To view the annual report online:

investors.polypipe.com/year-in-review

Polypipe Group plc

Annual Report and Accounts

FOR THE YEAR ENDED 31 DECEMBER 2018

Stock Code: PLP

WELCOME

CONTENTS

Polypipe helps professionals create sustainable, engineered water management and climate management solutions for the built environment. We are one of Europe's largest and most innovative manufacturers of piping, underfloor heating and energy-efficient ventilation.

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

Polypipe constantly innovates, researches and develops. This provides a unique position for the Group, enabling Polypipe to offer solutions that help deal with the pressures placed on urban environments, existing infrastructure and natural resources.

WHAT WE DO

Polypipe develops **engineered solutions for construction projects**, including some of the most prestigious buildings and infrastructure schemes.

Placing the management of water and the healthy ventilation of buildings at the heart of its strategy, Polypipe is able to **provide solutions** to some of the most pressing environmental challenges in these construction projects.

Polypipe's focus on the management and movement of water and air has influenced the development of Polypipe's range of systems, enabling the Group to offer products and systems that help to contribute to **a safer, healthier, and more sustainable built environment** and to help respond to the trends of global warming and increased urbanisation.

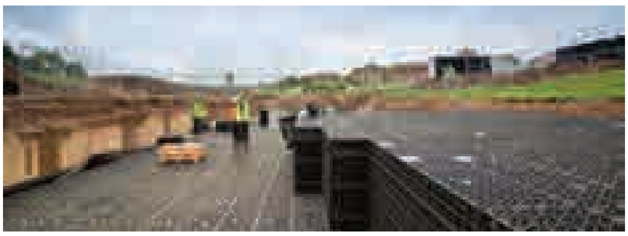
Polypipe's staff, at all levels, have a clear understanding of the Group's **mission** to **lead the way in the development of future-proof plumbing, drainage and ventilation systems** that make use of **modern sustainable materials** and best practices in engineering, manufacturing and construction.

OUR PURPOSE

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

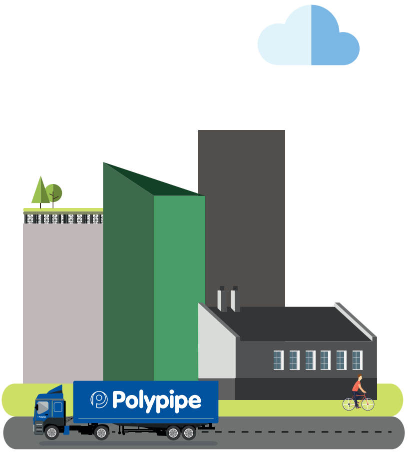
Polypipe's mission is to lead the way in the development of future-proof plumbing, drainage and ventilation systems that make use of modern sustainable materials and best practices in engineering, manufacturing and construction.

OUR VALUES

TRUST. SUPPORT. EXPERIENCE. INNOVATION.

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

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

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 Business Model on pages 14 and 15

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 Business Model on pages 14 and 15

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 Value Creation Model on pages 16 and 17

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 Marketplace on pages 10 and 11

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 the CFO's Report on pages 36 to 41

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 Our Sustainable Journey on pages 24 to 31

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

HIGHLIGHTS

Financial Highlights

REVENUE

↑5.2%

2018	£433.2m
2017	£411.7m

UNDERLYING OPERATING PROFIT

↑1.9%

2018	£74.0m
2017	£72.6m

PROFIT BEFORE TAX

↑4.7%

2018	£58.2m
2017	£55.6m

OPERATING CASH FLOW AFTER NET CAPEX*

↑23.4%

2018	£71.2m
2017	£57.7m

UNDERLYING BASIC EPS FROM CONTINUING OPERATIONS

↑4.4%

2018	28.4pps
2017	27.2pps

* Before non-underlying items

Operational Highlights

- UK revenue growth ahead of industry benchmark at 5.9% relative to Construction Products Association winter forecast decline of 0.2% for 2018
- Residential Systems revenue 9.8% higher and 8.5% higher on a like-for-like basis with strong growth in housebuilding sector
- Commercial and Infrastructure revenues declined 0.2% for the year but a strong second-half performance of 6.7% growth (of which 5.3% was on a like-for-like basis) benefitted from successful product launches and new road projects gaining momentum
- Price increases successfully passed through to mitigate cost inflation
- Second-half acquisitions – Permavoid and Manthorpe – performing in line with our expectations and integration progressing well
- France disposal completed in March 2018
- Alternative manufacturing strategy delivered in the Middle East
- Recycled plastic represents an improved 40.2% of the Group's overall plastic usage (2017: 34.0%)

CASE STUDY

Location:

University Arms Hotel, Cambridge

Consultant: **Colin Bowen, Johns Slater & Haward**

Main Contractor: **RG Carter Projects**

Products: **Air Handling Units (AHU)**

The Project

Heat recovery at the University Arms Hotel. Retrofitting a full heat recovery system presented a complex range of challenges.

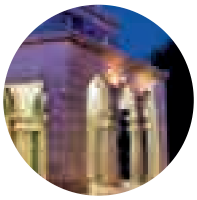
The University Arms Hotel in Cambridge opened in 1834 as the city's first hotel. Since then, it has undergone extensive redevelopments in 1891, 1900, 1925 and, finally, in the 1960s, when the original Regency section along Regent Street was demolished and replaced with a discordant structure typical of the period.

The hotel has now reopened after an £80m transformation, which combined a complex heat recovery retrofit with a sympathetic restoration scheme. The redevelopment is a collaboration between architect John Simpson – who oversaw the replacement of the 1960s extension – and interior designer Martin Brudnizki. The process of designing the ventilation strategy for the hotel began in 2013 and the final design was completed by Johns Slater & Haward engineer Colin Bowen in 2016.

The overriding intention of the Mechanical and Electrical (M&E) design was to make significant improvements to the energy efficiency of the existing building fabric – a challenge considering much of the original façade and floor levels had been retained. The importance of indoor air quality in delivering high levels of occupant comfort, including a good night's sleep, led the design team to introduce mechanical supply and extract ventilation with heat recovery to every bedroom.

Retrofitting a full heat recovery system presented a complex range of challenges. Getting ductwork to 192 bedrooms through limited ceiling voids across levels that do not line up laterally, and down risers that do not stack vertically, was complicated enough, but connecting the refrigerant pipework to 192 fan coil units and the usual water system pipework made complicated seem impossible. Bowen opted for a central plant solution and turned to Nuaire for help in designing the air handling units (AHUs).

Every dimension on the roof was constrained. In plan view, the available roof space was restricted to a small plant area above the new-build section, with much of the early roofline protected by planning, including the iconic copper turrets.



The height dimension was equally pressured as the new roofline is visible from Parker's Piece, Cambridge's historic park, and planning restricted the visibility of plant equipment.

Two bespoke AHUs, serving a total of 4.4m3.s-1 of fresh filtered air to the bedrooms, split west and east, were used. Thermal wheels were used to provide the heat recovery mechanism, and purge sectors were applied to prevent cross-contamination of exhaust air onto the supply. The design team worked in millimetre intervals to squeeze the maximum air volume out of each AHU, the largest of which has a supply and extract rate of 2.9m3.s-1 with a unit height of just 2,222mm.

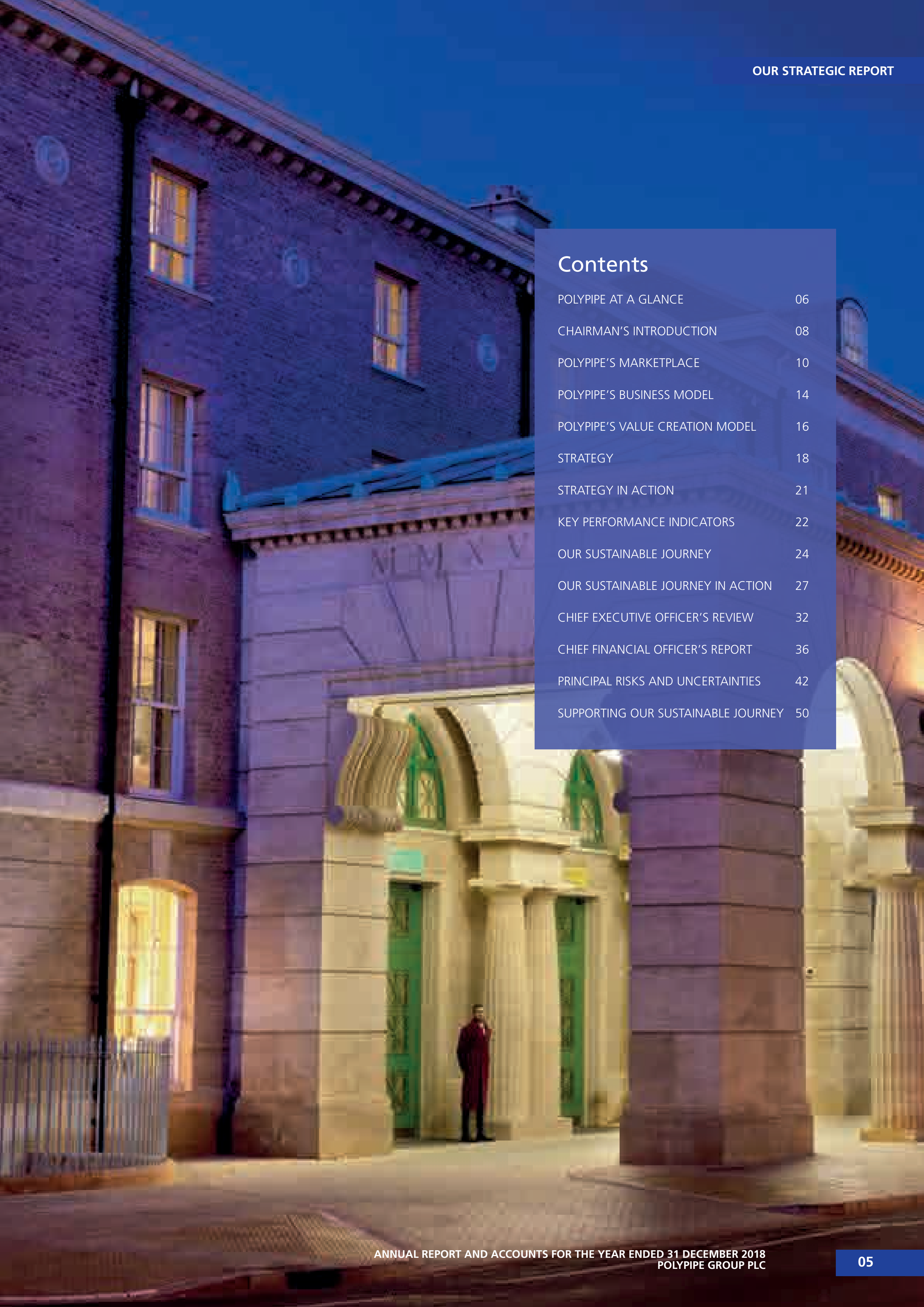
"Getting ductwork to 192 bedrooms through limited ceiling voids across levels that do not line up laterally, and down risers that did not stack vertically, was complicated."

Johns Slater & Haward designed an innovative ductwork solution to avoid 'crossovers', protecting the corridor ceiling heights, an architecturally stunning feature. Splitting the supply air into two smaller ducts running either side of a larger central extract duct allowed the extract connections to pass over the supply, eliminating the need to cross large ducts. This unlocked many other engineering challenges, allowing the design team to think laterally. By separating ventilation ducts and other services onto alternating floors, space was created for the water pipes and refrigerant connections.

A void containing air conditioning pipes and wet services on one floor, serving 'above and below', meant the next floor up had a free void for ventilation ducts, again serving the upper and lower levels. This pattern was repeated on the next two storeys creating alternate layers of vent ducts or pipes. The challenge with any central plant solution – especially one as complicated as this – is routing and concealing the large distribution ducts serving the many risers. The decision was taken to raise the existing roof level to the highly sensitive Parker's Piece elevation to accommodate the lateral run. This move, coupled with the compact unit design, helped conceal all plant services from sight, and preserve the visual detail of the eastern façade.

"Cambridge's University Arms Hotel refurbishment had to accommodate a complex heat recovery system on a constrained site with strict planning restrictions."

– Andrew Bott, Regional Sales Engineer at Nuaire



Contents

POLYPIPE
AT A GLANCE

Placing the management of water and the healthy ventilation of buildings at the heart of its strategy, Polypipe is able to provide solutions to some of the most pressing environmental challenges in construction projects.

Polypipe's focus on the management and movement of water and air has influenced the development of Polypipe's range of systems, enabling the Group to offer products and systems that help to contribute to a safer, healthier, and more resilient built environment.

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

Our divisions

We operate through our two divisions:

Residential Systems

REVENUE
£245.3m

UNDERLYING OPERATING PROFIT
£46.3m

AREAS OF APPLICATION

- Above and below-ground drainage
- Stormwater drainage
- Sewer drain
- Water supply
- Plumbing and heating supply
- Underfloor heating systems
- Mechanical Ventilation with Heat Recovery
- Positive Input Ventilation
- Indoor air quality solutions
- Roofline finishing and accessories
- Air leakage prevention products
- Smart controls
- Conservation products
- Merchandised, pre-packaged components

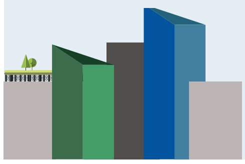
Commercial and Infrastructure Systems

REVENUE
£187.9m

UNDERLYING OPERATING PROFIT
£27.7m

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

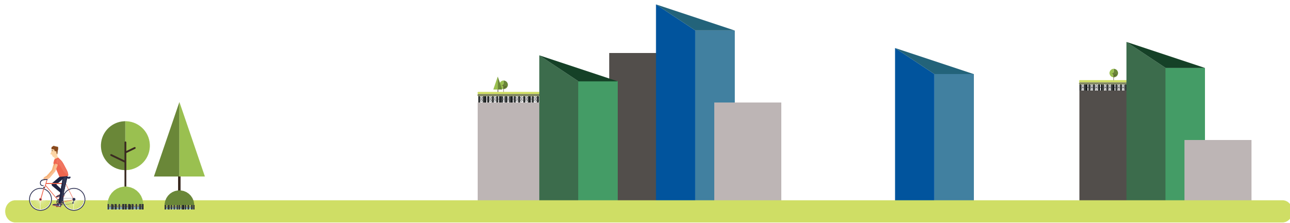


Read more on our divisions in Marketplace on pages 10 and 11

Market-leading position

We invest in our manufacturing base in order to maintain our market-leading position. At Polypipe we have 18 locations: 14 in the UK, one in Italy, one in the Netherlands and two in the Middle East. There are additional overseas opportunities that we are considering, in line with our strategic objective focused on geographic reach.

