of key financial reporting judgements which have been discussed by management;
 - review and, where appropriate, challenge on matters including:
 - > the consistency of, and any changes to, significant accounting policies and practices during the year;
 - > significant adjustments resulting from an external audit;
 - > the viability statement assumptions; and
 - > the going concern assumption.

The above process provides comfort to the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

CORPORATE GOVERNANCE STATEMENT

BOARD MEETINGS

The Board met regularly during the year, holding nine Board meetings and a number of other meetings and teleconferences to discuss and review progress on issues affecting the Group. A number of Committee meetings were also held during the year. Details of attendance at Board and Committee meetings are shown in the table below.

	Board Attendance	Audit Committee Attendance	Nomination Committee Attendance	Remuneration Committee Attendance
Current Directors				
Ron Marsh	9 of 9	–	4 of 4	6 of 6
Martin Payne*	9 of 9	–	1 of 1	–
Glen Sabin†	2 of 2	–	–	–
Moni Mannings	9 of 9	3 of 3	4 of 4	6 of 6
Paul Dean	9 of 9	3 of 3	4 of 4	6 of 6
Mark Hammond	9 of 9	3 of 3	4 of 4	6 of 6
Past Director				
David Hall ††	7 of 7	–	3 of 3	–

* Martin Payne served as Chief Financial Officer from the beginning of the period until 2 October 2017 and as Chief Executive Officer from 2 October 2017 to the end of the period.

† Glen Sabin served as Chief Operating Officer from 2 October 2017 to the end of the period.

†† David Hall served as Chief Executive Officer from the beginning of the period until 2 October 2017.

As the above table demonstrates, every effort is made to ensure that all Directors, where possible, attend scheduled Board meetings. However, in the event that a Director is unable to attend a meeting, they are nevertheless provided with the meeting papers and information relating to the meeting and are able to discuss the issues arising with the Chairman and other Directors.

Senior management from across the Group, and advisers, attend some of the meetings for discussion of specific items in greater depth.

In order to provide the Board with greater visibility of the Group's operations and to provide further opportunities to meet senior management, the Board visits at least one of the Group's business unit locations each year. Such visits allow the Board to gain a deeper understanding of local market dynamics and to assess management performance and potential. During the year, the Board visited the Group's operations in Castres (France), Ulster, Doncaster, Loughborough and Caerphilly. During these visits the Board members attended management presentations and/or toured the factories and distribution centres.

In November 2017 the Board held its annual strategy day, where it spent a full day with senior management to discuss current performance of the Group and the strategic plan. Members of senior management from across the Group presented the operational and financial performance of their respective businesses in detail to the Board and explained the growth prospects of each market segment in the UK and abroad.

Board dinners are typically held ahead of scheduled Board meetings to provide a more relaxed forum than the formal meetings in which the Board members are able to have additional discussions amongst themselves and with the senior management team at that location, which improves the focus of the formal Board meetings.

During the year the Chairman held one meeting with the Non-Executive Directors without the Executive Directors present, and the Non-Executive Directors met on one occasion without the Chairman being present to appraise the Chairman's performance as discussed below.

BOARD COMMITTEES

The Board has appointed three Board Committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. The role and responsibilities of each Committee are set out in formal Terms of Reference. These Terms of Reference have been reviewed during the year and adjusted as necessary to improve the Committees' efficiency and to reflect legislative changes and best practice. The updated Terms of Reference are available on the Company's website at www.polypipe.com.

The Committees make recommendations to the Board as they see fit. Each Committee Chair provides an update to the Board on the key discussions and decisions made at the preceding Committee meeting.

BOARD EVALUATION AND EFFECTIVENESS

Following the externally facilitated Board evaluation carried out in 2016 in accordance with UK Code Provision B.6.2, the Board and its Committees undertook an internal evaluation in 2017, which was facilitated by the Company Secretary and the Chairman.

The evaluation consisted of a high-level questionnaire for the Directors' completion which was structured to provide Directors with an opportunity to express their views about:

- Board structure, composition and functionality;
- Board meetings and contents;
- Board administration and governance;
- interaction with management;
- committee structure, functionality and meetings; and
- personal effectiveness and overall Board effectiveness.

The results of the performance evaluation were reviewed by the Board at its meeting in November 2017. The results of the evaluation indicated that the Directors consider the Board to be effective, collaborative and focused, with positive working relationships amongst all of its members. Notwithstanding the above, the Directors recognised the need to continuously improve and develop their contributions, and the following actions were agreed as a result of the exercise and will be progressed over the coming year:

- an action plan and progress log in relation to the evaluation itself would be developed and maintained by the Company Secretary;
- a review would be undertaken for 2019 to ensure the frequency and timing of the Board and Committee meetings remained appropriate;
- longer-term Non-Executive Director succession planning would need to be considered in light of the fact that all NEDs would reach the end of their terms of appointment during 2020;
- a legal training and refresher session by the Company's appointed lawyers would be held annually; and
- a formal review of the Company's strategic objectives would be undertaken annually at the half year following the strategy day held in the preceding November.

In addition, the Chairman discussed with each Director their performance and their training needs and the Senior

Independent Director led the assessment of the Chairman's leadership.

As a result of these individual reviews, it is considered that the performance of each of the Directors continues to be effective and that each Director demonstrates sufficient commitment to his or her role. It was acknowledged that the objective of the Board in supporting the senior management team to improve the performance of the Group and promote the interests of the shareholders and stakeholders had been achieved and it would continue to constructively challenge the senior management team. Consequently, I can confirm that each Director is suitable for re-election at the forthcoming AGM.

SHAREHOLDER ENGAGEMENT

Responsibility for shareholder relations rests with the Chief Financial Officer. The Chief Financial Officer, in conjunction with the corporate broker, ensures that there is effective communication with shareholders on matters such as governance and strategy and that an active dialogue is maintained with investors through a planned programme of investor relations activities. As part of the investor relations programme, formal meetings with investors are scheduled to discuss the Group's interim and final results. In the intervening periods, the Company continues its dialogue with the investor community by meeting key investor representatives and holding investor roadshows.

During the reporting period, the top 20 shareholders of the Group were invited to meet with the Chair of the Remuneration Committee and, if appropriate, the Senior Independent Director to discuss the Company's updated remuneration policy which will be subject to shareholder approval at the 2018 AGM. No shareholders requested a meeting but written feedback from some shareholders was provided to the Remuneration Committee Chair.

The Chairman, the Senior Independent Director and the other Directors are available to engage in dialogue with major shareholders as appropriate. Board members develop an understanding

of the views of major shareholders through analysts' and brokers' briefings and any direct contact initiated by shareholders. The Board believes that there were appropriate mechanisms in place during the year for the Board to understand the views of shareholders and to communicate with them on matters including governance, remuneration, strategy and performance.

ANNUAL GENERAL MEETING

The Company's AGM is to be held on 23 May 2018 at the Holiday Inn, High Road, Doncaster, DN4 9UX. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. A copy of the notice of AGM can be found on the Company's website at www.polypipe.com.

The AGM is the Company's principal forum for communication with private shareholders. The Chairman of the Board and the Chair of each of the Committees will be available to answer shareholders' questions at the AGM.

The notice of AGM will be sent out to shareholders at least 20 working days before the meeting. Results will be announced to the London Stock Exchange via a Regulatory Information Service announcement and published on the Company's website.

RE-ELECTION OF DIRECTORS

At the AGM, all Directors will retire and submit themselves for election or re-election. As a result of the Board evaluation exercise, as Chairman I am satisfied that each Director continues to show the necessary level of commitment to the Group and has sufficient time available to fulfil his or her duties, to justify their re-election. Paul James and Glen Sabin will both offer themselves for election at the 2018 AGM and for re-election annually thereafter.

Approved by the Board and signed on its behalf.

Ron Marsh

Chairman

20 March 2018

INTRODUCTION FROM THE CHAIR OF THE NOMINATION COMMITTEE

DEAR SHAREHOLDER

I am delighted to present the Report of the Nomination Committee (the Committee) for 2017. During the year, the Committee has overseen a number of Board changes, and a more comprehensive description of the activities of the Committee during the year is provided in the following report. I will be available at the AGM to answer any questions about the work of the Committee.

Ron Marsh

Chair of the Nomination Committee
20 March 2018

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee comprises Ron Marsh (the Chairman), all of the Non-Executive Directors, being Moni Mannings, Paul Dean and Mark Hammond, and Martin Payne (the Chief Executive Officer). Accordingly, there are five members. The Committee is chaired by the Board Chairman except when considering his own re-election.

In accordance with UK Code Provision B.2.1, the majority of the members were independent. During the year, Martin Payne became CEO following the retirement of David Hall, and as a result took over David's membership of the Committee.

The members of the Committee and details of their attendance at Committee meetings are set out on page 46. Biographies of each member are shown on pages 40 and 41. Under the Committee's Terms of Reference, the Committee will normally meet not less than twice a year and at such other times as the Chairman shall require. The Committee held three scheduled formal meetings during the year under review. After each Committee meeting, the Chairman reports to the Board on the main items discussed.

ROLE OF THE COMMITTEE

The Committee's main responsibilities are to evaluate the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and the Committees; to give full consideration to succession planning of Directors and other senior executives and to assist with the selection process of new Executive and Non-Executive Directors including the Chairman. The Committee's

Terms of Reference were reviewed and updated in March 2018 and explain the Committee's role and responsibilities. The Terms of Reference can be found on the Company's website at <http://investors.polypipe.com/corporate-governance/board-committees>. The Company Secretary acts as Secretary to the Committee.

In accordance with its terms of reference, the Committee is required to:

- Review the structure, size and composition of the Board and make recommendations to the Board, as appropriate.
- Consider succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board.
- Review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.
- Identify the balance of skills, knowledge, diversity and experience on the Board and nominate candidates to fill Board vacancies.
- Identify and nominate for the approval of the Board, candidates to fill Board vacancies as and when they arise.
- Review the time commitment required from Non-Executive Directors.
- Review the results of the Board performance evaluation process that relates to the composition of the Board.
- Review and approve the Group's diversity policy and evaluate its effectiveness on a regular basis.

GOVERNANCE

The effectiveness of the Committee was considered as part of the Board and Committee evaluation detailed on pages 46 and 47. At its meeting in January 2018, the Committee considered the contents of the review and concluded that the evaluation had found the Committee to be operating effectively and providing robust challenge to the business.



MAIN ACTIVITIES DURING THE YEAR

During the year under review, the Committee carried out a process to recruit a new Chief Executive Officer to replace David Hall, who had indicated his intention to retire from the Company in October 2017. The Committee also considered the appointment of Glen Sabin to the Board as Chief Operating Officer and carried out a process to recruit a new Chief Financial Officer to replace Martin Payne. Further information on these processes is set out below. The Committee also carried out its duties as listed above and has given particular focus to succession planning for both the Board members as well as senior executives as discussed below. As stated in the Corporate Governance Report, all of the Company's Directors will retire and each will offer themselves for election or re-election at the forthcoming AGM in accordance with UK Code Provision B.7.1. The Chairman confirms that the Committee has considered the formal performance evaluation and the contribution and commitment of the Directors that are required to offer themselves for re-election. The Chairman has confirmed to the Board that their performance and commitment is such that the Company should support their re-election.

No Director was able to vote in respect of their own re-election when consideration was given to Director re-election at the AGM.

Information on the Directors' service agreements, shareholdings and share options is set out in the Directors' Remuneration Report on pages 64 to 73.

REPORT OF THE NOMINATION COMMITTEE

SUCCESSION PLANNING

A key activity of the Committee is to keep under review the Company's succession plans for members of the Board and senior managers over the short, medium and long term to ensure that the composition of the Board and senior management team remains appropriately balanced between new and innovative thinking and longer-term stability. Management training is provided to senior and middle management where appropriate in order to continue to develop the pipeline of internal talent for the future.

In addition, the Committee considers emergency succession planning and is comfortable that a framework is in place should key management roles need to be covered on an interim basis.

Board appointment criteria are considered automatically as part of the Committee's review of succession planning. The Committee believes that limited tenure of the Chairman and Non-Executive Directors and their subsequent enforced retirement as Directors is not always appropriate, and matters of Director tenure are viewed on a case by case basis. Currently all the Non-Executive Directors and the Chairman have been in post for less than six years, as set out in Provision B.2.3 of the UK Code.

CEO SUCCESSION

The Committee engaged the Zygos Partnership (Zygos), an executive recruitment firm, to identify potential candidates to succeed David Hall on his retirement. Zygos reviewed CVs and interviewed various candidates before providing the Chairman and the Committee members with a shortlist of candidates, who were interviewed by the members of the Board, excluding Martin Payne. Following these interviews, all Committee members independently identified Martin Payne as the preferred candidate, having the necessary attributes and skills required of a Chief Executive Officer. The interviewing panel also discussed and agreed that the creation of a new Board position of Chief Operating Officer, reporting to the Chief Executive Officer, would enable the Chief Executive Officer to better balance his strategic

and operational responsibilities. The Committee members identified Glen Sabin as the preferred candidate, having the necessary attributes and skills required of a Chief Operating Officer, and considered that his appointment would provide continuity and provide further support to Martin Payne in his new role as CEO and recommended the appointments of both Martin Payne as CEO and Glen Sabin as COO to the Board.

CFO SUCCESSION

In relation to the recruitment of a new CFO, discussions with three potential recruitment firms were held and consideration given to the merits of using each of them. On the basis that the appointment was time critical, the Committee agreed to again engage Zygos to identify potential candidates for the role of CFO on the basis of their prior detailed knowledge of the business and the Board. Martin Payne interviewed six potential candidates identified by Zygos, and second interviews by Martin Payne and Paul Dean with a shortlist of two candidates followed shortly afterwards. The remaining Committee members, as well as Glen Sabin, met with the preferred candidate, following which all Committee members agreed that Paul James had the necessary attributes and skills that were being sought for the role of Chief Financial Officer and recommended his appointment to the Board.

DIVERSITY

The Committee supports diversity, acknowledging the advantages that come from having diverse viewpoints and the influence this can have in decision making. It is the aim of the Committee to always consider the benefits that arise from a diverse Board when making Board appointments. The Committee does not judge it appropriate to introduce a quota system to enhance diversity in all of its forms to the Board. The Company's recruitment and appointment strategy is based on the merits of the individual candidates, without bias towards age, gender, marital or family status, race, sexual orientation, religion or belief or any disability. Currently one of the seven Directors is female, as well as the Company Secretary.

Details of diversity within our workforce, including at Board and senior management level can be found in our Corporate Responsibility Statement on pages 35 and 36.

TENURE OF NON-EXECUTIVE DIRECTORS

Appointments to the Board are typically made for an initial term of three years and are ordinarily limited to three consecutive terms in office, subject to annual re-election by shareholders at the AGM.

NOMINATION COMMITTEE PRIORITIES FOR 2018

During the forthcoming year, the Committee will be focusing on the composition of the Board in light of the new executive leadership team to ensure the balance of skills, experience and responsibility remains appropriate, which will include a process to recruit an additional Non-Executive Director. The Committee will also consider talent management on a Group-wide basis and succession planning for the senior executives, taking into account the challenges and opportunities facing the Group as it implements its strategy and the future skills and expertise needed by the business as a result. The Committee will also consider the succession planning of Non-Executive Directors so that replacements, which will be required in the longer term, can be phased in over a suitable period. The Committee will continue to consider diversity in 2018, bearing in mind the recommendations from the Hampton-Alexander Review on FTSE Women Leaders and the Parker review on Diversity of Boards, and will report on this in due course.

By order of the Board.

Ron Marsh

Chair of the Nomination Committee
20 March 2018

INTRODUCTION FROM THE CHAIR OF THE AUDIT COMMITTEE

DEAR SHAREHOLDER

I am pleased to present the Report of the Audit Committee (the Committee) for 2017.

The Committee is appointed by the Board from its Non-Executive Directors. The Committee has continued to focus on the integrity of the Group's financial reporting, risk management and internal controls, and the quality of the internal and external audit processes. We will continue to keep our activities under review to ensure that we comply with any changes in the regulatory environment.

The Board has asked the Committee to oversee the process for determining whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy.

As a result of its work undertaken during the year and taking into account the result of the performance evaluation (further details are set out on pages 46 and 47), the Committee considers that it has acted in accordance with its Terms of Reference and has ensured the independence, objectivity and effectiveness of the external and internal auditors.

I am pleased to welcome Paul James to the Board following his appointment on 5 March 2018. I would also like to thank Martin Payne for his hard work and continued support in 2017, in particular in continuing to carry out the CFO function following his change in role to CEO while the recruitment process for the new CFO was completed.

I will be available at the AGM to answer any questions about the work of the Committee.

Paul Dean

Chair of the Audit Committee
20 March 2018



REPORT OF THE AUDIT COMMITTEE

ROLE AND RESPONSIBILITIES

The full responsibilities of the Committee are set out in its Terms of Reference which are available on the Company's website at <http://ir.polypipe.com>. The Terms of Reference have been reviewed and updated during the year to reflect the ICSA: The Governance Institute's guidance and the Financial Reporting Council's (FRC's) Guidance on Audit Committees.

The key responsibilities of the Committee are to:

- assist the Board with the discharge of its responsibilities in relation to internal and external audits;
- monitor and review the Group's internal control and risk management systems;
- monitor and review the effectiveness of the Group's internal audit function;
- monitor the integrity of the financial statements of the Group including its annual and half-yearly reports, trading updates, preliminary results announcements and any other formal announcements relating to its financial performance, and reviewing significant financial reporting issues and judgements;
- where requested by the Board, review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy;
- oversee the relationship with the external auditor including their appointment, reappointment and/or removal; approval of the scope of the annual audit, their remuneration and the terms of engagement; monitor and review their independence and objectivity, the effectiveness of the audit process and the extent of non-audit services performed; and
- report to the Board on how it has discharged its responsibilities.

COMMITTEE MEMBERSHIP AND MEETINGS

The Committee is appointed by the Board and comprises three Non-Executive Directors, being Paul Dean, Mark Hammond and Moni Mannings. All Committee members are considered independent.

In accordance with the requirements of Provision C.3.1 of the UK Code, Paul Dean is designated as the Committee member with recent and relevant financial experience. All other members of the Committee are deemed to have the necessary ability and experience to understand the financial statements. The Committee as a whole has competence relevant to the sector in which the Group operates.

The Committee discharges its responsibilities through a series of scheduled formal meetings during the year. Each meeting has a formal agenda which is linked to the events in the financial calendar of the Group. Attendees at each of the meetings are the Committee members as well as, by invitation, the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Group Financial Controller, and the external auditor, Ernst & Young LLP. The Company Secretary is also Secretary to the Committee.

The Committee held three formal meetings during the year. In accordance with best practice, the Committee met with the Ernst & Young LLP lead audit partner without executive management being present.

GOVERNANCE

In accordance with best practice, the effectiveness of the Committee was evaluated internally this year by means of a questionnaire completed by all Directors, following the external evaluation performed in 2016. At its meeting in November 2017, the Committee considered the results of the internal evaluation and concluded that it had found the Committee to be operating effectively, particularly in relation to the open and robust discussion of audit matters, thus providing the Board with a high level of assurance that they are dealt with appropriately. Areas which the Committee believed could potentially be improved were discussed and included in its action plan for next year.

MAIN ACTIVITIES OF THE COMMITTEE DURING THE YEAR

As part of the process of working with the Board to carry out its responsibilities and to maximise its effectiveness, meetings of the Committee normally take place prior to the Board meetings, at which the Chair of the Committee provides an update to the Board.

At these meetings the Committee focused on the following areas:

Financial reporting

During the year, Committee meetings were held prior to the Board meetings to approve the Group's interim and annual financial statement announcements and to consider the financial reporting judgements made by management. These considerations are made through review of the accounting papers and financial reports prepared by management and reports prepared by the Group's external auditor.

The Committee also reported to the Board that it considered that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy.

REPORT OF THE AUDIT COMMITTEE

Significant financial reporting risk, judgement and estimates

The significant risk reviewed by the Committee in respect of the year under review was as follows:

- **Revenue recognition and customer rebates** – The Committee considered the operating effectiveness of controls surrounding revenue recognition and management's subjective assessment and recognition of customer rebate liabilities at the interim and year end.

The significant judgement reviewed by the Committee in respect of the year under review was as follows:

- **Discontinued operations** – On 31 January 2018, the Group announced it had entered into exclusive negotiations to sell Polypipe France. It was determined that the sale was highly probable at 31 December 2017. The Committee considered the financial accounting and reporting disclosure impacts in relation to this determination outlined by management including the French operations being classified as discontinued, the associated net assets being classified as held-for-sale, and a loss on remeasurement to fair value less costs to sell being recognised.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

- **Impairment of non-financial assets** – The Committee considered a detailed report prepared by management setting out the assumptions used in determining whether goodwill, other intangible assets or property, plant and equipment required impairment for any of the business units. This included a review of the discount rate and growth factors used to calculate the discounted projected future cash flows, the sensitivity analysis applied, and the discounted projected future cash flows used to support the carrying amount of the goodwill.

- **Restructuring provisions** – The Committee considered various reports prepared by management setting out the events and changes in circumstances which resulted in the closure of the Dubai, United Arab Emirates manufacturing facility, and the resulting recognition of cash and non-cash restructuring costs.
- **Inventory provisioning** – The Committee reviewed the carrying amount of the Group's finished goods inventory and management's assessment and recognition of the appropriate level of provisioning against slow-moving and obsolete items.

Internal control, internal audit and risk management

Internal audit performs an integral role in the Group's governance structure and provides regular reports to the Committee. The Committee has reviewed and approved the scope of the rolling internal audit work programme in relation to the Group's internal controls and procedures at each of the three meetings held during the year.

The Committee reviews and challenges the results and reports from the internal audit work programme and the adequacy of management's responses and proposed resolutions.

