Polypipe Group plc

Annual Report and Accounts

FOR THE YEAR ENDED 31 DECEMBER 2019

Welcome

Contents

Polypipe helps professionals create sustainable, engineered water management and climate management solutions for the built environment.

Polypipe has an established market position, leading many of our sectors. Our operations span the residential, commercial, civils and infrastructure, and public non-housing sectors in the UK and selected markets around the world.

Polypipe has a deep understanding of the applications it serves, and uses this know-how to drive innovation, and develop solutions for the challenges of urbanisation, climate change, and the increasing pressures on scarce natural resources and climate change.

What We Do

Polypipe develops engineered solutions for construction projects, including some of the most prestigious buildings and infrastructure schemes in major cities across the UK and other selected markets.

Sustainable management of water, and the need for a healthy environment are key requirements of these projects, and Polypipe brings significant expertise to provide innovative solutions. Polypipe are involved throughout projects, working with specifiers, installers and project owners to offer systems that contribute to a safer, healthier and sustainable built environment.

Our staff at all levels add value to these solutions, through their knowledge of the applications, and their manufacturing and supply chain capabilities.

OUR PURPOSE

Our purpose is to propose solutions to the challenges caused by climate change and urbanisation that relate to the management of water and air.

OUR VISION

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

OUR MISSION

Polypipe's mission is 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 VALUES

Trust. Support. Experience. Innovation.

Polypipe stands by these words as a philosophy, constantly exploring new ways to help the industry succeed.

OUR CULTURE AND HOW IT UNDERPINS OUR PURPOSE, VISION, MISSION AND VALUES

Polypipe believes it succeeds when decision making is close to our customers and our markets. We value the experience of our people, encourage local ownership, and an entrepreneurial spirit, so that we can best anticipate and serve the requirements of our customers. At the same time, we support our colleagues with the scale and resources of a large group and, by trusting them in this way, we can ensure that we continue to innovate faster than our competitors.

Investment proposition

MARKET LEADERS

Polypipe enjoys a position of market leader in the UK, where the Group is the largest plastic piping systems manufacturer (by sales volume) and largest light commercial ventilation producer. It also has a broad product offer to underpin and complement this market position. Polypipe has balanced exposure to all major sectors of the UK construction market.

Read more in At a Glance and Marketplace on pages 06 and 10

SUSTAINABLE SOLUTIONS

Polypipe focuses on providing solutions that enable resilience in the built environment, by helping to protect against effects of extreme weather and climate change, and as such, provide long-term value for customers and the wider society. This is an inherent part of the Group's long-term success and forms an instrumental element of both our purpose and our vision.

Read more in At a Glance and Marketplace on pages 06 and 10

SUCCESSFUL BUSINESS MODEL WITH BARRIERS TO ENTRY

Through the business model, Polypipe leverages its investment, scale and expertise. Investment in process efficiency and automation delivers continuous improvement in operational productivity and allows our workforce to develop new skills and knowledge, which in turn provide barriers to entry and protect our market position versus competition. The value creation model results from the continuous development of our business model. In particular, value-added products and engineered solutions help to ensure that the Group maintains leadership in its markets ahead of emerging legislation and ahead of the competition.

Read more in At a Glance and Marketplace on pages 06 and 10

DIFFERENTIATED SOLUTIONS

Based around a core offer of plastic piping, supported by complete engineered system design, incorporating in-house manufactured fittings and ancillaries that are patent protected where possible, Polypipe is uniquely placed to offer differentiated total solutions for water and air management.

Read more in At a Glance and Marketplace on pages 06 and 10

SIGNIFICANT STRUCTURAL GROWTH OPPORTUNITIES

Polypipe is able to pursue significant growth opportunities by developing effective solutions ahead of 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 Group serves. In this way, Polypipe's sales growth has consistently outperformed the construction market. There are also significant growth opportunities overseas, as well as regulatory tailwinds from UK water and climate legislation.

Read more in At a Glance and Marketplace on pages 06 and 10

STRONG AND RESILIENT FINANCIAL PERFORMANCE

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 in At a Glance and Marketplace on pages 06 and 10

INVESTMENT AND SCALE

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 in new automation technology and scale provides both operational efficiency and considerable economic reach to serve the broadest range of customers.

Read more in At a Glance and Marketplace on pages 06 and 10

Read more online at
https://investors.polypipe.com/

Highlights

Revenue
↑3.3%

2019	£447.6m
2018	£433.2m

Underlying operating profit
↑5.5%

2019	£78.1m
2018	£74.0m

Profit before tax
↑3.3%

2019	£60.1m
2018	£58.2m

Underlying cash generated from operations*
↑2.2%

2019	£72.8m
2018	£71.2m

Underlying basic earnings per share
↑4.2%

2019	29.6pps
2018	28.4pps

* Before non-underlying items, as defined in Note 2.20 on page 122

Financial Highlights

- Revenue growth of 3.3% despite challenging trading conditions and market uncertainty
- Underlying operating margin increase of 30 basis points to 17.4%
- Operating profit 2.7% higher with underlying profit before tax 5.5% higher
- Underlying basic earnings per share of 29.6p, an increase of 4.2%
- Good operational cash generation and strong balance sheet
- Group pro forma leverage of 1.7x (2018: 1.7x), including impact of IFRS 16
- Continued investment in business, capital expenditure of £22.3m
- Proposed final dividend of 8.1p, bringing total for the year to 12.1p
- IFRS 16 has had the effect of increasing EBIT by £0.3m and net debt by £14.8m

Operational Highlights

- UK revenue growth of 3.6%
- Residential Systems revenue 6.1% higher than prior year
- Second half acquisition of Alderburgh, performing in line with our expectations and integration progressing well
- Prior year acquisitions of Manthorpe and Permavoid fully integrated
- Organisational change successfully implemented across Group to support future growth
- Polypipe Offsite Solutions division created to address specific needs of emerging modular build market

Sustainability Highlights

- Improving our sustainability has been a focus of the Group for some time and will continue to be as we look ahead to 2020
- We launched our 'Inspiring Green Urbanisation' design guide at the Future Build exhibition in March 2019 focused on helping provide more sustainable environmental solutions to the construction industry in water and climate management
- During the year, we further increased our use of recycled plastic, which now represents 42.0% of the Group's overall plastic usage (2018: 40.2%)
- Carbon emissions (tCO_2e) reduced by 10% in the year
- Sustainability credentials recognised by the London Stock Exchange with one of 74 'Green Economy Issuer' certificates for our work in this area

Strategic Report

Read more Sustainability on pages 24 and 47

Read more Strategy on pages 18 to 21

Strategy in action: St Albans Cathedral

MAIN CONTRACTOR:
THOMAS SINDEN CONSTRUCTION
VENTILATION CONTRACTOR:
CONSTANT AIR SYSTEMS LTD
APPLICATION: SUSTAINABLE CLIMATE MANAGEMENT
PRODUCT: XBC UNITS

Over 900 years old, St Albans Cathedral is the oldest site of continuous Christian worship in Britain, with most of its architecture dating back to Norman times. October 2017 saw the start of building work to create a new Welcome Centre, as well as renovation of the existing Chapter House, which provides specially adapted spaces designed for children, adult learning, and hosts the site's library.

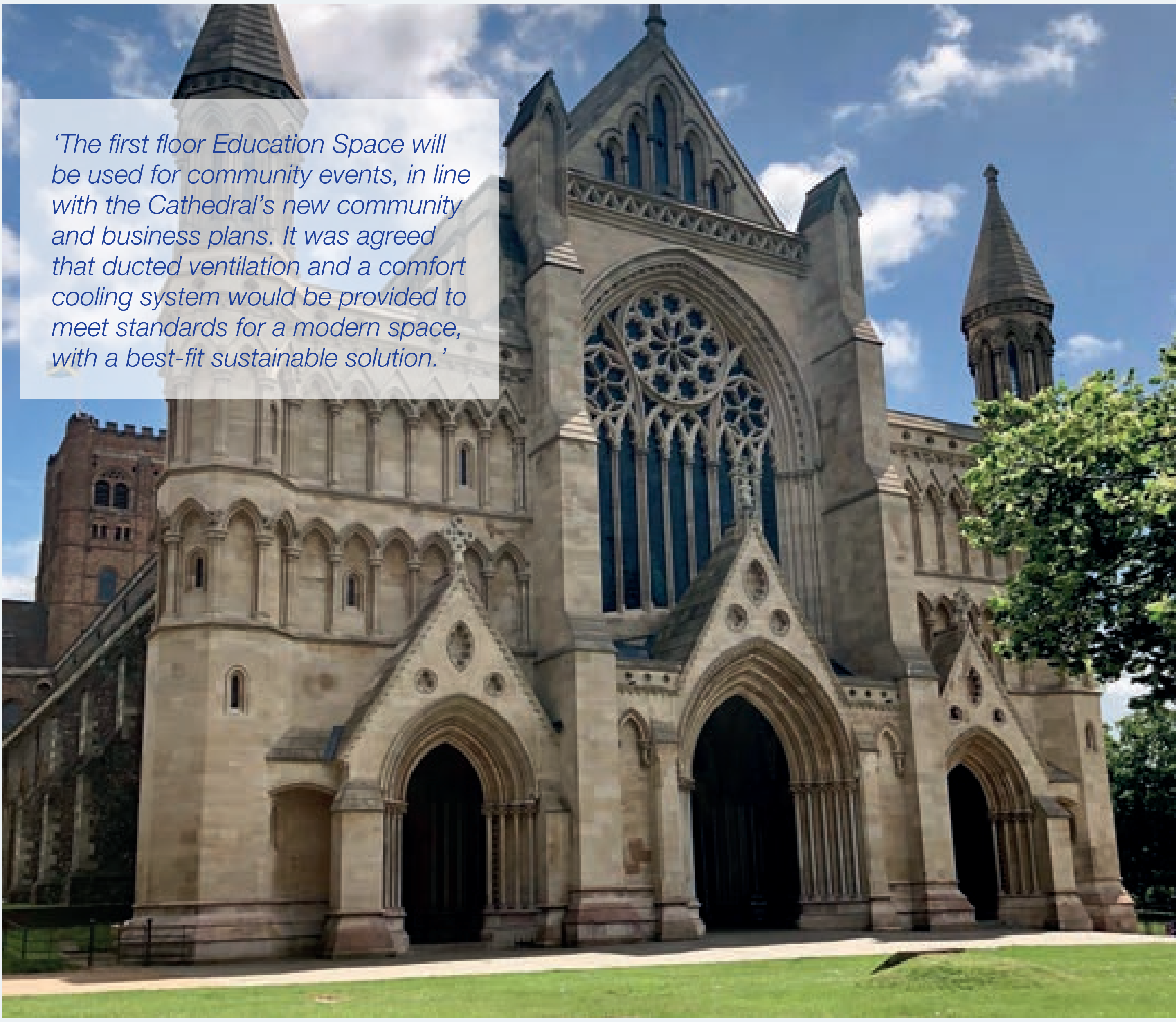
Commissioned in 2014, the design team were set a challenging yet exciting brief – to design a new visitor Welcome Centre, sympathetically connecting the main Cathedral building to its 1980s Chapter House, and providing much needed accommodation and modern facilities to support the varying needs of the Cathedral congregation, visitors and staff. The technical team comprised Simpson and Brown Architects, Mott MacDonald for mechanical and electrical services engineering design, and Momentum Structural Engineers.

The Main Contractor was Thomas Sinden Construction, with ventilation installation work awarded to Constant Air Systems Ltd.

CONSERVATION CHALLENGES

Prior to the refurbishment works, much of the Crypt and first floor Education spaces were naturally ventilated. However, the introduction of a new lift in the Chapter House has meant that the original 1980s Crypt ventilation plant was left without means to deliver heat and ventilation to the largely windowless basement space, used for community groups.

Azu Hatch, project engineer at Mott MacDonald, explained: "The first floor Education Space will be used for community events, in line with the Cathedral's new community and business plans. It was agreed that ducted ventilation and a comfort cooling system would be provided to meet standards for a modern space, with a best-fit sustainable solution."



‘The first floor Education Space will be used for community events, in line with the Cathedral’s new community and business plans. It was agreed that ducted ventilation and a comfort cooling system would be provided to meet standards for a modern space, with a best-fit sustainable solution.’

Being a listed and historical building meant the project presented various challenges for the design team to overcome, such as meeting regulations while ensuring the building remained relatively unchanged. She went on to comment:

‘Nuaire have been great at providing design advice to support us in overcoming this challenge whilst meeting changing energy regulations, as well as the architectural and conservation expectations.’

One major challenge for the project design team was to design in a heat recovery unit suitable of ventilating a space for 60 visitors, whilst ensuring no structural aspects of the listed building were changed. Nuaire XBC units were specified to meet regulations, while providing a solution to the space restrictions.

Nuaire Area Sales Engineer, Andrew Bott, worked closely with Mott MacDonald throughout design stages of the project. He commented: “One of the challenges here was to find a heat recovery unit that fitted under the newly constructed elevated floor void as space was a premium here. A major feature of the XBC that enabled this was depth – the XBC range of units is the shallowest on the market relative to air volume.”

The XBC also has an integral condensate pump, which eliminates the need for a gravity drain, or condensate drain trap. This built-in condensate pump enables the units to be installed directly on top of the original 1980s sub-floor, avoiding permanent damage through drainage.”

XBC units are fully accessible from the side and require only 260mm for filter removal – this makes maintenance possible within the confined space. When the final timber floor is installed over the newly raised floor level incorporating the access hatches, the location of the unit means it will be almost invisible within the architecturally sensitive space.

SUMMARY

This transformation was supported by the Heritage Lottery Fund and one thousand donors, and, together with the city’s new Museum, will help to raise the profile of St Albans by transforming the way the Cathedral welcomes visitors. Being a listed building meant the project presented various challenges for the design team to overcome, such as meeting regulations while ensuring the building remained relatively unchanged.

Polypipe at a glance

Polypipe is focused on sustainable improvements to the built environment. We provide solutions to today's challenges in water and air management. We provide a portfolio which addresses these challenges whether they are in individual houses, schools, hospitals or anywhere else where our expertise is relevant. The trends of climate change and urbanisation have made these challenges ever more pressing, and complex. By continuously innovating and investing in our people and processes we continue to maintain leadership positions in these sectors across the UK and beyond.

Our divisions

We report through our two divisions:

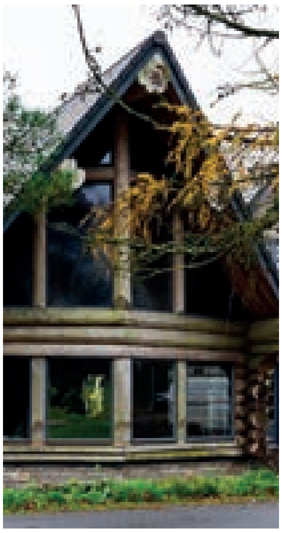
RESIDENTIAL SYSTEMS

£260.3m

REVENUE

£53.4m

UNDERLYING OPERATING PROFIT



AREAS OF APPLICATION

- Above and below-ground drainage
- Stormwater drainage
- Sewer drains
- Water supply
- Plumbing and heating supply
- Underfloor heating systems
- Mechanical ventilation with heat recovery
- Positive input ventilation
- Air quality improvement systems
- Roofline finishing and accessories
- Air leakage prevention products
- Smart controls
- Water shut-off systems
- Conservation products
- Merchandised, pre-packaged components

COMMERCIAL AND INFRASTRUCTURE SYSTEMS

£187.3m

REVENUE

£24.7m

UNDERLYING OPERATING PROFIT

AREAS OF APPLICATION

- Above-ground drainage
- Surfacewater drainage
- Stormwater drainage
- Land drainage and irrigation
- Sewer drainage
- 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

Market-leading position

We invest in our manufacturing base, and supply chain capability in order to maintain our market-leading position. At Polypipe we have 19 locations: 14 in the UK, one in Italy, one in the Netherlands, one in Ireland and two in the Middle East.

We will continue to develop our exports and geographic reach – our solutions respond to challenges that are global in nature. We see opportunities to leverage our know-how, and intellectual property in markets all across the globe, whether that be via export, or co-operation with partners.

Read about on pages 10 and 11

Acquisitions

While we continue to see opportunities for organic growth, acquisitions also have a role to play in our development. We assess opportunities based on portfolio enhancement, leveraging market access, intellectual property, and sector coverage.

In 2019 Polypipe acquired Alderburgh – a leading designer, manufacturer, and installer of plastic injection moulded stormwater attenuation tanks, structural waterproofing and geocellular membranes, gas barrier and ventilation materials, supplying mainly to the to the UK and Irish market. Alderburgh enhances our portfolio in the key area of water attenuation, and sustainable drainage, and provides access to the growing installation market.

Read about on page 32

19

FACILITIES IN THE UK, CONTINENTAL EUROPE AND THE MIDDLE EAST

3,139

EMPLOYEES IN THE GROUP

TOP STATISTICS...

- 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

Chairman's Introduction

'The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Group's strong performance.'

Ron Marsh
Chairman

Overview

I am pleased to present the Polypipe 2019 Annual Report and Accounts following a successful year for the Group. The year continued to experience economic and political uncertainty and difficult market conditions in UK construction, but our businesses continue to perform well, with the Group growing UK revenue ahead of the UK construction market. As well as managing this growth, the Group has seen further changes during the year, including the implementation of a new organisational structure and the acquisition of the Alderburgh group of companies in October. We also made two new appointments during the year, with Lisa Scenna and Louise Brooke-Smith joining the Board as Non-Executive Directors in September, further expanding the Board's skills and diversity. Moni Mannings retired from the Board in November after serving as a Non-Executive Director for over five years as well as Chair of the Remuneration Committee. I would like to thank Moni on behalf of the Board for her valuable contribution during her time as a Non-Executive Director and wish her well for her future endeavours.

Results

Performance throughout 2019 has been strong, with a 3.3% increase in revenue to £447.6m and a 5.5% increase in underlying operating profit to £78.1m. UK revenue growth was 3.6% and underlying operating margin was robust at 17.4%, despite continued input cost inflation, and diluted earnings per share increased by 1.2% to 24.6 pence per share. Net debt only increased by £0.6m to £164.8m (2018: £164.2m), despite spending £12.2m on Alderburgh, resulting in net debt of 1.7 times pro forma EBITDA compared with 1.7 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 8.1 pence per share, giving a full year dividend of 12.1 pence per share for the year ended 31 December 2019, a 4.3% increase on the prior year.

Review of Strategy

During 2019, the key objectives of the Board included:

- Continued progression of the Group's M&A agenda.
- Implementation of an updated organisational structure to ensure the Group is appropriately structured as it continues to grow.

Good progress was made against these objectives during 2019, with the acquisition of the Alderburgh group of companies and the implementation of a new divisional structure.

In addition to our ongoing initiatives, in 2020 our attention will be focused upon:

- Continued investigation and delivery on selected development and acquisition opportunities.
- Targeting investment to support the continued growth of our key businesses.
- Continued focus on improving efficiencies through automation in a sustainable manner.

People

The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Group's strong performance. In 2019, the Board and I visited a number of our sites in the UK as well as our sites in Italy and the Netherlands, and used this opportunity to engage with the local management teams and employees to understand in more detail the challenges and opportunities within each of their businesses. We continue to be impressed by the knowledge, enthusiasm, loyalty and commitment of our employees across the Group and the strong leadership that continues to motivate and encourage our employees. Succession planning continues to be an area of focus on the Board's agenda, and a number of the vacancies created as a result of the organisational restructuring during the year were filled by internal candidates which demonstrated the significant pool of talent across the Group and the opportunities available to employees to progress.

Board evaluation

In accordance with the requirements of the UK Corporate Governance Code, an external evaluation of the Board, its Committees and individual Directors was carried out in 2019 by Genius Boards, using an interview-based approach, and the results of the evaluation were discussed by the Board at its meeting in February 2020. Various suggestions for improvements were made as a result and a number of these have already been implemented by the Board. The outcome of the evaluation process is discussed in more detail on page 60.

Culture

The Board is conscious of the increasing importance that corporate culture plays in delivering long-term business and economic success and its role in shaping, monitoring and overseeing culture. The Board encourages an open and transparent culture across the Group and encourages the senior management teams in each business unit to foster and maintain an open culture, which is responsive to stakeholder expectations and needs as well as the external environment. The Board will continue to work to ensure that an open culture is maintained and embedded into the operations of the Group at every level.

Section 172 statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole. The Board's activities and considerations in meeting this requirement are covered in detail in the Corporate Governance Statement on page 62.

Summary

The Group has continued to make progress during 2019 in tough market conditions. During 2020, the Group will maintain its focus on growing the M&A agenda while continuing to invest in and develop the Group's current solutions, as well as offer opportunities for development and succession for all employees.

Ron Marsh
Chairman

17 March 2020

Polypipe's Marketplace

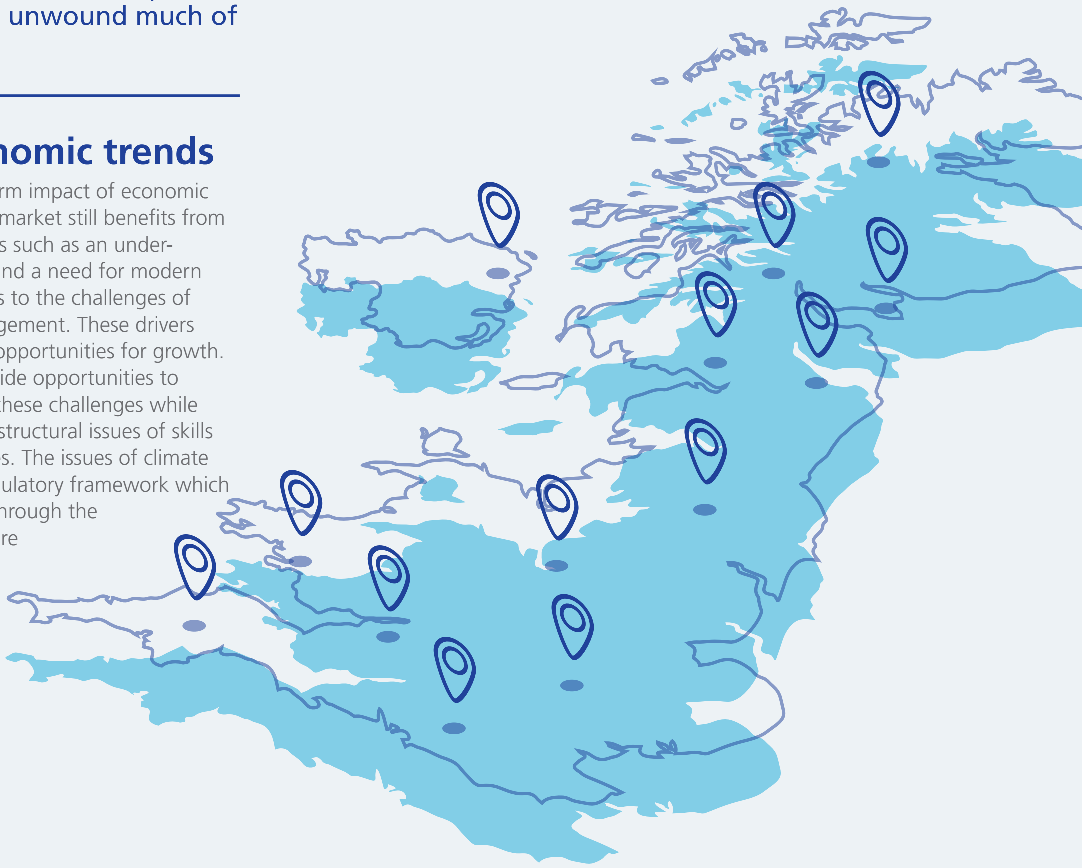
The UK construction sector is estimated to have shown modest growth of 0.6%% in 2019 (source: ONS & CPA). January to October saw growth of 1.8% with the benefit of weak comparators offsetting economic volatility. However, the adverse weather and political uncertainty of the fourth quarter unwound much of that gain.

90%

REVENUE DERIVED FROM UK MARKET

Macroeconomic trends

Despite the short-term impact of economic uncertainty, the UK market still benefits from medium-term drivers such as an under-supply of housing, and a need for modern sustainable solutions to the challenges of water and air management. These drivers provide continuing opportunities for growth. Moreover, they provide opportunities to innovate and meet these challenges while also addressing the structural issues of skills and labour shortages. The issues of climate change, and the regulatory framework which seeks to address it through the built environment, are trends which will be impacting our markets for years to come.



The UK construction market

OUTLOOK

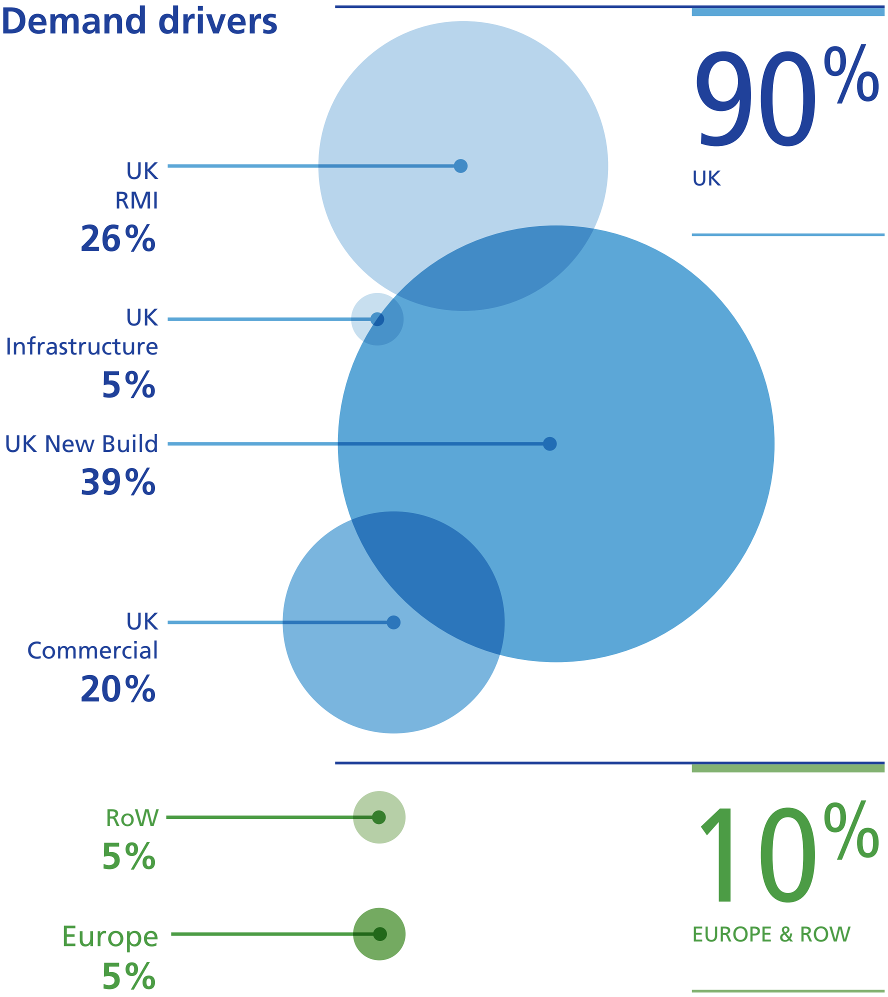
The overall outlook for 2020 is one of a flat marketplace, with CPA forecasting marginal softening of 0.3%, which lags behind the outlook for the wider economy of 1.3% growth.

The profile, however, is expected to be year-on-year decline early in the year as the uncertainty and weather impact in Q4 2019 has reduced the number of new projects which are underway, followed by a period of recovery and then modest growth through the second half. This gradient is forecast to continue to 2021 with projected construction growth of 1.2%.

WHAT THIS MEANS FOR POLYPIPE

Even within this challenging environment, there remains sustained demand for value-adding, engineered solutions such as those proposed by Polypipe, not least due to the ongoing tailwinds of legacy material substitution and the macro drivers around sustainable solutions for water management and climate management. Alongside those drivers we see ongoing under-supply of housing, and policy commitments to support this rebalancing, as well as a continued need to invest in more robust flood alleviation measures as being underlying causes for short-term encouragement. Commercial and other non-residential markets are expected to carry forward some uncertainty until the future trade arrangements and post-Brexit market are more clear.

Demand drivers



THE UK

The domestic market represents approximately 90% of Polypipe's revenues. Polypipe has leading positions in most of its core applications and product sectors, and a presence within the distribution channel which means it has excellent access to its target markets. Its brand portfolio is synonymous with engineered solutions for the built environment, and has exceptionally high levels of awareness amongst contractors, specifiers and distributors alike. Polypipe has its roots in the UK, from its inception 40 years ago, and is regarded as one of the leading construction product brands.

OVERSEAS

The Group enjoys solid positions in continental Europe through its Polypipe Italia and Permavoid businesses, as well as exporting to those markets where product standards and norms allow. Further afield, the operation in the Middle East gives access to the growing construction markets of the region, which as well as being characterised by high rise and hotel sectors, also face the water management issues of scarcity and flooding that we see elsewhere. We see growth through our existing model in the future, as well as potential for licensing and collaborative ventures with local partners where appropriate.

Balanced sales split and market exposure

Polypipe holds strong positions in the sectors in which it operates, while at the same time having a portfolio which provides balance to the volatility within economic cycles and the differing drivers of the various sectors within the construction market. While the sectors have some differences, the key tailwinds of legislation and material substitution along with the opportunities afforded by sustainable water management and climate management solutions, apply across the residential, commercial and infrastructure segments. Therefore, Polypipe is able to achieve this balance, while also benefitting from scale and being able to leverage its expertise and know-how across the market.

Polypipe's Marketplace CONTINUED

Residential Systems

RESIDENTIAL

Although the housing market continues to see a long-term position of under supply, there is still short-term volatility driven by affordability, and the confidence of both buyers and builders. Affordability for first time buyers continues to be reliant upon the continuation of the Help to Buy scheme, which has been used on 33% of all private new build completions since its introduction. Help to Buy will be in place in its current form throughout 2020, requiring homes being purchased with an equity loan to be completed by December 2020.

House price trends continued to show significant regional variation in 2019, and this is expected to continue into 2020. Annual UK house price inflation ended the year at 1.4% (Source: Nationwide), the first time it had been above 1% for 12 months. Scotland was the strongest price growth region, at 2.8% inflation while London saw a price fall of 1.7%. HM Treasury consensus forecast for 2020 was a national average house price inflation rate of 1.9% by Q4, although within that consensus there is a broad range of opinion, highlighting the by-product of short-term economic uncertainty. Government policy has been a commitment to 300,000 new homes per year by mid-2020s. This includes change-of-use developments, which in 2018/9 ran at 12% of net supply. The new government have re-framed this target to a total of one million new homes by the end of the five-year parliamentary term, with an implication that the vast majority of this will be built within the private sector. We await further detail on the policy programme around this, including the "First Homes" policy which promises a level of discounts for local first time buyers. Starts during the first half of 2019 fell by 9.6% year-on-year (Source: MHCLG), which we believe while sustaining some upturn in early 2020, will feed through as a lag, and lead to lower completions in the second half of 2020. Total housing starts are forecasted to fall 1.6% in 2020 due to a decline in site opening rates in 2019, before rising by 2.0% in 2021. The outlook for the RMI sector is similarly subdued. Home improvements typically occur within 6-9 months of purchase, and property transactions declined 1.0% in the first three quarters of 2019. The further softening factor is the increasing proportion of transactions represented by new build, largely supported by Help to Buy. In 2019 new build accounted for 15% of property transactions, compared to 8.8% in 2013 when Help to Buy was launched as an equity scheme. The upside potential in RMI is dependent upon continued wage growth, and the reassurance of house price inflation. The public housing sector is forecast to show some recovery in 2020 before a return to growth in 2021, representing c.36,000 homes next year. The sector remains heavily reliant upon various shared ownership and affordable housing policies, which has increased the linkage between the trends in the private and public sectors with over 40% of affordable housing built through s.106 agreements.

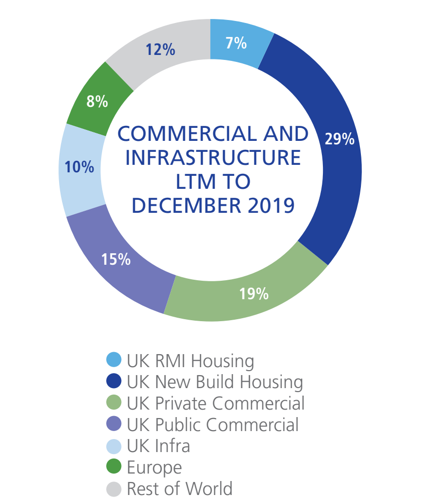
Commercial and Infrastructure Systems

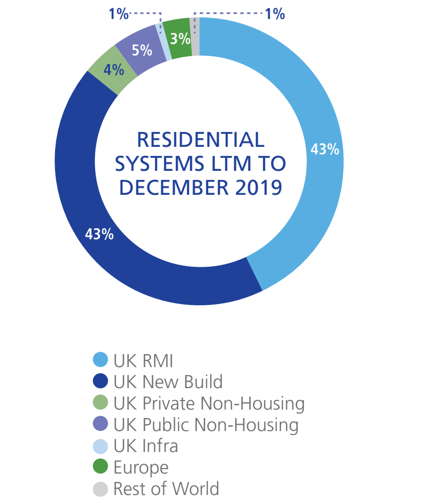
COMMERCIAL SECTOR OUTPUT

The commercial sector has experienced year-on-year decline since the end of 2016. ONS/CPA estimates there was a 5% decline in 2019, with an expectation of a further 4.2% decline in 2020 with some return to stability thereafter. The political and economic uncertainty since the referendum has led to stalling investment levels, particularly in major projects, which has caused the pipeline of activity to shrink. The offices sub-sector accounts for a third of commercial work, and has been the one most exposed to these headwinds, particularly within London. Outside London, the picture is more positive, but despite low space availability, and rising rents, there has been insufficient confidence to allow investment to flow. The leisure and entertainment sector has performed better than average which is also a positive development as it has higher density in terms of services, and the requirement for our products. Retail continues to decline throughout the forecast period, though this is also largely reflecting a structural shift in retail toward online shopping. Although there is some increase in warehousing associated with this (categorised as industrial), it does not offset the traditional shopping sector activity decline.