We will continue to develop our exports and geographic reach – our solutions respond to challenges that are global in nature. We will achieve this by leveraging our skills, technical knowledge and intellectual property across a wider market reach. This will be focused on the right sectors of the market where we believe we can make acceptable returns.



Acquisitions

Our acquisitions support our market-leading position by filling product gaps, enhancing our current solutions offer and by opening opportunities for extending our geographic reach. In 2018, Polypipe has acquired:

Permavoid Limited is a specialist designer and supplier of surface water management solutions in commercial, residential, and sports pitch applications. The acquisition of Permavoid is a small but important step towards delivering on our strategic goals.

Read more on the Permavoid acquisition on page 35

Manthorpe Building Products Holdings Limited is a leading designer and manufacturer of moulded and extruded plastic and metal products for water and climate management applications in the UK and Irish residential and RMI markets.

Read more on the Manthorpe acquisition on pages 54 and 55

18
FACILITIES IN THE UK, CONTINENTAL EUROPE AND THE MIDDLE EAST

3,064
EMPLOYEES IN THE GROUP

514
SALES AND TECHNICAL SUPPORT PEOPLE

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**

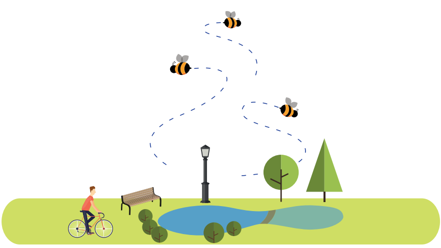
CHAIRMAN'S INTRODUCTION

"With a clear strategy, a continued focus on continuing to grow the M&A agenda as well as continuing to invest in and develop the Group's current solutions, alongside its experienced and dedicated senior management team and workforce, I am confident that the Group will continue to thrive during 2019."

Ron Marsh
Chairman

OVERVIEW

I am pleased to present the Polypipe 2018 Annual Report and Accounts following another excellent year for the Group. Despite the continued economic and political uncertainty that has prevailed during the year and the mixed conditions in the UK construction market performance, our end markets continue to perform well, with the Group growing UK revenue significantly ahead of the UK construction market. As well as managing this growth, the Group has also seen a number of changes during the year, including the sale of the French business in March, the acquisition of Permavoid in August and the acquisition of Manthorpe in October. There were also some key leadership changes during the year, including the appointment of Paul James as CFO following Martin Payne's promotion to CEO, and the appointment of Louise Hardy as a Non-Executive Director in June. The Group also carried out a refinancing of its revolving credit facility in November 2018, well in advance of the 2020 expiry date.



RESULTS

Performance throughout 2018 has been strong, with a 5.2% increase in revenue to £433.2m and a 1.9% increase in underlying operating profit at £74.0m. UK revenue growth was up 5.9%, which is materially ahead of the overall UK construction market. Underlying operating margin was robust at 17.1%, despite continued input cost inflation, and underlying diluted earnings per share increased by 4.5% to 28.1 pence per share. Our strong cash generation enabled the Group to fund acquisitions net of disposals of £42.5m during the course of the year whilst net debt only increased by £15.8m to £164.2m (2017: £148.4m), resulting in net debt of 1.7 times pro forma EBITDA compared with 1.6 times for the prior year.

DIVIDEND

We have again maintained our dividend policy and I am pleased to report that the Board recommends a final dividend of 7.9 pence per share, giving a full year dividend of 11.6 pence per share for the year ended 31 December 2018, a 4.5% increase on the prior year.

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

REVIEW OF STRATEGY

During 2018, the key objectives of the Board included:

- Continued investigation and delivery on selected development and acquisition opportunities.
- Targeting investment to support the continued growth of our key businesses.
- Continuing to develop our core manufacturing capabilities by investing in further new capacity and automation to help grow both revenues and profit organically.

Good progress was made against these objectives during 2018.

In addition to our ongoing initiatives, in 2019 our attention will be focused upon:

- Continued progression of the Group's M&A agenda.
- Ensuring that the organisational structure of the Group continues to be appropriate in light of the recent acquisition activity and the longer-term M&A agenda.

Read more about our Strategy on pages 18 to 21

PEOPLE

The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Group's strong performance. In 2018, the Board and I spent time visiting some of our sites in the UK, and continue to be impressed by the knowledge, enthusiasm and commitment of our employees across the Group. Strong leadership in each business unit by experienced and dedicated management teams is a key differentiator, and the integration of employees within the businesses acquired during the year has been well executed and further strengthens the pool of talent across the Group.

BOARD EVALUATION

Following the externally facilitated review of our Board's performance in 2016, an internal review of the Board, its Committees and individual Directors was carried out in 2018 using an evaluation questionnaire. The results of the evaluation were discussed by the Board at its meeting in November, and the Board concluded that it continued to function strongly and collaboratively. Suggestions for minor improvements were made and the outcome of the evaluation process is discussed in more detail on page 65. It is the Board's intention, in compliance with the requirements of the UK Corporate Governance Code, to carry out an externally facilitated evaluation in 2019.

CULTURE

The Board is conscious of 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 2019.

SUMMARY

The Group has made significant progress during 2018 and the strong performance in the year is testament to the strength of the growth drivers on which the Group's strategy is based. With a clear strategy, a continued focus on continuing to grow the M&A agenda as well as continuing to invest in and develop the Group's current solutions, alongside its experienced and dedicated senior management team and workforce, I am confident that the Group will continue to thrive during 2019.

Ron Marsh
Chairman

Read more about our Governance on pages 59 to 73

POLYPIPE'S MARKETPLACE

THE OVERALL UK CONSTRUCTION MARKET HAS REMAINED RESILIENT IN SPITE OF RISING POLITICAL UNCERTAINTY AND SOME FUNDAMENTAL MACRO-ECONOMIC CHALLENGES.

Even within this challenging environment, there remains sustained demand for value-adding, engineered solutions such as those proposed by Polypipe.

The UK construction market

TRENDS

Slower UK economic growth and investment uncertainty are expected to weigh on construction output in the private sectors. According to the latest CPA forecast, the outlook for overall construction output is broadly flat in 2019 (+0.3% growth) and +1.6% in 2020. This, combined with the persistent uncertainty associated with the conditions of Brexit, seems to be acting as a brake to major new investment in private sector construction, especially for new high-end residential and commercial office projects within London that may be reliant on investment from sources outside the UK.

From an economic point of view, other uncertainties, such as the implications of continued cost inflation, continued pressure on real wages and its impact on consumer confidence, and the availability of skilled construction labour post-Brexit may also affect the rate of construction growth in 2019 and 2020.

WHAT THIS MEANS FOR POLYPIPE

Nevertheless, even in a difficult market, there remains considerable demand for value-engineered solutions that deliver incremental value onsite and which help resolve project-specific issues. For example, demand continues to rise for solutions that reduce the requirement for skilled workers onsite; investment continues in flood alleviation schemes, or school renovation schemes that require both indoor air quality and reduced energy consumption.

OUR PORTFOLIO

Polypipe's ability to grow sales ahead of the market, even in challenging market conditions, validates its strategy of legacy material substitution and innovation in solutions that address legislative tailwinds. Our portfolio continues to evolve towards value-adding, smart solutions that provide engineered performance and are capable of being pre-assembled offsite.

THE UK DEMAND DRIVERS

Growth in the number of households in England has exceeded housing completions consistently since the economic crisis of 2008, which, supported by the Government's policy of Help-to-Buy schemes, has helped to sustain a fundamental level of demand for housing, which has driven construction activity in the private housing sector in particular. Other trends such as the lack of affordable homes and the emerging shortage of site labour are encouraging the emergence of new business models, such as build offsite and modular construction, which may open further opportunities for Polypipe in the future.

RESIDENTIAL

Output in the private housing sector continued to grow +5% in 2018 and is expected to rise further in 2019 and 2020 albeit at a slower rate; growth in housing starts is expected to slow from an average growth rate of +10.4% between 2013 and 2017, to +2.0% in 2019 and +1.0% in 2020.

PROPERTY TRANSACTIONS

Overall numbers of transactions remain relatively subdued from a historic perspective. UK property transactions decreased -0.8% in 2017 and were -3.1% lower in January to November 2018 than in the corresponding period of the previous year. Annual property transaction volumes have remained at around 1.2 million per year since 2014. Bank of England data shows that the number of mortgage approvals followed a similar trend to property transactions, after declining -1.6% in 2017, falling -2.5% year-on-year in January-November 2018, to an average of 65,000 per month.

UK HOUSE PRICE INFLATION

UK house price inflation in 2018 appears to be broadly flat (+0.4%) compared to 2017 according to Nationwide, indicating that the supply of properties onto the market slowed in line with demand. As long as house prices continue to rise, housebuilders will manage site activity to increase completions, especially given that the Government's Help-To-Buy schemes have skewed demand towards new house builds. A key part of the housebuilding market that appears to have been adversely affected over the past year is prime London properties. Real estate consultant JLL forecast a 14% bounce back in London house prices over the next five years, once the conditions of Brexit become clear.

RM&I SECTOR

The private housing repair, maintenance and improvement (RM&I) sector was worth an estimated £21.5 billion in 2018, showing zero growth from 2017. The subdued trend of property transactions over the past year would suggest falling output in the private RM&I sector, particularly given that a higher proportion of transactions than normal involve new house builds, encouraged by Help-To-Buy. As a result, output from private RM&I is forecast to remain flat in 2019, before growing +2.0% in 2020.

PUBLIC HOUSING ACTIVITY

The main driver of housebuilding activity by housing associations and local authorities is funding through the Affordable Homes Programme. Since 2015, Government policy for funding has been amended several times. Hence, public housing output was weak in 2018, falling -2.0% on 2017 in spite of certainty over grant funding. Output for public housing is expected to grow +1.0% in 2019 and remain flat into 2020.

COMMERCIAL SECTOR OUTPUT

Despite a 5.3% decline in output in 2018, activity in the commercial sector still remains at relatively high historic levels, particularly in the offices subsector, due to projects on site that were signed up to between 2015 and the second quarter of 2016, prior to the EU referendum. The lag between new orders and output in the commercial sector has historically tended to be around 12-18 months, and it is only during 2018 that we have seen the fall in new orders translate into declining output. As a result, commercial sector output overall is expected to fall by -8.0% in 2019 and -1.5% in 2020 as the fall in orders feeds through the project pipeline.

INFRASTRUCTURE SECTOR OUTPUT

Overall output in the infrastructure sector is expected to rise by 8.8% in 2019 and 7.7% in 2020 driven by work on large-scale infrastructure projects in the rail, water and sewerage and electricity sub-sectors, in particular. Output in roads construction, where Polypipe has significant exposure, is expected to remain flat in 2018, with delays in some projects pushing demand into future years. Looking ahead, output is forecast to increase +3.0% in 2019 and +5.0% in 2020, driven by a pick-up in activity in the final two years of Highways England's £15.2 billion first Road Investment Strategy (RIS). This scheme is due to be rolled forward into a second Road Investment Strategy (RIS2), which will run from 2020/21 to 2024/25, with £25.3bn announced in the Autumn Budget 2018 for RIS2.

POLYPIPE'S MARKETPLACE

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

- Investment in product development and innovation
- Focus on sustainability and building a world-class sustainable business
- Long-standing customer relationships
- Manufacturing scale, productivity and logistics efficiency
- Intellectual property and expertise that can be leveraged across different geographies
- Value-added engineered solutions

Balanced sales split and market exposure

Polypipe has a **balanced mix of business** that covers the Residential, Commercial and Infrastructure construction sectors; and within each of these, the activities of New Build and Repair, Maintenance and Improvement (RM&I) sub-sectors.

This **broad exposure** across the sectors provides a **counter-cyclical balance** to the more volatile peaks and troughs of the new-build cycle, and provides even **further opportunity** for Polypipe to provide **effective solutions to new and emerging legislation, substitute legacy building materials,** and therefore to **deliver above-market growth.**

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

e.g. Our workforce are experts and provide support for our customers

STRONG RELATIONSHIPS

e.g. With our suppliers, employees, shareholders, and customers

IP/EXPERTISE

e.g. We are market leaders due to our expertise and knowledge

STRONG LEADERSHIP

e.g. Strong and focused leadership team with a clear strategic vision

CAPITAL/INVESTMENT

e.g. We use our capital to invest in our people, products, productivity and potential growth opportunities

Method of value creation

SMART SOLUTIONS

e.g. Data driven monitoring and control for optimised system performance

Read case study on page 29

ENGINEERED SOLUTIONS

e.g. Bespoke one-off designs, prefabrication, underfloor heating, ventilation systems

Read case study on page 104

PIPING SYSTEMS

e.g. Pushfit plumbing, ventilation and ducting

Read case study on page 21

DISCRETE PRODUCTS

e.g. Pipe and fittings

Read case study on page 17

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

VALUE:

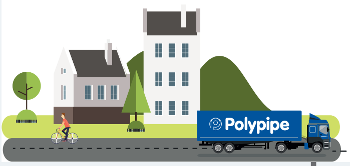
- Intelligent engineered solutions
- Smarter thinking and better solutions

Our customers

POLYPIPE HELPS PROFESSIONALS CREATE SUSTAINABLE, ENGINEERED WATER AND CLIMATE MANAGEMENT SOLUTIONS FOR THE BUILT ENVIRONMENT

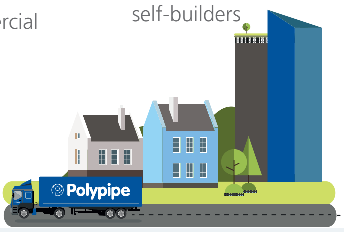
CUSTOMERS:

- One-off installers
- Contract installers
- 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

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

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

SUPPORT:

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

CAPABILITY:

- Industry authority
- Product innovation

COMPETENCE:

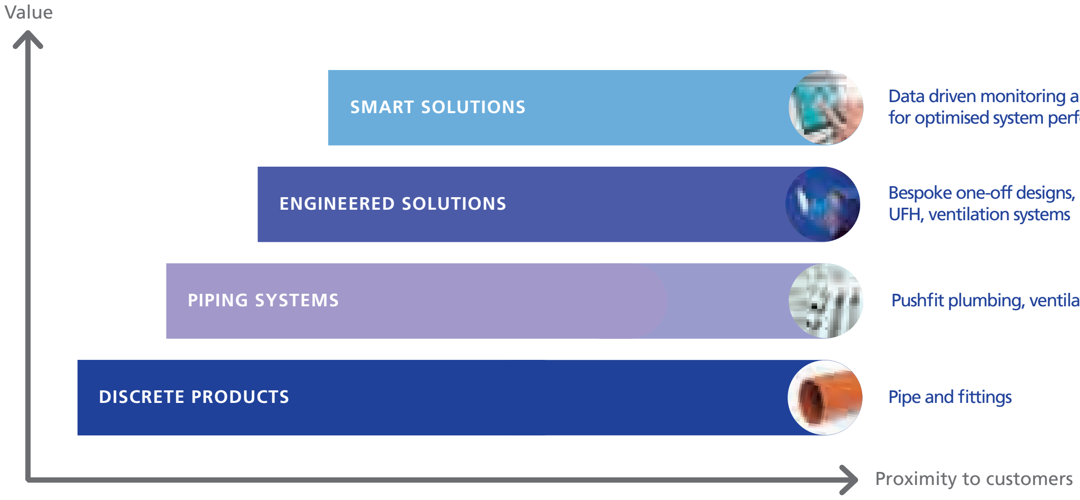
- Manufacturing and logistics scale
- Bespoke product solutions

Read more about Our Sustainability on pages 24 to 31

POLYPIPE'S
VALUE CREATION MODEL

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

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



1980s: DISCRETE PRODUCTS

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

1990s: PIPING SYSTEMS

In the mid-1990s, this proposition evolved to combine these discrete products into performance systems, such as pushfit plumbing, for example. Through developing an intimate understanding of the requirements of end customers and installers – plumbers in this case – in 1998 Polypipe launched the very successful range of non-demountable grey fittings, Polyplumb, which has since become an industry standard system offer in the UK.