The Group's risk assessment process, including how significant financial risks are managed and mitigated, is a key area of focus for the Committee. During the year, the Committee monitored and reviewed the Group's risk management framework and the results of testing performed by the Group's internal audit function on specific elements of that framework. There were no significant internal control failings or weaknesses during the year.

Other activities

Other activities undertaken by the Committee during the year included the following:

- considered the external audit plan and approved the audit fee;
- considered the viability statement and going concern assumption;
- instigated, monitored and reviewed the Group's response to an external review of cyber security performed during the year by PricewaterhouseCoopers LLP;
- considered the impact of new financial reporting standards and legislative requirements on the Group;
- reviewed the Committee's performance, effectiveness and constitution; and
- recommended the Report of the Audit Committee for approval by the Board.

EXTERNAL AUDIT

Appointment

The Committee carefully considers the reappointment of the external auditor each year prior to making its recommendation to the shareholders. As part of this process, the Committee considers the independence of the external auditor, the effectiveness of the external audit process, its remuneration, and the terms of engagement. Having reviewed the performance of Ernst & Young LLP in 2017, the Committee has decided to recommend to the Board that Ernst & Young LLP should be reappointed for the 2018 audit and a resolution to this effect will be proposed at the 2018 AGM.

In accordance with current professional standards, the external auditor is required to change the lead audit partner every five years in order to protect auditor independence and objectivity. Ernst & Young LLP were awarded the external audit in 2012 following a competitive tendering process. The lead audit partner was rotated in 2017. In accordance with the UK Code, the Competition and Markets Authority (CMA) Order and the EU Audit Directive, it is the Group's intention to put the audit out to tender at least every ten years. Accordingly, the Company plans to run a competitive tender process in or before 2022.

Independence

The independence of the external auditor was confirmed by Ernst & Young LLP in November 2017 and March 2018 at the Committee meetings. The Committee considered Ernst & Young LLP's presentation on auditor independence and confirmed that it considered the auditor to be independent.

Non-audit services

The Group's non-audit services policy restricts the external auditor from performing certain non-audit services in accordance with the Revised Ethical Standard 2016 issued by the FRC. All non-audit services proposed to be performed by the external auditor must be pre-approved and sponsored by a senior executive with a detailed written recommendation including: the nature and scope of the proposed service, the supplier selection process and criteria, the chosen supplier and selection rationale, the relationship of the individual within the external auditor to perform the proposed service with those undertaking the audit work, a fee estimate and the category of non-audit service, if relevant. In addition, the external auditor must provide a written statement of independence approved by the lead audit partner. All non-audit services proposed to be performed by the external auditor with a fee estimate in excess of £10,000 must also be pre-approved by the Committee. This policy and approach further enhances auditor objectivity and independence. There were no exceptions to this policy during 2017.

Effectiveness of the external audit process

The Committee operated a formal process for reviewing the effectiveness of Ernst & Young LLP during the year under review. This process included the following:

- an assessment of the lead audit partner and the audit team;
- a review of the audit approach, scope, determination of significant risk areas and materiality;
- the execution of the audit;
- interaction with management and communication with, and support to, the Committee;
- the quality of any recommendation points; and
- a review of independence, objectivity and scepticism.

Ernst & Young LLP's external audit of the Group's financial statements for the year ended 31 December 2016 was reviewed by the FRC's Audit Quality Review (AQR) team. We have considered the findings of the AQR team as part of the Committee's assessment of the effectiveness of Ernst & Young LLP's external audit. As well as receiving and discussing the AQR's final letter which summarised their conclusions, the Committee had open and transparent conversations with Ernst & Young LLP's lead audit partner on the areas of the external audit that were reviewed by the AQR team. This included understanding the substance of the discussions between Ernst & Young LLP and the AQR team during the review and the actions that will be taken by Ernst & Young LLP in response to the AQR team's findings.

After considering the above matters, the Committee considered that the audit had been effective and recommended to the Board that Ernst & Young LLP be reappointed as external auditor to the Group.

FRAUD, WHISTLE-BLOWING AND THE UK BRIBERY ACT

The Committee monitors any reported incidents under its whistle-blowing policy, which has been reviewed during the year. This policy is included in the Employee Handbook and sets out the procedure for employees to raise legitimate concerns about any wrongdoing in financial reporting or other matters such as:

- something that could be unlawful;
- a miscarriage of justice;
- a danger to the health and safety of any individual;
- damage to the environment; or
- improper conduct.

There were no concerns which required the attention of the Committee during the year.

The Committee also reviews the Group's procedure for detecting fraud and the systems and controls in place to prevent a breach of anti-bribery legislation. The Group Finance Manual sets out the procedures to which employees must adhere and is aimed at reducing the risk of fraud occurring. The Group is committed to a zero-tolerance position with regard to bribery. Those employees which the Group considers are more likely to be exposed to potential breaches of the Group's Anti-Bribery policy and statutory obligations under the UK Bribery Act have been provided with relevant guidance on compliance with their obligations. The Group maintains a record of all employees who have received this guidance and requests annual confirmations from each relevant individual stating that they have complied with the Group's policy.

By order of the Board.

Paul Dean

Chair of the Audit Committee
20 March 2018

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

DEAR SHAREHOLDER

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017. The report is split into two sections in line with legislative reporting regulations:

- **Remuneration Policy** – contains details of the various components of the Remuneration Policy, which will be subject to a binding shareholder vote at our 2018 Annual General Meeting (AGM) and will have effect from the date on which it is approved. The Remuneration Policy is broadly unchanged from the Policy approved by shareholders at the 2015 AGM, apart from a reduction in the maximum level of pension provision for Executive Directors from 20% to 15% of salary and an increase in the required minimum shareholding guideline for Executive Directors from 100% to 200% of salary. Further details are set out on pages 56 to 63.
- **The Annual Report on Remuneration** – contains details of remuneration received by Directors in 2017 and also contains full details of how we intend to implement the updated Remuneration Policy during 2018. The Annual Report on Remuneration will be subject to an advisory vote at the 2018 AGM. Further details are set out on pages 64 to 73.

This Directors' Remuneration Report is compliant with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, the UK Listing Authority Listing Rules and the Companies Act 2006 and is consistent with the UK Corporate Governance Code 2016 (the Code).

ALIGNING REMUNERATION WITH COMPANY STRATEGY

The Remuneration Policy is designed to encourage achievement of our strategic goals and priorities, details of which are set out on pages 12 and 13, by rewarding in line with underlying Company performance while encouraging leadership behaviour which carries an appropriate level of

risk. This is achieved by an annual bonus arrangement which is linked to achieving profit targets, working capital targets and personal objectives and a long-term incentive plan which only rewards for shareholder value creation and delivery of long-term earnings growth.

The most substantial issues considered by the Remuneration Committee (the Committee) during the past year are set out below.

PERFORMANCE IN 2017

The financial and operating performance of the Group in 2017 is set out on pages 86 to 125. The Company has continued to deliver sustainable returns and growth for its shareholders during 2017, achieving profit before tax of £55.6m, up 3.9% from 2016, and increasing underlying basic earnings per share from continuing operations by 10.1% to 27.2p per share.

Based on the Company's strong financial performance during the year and fulfilment of their individual objectives, the Committee determined that Martin Payne, Chief Executive Officer (CEO), earned 66.8% of his maximum potential annual bonus in respect of 2017 performance and that Glen Sabin, Chief Operating Officer (COO), earned 65.8% of his maximum potential annual bonus in respect of 2017 performance, prorated to reflect the amount of time served in their respective roles during the year. In accordance with the current Remuneration Policy, 25% of this bonus will be deferred into shares.

RETIREMENT OF DAVID HALL

As a Committee, we recognise our responsibility to ensure that pay decisions relating to departing Directors are determined fairly both for shareholders and for the departing individuals. During 2017, our former CEO, David Hall, retired after 12 years' service as CEO of the Company. Mr Hall received no termination payment although he will receive a time prorated annual bonus for 2017 payable at the end of March 2018. His outstanding Deferred Share Bonus Plan (DSBP) awards vested upon cessation of employment in accordance with the rules of the DSBP, and were

settled in cash. His outstanding awards under the Long-Term Incentive Plan (LTIP) are subject to the rules of the LTIP, and will therefore vest on the normal vesting date, subject to achievement of the relevant performance target and prorated to reflect the period of time between the date of grant and date of retirement.

APPOINTMENT OF MARTIN PAYNE

The Committee approved the pay arrangements for Martin Payne, the former CFO, who took over as CEO of the Company on 2 October 2017, when David Hall retired. It is the Committee's intention, subject to satisfactory performance, to increase Martin Payne's salary over time to the equivalent salary as was paid to David Hall when he held the CEO role. This may therefore result in an annual increase over and above the average increase awarded to the workforce in any given year. Full details of Martin Payne's remuneration are set out on pages 64 to 73.

APPOINTMENT OF GLEN SABIN

The Committee approved the pay arrangements for Glen Sabin, who was promoted to the position of COO and joined the Board on 2 October 2017. Full details of those arrangements are set out on pages 64 to 73.



APPOINTMENT OF PAUL JAMES

The Committee approved the pay arrangements for Paul James, who joined the Company as CFO on 5 March 2018. Full details of those arrangements are set out on pages 65 and 66.

LTIP AWARDS

In May 2017, the Committee approved the grant of LTIP awards to the Executive Directors and other senior management. Award levels were 125% of salary for David Hall, 100% of annual salary for Martin Payne (CFO at the date of grant) and the relevant percentage of annual salary for Glen Sabin in his role as Managing Director of the Plumbing & Drainage Division at the date of grant. These award levels are significantly below the maximum of 200% of annual salary permitted under the current Remuneration Policy.

The Committee considered a number of possible performance measures and concluded that a combination of stretching Earnings per Share (EPS) growth targets and a relative Total Shareholder Return (TSR) measure provided an appropriate basis for rewarding the successful delivery of longer-term strategic priorities, Company growth and shareholder value.

KEY REMUNERATION DECISIONS FOR 2018

The proposed implementation of the Remuneration Policy for our Executive Directors for 2018 is outlined on pages 64 to 67. Key decisions made by the Committee in relation to 2018 include:

- The award of a 2.0% salary increase for Executive Directors. This is consistent with the average increase awarded to the Group's UK workforce for 2018.
- Maximum bonus potential and LTIP award levels for Martin Payne in 2018 will be the same as applied to his predecessor as CEO in 2017 (125% of salary for each element). Maximum bonus potential and LTIP award levels for the other Executive Directors will be 100% of salary for each element. The Committee believes that these levels of award are appropriate to

ensure that the Executive Directors' interests are fully aligned with the interests of other shareholders.

- No changes to the performance measures to be used to assess Company performance in 2018. The Group Underlying Operating Profit and Working Capital financial measures which determine 90% of the bonus and the Underlying diluted EPS and relative TSR measures which determine 100% of the LTIP provide alignment with the priorities outlined in the Strategic Report and alignment with our shareholders' interests. The Committee believes that this combination provides a fair and rounded assessment of short-term and longer-term Company performance.

SHAREHOLDER ENGAGEMENT

We take a keen interest in shareholder views on executive remuneration and, in this context, the Committee carried out a consultation process with its top 20 shareholders and the shareholder advisory bodies in 2017 on the proposed draft Remuneration Policy to be presented for approval by shareholders at the 2018 AGM. Overall, feedback from those shareholders that responded was supportive.

I will be available to answer questions on the Remuneration Policy and the Annual Report on Remuneration at the AGM on 23 May 2018. I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the AGM.

Moni Mannings

Chair of the Remuneration Committee
20 March 2018

REMUNERATION POLICY

This part of the report sets out the Directors' Remuneration Policy (Remuneration Policy). This Remuneration Policy will be subject to a binding shareholder vote at the 2018 AGM and will apply to payments made from the date of approval. The information provided in this section of the Directors' Remuneration Report is not subject to audit.

The only changes of substance in this Remuneration Policy from the Remuneration Policy approved by shareholders at the 2015 AGM are a reduction in the maximum level of pension provision for Executive Directors from 20% to 15% of salary and an increase in the required minimum shareholding guideline for Executive Directors from 100% to 200% of salary.

POLICY TABLE

The following table sets out details of each component of the Executive Director remuneration package. Our aim is to provide pay packages that will:

- Promote the long-term success of the Company.
- Encourage and support a high performance culture.
- Reward delivery of the Company's business plan and our key strategic and operational goals.
- Motivate and retain our industry leading employees.
- Attract high quality individuals to join the Company.
- Align our employees' interests with the interests of shareholders and other external stakeholders.

Consistent with these aims, the Committee has agreed a remuneration policy for Executive Directors, whereby:

- Salaries will be set at competitive, but not excessive, levels compared to peers and other companies of an equivalent size and complexity.
- Performance-related pay, based on stretching targets, will form a significant part of remuneration packages.
- There will be an appropriate balance between rewards for delivery of short-term and longer-term performance targets taking into account, where relevant, existing shareholdings.

EXECUTIVE DIRECTORS

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions and provisions for recovery of sums paid ⁽¹⁾
Fixed pay			
Base salary To appropriately recognise skills, experience and responsibilities and attract and retain talent by ensuring salaries are market competitive.	Generally reviewed annually with any increase normally taking effect from 1 January although the Committee may award increases at other times of the year if it considers it appropriate. The review takes into consideration a number of factors, including (but not limited to): <ul style="list-style-type: none"> ○ The individual Director's role, experience and performance. ○ Business performance. ○ Market data for comparable roles in appropriate pay comparators. ○ Pay and conditions elsewhere in the Group. 	No absolute maximum has been set for Executive Director base salaries. Current Executive Director salaries are set out in the Annual Report on Remuneration section of this Remuneration Report. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: <ul style="list-style-type: none"> ○ Salaries would typically be increased at a rate consistent with the average salary increase for UK employees. ○ Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). ○ Larger increases may also be considered appropriate if a Director has been initially appointed to their position on the Board at a lower than typical salary. 	No performance conditions. Malus and clawback provisions do not apply.

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions and provisions for recovery of sums paid ⁽¹⁾
Benefits To provide market competitive benefits.	<p>Benefits currently include company car (or car allowance), income protection insurance, private family medical insurance, permanent health insurance and life assurance of four times annual salary. The Committee has discretion to add to or remove benefits provided to Executive Directors.</p> <p>Executive Directors are entitled to reimbursement of reasonable expenses. Executive Directors also have the benefit of a qualifying third party indemnity from the Company as well as Directors' and Officers' liability insurance.</p>	<p>There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role.</p>	<p>No performance conditions.</p> <p>Malus and clawback provisions do not apply.</p>
Pension To provide market competitive retirement benefits.	<p>Current policy is for the Company to contribute to the Group Pension Plan, a personal pension scheme and/or provide a cash allowance in lieu of pension.</p>	<p>Executive Directors receive a pension-related contribution of up to 15% of salary, reduced from 20% under the previous policy.</p>	<p>No performance conditions.</p> <p>Malus and clawback provisions do not apply.</p>

Variable pay

Annual bonus ^{(2), (3)} To link reward to key financial and operational targets for the forthcoming year. Additional alignment with shareholders' interests through the operation of bonus deferral.	<p>The Executive Directors are participants in the annual bonus plan which is reviewed annually to ensure bonus opportunity, performance measures and targets are appropriate and supportive of the business plan.</p> <p>No more than 75% of an Executive Director's annual bonus is delivered in cash following the release of audited results and the remaining amount is deferred into an award over Company shares under the Deferred Share Bonus Plan.</p> <ul style="list-style-type: none"> ○ Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). ○ Deferred awards usually vest in two equal tranches two and three years after award although may vest early on leaving employment or on a change of control (see later sections). ○ An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis). 	<p>The maximum award that can be made to an Executive Director under the annual bonus plan is 125% of salary.</p>	<p>The bonus is based on performance assessed over one year using appropriate financial, operational and individual performance measures.</p> <p>The majority of the bonus will be determined by measures of Group financial performance.</p> <p>A sliding scale of targets is set for each Group financial measure with payout at no more than 25% for threshold financial performance increasing to 100% for maximum performance.</p> <p>The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Executive Director.</p> <p>Details of the bonus measures operating each year will be included in the relevant Annual Report on Remuneration. Any bonus payout is ultimately at the discretion of the Committee.</p> <p>The cash bonus will be subject to recovery and/or deferred shares will be subject to withholding at the Committee's discretion in exceptional circumstances where within three years of the bonus determination or before the vesting of each tranche of deferred shares a material misstatement or miscalculation comes to light which resulted in an overpayment under the annual bonus plan or if evidence comes to light of material misconduct by an individual or if evidence emerges of a material health and safety breach.</p>
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REMUNERATION POLICY

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions and provisions for recovery of sums paid ⁽¹⁾
Long-Term Incentive Plan (LTIP) ^{(3), (4)} To link reward to key strategic and business targets for the longer term and to align Executive Directors' interests with shareholders' interests.	<p>Awards are usually granted annually under the LTIP to selected senior executives.</p> <p>Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Committee.</p> <p>Awards may be granted as conditional awards of shares, nil-cost options (or, if appropriate, as cash-settled equivalents).</p> <p>Awards normally vest or become exercisable at the end of a period of at least three years following grant although may vest early on leaving employment or on a change of control (see later sections). The Committee has flexibility at its discretion to add an additional holding period after a performance period before awards vest.</p> <p>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).</p>	<p>The maximum annual award permitted under the LTIP is shares with a market value (as determined by the Committee) of 200% of salary.</p> <p>Each year the Committee determines the actual award level for individual senior executives within this limit.</p>	<p>All LTIP awards granted to Executive Directors must be subject to a performance condition.</p> <p>Vesting of Executive Directors' LTIP awards would be dependent on measures which could include Group earnings, return on capital employed and total shareholder return with the precise measures and weighting of the measures determined by the Committee ahead of each award.</p> <p>Performance will usually be measured over a performance period of at least three years. For achieving a 'threshold' level of performance against a performance measure, no more than 25% of the portion of the LTIP award determined by that measure will vest. Vesting then increases on a sliding scale to 100% for achieving a maximum performance target.</p> <p>LTIP awards will be subject to withholding or recovery at the Committee's discretion in exceptional circumstances where before the later of the vesting of an award and the second anniversary of the end of the performance period a material misstatement or miscalculation comes to light or if evidence comes to light of material misconduct by an individual or if evidence emerges of a material health and safety breach.</p>
Sharesave Plan ⁽³⁾ To create staff alignment with the Group and promote a sense of ownership.	<p>UK tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees.</p> <p>Executive Directors are eligible to participate on the same basis as other UK employees.</p>	<p>Monthly savings limit of £500 (or such other limit as may be approved from time to time by HMRC) under all savings contracts held by an individual.</p>	<p>The Sharesave Plan is structured in accordance with HMRC requirements so has no performance conditions but requires participants to make regular contributions into a savings contract.</p> <p>Malus and clawback provisions do not apply.</p>
Share Ownership Guidelines To create alignment between the long-term interests of Executive Directors and shareholders.	<p>Executive Directors have been required to build and maintain a shareholding as a percentage of salary in the form of shares in the Company since Admission.</p> <p>Executive Directors are expected to achieve the shareholding requirement within five years of an individual becoming subject to the requirement.</p>	<p>Since Admission, Executive Directors have been required to build a shareholding equal to 100% of salary. Following a review by the Committee in 2017, this will be increased to 200% of salary with effect from 2018.</p>	<p>Not applicable.</p>

Notes to table:

1. The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may also adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Directors' Remuneration Report.
2. Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Committee based on a range of relevant reference points, including, for Group financial targets, the Group's business plan and are designed to be appropriately stretching.
3. The Committee may: (a) in the event of a variation of the Company's share capital, demerger, special dividend or dividend in specie or any other corporate event which it reasonably determines justifies such an adjustment, adjust; and (b) amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans. Share awards may be settled by the issue of new shares or by the transfer of existing shares. In line with prevailing best practice at the time this Remuneration Policy is approved, any issuance of new shares is limited to 5% of share capital over a rolling ten-year period in relation to discretionary employee share schemes and 10% of share capital over a rolling ten-year period in relation to all employee share schemes.
4. Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Use of earnings and return on capital employed measures would reward management for delivery of key financial measures of Company success that should result in sustainable value creation. Use of a total shareholder return measure would align management's interests with the interests of our shareholders. Targets are considered ahead of each grant of LTIP awards by the Committee, taking into account relevant external and internal reference points and are designed to be appropriately stretching.
5. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the 2015 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder approved Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
6. The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

REMUNERATION POLICY

NON-EXECUTIVE DIRECTORS

Purpose and link to strategy	Operation	Maximum opportunity
<p>Non-Executive Director (NED) fees</p> <p>To appropriately recognise responsibilities, skills and experience by ensuring fees are market competitive.</p>	<p>NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as:</p> <ul style="list-style-type: none"> ○ Senior Independent Director ○ Chair of Audit Committee ○ Chair of Remuneration Committee <p>The Chairman of the Board receives an all-inclusive fee.</p> <p>No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive the grossed-up costs of travel as a benefit. Non-Executive Directors are entitled to reimbursement of reasonable expenses.</p> <p>Fees are reviewed annually.</p> <p>NEDs also have the benefit of a qualifying third party indemnity from the Company and Directors' and Officers' liability insurance.</p>	<p>Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles.</p> <p>No absolute maximum has been set for individual NED fees. Current fee levels are set out in the Annual Report on Remuneration section of this Remuneration Report.</p> <p>The Company's Articles of Association provide that the total aggregate fees paid to the Chairman and NEDs will not exceed £600,000 per annum.</p>

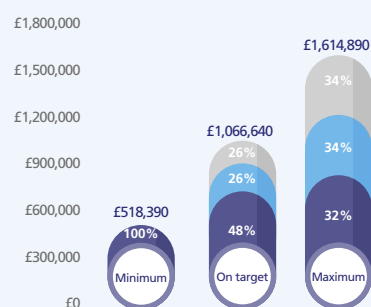
ILLUSTRATIONS OF APPLICATION OF REMUNERATION POLICY

The *Implementation of Remuneration Policy in 2018* section of the Annual Report on Remuneration details how the Committee intends to implement the Remuneration Policy during 2018.