INFRASTRUCTURE SECTOR OUTPUT

Infrastructure spending is expected to continue its resilient performance, as it has been an area of government and private sector funded activity that has largely been insulated from the recent uncertainty. The sector is predicted to grow by 3.4% in 2020 and a further 5.0% in 2021. Assisted by recent clarity over HS2 and the Stage One enabling works, Hinckley Point C and the Thames Tideway Tunnel all underpin the sector being at a historically high level through the period. The ONS data projects a growth in infrastructure activity of 15% by 2021, and given that rail and roads continue to account for around half of activity, this is viewed as a strong driver for our portfolio.





Opportunities

There are several key growth drivers in the construction market which continue to provide opportunities both in the short and long term. Some of these are structural issues, such as the under supply of new housing, or the challenges created by climate change, while others are opportunities which are opening up due to advances in technologies and materials capabilities.

Polypipe continues to invest and innovate in those parts of the business and product portfolio which can best capitalise on these opportunities.

- Sustained new-build activity
- Solutions that reduce the requirement for onsite labour (e.g. Dry verge roofing)
- Prefabricated solutions
- Value-added solutions (e.g. Air quality carbon filtration)
- Continued demand for resilient infrastructure solutions to cope with consequences of extreme weather (e.g. Suds)
- Continued substitution against legacy materials (e.g. 750mm and 900mm corrugated pipe against concrete)
- Smart monitoring and remote controls (e.g. Smart roof)
- Place making and green infrastructure (e.g. Permavoid-based solutions)

Our key differentiators

01

INVESTMENT IN PRODUCT DEVELOPMENT AND INNOVATION

02

FOCUS ON SUSTAINABILITY AND BUILDING A WORLD-CLASS SUSTAINABLE BUSINESS

03

LONG-STANDING CUSTOMER RELATIONSHIPS

04

MANUFACTURING SCALE, PRODUCTIVITY AND LOGISTICS EFFICIENCY

05

INTELLECTUAL PROPERTY AND EXPERTISE THAT CAN BE LEVERAGED ACROSS DIFFERENT GEOGRAPHIES

06

VALUE-ADDED ENGINEERED SOLUTIONS

Polypipe's Business Model

Creating the competitive advantage

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

KEY RESOURCES

PEOPLE
Our employees are experts in their fields, knowledgeable on our customers' applications and empowered to act

STRONG RELATIONSHIPS
We value our relationships with customers, suppliers, and shareholders, and we recognise the long-term benefits these relationships can yield

IP/EXPERTISE
Market positions are defendable due to the know-how and IP that we put into our solutions through innovation and continuous improvement

STRONG LEADERSHIP
We have a leadership team that provides direction and allocates resources so that our colleagues can deliver on the strategic vision

CAPITAL/INVESTMENT
We allocate capital in a disciplined way to fund sustainable profitable growth, consistent with our strategic objectives

METHOD OF VALUE CREATION

SMART SOLUTIONS
We use digital tools to ensure we can provide controls, monitoring systems and data management expertise which add value to our customers

ENGINEERED SOLUTIONS
We use design and engineering expertise to ensure we combine mechanical performance with economic value

PIPING SYSTEMS
We build on 40 years' knowledge of piping systems to ensure we use modern materials and methods, and are continuously updating and refreshing our core ranges

DISCRETE PRODUCTS
While we see value in providing a portfolio which addresses challenges across applications, we are deeply rooted in practical solutions to practical challenges and our focus and passion for excellence begins with some of the simplest products in our ranges

Read more about Our Value Creation model on page 16

Through our business model we are afforded scale. The various elements of the business model in combination help to provide barriers to entry, and so maintain Polypipe's market leadership position. We invest back into our key resources to enable the continuation of our business model and value creation.

This is supported by our competitive advantage

TRUST:
- Market leadership
- Polypipe brand

SUSTAINABILITY:
- Sustainable products and practices
- Enabling sustainable building technology

RANGE:
- Breadth and depth of product systems
- Substituting legacy materials

Read more about our stakeholder engagement on pages 62 to 65

Read more about Supporting our Sustainable journey on pages 50 to 53

OUR CUSTOMERS

Polypipe helps professionals create sustainable, engineered water and climate management solutions for the built environment

CUSTOMERS

- One-off installers
- Contract installer
- Civil engineers and contractors
- M&E specifiers

WHO THEN DELIVER TO THE END USER

- Housebuilders
- Civils and Commercial sector developers
- Asset owners and self-builders

Read more on our Investment Proposition on page 02

REVENUE STREAMS

SALE OF GOODS

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods. Our most commonly used standard payment terms are 30 days net end of month

OUTPUTS

We create sustainable value for our stakeholders

CUSTOMERS

e.g. Quality products, engineered solutions that enable a sustainable built environment, innovative products, support, value, range, bespoke solutions, thought leadership, Polypipe brand

EMPLOYEES

e.g. Training and skills development, commitment to diversity, direct engagement and empowerment, providing a chance to make a difference – e.g. proposals for investment in automation come directly from the shop floor

INVESTORS

e.g. Dividend, growth opportunity, responsible and ethical investment

SUPPLIERS

e.g. Long-standing relationships, fair negotiation, certainty on payment, reputation, visibility on revenues

COMMUNITIES AND THE ENVIRONMENT

e.g. Working towards a sustainable built environment, sustainable products and practices, enhancing the environment, while engaging with communities and charities and having some fun

VALUE:

- Intelligent engineered solutions
- Smarter thinking and better solutions

SUPPORT:

- Leading-edge design expertise
- Application-based technical support

CAPABILITY:

- Industry authority
- Product innovation

COMPETENCE:

- Manufacturing and logistics scale
- Bespoke product solutions

Polypipe's Value Creation Model

Polypipe's commercial proposition is based upon an organisation with close proximity to its customers, continually investing in R&D to create value-added and differentiated solutions.

1980s: Discrete products

Polypipe's origins were in piping systems born out of engineering expertise, combined with an entrepreneurial spirit. These ranges of pipes, fittings, and rainwater products still lead the market today. This is thanks to continuous refreshment and investment in innovation and manufacturing expertise, to ensure the highest quality and cost competitiveness. These products have built an enviable position via their widespread presence in UK builders' and plumbers' merchants, and they ensure that the Polypipe brand is front of mind across its sectors.

1990s: Piping systems

In the mid-1990s, this proposition evolved to combine these discrete products into performance systems, such as pushfit plumbing. This evolution saw Polypipe move toward focusing on the end user, and developing real understanding of their requirements and challenges. Systems like PolyPlumb solidified Polypipe's position as an industry leader, and brought the brand increasingly close to its users. This move into more technically complex products also allowed Polypipe to increase the value it could add, and allowed for greater differentiation from its competitors.

2000s: Engineered solutions

Polypipe began to lead the way in the growing field of Sustainable Urban Drainage Systems. This built on Polypipe's engineering expertise in large diameter pipes, alongside developing intimate knowledge of the developing regulatory framework and changing design practices. In this part of its portfolio, Polypipe no longer supplied off-the-shelf solutions, but began to work with specifiers, contractors and consultants to engineer bespoke solutions on a project-by-project basis. The development of PolyStorm also brought Polypipe into step with a key emerging tailwind around climate change and the need to deal with increasingly frequent extreme weather events. Polypipe began to expand its technical knowledge to the issues surrounding its systems, such as transport loading, soil conditions, or the need for creating landscapes which combine modern drainage and green spaces. By expanding its know-how in this way, Polypipe has been able to create further differentiation and value for customers and stakeholders alike. Alongside the sustainability challenges affecting water management, this period also saw Polypipe build its presence in ventilation and climate management. The acquisition of Nuaire has allowed Polypipe to leverage its presence on commercial and multi-occupancy projects, developing more embedded relationships with specifiers and M&E contractors and providing input to the next generation of innovation which will see increasingly holistic solutions to managing the built environment.

Today: Smart technologies

Polypipe is now applying its expertise in an increasingly sophisticated way, as the demands of markets become ever more complex. The developments in Building Regulations such as Part L and Part F create challenges and opportunities in equal measure, and require manufacturers to have increasingly deep knowledge of the issues faced by designers, specifiers and building owners. Our sustainable climate management solutions can heat and cool buildings with reduced demand for energy, as well as improving the quality of the air that we breathe. Solutions such as these come from working in close collaboration with customers, and from that collaboration we also create innovation plans to ensure we can continually create greater profitability through customer benefits. Digital technologies are also opening up opportunities to add value via connectivity and data management. Polypipe is engaged with the Internet of Things (IoT) via our SureStop brand, which allows homeowners to control their domestic water supply remotely via app-based technology, and we see IoT-based opportunities across our portfolio where there is demand for feedback on matters such as flow rates, silt build-up, leak detection and so on. Sustainable solutions also involve a more nature-based technology too; the Permavoid blue green roof system can use a rooftop amenity to help to chill the building below via plant-based cooling. We are consistently investing in our skills across the Group to ensure that we stay ahead of competitors in these rapidly developing technologies and our access to markets means we can use our commercial competencies to fully leverage our scale while being a specialist in each of the application areas in which we participate.

Strategy in action:

Permavoid Makes Hockey More Accessible

Polypipe partners England and GB Hockey in developing innovative portable pitch system.

Pitch unveiled at the FIH Pro League event at the Twickenham Stoop.

A breakthrough portable pitch system developed specifically to International Hockey Federation (FIH) standards saw its first use at the FIH Pro League matches between Great Britain and New Zealand at the Twickenham Stoop stadium on 23 June. As the result of a partnership between England Hockey and Polypipe, the pitch exploits the water management specialist's unique Permavoid geocellular sub-base to create a stable, high-quality playing surface that can be quickly and cost-effectively re-created on any scale, in any location and on any existing surface.

"Our ambition is to take hockey, one of the world's fastest growing participation sports, into urban environments where access to traditional sports grounds is becoming increasingly difficult," says Jonathan Cockcroft, Commercial Director at England Hockey. "Polypipe's Permavoid, which is already proven in a host of world-class sporting arenas including the Olympics and Premier League football, provides us with the perfect versatile platform to achieve this as it can be adapted to accommodate and maintain any synthetic or natural playing surface in either a temporary or permanent setting. The opportunity to deliver 'Big Stadium Hockey' is now achievable on a regular and repeatable basis which is great news for our growing fan base."

At the Stoop, the 15,000-seat home of Harlequins Rugby, 24,000 interconnected 85mm deep Permavoid units cover the 6,000 sqm playing surface. Laid on a permeable geotextile, the units (which are manufactured from 100% recycled polypropylene) are topped with a flexible shock pad designed to maintain the level integrity of the finished surface.

The distinctive blue 'carpet' that tops the composite structure is unique to hockey – its nap controlling ball rolling speed and pass accuracy. To do this consistently the carpet needs to hold a prescribed moisture level which is achieved by regular watering.

Permavoid's open cell structure provides a temporary attenuation volume to receive any excess water from the surface, eliminating the risk of any surface water ponding, while allowing it to infiltrate into the ground at the sub-soil's natural rate.

"Satisfying the performance requirements of the FIH has been a significant technical challenge," says Sean Robinson, Business Development Director, Specification, at Polypipe. "In collaboration with England Hockey, sports turf consultants, STRI Group, and Polytan, developers of the synthetic carpet, we engaged in a number of lengthy trials to prove the concept and demonstrate that we could not only achieve the structural stability of the pitch to within FIH tolerances, but also regulate moisture levels at the prescribed limit."

The entire pitch has taken the installation team two weeks to complete. After the FIH matches, every element used in its construction will be re-used, clearly showing the versatility and environmental compatibility of the system. "Architects and developers looking to create attractive, value-added urban spaces can utilise this pitch concept to promote a range of sports, providing easy access and encouraging participation with the associated health and well-being benefits," says Sean Robinson. "For stadium owners, it offers great potential to turn their venues into truly multi-functional arenas, significantly increasing opportunities for revenue generation."

In a permanent setting, Permavoid can form part of an integrated water management solution, providing attenuation on roofs, podiums and shallow depth areas that may not be suited to traditional surface water storage systems – on contaminated land for example. Both teams that played in this year's Champions League final have utilised Permavoid as a central element in their home pitch and stadium water management, using surface water collected from across their sites to irrigate and maintain an optimum playing surface.

'Our ambition is to take hockey, one of the world's fastest growing participation sports, into urban environments where access to traditional sports grounds is becoming increasingly difficult.'

JONATHAN COCKROFT
ENGLAND HOCKEY

Read about Sustainability on pages 24 and 47

Read about Strategy on pages 18 to 21

Strategy

Vision:

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

Polypipe has a clear vision, and a strategy with which to deliver that vision. The Group has a successful track record of delivering both organic and inorganic growth. There are macro trends which support our growth ambition, and our core competencies provide the key enablers for exploiting them.

We will do this by:

BUILDING A WORLD-CLASS SUSTAINABLE BUSINESS.

DEVELOPING INDUSTRY LEADING KNOWLEDGE OF OUR CUSTOMERS' NEEDS AND CHALLENGES

ENSURING WE HAVE A PORTFOLIO OF PRODUCTS AND SOLUTIONS THAT, COMBINED WITH OUR TECHNICAL COMPETENCE, IS PEERLESS IN OUR CHOSEN SEGMENTS

SOLUTIONS FOR THE BUILT ENVIRONMENT THAT DRIVE OUR GROWTH

Our seven strategic objectives consist of two TARGET APPLICATION SECTORS and five STRATEGIC GROWTH DRIVERS:

- These strategic objectives form a framework against which we consider our options for organic and inorganic growth.
- They guide us on where we should focus our resources and allocate our capital to ensure we are investing in areas which will provide long-term sustainable returns.
- By having this focus we also ensure that our key competencies and areas of competitive advantage are best protected and leveraged, so that we are building on our strengths and focusing on opportunities where we have best chance of success.
- By using this framework we ensure that we are focused externally, and best able to identify growth opportunities or customer challenges which may not necessarily fit within the constraints of any single one of our businesses. This outward looking, market-facing, approach is a key principle within Polypipe, which combines with our values of entrepreneurial spirit and local ownership to enable us to act with agility to anticipate and address these opportunities.

HOW OUR VISION ALIGNS WITH OUR PURPOSE, MISSION AND VALUES

We fulfil our vision though our day-to-day activities and through all aspects of the development of our business:

- Filling product gaps to provide 'one-stop-shop' solutions (not just plastic) – as we develop our business, we take the perspective of our customers and endeavour to propose optimised solutions for the problems they are trying to tackle, which can lead us to complement our proposition, with product adjacencies or non-plastic solutions.
- Delivering water and climate solutions ahead of legislation (e.g. 'roof to river') – we participate in industry bodies, in order to bring solutions to market ahead of emerging legislation (such as SuDS, air quality, or plastics recycling, for example).
- Pursuing continuous innovation in products and processes – we continue to invest in our operations to automate where justified and to drive out non-value-adding cost.
- Working sustainably throughout our activities (people, processes, products) – beyond our product solutions, as we invest in our operations, we develop the skills of our staff, while deploying modern energy-efficient technologies in our factories to eliminate waste, and to reduce water and energy consumption.
- Leveraging our expertise across wider geographies – our knowledge and IP can be exported under licensing arrangements where justified.

Strategy: Strategic Objectives

Strategic objectives

Polypipe is focused on supplying solutions for two key application sectors; each of which benefits from five external growth drivers. By developing leadership positions in these sectors we can deliver sustainable growth.

TWO TARGET APPLICATION SECTORS

1 SUSTAINABLE WATER MANAGEMENT SOLUTIONS

a. plumbing, water quality
b. drainage, soil and waste
c. external ('roof to river') solutions: drainage, sewers
d. rainwater retention
e. flow control, treatment
f. stormwater attenuation
g. Blue-Green solutions

2 SUSTAINABLE CLIMATE MANAGEMENT SOLUTIONS

h. high-efficiency, low-energy, high air quality ventilation, with heat recovery
i. underfloor heating
j. Blue-Green placemaking solutions, encouraging biodiversity, helping to tackle the urban island heating effect
k. Reduced-temperature (low-CO_2) heat distribution

Strategy

Five strategic growth drivers

01

LINK TO KPIS

1 2 3 4 5

LEGACY MATERIAL SUBSTITUTION

PAST PERFORMANCE

We have consistently grown products such as our plastic plumbing ranges, and our underground drainage systems as customers have seen the benefits of lightweight, corrosion-free materials. We have broadened this with Manthorpe where we have seen growth in systems such as plastic roof trim and verge.

PLANNED FUTURE ACTIONS

We continue to innovate to increase the ability of modern plastic solutions to compete with historical materials. Our advanced technologies in our underground stormwater drainage and sewer drains mean that we are continuing to increase the diameters at which we succeed, and policy makers are opening up regulations to increase the market access of plastic solutions.

02

LINK TO KPIS

1 2 3 4 5

LEGISLATIVE TAILWINDS

PAST PERFORMANCE

Polypipe was at the forefront of providing solutions to the challenges of SuDS, and green infrastructure. We have been an active industry participant, ensuring that policy makers are up to date with product technologies and the opportunities that they bring.

PLANNED FUTURE ACTIONS

With regulatory changes such as Part L and Part F, we see a movement away from historically inefficient building design. The standards around heating and ventilation are, of course, a response to the wider context of climate change and sustainability. Polypipe is well positioned with a range of solutions across our portfolio, from underfloor heating to air based-solutions using low energy MVHR and heat pump based systems. These drivers also interact with issues of air quality, which we address through our Nuaire and Domus brands, but also through the green solutions of our Permavoid offer.

03

LINK TO KPIS

1 2 3 4 5 2 3

SMART SOLUTIONS, INNOVATION AND CONTINUOUS IMPROVEMENT

PAST PERFORMANCE

Innovation and continuous improvement are built in to Polypipe's culture, whether that be improvement of our products and solutions for our customers, or improvements in our plants and supply chain capabilities.

PLANNED FUTURE ACTIONS

As our customers become more sophisticated, and their challenges more complex, we see increasing opportunities to add SMART technologies into our systems. Our SureStop product is now being upgraded to use IoT-based technology, and we see controls and apps as becoming key to our innovation in ventilation and climate management solutions. In water management, controls, measurement and data provision are becoming increasingly important and we are investing in these as ways of increasing the value added content of our offer.

04

LINK TO KPIS

1 2 3 4 5 1

CUSTOMER FOCUSED COMPLETE SOLUTIONS

PAST PERFORMANCE

We have long recognised that our customers see value in well thought out one-stop-shop propositions. This is true along the value chain from our distribution customers, to specifiers and installers who value the benefit we can bring as a complete system provider. This broad perspective allows us to assist with value engineering, and a more holistic view on issues around installation costs, or optimising system performance

PLANNED FUTURE ACTIONS

With the legislative tail winds and drivers around issues like low energy heating, we see further opportunities to look at the challenge from a broad perspective. There are opportunities to combine technologies such as Nuaire's MVHR products alongside underfloor heating for example. We can evaluate the cooling benefit of a Permavoid roofing solution, and propose options which combine that with low energy ventilation as alternatives to traditional cooling options. Increasingly, this holistic approach and the ability to look across the interfaces between systems will be a key differentiator for Polypipe, as we become a true partner with our customers.

05

LINK TO KPIS

1 2 3 4 5

GEOGRAPHIC REACH

PAST PERFORMANCE

Many of the challenges faced in the UK are the same in other markets around the world, especially those associated with the global issues of climate change and urbanisation. Where the standards and approvals are common, we have enjoyed success in serving these needs internationally, for example, in the Permavoid technology, both in green roofs and sports pitches where we have grown in 2019.

PLANNED FUTURE ACTIONS

We will continue to seek opportunities for organic growth overseas, via a traditional export model, or by cooperation with partners, and licence arrangements. Where our expertise is relevant, and we can access markets, we can leverage the same competencies that have delivered our UK growth. Our higher value-added products and technologies are well placed to deliver profitable international growth.

Strategy in Action

Melina Road

CLIENT:
THAMES WATER

PROJECT:
COUNTERS CREEK FLOOD ALLEVIATION SCHEME, LONDON

APPLICATION:
SOURCE CONTROL, ATTENUATION AND IRRIGATION FOR RAIN GARDENS

PRODUCT:
PERMAVOID, PERMAFOAM AND PERMATEX 300 GEOTEXTILE

Permavoid installed for rain gardens to provide lasting green infrastructure at Melina Road in London.

Permavoid and Permafoam cells were installed on a busy London street as part of four new rain gardens, adding amenity and biodiversity to the streetscape.

Urbanisation, coupled with climate change, has led to a disturbed water cycle and an increase in flood events in the UK. This has placed immense stress on London's combined sewer systems, which were developed over old river culverts.

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 Melina Road, a busy residential street in Hammersmith, which includes a local school and a public open space.

2,345 Permavoid cells have been installed to create four separate storage tanks to sit beneath new rain gardens. The tanks will provide 88m³ of rainwater storage.

Each of the Permavoid tanks features a top layer of Permafoam cells to upwardly irrigate the rain garden above. Permafoam cells contain a phenolic foam that is highly absorbent and water retentive, providing 31 litres of water storage for on-demand irrigation.

Each tank is wrapped in a geomembrane at the sides and bottom, along with Permatex 300 geotextile at the top of each tank to allow for infiltration into the tank to feed plants and to allow for water capture.

Each rain garden is also connected to the local sewer network to allow excess water to discharge back into the network at a lower flow rate, managing water at source. Installation had to be carefully planned and considered due to existing services on the street, while shallow tanks were used to reduce excavation time and to fit within the footprint of the street.

This method helps to reduce water volumes into the local sewer network, while improving the visual environment of the street. The effective water management at source provides multifunctional benefits to the design and meets recommendations of the CIRIA SuDS manual, dealing with the quantity and quality of water, adding amenity and biodiversity.

Melina Road is part of a three-street scheme designed to alleviate flood risk in streets built over the Counter's Creek river system. Monitoring performance on the street will provide evidence to show how joint engineered and soft SuDS systems will provide a viable solution that can be applied across a wider area.

'The implementation of the SuDS solutions marks an important milestone in the delivery of the wider project which will help alleviate the misery of sewer flooding for local residents. Together with the proposed storm relief tunnel which will run under both local authority areas, upgrading the existing local sewer network and the SuDS schemes, the ability of the sewer network to cope with heavy rainfall will be greatly improved and we are delighted that in this instance we have been able to work collaboratively to provide such an innovative solution.'

MARTIN BENNETT
PROJECT DIRECTOR OF
THE COUNTERS CREEK SEWER
FLOODING ALLEVIATION SCHEME

Read about sustainability on pages 24 and 47

Read about strategy on pages 18 to 21

Key Performance Indicators

Read about Our Strategy on pages 18 to 21

As a Board we continually review our performance indicators 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.

KEY

FINANCIAL KPI   NON-FINANCIAL KPI

LINK TO STRATEGIC OBJECTIVES

3 4 6 7

1 SALES GROWTH

The annual percentage growth in both Group and UK (by destination) revenue from continuing operations.

IMPORTANCE TO POLYPIPE

As we invest in our people and operations, we must ensure that this investment is helping us to drive growth ahead of the construction market.

	GROUP %	UK %
2019	3.3	3.6
2018	5.2	5.9
2017	6.3	8.1

COMMENTARY

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.

LINK TO STRATEGIC OBJECTIVES

3 4 5 6 7

2 UNDERLYING OPERATING MARGIN

Underlying operating profit as a percentage of revenue from continuing operations.

IMPORTANCE TO POLYPIPE

Indicates that we are investing in the right projects that are delivering productivity and driving out non-value-added costs.

	%
2019	17.4
2018	17.1
2017	17.6

COMMENTARY

The Group's focus on value addition through engineered solutions allows it to deliver industry-leading operating margins.

LINK TO STRATEGIC OBJECTIVES

3 4 5 6 7

4 CASH CONVERSION

Operating cash flow excluding non-underlying items less net capital expenditure to underlying operating profit.

IMPORTANCE TO POLYPIPE

Indicates that we are managing our raw materials, working capital, and receiving payments efficiently and is an indicator of the health of the business overall.

	%
2019	93
2018	96
2017	79

COMMENTARY

Optimised working capital management combined with sustained operational profitability allow the Group to be cash generative.

LINK TO STRATEGIC OBJECTIVES

3 4 5 6 7

5 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 average net assets excluding loans and borrowings, cash and cash equivalents and taxation.

IMPORTANCE TO POLYPIPE

A key indicator of the efficient deployment of capital on the right initiatives and of Polypipe's overall business performance.

	%
2019	15.2
2018	16.3
2017	16.2

COMMENTARY

The Group continues to invest in its asset base to fulfil its growth ambitions. Sustained operational profitability maintained double-digit ROCE though the Alderburgh acquisition in the year had a dilutive effect.

Strategic objectives

1. Sustainable water management solutions
2. Sustainable climate management solutions
3. Legacy material substitution
4. Legislative tailwinds
5. Smart solutions, innovation and continuous improvement
6. Customer-focused complete solutions
7. Geographic reach

LINK TO STRATEGIC OBJECTIVES

3 4 5 6 7

3 UNDERLYING EPS

Underlying diluted earnings per share from continuing operations adjusted for non-underlying items.

IMPORTANCE TO POLYPIPE

An important indicator to Polypipe's investors in particular, of the value of Polypipe's earnings, assuming that all shares that could be outstanding have been issued.

PPS

Year	PPS
2019	29.2
2018	28.1
2017	26.9

COMMENTARY

There was an increase in underlying earnings per share to 29.2 pence, indicating that the Group continues to grow profitably over the long term.

LINK TO STRATEGIC OBJECTIVES

5 6

1 RECYCLING

The proportion of the Group's overall plastic usage satisfied with recycled materials.

IMPORTANCE TO POLYPIPE

The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations.

%

Year	%
2019	42.0
2018	40.2
2017	38.0

COMMENTARY

Recent investments have allowed the Group to increase the proportion of recycled materials in our products. The use of internal and external recycled waste as raw material, in addition to reducing waste to landfill, has improved our environmental performance and further raised awareness of recycling.

LINK TO STRATEGIC OBJECTIVES

5

2 ACCIDENT FREQUENCY

The number of reported accidents as a proportion of the number of production hours across the whole Group.

IMPORTANCE TO POLYPIPE

Beyond mere compliance, this is an indicator of the state of health and safety at our various sites and the degree to which the workers are protected from work-related hazards at their workplace.

Frequency per 100,000 hours worked

Year	Frequency
2019	5.97
2018	6.04
2017	5.76

COMMENTARY

Our aspiration is to achieve zero accidents every year. As the Group grows, we are focusing on behavioural and cultural improvement in addition to standards and legal compliance.

LINK TO STRATEGIC OBJECTIVES

1 2 5

3 GREENHOUSE GAS EMISSIONS

The intensity ratio is defined as the total tonnes of scope 1, 2 and 3 CO_2e produced per total tonnes of production.

IMPORTANCE TO POLYPIPE

A key indicator of the sustainability and efficiency of our internal production processes; consistent with our Group vision and strategy.

Intensity ratio

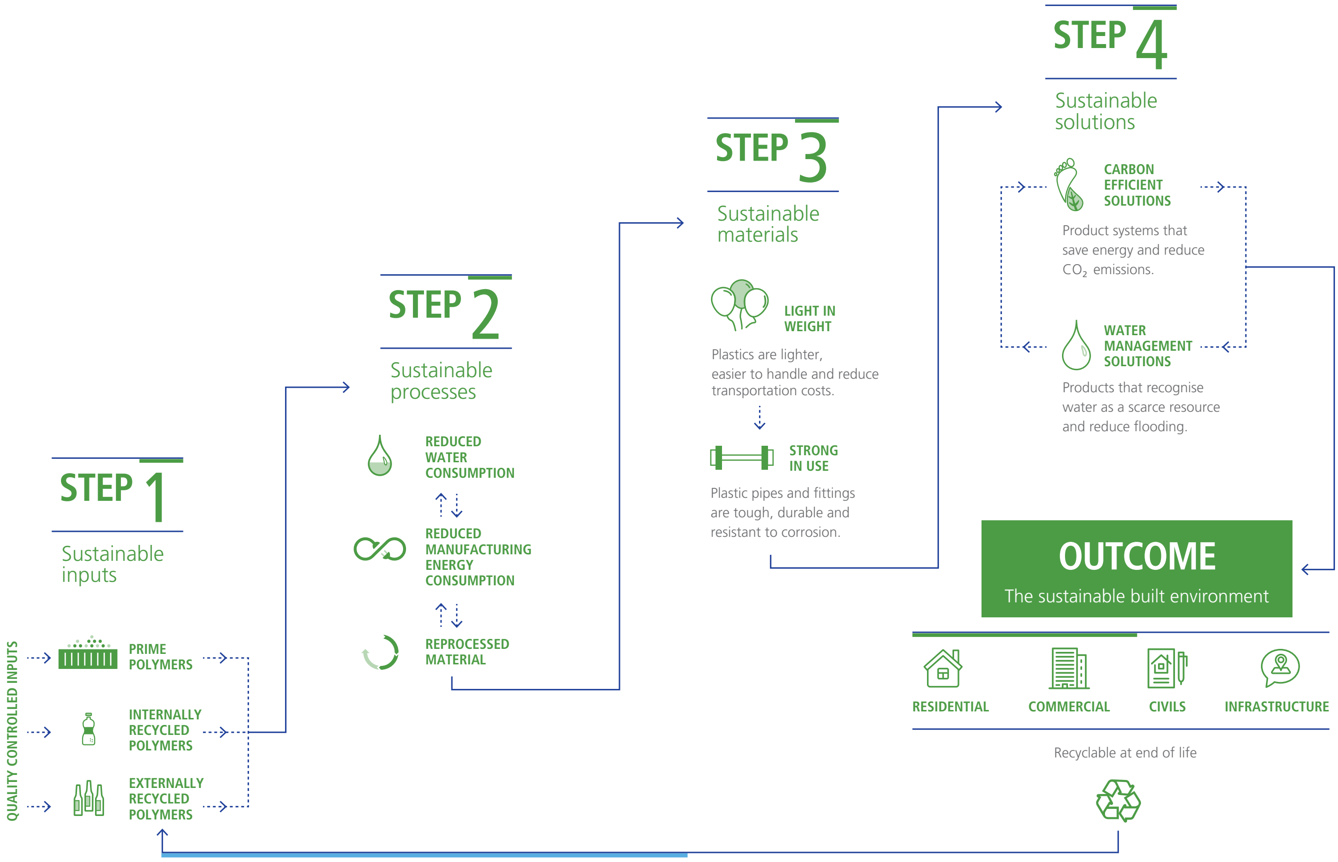
Year	Intensity ratio
2019	0.31
2018	0.34
2017	0.40

COMMENTARY

The continued improvement in our intensity ratio reflects our commitment to operate in an environmentally sustainable manner as the Group grows. Energy efficiency awareness groups and champions have been set up in addition to third-party audits of our energy usage to highlight areas of improvement.

Our Sustainable Journey

Polypipe recognises the impact that we have on the built environment, both locally and at the macro scale. Our products and how they are produced have the capability to create a positive and sustainable impact.



As a business we are committed to enhancing the environment and operating in an ethical and sustainable way. To this end, during 2019 and into 2020 we are in the process of formalising and strengthening our sustainable message while maintaining transparency, ensuring both internal and external stakeholders are aware and embrace the approach.

We are developing a wider Corporate Social Responsibility (CSR) framework, of which sustainability and the management of sustainable operations will be fundamental to the business strategy, building on the successes of the business to date.

The framework will combine the three pillars of CSR with clear and suitable measures in place to ensure performance is managed and reported. These measures will include and go beyond the standard measures of Accident Frequency Rate and All Accident Frequency Rate as reported on page 48.

The framework will link closely with the United Nations Sustainable Development Goals, the process of developing this will determine which goals, as a business we are best placed to have the greatest positive impact on.

We will address the following areas as a minimum;

- The ambition level per sustainability theme and appropriate programs, KPIs and targets
- How targets are to be embedded in the annual appraisal of our staff and management, and how these are communicated internally to learn lessons and share best practice
- The need for training and other engagement processes, including business and site level activity
- How we can empower all employees to contribute to and be accountable for our sustainability performance.

Sustainable solutions

Our products are not only sustainably produced, but they are sustainable 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 (MVHR) 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 built environment across the Residential, Commercial, Civils and Infrastructure markets contributes significantly to the environmental impact on 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.

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

The Group's Nuaire ventilation business extends 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, by 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 can provide solutions for the creation of spaces that are healthy and safe by mitigating water abundance, water scarcity, or poor air quality through engineered system performance.

In residential dwellings and tall commercial buildings, Polypipe's solutions start the process of managing water at roof level. The Group's market-leading geocellular solution, 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 drainage or sewer 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.

Polypipe is required to submit the amount of packaging waste that is passed on to our customers to the Environment Agency. As a group we are continually working to reduce this. For 2019 we have seen a reduction in wood and plastic packaging waste.

Sustainable operations

SUSTAINABLE MATERIALS

Polypipe is proud to manufacture plastic pipes that are strong yet light in weight. Through fine process control, the material content of a manufactured product is finely adjusted to ensure a given class of stiffness, without merely relying on product weight which consumes too much material. In addition to saving costs, this helps towards considerably reducing fuel consumption in transportation and lowering health and safety risks on sites. Plus, these products can be recycled at the end of the life.

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 bio-degrade, 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 Polypipe to create products from recycled plastics, reducing transport and the number of processing steps to convert recyclate into a high-performing product, ensuring quality control throughout. All Polypipe businesses are ISO9001 and 14001 accredited to ensure quality and environmental management is in place and prevalent throughout operations.

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 also make it a much more considerate choice for the environment versus alternative materials. Concrete, clay, copper, steel and ductile iron pipe systems all contain significantly more embedded carbon through their production processes, and 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.

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

POLYPIPE HAS INVESTED HEAVILY AND OPTIMISED ITS OWN RECYCLING AND POLYMER PROCESSING PLANT AT THE HORNCASTLE SITE

Our Sustainable Journey CONTINUED

For example, producing a kilogram of virgin plastic releases 2–3 kilograms of carbon dioxide. However, because plastic is a lighter material,a single kilogram of plastic can produce ten 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 lightweight 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. 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 2019, Polypipe processed 44,700 tonnes of recycled plastic, of which 16,000 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 during the year. This was used to produce pipes that were destined to be buried in the ground in applications that will manage and treat rainwater and stormwater for many decades to come.

As a business we monitor and target the amount of waste to landfill. Projects across the group to improve the onsite segregation of waste, reuse and recycling has reduced the volume of waste to landfill with some sites across the group hitting zero waste to landfill.