2000s: ENGINEERED SOLUTIONS

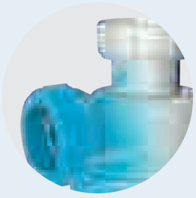
Later, this evolution continued with large diameter pipe solutions for water attenuation, leading to the development of the Polystorm geocellular range, designed to provide retention, attenuation or infiltration of stormwater runoff at a range of burial depths. Polystorm is suited to deeper burial depths and can accommodate a wide range of traffic loadings, from pedestrianised areas to large HGV parks. As a proposition, it is taken to market as bespoke one-off designs, engineered according to the particular design characteristics for each project, such as soil conditions, flood intensity requirements and flow versus retention requirements, among many other parameters. Working closely with end customers and specifying engineers in this way helps to generate pull-through demand for Polypipe's solutions through the distribution channel.

TODAY: SMART TECHNOLOGIES

This evolution is continuing through the development of smart technologies, to bring together the optimised performance of underfloor heating systems with ventilation systems, for the convenience and comfort of the building occupants. Latterly, with the deployment of Permavoid-based solutions for blue-green roofs for example, Polypipe is introducing effective Sustainable Drainage Systems (SuDS) solutions that incorporate green infrastructure designed to deliver multifunctional benefits such as rooftop amenity and the cooling of urban environments. Throughout this evolution, Polypipe has encountered new competitors, but through its progressive market reach, and managing these activities and manufacturing in-house, Polypipe generates incremental profitability while maintaining commercial competitiveness and market leadership. This collective learning and track record forms the basis of a set of competencies across the Group, which position Polypipe well for future development in the UK and further afield.

CASE STUDY

BioCote technology trap



Waste traps relaunched

BioCote antimicrobial technology added to all traps – Polypipe was the first to market with this technology.

By incorporating BioCote antimicrobial technology, Polypipe has endeavoured to bring additional features and benefits, as a source of differentiation, by officially launching the world's first antimicrobial range of traps, connectors and waste pipes.

By partnering with BioCote®, Polypipe has extended its offering far beyond what is currently available on the market – incorporating permanent, in-built protection from bacteria. These microbes not only present a potential health hazard, but they can also impact the performance of the piping by causing bad odours and impairing water flow.

- This is the only traps range on the market to be Kitemark™ accredited.
- New Fit-Rite technology for simple fitting and removability. New and improved finned seal for ease of installation.
- Contains BioCote antimicrobial technology to combat odours.
- Exclusively endorsed product by Help for Heroes (Registered Charity Number 1120920).

Read more on our Value Creation Model – Discrete Products on page 16

- This is an example of our investment in our core products range; to bring differentiated features and benefits to market, and to maintain our market leadership in a product area which is otherwise broadly commoditised.
- Targeted at the Residential sector, both new build and RM&I; but also intended to provide the merchant with something new and interesting to publicise in the plumbing aisle.

Permavoid-based solutions

Maanplein Project

Permavoid is a modular interlocking polypropylene void-former. It was originally designed as a high-strength, lightweight subbase replacement system, but as an integral part of the regeneration works in the Netherlands' city of Heerlen, the award-winning Maanplein Project is a showpiece for the possibilities of modern construction. From what was a dull, uninspiring transport hub, the project now brings together a Green Urbanisation-inspired landscape, due to the incorporation of Permavoid technology.

Situated at roof level, the innovative raised deck design of the crescent-shaped Maanplein, or Moon Square, is enhanced with trees and walkways – designed to provide shade, cooling and a pleasant, interesting and relaxing place which people can enjoy – while benefiting from a system that stores and reuses water for self-irrigation. Polypipe's Permavoid geocellular system was installed beneath permeable pavements, with additional Permavoid units to create grass-covered mounds for the trees to flourish, allowing natural drainage through the trees' roots as part of a planted drainage system. The Permavoid units include capillary cones, which provide the trees with important nutrients and water, which in turn provide natural irrigation without the use of pumps, hoses, or energy; just like nature.

Read more on our Value Creation Model – Engineered Solutions on page 16

For the renovation of the roof of Polypipe's offices in Aylesford, Kent, we took advantage of the opportunity to design and develop a new, intelligent water management system for a healthy Blue-Green roof. Controlled and monitored remotely online via a smartphone, tablet, or computer, the Cloud Water Control System combines monitoring sensors, remote valve operation technologies and cloud computing software to provide adaptive irrigation, creating the ideal conditions for plant life, while maximising water usage efficiency.

Using Permavoid's capillary cones – which draw water upwards and are unique to Polypipe geocellular systems – stored rainwater irrigates the Green roof, while sensors within the cells monitor available water levels. If a pre-determined 'low set-point' is reached, the system will open a solenoid valve to add water from the rainwater recovery tank until the correct level is reached.

Read more on our Value Creation Model – Smart Solutions on page 16

STRATEGY

VISION

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

We will do this by:

- Building a world-class sustainable business.
- Developing cost-efficient solutions to substitute legacy materials.
- Leveraging our core UK competencies across key markets around the world.

SOLUTIONS FOR THE BUILT ENVIRONMENT THAT DRIVE OUR GROWTH

Our seven strategic objectives consist of two TARGET PRODUCT SECTORS and five STRATEGIC GROWTH DRIVERS, as described on pages 19 and 20:

- These strategic objectives form a framework against which we consider our options for organic and inorganic growth.
- Together they provide significant further scope for Polypipe's continued development ahead of the market.
- For example, this framework leads us to prioritise the development of incrementally differentiated performance of our core offers (such as focusing on solutions for air quality, or water quality, in addition to those for efficiently handling large quantities of air or water), or complementary offers that fill product gaps and provide our target customers with a complete offer, or 'one-stop shop' solution.
- Also, each potential target for acquisition is considered for the extent to which it helps generate value and synergies against these objectives.
- Taken together, these strategic objectives open up opportunities in adjacent sectors (such as Manthorpe opening up opportunities for Polypipe at roof level), or in other materials (which do not necessarily have to be plastic) and so position Polypipe for sustained future growth.

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

TWO TARGET PRODUCT 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

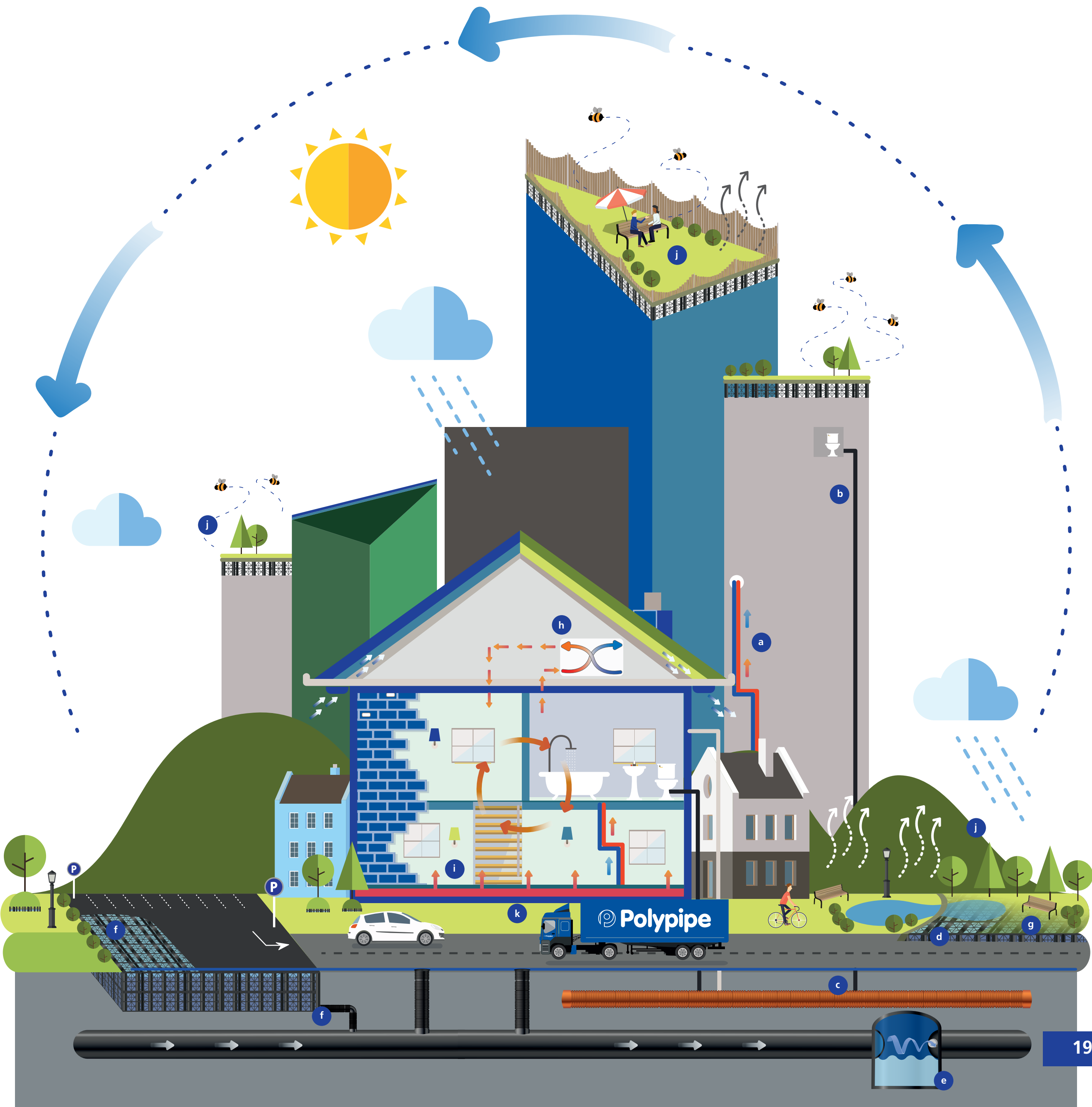
SUSTAINABLE CLIMATE MANAGEMENT SOLUTIONS

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:
STRATEGIC OBJECTIVES

FIVE STRATEGIC GROWTH DRIVERS

3 LEGACY MATERIAL SUBSTITUTION

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

4 LEGISLATIVE TAILWINDS

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

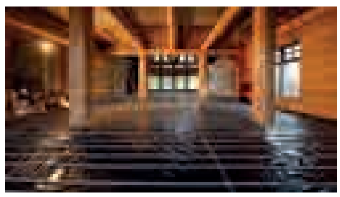
For example, Government planning policy has defined the need for sustainable drainage systems (SuDS) to ensure that flood risk is taken into account during all stages of the planning process. This planning policy is further interpreted into national frameworks, local legislation and regulations, which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

5 SMART SOLUTIONS, INNOVATION AND CONTINUOUS IMPROVEMENT

Through our focused research and development, our proven design expertise, patented technologies, detailed understanding within our sectors and our own award-winning delivery fleet, Polypipe provides solutions that integrate the latest technologies to tackle challenges faced by design engineers and drive efficiencies in our internal processes.

6 CUSTOMER-FOCUSED COMPLETE SOLUTIONS

Polypipe has extensive expertise in the plumbing, drainage and ventilation aspects of projects, and by working closely with specifying engineers, local authorities, and installation contractors, we provide a broad ranges of solutions that are value-engineered to reduce whole life costs (addressing ease of installation and cost of maintenance in service, for example) as well as providing a proven level of performance, and as such we provide a 'one-stop shop' proposition.



7 GEOGRAPHIC REACH

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

Our track record of growth in the UK, along with our experience of working with the technology licensing model deployed by the Permavoid business, form the basis of a set of unique competencies across the Group, which position Polypipe well for future development outside the UK.

STRATEGY IN ACTION

Location:

10 Fenchurch Avenue

Client: **Fitzpatrick Mechanical Services**

Application: **Above-ground drainage**

Product: **Terrain FUZE HDPE**

The Project

Polypipe supplies drainage solution to new £150m London landmark

Polypipe, the UK's leading plastic piping manufacturer, has supplied a water management system to one of London's most recognisable commercial developments.

The Group provided its Terrain FUZE HDPE plastic drainage solution to the £150m 10 Fenchurch Avenue tower in the City of London.

The 15-storey, 420,000 sq ft mixed-use property, which was designed by the award-winning Eric Parry Architects, will have a 'crown-shaped' landscaped roof garden, complete with a restaurant, pergola canopies, water feature, a range of climbing and hanging plants, and walking and seating areas.

The vast complex replaces six buildings, which were demolished throughout 2014 and 2015. Once completed, the facility will house office and retail units.

Having delivered drainage systems to tall buildings for more than 50 years, the Polypipe Terrain team was able to design and deliver an engineered solution to significantly reduce installation time and labour on-site.