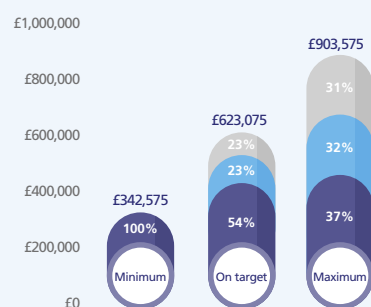
The charts below illustrate, in three assumed performance scenarios, the total value of the remuneration package potentially receivable by Martin Payne, Glen Sabin and Paul James in relation to 2018. This comprises salary and benefits plus an annual bonus of up to a maximum of 125% of salary for Martin Payne and 100% of salary for Glen Sabin and Paul James and an LTIP award of 125% of salary for Martin Payne and 100% of salary for Glen Sabin and Paul James.

The charts are for illustrative purposes only and actual outcomes may differ from that shown. LTIP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded. The totals shown in the charts relate to the potential value receivable by the current Executive Directors in relation to 2018.

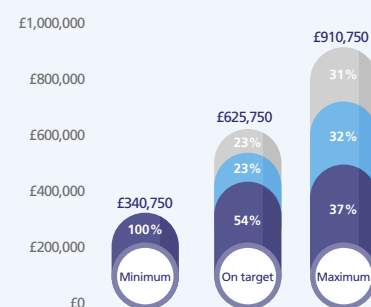
Martin Payne



Glen Sabin



Paul James



■ Fixed Pay ■ Annual Bonus ■ Long-Term Incentive Plan

Assumed performance	Assumptions used
All performance scenarios (Fixed pay)	<ul style="list-style-type: none"> ○ Base salary – salary effective as at 1 January 2018 ○ Benefits – the value of benefits received in 2017 have been included. For Paul James, this has been calculated as an average of the Executive Directors' benefits received in 2017. ○ Pension – 15% of salary
Minimum performance (Variable pay)	<ul style="list-style-type: none"> ○ No pay-out under the annual bonus ○ No vesting under the LTIP
Performance in line with expectations (Variable pay)	<ul style="list-style-type: none"> ○ 50% of the maximum pay-out under the annual bonus ○ 50% vesting under the LTIP
Maximum performance (Variable pay)	<ul style="list-style-type: none"> ○ 100% of the maximum pay-out under the annual bonus ○ 100% vesting under the LTIP

APPROACH TO RECRUITMENT REMUNERATION

Principles

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Committee will apply the following principles:

- The Committee will take into consideration all relevant factors, including the experience of the individual, market data and existing arrangements for other Executive Directors, with a view that any arrangements should be in the best interests of both the Company and our shareholders, without paying more than is necessary.
- Typically, the new appointment will have (or be transitioned onto) the same remuneration structure as the other Executive Directors, in line with the Remuneration Policy.
- Upon appointment, the Committee may consider it appropriate to offer additional remuneration arrangements in order to secure the appointment. In particular, the Committee may consider it appropriate to 'buy out' terms or remuneration arrangements forfeited on leaving a previous employer (discussed below).
- The Committee may provide costs and support if the recruitment requires relocation of the individual.

- Where an Executive Director is an internal promotion, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Maximum level of variable pay

The maximum level of variable remuneration which may be granted to new Executive Directors in respect of recruitment shall be limited to the maximum permitted under the Remuneration Policy, namely 325% of their annual salary. This limit excludes any payments or awards that may be made to buy out the Executive Director for terms, awards or other compensation forfeited from their previous employer (discussed below).

Buyouts

To facilitate recruitment, the Committee may make a one-off award to buy out compensation arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). The overriding principle will be that any buyout award

should be of comparable commercial value to the compensation which has been forfeited. However, such buyout awards would only be considered where there is a strong commercial rationale to do so.

Components and approach

The remuneration package offered to new appointments may include any element within the Remuneration Policy, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders, subject to the limits on variable pay set out above.

In considering which elements to include, and in determining the approach for all relevant elements, the Committee will take into account a number of different factors, including (but not limited to) market practice, existing arrangements for other Executive Directors and internal relativities. If appropriate, different measures and targets may be applied to a new appointee's annual bonus in their year of joining.

The Committee would seek to structure buyout and variable pay awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2 subject to the limits on variable pay set out above.

REMUNERATION POLICY

The exact terms of any such awards (e.g. the form of the award, time frame, performance conditions, and leaver provisions) would vary depending upon the specific commercial circumstances.

Recruitment of Non-Executive Directors

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the Remuneration Policy for Non-Executive Directors. However, the

Committee (or the Board as appropriate) may include any element within the Remuneration Policy, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders. In particular, if the Chairman or a Non-Executive Director takes on an executive function on a short-term basis, they would be able to receive any of the standard elements of Executive Director pay.

SERVICE CONTRACTS

Key terms of the current Executive Directors' service agreements and Non-Executive Directors' letters of appointment are summarised in the table below. It is envisaged that any future appointments would have equivalent contractual arrangements unless otherwise stated in this Report.

Provision	Policy
Notice period	Executive Directors – 12 months' notice by either the Company or the Executive Director. Non-Executive Directors – at the Company's discretion, Non-Executive Directors may have a notice period of up to three months. The Non-Executive Directors do not have a notice period in their letters of appointment.
Termination payment	Following the serving of notice by either party, the Company may terminate employment of an Executive Director with immediate effect by paying a sum equal to salary. Executive Directors are not contractually entitled to any bonus for the period of service in the year in which their employment ends. Non-Executive Directors are only entitled to receive any fee accruing in respect of the period up to termination.
Expiry date	Executive Directors have rolling 12 month notice periods so have no fixed expiry date. Non-Executive Directors' letters of appointment have no fixed expiry date.

In accordance with the Code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company.

All Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office at Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES.

POLICY ON PAYMENT FOR LOSS OF OFFICE

In relation to payments under non-contractual incentive schemes, the Committee would take the following factors into account:

- The Committee may determine that the Executive Director is eligible to receive a bonus in respect of the financial year in which they cease employment. This bonus would usually be time apportioned and may be settled wholly in cash. In determining the level of bonus to be paid, the Committee may, at its discretion, take into account

performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Committee.

- The treatment of outstanding share awards is governed by the relevant share plan rules as summarised below.

Deferred Share Bonus Plan

- On cessation of employment, unvested shares will vest in full unless the Committee determines otherwise.
- On a change of control, unvested shares will vest in full.
- If other corporate events occur such as a demerger, delisting, special dividend, voluntary winding-up or other event which in the opinion of the Committee may affect the current or future value of shares, the Committee will determine whether unvested shares should vest.

LTIP

- On cessation of employment, unvested awards will lapse unless cessation is as a result of death, ill health, injury, disability, transfer of employing company or business to which an individual's employment relates out of the Group or any other scenario in which the Committee determines at its discretion that good leaver treatment is appropriate (other than circumstances justifying summary dismissal). In these scenarios, unvested awards will usually continue until the normal vesting date unless the Committee determines that the award should vest earlier and will vest to an extent that takes into account the performance condition assessed at the date of vesting and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and cessation of employment.
- On a change of control, unvested LTIP awards will vest immediately to an extent that takes into account the performance condition assessed at the change of control and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the change of control. If other corporate events occur such as a demerger, delisting, special dividend, voluntary winding-up or other event which in the opinion of the Committee may affect the current or future value of shares, the Committee will determine whether unvested LTIP awards should vest. If they do vest, they will vest immediately to an extent that takes into account the performance condition assessed at the date of the event and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the date of the event.

Sharesave Plan

- Options become exercisable immediately on death, ceasing employment due to injury, disability, retirement, redundancy, sale of the employing company or business to which an individual's employment relates out of the Group or on a change of control/voluntary winding-up of the Company.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his/her cessation of office or employment.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

The Committee does not formally consult with employees when determining Executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for Executive Directors are regarded as fair and reasonable within the business. As outlined in the Remuneration Policy table, pay and conditions in the Group are one of the specific considerations taken into account when the Committee is considering changes in salaries for the Executive Directors.

DIFFERENCES IN POLICY FROM BROADER EMPLOYEE POPULATION

A greater proportion of Executive Directors' potential wealth is 'at risk', either through their existing shareholding or through LTIP awards than for our employees generally and a greater proportion determined by performance than for our employees generally. However, common principles underlie the pay policy throughout the Company including for the Executive Directors. In particular, we place great emphasis throughout the Company on reward being linked to performance (either Group performance or performance of an individual's business unit) and on encouraging share ownership (through participation in the LTIP or an all-employee share scheme).

CONSIDERATION OF SHAREHOLDERS' VIEWS

The Company carried out a consultation process with its top 20 shareholders and the shareholder advisory bodies in 2017, setting out the key elements of the draft Remuneration Policy and the rationale for the changes to the Policy approved by shareholders at the 2015 AGM. The Committee Chair offered to meet with any shareholders who wished to discuss the proposals in more detail. The feedback received from those that responded was generally supportive.

ANNUAL REPORT ON REMUNERATION

UNAUDITED INFORMATION

Implementation of Remuneration Policy in 2018

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy in 2018 for the Executive Directors.

Base annual salary

As described in the Annual Statement from the Chair of the Remuneration Committee, an annual salary review has been carried out by the Committee. The Committee approved a 2.0% increase in Executive Director salaries effective from 1 January 2018. This increase is consistent with the average annual salary increase awarded to the Company's UK workforce for 2018.

	Salary 1 January 2018	Salary 2 October 2017*	% increase
Martin Payne (CEO)	£438,600	£430,000	2.0
Glen Sabin (COO)	£280,500	£275,000	2.0
Paul James (CFO)	£285,000†	n/a	n/a

* Date of appointment to current role.

† Appointed to the Board on 5 March 2018.

Pension

In 2018, the Executive Directors will receive a Company contribution worth 15% of annual salary to the Group Pension Plan, a personal pension scheme, or as a cash allowance. This has been reduced from 20%, the level of contribution under the previous Remuneration Policy.

Other benefits

In 2018, the Executive Directors will receive a standard package of other benefits consistent with those received in 2017, other than as disclosed below in relation to the relocation allowance for Paul James.

Annual bonus

The annual bonus plan for 2018 will be broadly consistent with the bonus plan operated in 2017. Key features of the plan for 2018 are:

- There will be a maximum bonus opportunity of 125% of annual salary for Martin Payne and 100% of annual salary for Glen Sabin and Paul James (prorated from date of joining).
- 25% of any bonus earned will be deferred into shares under the Deferred Share Bonus Plan (DSBP). Half of these shares will vest two years post grant and the remaining half three years post grant.
- In the event that a material misstatement or miscalculation subsequently comes to light which resulted in an overpayment under the annual bonus plan or if evidence comes to light of material misconduct by an individual or if evidence emerges of a material health and safety breach, then the Committee has the flexibility to withhold the value of shares granted under the DSBP and/or to require repayment of an appropriate portion of the annual bonus cash award in respect of the relevant bonus year.

The annual bonus for 2018 for Executive Directors will be determined as detailed below:

Performance measure	Percentage of maximum bonus opportunity		
	CEO	CFO	COO
Group Underlying Operating Profit	70%	70%	70%
Working Capital	20%	20%	20%
Individual objectives	10%	10%	10%

The targets for these performance measures in relation to the 2018 financial year are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Directors' Remuneration Report to the extent that they do not remain commercially sensitive at that time.

LTIP

The Executive Directors will receive an award under the LTIP during 2018. Key terms of this award will be:

- Martin Payne will receive an award over shares worth 125% of annual salary at grant and Glen Sabin and Paul James will receive an award over shares worth 100% of annual salary at grant.
- Awards will become exercisable three years after grant.
- In the event that a material misstatement or miscalculation subsequently comes to light which results in too high a level of vesting under the LTIP or if evidence comes to light of material misconduct by an individual or if evidence emerges of a material health and safety breach, then the Committee has the flexibility to withhold or recover the value of shares granted under the LTIP.
- Awards will be subject to a combination of underlying diluted EPS and relative TSR performance measures assessed over a three-year period as detailed below:

Underlying diluted EPS performance condition (75% of award)			TSR performance condition (25% of award)	
	Three-year cumulative underlying diluted EPS	% of overall award vesting	Ranking in TSR comparator group	% of overall award vesting
Below threshold	<89.0 pence per share	0%	Below median	0%
Threshold	89.0 pence per share	18.75%	Median	6.25%
Maximum	101.7 pence per share	75%	Upper quartile	25%
Threshold three-year cumulative underlying diluted EPS will be calculated using a 5% per annum growth on 2017 underlying diluted EPS. Maximum three-year cumulative underlying diluted EPS will be calculated using a 12% per annum growth on 2017 underlying diluted EPS. Vesting for performance between Threshold and Maximum will be calculated pro rata on a straight-line basis.			Comparator group comprises companies in the FTSE 250 Index that are classified as Industrials by the Industry Classification Benchmark. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.	

Sharesave Plan

Invitations to UK employees (including Executive Directors) to participate in the Sharesave Plan were issued in 2014, 2016 and 2017. The Board is proposing to issue invitations to join the Plan on an annual basis, and all eligible UK employees will therefore be invited to join the Plan in 2018.

New CFO's pay arrangements

Paul James commenced employment with the Company on 5 March 2018 and was appointed to the Board on the same date. His pay arrangements upon appointment were in line with the updated Remuneration Policy and comprise:

- Annual salary of £285,000.
- Pension contribution worth 15% of annual salary plus a standard benefits package.
- Eligibility to participate in the annual bonus plan with a maximum annual bonus opportunity of 100% of annual salary, time prorated from date of appointment.
- Annual LTIP awards. The current policy is that Executive Directors (other than the CEO) will receive an annual LTIP award of shares worth 100% of annual salary. The LTIP award to be granted in 2018 will be time prorated to reflect the fact that he will be employed for only part of the three-year period to which the award will relate.
- 12-month notice period.
- Relocation package, comprising reimbursement of costs of up to £75,000 for relocation expenses, recoverable on a sliding scale if employment lasts less than three years. Costs will cover temporary accommodation costs for a maximum of nine months from 5 March 2018, removal costs and fees associated with the purchase of a local residence, including stamp duty.

In addition, certain buy-out arrangements (set out on page 66) have been agreed to partially compensate Paul James for bonus and long-term incentive awards that were forfeited when he left his previous employer, Dixons Carphone plc. The buy-out arrangements have been structured in accordance with the principles set out in the approved Remuneration Policy, in particular that they should be of comparable commercial value to the incentives that have been forfeited. These awards will be granted after the announcement of the Group's preliminary results on 20 March 2018.

ANNUAL REPORT ON REMUNERATION

		Maximum potential value of buy-out award	Form of buy-out award						
Compensation for forfeited annual bonus	Relates to the annual bonus Paul James would have received from his previous employer in relation to the year of his departure (year ending 30 April 2018) if he had not joined the Company.	£216,545	<p>To provide alignment with shareholders, the buy-out award will be granted wholly in the form of Company shares. These shares will vest on the dates set out below subject to continued employment but no further performance conditions as the number of shares has been calculated based on an assessment of the anticipated performance out-turn at Dixons Carphone plc. The maximum number of shares comprised in the award will be announced via a Regulatory Information Service when the award is granted and will be reduced to reflect (1) the extent to which the bonus is payable and (2) any amount received by Paul James from Dixons Carphone plc.</p> <table><tr><th>Proportion of award</th><th>Date of Vesting</th></tr><tr><td>50%</td><td>5 March 2020</td></tr><tr><td>50%</td><td>5 March 2021</td></tr></table>	Proportion of award	Date of Vesting	50%	5 March 2020	50%	5 March 2021
Proportion of award	Date of Vesting								
50%	5 March 2020								
50%	5 March 2021								
Compensation for forfeited long-term incentive	Relates to a long-term share award due to vest in June 2020 that was forfeited by Paul James on joining the Company.	£121,331	<p>The buy-out award will vest on the same date that the original award would have vested, subject to continued employment but no further performance conditions. The number of shares comprised in the award will be announced via a Regulatory Information Service when the award is granted.</p> <table><tr><th>Proportion of award</th><th>Date of Vesting</th></tr><tr><td>100%</td><td>30 June 2020</td></tr></table>	Proportion of award	Date of Vesting	100%	30 June 2020		
Proportion of award	Date of Vesting								
100%	30 June 2020								

All of these non-pensionable share awards were granted under a deed in accordance with Listing Rule 9.4.2R (2) of the Listing Rules in order to facilitate the recruitment of Paul James as permitted under the approved Remuneration Policy and set out in the 'Approach to Recruitment Remuneration' section on page 61. Other significant terms of these awards are as follows:

- Awards will be granted as nil cost options exercisable from their respective vesting dates until the tenth anniversary of grant. At its discretion, the Committee may permit settlement in cash.
- The number of shares will be calculated using the average closing share price for the three dealing days prior to grant.
- The number of shares under the forfeited bonus award will be increased to reflect dividends with a record date between the date Paul James commenced employment with the Company and the vesting date. The value of the dividends will be determined as if they had been reinvested into Company shares on such terms as the Committee will determine.
- In such circumstances as the Committee determines appropriate, including if a material misstatement of Dixons Carphone plc's audited financial results (in relation to which a buy-out award is being granted) subsequently comes to light or if evidence comes to light of material misconduct by the individual, then the Committee has the flexibility to withhold the buy-out awards.
- Awards will be satisfied by existing shares other than treasury shares.
- Ordinarily unvested buy-out awards would lapse on cessation of employment. However, if Paul James ceases to hold office or employment in good leaver circumstances including death, ill health, injury or disability or any other reason at the Committee's discretion (except in circumstances justifying summary dismissal), unvested awards would become exercisable on a time prorated basis (unless the Committee determines otherwise) either at the original vesting date or the date of cessation of employment at the Committee's discretion.
- In the event of a change of control (other than an internal reorganisation of the Polypipe Group), unvested awards would become exercisable on a time prorated basis (unless the Committee determines otherwise).
- The Committee may allow some or all of the award to vest (or adjust the number of shares subject to the award) in the event of demerger, delisting, special dividend or other event which, in their opinion, would affect the current or future value of the award. The number of shares subject to the award may also be adjusted in the event of any variation of share capital.
- No further awards will be made under this arrangement and no amendments will be made to the advantage of Paul James in relation to (i) the basis for determining his entitlement to, and the terms of, shares to be provided under the award; and (ii) any adjustment that may be made for any variation of share capital or special dividend without prior shareholder approval in general meeting except for minor amendments to benefit the administration of the award, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.
- The award is personal to Paul James and cannot be transferred, assigned or otherwise disposed of by him (other than to his personal representative following his death).

Non-Executive Director remuneration

During the year, Non-Executive Director fees were reviewed, following which it was agreed to increase the Non-Executive Director's base fee by 2.0% and the Chairman's fee by 2.0%. The table below shows the fee structure for Non-Executive Directors for 2018. Non-Executive Director fees are determined by the full Board except for the fee for the Chairman of the Board, which is determined by the Committee.

	2018 fees
Chairman of the Board all-inclusive fee	£142,800
Basic Non-Executive Director fee	£45,900
Senior Independent Director additional fee	£10,000
Chair of Audit Committee additional fee	£8,000
Chair of Remuneration Committee additional fee	£8,000

AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 71 is subject to audit.

SINGLE TOTAL FIGURE OF REMUNERATION

The following table sets out the total remuneration for Executive Directors and Non-Executive Directors for 2017 with comparative figures for 2016.

All figures shown in £'000	2017					2016					
	Salary and fees ⁽¹⁾	Benefits ⁽²⁾	Annual bonus ⁽³⁾	Pension ⁽⁴⁾	Total	Salary and fees ⁽¹⁾	Benefits ⁽²⁾	Annual bonus ⁽³⁾	Pension ⁽⁴⁾	Other ⁽⁵⁾	Total
Executive Directors											
David Hall ⁽⁶⁾	343	18	287	69	717	447	24	388	89	–	948
Martin Payne ⁽⁶⁾	327	14	236	60	637	179	8	134	36	312	669
Glen Sabin ⁽⁷⁾	69	5	45	10	129	–	–	–	–	–	–
Non-Executive Directors											
Ron Marsh	140	–	–	–	140	130	–	–	–	–	130
Paul Dean	63	–	–	–	63	60	–	–	–	–	60
Moni Mannings	53	–	–	–	53	50	–	–	–	–	50
Mark Hammond	45	–	–	–	45	42	–	–	–	–	42

Notes to the table – methodology

- ⁽¹⁾ Salary and fees – Executive Director salaries were increased by 2.5% effective 1 January 2017 consistent with the average increases awarded to the Company's UK workforce. Martin Payne's salary subsequently increased to £430,000 upon appointment as Chief Executive Officer in October 2017. Glen Sabin's annual salary was set at £275,000 per annum upon appointment to the Board as Chief Operating Officer in October 2017. In 2017, the Non-Executive Director base fee was increased by £3,000 and the Chairman's fee increased by £10,000.
- ⁽²⁾ Benefits – this represents the taxable value of all benefits. Executive Directors receive benefits including car allowance, private family medical insurance and life assurance of four times annual salary.
- ⁽³⁾ Annual bonus – the bonus is paid 75% in cash and 25% deferred into shares under the DSBP. Further details on the 2017 annual bonus are set out on page 68.
- ⁽⁴⁾ Pension – pension provision during 2016 and 2017 was 20% of annual salary for David Hall and Martin Payne. On appointment as CEO, the pension provision for Martin Payne was reduced to 15%. On appointment as COO, the pension provision for Glen Sabin was set at 15%.
- ⁽⁵⁾ Other – for 2016, this column comprises the value of shares awarded to Martin Payne in partial compensation for bonus and long-term incentive awards forfeited when he left his previous employer Norcros plc, as well as the value of the grant of options to Martin Payne under the Sharesave Plan during 2016. Further details are set out in the Annual Report on Remuneration for the year ended 31 December 2016.
- ⁽⁶⁾ David Hall retired from the Company on 2 October 2017 and Martin Payne, formerly CFO, was appointed CEO on 2 October 2017.
- ⁽⁷⁾ Glen Sabin was appointed to the Board as COO on 2 October 2017.
- ⁽⁸⁾ Total remuneration paid to Directors in respect of 2017 is £1,784,000 (2016: £2,151,000 inclusive of £252,000 paid to Peter Shepherd who retired during the year).