Sustainable processes

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

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 exactly meet their needs, without overusing resources and 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. Polypipe is continuously searching for the optimum methods of reducing the environmental impact of its products.

When purchasing new machinery and equipment, Polypipe gives consideration to energy efficiency as a key criterion for decision-making.

Polypipe is an active member of a number of associations. We participate in initiatives that focus on improving sustainability within our industry. Key stakeholders where Polypipe actively participates in discussions on sustainability are:

TEPPFA The European Plastic Pipes and Fitting Association: Recent issues include the development of industry-wide Environmental product declarations (EPD) and product life cycle analysis (LCA) in order to understand and communicate the environmental impact of our products.

BPF The British Plastics Federation: Recent issues include the wider negative profile of plastic. Polypipe and the BPF have signed up to, and implement Operation Clean Sweep.

IN 2019, POLYPIPE PROCESSED 44,700 TONNES OF RECYCLED PLASTIC, OF WHICH 16,000 TONNES CAME FROM RECYCLABLE PLASTIC BOTTLES AND CONTAINERS

Operation Clean Sweep is an international initiative from the plastics industry to reduce plastic pellet loss to the environment. In the UK it is led by the British Plastics Federation.

The initiative's aim is to ensure that the plastic pellets, flakes and powders that pass through manufacturing facilities in the UK are handled with the care they deserve and do not end up in our rivers or seas.

By signing up to Operation Clean Sweep, Polypipe have committed to adhere to best practice and implement systems to prevent plastic pellet loss – and that they will play their part in protecting the aquatic environment.

The operational sites within Polypipe undertake internal audits to monitor environmental performance.

Chief Executive Officer's Review

'We are pleased to report our strategy continued to deliver over the year, with revenue and profit growth despite market uncertainty and challenging trading conditions, particularly in the second half of the year.'

Martin Payne
Chief Executive Officer

I am pleased to report that Polypipe has delivered another record performance in 2019, with revenue from continuing operations 3.3% higher than prior year at £447.6m (2018: £433.2m), underlying operating profit 5.5% higher than prior year at £78.1m (2018: £74.0m) and underlying basic earnings per share 4.2% higher than prior year at 29.6 pence per share (2018: 28.4 pence).

The year was characterised by political and economic uncertainty. While 2019 saw continued historically low interest rates, low inflation and near full employment leading to real wage growth, the political situation that unfolded during the year significantly impacted the construction market. Housebuilders started 8% fewer plots compared to the prior year and investors delayed commercial projects. Although the general election result brought some certainty, it was too late in the year to see any meaningful effect within the markets in which we operate.

Merchants adjusted stock levels throughout the year, firstly for what they thought would be an EU withdrawal in March 2019 and then October 2019, neither of which happened, and secondly for a slower second half end market. The Group has delivered another record performance in the year, which is testament to the strength and dedication of our management and employees, and I would like to thank them all for their contributions.

The Group made excellent progress on strategic initiatives during the year, exploiting the drivers of legacy material substitution and legislative tailwinds in water and climate management, and developing its 'one-stop-shop' offering for customers in the UK. We have also continued to invest in new products. During the year, we had a number of new, innovative and exciting product launches in line with our strategy, details of which can be found further on in my report. We also expanded the Group in the year with the acquisition of the Alderburgh group of companies ('Alderburgh') in October 2019, underlining our ability and appetite to acquire businesses in line with our strategic objectives.

Equally important to the Group's success is to ensure we have the enablers to support our strategy into the future. Towards the end of 2019 we implemented a new organisational structure, creating four divisional management teams to be responsible for the businesses in the Group, evolving from what was previously a flat organisational structure. These divisional teams focus on strategic development within their markets, and the structure also gives the Group a platform on which to integrate further acquisitions, something that was increasingly challenging with the previous organisational structure. This new structure will be fully operational in 2020.

Sustainability continues to be at the heart of what we do. We provide sustainable environmental solutions to the construction industry in the water management and climate management space, launching our 'Inspiring Green Urbanisation' design guide at the Future Build exhibition in March 2019. We not only help our customers create sustainable solutions, we also continue to drive our own business to be more sustainable. We have further increased our usage of recycled plastic during the year, with recycled plastic now representing 42.0% of our consumption of plastic, compared to 40.2% in 2018. This has been achieved through the further roll-out of our multi-layer extrusion process in our Residential Systems segment, helped in the latter part of the year with the acquisition of Alderburgh which uses recycled plastic for most of its production. We also reduced our carbon emissions in the year as measured by tonnes of carbon dioxide equivalent (tCO_2e) by 10%. I am pleased to report that in December 2019 our sustainable credentials were recognised by the London Stock Exchange who awarded us one of 74 'Green Economy Issuer' certificates for our efforts in this area. We are working on a comprehensive set of sustainability targets for the Group and will report on these later in the year.

Coronavirus ('COVID-19') is posing significant challenges for countries around the world, with the situation developing rapidly.

Polypipe's leadership team continues to monitor the situation closely and take appropriate actions where necessary. The health, safety and well being of our people has always been, and continues to be, at the forefront of everything we do. The Group and its leadership team has a duty of care to its employees and customers, and the evaluation of risk and taking mitigating actions to protect our employees and customers is taken very seriously and is very much ingrained in our culture.

To that end, the actions we are taking include the following:

- Implementing business continuity plans to mitigate the specific risks associated with Coronavirus, to ensure disruption to normal operations and customer service is minimised.
- Increasing short-term stock levels of core product ranges while employee numbers allow, to minimise supply disruption to our customers.

SUSTAINABILITY CONTINUES TO BE AT THE HEART OF EVERYTHING WE DO

- Cancelling all non-essential overseas travel, including to and from our own overseas operations.
- Using electronic means of communication with customers, suppliers and employees where possible, minimising unnecessary social proximity.
- Instigating a regular internal communications programme to ensure our employees are aware of the latest relevant government advice regarding self-isolating, general WHO health advice, and the support that the Group can provide.
- We have a small manufacturing plant in Genoa, Italy where production has been suspended, and we are supporting our small number of overseas employees in the Middle East, Netherlands, France and Ireland as appropriate.
- Setting up a team of senior leaders to monitor and manage the situation as it develops.

There are certain features of Polypipe's business model that give it resilience including:

- We have 19 sites in the Group, 14 of which are in the UK, 11 of which are manufacturing sites, giving us a degree of flexibility in production, and flexibility of locations for key back office staff.
- We have over 200 injection-moulding machines and over 100 extruders, which means we can manage our capacity in small steps, allowing us to closely match production to demand or available workforce.
- Our primary supply chain has limited dependence on overseas suppliers, and where there is dependence it is generally in areas that do not impact the Group's core product ranges.
- Strong balance sheet and cash flow, no defined benefit pension scheme, significant headroom.

We will continue to monitor events and take actions where necessary and will update further as appropriate.

THE PRODUCT DEVELOPMENT PIPELINE CONTINUES TO DELIVER NEW AND INNOVATIVE SOLUTIONS

Business review

Revenue from continuing operations	2019 £m	2018 £m	Change %	LFL Change %
Residential Systems	**260.3**	245.3	6.1	(0.1)
Commercial and Infrastructure Systems	**187.3**	187.9	(0.3)	(3.5)
	447.6	433.2	3.3	(1.6)

Underlying operating profit	2019 £m	%	2018 £m	%	LFL Change %
Residential Systems	**53.4**	**20.5**	46.3	18.9	15.3
Commercial and Infrastructure Systems	**24.7**	**13.2**	27.7	14.7	(10.8)
	78.1	**17.4**	74.0	17.1	5.5

Residential Systems

Revenue in our Residential Systems segment, which is almost exclusively derived from the UK market, was 6.1% higher than the prior year at £260.3m (2018: £245.3m), driven by the full year effect of the acquisition of Manthorpe Building Products on 25 October 2018, with like-for-like revenue excluding acquisitions broadly in line with the prior year.

UK Residential market trends during 2019 have been mixed. According to the Construction Products Association, the overall private new house build market grew by 2%. However, within this performance, housing completions were 2% higher but new housing starts were 8% lower than the prior year, as housebuilders reduced work in progress and worked existing sites harder in the face of an uncertain outlook. This is an important distinction for the Group as the majority of our products in this segment are used in the early stages of site and plot development. Against this backdrop of reduced starts, as well as a weak private RMI market and the pre-Brexit merchant stock build in Q4 2018 unwinding in the first half of 2019, the Residential Systems segment's broadly flat like-for-like revenue is a strong performance. Within this performance, price increases of approximately 3% were successfully implemented in the year, recovering cost inflation on a pound-for-pound basis, leaving volumes around 3% lower than the prior year, largely related to the unwind of merchant stock build in Q4 of 2018.

The process of integrating Manthorpe Building Products into the Group is now complete. I am delighted with how well the business fitted into the Group from a commercial, operational, and cultural perspective during 2019 which is a credit to the management team and employees at Manthorpe as well as the team at Polypipe. The implementation of operational and commercial synergies identified at the time of the acquisition is ahead of plan and consequently I am pleased to report that the performance of Manthorpe in its first full year of ownership has exceeded expectations.

During the year, we created a new division within the Residential Systems segment called Polypipe Offsite Solutions. This will give specific focus to serving the emerging modular house building market using new and existing Group products to create solutions for delivery to the factory production line. Start-up expenditure was £0.2m in 2019 and will be £1.2m in 2020, and we will look to develop our position in this growing market.

The product development pipeline continues to deliver new and innovative solutions that capitalise on the strategic growth drivers of legacy material substitution, and legislative tailwinds in water and climate management. Nuaire won the prestigious H&V News award for Air Movement Product of the Year, recognising its efforts in developing the innovative Noxmaster air filtration system. The product was praised by the judges for the attention paid to indoor air quality and to the testing and validation of the unit. Manthorpe's reputation for innovative product design was further enhanced in June 2019 when its G965 Dual Underfloor Vent won the Best Building Fabric product award at the 2019 Housebuilder Product awards, with this product subsequently being specified by a number of National Housebuilders.

Significant investment in new production equipment helped remove capacity constraints at our Broomhouse Lane site. In January 2019 we commissioned our fourth high output multilayer extrusion line for the manufacture of 110mm and 160mm PVC pipe with a recycled core, which not only increased capacity, but also underpins our commitment to increasing the recycled content of our products. Investment in yard expansion and

Chief Executive Officer's Review CONTINUED

layout improvements at Broomhouse Lane during the year has resolved the logistical bottlenecks encountered in the second half of 2018 and saw the site return to efficient operation. Together with a strong full year contribution from Manthorpe, an excellent performance from our residential ventilation businesses, and other cost saving initiatives, this helped Residential Systems deliver strong underlying operating profit growth of 15.3% to £53.4m (2018: £46.3m) representing a 20.5% margin (2018: 18.9%).

Commercial and Infrastructure Systems

Conditions in the UK Commercial and Infrastructure markets deteriorated progressively during the year. This resulted in revenue in our Commercial and Infrastructure Systems segment for the full year being 0.3% lower than the prior year at £187.3m (2018: £187.9m), or 3.5% lower on a like-for-like basis excluding acquisitions.

UK revenue, which accounts for approximately 80% of the overall segment revenue, was 1.5% lower than the prior year, driven by continued political and economic uncertainty causing project delays and cancellations, and towards the end of the year, adverse weather conditions and flooding in the Midlands and the North impacting contractors' ability to access sites. These conditions, together with some strong comparatives in the second half of 2018, were partially offset by revenue from the recently acquired Alderburgh.

Excellent progress has been made on product launches and projects in the year. Our Polystorm range (including geocellular attenuation tanks) was extended with the launch of the PSM5 'Polystorm Deep' product, to address performance levels in the forthcoming CIRIA 737 Regulations and to improve burial depth performance overall. In June, the world's first fully portable international standard hockey pitch was installed at The Twickenham Stoop ahead of the Pro League matches between Team GB and New Zealand. Laid in under a week, the unique modular pitch system uses Permavoid for both structural support and irrigation management. In March we launched our 'Inspiring Green Urbanisation' design guide at the Future Build exhibition, showing how our next generation sustainable water management solutions will help re-imagine the urban landscape. Our Fuze range of HDPE electrofusion jointed soil stacks continue to make inroads into the market, on projects such as Essex House in Croydon, the world's tallest prefabricated twin tower with over 540 flats. Towards the end of the year, our Building Services division launched a new range of polypropylene high pressure hot and cold water distribution systems for tall buildings called MecFlow, with the unique click-weld electrofusion jointing technology and pre-cut fabricated parts for ease of assembly on site. This is a new part of the market for Polypipe, and fits with the Group's strategy of providing a 'one-stop-shop' for our customers. Initial contractor feedback is excellent, and the project bank looks healthy for 2020. Our Building Services division also launched the Advantage Service covering both Fuze and MecFlow product ranges, which provides design support, project programme integration, full fabrication service and pre-site testing. This innovative service provides our clients with fabricated parts delivered direct to site, which takes expensive skilled activity away from site and significantly reduces waste.

Export revenue, which accounts for approximately 20% of overall segment revenue, was 4.6% higher than the prior year, with improved volumes in Continental Europe and the full year effect of the Permavoid acquisition, which has a wider geographic reach, offset partially by further reductions in the Middle East as conditions in this market continue to be challenging.

On 1 October 2019, we announced the acquisition of Alderburgh, a leading designer, manufacturer and installer of plastic injection-moulded stormwater attenuation tanks, structural waterproofing and geocellular membranes, gas barrier and ventilation materials, supplying the UK, Irish and Scandinavian markets, for a total consideration of £14.0m on a cash and debt free, normalised working capital basis. Alderburgh sells products across six distinct categories, with *c*.80% of revenues derived from its geocellular attenuation systems, the stackable Versavoid system, and the Pluvial cube system. These products help address the requirements of the Sustainable Urban Drainage regulations by creating load-bearing tanks underground to store stormwater and let it drain away naturally, rather than letting stormwater rush into the watercourse creating flood events downstream. Unlike Polypipe's Polystorm and Permavoid systems which are manufactured as single finished cells, Alderburgh's Versavoid system is a stackable system, which means individual parts of the cell can be nested for transportation and assembled on site, which in certain situations can provide a more cost effective and lower carbon emission solution. Furthermore, through its Solutek specialist installation service, Alderburgh offers a supply and fit solution to customers, something that has become increasingly popular in recent years and in which, to date, Polypipe has not participated. Although early days, the business has settled in to the Group well, and our focus will be on completing the integration process during the coming year and delivering the opportunities that the combination of Polypipe and Alderburgh create.

Commercial and Infrastructure Systems delivered an underlying operating profit of £24.7m (2018: £27.7m) and represents a 13.2% margin (2018: 14.7%). The key driver of reduced margin in the year in this segment relates to operational leverage on reduced UK volumes, particularly in the second half.

Outlook

The Coronavirus pandemic is under close review by management. We are taking all appropriate actions to ensure the health, safety and wellbeing of our employees and to minimise disruption to our operations, while watching our end markets closely. To date, we have seen no direct impact on Group performance. The Group has a strong balance sheet and substantial headroom on its borrowing facility to cater for emerging risks.

We are positioned well over the medium term within our markets, delivering innovative new products, benefiting from legacy material substitution, legislative tailwinds and a 'one-stop-shop' service for our customers across several different sectors of the construction industry.

Martin Payne
Chief Executive Officer

WE HAVE FURTHER INCREASED OUR USAGE OF RECYCLED PLASTIC DURING THE YEAR TO 42% OF OUR CONSUMPTION OF PLASTIC

CASH GENERATION REMAINS STRONG

Chief Financial Officer's Report

'Polypipe achieved revenue growth of 3.3% and a 30 basis points higher operating margin. The Group also generated strong cash flows.'

Paul James

Chief Financial Officer

Revenue growth and operating margin	2019 £m	2018 £m	Change
Revenue	**447.6**	433.2	+3.3%
Underlying operating profit	**78.1**	74.0	+5.5%
Underlying operating margin	**17.4%**	17.1%	+30bps

Revenue by geographic destination	2019 £m	2018 £m	Change
UK	**401.2**	387.1	+3.6%
Rest of Europe	**23.6**	21.5	+9.8%
Rest of World	**22.8**	24.6	-7.3%
Group	**447.6**	433.2	+3.3%

Group revenue for the year ended 31 December 2019 was £447.6m (2018: £433.2m), an increase of 3.3%. With the acquisition of Alderburgh on 1 October 2019, Group revenue includes £2.7m from this business for the period since acquisition. UK revenue growth was 3.6% with approximately 2.8% driven by price increases, 4.9% from acquisitions as volumes declined 4.3%. On a like-for-like basis, Group revenue decreased by 1.6%. This was in line with the overall UK construction market where the Construction Products Association (CPA) winter forecast suggested another year-on-year decline. Uncertainty surrounding the UK post-Brexit and around major infrastructure projects led the CPA to downgrade its autumn forecasts for construction output growth. The Group's year-on-year growth for the first half was strong at 6.2%, compared to second half growth of 0.6% which was impacted by challenging prior year comparators and weaker demand due to market uncertainty.

Operating profit was £67.6m, an increase of 2.7%. The Group underlying operating margin increased to 17.4% (2018: 17.1%) with the dilutive effects of price increases to recover inflation being more than offset by cost improvement initiatives undertaken progressively through the year and the accretive effect of acquisitions. Profit before tax increased by 3.3% to £60.1m (2018: £58.2m).

Investment in product development and innovation remains a key area of focus for the Group. In 2019, underlying operating profit benefited from £1.6m of HM Revenue & Customs approved Research & Development Expenditure Credit scheme, relating to the years ended 31 December 2017 and 2018. This will provide us with further opportunity to increase our investment in developing new and innovative products.

Acquisitions

On 1 October 2019, the Group acquired Alderburgh, a specialist in the design, manufacture, supply and installation of modular storm water management and building protection systems, and associated land and buildings for a total consideration of £14.0m on a cash and debt free, normalised working capital basis. The acquisition of Alderburgh has contributed £2.7m to Group revenue in the year and revenue for the full 12-month period ended 31 December 2019 was £15.3m. The acquisition was funded entirely from the Group's revolving credit facility. Acquisition costs of £0.6m have been charged to non-underlying items.

IFRS 16, Leases

IFRS 16, Leases, was issued in January 2016 and is mandatory for annual reporting periods commencing 1 January 2019. The Group did not apply for early adoption of IFRS 16 and has reported under the new standard in the consolidated financial statements for the year ended 31 December 2019. Existing leases mainly relate to property, forklift trucks used in warehousing, trucks and motor vehicles. The Group does not have any leases previously classified as finance leases. The Group has adopted the modified retrospective method to transition and has not restated comparative amounts for the year prior to first adoption. The Group's lease commitments have been brought onto the Group's balance sheet and the timing of the recognition of lease costs within the income statement has changed. The Group has recognised an increase in total liabilities of £14.8m, with the same increase in total assets.

Non-underlying items

Non-underlying items in both 2019 and 2018 included non-cash amortisation charges in respect of intangible assets recognised with acquisitions made since 2015. In addition, the amortisation of intangible assets charge in 2019 was impacted by the fair valuation of intangible fixed assets on the acquisition balance sheet of Alderburgh. Intangible assets have increased by £4.8m following the acquisition of Alderburgh, attracting additional amortisation of £0.1m. Acquisition costs in the year amounted to £3.2m.

Non-underlying items comprised:

	2019 £m	2018 £m
Amortisation of intangible assets	**7.5**	5.9
Acquisition costs	**2.4**	2.0
Contingent consideration on acquisitions	**0.8**	0.3
Unamortised debt issue costs written off	**–**	0.6
Loss on disposal of assets classified as held-for-sale	**–**	0.1
Non-underlying items before taxation	**10.7**	8.9
Taxation	**(1.4)**	(1.1)
Non-underlying items after taxation	**9.3**	7.8

Exchange rates

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

Finance costs

Underlying finance costs of £7.3m (2018: £6.9m) were ahead of last year due to the impact of IFRS 16 and higher borrowing levels following the acquisitions in 2019 and 2018. Interest cover was 11.3x (2018: 11.3x).

Interest is payable on the RCF at LIBOR plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2019 was 1.65% (2018: 1.65%).

In order to reduce exposure to future increases in interest rates the Group 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 £82.0m over the period of the interest rate swaps.

Taxation

Underlying taxation:

The underlying tax charge in 2019 was £11.9m (2018: £10.5m) representing an effective tax rate of 16.8% (2018: 15.6%). This was below the UK standard tax rate of 19.0% (2018: 19.0%). Patent box relief contributes to a lowering of the effective tax rate by some 1.3 percentage points.

Taxation on non-underlying items:

The non-underlying taxation credit of £1.4m represents an effective rate of 13.1% (2018: 12.4%), due to £3.2m of acquisition costs being treated as disallowable for tax purposes.

UK REVENUE 3.6% HIGHER

UNDERLYING OPERATING MARGIN 30 BASIS POINTS HIGHER AT 17.4%

INTEREST MARGIN 10 BASIS POINTS LOWER

ALDERBURGH GROUP OF COMPANIES ACQUIRED FOR £14M IN OCTOBER 2019

Chief Financial Officer's Report CONTINUED

Earnings per share from continuing operations

	2019	2018
Pence per share		
Basic	**24.9**	24.5
Underlying basic	**29.6**	28.4
Diluted	**24.6**	24.3
Underlying diluted	**29.2**	28.1

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 4.2% in 2019 due to the improved underlying operating result after taxation.

UNDERLYING BASIC EARNINGS PER SHARE

4.2% HIGHER

FINAL DIVIDEND PER SHARE OF

8.1 PENCE

FULL YEAR DIVIDEND PER SHARE

4.3% HIGHER

Dividend

The final dividend of 8.1 pence per share is being recommended for payment on 28 May 2020 to shareholders on the register at the close of business on 24 April 2020. The ex-dividend date will be 23 April 2020.

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.

Balance sheet

The Group's balance sheet is summarised below:

	2019 £m	2018 £m
Property, plant and equipment	**125.8**	118.4
Right-of-use assets	**14.8**	-
Goodwill	**345.6**	343.0
Other intangible assets	**56.2**	58.9
Net working capital	**3.0**	(4.1)
Taxation	**(14.3)**	(17.3)
Other current and non-current assets and liabilities	**(4.9)**	(3.5)
Net debt (loans and borrowings, and lease liabilities, net of cash and cash equivalents)	**(164.8)**	(164.2)
Net assets	**361.4**	331.2

The net value of property, plant and equipment has increased by £7.4m and, excluding the effect of the inclusion of assets from the acquisition of Alderburgh, increased by £1.5m. The value of right-of-use assets has increased by £14.8m following the Group's adoption of IFRS 16 in the year.

Goodwill increased by £2.6m due to the acquisition of Alderburgh. Other intangible assets increased by £4.8m with fair value adjustments associated with the acquisition of Alderburgh being offset by the routine amortisation of patents, brand names and customer relationships. Net working capital increased by £7.1m but is expected to normalise in the first half of 2020. 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 £3.4m (2018: £2.8m).

Cash flow and net debt

The Group's cash flow statement is summarised below:

	2019 £m	2018 £m
Operating cash flows before movement in net working capital	**95.3**	86.2
Add back non-underlying cash items	**1.4**	4.4
Underlying operating cash flows before movement in net working capital	**96.7**	90.6
Movement in net working capital	**(5.9)**	3.8
Capital expenditure	**(21.9)**	(23.2)
Proceeds from sale and leaseback of property, plant and equipment	**3.9**	–
Underlying cash generated from operations after net capital expenditure	**72.8**	71.2
Income tax paid	**(12.4)**	(11.2)
Interest paid	**(7.4)**	(6.1)
Non-underlying cash items	**(1.4)**	(4.4)
Acquisition of businesses	**(12.2)**	(56.1)
Disposal of businesses	**-**	13.6
Dividends paid	**(23.7)**	(22.3)
Proceeds from exercise of share options net of purchase of own shares	**2.4**	0.3
Other	**(3.9)**	(0.8)
Movement in net debt – pre IFRS 16	**14.2**	(15.8)
IFRS 16 lease liabilities	**(14.8)**	-
Movement in debt – including IFRS 16	**(0.6)**	(15.8)

Delivery of good cash generation remains core to the Group's strategy. Underlying cash generated from operations after net capital expenditure at £72.8m (2018: £71.2m) represents a conversion rate of 93% (2018: 96%). The slight decline in conversion rate was attributable to increased levels of working capital which are expected to normalise through the course of 2020. Net capital expenditure investment fell to £18.0m (2018: £23.2m), following the Group's decision to carry out the sale and leaseback of its truck fleet in December 2019. Net proceeds from the sale were £3.9m. The Group continued to focus its investment on capacity expansion, efficiency improvement and innovation projects. The Group spent £12.2m on the acquisition of Alderburgh in October 2019.

Net debt of £164.8m comprised:

	2019 £m	2018 £m	Change £m
Bank loans	**(199.0)**	(212.0)	13.0
Cash and cash equivalents	**47.7**	46.2	1.5
Net debt (excluding unamortised debt issue costs)	**(151.3)**	(165.8)	14.5
Unamortised debt issue costs	**1.3**	1.6	(0.3)
IFRS 16 lease liabilities	**(14.8)**	–	(14.8)
Net debt	**(164.8)**	(164.2)	(0.6)
Net debt (excluding unamortised debt issue costs): pro forma EBITDA	**1.7**	1.7	

NET DEBT

1.7x PRO FORMA EBITDA

UNDERLYING CASH GENERATED FROM OPERATIONS

2.2% HIGHER

Chief Financial Officer's Report CONTINUED

Financing

The Group has an RCF committed through to November 2023 with two further uncommitted annual renewals through to November 2025. The facility limit is £300.0m with an uncommitted 'accordion' facility of up to £50.0m on top. At 31 December 2019, £199.0m of the RCF was drawn down.

The Group is subject to two financial covenants. At 31 December 2019, there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

	Covenant requirement	**Position at 31 December 2019**
Interest cover	>4.0:1	**11.3:1**
Leverage	<3.0:1	**1.5:1**

THE GROUP ENTERED 2020 WITH A SUBSTANTIAL FINANCING HEADROOM OF

£148.7m

At 31 December 2019, liquidity headroom (cash and undrawn committed banking facilities) was £148.7m (2018: £134.2m). Focus will continue to be on deleveraging our net debt to EBITDA ratio stood at 1.6x pro forma EBITDA at 31 December 2019 (2018: 1.7x), increasing to 1.7x including the effects of IFRS 16. This headroom means the Group enters 2020 well-positioned with a strong balance sheet.

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 and 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 the Group 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, which is updated at least every six months. Risks are fully analysed, allocated owners, scored for both impact and probability, prioritised, and assessed for 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 Group's 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 recently appointed internal auditors.

The heat map table that follows 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 appetite

The Board determines the appropriate level of risk for operating the business and pursuing its strategic objectives. A key focus of the Board is minimising exposure to financial, operational, human, legislative and reputational risks.

Emerging risks

Risks that have a potential future impact on the Group are identified through our internal risk assessment process. The Board regularly reviews these risks and, where needed, will be added to the risk register.

PROCESS

TOP DOWN:
IDENTIFYING, ASSESSING AND MITIGATING RISK AT GROUP LEVEL

BOTTOM UP:
IDENTIFYING, ASSESSING AND MITIGATING RISK AT BUSINESS OPERATIONAL LEVEL

THE BOARD

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:

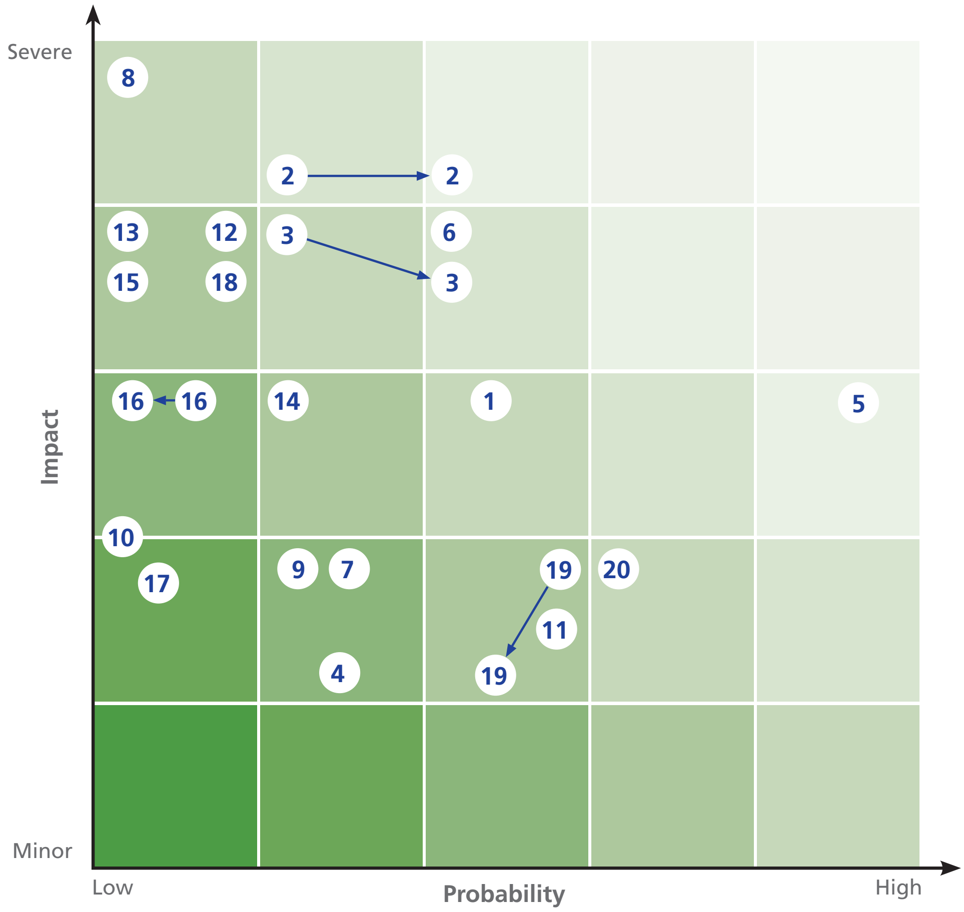
- The recording of all principal risks and uncertainties on a Group Risk Register which is updated at least every six months.
- Analysing risks and allocating owners.
- Scoring risks for impact and probability to determine the exposure to the business.
- Outlining which risks should be prioritised and what mitigation is required.

INTERNAL AUDIT

The effectiveness of key mitigating controls is continually monitored and subjected to periodic testing by the Group's internal auditors.

OPERATIONAL LEVEL

The risk management processes are embedded into the different operational areas within the Group.



1. Failure to manage the availability of raw materials supply and pricing
2. Business disruption
3. Reliance on key customers
4. Recruitment and retention of key personnel
5. Economic conditions
6. Change in Government actions and policies relating to public and private investment
7. Environmental regulations and other obligations relating to environmental matters
8. Product failures in the marketplace could harm our reputation and our results of operation
9. Failure of information systems
10. Acquisitions do not perform as expected
11. Foreign currency risk
12. Credit risk
13. Liquidity risk
14. Interest rate risk
15. Failure to manage health and safety resulting in fatality or serious injury
16. Agreement of unfavourable commercial terms
17. Fraud including misreporting of periodic financial information by business units to the Group
18. Breach of Group policies regarding Competition Law, the Bribery Act and Sanctions Compliance
19. Political unrest in the Middle East
20. Labour availability and wage inflation

Principal Risks and Uncertainties CONTINUED

01 FAILURE TO MANAGE THE AVAILABILITY OF RAW MATERIALS SUPPLY AND PRICING

RISK

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.

POTENTIAL IMPACT

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. This impact is potentially exacerbated by COVID-19.

MITIGATION

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.

COVID-19 – the Group has temporarily increased its working capital to secure supply of raw materials.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

02 BUSINESS DISRUPTION

RISK

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, pandemics, or unexpected or prolonged periods of severe weather.

POTENTIAL IMPACT

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.

MITIGATION

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.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↑

03 RELIANCE ON KEY CUSTOMERS

RISK

Some of the Group's businesses are dependent on key customers in highly competitive markets.

POTENTIAL IMPACT

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.

MITIGATION

The Group's strategic objective is to broaden its customer base wherever possible.

The Group focuses on delivering exceptional customer service and maintains strong relationships with major customers through direct engagement at all levels.

The Group maintains customer service matrices which are continually tracked and monitored with intervention made where required.

The Group closely manages its pricing, rebates, and commercial terms with its customers to ensure that they remain competitive.

The Group continually seeks to innovate and develop its product lines to ensure its products are to the standard our customers expect.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↑

RECRUITMENT AND RETENTION OF KEY PERSONNEL

04

RISK
The Group is dependent on the continued employment and performance of our senior management team and other key skilled personnel.

POTENTIAL IMPACT
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.

MITIGATION
The Group has a formal succession plan in place facilitating staff retention. The plan has been augmented through recent recruitment.

The Group aims to provide competitive remuneration packages and incentive schemes to retain and motivate key personnel.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

ECONOMIC CONDITIONS

05

RISK
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.

POTENTIAL IMPACT
Lower levels of activity within the construction industry could reduce sales and production volumes, thereby adversely affecting the Group's financial results.

MITIGATION
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.

The Group closely manages its demand forecasts and costs through weekly operational review meetings.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

CHANGE IN GOVERNMENT ACTIONS AND POLICIES RELATING TO PUBLIC AND PRIVATE INVESTMENT

06

RISK
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.

POTENTIAL IMPACT
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.

MITIGATION
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.

The Group closely monitors trends in the industry, invests in market research and is an active member of the Construction Products Association.

The Group closely manages its demand forecasts and costs through weekly operational review meetings.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

POTENTIAL IMPACT AND/OR PROBABILITY

↑ Increased ↔ No change ↓ Reduced

Principal Risks and Uncertainties CONTINUED

ENVIRONMENTAL REGULATIONS AND OTHER OBLIGATIONS RELATING TO ENVIRONMENTAL MATTERS

07

RISK

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.

POTENTIAL IMPACT

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.

MITIGATION

The Group has a formal Health, Safety and Environmental policy, and procedures are in place to monitor compliance with the policy.

The Group performs internal environmental audits and is subjected to external environmental audits on a periodic basis.

The Group performs weekly and monthly reporting on key health, safety and environmental matters which require the attention of the Board.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

PRODUCT FAILURES IN THE MARKETPLACE COULD HARM OUR REPUTATION AND OUR RESULTS OF OPERATION

08

RISK

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.