Made of high-density polyethylene, Terrain FUZE HDPE weighs less than systems manufactured using materials such as copper. It is also available in longer lengths, which require less jointing once on-site. Terrain FUZE HDPE enabled installer Fitzpatrick Mechanical Services to negotiate the constraints of the building's unique design by cutting and butt welding fittings to create customised angled pipes, which improved the aesthetics of the installation. Furthermore, the use of butt welding minimised the need for couplings, significantly reducing the amount of materials stored on-site. Fabricated drainage stacks, meanwhile, also enabled Fitzpatrick Mechanical Services to make floats and sections of stacks during on-site delays, which resulted in a more efficient installation.

"The Terrain FUZE HDPE plastic involved is easy to install, durable and light in weight, which is perfect for our construction sites."

– Lee Rouvray, Contracts Director
at Fitzpatrick Mechanical Services

KEY PERFORMANCE INDICATORS

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.

FINANCIAL KPI	IMPORTANCE TO POLYPIPE
SALES GROWTH The annual percentage growth in both Group and UK (by destination) revenue from continuing operations.	As we invest in our people and operations, we must ensure that this investment is helping us to drive growth ahead of the market.
UNDERLYING OPERATING MARGIN Underlying operating profit as a percentage of revenue from continuing operations.	Indicates that we are investing in the right projects that are delivering productivity and driving out non-value-added costs.
CASH CONVERSION Operating cash flow excluding non-underlying items less net capital expenditure to underlying operating profit.	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.
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 net borrowings and taxation.	Indicates the efficient deployment of capital on the right initiatives and an effective indicator of Polypipe's overall business performance.
UNDERLYING EPS Diluted earnings per share from continuing operations adjusted for non-underlying items.	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.
NON-FINANCIAL KPI	
RECYCLING The proportion of the Group's overall plastic usage satisfied with recycled materials.	The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations.
ACCIDENT FREQUENCY The number of HSE reportable accidents and dangerous occurrences based on the current seven-day absence from work reporting requirement in the UK and although there is no direct equivalent in Mainland Europe and the Middle East, the same definition is applied.	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.
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.	A key indicator of the sustainability and efficiency of our internal production processes; consistent with our Group vision and strategy.

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

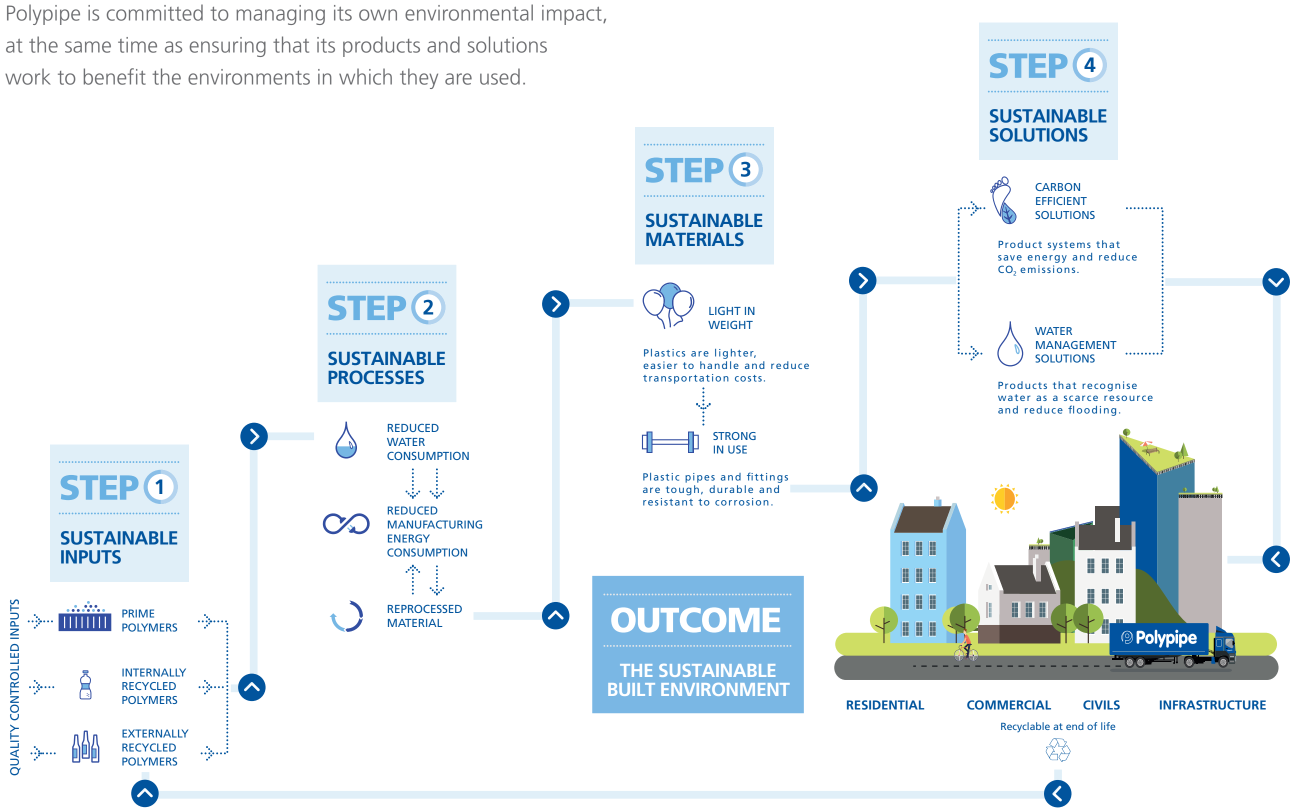
Read more about our Strategy on pages 18 to 21

PERFORMANCE	COMMENTARY	LINK TO STRATEGIC OBJECTIVES
Group %: 2018 5.2; 2017 6.3; 2016 25.3 UK %: 2018 5.9; 2017 8.1; 2016 22.3	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.	3 4 6 7
%: 2018 17.1; 2017 17.6; 2016 17.7	The Group's focus on value addition through engineered solutions allows it to deliver industry-leading operating margins.	3 4 5 6 7
%: 2018 96; 2017 79; 2016 97	Optimised working capital management combined with sustained operational profitability allow the Group to be cash generative.	3 4 5 6 7
%: 2018 16.3; 2017 16.2; 2016 15.3	The Group continues to invest in its asset base to fulfil growth ambitions; yet sustained operational profitability maintains double-digit ROCE.	3 4 5 6 7
pps: 2018 28.1; 2017 26.9; 2016 24.6	There was an increase in underlying earnings per share to 28.1 pence, indicating that the Group continues to grow profitably over the long term.	3 4 5 6 7
%: 2018 40.2; 2017 38.0; 2016 35.1	Our £5.0m investment in a large diameter continuous corrugator in Horncastle, and £2.2m investment in new multi-layer extrusion lines in Doncaster, resulted in a step-change in the proportion of overall plastic usage satisfied with recycled materials.	5 6
Frequency per 100,000 hours worked: 2018 0.36; 2017 0.36; 2016 0.55	Our overarching objective is to achieve zero accidents every year. As the Group grows, efforts continue on continuous improvement initiatives towards achieving a Group-wide, shared safety culture.	5
Intensity ratio: 2018 0.39; 2017 0.40; 2016 0.43	The continued improvement in our intensity ratio reflects our commitment to operate in an environmentally sustainable manner as the Group grows. This remains a core target of the Group and is being pursued through the continuous improvement initiatives within our operations.	1 2 5

OUR SUSTAINABLE JOURNEY

At Polypipe, we endeavour to build and develop a sustainable business, while taking solutions to market that are by nature of their application enabling a sustainable and resilient built environment.

Polypipe is committed to managing its own environmental impact, at the same time as ensuring that its products and solutions work to benefit the environments in which they are used.



SUSTAINABLE INPUTS

Polypipe has long-standing relationships with its core partner suppliers. Working closely with these suppliers allows Polypipe to assess new material formulations, to pursue cost savings or performance improvements. All of our raw materials, whether prime or recycled polymers, are sourced to a strict sustainable policy and this ensures all suppliers meet the highest standards. With ISO 9001 Quality Management and ISO 14001 Environmental Management accreditation, we only manufacture with the very best materials.

SUSTAINABLE PROCESSES

Polypipe does not just recycle all in-process material waste; we monitor every 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.

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, lowering health and safety risks on-site. Plus, these products can be recycled at the end of the life.

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 CO_2 emissions and manage water as a valuable resource. Systems such as our underfloor heating, Mechanical Ventilation with Heat Recovery and geocellular solutions provide the most comprehensive range available in our market to meet these requirements. Recycling is also an integral part of this philosophy.

THE OUTCOME

The built environment across the Residential, Commercial, Civils and Infrastructure markets contributes significantly to the environmental impact 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.

POLYMER RAW MATERIALS

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

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

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

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

Not only is the polymer material recyclable at the end of its product life, which is designed to be at least 50 years, the benefits of plastic 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.

The use of Polypipe systems greatly reduces carbon emissions in delivery and installation

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

In addition, the 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 2018, Polypipe recycled 44,700 tonnes of 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 in 2018, to produce pipes that were destined to be buried in the ground in applications that will manage and treat rainwater and stormwater.

OUR SUSTAINABLE JOURNEY

Polypipe recycled 44,700 tonnes of plastic in 2018

MANUFACTURING PROCESS

During the manufacturing process, Polypipe works hard to limit environmental impact. Taking an engineered approach to manufacturing ensures that Polypipe customers are able to receive systems that meet their needs exactly, 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, continuously searching for the optimum methods of reducing their environmental impact.

SUSTAINABLE PRACTICES

Polypipe actively participates in relevant trade bodies such as TEPPFA and the British Plastics Federation, encouraging best practice and a uniform approach to sustainability across the industry.

RESIDENTIAL DWELLINGS AND COMMERCIAL BUILDINGS

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 (see case study Project Vivaldi on page 28).

THE GROUP'S VENTILATION BUSINESS

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, in terms of providing sufficient fresh air (see case study on page 30).

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 and poor air quality through engineered system performance.

OUR SUSTAINABLE JOURNEY IN ACTION

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

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

WATER MANAGEMENT SOLUTIONS

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

In fact, to help cities become ever more resilient, Polypipe has developed systems to manage surface water, flooding, rainwater harvesting and treatment as well as recycling for reuse, while enabling the development of green infrastructure (such as green roofs, or urban green spaces, which make places for end users to enjoy) which reduces the urban heat island effect and improves air quality in the cities.

CLIMATE MANAGEMENT SOLUTIONS

As with our Water Management solutions, Polypipe's Climate Management solutions satisfy the most stringent of government legislation. We continue to invest in developing products and systems that enable and control heating, ventilation and cooling. Such solutions make built environments more energy-efficient, cleaner and more comfortable to live in.

As mentioned above, the development of green infrastructure in city environments can also be significant in helping to address the urban heat island effect and improve air quality in cities.

Together, these solutions contribute to a more sustainable and resilient built environment, not just for the benefit of governments, but for everyone.

OUR SUSTAINABLE JOURNEY IN ACTION

CASE STUDY - WATER MANAGEMENT SOLUTIONS

Project Vivaldi

In March 2018, the Vivaldi office building in Amsterdam, a blue-green roof based on Permavoid technology, was proclaimed the Roof of the Year 2017 in an industry award ceremony held in Holland.

The aim of the Roof of the Year Award is to showcase and celebrate innovation and quality within the roofing sector. A panel of six judges, all experts from across the industry, assesses a shortlist of entrants against a series of demanding criteria, namely: aesthetic value, technology, sustainability, the cooperation between the building parties and safe working practice.

This year, a diverse range of 11 projects were shortlisted from across Holland, including a sports complex, a conference centre and a hospital, which between them were all progressive demonstrations of ambitious design and outstanding craftsmanship. It was clear from the shortlisted projects that the deployment of green infrastructure on roofs is a growing trend.

Permavoid subbase during installation

The jury found that the Vivaldi office building project was an excellent demonstration of this progressiveness. They considered it to be an innovative application of dynamic water attenuation on a 'blue-green' roof, in which the aesthetically pleasing finished roof also creates a usable outdoor space and extra value for the end-user. The jury recognised the ambition shown on this project, the innovative approach and the technical soundness of the design, which saw this project named Roof of the Year 2017.

CASE STUDY - CLIMATE MANAGEMENT SOLUTIONS

Doncaster residential house

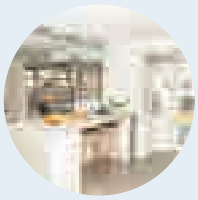
Underfloor heating allows hassle-free renovations to take place in Doncaster home

At this detached house in Balby, Doncaster, the installation of underfloor heating allowed the homeowner to achieve ambient heating in a modern open-plan design which wouldn't otherwise have been possible.

Situated in Doncaster, this 12-year-old property was constructed with radiators installed throughout. When a downstairs radiator burst, however, the homeowners took the opportunity to undertake a bigger home renovation project and upgraded the entire ground floor to underfloor heating.

To save on potentially costly and lengthy floor excavations, Polypipe's Overlay™ and Overlay™ Lite retrofit systems were used. At just 18mm in depth, the Overlay™ systems are installed directly above the floorboards, enabling the homeowner to enjoy all the benefits of underfloor heating, in an existing space, without raising the overall floor to an unacceptable level.

For this property, the homeowner had opted for a solid ceramic tile floor covering throughout the back of the house where the kitchen is located, and a wooden floor for the main living areas. The installation of underfloor heating and the associated benefits of the system allowed the homeowners to carry out further renovation works that were not previously possible.



Underfloor heating installed throughout the ground floor of this two-storey property

By removing some of the walls throughout the lower floor of the property, the homeowners redesigned their home to incorporate a more modern and open-plan design. Large scale renovations of this nature require radiators to be relocated, and to work harder, to guarantee a consistent heat output throughout a larger space. In order to distribute an ambient temperature, traditional radiators need to reach temperatures above 80°C. In contrast, underfloor heating operates effectively from as little as 40°C, meaning less energy is required for the same heat output.

To control the underfloor heating, Polypipe's latest generation of Smart Plus controls were specified. Connecting seamlessly to all Polypipe Underfloor Heating systems, Smart Plus controls provide homeowners with optimum control of their heating system throughout the home using a wall-mounted thermostat and a corresponding mobile app.

OUR SUSTAINABLE JOURNEY IN ACTION

CASE STUDY - CLIMATE MANAGEMENT SOLUTIONS

Nuaire indoor air quality test house

To coincide with National Clean Air Day on 21 June, the Company launched the Noxmaster whole-house ventilation system for the retrofit market.