ANNUAL REPORT ON REMUNERATION

Annual bonus

The maximum annual bonus opportunity for the Executive Directors in 2017 was as follows:

- 125% of annual salary for David Hall, prorated to his retirement date of 2 October 2017.
- 100% of annual salary for Martin Payne for the period 1 January to 1 October 2017, and 125% of annual salary for the period from 2 October 2017, when he was appointed CEO, to 31 December 2017.
- 100% of annual salary for Glen Sabin for the period from 2 October 2017, when he was appointed to the Board, to 31 December 2017.

For Martin Payne and Glen Sabin, 75% of the bonus earned will be paid in cash and 25% will be deferred into shares under the DSBP. Half of these shares will vest two years post grant and half after three years post grant. For David Hall, the bonus will be paid wholly in cash. Malus and clawback provisions apply to the bonuses of all of the aforementioned Directors.

Performance measures and targets applying to the 2017 annual bonus are set out below:

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	% of maximum bonus payable
Group Underlying Operating Profit (including discontinued operations)	70%	£69.3m 17.5% of total bonus payable	£72.9m 35% of total bonus payable	£83.8m 70% of total bonus payable	£74.0m	38.5%
Working Capital	20%	Net working capital position assessed at the end of each month relative to target. Maximum performance requires the monthly target to be met at the end of all 12 months.			Target achieved in 11 of 12 months	18.3%
Individual objectives	10%	David Hall: objectives linked to operational performance and succession planning.			Fully achieved	10.0%
		Martin Payne: objectives linked to satisfactory handover from previous CEO and continuing effective leadership of the Company. Objectives as CFO related to the establishment of an in-house Company Secretarial function and a major upgrade to the IT systems.			Fully achieved	10.0%
		Glen Sabin: objectives linked to the health and safety performance of the Group.			Partially achieved	9.0%
		Total bonus payable % of maximum	Total bonus payable £'000 and % of annual salary			
David Hall		66.8%	287 (83.5% of 2017 salary earned in period 1 January – 2 October 2017)			
Martin Payne		66.8%	236 (72.3% of salary earned as CFO from 1 January to 2 October 2017 and CEO from 2 October 2017 to 31 December 2017)			
Glen Sabin		65.8%	45 (65.8% of salary earned in period 2 October – 31 December 2017)			

SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

LTIP awards

An award was granted under the LTIP to selected senior executives, including the Executive Directors, in May 2017. This award is subject to the performance conditions described below and will become exercisable in May 2020.

	Type of award	Date of grant	Maximum number of shares	Face value (£)*	Threshold vesting (% of award)	End of performance period
David Hall†		2 May 2017	143,383	£572,098		EPS element – December 2019
Martin Payne	Nil cost option	2 May 2017	73,214	£292,124	25% of award	
Glen Sabin††		2 May 2017	30,056	£119,923		TSR element – December 2019

* The maximum number of shares that could be awarded has been calculated using the share price of £3.99 (average closing share price for 26–28 April 2017) and is stated before the impact of reinvestment of the dividends paid since grant.

† Awards granted to David Hall, who retired on 2 October 2017, will be treated in accordance with the LTIP rules and will therefore vest, subject to the achievement of the relevant performance condition, on the vesting date, and will be time prorated.

†† The award granted to Glen Sabin was made prior to his appointment to the Board and was therefore at a lower face value of salary as this was commensurate with the role he held at the date of grant.

Vesting of the awards is subject to satisfaction of the following performance conditions measured over a three-year performance period. Vesting is calculated on a straight-line basis.

Underlying diluted EPS performance condition (75% of award)

	Three-year cumulative underlying diluted EPS	% of overall award vesting
Below threshold	<82.8 pence per share	0%
Threshold	82.8 pence per share	18.75%
Maximum	94.5 pence per share	75%

Threshold three-year cumulative underlying diluted EPS is calculated using a 5% per annum growth on 2016 underlying diluted EPS.

Maximum three-year cumulative underlying diluted EPS is calculated using a 12% per annum growth on 2016 underlying diluted EPS.

Vesting for performance between Threshold and Maximum will be calculated pro rata on a straight-line basis.

TSR performance condition (25% of award)

	Ranking in TSR comparator group	% of overall award vesting
Below median		0%
Median		6.25%
Upper quartile		25%

Comparator group comprises companies in the FTSE 250 Index that are classified as Industrials by the Industry Classification Benchmark. TSR performance will be measured over the three-year period to 31 December 2019. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.

Deferred Share Bonus Plan awards

On 25 April 2017, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2016 annual bonus. The value of these shares was included in the annual bonus figure in the 2016 single total figure of remuneration. No further performance conditions apply to these shares.

	Type of award	Maximum number of shares	Face value (£)*	Vesting date
David Hall†	Deferred shares	23,924	£96,901	50% vests in each of April 2019 and April 2020
Martin Payne	Deferred shares	8,241	£33,380	

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £4.05 per share.

† Awards granted to David Hall, who retired on 2 October 2017, vested in full on retirement and were paid in cash.

ANNUAL REPORT ON REMUNERATION

Sharesave Plan

Glen Sabin was granted options on 7 September 2017 under the Sharesave Plan on the same terms as other UK employees. On 1 November 2017, the options granted under the Sharesave Plan in 2014 matured and Glen Sabin exercised his options on 1 November 2017. Details of the Executive Directors' SAYE options are set out below. No performance conditions apply to these options.

	Type of award	Number of shares under option (year of grant)	Number of shares exercised	Option price (£)	Options exercisable from	Market price on date of exercise (£)	Notional gain on exercise (£)
Martin Payne	Share Option	8,144 (2016)	–	£2.21	November 2019	–	–
Glen Sabin	Share Option	9,045 (2014)	9,045	£1.99	November 2017	£4.20	£20,003
Glen Sabin	Share Option	2,322 (2017)	–	£3.10	November 2020	–	–

The option price represents a 20% discount to the average closing price of a share on the three dealing days prior to the relevant invitation date. The notional gain is the difference between the option price and the market price of the shares on the date of exercise.

PAYMENTS TO PAST DIRECTORS

There were no payments to past Directors during 2017 that have not already been fully disclosed in previous Directors' Remuneration Reports.

PAYMENTS FOR LOSS OF OFFICE

David Hall, the former CEO, retired from the Company on 2 October 2017. He received salary, pension and benefits up until his retirement date (as outlined in the single total figure of remuneration table on page 67) and received no subsequent loss of office payments.

The Committee determined that David Hall should be entitled to receive a time prorated bonus for 2017 based on the Company's full-year performance (again as outlined in the single total figure of remuneration table on page 67).

David Hall's outstanding share incentives were treated in accordance with the rules of the applicable plans:

- DSBP — David Hall was granted 42,801 ordinary shares in April 2015, 31,174 ordinary shares in April 2016 and 23,924 ordinary shares in April 2017 representing the 25% retained value of his 2014, 2015 and 2016 annual bonus awards. The Committee determined that he should be treated as a good leaver in respect of these awards which therefore vested on 2 October 2017. Under the rules of the DSBP he took up the option to receive a cash amount in substitution for the right to receive these shares.
- LTIP – David Hall was granted 194,340 ordinary shares in May 2016 and 143,383 ordinary shares in May 2017. Under the rules of the LTIP, he will be deemed to be a good leaver and will therefore be entitled to exercise the awards on their normal vesting dates, subject to achievement of the relevant performance targets and time prorated to reflect the period of time that has elapsed between the date of grant of the relevant award and the date of his retirement.
- Sharesave Plan – David Hall's outstanding options held under the all-employee Sharesave Plan were subject to the rules of the Sharesave Plan and therefore exercisable within six months of his retirement date.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

Upon Admission, the Committee introduced a shareholding requirement of 100% of annual salary for the Executive Directors. Following a review of this requirement in 2017, the Committee agreed that this should be increased to 200% of salary, in line with current market practice.

Executive Directors are expected to achieve the shareholding requirement within five years of an individual becoming subject to the requirement. The Committee reviews ongoing individual performance against the shareholding requirement at the end of each financial year. Martin Payne commenced employment with the Company during 2016, and his salary was increased in October 2017, when he became CEO, and he is continuing to build up his shareholding on this basis in line with the aforementioned five-year timescale. Glen Sabin met this requirement as at 31 December 2017.

The number of shares currently held by Directors is set out in the table below:

Director	Shares owned outright	Number of shares at 31 December 2017			
		Interests in share incentive schemes, subject to performance conditions	Interests in share incentive schemes, awarded without performance conditions		
		LTIP ⁽¹⁾	DSBP ⁽²⁾	Recruitment awards ⁽³⁾	Sharesave Plan ⁽⁴⁾
Martin Payne ⁽⁵⁾	69,726 (63% of salary)	150,957	8,241	20,898	8,144
Glen Sabin ⁽⁵⁾	892,932 (1,276% of salary)	70,794	–	–	2,322
Ron Marsh	175,000	–	–	–	–
Paul Dean	5,000	–	–	–	–
Moni Mannings	–	–	–	–	–
Mark Hammond	15,000	–	–	–	–
David Hall ⁽⁶⁾	5,873,740	337,723	–	–	–

Notes to the table

⁽¹⁾ This relates to shares awarded under the LTIP in May 2016 and May 2017.

⁽²⁾ This relates to shares awarded under the DSBP in April 2017 in relation to the 2016 annual bonus.

⁽³⁾ This relates to shares awarded to Martin Payne in partial compensation for bonus and long-term incentive awards forfeited when he left his previous employer. Full details are set out on pages 55 to 57 of the 2016 Annual Report on Remuneration. A further 24,352 shares (including 668 dividend shares) vested during 2017 and are included, net of shares sold to satisfy the related personal tax liability, in the 'Shares owned outright' column.

⁽⁴⁾ This relates to shares awarded under the Sharesave Plan in September 2016 (Martin Payne) and September 2017 (Glen Sabin)

⁽⁵⁾ For the purposes of determining the value of Executive Director shareholdings, the individual's current annual salary and the share price as at 31 December 2017 has been used (£3.932 per share).

⁽⁶⁾ Shareholding as at date of cessation of employment on 2 October 2017.

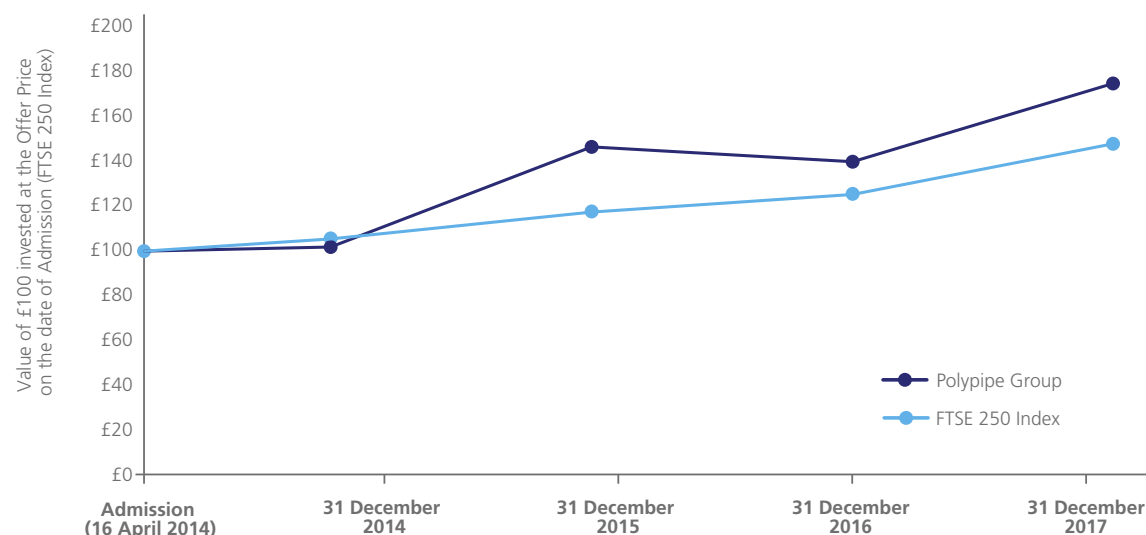
Between 31 December 2017 and the date of this report, there were no changes in the shareholdings of current Directors outlined in the above table.

UNAUDITED INFORMATION

The information provided in this section of the Directors' Remuneration Report is not subject to audit.

PERFORMANCE GRAPH AND CEO REMUNERATION TABLE

The chart below compares the Total Shareholder Return performance of the Company over the period from Admission to 31 December 2017 to the performance of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which the Company is a member. The base point in the chart for the Company equates to the Offer Price of £2.45 per share.



ANNUAL REPORT ON REMUNERATION

The table below summarises the CEO single figure for total remuneration, annual bonus pay-outs and long-term incentive vesting levels as a percentage of maximum opportunity over this period.

	2014	2015	2016	2017 ⁽¹⁾	2017 ⁽²⁾
CEO single figure of remuneration £'000	955	919	948	717	218
Annual bonus pay-out (as a % of maximum opportunity)	88.7%	68.2%	69.4%	66.8%	66.8%
LTIP vesting out-turn (as a % of maximum opportunity)	n/a (no award vested in 2014)	n/a (no award vested in 2015)	n/a (no award vested in 2016)	n/a (no award vested in 2017)	n/a (no award vested in 2017)

(1) This reflects the remuneration received by David Hall, CEO for the period from 1 January 2017 to 1 October 2017.

(2) This reflects the remuneration received by Martin Payne who was appointed as CEO on 2 October 2017 following the retirement of David Hall.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO

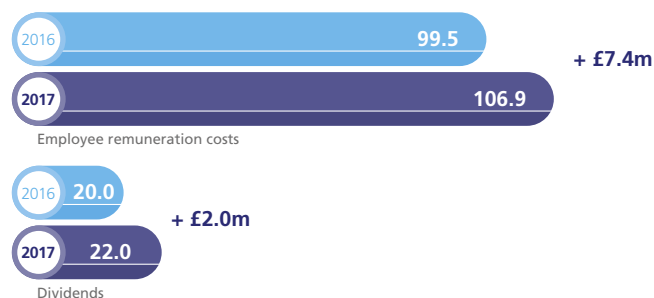
The table below illustrates the percentage change in annual salary, benefits and bonus between 2016 and 2017 for the CEO and the average for all Company UK employees. The CEO is a UK-based employee so the Committee feels that a comparator based on all UK employees is appropriate for the purposes of this analysis.

	Salary change (2016 to 2017)	Benefits change (2016 to 2017)	Annual bonus change (2016 to 2017)
CEO ⁽¹⁾	+ 0.8%	-7.1%	-2.9%
Average for all UK employees	+ 2.0%	–	-14.9%

(1) This table reflects the fact that David Hall was CEO until 2 October 2017 and Martin Payne was appointed as CEO on 2 October 2017. Martin Payne's salary on appointment was lower than David Hall's CEO salary, and as set out in the Annual Statement by the Chair of Remuneration Committee on page 54, it is the Committee's intention to increase Mr Payne's salary over time to the same level as was received by David Hall.

RELATIVE IMPORTANCE OF THE SPEND ON PAY

The chart below illustrates the total expenditure on pay for all of the Company's employees compared to dividends payable to shareholders.



CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The Committee is chaired by Moni Mannings. During the year, the Committee also comprised Ron Marsh, Paul Dean and Mark Hammond.

The Committee met six times during 2017. The CEO, David Hall, was also present at those meetings by invitation until his retirement on 2 October 2017 following which Martin Payne, CEO from 2 October 2017, was present by invitation.

The Committee is responsible for determining all aspects of Executive Director pay. It also monitors pay arrangements for other senior executives and oversees the operation of all share plans. Full terms of reference of the Committee are available on our website at www.polypipe.com.

Deloitte LLP was appointed in 2014 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte LLP principally on market practice, incentive design and remuneration policy for which Deloitte LLP was paid £8,920 (2016: £47,300) in fees (charged on a time plus expenses basis). Deloitte LLP is a founding member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, during 2017, other departments within Deloitte LLP provided advice to the Company in relation to tax. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

SHAREHOLDER VOTING ON REMUNERATION REPORT RESOLUTIONS

A high level of shareholder support has been received for our Remuneration Report resolutions since the Remuneration Policy was first approved by shareholders in 2015, as summarised below:

	Votes for	Votes against	Votes withheld
Approval of the Remuneration Policy 2015 AGM	146,494,935 (99.99%)	1,457 (0.01%)	3,197,875
Approval of the Annual Report on Remuneration: 2016 AGM	139,544,564 (95.97%)	5,860,276 (4.03%)	1,732,822
2017 AGM	140,730,698 (98.23%)	2,530,161 (1.77%)	1,212

EXTERNAL BOARD APPOINTMENTS

Executive Directors are not normally entitled to accept a Non-Executive Director appointment outside the Company without the prior approval of the Board. None of the current Executive Directors currently holds any such appointment.

ANNUAL GENERAL MEETING

This Annual Report on Remuneration will be subject to an advisory shareholder vote at our AGM to be held on 23 May 2018.

By order of the Board.

Moni Mannings

Chair of the Remuneration Committee

20 March 2018

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the period ended 31 December 2017. In accordance with the Companies Act 2006 as amended, and the Listing Rules and the Disclosure Guidance and Transparency Rules, the reports within the Governance section of the Annual Report and Accounts should be read in conjunction with one another, and the Strategic Report. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 4 to 37) as the Board considers them to be of strategic importance.

THE COMPANY

Polypipe Group plc is a public company limited by shares, incorporated in England and Wales with registered number 06059130. Since 16 April 2014, the Company was and remains listed on the premium segment of the London Stock Exchange. While the Group operates predominately in the UK, it does have operations in France, Italy and the United Arab Emirates.

STRATEGIC REPORT

The Companies Act 2006 requires the Company to present a fair review of the development and performance of the Group's business during the financial year and the position of the business at the end of that year. This review is contained within the Strategic Report on pages 4 to 37. The principal activities of the Group are described in the Strategic Report on pages 4 to 11.

FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies, including information on financial risks that materially impact the Group and financial instruments used by the Group (if any), are disclosed in Note 28 to the Group's consolidated financial statements on pages 120 to 123.

VIABILITY STATEMENT

In accordance with Provision C.2.2 of the UK Code, the Directors have assessed the prospects of the Group over a longer

period than 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of three years as the Group's Strategic Review covers a three-year period.

During 2017, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. In their assessment of the viability of the Group, the Directors have considered each of the Group's principal risks and uncertainties detailed on pages 30 to 34 of the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2020, being the period considered under the Group's current three-year strategic plan.

GOING CONCERN STATEMENT

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future and for a period of at least 12 months from the date of this report. Accordingly, the Board continues to adopt and consider appropriate the going concern basis in preparing the Annual Report and Accounts.

DIRECTORS

The current Directors' biographies are set out on pages 40 and 41. In addition, Mr David Hall was Chief Executive Officer until 2 October 2017. In accordance with the UK Code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company. Paul James joined the Board on 5 March 2018 and Glen Sabin joined the Board on 2 October 2017 and both will offer themselves for election at the 2018 AGM, and for re-election annually thereafter.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

The rules about the appointment and replacement of Directors are contained in our Articles of Association (the Articles). They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors. Directors must retire and put themselves forward for election at their first AGM following their appointment and every third anniversary thereafter. However, the Directors wishing to continue to serve as members of the Board will seek re-election annually in accordance with the UK Code.

Details of the Non-Executive Directors' letters of appointment are given on page 44 under Appointment and Tenure. The Executive Directors have service contracts under which 12 months' notice is required by both the Company and the Executive Director.

POWERS OF DIRECTORS

The general powers of the Directors set out in Article 94 of the Articles provide that the business of the Company shall be managed by the Board which may exercise all the powers of the Company, subject to any limitations imposed by applicable legislation or the Articles. The general powers of the Directors are also limited by any directions given by special resolution of the shareholders of the Company which are applicable on the date that any power is exercised.

COMPENSATION FOR LOSS OF OFFICE

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Directors' Remuneration Report on pages 64 to 71.

DIRECTORS' INDEMNITY ARRANGEMENTS

Directors and officers of the Company are entitled to be indemnified out of the assets of the Company in respect of

any liability incurred in relation to the Company or any associate company, to the extent the law allows. In this regard, the Company is required to disclose that under Article 212 of the Articles, the Directors have the benefit of an indemnity, to the extent permitted by the Companies Act 2006 against liabilities incurred by them in the execution of their duties and exercise of their powers. This indemnity has been in place since the Company's application for listing on the London Stock Exchange on 28 March 2014 and remains in place. The Company has purchased and maintained throughout the financial period Directors' and Officers' liability insurance.

SHARE CAPITAL

As at 31 December 2017 the share capital of the Company was 199,999,862 ordinary shares of £0.001 each, of which 402,746 ordinary shares were held in treasury. Details of the Company's share capital are disclosed in Note 22 to the Group's consolidated financial statements on pages 114 and 115.

Authority of the Directors to allot shares

The Company passed a resolution at the AGM held on 24 May 2017 authorising the Directors to allot ordinary shares up to an aggregate nominal amount of £132,190.46 (representing approximately two-thirds of the ordinary share capital). No shares have been issued under this authority.

This authority will expire at the Company's AGM to be held on 23 May 2018 and the Directors will be seeking a new authority to allot shares, to ensure that the Directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. There are no current plans to issue new shares except in connection with employee share schemes.