POTENTIAL IMPACT

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.

MITIGATION

The Group operates comprehensive quality assurance systems and procedures at each site.

Wherever required, the Group obtains certifications over its products to the relevant national and European standards including Kitemarks, BBAs, WRCs and WRACs.

The Group maintains product liability insurance to cover third party claims arising from potential product failures or recalls.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

FAILURE OF INFORMATION SYSTEMS

09

RISK

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.

POTENTIAL IMPACT

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.

MITIGATION

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 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.

There are a range of local, business unit-specific, backup processes which are performed on a daily, weekly and monthly basis.

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.

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.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

ACQUISITIONS DO NOT PERFORM AS EXPECTED

10

RISK

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.

POTENTIAL IMPACT

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.

MITIGATION

Full due diligence is performed before any acquisition is made.

The Group seeks contractual assurances from the sellers to mitigate against any identified issues or risks.

Formal Board level approvals are required in accordance with the Group's delegation of authority structure for any acquisition activity. Where appropriate, the Group will pay deferred consideration linked to the ongoing performance of the acquisition.

The progress of any integration is closely monitored at Board and senior management team level.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

FOREIGN CURRENCY RISK

11

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.

POTENTIAL IMPACT

Foreign currency exchange rate fluctuations could adversely affect the Group's financial results.

MITIGATION

The Group enters into forward foreign currency exchange rate contracts for the purchase and sale of foreign currencies 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 the Group's long-term borrowings are Pounds Sterling denominated.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

CREDIT RISK

12

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.

POTENTIAL IMPACT

The failure of a counterparty to meet their financial obligations could lead to a financial loss for the Group.

MITIGATION

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.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

POTENTIAL IMPACT AND/OR PROBABILITY

↑ Increased ↔ No change ↓ Reduced

Principal Risks and Uncertainties CONTINUED

LIQUIDITY RISK

13

RISK

The risk that the Group will not be able to meets its financial obligations as they fall due.

POTENTIAL IMPACT

Insufficient funds could result in the Group not being able to fund its operations.

MITIGATION

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.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

INTEREST RATE RISK

14

RISK

The risk that interest rates could rise impacting on the Group's borrowings.

POTENTIAL IMPACT

Increases to interest rates could result in significant additional interest rate cash payments being required on any borrowings.

MITIGATION

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. These will be progressively renewed when necessary to ensure appropriate levels of cover for utilisation of Group lending.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

FAILURE TO MANAGE HEALTH AND SAFETY RESULTING IN FATALITY OR SERIOUS INJURY

15

RISK

The risk that management fail to take the correct measures to prevent fatalities or serious injury.

POTENTIAL IMPACT

Lack of management focus and a poor cultural attitude towards health and safety could result in increased incidences and serious or indeed fatal accidents.

MITIGATION

There is a Group Health and Safety Director (with a team throughout the Group) with clear accountability for health and safety ('H&S'). H&S performance is tracked weekly by all levels of management and investigations performed to uncover cause and key learnings as quickly as possible. If employees have failed to adhere to H&S policies, then they may be subject to disciplinary action. Key messages are constantly reinforced throughout the organisation.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

AGREEMENT OF UNFAVOURABLE COMMERCIAL TERMS

16

RISK

The risk that new contracts (or renewed contracts) with suppliers and merchants may contain unfavourable commercial terms.

POTENTIAL IMPACT

Lack of experience in negotiating commercial terms and insufficient oversight of such negotiations may result in unfavourable commercial terms being contracted.

MITIGATION

The Group employs experienced procurement specialists to ensure key supplies are secured on the best possible terms (e.g. polymers). In other areas of the business, larger contracts are only negotiated by more senior managers. Significant contracts are also reviewed by the Group Legal Counsel and Company Secretary.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↓

FRAUD INCLUDING MISREPORTING OF PERIODIC FINANCIAL INFORMATION BY BUSINESS UNITS TO THE GROUP

17

RISK

The risk that actuals reporting and forecasting may be misreported to the Group by the business units.

POTENTIAL IMPACT

Lack of experience or oversight as well as possible excessive pressure placed on managers may result in the misreporting of results (both actual as well as forecasts).

MITIGATION

Results are subject to regular analytical review by senior management at Group level and appropriate enquiries are made if anomalous results are seen. Balance sheet reviews have been introduced throughout the Group to help uphold the integrity of financial reporting. Financial results are also subject to one external review ('interims') as well as a full external audit by Ernst & Young LLP each year. Grant Thornton, recently appointed internal auditors to the Group, also conduct procedures to help prevent material misstatements.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

BREACH OF GROUP POLICIES REGARDING COMPETITION LAW, THE BRIBERY ACT AND SANCTIONS COMPLIANCE

18

RISK

Fines may be levied on the Group and/or individuals if legislation is breached. This legislation includes, but is not limited to, Competition Law, the Bribery Act and Sanctions Compliance.

POTENTIAL IMPACT

Alongside the financial impact of fines, breaches could result in damage to the Group's reputation and potential current and future business.

MITIGATION

Training is provided to all new relevant employees on Competition Law including those changing roles.

Annual declarations of compliance are undertaken in respect of Competition Law and the Bribery Act.

A Sanctions Compliance Policy is in place and all business in higher risk countries requires approval by the Group Legal Counsel and Company Secretary.

An external agency (Refinitiv) is used to check sanctions against companies and/or individuals.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

POTENTIAL IMPACT AND/OR PROBABILITY

↑ Increased ↔ No change ↓ Reduced

Principal Risks and Uncertainties CONTINUED

POLITICAL UNREST IN THE MIDDLE EAST

19

RISK

Political unrest in the Middle East could adversely impact the Group's Middle East operations and/or create a threat to the safety of Group employees.

POTENTIAL IMPACT

A negative impact to the Group's Middle East operations could adversely impact the Group's financial results and its ability to deliver its growth strategy.

If the safety of employees is compromised this could result in serious injuries or fatalities.

MITIGATION

Financial performance, including future expectations, are discussed weekly while cash is remitted to the Group treasury team frequently to minimise the impact to the Group of any changes in the Middle East situation.

The Group retains and encourages an open communication policy with all employees including discussions regarding their welfare and well-being.

With closure of the Group's local manufacturing facility and the region representing a smaller proportion of the Group's business following recent acquisitions, this risk has been reduced.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↓

LABOUR AVAILABILITY AND WAGE INFLATION

20

RISK

Following the UK's successful withdrawal from the EU, the UK Government has been focused on enabling higher-skilled migration into the UK and potentially introducing a more restrictive policy on lower-skilled migration.

POTENTIAL IMPACT

With UK unemployment at historically low levels, any reductions in labour availability may adversely impact operations.

Further, increased demand for a limited labour pool may increase salary inflation and adversely impact the Group's financial results.

MITIGATION

The Group continues to recruit and train staff across all levels of the business, being an 'employer of choice' aiding staff recruitment and retention. All our competitors face the same pressure, meaning the Group isn't placed at competitive disadvantage.

CHANGE IN POTENTIAL IMPACT AND/OR PROBABILITY

↔

POTENTIAL IMPACT AND/OR PROBABILITY

↑ Increased ↔ No change ↓ Reduced

Supporting Our Sustainable Journey

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 allows employees to operate effectively and safely in their roles and deliver excellent customer service. As part of our ongoing commitment to excellence, we continue to offer all front-line service personnel accredited training focusing on employee engagement, business relations and customer satisfaction. We continue to develop and roll out training programmes relevant to our people needs which form part of our long-term development cycle to continually enhance our employees' customer service capabilities.

Polypipe has consistently provided apprenticeships to the communities around our businesses by supporting enthusiastic, highly-motivated individuals who are keen to learn a trade. We have an outstanding record of retaining apprentices in ongoing, long-term, full-time employment. With our continued efforts working more closely with educational establishments and supporting careers advisory fairs, our Science, Technology, Engineering and Mathematics (STEM) based roles are being filled by both genders with female applications continually on the increase. We consider this approach an essential element of finding and retaining diverse employees with the sector-specific skills we need.

During 2019, we increased our apprenticeship training considerably with 53 apprentices employed in our UK businesses, a 36% increase on 2018, while widening our apprenticeship scheme across many disciplines in our businesses. We also fully utilised the new apprentice levy system and placed 27 employees on an apprenticeship programme to upskill them into more senior roles. On this basis and in total for 2019, we have 80 individuals placed on an apprenticeship programme. Our focus still predominantly remains around electrical, mechanical and toolmaking trades and competencies up to higher degree level, as we continue to focus on future skills required to combat the skills gap more evident within our industry. That said, we continue to support a number of apprenticeships in other disciplines and work closely with both the British Plastics Federation and Institute For Apprenticeships to develop new Apprenticeship Standards for other STEM and polymer/chemical-based disciplines.

Underlining our commitment to advanced manufacturing engineering, we continue to place many of our apprentices at the University of Sheffield Advanced Manufacturing Research Centre, a state-of-the-art centre that offers the very best in practical and academic training, alongside creating Knowledge Transfer Programmes with the Research Centre and their exemplary group of students and professionals. To further our commitment to developing young and enthusiastic individuals for the long-term succession plans of our businesses, we continue to recruit exceptional young people onto our Polypipe Plus Graduate Scheme, which received hundreds of applicants and achieved several successful placements throughout our businesses. We aim to continue to recruit graduates each year into all of our businesses to support and address our future senior leadership needs.

The Group involves employees through formal and informal systems of communication and consultation including suggestion schemes and works council forums with these forums frequently visited by a nominated Non-Executive Director and the Group Human Resources Director to enable a direct communication link to the Executive Directors. 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.

Supporting Our Sustainable Journey CONTINUED

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.

The Group's split between male and female employees at 31 December 2019 is shown below:

	Female	Male	Total
Directors and Officers	4	6	10
Senior Managers	39	158	197
Employees	678	2,254	2,932
Total	721	2,418	3,139

While we are aware of the historical factors that have contributed to this gender split the Company continues to actively address this split. Our initiatives predominantly sit within our recruitment practices, learning and development opportunities and apprenticeship and graduate initiatives. Our belief is that a youngster's future interests, both male and female, is partly driven by parental input, educational provisions and their first experiences of the world of work. We believe it is our corporate responsibility to address any unconscious gender bias, when promoting future job opportunities. We are actively working with both schools and parents to ensure Polypipe is seen as a potential employer of choice for both males and females alike.

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

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 recognises the importance of continually improving the safety culture. As such, it has initiated the implementation of a business-wide, behavioural-based safety training program, focusing on individual and collective decision making and its actual and potential consequences. To further support and develop our safety culture, the business has introduced a safety ambassador scheme for existing employees to continually monitor, advise and improve safety performance.

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 and suggest solutions, and allows trends to be analysed. In 2019, the number of such reports reached record levels at 5,658 reports resulting in improvement projects being delivered across the Group, which in turn, enhanced employee working environment safety.

Health and safety performance and details of all significant incidents are reviewed during the weekly executive meetings attended by the Executive Directors and certain senior managers.

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

	2017	2018	2019
Frequency per 100,000 hours worked			
– All accidents (excluding RIDDORS*)	5.40	5.68	5.54
– RIDDORS*	0.36	0.36	0.43
	5.76	6.04	5.97

* 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 24 to 27 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 and analyses electricity and natural gas usage information from each business unit on a monthly basis.

Greenhouse gas (GHG) emissions for the Group during 2019, in tonnes of carbon dioxide equivalent (tCO_2e), were as follows:

	tCO_2e	%
Source		
– fuel combustion (stationary)	3,261	8
– fuel combustion (mobile)	13,976	32
– fugitive emissions (F-gas)	940	2
– purchased electricity	24,993	58
	43,170	100

Our GHG emissions annual comparison and intensity were as follows:

	2018	2019	Change
tCO_2e			
Total emissions	47,724	**43,170**	(10)%
Emissions intensity*	0.34†	**0.31**	(9)%

† Restated to reflect the inclusion of all the Group's production volumes.

* Expressed in tCO_2e per tonne of output.

Our GHG emissions were calculated using the methodology set out in the UK Government's Environmental Reporting Guidelines 2019. Activity data has been converted into GHG emissions using the UK Government's most recent GHG Conversion Factors for Company Reporting (2019). This is in line with standard industry practice and allows fair comparison with other UK businesses.

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, quiz nights, cake sales and summer gala days. Our employees raised over £29,000 (2018: £45,000) for worthwhile causes during the year from these activities.

Charitable donations by Group companies during the year were £13,000 (2018: £33,000).

Anti-bribery and corruption policy

The Group seeks to prohibit all forms of bribery and corruption within its businesses 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

17 March 2020

Governance

Read about sustainability on pages 24 and 47

Read about strategy on pages 18 to 21

Strategy in action:
The Qatar National Museum

CLIENT:
THE QATAR NATIONAL MUSEUM
CONSULTANT:
ASTAD
PRODUCT:
AXUS AND EST VENTILATION

OVERVIEW

The new museum not only stands as an architectural wonder but also provides visitors with a chance to explore Qatari culture.

THE PROJECT

After almost a decade in the making, the National Museum of Qatar was opened in March 2019. The $434m project, which envelops 430,000m² of space, is an extension of the existing museum and has been built around the original palace of Sheikh Abdullah bin Jassim Al-Thani, which was also restored as part of the project.

Providing design work for the museum was Consultancy, ASTAD. Main Contractor, Hyundai Contracting, won the work in 2011 and sub-contracted mechanical, electrical and plumbing works to BK Gulf, who were responsible for the installation of all Nuaire ventilation equipment on the project.

The museum, which was designed by the Pritzker Prize-winning architect, Jean Nouvel, has architecture inspired by the complex form of the desert rose found in Qatar's desert regions. Attractions include 11 gallery spaces, a 220-seat auditorium, two restaurants and a café to name a few; as well as digital archives, a research centre and a laboratory for researchers and students. The museum welcomed over 132,000 visitors in its first month open, firmly establishing its keystone role in the country's cultural infrastructure.

The new museum not only stands as an architectural wonder but also provides visitors with a chance to explore Qatari culture. Chairperson of Qatar Museums, Her Excellency Sheikha al Mayassa bint Hamad bin Khalifa Al Thani, has commented:

'The opening of the National Museum of Qatar will firmly position our country on the global map as a progressive, knowledge-based economy with a long and rich history and give Qatar a voice in the world.'

The National Museum of Qatar has been in the making since 2010, with Nuaire being involved with the project as early as 2014 – aiding in ventilation unit selections for the prestigious building.

SUMMARY

As an approved supplier to the Qatar Foundation, Nuaire has supplied ventilation to many Qatari projects including the prestigious FIFA World Cup Stadiums, Sidra Research & Medical Centre and Qatar National Library to name a few. Our export project work will continue in the Middle East and internationally.

UNITS SUPPLIED INCLUDE:

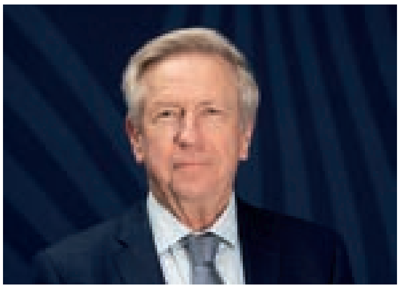
- AXUS Smoke (300°/2hrs) – smoke extract, smoke pressurisation systems
- AXUS Bifurcated – kitchen extract
- AXUS Ambient – general ventilation
- EST Twin Fans – toilet extract

The National Museum of Qatar has been in the making since 2010, with Nuaire being involved with the project as early as 2014 – aiding in ventilation unit selections for the prestigious building.

'The opening of the National Museum of Qatar will firmly position our country on the global map as a progressive, knowledge-based economy with a long and rich history and give Qatar a voice in the world.'

HER EXCELLENCY SHEIKHA AL MAYASSA BINT HAMAD BIN KHALIFA AL THANI
CHAIRPERSON OF QATAR MUSEUMS

Directors and Officers



RON MARSH N R

Independent Non-Executive Chairman

CURRENT ROLE

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.

EXPERIENCE

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

CURRENT ROLE

Martin Payne is a member of our Board of Directors and is 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. He is also a member of the Board of the Construction Products Association.

EXPERIENCE

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

CURRENT ROLE

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.

EXPERIENCE

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

CURRENT ROLE

Glen Sabin is a member of our Board of Directors and our Chief Operating Officer, having been appointed to the Board on 2 October 2017.

EXPERIENCE

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. Mr Sabin joined the Group in November 2004 as Managing Director of our UK Civils business before becoming Managing Director of our Building Products business in 2013, with additional overall responsibility for Civils and Building Services. He was Managing Director of the Plumbing and Drainage Division from 2016 to October 2017.

PAUL DEAN A N R

Senior Independent Director

CURRENT ROLE

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.

EXPERIENCE

Mr Dean is also a Non-Executive Director and Audit Chair of RM plc, Focusrite plc and Wincanton 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.

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

MARK HAMMOND N A R

Non-Executive Director

CURRENT ROLE

Mark Hammond was appointed to our Board of Directors on 16 April 2014 as a Non-Executive Director and is our nominated workforce engagement NED.

EXPERIENCE

Mr Hammond's executive career spanned over 25 years in banking and private equity. Most recently, he was Deputy Managing Partner of Caird Capital LLP at the time it led the IPO of Polypipe in 2014. He has been a member of the Institute of Chartered Accountants of Scotland in 1991 and was previously a director of David Lloyd Leisure Limited and Tuffnell Parcels Express. Mr Hammond is currently a director of Chaffin Holdings Lmited and serves as a school governor of Beechwood Park School, Markyate, Hertfordshire.

LOUISE HARDY N A R

Non-Executive Director

CURRENT ROLE

Louise Hardy was appointed to our Board of Directors on 25 June 2018 as a Non-Executive Director and is Chair of the Remuneration Committee.

EXPERIENCE

Ms Hardy has over 25 years' experience in the construction sector, including working for Laing O'Rourke as Infrastructure Director within CLM, the consortium delivery partner for the Olympic Delivery Authority for the London 2012 Olympics. Ms Hardy has also worked at Bechtel Limited, AECOM and London Underground Limited. Ms Hardy is a Non-Executive Director of Crest Nicholson Plc, Sirius Minerals plc and Severfield plc as well as Ebbsfleet Development Corporation, a non-departmental public body. Ms Hardy has a Bachelor of Science from the University of Warwick and is a fellow of the Institution of Civil Engineers.

LISA SCENNA N A R

Non-Executive Director

CURRENT ROLE

Lisa Scenna was appointed to our Board of Directors on 24 September 2019 as a Non-Executive Director.

EXPERIENCE

Mrs Scenna has over 20 years' business experience working at executive director level in large multinational corporations both private and publicly listed with a strong background in strategic and financial business change, with her most recent executive role being with the Morgan Sindall Group as Managing Director of MS Investments. Prior to this, she held executive roles with Laing O'Rourke, having led their infrastructure investing activities globally, and Stockland Group and Westfield Group in Australia. She is a non-executive director of Cromwell Property Group, an Australian listed company. Mrs Scenna has a Bachelor of Commerce from the University of NSW, Sydney and is a member of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia.

LOUISE BROOKE-SMITH N A R

Non-Executive Director

CURRENT ROLE

Louise Brooke-Smith was appointed to our Board of Directors on 24 September 2019 as a Non-Executive Director.

EXPERIENCE

Dr Brooke-Smith has extensive professional expertise and knowledge of the land, property, construction and infrastructure industry in the UK and overseas, being an experienced property and planning advisor, past Global President of the Royal Institution of Chartered Surveyors and member of the Royal Town Planning Institute. She was formerly a partner at Arcadis LLP and is currently Global Development and Strategic Planning Advisor for Consilio Strategic Consultancy Limited and holds a number of non-executive positions. She is currently a Governing Board member of Birmingham City University, Chair of the Board of All We Can (International Relief & Development Agency), a regional Board member of the CBI, a Board Trustee of The Land Trust and a Trustee of Birmingham Museum & Art Gallery. Dr Brooke-Smith holds a Bachelor of Science from the Sheffield Hallam University and honorary doctorates awarded by Sheffield Hallam, Wolverhampton and Birmingham City Universities. She is a Freeman of the City of London.

EMMA VERSLUYS

Group Legal Counsel and Company Secretary

CURRENT ROLE

Emma Versluys is our Group Legal Counsel and Company Secretary, having been appointed in June 2017, and is Secretary to the Board and its three Committees.

EXPERIENCE

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 Chartered Governance Institute and is also a solicitor.

Introduction from the Chairman

'The Board is conscious of the increasing importance that corporate culture plays in delivering long-term business success and the role it should play in monitoring and overseeing culture.'

Ron Marsh

Independent Non-Executive Chairman

Dear shareholder,

I am pleased to present the Company's Corporate Governance Report for the year ended 31 December 2019, on behalf of the Board.

This year has seen further changes to the Board, with Lisa Scenna and Louise Brooke-Smith being appointed as Non-Executive Directors on 24 September 2019 and Moni Mannings retiring as a Non-Executive Director on 25 November 2019. These changes have brought further diversity to the Board and I believe that we have a strong and multi-skilled Board in place with the necessary motivation and an appropriate balance of experience to continue to lead the Group during the next phase of its strategic development.

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 (July 2018) (the UK Code) have been applied and how the Board and its Committees have fulfilled their responsibilities during the year to ensure that high levels of governance are in place 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 and other stakeholders. 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) scheduled to be held in Doncaster on 21 May 2020.

Board evaluation

In accordance with the requirements of the UK Code, an external review of the Board, its Committees and individual Directors was carried out in 2019 by Genius Boards, and the results of the evaluation were discussed by the Board at its meeting in February 2020. The evaluation concluded that the Board continues to function effectively. Suggestions for minor improvements were made, and the outcome of the evaluation process is discussed in more detail on page 60 of this report.

Culture

The Board is conscious of the increasing importance that corporate culture plays in delivering long-term business and economic success and its role in shaping, monitoring and overseeing that culture. There was regular interaction during the year between the Board and members of the senior management teams across the Group. Mark Hammond has been appointed as our designated NED for workforce engagement, which also gives the Board an insight into how our employees engage with the Group's values and culture. Careful consideration was also given during the due diligence process to the potential cultural impact of the acquisition made during the year.

Board diversity

The Board is committed to and supports diversity in the widest sense, acknowledging the advantages that come from having diverse viewpoints in the decision-making process at Board and senior management level and across the wider workforce. The Board currently has 33% women on its Board and is committed to working towards achievement of 33% women in senior management positions during 2020 as set out in the Hampton-Alexander Review.

Ron Marsh

Chairman

17 March 2020

Corporate Governance Statement

Chairman

KEY RESPONSIBILITIES

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.

Chief Executive Officer

KEY RESPONSIBILITIES

The Chief Executive Officer (CEO) 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.

Chief Financial Officer

KEY RESPONSIBILITIES

The Chief Financial Officer (CFO) supports the CEO in carrying out his responsibilities.

The CFO is responsible for managing the Group's finances through financial planning, management of financial risks and ensuring the accurate reporting of finances.

Chief Operating Officer

KEY RESPONSIBILITIES

The Chief Operating Officer (COO) supports the CEO in carrying out his responsibilities.

The COO ensures the effective operational controls and reporting procedures for the business to be able to grow and achieve the strategic objectives.

Audit Committee

KEY RESPONSIBILITIES

- Overseeing financial reporting
- Internal control systems
- Risk management systems
- Internal and external audit functions

Nomination Committee

KEY RESPONSIBILITIES

- Board succession planning
- Determining the skills and characteristics needed in Board candidates to ensure a diverse skillset

Remuneration Committee

KEY RESPONSIBILITIES

- Setting remuneration policy for Executive Directors
- Operating the Company's share incentive arrangements
- Senior management remuneration

Corporate Governance Statement CONTINUED

How the Board works

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 July 2018 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 Financial Conduct Authority, the Board confirms that throughout the year ended 31 December 2019 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.

THE BOARD AND ITS COMMITTEES

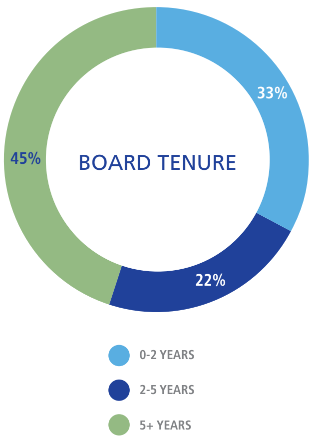
The Board is responsible for the leadership and direction of the Group and is ultimately responsible to the Company's shareholders for the Group's long-term success. The Board takes the lead in areas such as strategy, financial policy and making sure we maintain a sound system of internal control. By 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.

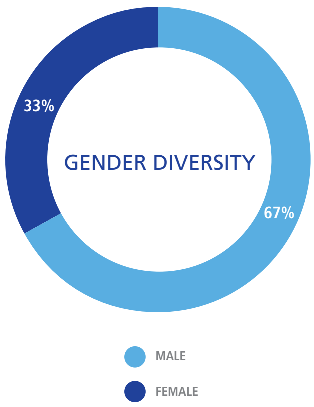
The Board has established a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its principal committees: the Audit, Nomination and Remuneration Committees. These are clearly defined within the terms of reference of the respective Committees. The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

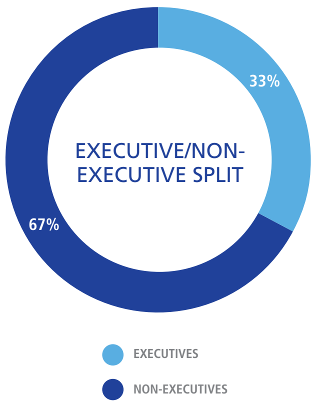
- strategy and overall management and leadership of the Group;
- financial items – including the Group's annual budget, dividend policy, annual and half-yearly accounts, accounting policies, and monetary limits;
- the risk management system and internal controls;
- contracts with third parties not in 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 major 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.

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, three Executive Directors and five Non-Executive Directors. Biographical details of the individual Directors can be found on pages 52 and 53. 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 to discussions.

In accordance with UK Code Provision 10, 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 (or where applicable, from appointment).

In accordance with UK Code Provision 18, all of the Directors are subject to annual re-election. Lisa Scenna and Louise Brooke-Smith will offer themselves for election at the 2020 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.

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. Lisa Scenna and Louise Brooke-Smith joined the Board during the year and received a comprehensive induction, involving meetings with all members of the Board on an individual basis, visits to all UK sites, product briefings and training, and individual meetings with the Health and Safety Director, the Company Secretary, members of the senior management team and the Company's external auditor.

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. At 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. The Directors also received refresher training during the year on directors' responsibilities from the Company's legal advisers.

Corporate Governance Statement CONTINUED

Board induction process

STAGE 01

UNDERSTANDING THE BUSINESS
This will include an overview of the Group structure, strategy, Board procedures

STAGE 02

MEETING THE TEAM
Meeting the senior management teams. Also meeting external brokers and advisers

STAGE 03

VISITING SITES
Visiting sites to understand the operations of the business

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

The Company maintains directors' and officers liability insurance to cover legal proceedings against Directors and officers acting in that capacity. Details of the Directors' indemnity arrangements can be found on page 72 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 Provision 25 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 68 to 71.

The key risks which the Board has focused on this year together with their potential impact and mitigating actions are set out on pages 38 to 46.

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 the 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 29 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 68 to 71.

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 unit senior executives;
- comprehensive review and, where appropriate, challenge from appropriate Group senior management 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.

Fair, balanced and understandable

In order to ensure our financial and business reporting is fair, balanced and understandable, the Company follows the process outlined below:

STAGE 01

FAIR

Is the report fair?

Is the whole story presented?

Are the key messages in the narrative reflected in the financial reporting?

STAGE 02

BALANCED

Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report?

Are the statutory and adjusted measures explained clearly with appropriate prominence?

STAGE 03

UNDERSTANDABLE

Is there a clear and understandable framework to the report?

Are the important messages highlighted appropriately throughout the document?

CONCLUSION

Following its review, the Committee was of the opinion that the 2019 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview.

Board meetings

The Board met regularly during the year, holding ten 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.

As the below 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 and to provide training and updates.

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 regularly visits the Group's business unit locations on a rolling basis 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 Birmingham (Surestop), Amsterdam (Permavoid), Doncaster (Building Products), Loughborough (Polypipe Civils), Ripley (Manthorpe), and Italy (Polypipe Italia). During these visits the Board members received management presentations and/or toured the factories and distribution centres.

In November 2019, 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 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 and allows for regular employee engagement by the Board.

During the year, the Chairman held two meetings 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 later in this report.

Current Directors	Board Attendance	Audit Committee Attendance	Nomination Committee Attendance	Remuneration Committee Attendance
Ron Marsh	11 of 11	–	4 of 4	5 of 5
Martin Payne	11 of 11	–	4 of 4	–
Paul James	11 of 11	–	–	–
Glen Sabin	11 of 11	–	–	–
Moni Mannings*	10 of 10	3 of 3	3 of 3	5 of 5
Paul Dean	11 of 11	3 of 3	4 of 4	5 of 5
Mark Hammond	11 of 11	3 of 3	4 of 4	5 of 5
Louise Hardy	11 of 11	3 of 3	4 of 4	5 of 5
Lisa Scenna†	5 of 5	1 of 1	1 of 1	2 of 2
Louise Brooke-Smith†	5 of 5	1 of 1	1 of 1	2 of 2

* Retired from the Board on 25 November 2019.

† Joined the Board on 24 September 2019.

Corporate Governance Statement CONTINUED

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 reflect legislative changes, best practice and improve the individual and collective Committees' efficiency and effectiveness. The Terms of Reference are available on the Company's website at www.polypipe.com.

The Committees carry out their required duties and make recommendations to the Board for approval. 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

In accordance with UK Code Provision 21, the Board and its Committees undertook an externally facilitated evaluation in 2019, which was carried out by Genius Boards and facilitated by the Chairman and the Company Secretary. The evaluation consisted of attending Board meetings, one-to-one interviews with all Board members and the Company Secretary, with each being given an environment structured to provide them with an opportunity to express their views about:

- Board structure, composition and functionality;
- Board meetings and contents;
- Board administration and governance;
- interaction with management and holding management to account;
- committee structure, functionality and meetings;
- individual director effectiveness and contribution to the Board and delivery of the Company's strategy;
- culture, behaviour, communications, challenge, decision making and leadership; and
- overall Board effectiveness.

The results of the performance evaluation were presented by Genius Boards at the Board meeting in February 2020. The results of the evaluation indicated that the Board is focused and engaging, Directors are committed, Non-Executive Directors challenge effectively, Executive Directors are transparent and together operate within a collaborative working environment where succession planning is addressed with good timing and progress. Notwithstanding the above, the Board recognised the need to continue to improve culture and effectiveness, engage collectively and develop their contributions.

The following actions were agreed to promote further effectiveness and will be progressed and assessed over the coming year:

- Consideration of separation of the role of Audit Committee Chair and Senior Independent Director;
- Review of Committee membership in light of all Non-Executive Directors being members of all three Committees;
- Increased focus on the people and talent agenda and the role of HR;
- Focus on further improving communication between Board members outside of formal Board meetings;
- Consideration of the timing of Board and Committee meetings, in particular when reviewing and approving interim and full year results;
- Board communications, internally and with stakeholders.

In addition, supported by the evaluation observations and direct feedback, the Chairman discussed with each Director their performance and their training and development 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 their role and enhances the collective effectiveness of the Board. 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.

BOARD CULTURE

The Board is conscious of and focused on the increasing importance which corporate culture plays in delivering long-term business and economic success and its role in shaping, monitoring and overseeing culture. The Board encourages an open and transparent culture and encourages the senior management teams across the Group to foster and maintain an open culture which is responsive to stakeholder expectations and the external environment. The Board will continue to work to embed this successfully into its operations in 2020.

The Group's core values of trust, support, experience and innovation underpin our culture along with our purpose, vision and mission. We are committed to carrying out our business responsibly and ensure we promote sustainable operations and minimise adverse environmental and social impacts. This is embedded in management and employee reward schemes, where achieving health and safety targets remains one of the key performance parameters.

Board evaluation process

STAGE 01

Directors consider areas of performance, both individually and as a Board/Committee and discuss during one-to-one interviews with the external evaluator who attended Board meetings

STAGE 02

The results of the interviews and the external evaluator's performance assessment of the Directors, the Board and Committees are discussed with the Chairman and Company Secretary

STAGE 03

The evaluation outcomes are presented to the Board by the external evaluator, identifying key observations and suggested recommendations

STAGE 04

The actions for improvement are discussed, agreed and mapped out, with clear targets for delivery and assessment

ANNUAL GENERAL MEETING

The Company's Annual General Meeting (AGM) is scheduled to be held on 21 May 2020 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 their role and has sufficient time available to fulfil his or her duties, to justify their re-election. Lisa Scenna and Louise Brooke-Smith both offer themselves for election at the 2020 AGM and for re-election annually thereafter.

Approved by the Board and signed on its behalf.

Ron Marsh
Chairman

17 March 2020

Corporate Governance Statement CONTINUED

Stakeholder engagement

Engagement with our shareholders and wider stakeholder groups plays a vital role across the Group, including at Board level. One of the primary areas of focus for the Board at any time is the impact its decisions or actions may have on key stakeholder groups represented within the Board's duty under s172 of the Companies Act 2006. The Board is mindful of the levels of engagement with key stakeholder groups and how their respective views may be incorporated into relevant decision-making. Board discussions therefore seek to appropriately consider the impact and views of key stakeholder groups whilst always ensuring the need to promote the success of the Company for the benefit of its members as a whole.

In doing so s172 requires the Directors to have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Group's employees;
- the need to foster the Group's business relationships with suppliers, customers and others;
- the impact of the Group's operations on the community and the environment;
- the desirability of the Group maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

In the course of its activities, the Board is always mindful of the effective functioning of the Board in promoting the long-term sustainable success of the Company and generating value for shareholders and contributing to wider society. An overview of the external Board evaluation process can be found on page 60.

Employee engagement – designated NED

Mark Hammond was appointed as the designated Non-Executive Director for engagement with the workforce during 2019, and a report on the activities undertaken during the year is set out below.

Mr Hammond attended the Works Council meetings of the larger business units during the second half of the year to meet members of the workforce and to explain his role as the designated NED and the importance of employee views and concerns to the Board, as well as those of its other stakeholders. The purpose of Mr Hammond's attendance at those meetings was to understand any key areas of concern for employees at those sites and identify any recurring themes which were appropriate to be brought to the Board's attention. Engagement during the meetings was good, with the majority of the issues raised being human resources related and therefore appropriately dealt with through the local human resources function.