The Noxmaster combines a powerful carbon filter with a strategy invented by Nuaire over 45 years ago, Positive Input Ventilation (PIV). This combination removes up to 99.5% of nitrogen dioxide and other harmful pollutants generated by traffic emissions and industrial processes. The Noxmaster delivers clean, filtered air into urban homes, improving the indoor air quality to within safe levels, as recommended by the World Health Organisation (WHO). A recent WHO report cited 44 UK cities have air too toxic to breathe safely.

TEST HOUSE

Hafodyrynys in Crumlin, Caerphilly is recorded as having the highest levels of nitrogen dioxide in the UK outside of London, second to Marylebone Road and Hyde Park Corner in Central London. This area is home to 'Wales' most polluted street', near the busy A472, and is a designated Air Quality Management Area (AQMA).

Number 14 Woodside Terrace was selected as a test house in which to install a PIV with a carbon filter system. An independent investigation was carried out by the Building Research Establishment (BRE) into the ingress of outdoor air pollutants entering the property under varying ventilation conditions. The aim of the project was to investigate the potential indoor air quality benefits from the use of a PIV system with carbon filtration.

The PIV system was installed in the loft space with air discharged into a central location of the three-storey house. The system was operated at different ventilation conditions – varying flow rates and filtration methods. Two multi-component AQMesh monitors were installed to measure the concentrations of the key urban outdoor and indoor air pollutants; namely nitrogen dioxide, ozone and particulate matter.

THE TEST

The property was set up at two differing airtightness levels. Airtightness Condition A: typical leaky property (7m³/(h.m²) @ 50Pa). Airtightness B: a property which was more airtight (5m³/(h.m²) @ 50Pa). Three scenarios were carried out at the property: naturally ventilated; PIV (with G4 filters) plus carbon filter; and PIV plus standard G4 filter.

In order to determine the effect of the building and its ventilation system on reducing indoor NO_2 concentration compared with that of outdoors, and indoor/outdoor ratio was calculated for all of the individual measurements carried out in each scenario. From these ratios, an overall mean level of NO_2 was then calculated.

SUMMARY OF RESULTS

According to BRE results, with both of the airtightness conditions investigated, the use of PIV with a carbon filter had a significant beneficial effect in reducing the outdoor NO_2 concentrations reaching the indoor environment.

As an example, airtightness condition A (7m³/(h.m²) @ 50Pa), which was the less airtight of the two conditions, showed an NO_2 indoor to outdoor air ratio of 0.67 (67% of external NO_2 ingress into the house) when naturally ventilated, and a ratio of 0.26 (26% of external NO_2 ingress into the house) when using PIV with carbon filter.

Full results for both airtightness conditions are as follows:

Airtightness Condition	Ventilation Strategy	NO_2 Indoor/ Outdoor Ratio
A	Naturally Ventilated	0.67
	PIV with Carbon Filter	0.26
B	Naturally Ventilated	0.25
	PIV with Carbon Filter	0.16

The investigation confirmed the positive effect of a PIV with a carbon filter system for reducing the ingress of outdoor NO_2 into the indoor environment of a naturally ventilated test house. The BRE report advises that the use of Nuaire's PIV system offers a potentially significant method to reduce occupant indoor exposure to NO_2. As such, it is likely to provide benefits to health and wellbeing of occupants within homes located in areas affected by high levels of outdoor air pollution.

SUMMARY

By filtering out a high level of outdoor pollutants, Noxmaster represents a step forward in indoor air quality technology for the retrofit market. Nuaire are excited to be first-to-market with this product, and to have evidence of its effectiveness with the results of this BRE investigation, document number P108640-1002 issue 3.

CHIEF EXECUTIVE OFFICER'S REVIEW

"Polypipe's balanced exposure to the different elements of the UK construction market, together with its long-term growth drivers of legacy material substitution, legislative tailwinds, and its acquisition strategy to provide our customers with a 'one-stop shop' and geographic reach, delivered another record performance in 2018."

Martin Payne
Chief Executive Officer

I am pleased to report that Polypipe has delivered another record performance in 2018, with revenue from continuing operations 5.2% higher than the prior year at £433.2m (2017: £411.7m), underlying operating profit 1.9% higher at £74.0m (2017: £72.6m), and underlying basic earnings per share 4.4% higher at 28.4 pence per share. Against a background of mixed conditions in the UK construction market, the 'Beast from the East' in February and March 2018, and uncertainty around the nature and timing of the UK withdrawal from the EU, this performance shows the robust nature of the Polypipe business model and the strength of its long-term strategic drivers of legacy material substitution and continuing legislative tailwinds in water management and climate management.

Revenue from continuing operations was 5.2% higher than the prior year

As noted in last year's report, price increases had been implemented in early 2018 to mitigate inflationary effects seen in the second half of 2017. I am pleased to report that these increases were successfully implemented progressively through the first half of the year. In 2018 oil prices rose throughout most of the year, resulting in higher raw material costs as well as increases in energy and transport costs. Wage inflation continued to track consumer price inflation. While the Group does all it can to mitigate inflation through various cost reduction measures, the scale of the oil-related inflation meant that price increases were inevitable. Further price increases have been implemented in the first quarter of 2019 to reflect this, and I am confident that these increases will be successfully delivered.

The year has also seen a number of changes to the Group, all in line with the Group's strategy, which leave it well placed to capitalise on future opportunities in its chosen markets.

On 29 March 2018, the Group completed the sale of Polypipe France Holding SAS (Polypipe France), its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe for €16.5m on a debt and cash-free normalised working capital basis. Accordingly, the results for Polypipe France have been treated as discontinued. Completion of this transaction, which represented excellent value for shareholders, was a significant step forward in implementing our strategy, allowing the Group to concentrate on its higher margin product groups in plumbing, drainage and ventilation, in both our UK and overseas markets.

In May 2018, Polypipe presented its first Capital Markets Day since it listed in April 2014. This confirmed that, following an in-depth review, the Group would continue to drive profitable organic growth through exploiting legacy material substitution and legislative tailwinds in water and climate management. The Group continues to review bolt-on acquisition opportunities to accelerate growth. Our strategic priorities are to firstly add innovative solutions to our already market-leading offer in water and climate management, in order to provide our customers with a 'one-stop shop' and secondly to provide further geographic reach to leverage our skills, technical knowledge and IP across a wider market.

In line with this strategy, the Group announced two acquisitions in the second half of the year. Permavoid Limited

(Permavoid) was acquired on 31 August 2018 for an initial consideration of £4.0m on a debt and cash-free normalised working capital basis, with a further consideration of up to £12.5m depending on financial performance in the two years to September 2020. Manthorpe Building Products Holdings Limited (Manthorpe) was acquired on 25 October 2018 for a total cash consideration of £52.1m on a debt and cash-free normalised working capital basis. The strategic rationale for acquiring these businesses is strong, with both businesses providing innovative solutions to complement the Group's existing offer, and I am excited by the prospects for these businesses in the coming years within the Group. The integration of these businesses into the Group is progressing well and both businesses are performing in line with management expectations.

Polypipe continues to be highly cash generative, notwithstanding spending £42.5m on acquisitions (net of disposals) during the course of the year and capital expenditure of 1.5x depreciation in our existing businesses. This delivered Group leverage of 1.7x pro forma EBITDA (2017: 1.6x). The Group is well invested and well placed to continue to pursue selective bolt-on acquisitions where appropriate in line with the Group's strategy, while maintaining a strong balance sheet, and a disciplined approach to capital allocation.

The Group continues to take its responsibilities towards sustainability very seriously. Although product standards and certain applications do not permit use of recycled materials in some products, wherever possible we use recycled materials instead of virgin polymer. In 2018 we used 44,700 tonnes of recycled plastics, which represents 40.2% of our overall plastic usage compared to 34.0% in 2017. Of this recycled plastic, 16,000 tonnes were from recycled milk bottles and other polyethylene consumer liquid bottles which are sourced from recycling companies such as Veolia in bales and go through our 15-stage recycling process at our plant in Horncastle, Lincolnshire.

Our strong sustainability and recycling credentials continue to be something that are important not only to Polypipe but to our customers, investors and employees, and we will continue to explore opportunities to increase our usage of recycled material wherever we can.

During the year we have followed events in the UK and across Europe as the UK moves towards withdrawal from the EU on 29 March 2019 (Brexit). In doing this we have assessed the risks to our business likely to be caused by Brexit, although this has proved difficult due to the uncertainty of the nature and timing of the withdrawal. While we are not complacent, we have concluded that Polypipe is at the lower end of the risk spectrum with regard to the impact of Brexit. With approximately 90% of our revenues derived from, and manufactured in, the UK market, we have relatively little cross-border trade. Also, if material costs increase as a result of either increased tariffs or a devaluation of Sterling, we will look to recover these increased costs in selling prices, as we have done historically when faced with cost inflation. Where it is deemed appropriate however, proportionate mitigating actions have been and are being taken, such as building raw material and finished goods stocks to allow for some supply chain disruption at ports, accelerating the refinancing of our debt facility that would otherwise have needed to have been done in the summer of 2019, taking forward currency cover and providing support to our non-UK EU colleagues, who account for approximately 13% of our UK workforce, to register for settled status.

The impact of Brexit on our end markets is difficult to predict, especially given the uncertainty around the nature of the exit. However, we continue to monitor our lead indicators around the Group and remain vigilant to any changes.

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

REVENUE

	2018 £m	2017 £m	Change %
Residential Systems	**245.3**	223.5	+9.8
Commercial and Infrastructure Systems	**187.9**	188.2	-0.2
	433.2	411.7	+5.2

UNDERLYING OPERATING PROFIT

	2018 £m	2017 £m	Change %
Residential Systems	**46.3**	44.3	+4.5
Commercial and Infrastructure Systems	**27.7**	28.3	-2.1
	74.0	72.6	+1.9

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

In 2018, we used 44,700 tonnes of recycled plastics, which represents 40.2% of our overall plastic usage

CHIEF EXECUTIVE OFFICER'S REVIEW

RESIDENTIAL SYSTEMS

Revenue in our Residential Systems segment, which is almost exclusively derived from the UK market, was 9.8% higher than the prior year at £245.3m (2017: £223.5m). The acquisition of Manthorpe on 25 October 2018 contributed £2.8m revenue in the year, leaving like-for-like growth of 8.5%. This is again considerably ahead of the market and represents a strong performance in a challenging environment.

Conditions in the UK residential markets continued in line with prior years, with growth in the new housebuild sector driven by a structural housing shortage in the UK, continued historically low mortgage rates, and demand side help for first time buyers through the Government's Help-to-Buy scheme. The Repair, Maintenance and Improvement (RMI) market, however, continues to be slow, with weak consumer confidence driven by uncertainty around the EU withdrawal process impacting private RMI, and continued austerity impacting public RMI. Within that limited public RMI spend, we have seen post-Grenfell diversion of expenditure towards fire risk-related projects impacting our performance within that segment.

Like-for-like **growth of 8.5%** *is considerably ahead of the market*

Despite these challenging conditions, our Residential Systems segment delivered a strong result for the year. The adverse weather conditions in February and March 2018 impacted first-half performance with year-on-year revenue growth at the half year of 5.9%. However, concerted efforts by the house developers to claw back some of the weather-related lost time aided by mild weather conditions during the autumn and winter, as well as a two-month contribution from Manthorpe, helped second-half revenue to grow 13.7% compared to the prior year. This exceptional level of growth presented a number of operational challenges in our businesses, with parts of the business operating at or near full capacity.

I am delighted that on 25 October 2018 the Group acquired Manthorpe, a leading designer and manufacturer of moulded and extruded plastic and metal products to the UK and Irish residential and RMI markets. It has performed in line with expectations since joining the Group and we are pleased with how the integration is progressing. As well as a strong cultural fit, the acquisition is a good strategic fit with Polypipe's Residential Systems offering in the water and climate management sectors, with differentiated, patented, value-adding products that will help us deliver a 'one-stop shop' for our customers. There are exciting operational and commercial synergies that have been identified and will be delivered during 2019 and beyond.

Manthorpe is a good strategic fit with Polypipe's Residential Systems offering

Residential Systems delivered an underlying operating profit 4.5% higher than the prior year at £46.3m (2017: £44.3m) representing an 18.9% margin (2017: 19.8%) with cost reduction activities being more than offset by the dilutive effect of price increases, the relative growth of lower margin new housebuilding volumes, and towards the end of the year, inefficiencies caused by operating at or near full capacity in certain areas. Investment in both new production equipment and yard expansion and layout improvements at our main Doncaster site are being made to alleviate these capacity bottlenecks and will provide for a return to efficient working during the current year.

COMMERCIAL AND INFRASTRUCTURE SYSTEMS

We had a particularly challenging first half in this segment, with tough market conditions and the adverse weather resulting in first-half revenue being 6.6% lower than the prior period. However, with performance significantly improving in the second half, largely through self-help measures and marginal market improvements, revenue grew 6.7% or 5.3% on a like-for-like basis, excluding the impact of the £1.3m revenue associated with the Permavoid acquisition on 31 August 2018. This resulted in full year revenue in our Commercial and Infrastructure Systems segment of £187.9m (2017: £188.2m), 0.2% lower than the prior year on a reported basis, and 0.9% lower on a like-for-like basis excluding Permavoid.

UK revenue, which accounts for 81% of the overall segment revenue, was 0.2% higher than the prior year. UK Commercial and Infrastructure markets remained difficult, particularly through the first half, with some small improvements in the second-half as road programmes, both smart motorway upgrades and new road projects, began to gather momentum. Successful product launches also helped drive second half performance. The Fuze range of HDPE electrofusion soil stacks launched by our Building Services business in the second half of 2017 has been extremely successful, complemented by the successful launch of a fabrication service supplying fully assembled soil stacks to site. The £5.0m investment in a large-diameter continuous corrugator in our Civils factory at Horncastle, which came on-stream in the first quarter of 2018, has also had encouraging early results and contributed to the second-half performance, along with the successful launch of Nuaire's IAQ-Valve and expansion of the XBC range of heat recovery ventilation units. It is encouraging to note that the development of these products is squarely in line with the Group's strategic growth pillars of legacy material substitution (for example, Fuze replacing cast iron, continuous corrugator replacing concrete) and legislative tailwinds (for example, Nuaire IAQ-Valve and XBC range driven by air quality and building energy efficiency).