Issue of shares

A special resolution was passed at the AGM held on 24 May 2017 granting the Directors the authority to issue shares on a non pre-emptive basis up to £9,914.28 (representing 9,914,285 ordinary shares or approximately 5% of the ordinary share capital). No shares have been

issued under this authority. A special resolution was also passed granting the Directors the authority to issue shares on a non pre-emptive basis in respect of an additional 5% of the ordinary share capital in connection with an acquisition or specified capital investment. No shares have been issued under this authority.

These authorities will expire at the Company's AGM to be held on 23 May 2018 and the Directors will be seeking a new authority to issue shares on a non pre-emptive basis up to £9,985.93. In addition to this, the Directors will seek authority to issue non pre-emptively for cash shares up to £9,985.93 (representing 9,985,939 ordinary shares or approximately 5% of the ordinary share capital) for use only in connection with an acquisition or specified capital investment, in accordance with the Pre-Emption Group Statement of Principles as updated in March 2015.

Excluding any shares issued in connection with an acquisition or specified capital investment as described above, the Directors do not intend to issue more than 7.5% of the issued share capital on a non pre-emptive basis in any rolling three-year period.

Purchase of own shares by the Company

A special resolution was passed at the AGM held on 24 May 2017 granting the Directors the authority to make market purchases up to 29,723,028 ordinary shares with a total nominal value of £29,723.03, representing approximately 14.99% of the Company's issued ordinary share capital.

The authority to make market purchases will expire at the Company's AGM to be held on 23 May 2018 and the Directors will be seeking a new authority to make market purchases up to 14.99% of the Company's issued ordinary share capital, which will only be exercised if the market and financial conditions make it advantageous to do so. Further details are set out in the explanatory notes on pages 5 and 6 of the Notice convening the AGM.

Particulars of treasury share purchases are also disclosed in Note 22 to the Group's consolidated financial statements.

Rights attaching to shares

The rights attaching to the ordinary shares are summarised as:

- the ordinary shares rank equally for voting purposes;
- on a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held;
- each ordinary share ranks equally for any dividend declared;
- each ordinary share ranks equally for any distributions made on a winding-up of the Company;
- each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves;
- the ordinary shares are freely transferable; and
- no ordinary shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights.

AMENDMENT TO THE COMPANY'S ARTICLES

The Company may alter its Articles by special resolution passed at a general meeting of the Company.

POLITICAL DONATIONS

The Group made no political donations during the year.

GREENHOUSE GAS EMISSIONS

Information on the Group's greenhouse gas emissions is set out in the Corporate Responsibility Statement on pages 35 to 37 and forms part of this Report by reference.

FUTURE DEVELOPMENTS WITHIN THE GROUP

The Strategic Report contains details of likely future developments within the Group. The Group's research and development costs are disclosed in Note 6 to the Group's consolidated financial statements on page 104.

DIRECTORS' REPORT

OVERSEAS OPERATIONS

As explained in the Strategic Report, the Group operates in the UK, France, Italy and the United Arab Emirates.

POST BALANCE SHEET EVENTS

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. Further information is provided in Note 18 to the Group's consolidated financial statements on pages 112 and 113. There have been no other significant post balance sheet events to report.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has carried out a robust assessment of our current key risks and

these are summarised in the Principal Risks and Uncertainties section of the Strategic Report on pages 30 to 34.

RESULTS AND DIVIDENDS

An interim dividend totalling 3.6 pence per share was paid on 22 September 2017, reflecting the continued strong cash generation of the Group. The Board recommends a final dividend of 7.5 pence per share. Shareholders will be asked to approve the final dividend at the AGM on 23 May 2018, for payment on 25 May 2018 to shareholders whose names appear on the register on 20 April 2018.

Total ordinary dividends paid and proposed for the year amount to 11.1 pence per share or a total return to shareholders of £22.0m in total.

EMPLOYEES

The Company's policies in relation to the employment of disabled persons and gender breakdown and employee involvement are included in the Corporate Responsibility Statement – Employment on pages 35 and 36.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017 and 20 March 2018 the Company was aware of the following interests in voting rights representing 3% or more of the issued ordinary share capital of the Company. This information was correct at the date of notification. It should be noted that these holdings may have changed since they were notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

Name of shareholder	As at 31 December 2017		As at 20 March 2018	
	Ordinary shares	% Voting rights	Ordinary shares	% Voting rights
Standard Life Aberdeen plc	27,208,250	13.72 ⁽¹⁾	27,488,305	13.77 ⁽¹⁾
Schroders plc	9,889,770	4.98 ⁽¹⁾	9,222,003	4.61 ⁽¹⁾
JP Morgan Asset Management	9,400,827	4.70 ⁽¹⁾	8,168,768	4.08 ⁽¹⁾
Norges Bank Investment Management	9,949,382	5.02	9,655,437	4.84
Vanguard Group	7,400,056	3.70 ⁽¹⁾	7,694,311	3.85 ⁽¹⁾
Canaccord Genuity Wealth Management (Guernsey)	6,360,619	3.18	6,281,440	3.14

⁽¹⁾ Held indirectly.

AUDITOR

A resolution to reappoint Ernst & Young LLP as the Company's external auditor and to authorise the Directors to fix the auditor's remuneration will be proposed at the 2018 AGM.

DIRECTORS' STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITOR

Each of the Directors has confirmed that as at the date of this report:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

- The Directors have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

REQUIREMENTS OF THE LISTING RULES

Apart from the details of any long-term incentive scheme as required by Listing Rule 9.4.3.R, which is disclosed in the Directors' Remuneration Report on pages 64 to 73, disclosure of the information listed in Listing Rule 9.8.4R is not applicable.

ANNUAL GENERAL MEETING

The 2018 AGM will be held on 23 May 2018 at the Holiday Inn, High Road, Doncaster, DN4 9UX. A full description of the business to be conducted at the meeting is set out in the separate Notice of AGM.

By order of the Board.

Emma Versluys
Company Secretary
20 March 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Group's consolidated financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group's consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the Group's financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the Group's consolidated financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group's consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' Report, the Strategic Report, the Remuneration Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the Group's consolidated financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board.

Martin Payne

Chief Executive Officer
20 March 2018

Paul James

Chief Financial Officer
20 March 2018



**INTELLIGENT
ENGINEERED SOLUTIONS**



**APPLICATION BASED
TECHNICAL SUPPORT**

As early adopters in 2013, Nuaire were the first ventilation manufacturer to provide a free level-1 BIM library of Revit files for the ventilation equipment offered.

Nuaire designs its BIM models as 'type catalogues' allowing the parametric selection of units and components from a single Revit file. The models also contain information such as links to installation and maintenance guides, company websites, electrical data, acoustic data and

connection points to facilitate integration with ducting systems and ancillaries from third parties.

Now, across the Polypipe Group, the adoption of BIM and Revit are at the forefront for offering additional services to customers. Project-specific performance criteria and support for design, project management and building operations can be incorporated, which result in improved design efficiency and help to position the Group as 'future ready'.



CASE STUDY



BIM modelling allows the design solution to be integrated into the whole building

OUR FINANCIALS

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP plc

OPINION

In our opinion:

- Polypipe Group plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Polypipe Group plc which comprise:

Group	Parent company
Group balance sheet as at 31 December 2017	Company balance sheet as at 31 December 2017
Group income statement for the year then ended	Company statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Company cash flow statement for the year then ended
Group statement of changes in equity for the year then ended	Related Notes 1 to 9 to the financial statements
Group cash flow statement for the year then ended	
Related Notes 1 to 29 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

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

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

USE OF OUR REPORT

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

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

We have nothing to report in respect of the following information in the Annual Report and Accounts, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report and Accounts set out on pages 30 to 34 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 74 in the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 74 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 74 in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	○ Revenue recognition and customer rebates.
Audit scope	<ul style="list-style-type: none"> ○ We performed an audit of the complete financial information of all components of the Group. ○ The components where we performed full audit procedures accounted for 100% of Profit Before Tax, 100% of Revenue and 100% of Total Assets.
Materiality	○ Overall Group materiality of £3.1m (2016: £2.7m) which represents 5% of Profit Before Tax excluding non-underlying items other than amortisation of intangible assets.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP plc

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition and customer rebates <i>Refer to the Report of the Audit Committee (page 52), Summary of Significant Accounting Policies (page 92) and Note 3.2 to the consolidated financial statements (page 99).</i> The timing of revenue recognition is relevant to the reported performance of the Group as a whole and also to the completeness of rebate expense and related year end liabilities as discussed below. There is opportunity to misstate the recording of revenue between periods in order to influence reported results. Furthermore, as described in Note 3.2 to the Group financial statements, the Group's pricing structure includes rebate arrangements with customers. Some of these arrangements involve estimation when determining the amount to be recognised as an expense in the year and a liability at the year end. This is particularly the case where the Group is reliant on information from customers which may not be available at the time the liabilities are recognised.	We validated any material manual journals either side of the year end to assess for any evidence of management bias, by checking to supporting documentation. We tested the accuracy of revenue cut off around the year end. Our work comprised the agreement of sales transactions from either side of the year end to supporting documentation. We also performed procedures where applicable using EY bespoke data analytics tools to test the appropriateness of journal entries recorded in the general ledger by correlating sales postings with cash receipts throughout the year. We tested the appropriateness of rebate provision calculations by agreeing a sample of amounts recognised to terms of agreements and other supporting documents. We compared year end customer rebate provisions and rebate costs in the year to prior year amounts and expectations in order to identify unusual trends. We compared a sample of rebate payments made in the year with amounts provided as at 31 December 2016 which gave us assurance over the accuracy of amounts previously provided. We assessed the completeness of rebate amounts recognised by reference to the Group's customer base from which revenue was derived in the year. We performed full scope audit procedures over this risk area in all locations, which covered 100% of the risk amount.	We have concluded that revenue is appropriately recognised in the correct accounting period and found no evidence of management bias. We have concluded that the customer rebates expense and liability are appropriately recognised and that amounts estimated are reasonable.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account factors such as size, risk profile, the organisation of the Group and effectiveness of Group-wide controls when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 12 reporting components of the Group, we selected all 12 components covering entities within the UK, France, Italy and the United Arab Emirates, which represent the principal business units within the Group.

We performed an audit of the complete financial information of all 12 components selected ('full scope components').

Therefore for the current year, the full scope components where we performed audit procedures accounted for 100% of the Group's Profit Before Tax (2016: 100%), 100% of the Group's Revenue (2016: 100%) and 100% of the Group's Total Assets (2016: 100%).

Changes from the prior year

There were no scoping changes from the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 12 full scope components, audit procedures were performed on nine of these directly by the primary audit team which was responsible for all UK locations. For the three full scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, visits were undertaken by the primary audit team to the component team in France. This visit involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending the closing meeting and reviewing key audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

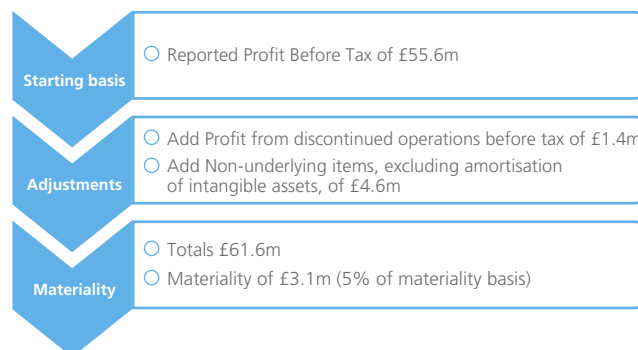
OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.1m (2016: £2.7m), which is 5% (2016: 5%) of the Group's Profit Before Tax excluding non-underlying items other than amortisation of intangible assets. We believe that Profit Before Tax excluding non-underlying items other than amortisation of intangible assets provides us with the most relevant measure of Group profitability.



We determined materiality for the parent company to be £2.3m (2016: £2.5m), which is 1% (2016: 1%) of equity.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £2.3m (2016: £2.0m). We have set performance materiality at this percentage due to the past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.5m to £2.3m (2016: £0.4m to £2.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2016: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP plc

OTHER INFORMATION

The other information comprises the information included in the Annual Report and Accounts set out on pages 1 to 78, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on page 45) – the statement given by the Directors that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting (set out on pages 50 to 53) – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code (set out on page 43) – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statements set out on pages 77 and 126, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

EXPLANATION AS TO WHAT EXTENT THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

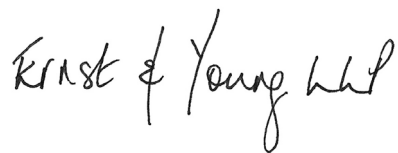
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Polypipe Group plc is complying with the relevant frameworks by making enquiries of management and those responsible for legal and compliance. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the Company in 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ended 31 December 2012 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.



Christabel Cowling
(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP
Statutory Auditor
Leeds
20 March 2018

Notes:

1. The maintenance and integrity of the Polypipe Group plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Underlying £m	2017 Non- underlying [†] £m	2017 Total £m	2016* Underlying £m	2016* Non- underlying [†] £m	2016* Total £m
Continuing operations							
Revenue	5	411.7	–	411.7	387.2	–	387.2
Cost of sales	8	(236.0)	(2.8)	(238.8)	(219.1)	–	(219.1)
Gross profit		175.7	(2.8)	172.9	168.1	–	168.1
Selling and distribution costs		(68.7)	–	(68.7)	(64.4)	–	(64.4)
Administration expenses	8	(34.4)	(1.8)	(36.2)	(35.2)	–	(35.2)
Trading profit		72.6	(4.6)	68.0	68.5	–	68.5
Profit on disposal of property, plant and equipment	8	–	–	–	–	0.3	0.3
Impairment of freehold land and buildings	8	–	–	–	–	(0.9)	(0.9)
Amortisation of intangible assets	8	–	(5.5)	(5.5)	–	(6.8)	(6.8)
Operating profit	5, 6	72.6	(10.1)	62.5	68.5	(7.4)	61.1
Finance costs	11	(6.9)	–	(6.9)	(7.6)	–	(7.6)
Profit before tax	5	65.7	(10.1)	55.6	60.9	(7.4)	53.5
Income tax	12	(11.8)	1.2	(10.6)	(11.7)	1.6	(10.1)
Profit from continuing operations		53.9	(8.9)	45.0	49.2	(5.8)	43.4
Profit/(loss) from discontinued operations	8	–	(11.3)	(11.3)	–	0.8	0.8
Profit for the year attributable to the owners of the parent company		53.9	(20.2)	33.7	49.2	(5.0)	44.2
Basic earnings per share (pence)							
From continuing operations	13			22.7			21.8
From discontinued operations	13			(5.7)			0.4
	13			17.0			22.2
Diluted earnings per share (pence)							
From continuing operations	13			22.5			21.7
From discontinued operations	13			(5.7)			0.4
	13			16.8			22.1
Dividend per share (pence) – interim	14			3.6			3.1
Dividend per share (pence) – final	14			7.5			7.0
Total				11.1			10.1

* The prior year comparatives have been restated where required to reflect adjustments in respect of discontinued operations.

† Non-underlying items are presented separately. The definition of non-underlying items is included in the Group Accounting Policies on page 98. Non-underlying items are detailed in Note 8 to the consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £m	2016 £m
Profit for the year attributable to the owners of the parent company	33.7	44.2
Other comprehensive income:		
Items which will be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	0.3	2.9
Effective portion of changes in fair value of interest rate swaps	1.7	(2.1)
Tax relating to items that will be reclassified to the income statement	(0.3)	0.3
Other comprehensive income for the year net of tax	1.7	1.1
Total comprehensive income for the year attributable to the owners of the parent company	35.4	45.3
Attributable to the owners of the parent company from:		
Continuing operations	46.7	43.1
Discontinued operations	(11.3)	2.2
	35.4	45.3

GROUP BALANCE SHEET

AT 31 DECEMBER 2017

	Notes	31 December 2017 £m	31 December 2016 £m
Non-current assets			
Property, plant and equipment	15	98.6	101.0
Intangible assets	16	356.5	371.6
Total non-current assets	5	455.1	472.6
Current assets			
Assets classified as held-for-sale	18	24.0	0.7
Inventories	19	53.5	52.2
Trade and other receivables	20	34.5	40.1
Cash and cash equivalents	21	35.7	26.5
Total current assets		147.7	119.5
Total assets	5	602.8	592.1
Current liabilities			
Liabilities associated with assets classified as held-for-sale	18	(10.9)	–
Trade and other payables	24	(87.6)	(91.8)
Provisions	8	(2.2)	–
Derivative financial instruments	25	(2.5)	(5.7)
Income tax payable		(5.6)	(7.0)
Total current liabilities		(108.8)	(104.5)
Non-current liabilities			
Loans and borrowings	25	(184.1)	(190.8)
Other liabilities	25	(0.9)	(2.1)
Deferred income tax liabilities	12	(7.0)	(7.3)
Total non-current liabilities		(192.0)	(200.2)
Total liabilities	5	(300.8)	(304.7)
Net assets	5	302.0	287.4
Capital and reserves			
Equity share capital	22	0.2	0.2
Capital redemption reserve	22	1.1	1.1
Own shares	22	(4.3)	(4.6)
Hedging reserve	22	(2.1)	(3.5)
Foreign currency retranslation reserve	22	0.7	0.4
Retained earnings		306.4	293.8
Total equity		302.0	287.4

The consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf by:

Martin Payne

Director
20 March 2018

Paul James

Director
20 March 2018

Company Registration No. 06059130

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Foreign currency retranslation reserve £m	Retained earnings £m	Total equity £m
At 31 December 2015	0.2	1.1	(1.7)	(1.7)	(2.5)	265.6	261.0
Profit for the year	–	–	–	–	–	44.2	44.2
Other comprehensive income	–	–	–	(1.8)	2.9	–	1.1
Total comprehensive income for the year	–	–	–	(1.8)	2.9	44.2	45.3
Dividends paid	–	–	–	–	–	(17.1)	(17.1)
Purchase of own shares	–	–	(2.9)	–	–	–	(2.9)
Share-based payments charge	–	–	–	–	–	1.3	1.3
Share-based payments settled	–	–	–	–	–	(0.3)	(0.3)
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2016	0.2	1.1	(4.6)	(3.5)	0.4	293.8	287.4
Profit for the year	–	–	–	–	–	33.7	33.7
Other comprehensive income	–	–	–	1.4	0.3	–	1.7
Total comprehensive income for the year	–	–	–	1.4	0.3	33.7	35.4
Dividends paid	–	–	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	–	–	(3.2)
Share-based payments charge	–	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	–	–	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	(2.1)	0.7	306.4	302.0

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £m	2016* £m
Operating activities			
Profit before tax		55.6	53.5
Finance costs	11	6.9	7.6
Operating profit		62.5	61.1
Profit before tax from discontinued operations	8	1.4	0.9
Non-cash items:			
Profit on disposal of property, plant and equipment	8	(0.1)	(0.3)
Non-underlying items – amortisation of intangibles assets	8	5.5	6.8
– provision for restructuring costs	8	4.3	–
– settlement of restructuring costs		(0.4)	–
– impairment of freehold land and buildings	8	–	0.9
– provision for aborted acquisition costs	8	0.3	–
– settlement of aborted acquisition costs		(0.1)	–
Depreciation	15	16.2	16.3
Share-based payments		0.8	1.0
Operating cash flows before movement in working capital		90.4	86.7
Movement in working capital:			
Receivables		(3.2)	(8.3)
Payables		2.1	11.5
Inventories		(8.9)	(3.4)
Cash generated from operations		80.4	86.5
Income tax paid		(12.6)	(10.1)
Net cash flows from operating activities		67.8	76.4
Investing activities			
Proceeds from disposal of property, plant and equipment		0.2	0.4
Purchase of property, plant and equipment		(23.4)	(19.1)
Net cash flows from investing activities		(23.2)	(18.7)
Financing activities			
Repayment of bank loan		(7.0)	(25.5)
Interest paid		(6.6)	(7.3)
Dividends paid	14	(21.0)	(17.1)
Purchase of own shares		(3.2)	(2.9)
Proceeds from exercise of share options		2.5	–
Net cash flows from financing activities		(35.3)	(52.8)
Net change in cash and cash equivalents		9.3	4.9
Cash and cash equivalents at 1 January	21	26.5	21.6
Net foreign exchange difference		(0.1)	–
Cash and cash equivalents at 31 December	21	35.7	26.5

The net increase in cash and cash equivalents in the year from discontinued operations included in the above was £1.3m (2016: £0.5m).

* The prior year comparatives have been restated where required to reflect adjustments in respect of discontinued operations.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 20 March 2018 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

Polypipe Group plc is a public limited company incorporated and domiciled in England and Wales. The principal activity of the Group is the manufacture of plastic pipe systems for the building and construction market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2017 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

As explained in Note 18, certain operations have been classified as discontinued during the year and consequently the comparative financial information has been restated where appropriate to meet the presentational requirements of IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, to take account of this change.

2.1 Basis of preparation and statement of compliance with IFRSs

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the consolidated financial statements of the Group for the year ended 31 December 2017 and also in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies which follow set out those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2017.

The Group's consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Pounds Sterling and all values are rounded to one decimal place of a million (£m) unless otherwise indicated.

2.2 Going concern

The Directors, having considered all relevant risk factors, believe the Group has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All inter-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group holds 100% of the equity and controls 100% of the voting rights in all subsidiaries, with the exception of Water Management Solutions LLC which has not traded since incorporation in Qatar in 2015. Accordingly, the treatment of non-controlling interests or any other non-voting right factors in respect of control is not material.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.4 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is the total of the consideration transferred, measured at acquisition fair value. Acquisition costs incurred are expensed and included in administration expenses in the income statement.

Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill.

2.5 Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition date fair value of the consideration transferred over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses (see Note 2.12).

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the profit or loss on disposal of the unit, or of an operation within it.