In addition to the employee engagement role carried out by Mr Hammond, the Company also carries out an annual employee engagement survey, regular health and safety forums, recognition reward schemes, team briefings, continuous improvement workshops, digital media communications and newsletters. The Board also meets with members of the local senior management team prior to each Board meeting at the Group's various sites, and also meets with members of the wider workforce during its site tour after the Board meeting.

Board activities in 2019

The following table summarises the key matters considered by the Board during the year and notes the consideration given to the various stakeholder groups during its deliberations.

Matters considered by the Board in the year	Stakeholder and s172 Companies Act
Business Review, Performance and Strategy	
• Regular updates from the Chief Executive Officer and Chief Operating Officer, as well as periodic business updates from the divisional Managing Directors • Approval of the Group's strategy at the annual strategy day and regular review of progress against that strategy during the year • Regular review of potential acquisition opportunities • Approval of the appointment of Lisa Scenna and Louise Brooke-Smith as Non-Executive Directors • Approval of the acquisition of the Alderburgh group of companies in October 2019	The consideration and approval of the Group's strategy is an example in this area where the Board has had regard to its duty under s172, including ensuring regard is given to the interests of key stakeholder groups and the likely consequences of any decision in the long term. • Shareholders – responsibility for shareholder relations rests with the Chief Financial Officer, who, in conjunction with the corporate broker, ensures that there is effective communication with shareholders on matters such as strategy and that an active dialogue is maintained through a planned programme of investor relations activities. The Chairman, the Senior Independent Director and the other Directors are available to engage in dialogue with major shareholders as appropriate. Shareholders have the opportunity to meet members of the Board and the senior management team at the Annual General Meeting and to ask any questions they may have. The Group's strategy was a key topic of discussion during meetings held with shareholders during the year, including in particular shareholders' views on bolt on acquisitions and potential overseas opportunities, in particular in the context of Brexit. This feedback was considered and noted by the Board in the context of its ongoing M&A activity. Discussions also took place regarding the Group's preparations for the country's anticipated departure from the EU and the preparatory work being undertaken by each of the business units in this regard • Employees – ensuring the right level of support and engagement with employees at all our sites and offering reward and benefits that are market competitive • Customers – regular contact takes place with existing and potential customers and distributors including by means of individual developer conferences, technical seminars and individual merchant events in order to strive to meet their needs and understand how decisions made in delivering the Company's strategy could impact them in the short and longer term • Suppliers – regular review meetings are held between relevant employees in each business unit and key suppliers on a monthly or three-monthly basis in order to build and maintain a robust working relationship with our supply base and understand the key features of the Group's operations that impact them • Community – ensuring that each operation engages with and supports its local community on an ongoing basis. Business units will seek to recruit locally, retain a skilled local workforce, build relationships with local community organisations and to support charitable initiatives, and ensure that any change in activity or operations which may have an impact on the local community is fully considered and assessed • Industry specific engagement – employees from across the Group attend key events hosted by the Construction Products Association (CPA) and British Plastics Federation (BPF), which are also attended by other manufacturers as well as merchants, as well as sector specific events, all of which gives the Group the opportunity to engage with and obtain up-to-date information, views, priorities and concerns within the industry and ensure that this knowledge supports the debates held by the Board in relation to matters such as capital expenditure projects, acquisitions, new product development initiatives, technical initiatives, market opportunities and new business proposals

Corporate Governance Statement CONTINUED

Stakeholder engagement

Matters considered by the Board in the year	Stakeholder and s172 Companies Act
Financial and investor relations	
• Regular updates from the Chief Financial Officer on financial performance, share price performance, investor relations and movements in the share register • Approval of the Group's budget and business plan • Approval of the half year and full year reports, including going concern and viability statements • Approval of the trading updates during the year • Approval of Group-wide policies and terms of reference	• Shareholders – following the announcement of the Group's interim and final results, formal presentations are made to institutional shareholders and analysts by the Chief Executive Officer and Chief Financial Officer covering a range of key issues affecting the Group's performance. Ad hoc meetings were also held throughout the year to ensure continued engagement with current and potential investors. Meetings held during the year included discussions on margins, growth, cash flow delivery and understanding investors' current views on leverage. Shareholders have the opportunity to ask questions about the financial results at the Company's AGM • Board and employees – Board members develop an understanding of the views of major shareholders through analysts' and brokers' briefings and any direct contact initiated by shareholders. The cascade and dissemination of such information is also shared with the wider workforce through, inter alia, team briefings, digital media communications and newsletters and an annual finance forum • Other stakeholders – financial information is also shared with customers, suppliers and other stakeholders by means of the Annual Report and Accounts and the Group's corporate website
Legal and Governance	
• Regular updates from the Group Legal Counsel and Company Secretary on legal and regulatory matters • Regular updates and training from the Company's brokers and advisers • Annual update from Group HR Director	• All stakeholders – regular updates to the Board on legal, regulatory, financial and HR matters ensure the Board is aware of current requirements and market practice and can therefore ensure its activities and decisions take account of these requirements and the potential impact on all its stakeholders. Updates from the Company's brokers and advisers ensure that the Board is kept abreast of key changes that may impact its decisions and ensure that the Board is mindful of it duty to all stakeholders when making key decisions. The Company has representatives on national and international trade associations, including the BPF, the BPF Pipes Group, TEPPFA (the European Plastic Pipe and Fittings Association) and the CPA, and is able to engage and influence in relation to standards, custom and practice, and other market related matters and ensure that where these may impact decisions made by the Board, the relevant information is made available

Matters considered by the Board in the year	Stakeholder and s172 Companies Act
Internal Controls and Risk Management	
• Regular updates from the Audit Committee Chair • Regular updates on Health and Safety matters as part of the Chief Executive Officer's report and annual presentation by the Group HSE director • Approval of Group-wide policies and terms of reference	The Group has a robust risk management framework and a strictly enforced system of delegated authorities to ensure that the interests of all stakeholders are managed and protected to the greatest extent possible • Employees – a weekly HSE report is communicated to senior and mid-level management. Each site holds a six-weekly HSE meeting, with workforce representatives in attendance, to feed back to the workforce in addition to challenging the management teams and raise issues • Other stakeholders – the Company's representation on working groups within trade associations such as the BPF and TEPPFA means it is well positioned to be a voice for the industry when new health and safety related legislation and external standards are under development. These working groups are a platform to share best practice, compare HSE performance and develop common approaches to identified risks within the industry

Nomination Committee

'The Committee supports diversity, acknowledging the advantages that come from having diverse viewpoints and the influence this can have in decision making.'

Ron Marsh

Chair of the Nomination Committee

Dear shareholder,

I am delighted to present the Report of the Nomination Committee (the Committee) for 2019. During the year, the Committee has overseen further 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.

Committee membership and meetings

The Committee comprises Ron Marsh (the Chairman), all of the Non-Executive Directors, being Paul Dean, Mark Hammond, Louise Hardy, Lisa Scenna and Louise Brooke-Smith, and Martin Payne (the Chief Executive Officer). Moni Mannings was also a member of the Committee until 25 November 2019, when she retired from the Board. Accordingly, there are seven members. The Committee is chaired by the Board Chairman except when considering his own re-election.

In accordance with UK Code Provision 17, the majority of the members were independent. During the year, Lisa Scenna and Louise Brooke-Smith were appointed as Non-Executive Directors and as members of the Committee.

The members of the Committee and details of their attendance at Committee meetings are set out on page 59. Biographies of each member are shown on pages 52 and 53. 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 two scheduled formal meetings during the year under review and an additional two meetings to discuss and progress the appointment of two new Non-Executive Directors. 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 explain the Committee's role and responsibilities and were reviewed in December 2019 to ensure they remain appropriate. The Terms of Reference can be found on the Company's website at www.polypipe.com.

The Company Secretary acts as Secretary to the Committee.

2019 KEY ACHIEVEMENTS

- Appointment of Lisa Scenna and Louise Brooke-Smith as Non-Executive Directors
- Achievement of 33% women on the Board as set out in the Hampton-Alexander Review
- Review of Board and senior management succession plans following the implementation of a new divisional structure in 2019

AREAS OF FOCUS IN 2020

- Focusing on the composition of the Board in light of the requirements of the UK Corporate Governance Code, including in particular, succession planning for the Non-Executive Directors
- Continuing to consider diversity in all its forms, in particular within the senior management team, bearing in mind the recommendations from the Hampton-Alexander Review on FTSE Women Leaders and the Parker Review on Diversity of Boards
- Continuing to 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 continues to develop

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;
- identify and nominate candidates to fill Board vacancies as and when they arise and recommend them for the approval of the Board;
- review the time commitment required from Non-Executive Directors;
- review the results of the Board performance evaluation process that relate to the composition of the Board; and
- 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 page 60. At its meeting in March 2020, the Committee considered the contents of the review and concluded that the evaluation had found the Committee to be operating effectively and that it had successfully completed a recruitment exercise during the year to ensure a good mix of skills and experience in the current composition of the Board.

Main activities during the year

During the year under review, the Committee carried out a process to recruit an additional Non-Executive Director, and further information on this process 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 18. The Chairman confirms that the Committee has considered the formal performance evaluation and the contribution and commitment of all Directors. The Chairman has confirmed to the Board that their performance and commitment is such that the Company should support their election or re-election, as appropriate.

No Director was able to vote in respect of their own election/re-election when consideration was given to Director election/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 78 to 99.

Succession planning

A key activity of the Committee is to keep under review the Group's succession plans for members of the Board and senior managers across the Group 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 and matters of Director tenure are viewed on a case-by-case basis.

Non-Executive Director appointment

In light of Mrs Mannings' intended retirement from the Board in 2019, the Committee appointed Warren Partners to identify potential candidates for the Non-Executive Director role. Warren Partners undertook an extensive search process using the brief provided by the Committee, and reviewed CVs and interviewed various candidates. On the authority of the Committee, a sub-committee comprising Mr Hammond, the Chairman and the Company Secretary was appointed to review the longlist of candidates, and the merits of all candidates on the longlist were discussed in detail by Warren Partners and the sub-committee, including feedback from the interviews carried out by Warren Partners. Following this discussion, a shortlist of candidates was prepared by Warren Partners and these five candidates were interviewed by the sub-committee. Following this process, the sub-committee recommended two candidates be interviewed by the Executive Directors and the other Committee members. As a result, all Committee members agreed that both Lisa Scenna and Louise Brooke-Smith had the necessary attributes and skills that were being sought for the Non-Executive Director role and recommended the appointment of both candidates 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 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, three of the nine Directors are female, as well as the Company Secretary. The Company therefore has 33% women on its Board and is committed to working towards 33% women in leadership positions during 2020 as set out in the Hampton-Alexander Review.

Details of diversity within our workforce, including at Board and senior management level, can be found in the Supporting our Sustainable Journey section on pages 47 to 49.

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.

By order of the Board.

Ron Marsh

Chair of the Nomination Committee

17 March 2020

Audit Committee

Paul Dean

Chair of the Audit Committee

2019 KEY ACHIEVEMENTS

- Oversight of full year and interim audits
- Review of emerging risks in line with new Code requirements
- Ongoing review of progress of improvements following cyber security review
- Oversight of the first year of Grant Thornton UK LLP as the Group's provider of internal audit services
- Oversight of management's assessment of accounting for businesses acquired in 2019 and 2018, including their evaluation and calculation of any contingent consideration

AREAS OF FOCUS IN 2020

- Fully embedding the internal audit function across the Group
- Commencing the process for the tender for the external audit before 2022

Dear shareholder,

I am pleased to present the Report of the Audit Committee (the Committee) for 2019.

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 page 60), 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 will be available at the AGM to answer any questions about the work of the Committee.

Committee membership and meetings

The Committee comprises five Non-Executive Directors, being Paul Dean, Mark Hammond, Louise Hardy, Lisa Scenna and Louise Brooke-Smith. Moni Mannings was also a member of the Committee until 25 November 2019, when she retired from the Board. All Committee members are considered to be independent.

In accordance with the requirements of Provision 24 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 include 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, the external auditor, Ernst & Young LLP and Grant Thornton UK LLP who provide internal audit services to the Group. 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.

Role of the Committee

The full responsibilities of the Committee are set out in its Terms of Reference which are available on the Company's website at www.polypipe.com. The Terms of Reference have been reviewed during the year to ensure they remain appropriate.

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.

Governance

In accordance with best practice, the effectiveness of the Committee was evaluated this year as part of the external evaluation carried out by Genius Boards. At its meeting in March 2020, the Committee considered the feedback from the external 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.

Main activities 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.

Details of the areas focused on by the Committee are set out below.

Financial reporting

During the year, Committee meetings were held prior to the Board meetings to approve the Group's interim and final results 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 has considered and concluded that in its opinion, the disclosures, and the processes and controls underlying their production, were appropriate and consistent and therefore enabled the Committee to report to the Board that it had determined that the Annual Report and Accounts is fair, balanced and understandable.

Significant financial reporting risk, judgement and estimates

The significant risk(s) reviewed by the Committee in respect of the year under review were 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 half year and year end.
- Acquisition accounting – The Committee considered a detailed report by management, prepared with the assistance of PwC LLP, which identified which intangible assets met the recognition criteria as set out in IAS 38, the fair values attributed to those intangible assets, and the useful lives of individual intangible assets, in respect of the Alderburgh group of companies which were acquired in 2019.

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.
- Provisions and contingent liabilities – The Committee considered various reports prepared by management which assess the likelihood that targets will be achieved which trigger a liability to the previous owners of the businesses acquired in 2019, quantify the possible range of that liability, and how that liability should be calculated and disclosed in the consolidated financial statements.
- 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.

Following a review of the Group's internal audit requirements carried out in 2018, Grant Thornton UK LLP were appointed to provide internal audit services to the Company from 2019.

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.

Audit Committee CONTINUED

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;
- monitored and reviewed the Group's progress against the actions arising from the external review of cyber security performed in 2018 during the year by PwC LLP;
- considered the impact of new financial reporting standards and legislative requirements on the Group, including IFRS 16;
- 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 Board. 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 2019, the Committee has decided to recommend to the Board that Ernst & Young LLP should be reappointed for the 2020 audit and a resolution to this effect will be proposed at the 2020 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 addition, the senior audit manager was rotated in 2019 following completion of the 2018 full-year audit. In accordance with the UK Code, the Competition and Markets Authority (CMA) Order and the EU Audit Directive, it is the Company'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 2019 and March 2020 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 2019.

STAGE 01

An assessment of the lead audit partner and the audit team

STAGE 02

A review of the audit approach, scope, determination of significant risk areas and materiality

STAGE 03

The execution of the audit

STAGE 04

Interaction with management and the Committee

STAGE 05

The quality of any recommendation points

STAGE 06

A review of independence, objectivity and scepticism

EXTERNAL AUDIT PROCESS REVIEW

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.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, whistleblowing and the UK Bribery Act

The Committee monitors any reported incidents under its whistleblowing 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 incidents during the year which were required to be brought to the attention of the Committee.

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 whom 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

17 March 2020

Directors' Report

Introduction

The Directors present their Annual Report and Accounts for the period ended 31 December 2019. 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 with 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 49) 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 Ireland, Italy, the Netherlands 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 49. The principal activities of the Group are described in the Strategic Report on pages 6 to 16.

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 29 to the Group's consolidated financial statements on pages 140 to 142.

Viability statement

In accordance with Provision 31 of the UK code, the Directors have assessed the prospects of the Group over a longer period than the 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 2019, 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, including a scenario for the potential impact of the Coronavirus, detailed on pages 38 to 46 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 2022, 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, including an undrawn committed revolving credit facility of £101.0m and an uncommitted accordion facility of £50.0m, 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 52 and 53. In accordance with the UK code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company. Lisa Scenna and Louise Brooke-Smith joined the Board on 24 September 2019 and will offer themselves for election at the 2020 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 57 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 78 to 99.

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 2019 the share capital of the Company was 200,999,862 ordinary shares of £0.001 each, of which 2,504 ordinary shares were held in treasury. Details of the Company's share capital are disclosed in Note 23 to the Group's consolidated financial statements on page 135.

Authority of the Directors to allot shares

The Company passed a resolution at the AGM held on 23 May 2019 authorising the Directors to allot ordinary shares up to an aggregate nominal amount of £133,145.86 (representing approximately two-thirds of the ordinary share capital). On 1 November 2019, the Company allotted 1,000,000 shares pursuant to this authority in connection with the Company's employee share schemes.

This authority will expire at the Company's 2020 AGM 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 23 May 2019 granting the Directors the authority to issue shares on a non pre-emptive basis up to £9,989.37 (Representing 9,989,375 ordinary shares or approximately 5% of the ordinary share capital). On 1 November 2019, the Company issued 1,000,000 shares pursuant to 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 2020 AGM and the Directors will be seeking a new authority to issue shares on a non pre-emptive basis up to £10,049.87. In addition to this, the Directors will seek authority to issue non pre-emptively for cash shares up to £10,049.87 (representing 10,049,867 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 23 May 2019 granting the Directors the authority to make market purchases of up to 29,948,147 ordinary shares with a total nominal value of £29,948.14, representing approximately 14.99% of the Company's issued ordinary share capital.

The authority to make market purchases will expire at the Company's 2020 AGM 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 of the notice convening the AGM.

Particulars of treasury share purchases are also disclosed in Note 23 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. A resolution to amend the Articles will be proposed to shareholders at the 2020 AGM.

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 Supporting our Sustainable Journey section on pages 48 to 49 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 126.

Overseas operations

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

Post balance sheet events

There have been no 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 38 to 46.

Results and dividends

An interim dividend totalling 4.0 pence per share was paid on 20 September 2019, reflecting the continued strong cash generation of the Group. The Board recommends a final dividend of 8.1 pence per share. Shareholders will be asked to approve the final dividend at the AGM, for payment on 28 May 2020 to shareholders whose names appear on the register on 24 April 2020.

Total ordinary dividends paid and proposed for the year amount to 12.1 pence per share or a total return to shareholders of £24.2m.

Directors' Report CONTINUED

Employees

The Company's policies in relation to the employment of disabled persons and gender breakdown and employee involvement are included in the Supporting our Sustainable Journey section on pages 47 to 49.

Substantial shareholders

As at 31 December 2019 and 17 March 2020 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.

	As at 31 December 2019		As at 17 March 2020	
Name of shareholder	Ordinary shares	% Voting rights	Ordinary shares	% Voting rights
Standard Life Aberdeen	25,123,438	12.50	**25,557,836**	**12.72**
Franklin Resources	13,818,841	6.88	**13,059,525**	**6.50**
Lansdowne Partners	–	–	**10,285,743**	**5.12**
Government of Norway	8,551,340	4.25	**7,969,999**	**3.97**
M&G Investments	8,122,456	4.04	**6,831,569**	**3.40**
BlackRock Inc.	8,030,589	4.00	**8,228,316**	**4.09**
The Vanguard Group, Inc	7,703,317	3.83	**7,775,512**	**3.87**
Canaccord Genuity Group Inc	7,586,361	3.77	**6,492,267**	**3.23**

With the exception of the Government of Norway and the Vanguard Group, Inc, all shares are 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 2020 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 91 to 99, disclosure of the information listed in Listing Rule 9.8.4R is not applicable.

Annual General Meeting

The 2020 AGM is scheduled to be held on 21 May 2020 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

17 March 2020

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 Accounts, 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

Paul James
Chief Financial Officer

17 March 2020

Remuneration

Strategy in action:
St Dunstan's Church, Liverpool

CLIENT:
P.R. HEATING & GAS SERVICES
APPLICATION:
UNDERFLOOR HEATING
PRODUCT:
POLYPIPE UNDERFLOOR HEATING

Listed building calls for Polypipe underfloor heating solution

A Polypipe underfloor heating system was selected for use in a Grade II listed building.

When St Dunstan's Church, Liverpool underwent extensive renovation works, it provided the perfect opportunity for the Diocese of Liverpool to consider the building's heating.

Following recommendations by the Liverpool Diocesan Advisory Committee's heating engineer, and the project's architect and historic building consultant Robin Wolley, registered installer P.R. Heating & Gas Services selected one of Polypipe's water-based underfloor heating systems for use in the Church, which is located in the city's Edge Hill district.

As the church had solid floors in place, the heating engineers had to provide an efficient solution which would have minimum impact on the Grade II listed 19th century building. A low profile Overlay™ system was placed on top of the solid surface, with engineered oak flooring laid on top.

In large, high ceilinged properties, traditional radiators may only increase the temperature of the air around them, with 'hot spots' being created near the radiators, while the rest of the space remains unheated.

By heating the entire floor area evenly, Polypipe Underfloor Heating provides a comfortable ambient temperature wherever it is installed.

Read about sustainability on pages 24 and 47

Read about strategy on pages 18 to 21

In addition to maximising floor and wall space through the removal of radiators, the system may also provide cost savings, due to its ability to operate with an average water temperature of 50°C, compared to traditional heating systems which heat water to 80°C.

In using Polypipe Underfloor Heating to provide an even, ambient temperature within the space, the project's installers were able to ensure that all areas of the main church hall were heated equally.

Crucially, the 18mm depth of the Overlay™ variant meant that the system could be installed over the existing floor, removing the need for expensive excavation works which could have damaged this beautiful listed building.

Annual Statement from the Chair of the Remuneration Committee

'With the current remuneration policy due to be renewed at our 2021 AGM, the Committee intends to undertake a wide-reaching review of remuneration during 2020.'

Louise Hardy

Chair of the Remuneration Committee

Dear shareholder,

Following my appointment as Chair of the Remuneration Committee (the Committee) on 1 February 2019, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. 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 was approved by shareholders at our 2018 Annual General Meeting (AGM) and is included for information only.
- The Annual Report on Remuneration – contains details of remuneration received by Directors in 2019 and also contains full details of how we intend to implement the approved Remuneration Policy during 2020. The Annual Report on Remuneration will be subject to an advisory vote at the 2020 AGM. Further details are set out on pages 91 to 99.

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 has been prepared on a 'comply or explain' basis with regard to the remuneration provisions included in the UK Corporate Governance Code 2018 (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 18 to 20, 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 Committee during the past year are set out below.

Performance in 2019

The financial and operating performance of the Group in 2019 is set out on pages 108 to 142. The Company has delivered resilient performance and growth for its shareholders in tough market conditions, achieving underlying operating profit of £78.1m, up 5.5% from 2018, and increasing underlying basic earnings per share from continuing operations by 4.2% to 29.6 pence per share.

With regards to annual financial performance in the context of challenging macroeconomic conditions, notwithstanding delivering a strong operating profit result, performance was just below the challenging targets set at the start of the financial year. In relation to effective management of the Group working capital, 2019 was a satisfactory year with our targets met in 11 out of the 12 calendar months, thus achieving a near maximum payout under this element of the annual bonus. Management also performed well against their individual objectives including implementing a new organisational structure, implementing new financial consolidation and reporting software across the Group and developing a strategy for supplying solutions to the emerging offsite manufacturing housing market. This resulted in above target performance being achieved against the non-financial targets. As a result, the Committee determined that, in respect of 2019 performance, the Chief Executive Officer earned a bonus at 24.8% of the maximum with the other Executive Directors each earning a bonus of 27.4% of the maximum potential annual bonus. In accordance with the approved Remuneration Policy, 25% of this bonus will be deferred into shares.

With regards to performance over the longer term, the 2017 LTIP Awards vest to the extent that EPS growth and TSR performance targets were met over the three years ended 31 December 2019. As a result of delivering consistent profitable growth over this period and above market total shareholder returns, 54.5% of this award will vest in May 2020.

The Committee believes that the overall incentive outturns detailed above are appropriate based on the Company's performance over the relevant periods and that the level of rewards are proportionate after having had regard to the Company's broad range of stakeholders.

LTIP Awards

In April 2019, the Committee approved the grant of LTIP awards to the Executive Directors and other senior management. Award levels were 125% of salary for Martin Payne, and 100% of annual salary for Paul James and Glen Sabin. 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 continue to provide an appropriate basis for rewarding the successful delivery of longer-term strategic priorities, Company growth and shareholder value.

Key remuneration decisions for 2020

The proposed implementation of the Remuneration Policy for our Executive Directors for 2020 is outlined on pages 91 to 92. Key decisions made by the Committee in relation to 2020 include:

- The award of a 3.0% salary increase for all Executive Directors, which is consistent with the average increase awarded to the Group's UK workforce for 2020.
- Maximum bonus potential and LTIP award levels for Martin Payne in 2020 will be the same as in previous years (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 (unchanged from 2019). 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 2020. 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.
- The introduction of a post-cessation of employment shareholding policy for Executive Directors.
- Cumulative EPS targets equivalent to 4% to 10% per annum growth have been set for 2020 LTIP awards. In the context of the challenging business environment discussed in the Chief Executive Officer's Review, these targets are regarded by the Committee as being equivalently challenging to targets applied to previous awards.

Governance developments

The 2018 UK Corporate Governance Code came into effect for the Company on 1 January 2019. Since our 2018 Remuneration Policy was prepared to comply with institutional investors' 'best practice' expectations, we are already in compliance with the majority of remuneration provisions included in the 2018 Code. However, the Committee did consider the areas of non-compliance during the year and, as noted above, concluded that it was appropriate to introduce a post-cessation of employment shareholding requirement for Executive Directors. Accordingly, any Executive Director leaving the Company will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary for a period of two years. With regards to Executive Director pension provision, the level of pension was reduced as part of establishing the current Remuneration Policy in 2018. As a result, no further changes to incumbent Executive Director pension provision have been made for 2020. With the current policy due to be renewed at our 2021 AGM, the Committee intends to undertake a wide-reaching review of remuneration in 2020 and the level of future pension for new Executive Directors will be set as part of the policy review work with the expectation being that this will be aligned with that of the wider workforce.

Context of Director pay within the Company

During the year, the Committee reviewed the analysis of overall gender pay gap and equity of role-based pay within the Company. The Board and the Committee will continue to monitor the situation going forward and were satisfied appropriate actions were being taken.

As required by legislation we have included pay ratios between the Chief Executive Officer and our wider employees using remuneration earned in 2019. As part of its discussions on this issue, the Committee noted that the ratio was consistent with the scope and responsibilities of the different roles undertaken by the individuals included in the analysis and that the ratios were within the range disclosed by other FTSE 250 companies to date.

During the year, the Committee nominated Mark Hammond to be appointed the Non-Executive Director with responsibility for employee engagement. This includes, where appropriate, engagement with employees on how executive remuneration aligns with wider Company pay policy. Reference to the wider disclosures of this role is set out in the Governance section of this Annual Report on pages 62 to 65.

I will be available to answer questions on the Remuneration Policy and the Annual Report on Remuneration at the AGM. 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 resolution relating to remuneration at the AGM.

Louise Hardy
Chair of the Remuneration Committee

17 March 2020

Remuneration at a glance

PERFORMANCE SNAPSHOT

Annual Bonus Performance

Measure	Performance	Achievement (% of max)
Group underlying operating profit	Below threshold	0%
Working capital	11/12	91.7%
Individual objectives	Martin Payne	65%
	Paul James	90%
	Glen Sabin	90%

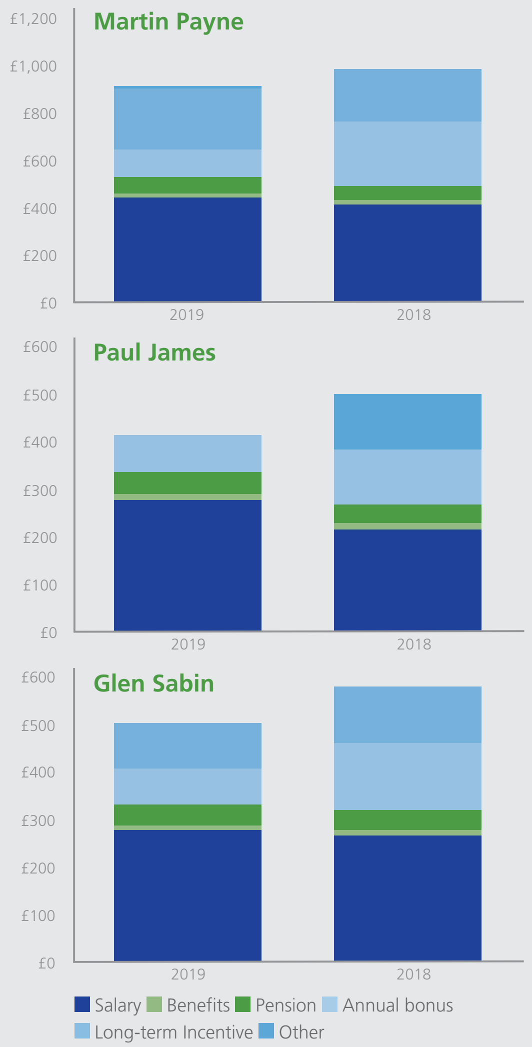
Long-Term Incentive Performance (2017 award)

Measure	Performance	Achievement (% of max)
Three-year cumulative underlying diluted EPS	85.04 pence	39.3%
TSR performance relative to comparator group	Ranked 10th vs comparator group including 44 companies	100%

Executive Director	Year	Salary £'000s	Benefits £'000s	Pension £'000s	Annual bonus £'000s	Long-term incentive £'000s	Other £'000s	Total remuneration £'000s
Martin Payne	**2019**	**458**	**17**	**69**	**142**	**239**	**5**	**930**
	2018	439	17	66	268	224	-	1,014
Paul James	**2019**	**292**	**13**	**44**	**80**	**-**	**-**	**429**
	2018	236	10	35	116	-	127	524
Glen Sabin	**2019**	**288**	**13**	**43**	**79**	**105**	**-**	**528**
	2018	281	13	42	137	117	-	590

Full details are disclosed on page 93.

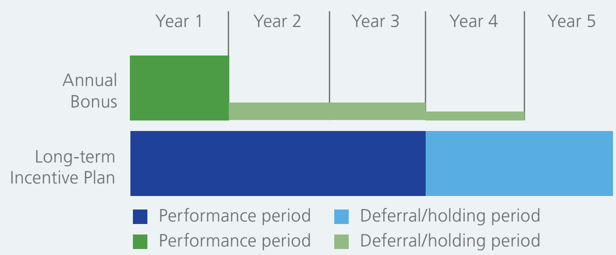
TOTAL REMUNERATION (£'000s)



IMPLEMENTATION FOR 2020

Base Salary	3% increase for all Executive Directors: • Martin Payne – £471,740 • Paul James – £300,889 • Glen Sabin – £296,138
Benefits	No change
Pension	15% of salary
Bonus	Maximum opportunity: – Martin Payne – 125% of salary – Paul James – 100% of salary – Glen Sabin – 100% of salary • Subject to underlying operating profit, working capital and individual objectives. • 25% deferred into shares. Half the shares vest two years from grant and half three years from grant.
LTIP	Maximum opportunity: – Martin Payne – 125% of salary – Paul James – 100% of salary – Glen Sabin – 100% of salary • Awards subject to underlying diluted EPS and relative TSR performance measures • Two year post-vesting holding period applies
Share Ownership	• 200% of salary in employment share ownership guideline and a post-employment requirement to retain the lower of the shares held at cessation of employment and 200% of salary for two years

INCENTIVE TIMELINES



Remuneration Policy

This part of the report sets out the Directors' Remuneration Policy (Remuneration Policy) which was approved by shareholders at the 2018 AGM and applies to payments made from that date. The information provided in this section of the Directors' Remuneration Report is not subject to audit.

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.

Remuneration Policy CONTINUED

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): • 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: • 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.
BENEFITS To provide market-competitive benefits.	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. 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.	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.	No performance conditions. Malus and clawback provisions do not apply.
PENSION To provide market-competitive retirement benefits.	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.	Executive Directors receive a pension-related contribution of up to 15% of salary, reduced from 20% under the previous policy.	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]
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.	The Executive Directors are participants in the annual bonus plan which is reviewed annually to ensure that bonus opportunity, performance measures and targets are appropriate and supportive of the business plan. 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. • 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).	The maximum award that can be made to an Executive Director under the annual bonus plan is 125% of salary.	The bonus is based on performance assessed over one year using appropriate financial, operational and individual performance measures. The majority of the bonus will be determined by measures of Group financial performance. 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. The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Executive Director. 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. 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.

Remuneration Policy CONTINUED

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions and provisions for recovery of sums paid[1]
Variable pay			
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.	Awards are usually granted annually under the LTIP to selected senior executives. Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Committee. Awards may be granted as conditional awards of shares, nil-cost options (or, if appropriate, as cash-settled equivalents). 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. 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).	The maximum annual award permitted under the LTIP is shares with a market value (as determined by the Committee) of 200% of salary. Each year the Committee determines the actual award level for individual senior executives within this limit.	All LTIP awards granted to Executive Directors must be subject to a performance condition. 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. 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. 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.
SHARESAVE PLAN[3] To create staff alignment with the Group and promote a sense of ownership.	UK tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees. Executive Directors are eligible to participate on the same basis as other UK employees.	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.	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. Malus and clawback provisions do not apply.
SHARE OWNERSHIP GUIDELINES To create alignment between the long-term interests of Executive Directors and shareholders.	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. Executive Directors are expected to achieve the shareholding requirement within five years of an individual becoming subject to the requirement.	Following a review by the Committee in 2017, the required level was increased from 100% to 200% of salary with effect from 2018.	Not applicable.

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.

NON-EXECUTIVE DIRECTORS

Purpose and link to strategy	Operation	Maximum opportunity
NON-EXECUTIVE DIRECTOR (NED) FEES To appropriately recognise responsibilities, skills and experience by ensuring fees are market competitive.	NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior Independent Director • Chair of Audit Committee • Chair of Remuneration Committee • Employee engagement The Chairman of the Board receives an all-inclusive fee. 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. NEDs are entitled to reimbursement of reasonable expenses. Fees are reviewed annually. NEDs also have the benefit of a qualifying third party indemnity from the Company and Directors' and Officers' liability insurance.	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. 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. 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.