Export revenue, which accounts for approximately 19% of overall segment revenue, was 1.6% lower than the prior year, with lower revenue in the Middle East driven by difficult market conditions, more than offsetting improved performance in Continental Europe. The alternative manufacturing strategy in the Middle East, announced last year, has been successfully implemented. The first production run of Permavoid product using our tooling with local subcontract injection moulders was successfully completed and sold in the second half of the year, and the closure of our Dubai manufacturing facility and transfer of production machinery back to the UK was also completed during the year.

Fuze HDPE soil stack range successfully launched

On 31 August 2018, we acquired Permavoid, a specialist designer and supplier of plastic surface water management solutions in commercial, residential and sports pitch applications. This is a great strategic fit with the Group, providing unique patented products that enhance our water management solutions offer in sustainable urban drainage systems, green infrastructure, Blue-Green roofs, podium decks and sports surface applications, as well as some exciting geographic reach opportunities. Permavoid has been used in applications throughout Europe including the redevelopment of Orlysquare in Amsterdam, the Maankwartier Heerlen development in Holland and the redevelopment of Liverpool Football Club's Anfield stadium. Through its US licensing partner, Permavoid is also beginning to see increased demand for its products in the US, an exciting development that will continue into 2019 and beyond.

Permavoid acquisition provides unique patented products that enhance our water management solutions offer

Commercial and Infrastructure Systems delivered an underlying operating profit of £27.7m (2017: £28.3m) and represents a 14.7% margin (2017: 15.0%). While the closure of our Middle East manufacturing facility improved profitability, this was more than offset by higher costs associated with the adverse weather in the first half of 2018 and again the dilutive effects of price increases.

OUTLOOK

Polypipe has made significant strategic progress in 2018. The disposal of Polypipe France and the acquisition of Permavoid and Manthorpe have all been firmly in line with the Group's strategy. Organic growth ahead of the UK market and strong cash generation has continued to demonstrate the robust nature of the Group.

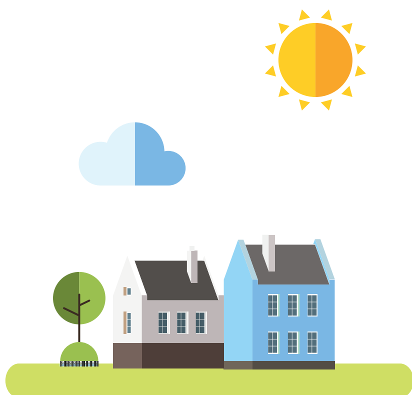
I look forward to another year of progress in 2019

While the political and economic uncertainty associated with the UK's withdrawal from the EU may impact markets in the short term, we believe that the fundamentals of our markets remain robust. Government and opposition both understand the structural housing shortage in the UK and recognise the need to increase the housing stock further, and with Help-to-Buy now extended until 2023, historically low interest rates and good mortgage availability, the medium-term fundamentals for new housebuilding remain sound.

While RMI, commercial and infrastructure markets have been and will continue to be challenging, the balanced exposure that Polypipe has to these different sectors of the construction industry positions the Group well.

As we look into 2019 and beyond, the opportunities for growth through legacy material substitution, legislative tailwinds in water and climate management are still as strong as ever, and together with helpful emerging trends in green infrastructure and appropriate acquisition opportunities to broaden our product and solutions offer, I am confident the fundamentals for the Group remain strong. While we remain vigilant to the short-term impacts of economic and political uncertainty in our markets, I look forward to another year of progress in 2019.

Martin Payne
Chief Executive Officer



CHIEF FINANCIAL OFFICER'S REPORT

"Group revenue growth again outperformed the market and cash generated remains strong."

Paul James
Chief Financial Officer

	2018 £m	2017 £m	Change
Revenue	**433.2**	411.7	+5.2%
Underlying operating profit	**74.0**	72.6	+1.9%
Underlying operating margin	**17.1%**	17.6%	-50bps

	2018 £m	2017 £m	Change %
UK	**387.1**	365.7	+5.9
Rest of Europe	**21.5**	18.9	+13.8
Rest of World	**24.6**	27.1	-9.2
Group	**433.2**	411.7	+5.2

UK revenue **5.9% higher,** *materially ahead of overall UK construction market*

Group revenue for the year ended 31 December 2018 was £433.2m (2017: £411.7m), an increase of 5.2%. With the acquisitions of Permavoid and Manthorpe on 31 August and 25 October 2018, respectively, Group revenue includes £4.1m from these businesses for the periods since acquisition and on a like-for-like basis, excluding the impact of these businesses, Group revenue increased by 4.2%. UK revenue growth was up 5.9% with approximately 2.8% driven by price increases and 3.1% from volume increases, of which 1.1% was derived from the acquisitions. This level of growth was materially ahead of the overall UK construction market where the Construction Products Association (CPA) winter forecast suggests a slight year-on-year decline of 0.2%. The Group's year-on-year growth for the first half was essentially flat as it was impacted by the severe winter weather, with strong year-on-year growth in the second half of 10.6%.

The Group underlying operating margin of 17.1% (2017: 17.6%) was impacted by the dilutive effect of increasing selling prices to recover absolute cost inflation as well as the relative growth in lower margin new housebuilding volumes and increased costs caused by operating at or near full capacity in some areas towards the end of the year.

ACQUISITIONS

On 31 August 2018, the Group acquired Permavoid, a specialist designer and supplier of surface water management solutions in commercial, residential, and sports pitch applications, for an initial cash consideration of £4.0m on a debt and cash-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. In accordance with IFRS 3, £1.7m contingent consideration has been accrued at the end of 2018.The acquisition of Permavoid has contributed £1.3m to Group revenue in the year and revenue for the full 12-month period ended 31 December 2018 was £5.1m. On 25 October 2018, the Group acquired Manthorpe, a leading UK producer of a range of moulded and extruded plastic and metal products, and associated land and buildings for £52.1m on a debt and cash-free normalised working capital basis. The acquisition of Manthorpe has contributed £2.8m to Group revenue in the year and revenue for the full 12-month period ended 31 December 2018 was £17.2m. These acquisitions were funded entirely from the Group's revolving credit facility. Acquisition costs of £2.0m have been charged to non-underlying items.

DISPOSALS

On 29 March 2018, the Group completed the sale of Polypipe France Holding SAS (Polypipe France), its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe, for €16.5m on a debt and cash-free normalised working capital basis. The results for Polypipe France have been treated as discontinued since 2017.

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 will first report under the new standard in the interim consolidated financial statements for the six months ending 30 June 2019, and the consolidated financial statements for the year ending 31 December 2019. The Group has reviewed all material leasing arrangements over the last year in light of the new lease accounting rules and these existing leases mainly relate to cars, some property and forklift trucks used in warehousing. The Group does not have any leases previously classified as finance leases. The Group will adopt the simplified approach to transition and will not restate comparative amounts for the year prior to first adoption. In 2019, the Group's lease commitments will be brought onto the Group's balance sheet and the timing of the recognition of lease costs within the income statement will change.

The value of lease commitments at 31 December 2018 was £14.0m. The Group expects to recognise an increase in total liabilities within the range of £12.0m – £14.0m, and the same increase in total assets. The difference between the value of lease commitments and increase in total liabilities is largely driven by the requirement to discount the lease liabilities to present value.

On a pro forma basis the Group expects that underlying EBITDA would increase by approximately £3.9m, that underlying operating profit would increase by approximately £0.2m – £0.4m and that underlying profit before tax would reduce by approximately £0.1m – £0.3m for 2019 as a result of adopting the new rules. Operating cash flows will increase, and financing cash flows will decrease because repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. Leverage is expected to increase by approximately 0.1x as a result of including the lease liabilities within net debt partially offset by an increase in EBITDA. Interest cover is expected to reduce by approximately 0.5x as a result of a marginal increase in interest costs from the unwinding of the discount on lease liabilities. No impact is expected on banking covenants as a result of the ability to use the financial position excluding the impact of IFRS 16 under the revolving credit facility (RCF) agreement (so-called 'frozen GAAP'). Further details of the change can be found in Note 4 to the consolidated financial statements.

NON-UNDERLYING ITEMS

Non-underlying items in both 2018 and 2017 included non-cash amortisation charges in respect of intangible assets recognised with the acquisitions made during 2015. In addition, the amortisation of intangible assets charge in 2018 was impacted by the fair valuation of intangible fixed assets on the acquisition balance sheets of Manthorpe and Permavoid. Intangible assets have increased by £25.1m in the case of Manthorpe and £2.9m in respect of Permavoid, attracting additional amortisation of £0.3m (Manthorpe) and £0.1m (Permavoid).

The provision for restructuring costs of £4.3m recognised in 2017 in respect of our Middle East business has now been fully utilised. The other items included in non-underlying items are highlighted in the narrative further below.

CHIEF FINANCIAL OFFICER'S REPORT

NON-UNDERLYING ITEMS COMPRISED:

	2018 £m	2017 £m
Amortisation of intangible assets	**5.9**	5.5
Restructuring costs	**–**	4.3
Acquisition costs	**2.0**	0.3
Contingent consideration on acquisitions	**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	**8.9**	10.1
Taxation	**(1.1)**	(1.2)
Non-underlying items after taxation	**7.8**	8.9

Final dividend of
7.9 pence

Interest margin reduced
10 bps

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

EXCHANGE RATES

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

FINANCE COSTS

Underlying finance costs of £6.9m (2017: £6.9m) are in line with last year and have a cover of 11.3x. The raised gearing from the acquisitions was in the very last stages of the year, marginally increasing borrowing costs for the period.

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 2018 was 1.65% (2017: 1.75%).

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 £91.7m over the period of the interest rate swaps.

TAXATION

Underlying taxation:

The underlying tax charge in 2018 was £10.5m representing an effective tax rate of 15.6% (2017: 18.0%). This was below the UK standard tax rate of 19.00% (2017: 19.25%). Patent box relief contributes to a lowering of the effective tax rate by some 1.5 percentage points. In addition, the Group has released legacy tax provisions no longer required of £0.6m and recognised a deferred tax asset resulting from the acquisition of Manthorpe in respect of previously unrecognised tax losses, resulting in a benefit of £0.6m.

Taxation on non-underlying items:

The non-underlying taxation credit of £1.1m in 2018 represents an effective rate of 12.4%, due to £2.0m of acquisition costs being treated as disallowable for tax purposes.

EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	2018	2017
Pence per share:		
Basic	**24.5**	22.7
Underlying basic	**28.4**	27.2
Diluted	**24.3**	22.5
Underlying diluted	**28.1**	26.9

Underlying basic EPS **4.4% higher**

Dividends **4.5% higher**

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 a more meaningful comparison with prior and future periods to assess trends in our financial performance.

Underlying basic EPS improved by 4.4% in 2018 due to the improved underlying operating result after taxation.

DIVIDEND

The final dividend of 7.9 pence per share is being recommended for payment on 29 May 2019 to shareholders on the register at the close of business on 23 April 2019. The ex-dividend date will be 18 April 2019.

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:

	2018 £m	2017 £m
Property, plant and equipment	**118.4**	98.6
Goodwill	**343.0**	319.7
Other intangible assets	**58.9**	36.8
Net assets classified as held-for-sale	**–**	13.1
Net working capital	**(4.1)**	0.4
Taxation	**(17.3)**	(12.6)
Other current and non-current assets and liabilities	**(3.5)**	(5.6)
Net debt (loans and borrowings, net of cash and cash equivalents)	**(164.2)**	(148.4)
Net assets	**331.2**	302.0

CHIEF FINANCIAL OFFICER'S REPORT

Property, plant and equipment increased by £19.8m and, excluding the effect of the inclusion of assets from the acquisitions of Permavoid and Manthorpe, increased by £9.0m, predominantly due to capital expenditure exceeding depreciation.

Goodwill increased by £23.3m primarily due to the acquisitions of Permavoid and Manthorpe. Other intangible assets increased by £22.1m with fair value adjustments associated with the acquisition of Permavoid and Manthorpe being offset by the routine amortisation of patents, brand names and customer relationships. Net working capital reduced by £4.5m due to continued robust management in our businesses. Net debt is discussed below.

PENSIONS

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £2.8m (2017: £2.7m).

CASH FLOW AND NET DEBT

The Group's cash flow statement is summarised below:

	2018 £m	2017 £m
Operating cash flows before movement in net working capital	86.2	90.4
Add back non-underlying cash items	4.4	0.5
Underlying operating cash flows before movement in net working capital	90.6	90.9
Movement in net working capital	3.8	(10.0)
Underlying cash generated from operations	94.4	80.9
Capital expenditure net of disposals	(23.2)	(23.2)
Underlying cash generated from operations after net capital expenditure	71.2	57.7
Income tax paid	(11.2)	(12.6)
Interest paid	(6.1)	(6.6)
Non-underlying cash items	(4.4)	(0.5)
Acquisition of businesses	(56.1)	–
Disposal of businesses	13.6	–
Dividends paid	(22.3)	(21.0)
Proceeds from exercise of share options net of purchase of own shares	0.3	(0.7)
Other	(0.8)	(0.4)
Movement in net debt	(15.8)	15.9

The Group is highly cash-generative. Underlying cash generated from operations after net capital expenditure at £71.2m (2017: £57.7m) represents a conversion rate of 96% (2017: 79%). This improvement in conversion rate followed a programme in 2017 to replenish stock levels after a period of pre-price increase buying at the end of 2016. As a result of business growth, the Group sustained elevated net capital expenditure investment of £23.2m (2017: £23.2m), which was significantly ahead of depreciation levels, focusing on capacity expansion, efficiency improvement and innovation. The Group spent £56.1m on the acquisition of Permavoid and Manthorpe during the year and received £13.6m for the disposal of Polypipe France.

Net debt
1.7
times pro forma EBITDA

Sustained investment in strategic growth opportunities
1.5
times depreciation

Net debt of £164.2m comprised:

	2018 £m	2017 £m	Change £m
Bank loans	**(212.0)**	(185.0)	(27.0)
Cash and cash equivalents	**46.2**	35.7	10.5
Net debt (excluding unamortised debt issue costs)	**(165.8)**	(149.3)	(16.5)
Unamortised debt issue costs	**1.6**	0.9	0.7
Net debt	**(164.2)**	(148.4)	(15.8)
Net debt (excluding unamortised debt issue costs): pro forma EBITDA	**1.7**	1.6	

FINANCING

In light of the uncertainty posed by the UK's withdrawal from the EU, the Group took the decision to bring forward the renewal of its secured revolving credit facility (RCF) from mid-2019. The RCF was increased from £290m to £300m and renewed for a period of five years to November 2023 with two further uncommitted annual renewals through to November 2025 possible. A new uncommitted 'accordion' facility of up to £50m was also added. Refinancing costs of £1.7m will be amortised over the life of the RCF. Unamortised costs of £0.6m from the previous refinancing were written off within non-underlying items. The margin payable under the renewed RCF is 10 basis points lower than the previous agreement for gearing levels up to 2.0x EBITDA.