2.6 Foreign currency translation

The Group's consolidated financial statements are presented in Pounds Sterling, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured in that functional currency.

Transactions in foreign currencies are initially recognised by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the balance sheet date. All differences arising on settlement or translation are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into Pounds Sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at average exchange rates prevailing. The resulting exchange differences are recognised in other comprehensive income.

2.7 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer (when the goods are delivered). The amount is recognised net of any discounts or rebates payable, which are accrued at the point at which the goods are delivered. As explained in Note 3.2, rebates can be complex in nature and involve estimation.

Interest income

Interest income is recognised as interest accrues on cash balances using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

2.8 Income taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities based on income tax rates and laws that are enacted or substantively enacted by the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Deferred income tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, with the following exceptions:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

For deductible temporary differences associated with investments in subsidiaries it must additionally be probable that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same tax authority and that authority permits the Group to make a single net payment.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the income tax rates that are expected to apply when the asset is realised or the liability is settled, based on income tax rates and tax laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise, income tax is recognised in the income statement.

2.9 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on the cost less residual value of property, plant and equipment, and is on a straight-line basis over its expected useful life as follows:

Freehold land	Nil
Freehold buildings	Over expected economic life not exceeding 50 years
Plant and other equipment	4 to 10 years

The carrying amounts of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying amount may not be recoverable, and are written down immediately to their recoverable amount. Useful lives, residual values and depreciation methods are reviewed at each financial year end and where adjustments are required these are made prospectively.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or where no future economic benefits are expected to arise from the continued use of the asset. Any profit or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.10 Intangible assets

Intangible assets acquired separately are initially measured at cost. Intangible assets arising on business combinations are initially measured at fair value. Following initial recognition, intangible assets are carried at cost or fair value less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over their useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation of intangible assets is provided over the following expected useful lives:

Patents and brand names	ten years
Customer relationships	five years
Customer order book	up to one year

Research and development costs

Research costs are expensed as incurred. Development expenditures on individual projects are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

At the balance sheet date no development costs have met the above criteria.

2.11 Assets classified as held-for-sale

Assets classified as held-for-sale are measured at the lower of carrying amount and fair value, less costs to sell. Assets are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, expected to be completed within one year from the date of classification and accordingly included within current assets with the associated liabilities being included within current liabilities, and the asset is available for immediate sale in its present condition.

2.12 Impairment of non-financial assets

The Group assesses at each balance sheet date whether there are any indicators that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. The recoverable amount of an asset or cash-generating unit (CGU) is the higher of its fair value less costs to sell and its value in use and it is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculations on detailed budgets and industry forecast calculations which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and industry forecast calculations are generally covering a period of four years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Goodwill

Goodwill has specific characteristics for impairment and is tested annually (at 31 December) or when circumstances indicate that the carrying amount may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. For the purpose of impairment testing, goodwill is allocated to the related CGUs. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than an operating segment before aggregation. Where the recoverable amount of the CGU is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

Impairment losses related to goodwill are not reversed in future periods.

2.13 Leasing

The classification of leases as finance or operating leases requires the Group to determine, based on an evaluation of the terms and conditions, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised on the balance sheet.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

2.14 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of financial assets at initial recognition.

All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recognised at FVTPL.

The Group's financial assets include cash and cash equivalents, derivative financial instruments and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. The Group does not hold any held-to-maturity investments or available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at FVTPL include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

Financial assets at FVTPL are carried in the balance sheet at fair value with changes in fair value recognised in finance revenues or finance costs in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance revenues in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. Loans and receivables also include cash and cash equivalents and trade and other receivables.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of financial liabilities at initial recognition. The Group has trade and other payables, loans classified as loans and borrowings and derivative financial instruments. All financial liabilities are recognised initially at fair value, except in the case of loans and borrowings which are recognised at fair value net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Derivatives are classified as held for trading unless they are designated as effective hedging instruments. Profits or losses on liabilities held for trading are recognised in the income statement.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Profits and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance revenues and finance costs, respectively.

Derecognition

A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iv) Fair values

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

The fair value of financial instruments that are traded in active markets at the balance sheet date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

v) Derivative financial instruments

The Group uses derivative financial instruments, in particular interest rate swaps and forward foreign currency exchange contracts, to manage the financial risks arising from the business activities and the financing of those activities. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair value on the balance sheet date. Changes in the fair value of any derivative financial instruments that do not fulfil the criteria for hedge accounting contained in IAS 39 are recognised immediately in the income statement. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

vi) Hedge accounting

The Group maintains documentation of the relationship between the hedged item and the hedging instrument at the inception of a hedging transaction together with the risk management objective and the strategy underlying the designated hedge. The Group also documents its assessment, both at the inception of the hedging relationship and subsequently on an ongoing basis, of the effectiveness of the hedge in offsetting movements in the fair values or cash flows of the hedged items.

When hedge accounting is used, the relevant hedging relationships are classified as fair value hedges, cash flow hedges or net investment hedges.

Note 28 sets out the details of the fair values of the derivative financial instruments used for hedging purposes.

The Group does not currently have any designated fair value hedges or net investment hedges.

Cash flow hedge

Cash flow hedging matches the cash flows of hedged items against the corresponding cash flows of the derivative. The effective part of any profit or loss on the derivative is recognised directly in other comprehensive income and the hedged item is accounted for in accordance with the policy for that financial instrument. Any ineffective part of any profit or loss is recognised immediately in the income statement. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative profit or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative profit or loss recognised in equity is transferred to the income statement for the period.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

- raw materials – purchase cost on a first in, first out basis.
- work in progress and finished goods – cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.16 Cash and short-term deposits

Cash and short-term deposits consist of cash at bank and in hand.

2.17 Pensions

The Group operates a defined contribution pension plan. Contributions payable in the year are charged to the income statement. The assets are held separately from those of the Group in an independently administered fund. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2.18 Non-underlying items

The Group presents discontinued operations, amortisation of intangible assets, profit on disposal of property, plant and equipment and non-recurring operating costs, finance costs and tax in respect of acquisitions as non-underlying items on the face of the income statement. These are items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, the Directors consider merit separate presentation to provide a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in financial performance. The tax effect of the above is also included.

2.19 Share-based payments

In the case of equity-settled schemes, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The value of the options is measured using the Black-Scholes and Monte Carlo models, taking into account the terms and conditions (including market and non-vesting conditions) upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2.20 Own shares

The Group operates an employee benefit trust (EBT). The Group, and/or the EBT, holds Polypipe Group plc shares for the granting of Polypipe Group plc shares to employees and Directors. These shares are recognised at cost and presented in the balance sheet as a deduction from equity. No profit or loss is recognised in the income statement on the purchase, sale, issue or cancellation of these shares. No dividends are earned on these shares, and they are ignored for the purposes of calculating the Group's earnings per share.

2.21 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Provisions for warranty-related costs are recognised when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised at least annually.

3. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgement has the most significant effect on amounts recognised in the consolidated financial statements:

3.1 Discontinued operations

In accordance with IFRS, the conditions for a disposal group or non-current asset to be classified as held-for-sale include whether management is committed to a plan to sell, the disposal group is available for immediate sale, an active programme to locate a buyer is initiated, the sale is highly probable (within 12 months of classification as held-for-sale, subject to limited exceptions), the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value and the actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

On 31 January 2018, the Group announced it had entered into exclusive negotiations to sell Polypipe France. It was determined that the sale was highly probable at 31 December 2017 and accordingly the French operations were classified as discontinued, the associated net assets were classified as held-for-sale, and a loss on remeasurement to fair value less costs to sell was recognised.

The following estimates have the most significant effect on amounts recognised in the consolidated financial statements:

3.2 Revenue recognition and customer rebates

The Group's pricing structure involves rebate arrangements with several of its direct and indirect customers. These can be complex in nature and involve estimation in determining the required level of provision for rebate liabilities, particularly where the Group is reliant on information from customers which may not be available at the time the liabilities are assessed.

3.3 Impairment of non-financial assets

Non-financial assets include goodwill, other intangible assets and property, plant and equipment. In accordance with IFRS, the Group considers whether there are any indicators of impairment of these assets. Where indicators of impairment are identified, the Group tests the asset for impairment. Goodwill is tested for impairment annually (at 31 December) and when circumstances indicate that the carrying amount may be impaired.

The Group's impairment test for goodwill is based on a value in use calculation. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budgets and forecasts for the next four years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the asset or the cash-generating unit (CGU) being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 16.

3.4 Restructuring provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the probable outflow of resources, and a reliable estimate can be made of the amount of the obligation.

Present obligations arising under onerous contracts are recognised and measured as provisions. Onerous contracts are considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefit expected to be received under the contract.

Provisions for employee contract termination benefits are recognised when the Group is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan where valid expectations are created that the obligation will be discharged, or when the Group provides termination benefits as a result of an offer made to encourage voluntary redundancy.

3.5 Inventory provisioning

The Directors make estimates based on experience regarding the level of provisioning required against slow-moving and obsolete items to state inventories at the lower of cost and net realisable value.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards which have been adopted in the year

There were no new standards or interpretations adopted in the year that had a material impact on the Group's consolidated financial statements.

Standards issued but not yet effective

The following listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance but which have an effective date after the date of these consolidated financial statements. The Group has not early adopted them and plans to adopt them from the effective dates adopted by the European Union.

International Financial Reporting Standards (IFRSs)		Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

Cash and cash equivalents, and trade and other receivables: the new rules do not affect the classification and measurement of these financial assets which will continue to be recognised at amortised cost.

Financial liabilities: the new rules only affect the accounting for financial liabilities that are designated at fair value through profit or loss (FVTPL). The only liabilities currently designated as FVTPL are the forward foreign currency derivatives (see below). The derecognition rules have been transferred from IAS 39, Financial Instruments: Recognition and Measurement, and have not been changed.

Interest rate swaps: these will continue to qualify as hedges on adoption of IFRS 9.

Forward foreign currency derivatives: these are currently accounted for as held-for-trading derivatives at FVTPL. Accordingly, no change is required to the way in which these liabilities are recognised.

The new impairment model requires the recognition of impairment provisions based on forward-looking expected credit losses rather than backward looking incurred losses previously applied under IAS 39. This applies to financial assets classified at amortised cost, namely cash and cash equivalents and trade and other receivables. The only financial asset that is currently impaired and which may continue to be impaired under IFRS 9 is trade receivables. A large proportion of trade receivables are covered by credit insurance. Initial assessments indicate any change to the loss allowance for trade receivables will be immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 which covers contracts for goods and services and IAS 11 which covers construction costs. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

We have considered variable consideration, specifically in relation to rebates. The Group accounts for rebates as discussed in Notes 2.7 and 3.2 to the consolidated financial statements and there is not expected to be any impact of applying the new standard.

Due to the generally short-term nature of the Group's contracts there will likely be no significant impact on the timing of recognition of revenue prospectively.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and the comparatives will not be restated.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE CONTINUED

IFRS 16 Leases

Under IFRS 16 the present distinction between operating and finance leases will be removed, resulting in all leases being recognised on the balance sheet (except short-term leases and leases of low-value assets) and termed right-of-use assets. At inception, a right-of-use asset will be recognised together with an equivalent liability reflecting the discounted lease payments over the estimated term of the lease. While the overall cost of using the asset over the lease term should be the same, it is likely that the weighting of the charge between periods may differ due to the requirement to distinguish between the lease and non-lease elements of the agreement. Adoption of this standard is likely to result in an increase in gross assets and gross liabilities in the balance sheet, and finance costs being reclassified in the income statement to depreciation and/or interest expense. Currently, the Group does not have any finance leases but does have operating leases which are disclosed in Note 26.

Beyond the information above, it is not practicable to provide a reasonable financial estimate of the effect of this standard until a detailed review has been completed.

5. SEGMENT INFORMATION

IFRS 8, Operating Segments, requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM is deemed to be the Board of Directors, who are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

Following the announcement on 31 January 2018 that the Group had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., the Board of Directors refined its reporting segments. The Group now has two reporting segments – Residential Systems and Commercial and Infrastructure Systems. The reporting segments are organised based on the nature of the end markets served. There are no significant judgements in aggregating operating segments to arrive at the reporting segments. Inter-segment sales are on an arm's length basis in a manner similar to transactions with third parties.

As explained in Note 18, the operations of Polypipe France have been classified as discontinued during the year and consequently the comparative financial information has been restated where appropriate to meet the presentational requirements of IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, to take account of this change.

	2017			2016		
	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m
Continuing operations						
Segmental revenue	228.8	196.0	424.8	207.6	190.6	398.2
Inter segment revenue	(5.3)	(7.8)	(13.1)	(4.9)	(6.1)	(11.0)
Revenue	223.5	188.2	411.7	202.7	184.5	387.2
Underlying operating profit*	44.3	28.3	72.6	39.1	29.4	68.5
Non-underlying items – segmental	(0.3)	(4.0)	(4.3)	0.2	0.1	0.3
Segmental operating profit	44.0	24.3	68.3	39.3	29.5	68.8
Non-underlying items – Group			(5.8)			(7.7)
Operating profit			62.5			61.1
Finance costs			(6.9)			(7.6)
Profit before tax			55.6			53.5

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 98, and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £10.1m (2016: £7.4m) are set out below at Non-underlying items before tax.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION CONTINUED

Balance sheet

	31 December 2017		31 December 2016	
	Total assets £m	Total liabilities £m	Total assets £m	Total liabilities £m
Continuing operations				
Residential Systems	287.0	(60.7)	280.6	(60.8)
Commercial and Infrastructure Systems	256.8	(32.5)	251.9	(30.5)
Total segment assets/(liabilities)	543.8	(93.2)	532.5	(91.3)
Discontinued operations	23.3	(10.9)	33.1	(8.1)
Current and deferred income taxes	–	(12.6)	–	(14.5)
Net debt	35.7	(184.1)	26.5	(190.8)
Total – Group	602.8	(300.8)	592.1	(304.7)
Net assets		302.0		287.4

Capital additions

	2017 £m	2016 £m
Residential Systems	10.3	8.6
Commercial and Infrastructure Systems	12.1	10.1
Continuing operations	22.4	18.7
Discontinued operations	1.3	1.0
Total – Group	23.7	19.7

Depreciation of property, plant and equipment

	2017 £m	2016 £m
Residential Systems	8.0	8.3
Commercial and Infrastructure Systems	6.9	6.7
Continuing operations	14.9	15.0
Discontinued operations	1.3	1.3
Total – Group	16.2	16.3

5. SEGMENT INFORMATION CONTINUED

Non-underlying items before tax

	2017 £m	2016 £m
Residential Systems – restructuring costs	0.3	–
Commercial and Infrastructure Systems – restructuring costs	4.0	–
Residential Systems – profit on disposal of property, plant and equipment	–	(0.2)
Commercial and Infrastructure Systems – profit on disposal of property, plant and equipment	–	(0.1)
UK operations	4.3	(0.3)
Group – amortisation of intangible assets	5.5	6.8
Group – aborted acquisition costs	0.3	–
Group – impairment of freehold land and buildings	–	0.9
Continuing operations	10.1	7.4
Discontinued operations: loss recognised on remeasurement to fair value less costs to sell	12.5	–
Discontinued operations: (profit)/loss from discontinued operations	(1.4)	(0.9)
Total – Group	21.2	6.5

Geographical analysis

	2017 £m	2016 £m
Revenue by destination		
Continuing operations		
UK	365.7	338.3
Rest of Europe	18.9	17.0
Rest of World	27.1	31.9
Total – Group	411.7	387.2

	31 December 2017 £m	31 December 2016 £m
Non-current assets		
Continuing operations		
UK	451.1	450.1
Rest of Europe	4.0	3.9
Total – Group	455.1	454.0

Non-current assets for this purpose consist of property, plant and equipment, goodwill and other intangible assets.

The Group has two customers (2016: two) which individually accounted for more than 10% of the Group's total continuing and discontinued revenue during 2017. These customers account for 13.2% and 10.5% respectively (2016: 12.5% and 11.1% respectively) and are included in both reporting segments.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. OPERATING PROFIT

	2017 £m	2016 £m
Income statement charges		
Continuing operations		
Depreciation of property, plant and equipment (owned)	14.9	15.0
Cost of inventories recognised as an expense	238.8	219.1
Operating lease payments – minimum lease payments	4.0	4.5
Research and development costs written off	0.8	0.5
Discontinued operations		
Depreciation of property, plant and equipment (owned)	1.3	1.3
Cost of inventories recognised as an expense	46.1	37.7
Operating lease payments – minimum lease payments	0.1	0.4
Income statement credits – continuing operations		
Profit on disposal of property, plant and equipment	0.1	0.3

7. AUDITOR'S REMUNERATION

The Group paid the following amounts to the Company's auditor in respect of the audit of the consolidated financial statements and for other services provided to the Group.

Auditor's remuneration for audit services:

	2017 £m	2016 £m
Audit of the Company's annual financial statements	–	–
Audit of the Company's subsidiaries	0.3	0.3
Total audit fees	0.3	0.3

The Group did not make any payments to the Company's auditor for non-audit services (2016: nil).

8. NON-UNDERLYING ITEMS

Non-underlying items comprised:

	2017			2016		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Cost of sales: Restructuring costs	2.8	(0.2)	2.6	–	–	–
Administration expenses: Restructuring costs	1.5	–	1.5	–	–	–
Administration expenses: Aborted acquisition costs	0.3	(0.1)	0.2	–	–	–
Profit on disposal of property, plant and equipment	–	–	–	(0.3)	–	(0.3)
Impairment of freehold land and buildings	–	–	–	0.9	–	0.9
Amortisation of intangible assets	5.5	(0.9)	4.6	6.8	(1.6)	5.2
Discontinued operations: loss recognised on remeasurement to fair value less costs to sell	12.5	–	12.5	–	–	–
Discontinued operations: (profit)/ loss from discontinued operations	(1.4)	0.2	(1.2)	(0.9)	0.1	(0.8)
Total non-underlying items	21.2	(1.0)	20.2	6.5	(1.5)	5.0

Gross restructuring costs of £4.3m were recognised in 2017 in respect of a change in our Commercial and Infrastructure Systems' manufacturing strategy in the Middle East (£4.0m) and the relocation of our Residential Systems' Domus Ventilation manufacturing facilities (£0.3m). The Middle East restructuring plan was drawn up and announced to the relevant employees in 2017. The Domus Ventilation restructuring plan was drawn up, announced and completed in 2017. Of the £4.0m Middle East restructuring costs, £1.7m were non-cash and the remaining £2.3m costs are expected to be fully cash settled by the end of 2018.

The discontinued operations relate to the sale of Polypipe France Holding SAS as explained in Note 18.

Provisions comprised:

	31 December 2017 £m	31 December 2016 £m
Restructuring costs	2.2	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

9. STAFF COSTS

Staff costs (including Directors) comprised:

	2017 £m	2016 £m
Continuing operations		
Wages and salaries	87.1	81.2
Social security costs	8.3	7.6
Other pension costs	2.6	2.4
	98.0	91.2
Discontinued operations		
Wages and salaries	6.2	5.8
Social security costs	2.6	2.4
Other pension costs	0.1	0.1
	8.9	8.3
Total – Group	106.9	99.5

The average monthly number of persons employed by the Group by segment was as follows:

	2017 No.	2016 No.
Residential Systems	1,668	1,537
Commercial and Infrastructure Systems	1,257	1,199
Continuing operations	2,925	2,736
Discontinued operations	214	202
Total – Group	3,139	2,938

10. DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out below:

	2017 £m	2016 £m
Fees	0.3	0.3
Emoluments	1.8	1.9
	2.1	2.2

The aggregate amount of gains made by the Directors on the exercise of share options during the year was £0.3m (2016: £0.2m).

11. FINANCE COSTS

	2017 £m	2016 £m
Interest on bank loan	5.8	6.6
Debt issue cost amortisation	0.3	0.4
Other finance costs	0.8	0.6
Finance costs	6.9	7.6

12. INCOME TAX

(a) Tax charged in the income statement

	2017 £m	2016 £m
Continuing operations		
<i>Current income tax:</i>		
UK income tax	11.2	12.4
Overseas income tax	0.1	–
Total current income tax	11.3	12.4
<i>Deferred income tax:</i>		
Origination and reversal of temporary differences	(0.7)	(2.0)
Effect of changes in income tax rates	–	(0.3)
Total deferred income tax	(0.7)	(2.3)
Total tax expense reported in the income statement	10.6	10.1
	2017 £m	2016 £m
Discontinued operations		
<i>Current income tax:</i>		
Overseas income tax	0.2	0.1
Total tax expense reported in the income statement	0.2	0.1

Details of the non-underlying tax credit of £1.0m (2016: £1.5m) are set out in Note 8.

(b) Reconciliation of the total tax charge

A reconciliation between the tax expense and the product of accounting profit multiplied by the blended UK standard rate of income tax for the years ended 31 December 2017 and 2016 is as follows:

	2017 £m	2016 £m
Accounting profit before tax – continuing operations	55.6	53.5
Accounting profit multiplied by the blended UK standard rate of income tax of 19.25% (2016: 20.00%)	10.7	10.7
Expenses not deductible for income tax	0.4	0.7
Non-taxable income	–	(0.1)
Share-based payments	(0.4)	(0.3)
Effects of patent box	(0.8)	(0.7)
Effects of changes in income tax rates	(0.1)	–
Effects of other tax rates / credits	0.8	(0.2)
Total tax expense reported in the income statement – continuing operations	10.6	10.1
Total tax expense reported in the income statement – discontinued operations	0.2	0.1

The effective rate for the full year was 19.1% (2016: 18.9%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 18.0% (2016: 19.2%).