Remuneration Policy CONTINUED

Illustrations of application of remuneration policy

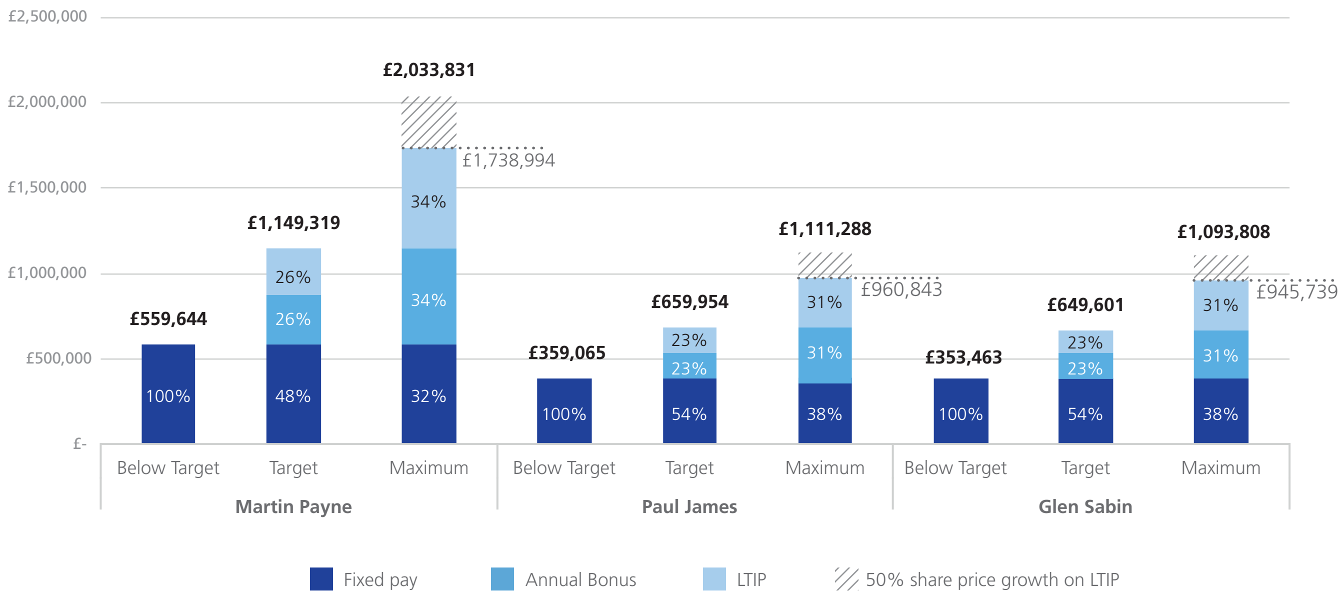
The Implementation of Remuneration Policy in 2020 section of the Annual Report on Remuneration details how the Committee intends to implement the Remuneration Policy during 2020.

The charts below illustrate, in three assumed performance scenarios, the total value of the remuneration package potentially receivable by Martin Payne, Paul James and Glen Sabin in relation to 2020. 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 Paul James and Glen Sabin.

The charts are for illustrative purposes only and actual outcomes may differ from that shown. LTIP awards have been shown at face value and also allowing for a 50% increase in share price under the maximum performance scenario. 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 2020.

POTENTIAL REMUNERATION OUTCOMES FOR THE EXECUTIVE DIRECTORS

Assumed performance	Assumptions used
All performance scenarios (Fixed pay) Consists of total fixed pay, including base salary, benefits and pension	• Base salary – salary effective as at 1 January 2020 • Benefits – the value of benefits received in 2019 have been included • Pension – 15% of salary
Minimum performance (Variable pay)	• No pay-out under the annual bonus • No vesting under the LTIP
Performance in line with expectations (Variable pay)	• 50% of the maximum pay-out under the annual bonus • 50% vesting under the LTIP
Maximum performance (Variable pay)	• 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. 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.

Remuneration Policy CONTINUED

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.
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 appreciates the importance of effective engagement with the wider workforce and so the Committee have introduced a nominated Non-Executive Director responsible for employee engagement. Mark Hammond has engaged with employees during the course of the year on a wide variety of topics, and reported to the Committee that there were no concerns raised regarding the alignment between executive remuneration and wider workforce pay.

The Committee reviews workforce remuneration, related policies and is conscious of the importance of ensuring that its pay decisions for Executive Directors and the senior management team 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 and the senior management team.

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 is mindful of general investor views on certain aspects of remuneration, and continues to take these views into account, where appropriate, when setting Executive Director remuneration. The Committee Chair is available to meet with any shareholders who wish to discuss any aspect of the Company's remuneration policy in more detail. The last formal consultation with the top 20 shareholders and the shareholder advisory bodies was carried out in 2017 and the feedback received from those that responded was generally supportive. Following the change in Chairmanship of the Committee during 2019, and the requirement to seek approval from shareholders for our remuneration policy in 2021, it is our intention to offer shareholders the opportunity to meet with the new Chair during 2020 to discuss the proposed policy.

Remuneration Committee

'The Remuneration Committee is responsible for determining all aspects of Executive Director and senior management pay, and reviews workforce remuneration and related policies to ensure alignment of rewards with culture.'

Louise Hardy
Chair of the Remuneration Committee

2019 KEY ACHIEVEMENTS

- Introduction of a post-cessation of employment shareholding policy
- Introduction of the Non-Executive Director of Employee Engagement role
- Introduction of elements to the Remuneration Committee report to ensure compliance with the 2018 reporting regulations, including the addition of CEO pay ratios
- Introduction of benchmarking for below Board roles with the Committee now retaining responsibility for setting pay at executive level immediately below the Executive Directors
- Review of Committee advisers and appointment of new advisers to the Committee

AREAS OF FOCUS IN 2020

- Impact of 2018 UK Corporate Governance Code on 2021 Remuneration Policy
- Review of performance targets for awards under the LTIP to ensure they remain appropriate
- Review and update remuneration policy for consultation with and approval by shareholders in 2021

Committee membership and meetings

The Committee comprises all of the Non-Executive Directors, all of whom are considered to be independent, and their attendance at meetings during the year is set out in the table on page 59. Lisa Scenna and Louise Brooke-Smith were appointed to the Committee on appointment to the Board in September 2019. The CEO, Martin Payne, was also present at those meetings by invitation. The Committee meets at least three times a year and thereafter as required, and in 2019, the Committee met five times. With effect from 1 February 2019, Louise Hardy was appointed as Chair of the Committee in place of Moni Mannings, who stepped down as Chair with effect from 31 January 2019 and as a member of the Committee on her retirement from the Board on 25 November 2019.

Role of the Committee

The role of the Committee is set out in its Terms of Reference which are reviewed annually and were last updated in November 2019. These can be found on the Company's website at www.polypipe.com.

The Committee is responsible for determining all aspects of Executive Director pay. The Committee also reviews workforce remuneration and related policies and ensures alignment of rewards with culture. It also monitors pay arrangements for other senior executives and oversees the operation of all share plans.

External advisers

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 and updates and benchmarking, for which Deloitte LLP was paid £23,600 (2018: £18,950) 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 2019, other departments within Deloitte LLP provided advice to the Company in relation to tax. The Committee reviewed the nature of this additional advice and was satisfied that it did not compromise the independence of the advice that it received. During 2019, the Committee agreed that it was appropriate to carry out a formal tender process in relation to its advisers, and following a robust process, the Committee appointed Korn Ferry as its advisers with effect from 1 January 2020.

Annual Report on Remuneration

Unaudited information

IMPLEMENTATION OF REMUNERATION POLICY IN 2020

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy in 2020 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 3.0% increase in the CEO, CFO and COO's salaries effective from 1 January 2020. This increase is consistent with the average annual salary increase awarded to the Company's UK workforce for 2020.

	Salary 1 January 2020	Salary 1 January 2019	% increase
Martin Payne (CEO)	**£471,740**	£458,000	3.0
Paul James (CFO)	**£300,889**	£292,125	3.0
Glen Sabin (COO)	**£296,138**	£287,513	3.0

PENSION

In 2020, 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 was reduced in 2018 from 20%, the level of contribution under the previous Remuneration Policy.

OTHER BENEFITS

In 2020, the Executive Directors will receive a standard package of other benefits consistent with those received in 2019.

ANNUAL BONUS

The annual bonus plan for 2020 will be broadly consistent with the bonus plan operated in 2019. Key features of the plan for 2020 are:

- There will be a maximum bonus opportunity of 125% of annual salary for Martin Payne and 100% of annual salary for Paul James and Glen Sabin
- 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 Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the annual bonus plan.

The annual bonus for 2020 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 2020 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.

Annual Report on Remuneration CONTINUED

LTIP

It is expected that the Executive Directors will receive awards under the LTIP during 2020. As at the time of preparing this Remuneration Report the Committee's intention is to grant the awards on the basis described below. However, in light of the changing economic outlook caused by the onset of COVID-19, the Committee intends to take a final decision on the terms of the 2020 awards at the time of grant. Should there be any change to the approach set out below, this would be detailed in the Stock Exchange announcement made at the time of granting the awards and detailed in next year's Remuneration Report.

- 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.
- The Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the LTIP.
- Awards will be subject to a two-year post-vesting holding requirement.
- 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)

	Three-year cumulative underlying diluted EPS	% of overall award vesting
Below threshold	<94.8 pence per share	0%
Threshold	94.8 pence per share	18.75%
Maximum	106.3 pence per share	75%

Threshold three-year cumulative underlying diluted EPS will be calculated using a 4% per annum growth on 2019 underlying diluted EPS. Maximum three-year cumulative underlying diluted EPS will be calculated using a 10% per annum growth on 2019 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 2022. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.

The Committee was comfortable that the above range of EPS targets was similarly challenging to those set in prior years at the time that they were set, having had regard to both internal and external expectations for future Company performance.

SHARESAVE PLAN

Invitations to UK employees (including Executive Directors) to participate in the Sharesave Plan have been issued annually over the last three years. 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 2020.

NON-EXECUTIVE DIRECTOR REMUNERATION

During the year, Non-Executive Director fees were reviewed, following which it was agreed to increase the Non-Executive Director base fee by 3.0% and the Chairman's fee by 3.0%. The table below shows the fee structure for Non-Executive Directors for 2020. 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. During the year, the Committee introduced an additional fee for the employee engagement role carried out by the nominated NED.

	2020 fees
Chairman of the Board all-inclusive fee	**£150,761**
Basic Non-Executive Director fee	**£48,459**
Senior Independent Director additional fee	**£10,000**
Chair of Audit Committee additional fee	**£8,000**
Chair of Remuneration Committee additional fee	**£8,000**
Employee engagement NED fee	**£8,000**

AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 98 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 2019 with comparative figures for 2018.

All figures shown in £'000	**2019** Salary and fees[(1)]	Benefits[(2)]	Annual bonus[(3)]	Pension[(4)]	LTIP[(5)]	Other[(6)]	Total	2018 Salary and fees[(1)]	Benefits[(2)]	Annual bonus[(3)]	Pension[(4)]	LTIP[(5)]	Other[(6)]	Total
Executive Directors														
Martin Payne	**458**	**17**	**142**	**69**	**239**	**5**	**930**	439	17	268	66	224	–	1,014
Paul James	**292**	**13**	**80**	**44**	**–**	**–**	**429**	236	10	116	35	–	127	524
Glen Sabin	**288**	**13**	**79**	**43**	**105**	**–**	**528**	281	13	137	42	117	–	590
Non-Executive Directors														
Ron Marsh	**146**	**–**	**–**	**–**	**–**	**–**	**146**	143	–	–	–	–	–	143
Paul Dean	**65**	**–**	**–**	**–**	**–**	**–**	**65**	64	–	–	–	–	–	64
Moni Mannings[(7)]	**43**	**–**	**–**	**–**	**–**	**–**	**43**	54	–	–	–	–	–	54
Mark Hammond[(8)]	**51**	**–**	**–**	**–**	**–**	**–**	**51**	46	–	–	–	–	–	46
Louise Hardy[(9)]	**54**	**–**	**–**	**–**	**–**	**–**	**54**	24	–	–	–	–	–	24
Lisa Scenna[(10)]	**13**	**–**	**–**	**–**	**–**	**–**	**13**	–	–	–	–	–	–	–
Louise Brooke-Smith[(10)]	**13**	**–**	**–**	**–**	**–**	**–**	**13**	–	–	–	–	–	–	–

NOTES TO THE TABLE – METHODOLOGY

(1) Salary and fees – as disclosed in the 2018 Annual Report, CFO and COO salaries were increased by 2.5% effective 1 January 2019 consistent with the average increases awarded to the Company's UK workforce and the CEO's salary increased by 4.4%. In 2019, the Non-Executive Director base fee and the Chairman's fee were also increased by 2.5%.

(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 2019 annual bonus are set out on page 94.

(4) Pension – the pension provision for all Executive Directors is 15%.

(5) LTIP - for 2018, this related to the estimated value of the proportion of the award granted in 2016 under the LTIP which is subject to an EPS performance target over the three-year period ended on 31 December 2018. This has been calculated using actual EPS performance and the Company's share price on vesting of £4.238. For 2019, this relates to the value of the proportion of the award granted in 2016 under the LTIP which was subject to a TSR performance target over the three-year period ended on 10 May 2019, and the estimated value of the whole award granted in 2017 which is subject to an EPS and a TSR performance target over the three-year period ended on 31 December 2019. The value of the 2017 award has been calculated using actual EPS performance and the Company's average share price for Q4 2019. The estimated amount of the award granted in 2016 that is attributable to share price appreciation is £7,656 for Martin Payne and £6,879 for Glen Sabin. The estimated amount of the award granted in 2017 that is attributable to share price appreciation is £22,063 for Martin Payne and £9,056 for Glen Sabin. To note, the double counting of part of the 2016 LTIP award and 2017 LTIP award in the 2019 LTIP single figure value is due to the TSR performance period applying to the 2016 award running from 10 May 2016 (i.e. mid-year) as opposed to the start of the financial year. No further double counting will operate with subsequent TSR periods running from the start of each financial year.

(6) Other – for 2018, this column comprises £121,328, being the value of 30,755 shares held by Paul James which, as discussed in last year's annual report, were awarded in partial compensation for long-term incentive awards forfeited when he left his previous employer Dixons Carphone plc. The shares have been valued at the share price when the award was granted of £3.945. The award granted in compensation for his forfeited bonus of 54,890 shares lapsed in September 2018 when the Committee determined that no bonus was payable by Dixons Carphone plc and therefore there was no bonus forfeit payable. This also includes £5,557, being the value of the grant of options to Paul James under the Sharesave Plan during 2018. The grant has been valued at 24.7% of the face value of shares under option, which is the IFRS 2 valuation for this award. For 2019, this includes £5,429, being the value of the grant of options to Martin Payne under the Sharesave Plan during the year. The grant has been valued at 24.3%% of the face value of shares under option, which is the IFRS 2 valuation for this award.

(7) Moni Mannings retired from the Board on 25 November 2019.

(8) Mark Hammond was appointed as the employee engagement NED on 1 July 2019.

(9) Louise Hardy was appointed as Chair of the remuneration committee with effect from 1 February 2019.

(10) Lisa Scenna and Louise Brooke-Smith were appointed to the Board as NEDs on 24 September 2019.

(11) Total remuneration paid to Directors in respect of 2019 is £2,272,000 (2018: £2,459,000).

ANNUAL BONUS

The maximum annual bonus opportunity for the Executive Directors in 2019 was as follows:

- 125% of annual salary for Martin Payne.
- 100% of annual salary for Glen Sabin and Paul James.

For all Executive Directors, 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. Malus and clawback provisions apply to the bonuses of all of the aforementioned Directors.

Annual Report on Remuneration CONTINUED

The performance measures and targets that applied to the 2019 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	70%	£81.1m 17.5% of total bonus payable	£85.4m 35% of total bonus payable	£98.2m 70% of total bonus payable	£78.1m	Nil
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%					
		Martin Payne				6.5%
		Paul James				9.0%
		Glen Sabin				9.0%

The tables below provide detail on individual performance measures for each Executive Director and the assessment of performance against each one.

2019 INDIVIDUAL ASSESSMENT FOR MARTIN PAYNE

Objective	Actions	Assessment
Successful implementation of organisational change across the Group to better deliver the Group's strategic objectives as well as strengthening the senior team through internal promotions and external recruitment	Organisational restructure reviewed and progressed during H1 and completed in H2. Majority of internal vacancies created as a result filled by internal promotions	
Progression of the Group's M&A agenda in line with our strategic objectives of providing a 'one stop shop' for our customers	Completion of the acquisition of the Alderburgh group of companies in October in addition to continuing development of current product ranges and solutions	

2019 INDIVIDUAL ASSESSMENT FOR PAUL JAMES

Objective	Actions	Assessment
Successful implementation of a new financial consolidation and reporting software as a strategic enabler for future M&A and organisational change	New financial consolidation and reporting software successfully implemented and rolled out across the Group during Q3	
Successful implementation of an improved Group internal audit framework as a strategic enabler for future growth	Appointed Grant Thornton to perform the internal audit function for the Group and rolled out a minimum controls framework and updated the existing delegation of authorities matrix	

2019 INDIVIDUAL ASSESSMENT FOR GLEN SABIN

Objective	Actions	Assessment
Development and implementation of a Group strategy for supplying solutions to the emerging offsite manufactured housing market	Offsite solutions business unit established and Managing Director, Finance Director and Sales Director appointed and business unit strategy for 2020 presented to and approved by the Board	
Supporting the CEO in successful implementation of organisational change across the Group	Organisational restructure reviewed and progressed during H1 and completed in H2. Majority of internal vacancies filled and training and development plans in place to support all employees in newly appointed roles	

Targets met at or towards the maximum · Targets partially met · Targets not met

The total bonus payable to each Executive Director based on the assessment of performance against the targets set out on page 94, is shown below:

	Total bonus payable % of maximum	Total bonus payable £'000 and % of annual salary
Martin Payne	24.8%	142 (31.0% of salary earned)
Paul James	27.3%	80 (27.4% of salary earned)
Glen Sabin	27.3%	79 (27.4% of salary earned)

The Committee has confirmed that it is comfortable with the payments made in relation to the non-financial elements of the annual bonus scheme in light of the Company's financial performance in the wider macroeconomic environment.

LTIP

The LTIP award granted in May 2017 vests in May 2020 based 25% on relative TSR performance and 75% on EPS growth over the three financial years ended on 31 December 2019. The vested value of the award is therefore required to be included in the 2019 single figure table.

Performance measure	Threshold	Maximum	Actual performance	% of total award vesting	Vested shares	Estimated value of vested shares*
Three-year cumulative underlying diluted EPS	82.8 pence per share 18.75% of award vests	94.5 pence per share 75% of award vests	85.04 pence	29.5%	Martin Payne – 21,598 Glen Sabin – 8,866	Martin Payne – £98,120 Glen Sabin – £40,278
TSR performance relative to comparator group	Below median 0% of award vests	Upper quartile 25% of award vests	Ranked 10th vs the comparator group including 44 companies	25.0%	Martin Payne – 18,303 Glen Sabin – 7,514	Martin Payne – £83,151 Glen Sabin – £34,136

* Estimated value based on average share price in Q4 of 2019 of £4.543.

LTIP

The LTIP award granted in May 2016 vested in May 2019 based 25% on relative TSR performance from the grant date to the vesting date and 75% on EPS growth over the three financial years ended on 31 December 2018. The vested value of the TSR element of the award is therefore required to be included in the 2019 single figure table.

Performance measure	Threshold	Maximum	Actual performance	% of total award vesting (max 25%)	Vested shares	Value of vested shares*
TSR performance relative to comparator group	Below median 0% of award vests	Upper quartile 25% of award vests	Ranked 15th vs the comparator group	19.9%	Martin Payne – 13,583 Glen Sabin – 7,117	Martin Payne – £57,565 Glen Sabin – £30,162

* Value based on share price on date of vesting of £4.238.

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 April 2019. This award is subject to the performance conditions described below and will become exercisable in April 2022.

	Type of award	Date of grant	Maximum number of shares	Face value (£)*	Threshold vesting (% of award)	End of performance period
Martin Payne	Nil cost option	30 April 2019	134,421	£572,499	25% of award	December 2021
Paul James		30 April 2019	68,590	£292,125		
Glen Sabin		30 April 2019	67,507	£287,512		

* The maximum number of shares that could be awarded has been calculated using the share price of £4.259 (average closing share price for 25 April – 29 April 2019) and is stated before the impact of reinvestment of the dividends paid since grant.

Annual Report on Remuneration CONTINUED

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)			**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	<91.2 pence per share	0%	Below median	0%
Threshold	91.2 pence per share	18.75%	Median	6.25%
Maximum	102.3 pence per share	75%	Upper quartile	25%
Threshold three-year cumulative underlying diluted EPS is calculated using a 4% per annum growth on 2018 underlying diluted EPS. Maximum three-year cumulative underlying diluted EPS is calculated using a 10% per annum growth on 2018 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. TSR performance will be measured over the three-year period to 31 December 2021. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.	

DEFERRED SHARE BONUS PLAN AWARDS

On 20 April 2019, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2018 annual bonus. The value of these shares was included in the annual bonus figure in the 2018 single total figure of remuneration. No further performance conditions apply to these shares.

	Type of award	Maximum number of shares	Face value (£)*	Vesting date
Martin Payne	Deferred shares	15,741	£67,040	50% vests in each of April 2021 and April 2022
Paul James†	Deferred shares	6,766	£28,816	
Glen Sabin	Deferred shares	8,053	£34,298	

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £4.259 per share.

† Paul James joined the Board on 5 March 2018.

DEFERRED SHARE AWARD

On 21 March 2018, Paul James was granted an award of shares to partially compensate him for bonus and long-term incentive awards that were forfeited when he left his previous employer, Dixons Carphone plc. Details of the awards granted are set out below and full details of the award terms are set out on page 66 of the 2017 Annual Report and Accounts. The value of the share award outstanding as at 31 December 2019 has been included in the single total figure of remuneration table on page 93. No further performance conditions apply to these shares as they were compensation for awards which similarly were not subject to further performance conditions.

	Type of award	Maximum number of shares	Face value (£)*	Vesting date
Paul James	Deferred shares	27,445	£108,271	5 March 2020†
	Deferred shares	27,445	£108,271	5 March 2021†
	Deferred shares	30,755	£121,328	30 June 2020

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £3.945 per share.

† These awards, granted in compensation for forfeited bonus, lapsed in September 2018 when the Committee determined that no bonus was payable and therefore there was no bonus forfeit payable.

SHARESAVE PLAN

Martin Payne was granted options on 17 September 2019 under the Sharesave Plan on the same terms as other UK employees. 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	– (2016)	8,144	£2.21	November 2019	£5.18	£24,188
Martin Payne	Share Option	5,901 (2019)	–	£3.05	November 2022	–	–
Glen Sabin	Share Option	2,322 (2017)	–	£3.10	November 2020	–	–
Paul James	Share Option	6,040 (2018)	–	£2.98	November 2021	–	–

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 the year.

PAYMENTS FOR LOSS OF OFFICE

There were no payments for loss of office during the year.

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

Executive Directors are expected to achieve the shareholding requirement of 200% of salary 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. Paul James commenced employment with the Company during 2018 and will build up his shareholding in line with the aforementioned five-year timescale. Glen Sabin met this requirement as at 31 December 2019.

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

	Number of shares at 31 December 2019				
Director	Shares owned outright	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)	167,961 (198% of salary)	421,475	35,337	–	5,901
Paul James(5)	–	139,126	6,766	30,755	6,040
Glen Sabin(5)	842,932 (1,583% of salary)	206,837	11,017	–	2,322
Ron Marsh	275,000	–	–	–	–
Paul Dean	5,000	–	–	–	–
Moni Mannings	–	–	–	–	–
Mark Hammond	15,000	–	–	–	–
Louise Hardy	–	–	–	–	–
Lisa Scenna	–	–	–	–	–
Louise Brooke-Smith	–	–	–	–	–

NOTES TO THE TABLE

1. This relates to shares awarded under the LTIP.
2. This relates to shares awarded under the DSBP.
3. This relates to shares awarded to Paul James in partial compensation for bonus and long-term incentive awards forfeited when he left his previous employer. Full details are set out on pages 65 to 66 of the 2017 Annual Report on Remuneration and on page 96 of this report.
4. This relates to shares awarded under the Sharesave Plan.
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 2019 has been used (£5.400 per share).
6. During the year, Martin Payne had (a) 11,354 Deferred Share Award shares (inclusive of 905 dividend shares) vest net of shares sold to pay personal tax liability; (b) 68,258 LTIP shares vest net of shares sold to pay personal tax liability; (c) 4,121 DSBP shares vest net of shares sold to pay personal tax liability; and (d) 8,144 shares vest under the Sharesave Plan. All of these are included in the 'Shares Owned Outright' column above.

Between 31 December 2019 and the date of this report, there were no changes in the shareholdings of current Directors outlined in the above table.

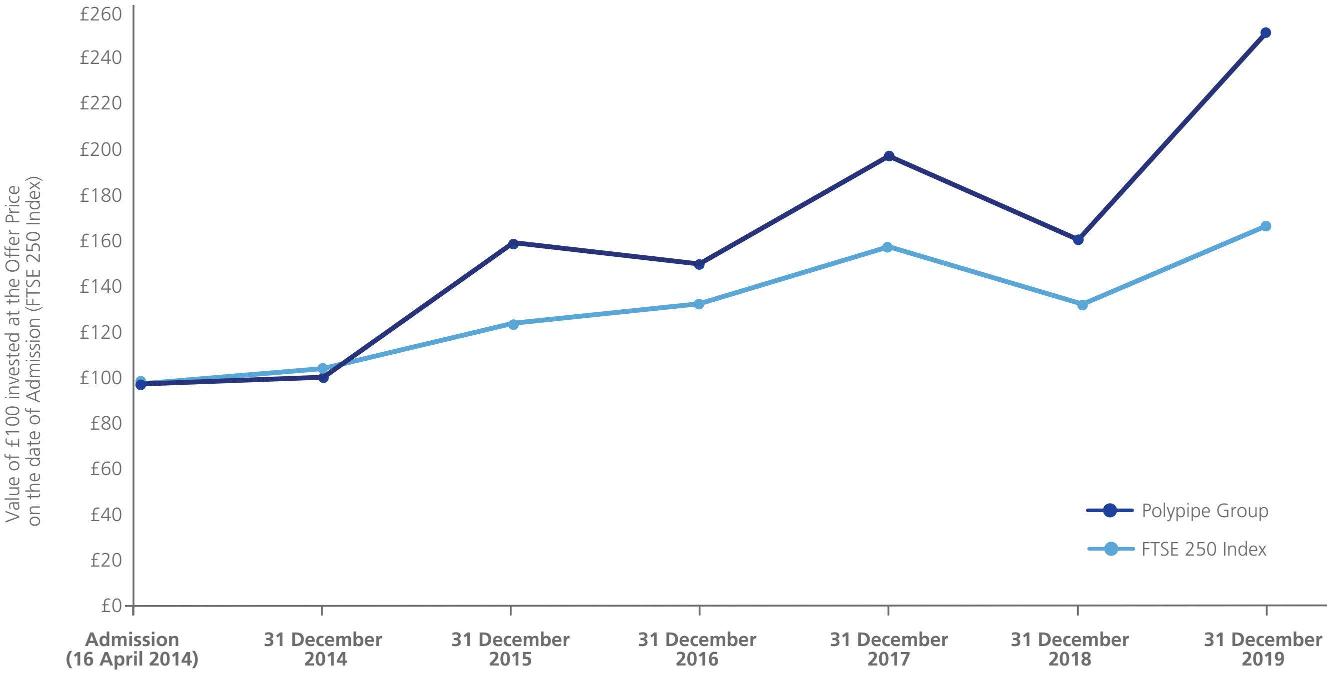
Annual Report on Remuneration CONTINUED

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 2019 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.



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

	2014	2015	2016	2017[1]	2017[2]	2018[3]	**2019**[3]
CEO single figure of remuneration £'000	955	919	948	717	218	1,014	**930**
Annual bonus payout (as a % of maximum opportunity)	88.7%	68.2%	69.4%	66.8%	66.8%	48.9%	**24.8%**
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)	87.8%	**54.5%**

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.
3. The 2018 LTIP vesting out-turn shows the payout as a percentage of maximum of the 2016 award. The 2019 figure shows the payout for the 2017 award.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO

The table below illustrates the percentage change in annual salary, benefits and bonus between 2018 and 2019 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 (2018 to 2019)[1]	Benefits change (2018 to 2019)	Annual bonus change (2018 to 2019)
CEO [1]	+ 4.4%	–	-47.0%
Average for all UK employees	+ 2.5%	–	-2.0%

1. The 4.4% salary change for the CEO is as reported in the 2018 Directors' Remuneration Report and reflects the salary increase that took effect from 1 January 2019.

CEO PAY RATIO

The table below illustrates the ratio between CEO pay for 2019 (as shown in the single figure table on page 93) and the indicative full-time equivalent total remuneration for employees ranked at the lower quartile, median and upper quartile.

In line with the relevant legislation, the analysis has been completed using Option A (i.e. actual total remuneration earned in 2019 has been used as the basis for comparison). The analysis has been calculated as at 16 March 2020 based on 2,578 UK employees from across all of our businesses. Option A was used as it was deemed the most accurate and prevalent amongst recent FTSE 250 disclosures. Since the CEO's total remuneration for 2019 includes partial vesting for the 2016 and 2017 LTIP awards, the ratio has the potential to overemphasise current pay differentials as, in effect, it includes an element of double counting on the CEO's LTIP vesting. However, the ratio is considered within the expected range for the Company and is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

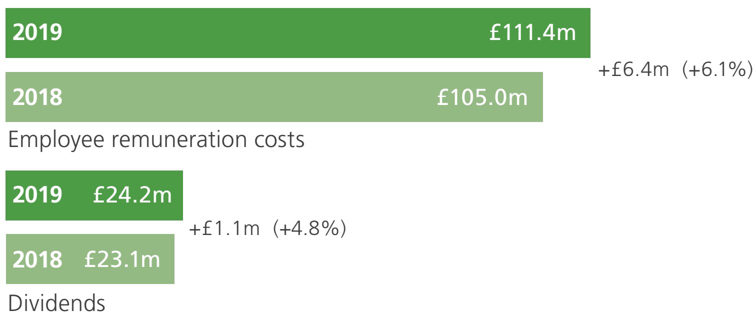
CEO pay ratio	2019
Method	A
CEO Single figure	£930,281
Upper quartile	28:1
Median	37:1
Lower quartile	44:1

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2019 are set out below:

	Salary	Total Pay
Upper quartile	£31,651	£33,112
Median	£23,102	£24,984
Lower quartile	£19,567	£21,260

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.



SHAREHOLDER VOTING ON REMUNERATION RESOLUTIONS

Details of the votes cast in relation to our remuneration resolutions in 2018 and 2019 are summarised below:

	Votes for	Votes against	Votes withheld
Approval of the Remuneration Policy – 2018 AGM	127,934,229 (87.62%)	18,067,599 (12.38%)	6,537,337
Approval of the Annual Report on Remuneration – 2019 AGM	163,212,795 (99.79%)	347,249 (0.21%)	44,053

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 scheduled to be held on 21 May 2020.

By order of the Board.

Louise Hardy

Chair of the Remuneration Committee

17 March 2020

Financials

TERRAIN FUZE FABRICATED DRAINAGE STACKS ACROSS

42

STOREYS

Read about sustainability on pages 24 and 27

Read about strategy on pages 18 to 21

Strategy in action: Providence Tower

CLIENT:
BRIGGS AND FORRESTER MEP LTD
APPLICATION:
FABRICATED DRAINAGE SYSTEM
PRODUCT:
TERRAIN FUZE

Polypipe Terrain met challenging requirements at a mixed-use housing development in the heart of London's Docklands

Working alongside main contractor Balfour Beatty Construction and M&E contractor Briggs and Forrester MEP Ltd, Polypipe designed and delivered prefabricated drainage stacks utilising its popular Terrain FUZE for the Providence Tower and Bar Building apartment buildings, which stand at 42 and 12 storeys, respectively.

Terrain FUZE incorporates a number of engineered fittings to aid installation and is ideally suited to off-site fabrication where repetition is prevalent, such as in high rise buildings.

Unique to this development, which encompasses high-end luxury apartments and affordable housing, was the use of 160mm diameter low entry manifold piping, a wide pipe suitable for the project.

The light weight nature of Terrain FUZE brought many advantages over traditional materials, not least in its manoeuvrability on site, while the use of prefabrication meant that the system could be installed quickly and efficiently, providing significant time and resource savings.

Paul Campbell, Project Director of Briggs and Forrester MEP Ltd, said: "Whilst there were many benefits to using Terrain FUZE over alternative solutions, it was Polypipe Terrain's ability to custom engineer low entry manifold piping that really impressed us. Being engineered specific to the project, in Polypipe's on site fabrication facilities, meant the turnaround time was minimal, ensuring a smooth installation."

Damian Farrell, London & South East Sales Director, of Polypipe Terrain, said: "Our experience on delivering on projects of this nature, combined with our extensive system knowledge, means that we can create engineered solutions that meet the needs of the development, such as the 160mm diameter low entry manifold piping that was unique to this project.

'This ability to prefabricate bespoke products off-site, in turn driving quick turn around times, and the reduced labour, made Polypipe a key project partner.'

PAUL CAMPBELL
BRIGGS AND FORRESTER

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 at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 Income Statement for the year ended 31 December 2019	Company Balance Sheet at 31 December 2019
Group Statement of Comprehensive Income for the year ended 31 December 2019	Company Statement of Changes in Equity for the year ended 31 December 2019
Group Balance Sheet at 31 December 2019	Company Cash Flow Statement for the year ended 31 December 2019
Group Statement of Changes in Equity for the year ended 31 December 2019	Notes 1 to 9 to the Company Financial Statements for the year ended 31 December 2019
Group Cash Flow Statement for the year ended 31 December 2019	
Notes 1 to 30 to the Group Financial Statements for the year ended 31 December 2019	

The financial reporting framework that has been applied in their preparation is applicable law and 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.

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 38 to 46 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 72 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 72 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 72 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. • Recognition of customer rebates.
Audit scope	• We performed an audit of the complete financial information of 16 components and audit procedures on specific balances for a further four components. • Of the 20 components subject to audit procedures, procedures at 14 of the full scope and all of the specific scope components were performed by the UK audit team. Procedures relating to the remaining two full scope components were performed by overseas audit teams. • The audit procedures we performed over full and specific scope components accounted for 99% of Profit Before Tax, 98% of Revenue and 100% of Total Assets.
Materiality	• Overall Group materiality is £3.2m (2018: £2.9m) which represents 5% of Profit Before Tax adjusted for non-recurring costs relating to acquisitions presented as non-underlying items.