The Group is subject to two financial covenants. At 31 December 2018 there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant:	Covenant requirement	Position at 31 December 2018
Interest cover	>4.0:1	11.3:1
Leverage	<3.0:1	1.7:1

At 31 December 2018, liquidity headroom (cash and undrawn committed banking facilities) was £134.2m (2017: £140.7m) with the new RCF raised slightly to £300m compared to the previous RCF (2017: £290m). Focus will continue to be on deleveraging and, despite the two debt-funded acquisitions totalling £56.1m in the year, our net debt to EBITDA ratio stood at 1.7x pro forma EBITDA at 31 December 2018 (2017: 1.6x). This headroom means the Group enters 2019 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 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. 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 businesses' exposure to strategic, financial and operational risk, both external and internal. The effectiveness of key mitigating controls is continually monitored and subjected to periodic testing by the Group's internal audit function.

The heat map and table that follows highlight 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.

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:

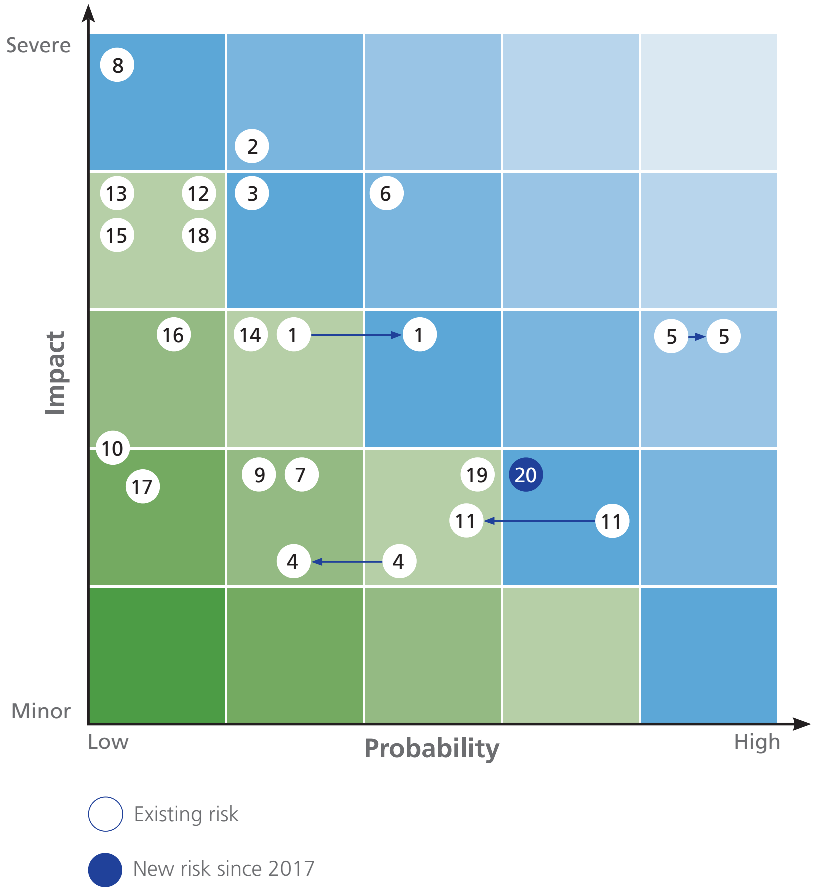
- The recording of all principal risks and uncertainties on a Group Risk Register which is updated at least every six months.
- Analysing risks and allocating owners.
- Scoring risks for impact and probability to determine the exposure to the business.
- Outlining which risks should be prioritised and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

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 – Brexit
2. Business disruption
3. Reliance on key customers
4. Recruitment and retention of key personnel
5. Economic conditions – Brexit
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 – Brexit

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
1. Failure to manage the availability of raw materials supply and pricing – Brexit			
The Group is exposed to volatile raw material prices, particularly polymers, due to fluctuations in the market price of crude oil and other petroleum feedstocks, foreign currency exchange rate movements, and changes to suppliers' manufacturing capacity.	Any increase in the market price of crude oil or other petroleum feedstocks, foreign currency exchange rate movements, or changes to suppliers' manufacturing capacity could have a direct impact on the prices the Group pays for raw materials which could adversely affect its financial results. This impact is potentially exacerbated by a no-deal Brexit.	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. Brexit – the Group is planning a temporary, proportionate increase in working capital in the first half of 2019 to secure supply of raw materials against short-term disruption at ports.	Increased

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
2. Business disruption			
The Group's manufacturing and distribution operations could be subjected to disruption due to incidents including, but not limited to, fire, failure of equipment, power outages, workforce strikes, or unexpected or prolonged periods of severe weather.	Such incidents could result in the temporary cessation in activity, or disruption, at one of the Group's production facilities impeding the ability to deliver its products to its customers, thereby adversely affecting the Group's financial results. In addition, prolonged periods of severe weather could result in a slowdown in site construction activity reducing the demand for the Group's products, thereby adversely affecting its financial results.	The Group has developed business continuity, crisis response, and disaster recovery plans. The Group performs regular maintenance to minimise the risk of equipment failure. Finished goods holdings across the operations act as a limited buffer in the event of operational failure. The Group has the ability to transfer some of its production to alternative sites and could also subcontract some of its tooling to reduce any potential loss in production capacity. The Group maintains a significant amount of insurance to cover business interruption and damage to property from such incidents. Independent insurer inspections take place across all sites to identify and assess potential hazards and business interruption risks.	No change
3. Reliance on key customers			
Some of the Group's businesses are dependent on key customers in highly competitive markets.	Failure to manage relationships with key customers, while continuing to provide high-quality products delivered on time in full, and developing new innovative products, could lead to a loss of business, thereby adversely affecting the Group's financial results.	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.	No change
4. Recruitment and retention of key personnel			
The Group is dependent on the continued employment and performance of our senior management team and other key skilled personnel.	Loss of any key personnel without adequate and timely replacement could disrupt business operations and the Group's ability to implement and deliver its growth strategy.	The Group has a formal succession plan in place facilitating staff retention and progression through the Group. This succession plan has been augmented through recent recruitment. The Group aims to provide competitive remuneration packages and incentive schemes to retain and motivate key personnel.	Reduced

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
5. Economic conditions – Brexit			
The Group is dependent on the level of activity in the construction industry and is therefore susceptible to any changes in its cyclical economic conditions.	Lower levels of activity within the construction industry could reduce sales and production volumes, thereby adversely affecting the Group's financial results.	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.	Increased
6. Change in Government actions and policies relating to public and private investment			
The Group is in part dependent on Government action and policies relating to public and private investment and is therefore susceptible to changes in Government spending priorities.	Significant downward trends in Government spending on public and private investment arising from economic uncertainty and ongoing austerity policies could have an adverse impact on the construction industry which could impact on sales and production volumes, thereby adversely affecting the Group's financial results.	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.	No change
7. Environmental regulations and other obligations relating to environmental matters			
The Group is subject to the requirements of UK and European environmental and occupational safety and health laws and regulations, including obligations to investigate and clean up environmental contamination on or from properties.	Failure of the Group to comply with changes to environmental regulations and other obligations relating to environmental matters could result in the Group being liable for fines, require modification to operations, increase manufacturing and delivery costs, and could result in the suspension or termination of necessary operational permits, thereby adversely affecting the Group's financial results.	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.	No change
8. Product failures in the marketplace could harm our reputation and our results of operation			
The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes. These products are often incorporated into the fabric of a building or dwelling or buried in the ground as part of an infrastructure system and in each case, it would be difficult to access, repair, recall or replace such products.	A product failure or recall could result in a liability claim for personal injury or other damage leading to substantial financial settlements, damage to the Group's brand reputation, costs and expenses and diversion of key management's attention from the operation of the Group, which could all adversely affect the Group's financial results.	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.	No change

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
9. Failure of information systems			
The Group is dependent on the continued efficient operation of its information systems and is therefore vulnerable to potential failures due to power losses, telecommunication failures, or from an external security breach due to the increasing levels of sophisticated cybercrime now threatening businesses.	Disruption or failure of the information systems could affect the Group's ability to conduct its ongoing operations which could adversely affect the Group's financial results.	The Group contracts with several third-party providers to supply off-site, business continuity arrangements for wholesale or partial recovery of the key servers and applications which are used within the various business units of the Group. These continuity arrangements are subject to periodic validation and testing. Some business units of the Group also take advantage of their multi-site operations to provision server and applications recovery between those sites. There are a range of local, business unit-specific, back-up 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.	No change
10. Acquisitions do not perform as expected			
The management of acquisitions' activity and their integration play a part in delivering the Group's growth strategy and there is a risk that any acquisitions may not perform as expected.	Ineffective management of acquisitions could lead to management distraction, a drain on financial resources, and impact on the Group's ability to successfully implement and deliver its growth strategy.	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.	No change

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
11. Foreign currency risk			
The risk that the fair value of a financial instrument or future cash flows will fluctuate because of changes in foreign currency exchange rates. The Group's risk relates primarily to its operating activities where the revenue or expense is denominated in a currency other than the functional currency of the entity undertaking the transaction.	Foreign currency exchange rate fluctuations could adversely affect the Group's financial results.	The Group enters into forward foreign currency exchange rate contracts for the purchase and sale of foreign currencies 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. However, with the disposal of the French business, foreign currency risk has been reduced.	Reduced
12. Credit risk			
The risk that a counterparty of the Group will not be able to meet its obligations under a financial instrument or customer contract. The Group is exposed to credit risk from its trading activities (primarily from trade receivables) and from its financing activities, including deposits with banks.	The failure of a counterparty to meet their financial obligations could lead to a financial loss for the Group.	Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major export customers are generally covered by letters of credit or credit insurance. Where the Group perceives there to be a significant credit exposure it will take out credit insurance or obtain an irrevocable letter of credit prior to any transaction. Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Investments of surplus funds are made only with banks that have as a minimum a single A-credit rating.	No change
13. Liquidity risk			
The risk that the Group will not be able to meets its financial obligations as they fall due.	Insufficient funds could result in the Group not being able to fund its operations.	The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The successful completion of the refinancing of the RCF has reduced this risk.	Reduced

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
14. Interest rate risk			
The risk that interest rates could rise impacting on the Group's borrowings.	Increases to interest rates could result in significant additional interest rate cash payments being required on any borrowings.	To reduce the Group's exposure to future increases in interest rates, the Group has entered into interest rate swaps from variable to fixed interest rates. These will be progressively renewed when necessary to ensure appropriate levels of cover for utilisation of Group lending.	No change
15. Failure to manage health and safety resulting in fatality or serious injury			
The risk that management fail to take the correct measures to prevent fatalities or serious injury.	Lack of management focus and a poor cultural attitude towards health and safety could result in increased incidences and serious or indeed fatal accidents.	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.	No change
16. Agreement of unfavourable commercial terms			
The risk that new contracts (or renewed contracts) with suppliers and merchants may contain unfavourable commercial terms.	Lack of experience in negotiating commercial terms and insufficient oversight of such negotiations may result in unfavourable commercial terms being contracted.	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 Group legal counsel.	No change
17. Fraud including misreporting of periodic financial information by business units to the Group			
The risk that actuals reporting and forecasting may be misreported to the Group by the business units.	Lack of experience or oversight as well as possible excessive pressure placed on managers may result in the misreporting of results (both actuals as well as forecasts).	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 will be 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. Internal auditing also conducts reasonable procedures to help prevent material misstatements.	No change

Risk	Potential impact	Mitigation	Change in potential impact and/or probability
18. Breach of Group policies regarding Competition Law, the Bribery Act and Sanctions Compliance			
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.	Alongside the financial impact of fines, breaches could result in damage to the Group's reputation and adversely impact potential current and future business.	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 Company Secretary. An external agency (Reuters) is used to check Sanctions against companies and/or individuals.	No change
19. Political unrest in the Middle East			
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.	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.	Financial performance, including future expectations, is 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 wellbeing.	No change
20. Labour availability and wage inflation – Brexit			
Post-Brexit the UK may focus on enabling higher-skilled migration into the UK and potentially introducing a more restrictive policy on lower-skilled migration.	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.	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 pressures not putting the Group at a competitive disadvantage.	New risk

SUPPORTING OUR SUSTAINABLE JOURNEY

POLICY

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

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

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

EMPLOYMENT

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

Polypipe is committed to providing the appropriate skills and technical training that allow employees to operate effectively and safely in their roles and deliver excellent customer service. As part of our ongoing commitment to excellence, we continue to offer all front-line service personnel accredited training provided through The Institute of Customer Service. With the assistance of Mary Gober's MGI Learning, an expert in employee engagement, business relations and customer satisfaction, we developed and rolled out in 2018 an additional training programme as 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 people who are keen to learn a trade. We have an outstanding record of retaining apprentices in ongoing, long-term, full-time employment. More recently, we are pleased to acknowledge that following our additional 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 sexes with female applications on the increase. We consider this approach an essential element of finding and retaining diverse employees with the sector-specific skills that we need.

During 2018 we had 39 apprentices employed in our businesses in the UK, a 22% increase on 2017, and we intend to increase this number further as we widen our apprenticeships across other disciplines in our business. The majority of our apprenticeships are in electrical, mechanical and toolmaking trades up to higher degree level, as we continue to focus our programmes predominantly on trades where future skills gaps are more evident within our industry, but 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

Social Engagement

Nuaire took advantage of Clean Air Day to share information about air pollution with friends and colleagues, and to help raise awareness of the importance of clean air for health and wellbeing. Last summer, Nuaire hosted a class of 30 Year 3 children from Cwrt Rawlin Primary School in Caerphilly and organised an Air Quality Interactive Workshop, which featured fun presentations and scientific experiments looking at indoor air quality, how to reduce air pollutants in the home including positive input ventilation, and a Cyclone Ball game with teams challenged to remove the most 'NO_x particle' balls. Children were also given a full factory tour, showing how ventilation products are made, from sheet metal being pressed to finished goods being loaded into delivery lorries.