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. INCOME TAX CONTINUED

(c) *Deferred income tax*

The deferred income tax included in the Group balance sheet is as follows:

	31 December 2017 £m	31 December 2016 £m
Continuing operations		
<i>Deferred income tax liabilities / (assets)</i>		
Short-term timing differences	6.2	6.5
Capital allowances in excess of depreciation	1.3	1.4
Share-based payments	(0.5)	(0.4)
Continuing operations	7.0	7.5
Discontinued operations	(0.3)	(0.2)

The Group offsets tax assets and liabilities if, and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same tax authority.

A reconciliation of deferred income taxes for the years ended 31 December 2017 and 2016 is as follows:

	2017 £m	2016 £m
Deferred income tax reported in the income statement	(0.7)	(2.3)
Deferred income tax reported in other comprehensive income	0.3	(0.3)
Share-based payments excess tax benefit	(0.1)	(0.1)
Net foreign exchange difference	(0.1)	–
	(0.6)	(2.7)

(d) *Change in corporation tax rate*

The Chancellor has announced that the main UK corporation tax rate will be reduced from the current rate of 19%, which was applied from 1 April 2017, to 17% from 1 April 2020. The reduction in the corporation tax rate to 17% was included within the UK Finance Act 2016 that was enacted in September 2016.

Deferred income tax is measured at income tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on income tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax has therefore been provided at 17% (2016: 17%).

(e) *Unrecognised tax losses*

A deferred income tax asset of £0.6m (2016: £1.0m) in respect of surplus non-trading losses of £3.7m (2016: £5.5m) has not been recognised at 31 December 2017 as its recovery is uncertain.

13. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the year. The diluted earnings per share amounts are calculated by dividing profit for the year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of potential ordinary shares that would be issued on the conversion of all the dilutive share options into ordinary shares.

The calculation of basic and diluted earnings per share is based on the following:

	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	198,390,485	198,930,384
Effect of dilutive potential ordinary shares	1,788,892	1,053,339
Weighted average number of ordinary shares for the purpose of diluted earnings per share	200,179,377	199,983,723

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £20.2m (2016: £5.0m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	2017	2016
Underlying profit for the year attributable to the owners of the parent company (£m)	53.9	49.2
Underlying basic earnings per share (pence)	27.2	24.7
Underlying diluted earnings per share (pence)	26.9	24.6

14. DIVIDENDS PER SHARE

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2016 of 7.0p per share (2015: 5.5p)	13.9	11.0
Interim dividend for the year ended 31 December 2017 of 3.6p per share (2016: 3.1p)	7.1	6.1
	21.0	17.1
Proposed final dividend for the year ended 31 December 2017 of 7.5p per share (2016: 7.0p)	14.9	13.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2016	48.1	147.0	195.1
Additions	1.2	18.5	19.7
Disposals	–	(3.2)	(3.2)
Reclassified as assets held-for-sale	(3.2)	–	(3.2)
Exchange adjustment	1.0	4.6	5.6
At 31 December 2016	47.1	166.9	214.0
Additions	1.9	21.8	23.7
Disposals	–	(1.3)	(1.3)
Reclassified as assets held-for-sale	(11.5)	(31.4)	(42.9)
Exchange adjustment	0.3	1.2	1.5
At 31 December 2017	37.8	157.2	195.0
Depreciation and impairment losses			
At 1 January 2016	10.1	86.9	97.0
Provided during the year	1.4	14.9	16.3
Disposals	–	(3.1)	(3.1)
Impairment	0.9	–	0.9
Reclassified as assets held-for-sale	(2.5)	–	(2.5)
Exchange adjustment	0.7	3.7	4.4
At 31 December 2016	10.6	102.4	113.0
Provided during the year	1.3	14.9	16.2
Disposals	–	(1.2)	(1.2)
Impairment	–	0.9	0.9
Reclassified as assets held-for-sale	(6.7)	(27.0)	(33.7)
Exchange adjustment	0.2	1.0	1.2
At 31 December 2017	5.4	91.0	96.4
Net book value:			
At 31 December 2017	32.4	66.2	98.6
At 31 December 2016	36.5	64.5	101.0

The impairment charge in 2017 of £0.9m related to plant and equipment in the Middle East as explained in Note 8. The Polypipe France assets with a net book value of £9.2m were reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 18.

The impairment charge in 2016 of £0.9m related to surplus freehold land and buildings at Wolverhampton that are being actively marketed and writes down their carrying amount to £0.7m being their fair value less costs to sell. The written down asset was reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations.

Included in freehold land and buildings is non-depreciable land of £12.6m (2016: £13.0m).

16. INTANGIBLE ASSETS

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Customer order book £m	Total £m
Cost						
At 31 December 2016	329.3	18.2	25.5	6.4	2.0	381.4
Reclassified as assets held-for-sale	(9.6)	–	–	–	–	(9.6)
At 31 December 2017	319.7	18.2	25.5	6.4	2.0	371.8
Amortisation and impairment						
At 1 January 2016	–	0.7	1.0	0.5	0.8	3.0
Charge for the year	–	1.8	2.6	1.2	1.2	6.8
At 31 December 2016	–	2.5	3.6	1.7	2.0	9.8
Charge for the year	–	1.8	2.5	1.2	–	5.5
At 31 December 2017	–	4.3	6.1	2.9	2.0	15.3
Net book value:						
At 31 December 2017	319.7	13.9	19.4	3.5	–	356.5
At 31 December 2016	329.3	15.7	21.9	4.7	–	371.6

Goodwill is not amortised but is subject to annual impairment testing.

The Polypipe France goodwill of £9.6m was reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 18.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to a number of cash-generating units (CGUs). These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill allocated to each of the CGUs:

CGU

	31 December 2017 £m	31 December 2016 £m
Building Products	146.1	146.1
Terrain	31.4	31.4
Civils	36.0	36.0
Nuaire	91.3	91.3
Others	14.9	24.5
	319.7	329.3

Impairment tests on the carrying amounts of goodwill are performed by analysing the carrying amount allocated to each CGU against its value in use. Value in use is calculated for each CGU as the net present value of that CGU's discounted future pre-tax cash flows. These pre-tax cash flows are based on budgeted cash flows information for a period of one year, construction industry forecasts of growth for the following year and growth of between 2% to 3% thereafter (2016: 2% to 3%).

A pre-tax discount rate of 10.0% (2016: 10.0%) has been applied in determining the recoverable amounts of CGUs. The pre-tax discount rate is estimated based on the Group's risk adjusted cost of capital.

The Group has applied sensitivities to the remaining goodwill of £319.7m to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. The application of these sensitivities did not cause an impairment of goodwill.

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17. INVESTMENTS

Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 December 2017 are set out in Note 4 to the parent company financial statements.

18. ASSETS CLASSIFIED AS HELD-FOR-SALE

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. The cash consideration payable by Ryb S.A. will be €16.5m on a cash-free, debt-free and normalised working capital basis. It was determined that the sale was highly probable at 31 December 2017 and accordingly the net assets of the French operations have been classified as held-for-sale in the consolidated balance sheet. In accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, an impairment loss of £12.5m to remeasure the carrying amount of the assets to fair value less costs to sell has been recognised following the reclassification of the net assets of Polypipe France Holding SAS as held-for-sale. An analysis of the assets held-for-sale and liabilities associated with the assets classified as held-for-sale is as follows:

	Book value £m	Impairment loss £m	31 December 2017 £m
Assets held-for-sale			
Intangible assets	9.6	(9.6)	–
Property, plant and equipment	9.2	(2.9)	6.3
Inventories	7.7	–	7.7
Trade and other receivables	9.0	–	9.0
Deferred income tax assets	0.3	–	0.3
	35.8	(12.5)	23.3
Liabilities associated with assets classified as held-for-sale			
Trade and other payables	(9.5)	–	(9.5)
Income tax payable	(0.2)	–	(0.2)
Other liabilities	(1.2)	–	(1.2)
	(10.9)	–	(10.9)
Net assets held-for-sale	24.9	(12.5)	12.4

The table below provides further detail of the discontinued operations:

	2017 £m	2016 £m
Revenue	58.4	49.7
Expenses	(57.0)	(48.8)
Profit before tax	1.4	0.9
Income tax	(0.2)	(0.1)
Profit from discontinued operations	1.2	0.8
Loss recognised on remeasurement to fair value less costs to sell	(12.5)	–
Profit/(loss) from discontinued operations	(11.3)	0.8

18. ASSETS CLASSIFIED AS HELD-FOR-SALE CONTINUED

The remaining assets classified as held-for-sale comprised:

	31 December 2017 £m	31 December 2016 £m
Property, plant and equipment	0.7	0.7

These assets classified as held-for-sale consist exclusively of freehold land currently not in use by the Group. It is expected that the disposal of this asset will be completed during 2018. The assets classified as held-for-sale are analysed between operating segments as follows:

	31 December 2017 £m	31 December 2016 £m
Residential Systems	0.4	0.4
Commercial and Infrastructure Systems	0.3	0.3
	0.7	0.7

19. INVENTORIES

	31 December 2017 £m	31 December 2016 £m
Raw materials	18.2	17.4
Work in progress	5.3	6.1
Finished goods	30.0	28.7
	53.5	52.2

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. The provision as at 31 December 2017 was £5.4m (2016: £6.1m).

20. TRADE AND OTHER RECEIVABLES

	31 December 2017 £m	31 December 2016 £m
Trade receivables	28.6	34.9
Other receivables	–	1.2
Prepayments and accrued income	5.9	4.0
	34.5	40.1

Trade receivables are non-interest bearing and are generally settled on 30 days' credit.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. TRADE AND OTHER RECEIVABLES CONTINUED

Impairment losses

The Group maintains a substantial level of credit insurance covering the majority of its trade receivables which mitigates against possible impairment losses. Therefore, such impairment losses are not significant.

The ageing of trade receivables at the balance sheet date was as follows:

	31 December 2017			31 December 2016		
	Gross £m	Provisions £m	Net £m	Gross £m	Provisions £m	Net £m
Not past due	26.9	–	26.9	31.1	–	31.1
Past due 1–30 days	0.9	–	0.9	2.1	–	2.1
Past due 31–90 days	0.6	–	0.6	2.0	(0.3)	1.7
Past due more than 90 days	0.7	(0.5)	0.2	0.3	(0.3)	–
	29.1	(0.5)	28.6	35.5	(0.6)	34.9

The movements in provisions for impairment of trade receivables comprised:

	£m
At 31 December 2016 and 2015	0.6
Charged to the income statement during the year	0.3
Utilised during the year	(0.4)
At 31 December 2017	0.5

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	31 December 2017 £m	31 December 2016 £m
Cash at bank and in hand	35.7	26.5

Cash at bank earns interest at variable rates based on daily bank deposit rates. The Group only deposits cash surpluses with banks that have as a minimum a single A credit rating.

22. SHARE CAPITAL AND RESERVES

Share capital

	31 December 2017		31 December 2016	
	Number*	£	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	200	200,000	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	200	200,000	200	200,000

* Millions of shares.

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Capital redemption reserve

Following the consolidation and sub-division of shares in 2014 the Company's deferred shares were cancelled. In order to maintain the Company's capital a transfer was made from retained earnings to a capital redemption reserve at that time.

22. SHARE CAPITAL AND RESERVES CONTINUED

Own shares

Own shares represent the cost of Polypipe Group plc shares purchased in the market and held by the Company, and/or the employee benefit trust (EBT), to satisfy the future exercise of options under the Group's share option schemes.

At 31 December 2017, the Group held 402,746 (2016: 1,714,148) of its own shares at an average cost of 294p (2016: 268p) per share. The market value of these shares at 31 December 2017 was £1.6m (2016: £5.6m). The nominal value of each share is £0.001.

The EBT held 748,000 shares at 31 December 2017 (2016: nil) at an average cost of 422p (2016: nil) per share. The market value of these shares at 31 December 2017 was £2.9m (2016: nil). The nominal value of each share is £0.001.

Hedging reserve

The hedging reserve contains the effective portion of the cash flow hedge relationships entered into by the Group in respect of interest rate swaps as mentioned in Note 25.

Foreign currency retranslation reserve

The foreign currency retranslation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains an appropriate capital structure to support its business objectives and maximise shareholder value. The Group regards shareholders' equity and net debt as its capital. The Group's net debt is defined as cash and cash equivalents, loans and borrowings.

At 31 December 2017, the Group had bank debt of £185.0m (2016: £192.0m), an undrawn committed revolving credit facility of £105.0m (2016: £108.0m) and cash of £35.7m (2016: £26.5m). A key objective of the Group is to maintain sufficient liquidity (cash and committed bank facilities) in order to meet its cash commitments including interest payments due on that debt.

No changes were made to the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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23. SHARE-BASED PAYMENTS

Share options were granted by the Company under its various share option schemes as detailed in the table below:

	Exercise price £	31 December 2016 Number	Granted Number	Dividend accrual Number	Exercised Number	Lapsed / forfeited Number	31 December 2017 Number	Date first exercisable	Expiry date
2014 Sharesave (granted 2014)	1.99	1,487,080	–	–	(1,273,732)	(46,558)	166,790	1 Nov 2017	30 April 2018
2014 Sharesave (granted 2016)	2.21	1,415,697	–	–	(1,356)	(120,701)	1,293,640	1 Nov 2019	30 April 2020
2014 Sharesave (granted 2017)	3.10	–	1,108,772	–	–	(17,703)	1,091,069	1 Nov 2020	30 April 2021
2014 LTIP (granted 2014)	Nil	36,314	–	–	(36,314)	–	–	8 Sept 2017	8 Sept 2024
2014 LTIP (granted 10 May 2016)	Nil	552,803	–	–	–	(24,368)	528,435	10 May 2019	10 May 2026
2014 LTIP (granted 31 May 2016)	Nil	77,743	–	–	–	–	77,743	31 May 2019	31 May 2026
2014 LTIP (granted 2 May 2017)	Nil	–	499,896	–	–	(12,845)	487,051	2 May 2020	2 May 2027
2014 LTIP (granted 22 May 2017)	Nil	–	10,960	–	–	–	10,960	22 May 2020	22 May 2027
DSBP (granted 28 April 2015)	Nil	42,801	–	2,922	(45,723)	–	–	28 April 2017	28 April 2025
DSBP (granted 26 April 2016)	Nil	31,174	–	1,719	(32,893)	–	–	26 April 2018	26 April 2026
DSBP (granted 25 April 2017)	Nil	–	32,165	837	(24,547)	–	8,455	25 April 2019	25 April 2027
Other share awards (granted 31 May 2016)	Nil	44,582	–	1,451	(24,352)	–	21,681	16 May 2018	31 May 2026
		3,688,194	1,651,793	6,929	(1,438,917)	(222,175)	3,685,824		

Sharesave Plan

Sharesave Plan options were granted to eligible employees on 7 September 2017 at an exercise price of £3.10 per share, a 20% discount to the average share price over the three business days preceding the offer. Participating employees can exercise their options to purchase the shares acquired through their savings plans at the option price after three years. These options have an exercise date of 2020 to 2021.

Long-Term Incentive Plan (LTIP)

LTIP options were awarded to a number of senior executives on 2 May and 22 May 2017. These options have an exercise date of 2020 to 2027. The vesting of each award is subject to the satisfaction of certain performance criteria, of which 25% is based on total shareholder return (the TSR element) and 75% is based on earnings per share performance (the EPS element). Further details of the scheme are provided in the Annual Report on Remuneration.

Deferred Share Bonus Plan (DSBP)

On 25 April 2017, the Executive Directors received an award of shares under the DSBP relating to the 2016 annual bonus. David Hall's deferred bonus share awards vested upon cessation of employment on 2 October 2017 in accordance with the DSBP rules, and were settled in cash.

23. SHARE-BASED PAYMENTS CONTINUED

Other share awards

In 2016 other share awards in the form of nil cost options were made relating to buy-out arrangements to partially compensate Martin Payne for bonus and long-term incentive awards which were forfeited when he left his previous employer. Of these, 24,352 were exercised on 8 August 2017 including 668 in respect of dividends accrued since the grant date. Further details are provided in the Annual Report on Remuneration.

All these equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of the equity-settled, share-based payments is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimates of shares that will eventually vest, with a corresponding adjustment to equity. Fair value for the Sharesave Plan options and the EPS element of the LTIP options is measured by use of a Black-Scholes model. Fair value of the TSR element of the LTIP options is measured by use of a Monte Carlo model. The expected life used in the models has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The assumptions used for each share-based payment are as follows:

	2014 LTIP options granted 2 May 2017	2014 LTIP options granted 22 May 2017	2014 Sharesave options granted 2017
Share price at the date of grant	£4.03	£4.20	£4.09
Exercise price	Nil	Nil	£3.10
Shares under option	499,896	10,960	1,108,772
Vesting period (years)	3.00	3.00	3.25
Expected volatility	30.0%	29.9%	28.0%
Median volatility of the comparator group	29.9%	30.0%	n/a
Expected life (years)	3.00	3.00	3.25
Risk free rate	0.15%	0.18%	0.30%
Dividend yield	2.50%	2.40%	2.59%
TSR performance of the Company at the date of grant	31.7%	37.2%	n/a
Median TSR performance of the comparator group at the date of grant	17.0%	17.0%	n/a
Correlation (median)	22.4%	22.6%	n/a
Fair value per option	£3.44	£3.63	£0.91

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23. SHARE-BASED PAYMENTS CONTINUED

	2014 LTIP options granted 10 May 2016	2014 LTIP options granted 31 May 2016	2014 Sharesave options granted 2016
Share price at the date of grant	£2.87	£3.18	£2.77
Exercise price	Nil	Nil	£2.21
Shares under option	552,803	77,743	1,422,700
Vesting period (years)	3.00	3.00	3.25
Expected volatility	25.4%	25.6%	26.7%
Median volatility of the comparator group	26.1%	26.0%	n/a
Expected life (years)	3.00	3.00	3.25
Risk free rate	0.50%	0.58%	0.18%
Dividend yield	2.80%	2.53%	3.35%
TSR performance of the Company at the date of grant	(3.3%)	7.4%	n/a
Median TSR performance of the comparator group at the date of grant	(1.6%)	2.8%	n/a
Correlation (median)	13.4%	13.4%	n/a
Fair value per option	£2.32	£2.65	£0.60

The expected volatility is based on historical share price movements. The Directors anticipate it is possible the performance criteria in relation to the LTIP options may not be met.

	2017 £m	2016 £m
Share-based payments charge for the year	1.2	1.3

24. TRADE AND OTHER PAYABLES

	31 December 2017 £m	31 December 2016 £m
Trade payables	68.5	66.6
Other taxes and social security costs	8.3	11.4
Accruals	10.8	13.8
	87.6	91.8

Trade payables are non-interest bearing and generally settled on 30 to 60 day terms.

25. FINANCIAL LIABILITIES

	31 December 2017 £m	31 December 2016 £m
Non-current loans and borrowings:		
Bank loan – principal	185.0	192.0
– unamortised debt issue costs	(0.9)	(1.2)
Total non-current loans and borrowings	184.1	190.8
	£m	£m
Other financial liabilities:		
Trade and other payables	87.6	91.8
Forward foreign currency derivatives	–	1.5
Interest rate swaps	2.5	4.2
Other liabilities	0.9	2.1
	91.0	99.6

Bank loan

The bank loan, which is a revolving credit facility, is secured and expires in full in August 2020. Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 1.25% to 2.75% which is dependent on the Group's leverage (net debt as a multiple of EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2017 was 1.75% (2016: 2.00%).

At 31 December 2017, the Group had available, subject to covenant headroom, £105.0m (2016: £108.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2017.

The facility reduced by £10m to £290m at 31 December 2017 and will reduce by a further £10m each year, regardless of leverage, at 31 December 2018 and 2019; the remainder is available until August 2020.

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt as a multiple of EBITDA and interest cover. At 31 December 2017, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2017
Interest cover (Underlying operating profit: Finance costs excluding debt issue cost amortisation)	>4.0:1	11.5:1
Leverage (Net debt: EBITDA)	<3.0:1	1.6:1

The interest cover and leverage covenants remain at 4.0:1 and 3.0:1, respectively, throughout the remaining term of the revolving credit facility to August 2020.

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26. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has entered into commercial leases on certain properties and plant and equipment. These leases have an average life of between five to ten years.

Future minimum rentals payable under non-cancellable operating leases comprised:

	31 December 2017 £m	31 December 2016 £m
Continuing operations		
<i>Land and buildings</i>		
Within one year	1.2	0.2
After one year, but not more than five years	3.5	3.0
More than five years	5.7	9.4
	10.4	12.6
Continuing operations	£m	£m
<i>Plant and equipment</i>		
Within one year	0.2	0.1
After one year, but not more than five years	2.3	2.7
More than five years	2.6	2.2
	5.1	5.0

Capital commitments

At 31 December 2017, the Group had commitments of £3.6m (2016: £6.5m) relating to plant and equipment purchases.

27. RELATED PARTY TRANSACTIONS

Compensation of key management personnel (including Directors)

	2017 £m	2016 £m
Short-term employee benefits	2.9	2.9
Share-based payments	0.5	0.5
	3.4	3.4

Key management personnel comprise the Executive Directors and key divisional managers.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables and cash that are derived directly from its operations.

The Group is exposed to interest rate cash flow, foreign currency exchange, credit and liquidity risk.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

The Group's senior management oversees the mitigation of these risks which are summarised as follows:

Interest rate cash flow risk

The interest rate on the Group's £290m revolving credit facility is variable, being payable at LIBOR plus a margin. To reduce the Group's exposure to potential future increases in interest rates the Group has entered into interest rate swaps for the following notional amounts, with interest payable at a fixed rate return dependent on the swap of either 2.21% or 1.735% (2016: 2.21% or 1.735%) (excluding margin):

Year ending 31 December	Notional amount – rate of 2.21% £m	Notional amount – rate of 1.735% £m
2018	66.6	25.1
2019	–	82.0
To August 2020	–	72.2

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of a financial instrument or future cash flows will fluctuate because of changes in foreign currency exchange rates. The Group's exposure to the risk of changes in foreign currency exchange rates relates primarily to the Group's operating activities where the revenue or expense is denominated in a currency other than the functional currency of the entity undertaking the transaction.