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.

In the prior year we identified revenue recognition, recognition of customer rebates and acquisition accounting as key audit matters. However, this year we have removed acquisition accounting due to the reduction in the relative size of the acquisition made to the overall Group and the associated reduction in audit risk.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Report of the Audit Committee (page 69; Summary of Significant Accounting Policies (page 114); and Note 3.2 to the consolidated financial statements (page 123). The Group has reported revenue of £447.6m (2018: £433.2m). Revenue is stated net of rebates payable which are considered in the subsequent key audit matter. 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. Through manual adjustments, there is the opportunity to misstate revenue between periods in order to influence reported results. There has been no change in our assessment of this risk when compared to the prior year.	Procedures to respond to this risk were performed by both the UK and overseas audit teams. For 13 of the full scope components, representing 92% of the Group's revenues, we performed data analytics procedures over the correlation of sales and cash receipts to test the existence of revenue recorded in the general ledger. For the remaining full scope components covering 6% of revenue we performed tests of detail over revenue recognised in the year, by agreeing a sample of sales to supporting documentation including proof of delivery and testing related cash receipts. For all full scope components, we tested the accuracy of revenue cut-off at the balance sheet date. Our work comprised the agreement of a sample of sales transactions either side of the year end by assessing contract terms and reviewing proof of dispatch. We have assessed for evidence of management bias by testing material manual journals either side of the year end and agreeing journal entries to supporting evidence.	We concluded that revenue recognised in the year is appropriate and found no evidence of management bias. Through our procedures performed we have not identified any unsupported manual adjustments to revenue, or any unexplained anomalies from our revenue analytics.

Independent Auditor's Report

TO THE MEMBERS OF POLYPIPE GROUP PLC

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recognition of customer rebates Refer to the Report of the Audit Committee (page 69); Summary of Significant Accounting Policies (page 114 and Note 3.2 to the consolidated financial statements (page 123). The total value of customer rebates recognised in the year and provided for at the balance sheet date is material. The Group's pricing structure includes rebate arrangements with customers, some of which involve estimation when determining the value of the rebate to be provided for at the balance sheet date. This is particularly the case for indirect rebates within the Residential Systems operating segment where the Group is reliant on sales volume information from customers which may not be available at the time the liabilities are recognised. There has been no change in our assessment of this risk when compared to the prior year.	We tested the appropriateness of rebate provision calculations by agreeing a sample of the calculation inputs to supporting information including customer agreements and sales volumes. We assessed the indirect rebate expense and year end provision for indirect rebates by reference to external information from the National House Building Council relating to new plot starts and developer publications to determine the reasonableness of amounts recognised. We compared year end customer rebate provisions and rebate costs in the year to prior year amounts and expectations to identify unusual trends. We compared a sample of rebate payments made in the year to amounts provided as at 31 December 2018 to assess the accuracy of management's previous estimates. We assessed the completeness of rebate amounts recognised by reperforming management's calculation, by reviewing post year end payments and by obtaining satisfactory explanations where rebates had not been recognised for significant customers.	We found no material difference between the prior year rebate accrual and the actual rebates incurred. This provides assurance over management's historical ability to accurately estimate the rebate provision. We concluded that management's judgments were consistent with the information available from external sources. We concluded that the rebates expense recognised during the year and the liability at the period end is appropriate.

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 size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, and changes in the business environment 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 20 reporting components of the Group, we selected all components covering entities within the UK, Italy and the United Arab Emirates which represent the principal business units within the Group.

Of the 20 components selected, we performed an audit of the complete financial information of 16 components ('full scope components') which were selected based on their size or risk characteristics. For the remaining four components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2018: 100%) of the Group's Profit Before Tax, 100% (2018: 100%) of the Group's Revenue and 100% (2018: 100%) of the Group's Total Assets. For the current year, the full scope components contributed 99% (2018: 99%) of the Group's Profit Before Tax, 98% (2018: 95%) of the Group's Revenue and 98% (2018: 98%) of the Group's Total Assets. The specific scope components contributed 1% (2018: 1%) of the Group's Profit Before Tax, 2% (2018: 5%) of the Group's Revenue and 2% (2018: 2%) of the Group's Total Assets. The audit scope of these specific scope components may not have included testing of all significant accounts of the component.

Impact of the COVID-19 pandemic

As a result of the ongoing COVID-19 pandemic, we have performed additional procedures in respect of management's going concern assessment, viability statement, and the carrying value of goodwill. As detailed below we did not visit component team sites, however we have been able to complete sufficient alternative procedures to demonstrate appropriate oversight. We have also reviewed the disclosures contained within the Annual Report and Accounts in relation to this issue and consider them to describe adequately the impact of COVID-19 on the Company as at 17 March 2020.

Changes from the prior year

The full scope components in the current year include the two components acquired in 2018 that were designated as specific scope for 2018. The remaining full scope components are consistent with the prior year. The specific scope components in the current year include Alderburgh which was acquired on 1 October 2019 and Effast, WMS France and the holding companies, which are considered to be one component.

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 16 full scope components, audit procedures were performed on 14 of these directly by the primary audit team. For the two 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, we have not visited our component teams in Italy and the United Arab Emirates due to the ongoing risk of Coronavirus. Instead, the primary audit team participated in the closing meetings and reviewed 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 £3.2m (2018: £2.9m), which is 5% (2018: 5%) of Profit Before Tax adjusted for non-recurring costs relating to acquisitions presented as non-underlying items. We believe that this basis provides us with the most relevant measure of Group profitability.

We determined materiality for the parent company to be £3.8m (2018: £2.2m), which is 2% (2018: 1%) of Total Equity.

Starting basis	• Reported Profit Before Tax of £60.1m
Adjustments	• Non-recurring acquisition related costs of £3.2m
Materiality	• Totals £63.3m • Materiality of £3.2m (5% of materiality basis)

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% (2018: 75%) of our planning materiality, namely £2.4m (2018: £2.2m). We have set performance materiality at this percentage due to the history of few misstatements indicating a lower risk of material 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 £1.7m (2018: £0.4m to £2.2m).

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 (2018: £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.

Other information

The other information comprises the information included in the Annual Report and Accounts set out on pages 01 to 99, 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.

Independent Auditor's Report

TO THE MEMBERS OF POLYPIPE GROUP PLC

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 58* – 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 68 to 71* – 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 56* – 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 75 and 143, 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 (IFRSs as adopted by the European Union, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how Polypipe Group plc is complying with those 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 in relation to revenue and rebate accounting.
- 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 Financial Reporting Council'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 eight years, covering the years ended 31 December 2012 to 31 December 2019.
- Other than our review of the Group's interim results for the period ended June 2019 and audit related reporting work relating to Permavoid contingent consideration and covenant compliance certificate procedures, no non-audit services were provided to the Group or the parent company. Therefore, no non-audit services prohibited by the FRC's Ethical Standard were 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.

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.

Ernst & Young LLP.

Christabel Cowling

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Leeds

17 March 2020

Notes:

[1] The maintenance and integrity of the Polypipe Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019			2018		
	Notes	Underlying £m	Non-underlying† £m	Total £m	Underlying £m	Non-underlying† £m	Total £m
Continuing operations							
Revenue	5	**447.6**	**–**	**447.6**	433.2	–	433.2
Cost of sales	6	**(255.2)**	**–**	**(255.2)**	(251.8)	–	(251.8)
Gross profit		**192.4**	**–**	**192.4**	181.4	–	181.4
Selling and distribution costs		**(71.7)**	**–**	**(71.7)**	(69.6)	–	(69.6)
Administration expenses	8	**(42.6)**	**(3.0)**	**(45.6)**	(37.8)	(2.3)	(40.1)
Trading profit		**78.1**	**(3.0)**	**75.1**	74.0	(2.3)	71.7
Amortisation of intangible assets	8	**–**	**(7.5)**	**(7.5)**	–	(5.9)	(5.9)
Operating profit	5, 6	**78.1**	**(10.5)**	**67.6**	74.0	(8.2)	65.8
Finance costs	8,11	**(7.3)**	**(0.2)**	**(7.5)**	(6.9)	(0.7)	(7.6)
Profit before tax	5	**70.8**	**(10.7)**	**60.1**	67.1	(8.9)	58.2
Income tax	8,12	**(11.9)**	**1.4**	**(10.5)**	(10.5)	1.1	(9.4)
Profit from continuing operations		**58.9**	**(9.3)**	**49.6**	56.6	(7.8)	48.8
Profit from discontinued operations	8	**–**	**–**	**–**	–	0.3	0.3
Profit for the year attributable to the owners of the parent company		**58.9**	**(9.3)**	**49.6**	56.6	(7.5)	49.1
Basic earnings per share (pence)							
From continuing operations	13			**24.9**			24.5
From discontinued operations	13			**–**			0.2
	13			**24.9**			24.7
Diluted earnings per share (pence)							
From continuing operations	13			**24.6**			24.3
From discontinued operations	13			**–**			0.2
	13			**24.6**			24.5
Dividend per share (pence) – interim	14			**4.0**			3.7
Dividend per share (pence) – final	14			**8.1**			7.9
	14			**12.1**			11.6

† Non-underlying items are presented separately. The definition of non-underlying items is included in the Group Accounting Policies on page 122. Non-underlying items are detailed in Note 8 to the consolidated financial statements.

Group Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £m	2018 £m
Profit for the year attributable to the owners of the parent company	**49.6**	49.1
Other comprehensive income:		
Items which may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**(0.4)**	0.1
Recycling of foreign exchange differences to the income statement	**–**	(0.3)
Effective portion of changes in fair value of interest rate swaps	**0.5**	1.4
Effective portion of changes in fair value of forward foreign currency derivatives	**0.1**	–
Tax relating to items which may be reclassified subsequently to the income statement	**(0.1)**	(0.2)
Other comprehensive income for the year net of tax	**0.1**	1.0
Total comprehensive income for the year attributable to the owners of the parent company	**49.7**	50.1
Attributable to the owners of the parent company from:		
Continuing operations	**49.7**	50.2
Discontinued operations	**–**	(0.1)
	49.7	50.1

Group Balance Sheet

AT 31 DECEMBER 2019

	Notes	31 December 2019 £m	31 December 2018 £m
Non-current assets			
Property, plant and equipment	15	**125.8**	118.4
Right-of-use assets	2.13	**14.8**	–
Intangible assets	16	**401.8**	401.9
Total non-current assets	5	**542.4**	520.3
Current assets			
Inventories	20	**59.7**	58.1
Trade and other receivables	21	**40.8**	37.4
Cash and cash equivalents	22	**47.7**	46.2
Total current assets		**148.2**	141.7
Total assets	5	**690.6**	662.0
Current liabilities			
Trade and other payables	25	**(97.5)**	(99.6)
Lease liabilities	26	**(2.9)**	–
Deferred and contingent consideration	17	**(3.4)**	(1.7)
Derivative financial instruments	26	**(0.5)**	(1.1)
Income tax payable		**(3.8)**	(6.3)
Total current liabilities		**(108.1)**	(108.7)
Non-current liabilities			
Loans and borrowings	26	**(197.7)**	(210.4)
Lease liabilities	26	**(11.9)**	–
Other liabilities	26	**(1.0)**	(0.7)
Deferred income tax liabilities	12	**(10.5)**	(11.0)
Total non-current liabilities		**(221.1)**	(222.1)
Total liabilities	5	**(329.2)**	(330.8)
Net assets	5	**361.4**	331.2
Capital and reserves			
Equity share capital	23	**0.2**	0.2
Capital redemption reserve	23	**1.1**	1.1
Own shares	23	**–**	(3.8)
Hedging reserve	23	**(0.4)**	(0.9)
Foreign currency retranslation reserve	23	**0.1**	0.5
Retained earnings		**360.4**	334.1
Total equity		**361.4**	331.2

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

Martin Payne
Director
17 March 2020

Paul James
Director
17 March 2020
Company Registration No. 06059130

Group Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 2017	0.2	1.1	(4.3)	(2.1)	0.7	306.4	302.0
Profit for the year	–	–	–	–	–	49.1	49.1
Other comprehensive income	–	–	–	1.2	(0.2)	–	1.0
Total comprehensive income for the year	–	–	–	1.2	(0.2)	49.1	50.1
Dividends paid	–	–	–	–	–	(22.3)	(22.3)
Share-based payments charge	–	–	–	–	–	1.0	1.0
Share-based payments settled	–	–	0.5	–	–	(0.2)	0.3
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2018	0.2	1.1	(3.8)	(0.9)	0.5	334.1	331.2
Profit for the year	–	–	–	–	–	49.6	49.6
Other comprehensive income	–	–	–	0.5	(0.4)	–	0.1
Total comprehensive income for the year	–	–	–	0.5	(0.4)	49.6	49.7
Dividends paid	–	–	–	–	–	(23.7)	(23.7)
Share-based payments charge	–	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.8	–	–	(1.4)	2.4
Share-based payments excess tax benefit	–	–	–	–	–	0.6	0.6
At 31 December 2019	**0.2**	**1.1**	**–**	**(0.4)**	**0.1**	**360.4**	**361.4**

Group Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £m	2018 £m
Operating activities			
Profit before tax		**60.1**	58.2
Finance costs	11	**7.5**	7.6
Operating profit		**67.6**	65.8
Profit before tax from discontinued operations	8	**–**	0.3
Non-cash items:			
Profit on disposal of property, plant and equipment	6	**(0.8)**	(0.3)
Research and development expenditure credit		**(1.6)**	–
Non-underlying items:			
– amortisation of intangible assets	8	**7.5**	5.9
– provision for acquisition costs	8	**3.0**	2.2
– loss on disposal of assets classified as held-for-sale	8	**–**	0.1
Depreciation of property, plant and equipment	5	**16.6**	15.6
Depreciation of right-of-use assets	2.13	**3.2**	–
Share-based payments	24	**1.2**	1.0
Cash items:			
– settlement of restructuring costs		**–**	(2.3)
– settlement of acquisition costs		**(1.4)**	(2.1)
Operating cash flows before movement in working capital		**95.3**	86.2
Movement in working capital:			
Receivables		**2.2**	(2.9)
Payables		**(7.3)**	10.8
Inventories		**(0.8)**	(4.1)
Cash generated from operations		**89.4**	90.0
Income tax paid		**(12.4)**	(11.2)
Net cash flows from operating activities		**77.0**	78.8
Investing activities			
Acquisition of businesses net of cash at acquisition	17	**(12.2)**	(56.1)
Proceeds from disposal of property, plant and equipment		**0.9**	0.9
Purchase of property, plant and equipment		**(22.3)**	(24.1)
Disposal of subsidiary undertaking net of overdraft divested	19	**–**	13.6
Net cash flows from investing activities		**(33.6)**	(65.7)
Financing activities			
New bank loan		**–**	226.1
Net repayment of bank loan		**(13.0)**	(199.1)
Interest paid		**(7.4)**	(6.1)
Proceeds from sale and leaseback of property, plant and equipment		**3.4**	–
Dividends paid	14	**(23.7)**	(22.3)
Proceeds from exercise of share options		**2.4**	0.3
Debt issue costs		**–**	(1.6)
Settlement of lease liabilities		**(3.5)**	–
Net cash flows from financing activities		**(41.8)**	(2.7)
Net change in cash and cash equivalents		**1.6**	10.4
Cash and cash equivalents at 1 January	22	**46.2**	35.7
Net foreign exchange difference		**(0.1)**	0.1
Cash and cash equivalents at 31 December	22	**47.7**	46.2

The net decrease in cash and cash equivalents in the year from discontinued operations included in the above was £nil (2018: £4.2m).

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Authorisation of financial statements

The consolidated financial statements of the Group for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 17 March 2020 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 2019 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented, except for the adoption of new standards effective as of 1 January 2019. The accounting standards and interpretations that have become effective in the current reporting period are as listed below:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019

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 2019 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 2019.

The Group's consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and contingent consideration 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 2019. 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 Equaflow Ltd, Sustainable Water and Drainage Systems BV, Sustainable Water and Drainage Systems Limited, Tree Ground Solutions BV and Water Management Solutions LLC (which has not traded since incorporation in Qatar in 2015). The treatment of non-controlling interests or any other non-voting right factors in respect of control is not material to the consolidated financial statements.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

2.7 Revenue from contracts with customers and interest income

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods. The disclosure of significant accounting judgements and estimates relating to revenue from contracts with customers is provided in Note 3.

2.7.1 Sale of goods

Revenue from sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods. Our most commonly used standard payment terms are 30 days net end of month.

i) Performance obligations

The Group considers whether there are other undertakings in the sales contract that are separate performance obligations to which a portion of the transaction price needs to be allocated, such as warranties. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration and consideration payable to the customer (if any).

ii) Variable consideration

If the consideration in a sales contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some sales contracts provide customers with sales volume rebates. The sales volume rebates give rise to variable consideration.

iii) Sales volume rebates

The Group provides retrospective sales volume rebates to certain customers once, amongst other matters, the quantity of goods purchased during a predetermined period exceeds thresholds specified in the sales contract. To estimate the variable consideration for these expected future rebates, the Group applies the most likely amount method for sales contracts with a single-volume threshold and the expected value method for sales contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the sales contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates. Sales volume rebate liabilities, both estimated and actual, are netted off against the associated trade receivables.

2. Summary of significant accounting policies CONTINUED

2.7.2 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.

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 useful 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 2019

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 expected useful 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	10 to 15 years
Customer relationships	5 to 15 years
Licences	10 years

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 in current assets with the associated liabilities being included in 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.

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. Summary of significant accounting policies CONTINUED

2.13 Leasing

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17.

The Group adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adoption of IFRS 16 at 1 January 2019 was as follows:

	£m
Assets	
Right-of-use assets	14.0
Total assets	***14.0***
Liabilities	
Lease liabilities	14.0
Total liabilities	***14.0***
Total adjustment on equity:	
Retained earnings	-
Non-controlling interests	-
	-

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, plant and machinery. Before the adoption of IFRS 16, the Group classified its leases as finance or operating leases, based on an evaluation of the terms and conditions, whether it retained or acquired the significant risks and rewards of ownership of these assets and accordingly whether the lease required an asset and liability to be recognised on the balance sheet. Leases where the lessor retained a significant portion of the risks and benefits of ownership of the asset were classified as operating leases and accordingly the leased asset was not capitalised, lease payments were charged in the income statement as expense on a straight-line basis over the lease term, and any prepaid or accrued lease payments were recognised under prepayments and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using incremental borrowing rates at the date of initial application.

The Group also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, at 1 January 2019:

- right-of-use assets of £14.0m were recognised and presented separately in the balance sheet. Additional lease liabilities of £14.0m (included in interest bearing loans and borrowings) were recognised; and
- there was no deferred tax impact.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies CONTINUED

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments at 31 December 2018 as follows:

	£m
Operating lease commitments at 31 December 2018	14.0
Additional lease commitments identified at 31 December 2018	2.0
	16.0
Weighted average incremental borrowing rate at 1 January 2019	3.12%
Discounted operating lease commitments and liabilities at 1 January 2019	**14.0**

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its expected useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

c) Amounts recognised in the balance sheet and income statement

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets				Lease liabilities
	Freehold land and buildings £m	Plant and other equipment £m	Motor vehicles £m	Total £m	£m
At 1 January 2019	8.5	5.1	0.4	14.0	(14.0)
Additions	0.1	3.8	0.1	4.0	(4.0)
Depreciation of right-of-use assets	(1.5)	(1.4)	(0.3)	(3.2)	–
Unwind of discount on lease liabilities	–	–	–	–	(0.3)
Settlement of lease liabilities	–	–	–	–	3.5
At 31 December 2019	**7.1**	**7.5**	**0.2**	**14.8**	**(14.8)**

2. Summary of significant accounting policies CONTINUED

2.14 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not recognised at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 currently hold any fair value through other comprehensive income financial assets.

Financial assets at amortised cost

The Group measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash and cash equivalents, trade receivables and amounts owed by associated undertakings.

Derecognition

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

- the rights to receive cash flows from the asset have expired; or
- 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all financial assets not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each balance sheet date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies CONTINUED

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, lease liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, lease liabilities, deferred and contingent consideration, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities 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. The only financial liability at FVTPL that is not designated as an effective hedging instrument is the deferred and contingent consideration – see Note 17.

Loans and borrowings

After initial recognition, interest-bearing 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 financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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. The difference in the respective carrying amounts, together with any costs or fees incurred, is 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 there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.15 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward foreign currency exchange contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. 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.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

2. Summary of significant accounting policies CONTINUED

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for as described below:

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.

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

Note 29 sets out the details of the fair values of the derivative financial instruments used for hedging purposes.

2.16 Fair values

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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 29.

2.17 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.

2.18 Cash and short-term deposits

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

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies CONTINUED

2.19 Pensions

The Group operates defined contribution pension plans. 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.

2.20 Non-underlying items

The Group presents discontinued operations, amortisation of intangible assets, significant 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 a more meaningful comparison with prior and future periods to assess trends in financial performance. The tax effect of the above is also included.

2.21 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.

2.22 Cash dividend

The Group recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Group. Under UK company law a distribution is authorised when it is approved by the shareholders. A corresponding amount is then recognised directly in equity.

2.23 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.

2.24 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 is 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 Measurement of intangible assets

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification of which intangible assets meet the recognition criteria as set out in IAS 38, the fair values attributable to those intangible assets, and the useful lives of individual intangible assets. The Group has applied judgement in determining whether amounts contingently payable to previous owners of the businesses we have acquired should be recognised as a remuneration cost in the income statement, or within total consideration that is allocated to the fair value of assets and liabilities included in the balance sheet.

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

3. Judgements and key sources of estimation uncertainty CONTINUED

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 Provisions and contingent liabilities
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.

The Directors assess the likelihood that financial targets will be achieved in order to trigger a contingent liability to the previous owners of the businesses we have acquired, to quantify the possible range of that contingent liability, and to how that contingent liability should be calculated and disclosed in the consolidated financial statements. Due to the inherent uncertainty in this process, actual liabilities may be different from those originally estimated.

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.

4. New and amended standards and interpretations

Standards which have been adopted in the year

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019

IFRS 16, Leases
The Group adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. The background, nature of the effect of adoption and summary of new accounting policies with regard to IFRS 16 are provided at Note 2.13.

IFRIC 23, Uncertainty Over Income Tax Treatments
IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12, Income Taxes. Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions and concluded that any challenge by the tax authorities is unlikely to have a material impact on the Group.

Standards issued but not yet effective
There were no standards or interpretations issued which have an effective date after the date of these consolidated financial statements that the Group reasonably expects to have an impact on disclosures, financial position or performance.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

The Group 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.

	2019			2018		
	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m
Continuing operations						
Segmental revenue	**264.8**	**197.1**	**461.9**	249.9	197.2	447.1
Inter-segment revenue	**(4.5)**	**(9.8)**	**(14.3)**	(4.6)	(9.3)	(13.9)
Revenue	**260.3**	**187.3**	**447.6**	245.3	187.9	433.2
Underlying operating profit*	**53.4**	**24.7**	**78.1**	46.3	27.7	74.0
Non-underlying items – segmental	**(3.5)**	**(5.4)**	**(8.9)**	(3.6)	(4.5)	(8.1)
Segmental operating profit	**49.9**	**19.3**	**69.2**	42.7	23.2	65.9
Non-underlying items – Group			**(1.6)**			(0.1)
Operating profit			**67.6**			65.8
Non-underlying items – finance costs			**(0.2)**			(0.7)
Finance costs			**(7.3)**			(6.9)
Profit before tax			**60.1**			58.2

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 122, and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £10.7m (2018: £8.9m) are set out below at Non-underlying items before tax.

Balance sheet

	31 December 2019		31 December 2018	
	Total assets £m	Total liabilities £m	Total assets £m	Total liabilities £m
Continuing operations				
Residential Systems	**354.9**	**(72.3)**	346.9	(68.1)
Commercial and Infrastructure Systems	**288.0**	**(44.9)**	268.9	(35.0)
Total segment assets/(liabilities)	**642.9**	**(117.2)**	615.8	(103.1)
Current and deferred income taxes	**–**	**(14.3)**	–	(17.3)
Net debt excluding lease liabilities	**47.7**	**(197.7)**	46.2	(210.4)
Total – Group	**690.6**	**(329.2)**	662.0	(330.8)
Net assets		**361.4**		331.2

5. Segment information CONTINUED

Capital additions

	2019 £m	2018 £m
Residential Systems	**11.8**	13.0
Commercial and Infrastructure Systems	**9.9**	10.9
Continuing operations	**21.7**	23.9
Discontinued operations	**–**	0.1
Total – Group	**21.7**	24.0

Depreciation of property, plant and equipment

	2019 £m	2018 £m
Residential Systems	**9.1**	8.3
Commercial and Infrastructure Systems	**7.5**	7.0
Continuing operations	**16.6**	15.3
Discontinued operations	**–**	0.3
Total – Group	**16.6**	15.6

Non-underlying items before tax

	2019 £m	2018 £m
Residential Systems – amortisation of intangible assets	**3.5**	2.1
Residential Systems – acquisition costs	**–**	1.5
Commercial and Infrastructure Systems – amortisation of intangible assets	**4.0**	3.8
Commercial and Infrastructure Systems – acquisition costs	**1.4**	0.7
UK operations	**8.9**	8.1
Group – unwind of discount on contingent consideration	**0.2**	0.1
Group – unamortised debt issue costs written off	**–**	0.6
Group – acquisition costs	**1.6**	–
Group – loss on disposal of assets classified as held-for-sale	**–**	0.1
Continuing operations	**10.7**	8.9
Discontinued operations: profit from discontinued operations	**–**	(0.3)
Total – Group	**10.7**	8.6

Geographical analysis

Revenue by destination	2019 £m	2018 £m
Continuing operations		
UK	**401.2**	387.1
Rest of Europe	**23.6**	21.5
Rest of World	**22.8**	24.6
Total – Group	**447.6**	433.2

Non-current assets	31 December 2019 £m	31 December 2018 £m
Continuing operations		
UK	**536.7**	515.7
Rest of Europe	**5.5**	4.4
Rest of World	**0.2**	0.2
Total – Group	**542.4**	520.3

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, goodwill and other intangible assets.

The Group has two customers (2018: two) which individually accounted for more than 10% of the Group's total continuing revenue during 2019. These customers account for 17.0% and 13.5%, respectively (2018: 16.9% and 14.2%, respectively) and are included in both reporting segments.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

6. Operating profit

	2019 £m	2018 £m
Income statement charges		
Continuing operations		
Depreciation of property, plant and equipment (owned)	**16.6**	15.3
Depreciation of right-of-use assets	**3.2**	–
Cost of inventories recognised as an expense	**255.2**	251.8
Operating lease payments – minimum lease payments	**–**	3.9
Research and development costs written off	**0.9**	0.7
Discontinued operations		
Depreciation of property, plant and equipment (owned)	**–**	0.3
Cost of inventories recognised as an expense	**–**	13.5
Income statement credits – continuing operations		
Profit on disposal of property, plant and equipment	**0.8**	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:

	2019 £m	2018 £m
Audit of the Company's annual financial statements	**–**	–
Audit of the Company's subsidiaries	**0.5**	0.3
Total audit fees	**0.5**	0.3

The Group did not make any payments to the Company's auditor for non-audit services (2018: £nil).

8. Non-underlying items

Non-underlying items comprised:

	2019			2018		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Administration expenses: Acquisition costs - acquisition and other M&A activity	**3.0**	**(0.1)**	**2.9**	2.2	–	2.2
Administration expenses: Loss on disposal of assets classified as held-for-sale	**–**	**–**	**–**	0.1	–	0.1
Amortisation of intangible assets	**7.5**	**(1.3)**	**6.2**	5.9	(1.0)	4.9
Finance costs: Unamortised debt issue costs written off	**–**	**–**	**–**	0.6	(0.1)	0.5
Finance costs: Unwind of discount on contingent consideration	**0.2**	**–**	**0.2**	0.1	–	0.1
Discontinued operations: Profit from discontinued operations	**–**	**–**	**–**	(0.3)	–	(0.3)
Total non-underlying items	**10.7**	**(1.4)**	**9.3**	8.6	(1.1)	7.5

Acquisition costs in 2019 relate to the acquisition of the Alderburgh group of companies and other M&A activity. The costs in 2018 relate to the acquisition of Manthorpe Building Products Holdings Limited and Permavoid Limited as explained in Note 17.

The loss on disposal of assets classified as held-for-sale relates to surplus freehold land and buildings at Wolverhampton.

Details of the unamortised debt issue costs written off are provided in Note 26.

The discontinued operations relate to the sale of Polypipe France Holding SAS as explained in Note 19.

9. Staff costs

Staff costs (including Directors) comprised:

	2019 £m	2018 £m
Continuing operations		
Wages and salaries	**98.0**	90.9
Social security costs	**10.0**	9.0
Other pension costs	**3.4**	2.8
	111.4	102.7
Discontinued operations		
Wages and salaries	**–**	1.6
Social security costs	**–**	0.7
	–	2.3
	111.4	105.0

The average monthly number of persons employed by the Group by segment was as follows:

	2019	2018
Residential Systems	**1,726**	1,699
Commercial and Infrastructure Systems	**1,335**	1,257
Continuing operations	**3,061**	2,956
Discontinued operations	**–**	53
Total – Group	**3,061**	3,009

10. Directors' remuneration

Details of the Directors' remuneration are set out below:

	2019 £m	2018 £m
Fees	**0.4**	0.3
Emoluments	**1.9**	1.9
	2.3	2.2

Further details of Directors' remuneration are provided in the Annual Report on Remuneration. The aggregate amount of gains made by the Directors on the exercise of share options during the year was £0.4m (2018: £nil).

11. Finance costs

	2019 £m	2018 £m
Interest on bank loan	**6.2**	5.8
Debt issue cost amortisation	**0.3**	0.4
Unwind of discount on lease liabilities	**0.3**	–
Other finance costs	**0.5**	0.7
Unamortised debt issue costs written off	**–**	0.6
Unwind of discount on contingent consideration	**0.2**	0.1
	7.5	7.6

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

12. Income tax

(a) Tax charged in the income statement

	2019 £m	2018 £m
Continuing operations		
Current income tax:		
UK income tax	**11.6**	11.6
Overseas income tax	**0.1**	0.1
Current income tax charge	**11.7**	11.7
Adjustment in respect of prior years	**(0.2)**	(0.5)
Total current income tax	**11.5**	11.2
Deferred income tax:		
Origination and reversal of temporary differences	**(1.3)**	(1.7)
Adjustment in respect of prior years	**0.3**	(0.1)
Total deferred income tax	**(1.0)**	(1.8)
Total tax expense reported in the income statement	**10.5**	9.4

Details of the non-underlying tax credit of £1.4m (2018: £1.1m) 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 UK standard rate of income tax for the years ended 31 December 2019 and 2018 is as follows:

	2019 £m	2018 £m
Accounting profit before tax – continuing operations	**60.1**	58.2
Accounting profit multiplied by the UK standard rate of income tax of 19.0% (2018: 19.0%)	**11.4**	11.1
Expenses not deductible for income tax	**0.6**	0.8
Non taxable income	**(0.3)**	–
Adjustment in respect of prior years	**0.1**	(0.6)
Effects of patent box	**(0.8)**	(0.9)
Effects of changes in income tax rates	**(0.4)**	–
Effects of tax losses	**–**	(0.6)
Effects of other tax rates/credits	**(0.1)**	(0.4)
Total tax expense reported in the income statement – continuing operations	**10.5**	9.4

The effective rate for the full year was 17.5% (2018: 16.2%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 16.8% (2018: 15.6%).

(c) Deferred income tax

The deferred income tax included in the Group balance sheet is as follows:

	31 December 2019 £m	31 December 2018 £m
Continuing operations		
Deferred income tax liabilities/(assets)		
Short-term timing differences	**9.2**	9.9
Capital allowances in excess of depreciation	**3.3**	2.4
Share-based payments	**(1.4)**	(0.7)
Tax losses	**(0.6)**	(0.6)
Continuing operations	**10.5**	11.0

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.

12. Income tax CONTINUED

A reconciliation of deferred income taxes for the years ended 31 December 2019 and 2018 is as follows:

	2019 £m	2018 £m
Deferred income tax reported in the income statement	**(1.0)**	(1.8)
Deferred income tax reported in other comprehensive income	**0.1**	0.2
Share-based payments excess tax benefit	**(0.6)**	(0.1)
Deferred income tax disposed	**–**	0.3
Deferred income tax acquired	**1.0**	5.7
	(0.5)	4.3

(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 in 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% (2018: 17%).

(e) Unrecognised tax losses

A deferred income tax asset of £0.6m (2018: £0.6m) is held in respect of surplus non-trading losses of £3.2m (2018: £3.7m).

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:

	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	**199,330,121**	198,989,726
Effect of dilutive potential ordinary shares	**2,263,540**	2,112,645
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**201,593,661**	201,102,371

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £9.3m (2018: £7.5m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and a more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	2019	2018
Underlying profit for the year attributable to the owners of the parent company (£m)	**58.9**	56.6
Underlying basic earnings per share (pence)	**29.6**	28.4
Underlying diluted earnings per share (pence)	**29.2**	28.1

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

14. Dividend per share

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 7.9p per share (2017: 7.5p)	**15.7**	14.9
Interim dividend for the year ended 31 December 2019 of 4.0p per share (2018: 3.7p)	**8.0**	7.4
	23.7	22.3
Proposed final dividend for the year ended 31 December 2019 of 8.1p per share (2018: 7.9p)	**16.2**	15.7

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.

15. Property, plant and equipment

	Freehold land and buildings £m	**Plant and other equipment £m**	**Total £m**
Cost			
At 1 January 2018	37.8	157.2	195.0
Additions	0.4	23.5	23.9
Disposals	–	(4.6)	(4.6)
Acquisition of businesses	8.4	2.8	11.2
Exchange adjustment	–	0.1	0.1
At 31 December 2018	46.6	179.0	225.6
Additions	2.4	19.3	21.7
Disposals	–	(11.8)	(11.8)
Acquisition of businesses	3.1	2.8	5.9
Exchange adjustment	–	(0.3)	(0.3)
At 31 December 2019	52.1	189.0	241.1
Depreciation and impairment losses			
At 1 January 2018	5.4	91.0	96.4
Provided during the year	1.1	14.2	15.3
Disposals	–	(4.5)	(4.5)
At 31 December 2018	6.5	100.7	107.2
Provided during the year	1.2	15.4	16.6
Disposals	–	(8.3)	(8.3)
Exchange adjustment	–	(0.2)	(0.2)
At 31 December 2019	7.7	107.6	115.3
Net book value			
At 31 December 2019	**44.4**	**81.4**	**125.8**
At 31 December 2018	40.1	78.3	118.4

Included in freehold land and buildings is non-depreciable land of £16.2m (2018: £14.7m).