The Group enters into forward foreign currency exchange contracts for the purchase and sale of foreign currencies in order to manage its exposure to fluctuations in currency rates primarily in respect of US Dollar and Euro receipts and payments.

Foreign currency exchange sensitivity

The table below demonstrates the sensitivity to a 10% change in the Euro exchange rate and the United Arab Emirates Dirham exchange rate versus Pounds Sterling, the presentational currency of the Group used for translation purposes, on the net assets and profit after tax of the Group. The Group's exposure to foreign currency exchange rate changes for all other currencies is not material.

Change in exchange rate	Effect on net assets £m	Effect on profit after tax £m
2017		
10% strengthening of Pounds Sterling: against Euro	(1.8)	(0.1)
10% weakening of Pounds Sterling: against Euro	2.2	0.1
10% strengthening of Pounds Sterling: against United Arab Emirate Dirham	(0.1)	0.3
10% weakening of Pounds Sterling: against United Arab Emirate Dirham	0.1	(0.4)
2016		
10% strengthening of Pounds Sterling: against Euro	(1.6)	(0.1)
10% weakening of Pounds Sterling: against Euro	2.0	0.1
10% strengthening of Pounds Sterling: against United Arab Emirate Dirham	(0.5)	–
10% weakening of Pounds Sterling: against United Arab Emirate Dirham	0.6	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

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28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including cash deposits with banks.

Trade receivables

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major export customers are generally covered by letters of credit or other forms of credit insurance.

The requirement for impairment is analysed at each balance sheet date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each class of financial assets as disclosed in Note 20.

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low. At 31 December 2017, 68.2% (2016: 75.3%) of net trade receivables were covered by credit insurance which is subject to the normal policy deductibles.

Financial instruments and cash deposits

The Group maintains strong liquidity through cash balances and deposits (£35.7m at 31 December 2017) and its undrawn committed revolving credit facility (£105.0m at 31 December 2017) which matures in August 2020.

Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Deposits of surplus funds are made only with banks that have as a minimum a single A credit rating. The Group's maximum exposure to credit risk for the components of the balance sheet at 31 December 2017 and 31 December 2016 is the carrying amounts as illustrated in Note 21.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group had cash and cash equivalents of £35.7m and undrawn and committed credit facilities of £105.0m at 31 December 2017, and no debt maturities within 12 months.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2017

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	185.0	185.0
Other financial liabilities:				
Trade and other payables	87.6	–	–	87.6
Forward foreign currency derivatives	–	–	–	–
Interest rate swaps	–	–	2.5	2.5
Other liabilities	–	–	0.9	0.9
	87.6	–	188.4	276.0

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

31 December 2016

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	192.0	192.0
Other financial liabilities:				
Trade and other payables	91.8	–	–	91.8
Forward foreign currency derivatives	0.8	0.6	0.1	1.5
Interest rate swaps	–	–	4.2	4.2
Other liabilities	–	–	2.1	2.1
	92.6	0.6	198.4	291.6

Fair values of financial assets and financial liabilities

The book value of trade and other receivables, trade and other payables, cash balances, bank loan and other liabilities equates to fair value.

The table below sets out the Group's accounting classification of its other financial assets and liabilities and their carrying amounts and fair values:

	Carrying value £m	Fair value £m
Forward foreign currency derivatives	–	–
Interest rate swaps	2.5	2.5
Interest bearing loans and borrowings due after more than one year	184.1	184.1
Total at 31 December 2017	186.6	186.6

	Carrying value £m	Fair value £m
Forward foreign currency derivatives	1.5	1.5
Interest rate swaps	4.2	4.2
Interest bearing loans and borrowings due after more than one year	190.8	190.8
Total at 31 December 2016	196.5	196.5

The fair value of the interest rate swaps was determined by reference to market values.

Forward foreign currency derivatives fair value was determined using quoted exchange rates.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recognised fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recognised fair value that are not based on observable market data.

The fair values disclosed above all relate to items categorised as Level 2.

There have been no transfers in any direction between Levels 1, 2 or 3 in the years ended 31 December 2017 and 2016.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

29. CONSOLIDATED CASH FLOW STATEMENT

The analysis of cash generated from operations split by continuing and discontinued operations is as follows:

	2017 £m	2016 £m
Continuing operations		
Profit before tax	55.6	53.5
Finance costs	6.9	7.6
Operating profit	62.5	61.1
Non-cash items:		
Profit on disposal of property, plant and equipment	(0.1)	(0.3)
Non-underlying items – amortisation of intangibles assets	5.5	6.8
– provision for restructuring costs	4.3	–
– settlement of restructuring costs	(0.4)	–
– impairment of freehold land and buildings	–	0.9
– provision for aborted acquisition costs	0.3	–
– settlement of aborted acquisition costs	(0.1)	–
Depreciation	14.9	15.0
Share-based payments	0.8	1.0
Operating cash flows before movement in working capital	87.7	84.5
Movement in working capital:		
Receivables	(2.5)	(8.2)
Payables	0.7	13.4
Inventories	(8.0)	(4.7)
Cash generated from operations	77.9	85.0
Income tax paid	(12.6)	(10.1)
Net cash flows from operating activities	65.3	74.9
Investing activities		
Proceeds from disposal of property, plant and equipment	0.2	0.4
Purchase of property, plant and equipment	(22.2)	(18.1)
Net cash flows from investing activities	(22.0)	(17.7)
Financing activities		
Repayment of bank loan	(7.0)	(25.5)
Interest paid	(6.6)	(7.3)
Dividends paid	(21.0)	(17.1)
Purchase of own shares	(3.2)	(2.9)
Proceeds from exercise of share options	2.5	–
Net cash flows from financing activities	(35.3)	(52.8)
Net change in cash and cash equivalents	8.0	4.4
Cash and cash equivalents at 1 January	24.5	20.3
Net foreign exchange difference	(0.2)	(0.2)
Cash and cash equivalents at 31 December	32.3	24.5

29. CONSOLIDATED CASH FLOW STATEMENT CONTINUED

	2017 £m	2016 £m
Discontinued operations		
Profit before tax from discontinued operations	1.4	0.9
Loss recognised on remeasurement to fair value less costs to sell	(12.5)	–
Operating (loss)/profit	(11.1)	0.9
Non-cash items:		
Non-underlying item – loss recognised on remeasurement to fair value less costs to sell	12.5	–
Depreciation	1.3	1.3
Operating cash flows before movement in working capital	2.7	2.2
Movement in working capital:		
Receivables	(0.7)	(0.1)
Payables	1.4	(1.9)
Inventories	(0.9)	1.3
Net cash flows from operating activities	2.5	1.5
Investing activities		
Purchase of property, plant and equipment	(1.2)	(1.0)
Net cash flows from investing activities	(1.2)	(1.0)
Net change in cash and cash equivalents	1.3	0.5
Cash and cash equivalents at 1 January	2.0	1.3
Net foreign exchange difference	0.1	0.2
Cash and cash equivalents at 31 December	3.4	2.0

DIRECTORS' RESPONSIBILITIES STATEMENT

IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, the Directors are required to:

- present fairly the financial position, financial performance and cash flows of the Company;
- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

COMPANY BALANCE SHEET

AT 31 DECEMBER 2017

	Notes	31 December 2017 £m	31 December 2016 £m
Non-current assets			
Investments	4	234.0	233.3
Current assets			
Amounts owed by subsidiary undertakings and other receivables	5	84.1	74.0
Total assets		318.1	307.3
Current liabilities			
Amounts owed to subsidiary undertakings and other payables	6	(85.7)	(60.8)
Net assets		232.4	246.5
Capital and reserves			
Equity share capital	7	0.2	0.2
Capital redemption reserve	7	1.1	1.1
Own shares	7	(4.3)	(4.6)
Retained earnings		235.4	249.8
Total equity		232.4	246.5

Included within retained earnings is profit for the year of £6.7m (2016: £5.0m).

The financial statements were approved for issue by the Board of Directors and signed on its behalf by:

Martin Payne

Director
20 March 2018

Paul James

Director
20 March 2018

Company Registration No. 06059130

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 31 December 2015	0.2	1.1	(1.7)	260.9	260.5
Profit for the year	–	–	–	5.0	5.0
Total comprehensive income for the year	–	–	–	5.0	5.0
Dividends paid	–	–	–	(17.1)	(17.1)
Purchase of own shares	–	–	(2.9)	–	(2.9)
Share-based payments charge	–	–	–	1.3	1.3
Share-based payments settled	–	–	–	(0.3)	(0.3)
At 31 December 2016	0.2	1.1	(4.6)	249.8	246.5
Profit for the year	–	–	–	6.7	6.7
Total comprehensive income for the year	–	–	–	6.7	6.7
Dividends paid	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	(3.2)
Share-based payments charge	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	235.4	232.4

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £m	2016 £m
Operating activities		
Profit before tax	6.7	4.9
Net finance revenues	(10.0)	(8.7)
Operating loss	(3.3)	(3.8)
Non-cash items: Share-based payments	0.1	0.4
Operating cash flows before movement in working capital	(3.2)	(3.4)
Movement in working capital:		
Payables	0.1	0.1
Inter-group balances	14.8	14.6
Net cash flows from operating activities	11.7	11.3
Investing activities		
Interest received	10.0	8.7
Net cash flows from investing activities	10.0	8.7
Financing activities		
Dividends paid	(21.0)	(17.1)
Purchase of own shares	(3.2)	(2.9)
Proceeds from exercise of share options	2.5	–
Net cash flows from financing activities	(21.7)	(20.0)
Net change in cash and cash equivalents	–	–
Cash and cash equivalents at 1 January	–	–
Cash and cash equivalents at 31 December	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. AUTHORISATION OF FINANCIAL STATEMENTS

The parent company financial statements of Polypipe Group plc (the "Company") for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 20 March 2018 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

Polypipe Group plc is a public limited company incorporated and domiciled in England and Wales. The principal activity of the Company is that of a holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and accounting policies used in preparing the historical financial information for the year ended 31 December 2017 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the financial statements of the Company for the year ended 31 December 2017 and also in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

The Company's financial statements have been prepared on a historical cost basis. The financial statements are presented in Pounds Sterling and all values are rounded to one decimal place of a million (£m) unless otherwise indicated. No income statement or statement of comprehensive income is presented by the Company as permitted by Section 408 of the Companies Act 2006. The results of Polypipe Group plc are included in the consolidated financial statements of Polypipe Group plc.

2.2 Going concern

The Directors, having considered all relevant risk factors, believe the Company has adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2.3 Investments

Investments in subsidiary undertakings are held at historical cost less any applicable provision for impairment.

2.4 Share-based payments

In the case of equity-settled schemes, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The value of the options is measured using the Black-Scholes and Monte Carlo models, taking into account the terms and conditions (including market and non-vesting conditions) upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings are recognised by the Company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a corresponding adjustment to equity equivalent to the IFRS 2 cost in subsidiary undertakings.

2.5 Own shares

The Company operates an employee benefit trust (EBT). The Company, and/or the EBT, holds Polypipe Group plc shares for the granting of Polypipe Group plc shares to employees and Directors. These shares are recognised at cost and presented in the balance sheet as a deduction from equity. No profit or loss is recognised in the income statement on the purchase, sale, issue or cancellation of these shares. No dividends are earned on these shares.

3. DIVIDENDS PER SHARE

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2016 of 7.0p per share (2015: 5.5p)	13.9	11.0
Interim dividend for the year ended 31 December 2017 of 3.6p per share (2016: 3.1p)	7.1	6.1
	21.0	17.1
Proposed final dividend for the year ended 31 December 2017 of 7.5p per share (2016: 7.0p)	14.9	13.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

4. INVESTMENTS

	Shares in subsidiary undertakings £m
Cost:	
At 1 January 2016	232.7
Additions – share-based payments	0.6
At 31 December 2016	233.3
Additions – share-based payments	0.7
At 31 December 2017	234.0
Net book value:	
At 31 December 2017	234.0
At 31 December 2016	233.3
At 1 January 2016	232.7

In 2017, an adjustment in respect of share-based payments of £0.7m (2016: £0.6m) was made to shares in subsidiary undertakings, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings. The total contribution to date was £1.8m (2016: £1.1m).

The companies in which the Company has an interest at 31 December 2017 are shown below:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Ferrob Ventilation Ltd ¹	England & Wales	Ordinary £1	100% *
Hayes Pipes (Ulster) Limited ²	Northern Ireland	Ordinary £1	100% *
Home Ventilation (Ireland) Limited ³	Northern Ireland	Ordinary £1	100% *
Insulated Damp-Proof Course Limited ¹	England & Wales	Ordinary £1	100% *
Mason Pinder (Toolmakers) Limited ¹	England & Wales	Ordinary £1	100% *
Mr Plumber Limited ¹	England & Wales	Ordinary £1	100% *
Nu-Oval Acquisitions 1 Limited ¹	England & Wales	Ordinary £0.94 – £1	100% *
Nu-Oval Acquisitions 2 Limited ¹	England & Wales	Ordinary £1	100% *
Nu-Oval Acquisitions 3 Limited ¹	England & Wales	Ordinary £1	100% *
Nuaire Limited ¹	England & Wales	Ordinary £1	100% *
Nuhold Limited ¹	England & Wales	Ordinary £0.1	100% *

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. INVESTMENTS CONTINUED

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Oracstar Limited ¹	England & Wales	Ordinary £1	100% *
Oval (1888) Limited ¹	England & Wales	Ordinary £0.01	100% *
Plumbexpress Limited ¹	England & Wales	Ordinary £1	100% *
Pipe Holdings plc ¹	England & Wales	Ordinary £1	100% *
Pipe Holdings 1 plc ¹	England & Wales	Ordinary £1	100% *
Pipe Holdings 2 Limited ¹	England & Wales	Ordinary £1	100% *
Pipe Luxembourg Sarl ⁴	Luxembourg	Ordinary £1	100%
Polypipe Building Products Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe Commercial Building Systems Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe Civils Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe France SAS ⁵	France	Ordinary €200	100% *
Polypipe France Holding SAS ⁵	France	Ordinary €1.76	100% *
Polypipe Holdings (Ireland) Limited ⁶	Republic of Ireland	Ordinary £1	100% *
Polypipe (Ireland) Ltd ²	Northern Ireland	Ordinary £1	100% *
Polypipe Middle East FZE ⁷	United Arab Emirates	Ordinary 1m UAE Dirhams	100% *
Polypipe Italia SRL ⁸	Italy	Ordinary €0.52	100% *
Polypipe Limited ¹	England & Wales	Ordinary £0.1	100% *
Polypipe Terrain Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe Terrain Holdings Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe T.D.I. Limited ¹	England & Wales	Ordinary £1	100% *
Polypipe Trading Limited ¹	England & Wales	Ordinary £0.1	100% *
Polypipe (Ulster) Limited ²	Northern Ireland	Ordinary £1	100% *
Polypipe Ventilation Limited ¹	England & Wales	Ordinary £1	100% *
Robimatic Limited ¹	England & Wales	Ordinary £1	100% *
Surestop Limited ¹	England & Wales	Ordinary £1	100% *
Water Management Solutions LLC ⁹	Qatar	Ordinary 1,000 Qatari Riyals	49% *

All the companies operate principally in their country of registration and in the same class of business as the Group. The shares in the undertakings marked with an asterisk are held by subsidiary undertakings.

Registered offices of subsidiaries:

1. Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES.
2. Dromore Road, Lurgan, Co. Armagh, BT66 7HL.
3. 19 Bedford Street, Belfast, BT2 7EJ.
4. 5 Rue Guillaume Kroll, L-1882 Luxembourg.
5. 11, rue d'Altkirch, F-68580 Seppois-Le-Bas, France.
6. 1 Ontario Terrace, Portobello Bridge, Rathmines, Dublin 6, Ireland.
7. PO Box 18679, Showroom A2 SR 07, First Al Khail Street, Jebel Ali Free Zone, Dubai, United Arab Emirates.
8. Localita Pianmercato 5C-D-H, 16044 Cicagna, Genova, Italy.
9. Level 15, Commercial Bank Plaza, West Bay, Doha, Qatar.

5. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS AND OTHER RECEIVABLES

	31 December 2017 £m	31 December 2016 £m
Amounts owed by subsidiary undertakings	83.8	73.8
Deferred income tax assets	0.2	0.1
Other receivables	0.1	0.1
	84.1	74.0

6. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS AND OTHER PAYABLES

	31 December 2017 £m	31 December 2016 £m
Amounts owed to subsidiary undertakings	85.4	60.6
Other payables	0.3	0.2
	85.7	60.8

7. SHARE CAPITAL AND RESERVES*Share capital*

	31 December 2017		31 December 2016	
	Number*	£	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	200	200,000	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	200	200,000	200	200,000

* Millions of shares.

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Details of share options in issue on the Company's share capital and share-based payments are set out in Note 23 to the Group's consolidated financial statements.

Capital redemption reserve

Following the consolidation and sub-division of shares in 2014 the Company's deferred shares were cancelled. In order to maintain the Company's capital a transfer was made from retained earnings to a capital redemption reserve at that time.

Own shares

The Company, and/or the employee benefit trust, holds own shares for the granting of Polypipe Group plc shares to employees and Directors. These shares are recognised at cost and presented in the balance sheet as a deduction from equity. No profit or loss is recognised in the income statement on the purchase, sale, issue or cancellation of these shares. No dividends are earned on these shares.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. PROFIT FOR THE FINANCIAL YEAR

Polypipe Group plc has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The profit for the year dealt with in the financial statements of the Company was £6.7m (2016: £5.0m profit for the year).

Remuneration paid to the Directors of the Company is disclosed in Note 10 to the Group's consolidated financial statements.

Amounts paid to the Company's auditor in respect of the audit of the financial statements of the Company are disclosed in Note 7 to the Group's consolidated financial statements.

Fees paid to the auditor for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Group's consolidated financial statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in Note 7 to the Group's consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

These are disclosed in Note 27 to the Group's consolidated financial statements.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Preliminary Announcement of Results for the year ended 31 December 2017	20 March 2018
Annual General Meeting	23 May 2018
Final dividend for year ended 31 December 2017	
– Ex-dividend date	19 April 2018
– Record date	20 April 2018
– Payment date	25 May 2018
Half yearly results for six months ending 30 June 2018	14 August 2018
Half yearly dividend for six months ending 30 June 2018	
– Ex-dividend date	30 August 2018
– Record date	31 August 2018
– Payment date	21 September 2018

REGISTRAR SERVICES

Our shareholder register is managed and administered by Link Asset Services. Link Asset Services should be able to help you with most questions you have in relation to your holding in Polypipe Group plc shares.

Link Asset Services can be contacted at:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

www.linkassetservices.com

Telephone: 0871 664 0300 (calls cost 12p a minute plus network extras, lines are open 9 am–5:30 pm (Mon–Fri); from outside the UK: +44 (0) 371 664 0300)

E-mail: enquiries@linkgroup.co.uk

In addition, Link offers a range of other services to shareholders including a share dealing service and a share portal to manage your holdings.

SHARE DEALING SERVICE

A share dealing service is available to existing shareholders to buy or sell the Company's shares via Link Market Services.

Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:

www.linksharedeal.com – online dealing

0371 664 0445 – telephone dealing

email: info@linksharedeal.com

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

SHAREHOLDER INFORMATION

PRINCIPAL GROUP BUSINESSES

UK

Polypipe Building Products

Broomhouse Lane
Edlington
Doncaster
South Yorkshire
DN12 1ES

Neale Road
Doncaster
South Yorkshire
DN2 4PG

Polypipe Ulster

Dromore Road
Lurgan
Co. Armagh
BT66 7HL

Polypipe Civils

Charnwood Business Park
North Road
Loughborough
LE11 1LE

Holmes Way
Horncastle
LN9 6JW

Polypipe Terrain

New Hythe Business Park
College Road
Aylesford
Kent
ME20 7PJ

Nuaire

Western Industrial Estate
Caerphilly
CF83 1NA

Domus Ventilation

Cambria House
Caerphilly Business Park
Van Road
Caerphilly
CF83 3ED

Mainland Europe

Polypipe France, Building Products

11, rue d'Altkirch
F-68580 Seppois-Le-Bas
France

Polypipe France, Building Products

79, rue de L'Industrie
Z.I. de Melou
F-81100 Castres
France

Polypipe France, PE Pressure Pipes

359, Avenue du Douard
Z.I. Les Paluds
F-13400 Aubagne
France

Polypipe Italia

Localita Pianmercato 5C-D-H
16044 Cicagna, Genova
Italy

Middle East

Polypipe Middle East FZE

PO Box 18679
Showroom A2 SR 07
First Al Khail Street
Jebel Ali Free Zone
Dubai
United Arab Emirates

CONTACT DETAILS AND ADVISERS

Company registration number and registered office

06059130
Broomhouse Lane
Edlington
Doncaster
South Yorkshire
DN12 1ES

Independent auditor

Ernst & Young LLP

1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Principal bankers

Lloyds

Sheffield

RBS

Leeds

Santander

Leeds

Registrar and transfer office

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers

Deutsche Bank AG

Numis Securities Limited

AWARDED FOR COMPETENCE AND RESPONSIBILITY

As well as promoting a sustainable built environment through water and climate management solutions in the UK and abroad, we are proud to be recognised for our efforts in developing and safeguarding our staff.



SUSTAINABLE PROCESSES

TRANSFORMING:
**17,500
TONNES**
.....

of plastic bottles
each year into
quality material

GENERATING:
45%
OF POLYMER USED
.....

AT OUR
**HORNCASTLE
SITE**

**REDUCED
LANDFILL**
.....

WE HELP OUR
CUSTOMERS MEET
SUSTAINABILITY
TARGETS

RAINWATER
HARVESTED FROM
ROOF AT PLANT
.....

**75%
OF WATER
RECYCLED**

Annual Report and Accounts



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