16. Intangible assets

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Total £m
Cost						
At 1 January 2018	319.7	18.2	25.5	6.4	–	369.8
Acquisition of businesses	23.3	14.5	3.6	9.1	0.8	51.3
At 31 December 2018	343.0	32.7	29.1	15.5	0.8	421.1
Acquisition of businesses	2.6	1.7	1.2	1.9	–	7.4
At 31 December 2019	345.6	34.4	30.3	17.4	0.8	428.5
Amortisation and impairment losses						
At 1 January 2018	–	4.3	6.1	2.9	–	13.3
Charge for the year	–	2.0	2.6	1.3	–	5.9
At 31 December 2018	–	6.3	8.7	4.2	–	19.2
Charge for the year	–	2.8	2.8	1.8	0.1	7.5
At 31 December 2019	–	9.1	11.5	6.0	0.1	26.7
Net book value						
At 31 December 2019	**345.6**	**25.3**	**18.8**	**11.4**	**0.7**	**401.8**
At 31 December 2018	343.0	26.4	20.4	11.3	0.8	401.9

Goodwill is not amortised but is subject to annual impairment testing.

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 in the Group at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill allocated to each of the CGUs:

CGU	**31 December 2019 £m**	31 December 2018 £m
Building Products	**146.1**	146.1
Building Services	**31.4**	31.4
Civils	**36.0**	36.0
Nuaire	**91.3**	91.3
Manthorpe	**21.3**	21.3
Others	**19.5**	16.9
	345.6	343.0

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 1% to 2% thereafter (2018: 2% to 3%).

A pre-tax discount rate of 10.0% (2018: 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 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, which included a scenario for the potential impact of the Coronavirus, did not cause an impairment of goodwill.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

17. Acquisitions

Acquisition-related deferred and contingent consideration comprised:

	31 December 2019 £m	31 December 2018 £m
Contingent consideration on Permavoid acquisition	2.5	1.7
Deferred consideration on Alderburgh acquisition	0.9	–
	3.4	1.7

Acquisition-related cash flows comprised:

	2019 £m	2018 £m
Operating cash flows – settlement of acquisition costs		
Alderburgh	0.6	–
Manthorpe	0.3	1.6
Permavoid	0.3	0.3
Other – aborted acquisition costs	0.2	0.2
	1.4	2.1
Investing cash flows – acquisition of businesses net of cash at acquisition		
Alderburgh	12.2	–
Manthorpe	–	52.1
Permavoid	–	4.0
	12.2	56.1

Alderburgh

On 1 October 2019, the Group acquired the Alderburgh group of companies (Alderburgh), a leading designer, manufacturer and installer of plastic injection-moulded stormwater attenuation tanks, structural waterproofing and geocellular membranes, gas barrier and ventilation materials, supplying the UK, Irish and Scandinavian markets, for a total consideration of £14.0m on a cash and debt free, normalised working capital basis. The initial cash consideration of £9.7m included a payment of £0.5m for net cash on completion and is net of loans and borrowings at acquisition of £3.0m. Additional debt and debt like items amounted to £1.8m.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	4.8	4.8
Property, plant and equipment	6.0	(0.1)	5.9
Inventories	1.0	–	1.0
Trade and other receivables	3.2	–	3.2
Cash and cash equivalents	0.5	–	0.5
Trade and other payables	(3.3)	–	(3.3)
Loans and borrowings	(3.0)	–	(3.0)
Income tax payable	(0.1)	–	(0.1)
Deferred income tax liabilities	(0.4)	(0.6)	(1.0)
Net identifiable assets	**3.9**	**4.1**	**8.0**
Goodwill on acquisition			2.6
Estimated deferred consideration			(0.9)
Initial cash consideration			**9.7**

Patents, the ‘Alderburgh’ brand and customer relationships have been recognised as specific intangible assets as a result of this acquisition. Fair value adjustments principally relate to the recognition of intangible assets, the application of fair values to property, plant and equipment and the deferred income tax liabilities arising on these adjustments. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share. The goodwill is allocated entirely to the Commercial and Infrastructure Systems segment.

Post-acquisition Alderburgh has contributed £2.7m revenue and £nil underlying operating profit which is included in the Group income statement.

17. Acquisitions CONTINUED

If Alderburgh had been acquired on 1 January 2019 the Group's results for the year ended 31 December 2019 would have shown revenue from continuing operations of £462.9m and underlying operating profit of £78.8m.

The analysis of cash flows from the acquisition was as follows:

	£m
Cash consideration (included in cash flows from investing activities)	**9.7**
Cash acquired (included in cash flows from investing activities)	**(0.5)**
Loans and borrowings acquired and settled (included in cash flows from investing activities)	**3.0**
	12.2
Acquisition costs (included in cash flows from operating activities)	**0.6**
Net cash flows on acquisition	**12.8**

Acquisition costs of £0.6m were expensed and are included in non-underlying items in administration expenses.

Deferred consideration at fair value of £0.9m has been recognised at the balance sheet date. This relates to the completion payment which is payable upon agreement of the completion accounts and has been included in the purchase consideration.

Permavoid

On 31 August 2018, the Group acquired 100% of the share capital of Permavoid Limited (Permavoid), a specialist designer and supplier of surface water management solutions in commercial, residential, and sports pitch applications, for an initial cash consideration of £4.3m on a cash and debt free, normalised working capital basis, and further contingent consideration of up to £12.5m depending on the EBITDA performance of Permavoid in the two years to 30 September 2020.

Contingent consideration at fair value of £2.5m has been recognised at 31 December 2019 (2018: £1.7m). Of this, £1.4m (2018: £1.4m) is contingent on EBITDA performance in the first year of trading following acquisition and has been included in the purchase consideration. The balance of £1.1m (2018: £0.3m) has been included in non-underlying items (£0.8m in 2019 and £0.3m in 2018) and relates to a second payment that is contingent on EBITDA performance in the second year of trading following acquisition and the continued employment of key personnel. This second payment is being accrued over the two-year period. Of the £0.8m (2018: £0.3m), £0.6m (2018: £0.2m) is included in administration expenses and £0.2m (2018: £0.1m) is included in finance costs.

Contingent consideration was determined using the Directors' assessment of the likelihood that financial targets will be achieved. The fair value of the consideration has been derived by discounting the estimated cash consideration at 10.0% (being the Group's estimated risk adjusted cost of capital). The estimated cash consideration is derived from the budgets and forecasts for Permavoid.

18. 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 2019 are set out in Note 4 to the parent company financial statements.

19. Discontinued operations

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. After successful completion of the required employee consultation process, the sale was completed on 29 March 2018.

The table below provides further detail of the profit from discontinued operations included in non-underlying items:

	2018 £m
Revenue	16.7
Expenses	(16.4)
Profit before tax	0.3
Income tax	–
Profit from discontinued operations	0.3

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

20. Inventories

	31 December 2019 £m	31 December 2018 £m
Raw materials	17.9	19.1
Work in progress	8.1	6.0
Finished goods	33.7	33.0
	59.7	58.1

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. The provision at 31 December 2019 was £4.3m (2018: £4.2m).

21. Trade and other receivables

	31 December 2019 £m	31 December 2018 £m
Trade receivables	36.1	31.3
Amounts owed by associated undertakings	0.3	0.2
Prepayments	4.4	5.9
	40.8	37.4

Trade receivables are non-interest bearing and are generally settled on 30 days' credit.

Expected credit losses

The Group maintains a substantial level of credit insurance covering the majority of its trade receivables which mitigates against expected credit losses. Therefore, such credit losses are not significant.

The ageing of trade receivables at the balance sheet date was as follows:

	31 December 2019			31 December 2018		
	Gross £m	Allowance for expected credit losses £m	Net £m	Gross £m	Allowance for expected credit losses £m	Net £m
Not past due	30.7	–	30.7	27.2	–	27.2
Past due 1–30 days	4.1	–	4.1	3.4	–	3.4
Past due 31–90 days	0.9	–	0.9	1.2	(0.5)	0.7
Past due more than 90 days	1.3	(0.9)	0.4	0.1	(0.1)	–
	37.0	(0.9)	36.1	31.9	(0.6)	31.3

The movements in the allowance for expected credit losses of trade receivables comprised:

	£m
At 31 December 2017	0.5
Charged to the income statement during the year	0.1
Utilised during the year	–
At 31 December 2018	0.6
Acquisition of businesses	0.5
Charged to the income statement during the year	0.2
Utilised during the year	(0.4)
At 31 December 2019	**0.9**

22. Cash and cash equivalents

Cash and cash equivalents comprised:

	31 December 2019 £m	31 December 2018 £m
Cash at bank and in hand	**47.7**	46.2

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.

23. Share capital and reserves

Share capital

	31 December 2019		31 December 2018	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**201**	**201,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**201**	**201,000**	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.

During the year, the authorised share capital was increased by £1,000 by the issue of 1,000,000 ordinary shares of £0.001 each.

Capital redemption reserve

Following the consolidation and subdivision 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

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 2019, the Group held 2,504 (2018: 221,211) of its own shares at an average cost of 420p (2018: 292p) per share. The market value of these shares at 31 December 2019 was less than £0.1m (2018: £0.7m). The nominal value of each share is £0.001.

The EBT held 648,986 shares at 31 December 2019 (2018: 748,000) at an average cost of 0.1p (2018: 422p) per share. The market value of these shares at 31 December 2019 was £3.5m (2018: £2.4m). 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 and forward foreign currency derivatives as discussed in Note 26.

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, and lease liabilities. At 31 December 2019, the Group had bank debt of £199.0m (2018: £212.0m), an undrawn committed revolving credit facility of £101.0m (2018: £88.0m), cash of £47.7m (2018: £46.2m), an uncommitted accordion facility of £50.0m (2018: £50.0m) and lease liabilities of £14.8m (2018: £nil). 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 2019 and 31 December 2018.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

24. 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 2018 Number	Granted Number	Dividend accrual Number	Exercised Number	Lapsed/ forfeited Number	**31 December 2019 Number**	Date first exercisable	Expiry date
2014 Sharesave (granted 2016)	2.21	1,188,342	–	–	(1,103,229)[1]	(38,049)	**47,064**	1 Nov 2019	30 April 2020
2014 Sharesave (granted 2017)	3.10	933,890	–	–	(7,554)[2]	(71,727)	**854,609**	1 Nov 2020	30 April 2021
2014 Sharesave (granted 2018)	2.98	884,324	–	–	(2,220)[3]	(128,050)	**754,054**	1 Nov 2021	30 April 2022
2014 Sharesave (granted 2019)	3.05	–	1,253,043	–	–	(16,699)	**1,236,344**	1 Nov 2022	30 April 2023
2014 LTIP (granted 10 May 2016)	Nil	495,276	–	–	(129,896)[4]	(163,818)	**201,562**	10 May 2019	10 May 2026
2014 LTIP (granted 31 May 2016)	Nil	77,743	–	–	(68,259)[5]	(9,484)	**–**	31 May 2019	31 May 2026
2014 LTIP (granted 2 May 2017)	Nil	462,587	–	–	–	(13,210)	**449,377**	2 May 2020	2 May 2027
2014 LTIP (granted 22 May 2017)	Nil	10,960	–	–	–	–	**10,960**	22 May 2020	22 May 2027
2014 LTIP (granted 2 May 2018)	Nil	521,317	–	–	–	(22,051)	**499,266**	2 May 2021	2 May 2028
2014 LTIP (granted 30 April 2019)	Nil	–	539,628	–	–	–	**539,628**	30 April 2022	30 April 2029
2014 LTIP (granted 22 Nov 2019)	Nil	–	23,531	–	–	–	**23,531**	22 Nov 2022	22 Nov 2029
DSBP (granted 25 April 2017)	Nil	8,694	–	208	(4,121)[5]	–	**4,781**	25 April 2020	25 April 2027
DSBP (granted 2 May 2018)	Nil	18,625	–	530	–	–	**19,155**	2 May 2020	2 May 2028
DSBP (granted 30 April 2019)	Nil	–	30,560	870	–	–	**31,430**	30 April 2021	30 April 2029
Other share awards (granted 31 May 2016)	Nil	11,146	–	208	(11,354)[5]	–	**–**	16 May 2019	31 May 2026
Other share awards (granted 21 March 2018)	Nil	30,755	–	–	–	–	**30,755**	30 June 2020	21 March 2028
		4,643,659	1,846,762	1,816	(1,326,633)	(463,088)	**4,702,516**		

[1] The weighted average share price at the date of exercise of these options was £4.59.

[2] The weighted average share price at the date of exercise of these options was £4.53.

[3] The weighted average share price at the date of exercise of these options was £4.99.

[4] The weighted average share price at the date of exercise of these options was £4.29.

[5] The weighted average share price at the date of exercise of these options was £4.30.

At 31 December 2019, 248,626 share options were exercisable at a weighted average exercise price of £0.42 per share. At 31 December 2018, no share options were exercisable.

Sharesave Plan

Sharesave Plan options were granted to eligible employees on 17 September 2019 at an exercise price of £3.05 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 2022 to 2023.

Long-Term Incentive Plan (LTIP)

LTIP options were awarded to a number of senior executives on 30 April 2019. These options have an exercise date of 2022 to 2029. 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.

24. Share-based payments CONTINUED

Deferred Share Bonus Plan (DSBP)

On 30 April 2019, the Executive Directors received an award of shares under the DSBP relating to the 2018 annual bonus.

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, 11,354 were exercised on 6 June 2019 including 905 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 were as follows:

	2014 LTIP options granted 30 April 2019	2014 LTIP options granted 22 November 2019	2014 Sharesave options granted 2019
Share price at the date of grant	£4.40	£4.67	£3.79
Exercise price	Nil	Nil	£3.05
Shares under option	539,628	23,531	1,253,043
Vesting period (years)	3.00	3.00	3.25
Expected volatility	29.3%	25.6%	30.5%
Median volatility of the comparator group	30.9%	28.5%	n/a
Expected life (years)	3.00	3.00	3.25
Risk free rate	0.83%	0.48%	0.49%
Dividend yield	2.64%	2.55%	3.14%
TSR performance of the Company at the date of grant	36.8%	46.8%	n/a
Median TSR performance of the comparator group at the date of grant	7.9%	25.4%	n/a
Correlation (median)	28.0%	23.6%	n/a
Fair value per option	£3.58	£4.02	£0.92

	2014 LTIP options granted 2 May 2018	2014 Sharesave options granted 2018
Share price at the date of grant	£3.87	£3.73
Exercise price	Nil	£2.98
Shares under option	528,864	933,693
Vesting period (years)	3.00	3.25
Expected volatility	30.3%	29.2%
Median volatility of the comparator group	29.8%	n/a
Expected life (years)	3.00	3.25
Risk free rate	0.89%	0.89%
Dividend yield	2.87%	3.00%
TSR performance of the Company at the date of grant	3.6%	n/a
Median TSR performance of the comparator group at the date of grant	1.4%	n/a
Correlation (median)	24.6%	n/a
Fair value per option	£3.20	£0.92

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.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

24. Share-based payments CONTINUED

	2019 £m	2018 £m
Share-based payments charge for the year	**1.2**	1.0

25. Trade and other payables

	31 December 2019 £m	31 December 2018 £m
Trade payables	**74.2**	76.7
Other taxes and social security costs	**9.5**	9.4
Accruals	**13.8**	13.5
	97.5	99.6

Trade payables are non-interest bearing and generally settled on 30 to 60 day terms.

26. Financial liabilities

	31 December 2019 £m	31 December 2018 £m
Non-current loans and borrowings:		
Bank loan – principal	**199.0**	212.0
– unamortised debt issue costs	**(1.3)**	(1.6)
Total non-current loans and borrowings	**197.7**	210.4

	31 December 2019 £m	31 December 2018 £m
Other financial liabilities:		
Trade and other payables	**97.5**	99.6
Forward foreign currency derivatives	**–**	0.1
Interest rate swaps	**0.5**	1.0
Lease liabilities	**14.8**	–
Other liabilities	**1.0**	0.7
Deferred and contingent consideration	**3.4**	1.7
	117.2	103.1

Bank loan

On 19 November 2018, the Group entered into an Amendment and Restatement Agreement with various lenders in respect of the Group's previous revolving credit facility agreement dated 4 August 2015. The bank loan, which comprises a £300.0m revolving credit facility and £50.0m uncommitted accordion facility, is secured and matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible). Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 0.90% 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 2019 was 1.65% (2018: 1.65%).

The Group incurred £1.7m of debt issue costs in respect of entering into the Amendment and Restatement Agreement dated 19 November 2018 which have been capitalised and are being amortised to the income statement over the term of the facility to November 2023. Unamortised debt issue costs of £0.6m in respect of entering into the Amendment and Restatement Agreement dated 4 August 2015 were written off to the income statement in 2018.

At 31 December 2019, the Group had available, subject to covenant headroom and excluding the £50.0m uncommitted accordion facility, £101.0m (2018: £88.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2019.

26. Financial liabilities CONTINUED

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 2019, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2019
Interest cover (Underlying operating profit : Finance costs excluding debt issue cost amortisation)	>4.0:1	11.3:1
Leverage (Net debt excluding lease liabilities : pro forma EBITDA)	<3.0:1	1.5:1

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 November 2023, though there exists the option to apply to extend the leverage covenant to 3.5:1 for a limited period of time if the Group makes an acquisition.

27. 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 2018 £m
Land and buildings	
Within one year	0.4
After one year, but not more than five years	3.1
More than five years	4.8
	8.3
Plant and equipment	
Within one year	0.3
After one year, but not more than five years	2.8
More than five years	2.6
	5.7
	14.0

Capital commitments

At 31 December 2019, the Group had commitments of £4.0m (2018: £3.7m) relating to plant and equipment purchases.

28. Related party transactions

Compensation of key management personnel (including Directors):

	2019 £m	2018 £m
Short-term employee benefits	**2.8**	2.6
Share-based payments	**0.5**	0.3
	3.3	2.9

Key management personnel comprises the Executive Directors and key divisional managers.

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

29. Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings, deferred and contingent consideration, lease liabilities, derivative financial instruments 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.

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 £300m 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 of 1.735% (2018: 1.735%) (excluding margin):

	Notional amount £m
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**
2019		
10% strengthening of Pounds Sterling: against Euro	**(0.5)**	**(0,1)**
10% weakening of Pounds Sterling: against Euro	**0.6**	**0.1**
10% strengthening of Pounds Sterling: against United Arab Emirates Dirham	**(0.2)**	**–**
10% weakening of Pounds Sterling: against United Arab Emirates Dirham	**0.3**	**–**
2018		
10% strengthening of Pounds Sterling: against Euro	(0.4)	(0.1)
10% weakening of Pounds Sterling: against Euro	0.5	0.1
10% strengthening of Pounds Sterling: against United Arab Emirates Dirham	(0.2)	(0.1)
10% weakening of Pounds Sterling: against United Arab Emirates Dirham	0.3	0.1

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.

29. Financial risk management objectives and policies CONTINUED

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 homogeneous 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 21 which is adjusted for forward-looking information.

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 2019, 56.9% (2018: 69.0%) 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 (£47.7m at 31 December 2019) and its undrawn committed revolving credit facility (£101.0m at 31 December 2019) which matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible).

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 2019 and 31 December 2018 is the carrying amounts as illustrated in Note 22.

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 £47.7m and undrawn and committed credit facilities of £101.0m at 31 December 2019, 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 2019

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	**–**	**–**	**199.0**	**199.0**
Other financial liabilities:				
Trade and other payables	**97.5**	**–**	**–**	**97.5**
Deferred and contingent consideration	**2.3**	**1.1**	**–**	**3.4**
Forward foreign currency derivatives	**6.2**	**0.4**	**–**	**6.6**
Interest rate swaps	**–**	**0.5**	**–**	**0.5**
Lease liabilities	**0.7**	**2.2**	**11.9**	**14.8**
Other liabilities	**–**	**–**	**1.0**	**1.0**
	106.7	**4.2**	**211.9**	**322.8**

31 December 2018

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	212.0	212.0
Other financial liabilities:				
Trade and other payables	99.6	–	–	99.6
Deferred and contingent consideration	–	1.4	0.3	1.7
Forward foreign currency derivatives	1.9	2.3	–	4.2
Interest rate swaps	–	–	1.0	1.0
Other liabilities	–	–	0.7	0.7
	101.5	3.7	214.0	319.2

Notes to the Group Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

29. Financial risk management objectives and policies CONTINUED

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 liabilities and their carrying amounts and fair values:

	Carrying value £m	**Fair value £m**
Forward foreign currency derivatives (designated as hedging instruments)	**–**	**–**
Interest rate swaps (designated as hedging instruments)	**0.5**	**0.5**
Interest bearing loans and borrowings due after more than one year (designated as financial liabilities measured at amortised cost)	**197.7**	**197.7**
Deferred and contingent consideration (designated as financial liabilities at FVTPL)	**3.4**	**3.4**
Lease liabilities (designated as financial liabilities measured at amortised cost)	**14.8**	**14.8**
Total at 31 December 2019	**216.4**	**216.4**

	Carrying value £m	Fair value £m
Forward foreign currency derivatives (designated as hedging instruments)	0.1	0.1
Interest rate swaps (designated as hedging instruments)	1.0	1.0
Interest bearing loans and borrowings due after more than one year (designated as financial liabilities measured at amortised cost)	210.4	210.4
Deferred and contingent consideration (designated as financial liabilities at FVTPL)	1.7	1.7
Total at 31 December 2018	213.2	213.2

The fair values were determined as follows by reference to:

- Forward foreign currency derivatives: quoted exchange rates.
- Interest rate swaps: market values.
- Deferred and contingent consideration: Directors' assessment of the likelihood that financial targets will be achieved – see Note 17.
- Lease liabilities: present value of lease payments to be made over the lease terms.

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, with the exception of deferred and contingent consideration which is categorised as Level 3, 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 2019 and 2018.

30. Consolidated cash flow statement

The net cash flows in respect of the discontinued operations of Polypipe France were as follows:

	2018 £m
Operating	(1.2)
Investing	(0.6)
Financing	(2.4)
Net cash outflow	(4.2)

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 2019

	Notes	31 December 2019 £m	31 December 2018 £m
Non-current assets			
Investments	4	**242.7**	234.8
Current assets			
Amounts owed by subsidiary undertakings and other receivables	5	**91.0**	95.5
Total assets		**333.7**	330.3
Current liabilities			
Amounts owed to subsidiary undertakings and other payables	6	**(135.9)**	(110.4)
Net assets		**197.8**	219.9
Capital and reserves			
Equity share capital	7	**0.2**	0.2
Capital redemption reserve	7	**1.1**	1.1
Own shares	7	**–**	(3.8)
Retained earnings		**196.5**	222.4
Total equity		**197.8**	219.9

Included in retained earnings is a loss for the year of £2.3m (2018: £8.5m profit).

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

Martin Payne
Director
17 March 2020

Paul James
Director
17 March 2020

Company Registration No. 06059130

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 31 December 2017	0.2	1.1	(4.3)	235.4	232.4
Profit for the year	–	–	–	8.5	8.5
Total comprehensive income for the year	–	–	–	8.5	8.5
Dividends paid	–	–	–	(22.3)	(22.3)
Share-based payments charge	–	–	–	1.0	1.0
Share-based payments settled	–	–	0.5	(0.2)	0.3
At 31 December 2018	0.2	1.1	(3.8)	222.4	219.9
Loss for the year	–	–	–	(2.3)	(2.3)
Total comprehensive income for the year	–	–	–	(2.3)	(2.3)
Dividends paid	–	–	–	(23.7)	(23.7)
Share-based payments charge	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.8	(1.4)	2.4
Share-based payments excess tax benefit	–	–	–	0.3	0.3
At 31 December 2019	**0.2**	**1.1**	**–**	**196.5**	**197.8**

Company Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £m	2018 £m
Operating activities		
(Loss) / profit before tax	**(2.3)**	8.5
Net finance income	**(2.2)**	(11.5)
Operating loss	**(4.5)**	(3.0)
Non-cash items: Share-based payments	**0.3**	0.2
Operating cash flows before movement in working capital	**(4.2)**	(2.8)
Movement in working capital:		
Payables	**1.4**	0.2
Inter-group balances	**28.9**	13.1
Net cash flows from operating activities	**26.1**	10.5
Investing activities		
Interest received	**2.2**	11.5
Investment in subsidiary undertakings	**(7.0)**	–
Net cash flows from investing activities	**(4.8)**	11.5
Financing activities		
Dividends paid	**(23.7)**	(22.3)
Proceeds from exercise of share options	**2.4**	0.3
Net cash flows from financing activities	**(21.3)**	(22.0)
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 2019

1. Authorisation of financial statements

The parent company financial statements of Polypipe Group plc (the 'Company') for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 17 March 2020 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 2019 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented, except for the adoption of new standards effective as of 1 January 2019. The accounting standards and interpretations that have become effective in the current reporting period are as listed below:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	1 January 2019

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 2019 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 2019.

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.

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies CONTINUED

2.5 Cash dividend

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. Under UK company law a distribution is authorised when it is approved by the shareholders. A corresponding amount is then recognised directly in equity.

2.6 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.

2.7 Financial instruments

The Company policy for accounting for financial instruments is consistent with the Group policy detailed in Note 2.14 of the Group's consolidated financial statements. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's only financial assets are amounts owed by subsidiary undertakings – see Note 5.

3. Dividend per share

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 7.9p per share (2017: 7.5p)	**15.7**	14.9
Interim dividend for the year ended 31 December 2019 of 4.0p per share (2018: 3.7p)	**8.0**	7.4
	23.7	22.3
Proposed final dividend for the year ended 31 December 2019 of 8.1p per share (2018: 7.9p)	**16.2**	15.7

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 2018	234.0
Additions – share-based payments	0.8
At 31 December 2018	234.8
Additions – share-based payments	0.9
Waiver of interest costs and dividend payments	7.0
At 31 December 2019	242.7
Net book value	
At 31 December 2019	**242.7**
At 31 December 2018	234.8
At 1 January 2018	234.0

In 2019, an adjustment in respect of share-based payments of £0.9m (2018: £0.8m) 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 £3.5m (2018: £2.6m).

On 13 March 2019, the Company agreed to waive future interest costs on Eurobond securities, and dividend payments on preference shares, due to it by Pipe Holdings 1 plc. On the same date, £7.0m of historical interest costs and dividend payments due to the Company by Pipe Holdings 1 plc were waived.

4. Investments CONTINUED

The companies in which the Company had an interest at 31 December 2019 are shown below:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Alderburgh Limited[1]	England & Wales	Ordinary £1	100%*
Alderburgh Ireland Limited[2]	Republic or Ireland	Ordinary €1	100%*
Drain Products Europe BV[3]	The Netherlands	Ordinary €100	100%*
Environmental Sustainable Solutions Ltd[1]	England & Wales	Ordinary £1	100%*
Equaflow Ltd[1]	England & Wales	Ordinary £1	50%*
Ferrob Ventilation Ltd[1]	England & Wales	Ordinary £1	100%*
Hayes Pipes (Ulster) Limited[4]	Northern Ireland	Ordinary £1	100%*
Home Ventilation (Ireland) Limited[5]	Northern Ireland	Ordinary £1	100%*
Infra Green Limited[1]	England & Wales	Ordinary £1	100%*
Insulated Damp-Proof Course Limited[1]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Limited[1]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Holdings 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%*
Nuaire Limited[1]	England & Wales	Ordinary £1	100%*
Nuhold Limited[1]	England & Wales	Ordinary £0.1	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%*
Oracstar Limited[1]	England & Wales	Ordinary £1	100%*
Oval (1888) Limited[1]	England & Wales	Ordinary £0.01	100%*
Permavoid Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) LLC[6]	United States of America	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[7]	Luxembourg	Ordinary £1	100%
Plumbexpress Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Limited[1]	England & Wales	Ordinary £0.1	100%*
Polypipe Building Products Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Civils Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Commercial Building Systems Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe (Ireland) Ltd[4]	Northern Ireland	Ordinary £1	100%*
Polypipe Italia SRL[8]	Italy	Ordinary €0.52	100%*
Polypipe Middle East FZE[9]	United Arab Emirates	Ordinary 1m UAE Dirhams	100%*
Polypipe T.D.I. Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Holdings Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Trading Limited[1]	England & Wales	Ordinary £0.1	100%*

Notes to the Company Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2019

4. Investments CONTINUED

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Polypipe (Ulster) Limited[4]	Northern Ireland	Ordinary £1	100%*
Polypipe Ventilation Limited[1]	England & Wales	Ordinary £1	100%*
Robimatic Limited[1]	England & Wales	Ordinary £1	100%*
Solutek Environmental Limited[1]	England & Wales	Ordinary £1	100%*
Surestop Limited[1]	England & Wales	Ordinary £1	100%*
Sustainable Water and Drainage Systems BV[3]	The Netherlands	Ordinary €1	50%*
Sustainable Water and Drainage Systems Limited[1]	England & Wales	Ordinary £1	50%*
Tree Ground Solutions BV[3]	The Netherlands	Ordinary €10	50%*
Water Management Solutions LLC[10]	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 Ballybrack, Kilmacthomas, Co. Waterford.
3 Kattenburgerstraat 5, 1018, JA, Amsterdam, The Netherlands.
4 Dromore Road, Lurgan, Co. Armargh, BT66 7HL.
5 19 Bedford Street, Belfast, BT2 7EJ.
6 251 Little Falls Drive, Wilmington, Delaware, 19808-1674, United States of America.
7 15 Boulevard F.W. Raiffeisen, L-2411 Luxembourg.
8 Localita Pianmercato 5C-D-H, 16044 Cicagna, Genova, Italy.
9 PO Box 18679, Showroom A2 SR 07, First Al Khail Street, Jebel Ali Free Zone, Dubai, United Arab Emirates.
10 Level 15, Commercial Bank Plaza, West Bay, Doha, Qatar.

5. Amounts owed by subsidiary undertakings and other receivables

	31 December 2019 £m	31 December 2018 £m
Amounts owed by subsidiary undertakings	**90.5**	95.3
Deferred income tax assets	**0.5**	0.2
	91.0	95.5

No allowance for expected credit losses is deemed necessary in respect of amounts owed by subsidiary undertakings.

6. Amounts owed to subsidiary undertakings and other payables

	31 December 2019 £m	31 December 2018 £m
Amounts owed to subsidiary undertakings	**134.1**	110.0
Other payables	**1.8**	0.4
	135.9	110.4

7. Share capital and reserves

Share capital

	31 December 2019		31 December 2018	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**201**	**201,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**201**	**201,000**	200	200,000

* Millions of shares.

7. Share capital and reserves CONTINUED

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

During the year, the authorised share capital was increased by £1,000 by the issue of 1,000,000 ordinary shares of £0.001 each.

Details of share options in issue on the Company's share capital and share-based payments are set out in Note 24 to the Group's consolidated financial statements.

Capital redemption reserve

Following the consolidation and subdivision 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.

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 loss for the year dealt with in the financial statements of the Company was £2.3m (2018: £8.5m profit for the year).

The only employees remunerated by the Company were the Directors of the Company. Remuneration paid to the Directors 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

The following table provides the analysis of transactions that have been entered into with related parties:

	31 December 2019		31 December 2018	
	Purchases from related parties £m	**Amounts owed to related parties £m**	Purchases from related parties £m	Amounts owed to related parties £m
Polypipe Limited	**24.1**	**134.1**	24.6	110.0

	Interest received £m	**Amounts owed by related parties £m**	Interest received £m	Amounts owed by related parties £m
Pipe Holdings 1 plc:				
Eurobonds	**1.7**	**64.9**	9.0	68.7
Preference shares	**0.5**	**18.3**	2.5	19.3
Other	**–**	**0.9**	–	0.9
Pipe Holdings 2 Limited	**–**	**6.4**	–	6.4
	2.2	**90.5**	11.5	95.3

Other related party transactions are disclosed in Note 28 to the Group's consolidated financial statements.

Shareholder Information

Financial calendar

Preliminary Announcement of Results for the year ended 31 December 2019	17 March 2020
Annual General Meeting	21 May 2020
Final dividend for year ended 31 December 2019	
– Ex-dividend date	23 April 2020
– Record date	24 April 2020
– Payment date	28 May 2020
Half yearly results for six months ending 30 June 2020	11 August 2020
Half yearly dividend for six months ending 30 June 2020	
– Ex-dividend date	27 August 2020
– Record date	28 August 2020
– Payment date	17 September 2020

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

https://www.linkassetservices.com/contact-us

Telephone: 0371 664 0300 (Shareholders)
If you are outside the United Kingdom, please call +44 (0) 371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open 9 am – 5:30 pm Monday to Friday, excluding public holidays in England and Wales.

E-mail: shareholderenquiries@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.

This is not a recommendation to buy or sell shares. If you have any doubts about what action to take, you should seek advice from an appropriately qualified professional adviser.

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

Principal Group Businesses

UK & IRELAND

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 Building Services
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

Manthorpe Building Products
Brittain Drive
Codnor Gate Business Park
Ripley
DE5 3ND

Alderburgh
Solutions House
Dane Street
Rochdale
OL11 4EZ

Alderburgh Ireland
Ballybrack
Kilmacthomas
Co. Waterford
Republic of Ireland

MAINLAND EUROPE

Polypipe Italia
Localita Pianmercato 5C-D-H
16044 Cicagna, Genova
Italy

Permavoid
Kattenburgerstraat 5
1018, JA
Amsterdam
The Netherlands

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

Citibank
London

HSBC
Birmingham

NatWest
Leeds

REGISTRAR AND TRANSFER OFFICE

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

STOCKBROKERS

Deutsche Bank AG
Numis Securities Limited

Shareholder Notes

Consultancy, design and production by:
jonesandpalmer.co.uk

Polypipe Group plc

Broomhouse Lane
Edlington
Doncaster
DN12 1ES
United Kingdom
T: +44(0)1709 770000
F: +44(0)1709 770001

Stock Code: PLP

MIX
Paper from responsible sources
FSC® C100528
www.fsc.org