The Big Bang Fair is an annual event designed to inspire students to take up a career in Science, Technology, Engineering and Mathematics (STEM). Here at the Big Bang Event at the Doncaster Racecourse, Mick Hirst, with 30+ years experience from the moulding shop at Broomhouse Lane, talks to interested schoolchildren about the production processes involved to transform raw materials into finished products.

Game to capture 'NO_x particles'

Big Bang event, Doncaster

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, 2018 saw the launch of our Polypipe Plus Graduate Scheme, which achieved an immediate and successful placement within its first month of launch. We aim to recruit the remainder of our initial graduate cohort at the end of the 2018/19 academic year.

The Group involves employees through formal and informal systems of communication and consultation including suggestion schemes and works council forums. Each of our main operating sites have display boards which set out our continuous improvement strategy and include KPIs updated each month on areas relevant to the strategy such as health and safety performance, products and process improvement initiatives, and customer satisfaction performance.

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

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

Charity Regatta

In 2018, Polypipe celebrated its 20th Anniversary Regatta. The Regatta is a charity event aimed at non-sailors and experienced sailors alike so that everyone can have an enjoyable day on the water with some not-too-serious racing. Last year more than 50 yachts entered, including three boats for returning soldiers, to raise money for Help for Heroes and John Merricks Sailing Trust.

Polypipe Regatta, Port Solent, Portsmouth

The Group's split between male and female employees at 31 December 2018 is shown below:

	Female	Male	Total
Directors and Officers	3	6	9
Senior Managers	29	154	183
Employees	685	2,187	2,872
Total	717	2,347	3,064

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

SUPPORTING OUR SUSTAINABLE JOURNEY

Polypipe has donated over £6,500 to local charities chosen by sites that have achieved a set number of days without a lost-time accident. During 2018 our toolmaking and repair business, Mason Pinder, achieved over 3,600 days without a lost-time accident, donating £1,500. Also, during 2018, our Glasgow distribution site achieved 2,000 days without a lost-time accident resulting in a charity donation of £1,700. Both are outstanding achievements and significant milestones, of which all involved can be proud.

The Group continued the implementation of a focused, formalised safety tour programme for management.

These safety tours, undertaken by Executive Directors through to department managers, engage staff and further encourage health, safety and environmental discussion and improvement.

The Group operates a formal system for reporting and recording hazards and near misses. The 'See it, Sort it, Report it' scheme encourages individuals across the business at all levels to report hazards and suggest solutions, and allows trends to be analysed. In 2018, the number of such reports reached record levels at 5,419 reports resulting in improvement projects being delivered across the Group which in turn enhanced employee working environment safety.

Accident frequency performance and details of all significant incidents are reviewed during the weekly executive 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:

	2016†	2017†	**2018**
Frequency per 100,000 hours worked			
– All accidents	6.12	5.40	**5.68**
– RIDDORS*	0.55	0.36	**0.36**

* 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.
† Restated to reflect the disposal of Polypipe France.

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 31 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.

New product development for conservation – Manthorpe Swift Brick

Swift numbers have almost halved in 20 years, and new nesting boxes are needed to help numbers recover as they return to the UK to breed every summer.

In collaboration with Barratts and the RSPB with assistance from Action for Swifts, Manthorpe has developed the Swift Brick, to provide a safe, spacious and habitable area to allow swifts to nest within the construction of modern houses without compromising the performance of the building shell.

Swift Brick takes the place of a single brick in the wall, with the coloured face helping to blend into the surrounding bricks. It has been designed to be quick and easy to install during the course of normal bricklaying, with a built-in cavity tray detail that protects against water ingress.

Jo Alden, Regional Technical Director at Barratt Developments commented: "We are delighted with the initial response to this innovative product. The wellbeing of our ecological environment is at the heart of Barratt's philosophy and we are pleased that this product, developed by Manthorpe in association with Barratt and the RSPB, is gaining traction. It offers a low-cost, simple solution that has the opportunity to enhance developments across the country."

Manthorpe Swift Brick

Apprentices

During 2018 we had 39 apprentices employed in our businesses in the UK and we intend to increase the number further. The majority of our apprenticeships were in electrical, mechanical and tool-making trades but we continue to support a number of apprenticeships in other disciplines. Underlining our commitment to advanced manufacturing engineering, we continue to place apprentices at the new University of Sheffield Advanced Manufacturing Research Centre, a state-of-the-art centre that offers the very best in practical and academic training. In support of our engineering focus we continue to work closely with Cogent Skills, strategic partner to the science industry, supporting ongoing development of industry specific apprenticeship frameworks for the future.

Greenhouse gas (GHG) emissions for the Group during 2018, in tonnes of carbon dioxide equivalent (tCO_2e), were as follows:

	tCO_2e	%
Source		
– fuel combustion (stationary)	2,825	6
– fuel combustion (mobile)	14,853	31
– fugitive emissions (F-gas)	223	1
– purchased electricity	29,823	62
	47,724	100

Our GHG emissions annual comparison and intensity were as follows:

	2017†	**2018**	change
tCO_2e			
Total emissions	55,714	**47,724**	(14)%
Emissions intensity*	0.40	**0.39**	(4)%

† Restated to reflect the disposal of Polypipe France.
* Expressed in tCO_2e per tonne of output.

Our GHG emissions were calculated using the methodology set out in the updated GHG reporting guidance issued in June 2013 by the Department for Environment, Food and Rural Affairs (DEFRA). Carbon emission factors were taken from the Department for Business, Energy and Industrial Strategy's 2018 update of GHG Conversion Factors for Company Reporting, with the exception of non-UK electricity, which were taken from the European Residual Mixes 2017: Association of Issuing Bodies.

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 £45,000 (2017: £30,000) for worthwhile causes during the year from these activities.

Charitable donations by Group companies during the year were £33,000 (2017: £27,000).

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
19 March 2019

CASE STUDY

Acquisition:

Manthorpe Building Products

Products: **a suite of patent-protected, moulded and extruded plastic and metal products for Water and Climate Management applications, in the UK and Irish residential markets.**

The Project

Polypipe acquired Manthorpe Building Products Holdings Limited, a leading designer and manufacturer of moulded and extruded plastic and metal products to the UK and Irish residential and RMI markets.

KEY HIGHLIGHTS

- Manthorpe is a leading provider of moulded and extruded plastic and metal products in the UK and Ireland, with a solid track record of growth, profitability and successful cash flow generation.
- Good strategic fit, broadening Polypipe's UK residential offering in the Water and Climate Management sectors, with differentiated, patented value-adding products.
- Manthorpe and Polypipe have common end-users (house developers and RMI) and routes to market (merchants and specialist distributors).
- Potential for cost and revenue synergies identified.
- Well-invested business with state-of-the-art facilities.
- Expected to be EPS accretive and deliver returns in excess of the cost of capital in the first full financial year of ownership.

THE MANTHORPE BUSINESS

Manthorpe is a leading designer and manufacturer of moulded and extruded plastic and metal products to the UK and Irish residential and RMI markets. It sells products across 12 distinct categories, in total producing c. 400 SKUs, with the key revenue contributors being dry fix roofing, residential slot and channel drainage, air leakage, roof ventilation, and loft doors and access panels. It has a strong reputation for developing and patenting innovative new products using advanced processes and technology to provide market-leading solutions.

The business is based in Ripley, Derbyshire, UK, from where it sells to a diverse customer base of merchants and specialist distributors across the UK and Ireland, who in turn serve multiple end-users such as house developers, roofing contractors and RMI markets. It has approximately 100 employees across sales, R&D, despatch and manufacturing functions.

Manthorpe has a solid track record of growth, profitability and successful cash flow generation. Based on management accounts, it generated revenue of £16.4m and adjusted EBITDA of £6.3m for the 12 months ended 30 April 2018.

ACQUISITION RATIONALE

The acquisition is in line with Polypipe's strategy of broadening its market reach in Water and Climate Management solutions, providing a 'one-stop shop' for our customers, and exploiting the key growth drivers of legislative tailwinds and legacy material substitution. Manthorpe is well-positioned to capitalise on these growth drivers given its range of differentiated, specifiable, value-adding product solutions. Its offering is complementary to Polypipe's existing capabilities and will further Polypipe's market-leading positions in the Water and Climate Management spaces.

Polypipe's management expects that the two companies will be able to leverage their respective technical, selling and distribution capabilities and expertise to accelerate the combined company's growth. There are opportunities for both cost and revenue synergies, including, but not limited to, a broader combined product offering and raw material savings.

It is anticipated that the operational management of Manthorpe will remain with the combined business.

"The acquisition of Manthorpe Building Products is a perfect fit for us, expanding our product platform and market reach in the UK and Irish residential and RMI markets, which, like other parts of our business, are being positively impacted by legislative change."

– Martin Payne, Chief Executive Officer,
Commenting on the acquisition

Summary

Strategic rationale

- Product offer extension into gap-filling adjacencies in the water management and climate management space
- Differentiated, specifiable, value-adding product solutions
- Legacy material substitution, with moulded and extruded plastic alternative solutions in materials where Polypipe has market-leading expertise
- Common end users (house developers and RMI) and routes to market (via merchants and specialist distributors)
- Revenue was £16.4m for the year to end April 2018

Strategic link:

- Legacy material substitution – through alternative solutions
- Innovative and smart engineering solutions – provides gap-filling adjacencies
- Customer-focused complete solutions – provides value-adding solutions, to ensure health and safety and solve site-specific issues

Contents

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.

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 our Chief Operating Officer and was appointed to our Board of Directors 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 Porvair plc, Focusrite plc and Wincanton plc. He is the Senior Independent Director at Porvair plc. Mr Dean was Group Finance Director of Ultra Electronics Holdings plc from 2009 to 2013. Previously he had the same role at Foseco Group from 2001 to 2008, including when it floated in 2005. Mr Dean has a Master of Arts in History from Oxford University.

MONI MANNINGS N A R

Non-Executive Director

Current role:

Moni Mannings was appointed to our Board of Directors on 28 March 2014 as a Non-Executive Director and was Chair of the Remuneration Committee until 31 January 2019.

Experience

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

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.

Experience

Mr Hammond joined HBOS plc in June 2003 and served as Head of Integrated Finance from 2006 until 2010. Prior to joining HBOS plc, Mr Hammond held roles with Gresham Trust plc, The Royal Bank of Scotland plc and PricewaterhouseCoopers LLP where he qualified with the Institute of Chartered Accountants of Scotland in 1991. Mr Hammond has a Master of Arts in Economics and Accountancy from the University of Aberdeen. Mr Hammond has previously been a Director of The Big Green Parcel Holding Company Limited and David Lloyd Leisure Group Limited and the Deputy Managing Partner of Caird Capital LLP, the adviser to Cavendish Square Partners LP. Mr Hammond currently sits on the Board of Governors 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 was appointed as Chair of the Remuneration Committee on 1 February 2019.

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, North West Cambridge Development 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.

EMMA VERSLUYS

Group Legal Counsel and Company Secretary

Current role:

Emma Versluys is our Group Legal Counsel and Company Secretary and is Secretary to the Board and its three Committees, a position she has held since June 2017.

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 ICSA: The Governance Institute and is also a solicitor.

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

INTRODUCTION FROM THE CHAIRMAN

"The Board is conscious of the increasing importance which 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 2018, on behalf of the Board.

This year has seen two further changes to the Board, with Paul James being appointed as Chief Financial Officer on 5 March 2018 following the appointment of the former CFO Martin Payne as Chief Executive Officer in October 2017, and the appointment of Louise Hardy as a Non-Executive Director on 25 June 2018. This brings the Board up to full complement following the changes over the last 18 months and I believe that we have a strong and diverse Board in place with the necessary motivation and an appropriate balance of experience and skills to lead the Company in its next phase of development.

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

The following pages of this report and the Directors' Remuneration Report set out in greater detail how the principles and provisions of the UK Corporate Governance Code (April 2016) (the UK Code) have been applied and how the Board and its Committees have fulfilled their responsibilities during the year to ensure that robust governance practices are embedded across the Group. The report also serves to provide insight into how the Board and management team run the business for the benefit of shareholders 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).

BOARD EVALUATION

Following the externally facilitated review of our Board's performance in 2016, an internal review of the Board, its Committees and individual Directors was carried out in 2018 using an evaluation questionnaire. The results of the evaluation, which were discussed by the Board at its meeting in November 2018, concluded that the Board continues to function strongly and collaboratively. Suggestions for minor improvements were made, and the outcome of the evaluation process is discussed in more detail on page 65 of this report.

CULTURE

The Board is conscious of the increasing importance which corporate culture plays in delivering long-term business and economic success and its role in shaping, monitoring and overseeing culture. There was regular interaction during the year between the Board and members of the senior management teams across the Group, and careful consideration was given during the due diligence process to the potential cultural impact of the acquisitions 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 is committed to working towards achievement of 33% women on the Board and in senior management positions by 2020 as set out in the Hampton-Alexander Review.

Ron Marsh
Chairman
19 March 2019

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 Chief Executive Officer in carrying out their responsibilities.

The CFO is responsible for managing the Company'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 Chief Executive Officer in carrying out their 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

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 April 2016 by the Financial Reporting Council (FRC), have been applied and the areas of focus during the year. The UK Code can be found on the FRC's website at www.frc.org.uk.

In accordance with the Listing Rules of the Financial Conduct Authority, the Board confirms that throughout the year ended 31 December 2018 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:

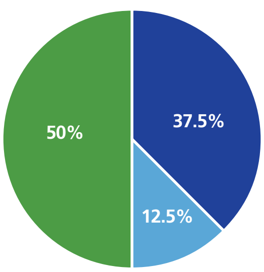
- strategy and overall management and leadership of the Group;
- financial items – including the Group's annual budget, dividend policy, annual and half-yearly accounts, accounting policies, and monetary limits;
- the risk management system and internal controls;
- contracts with third parties not in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

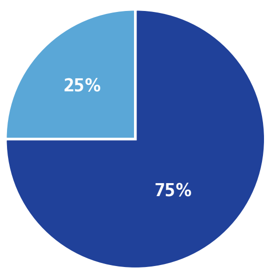
Board diversity

BOARD TENURE



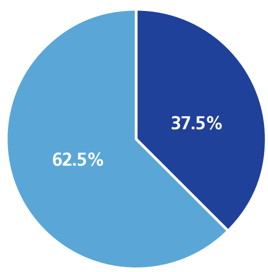
- 0-2 years
- 2-5 years
- 5+ years

GENDER DIVERSITY



- Male
- Female

EXECUTIVE/NON-EXECUTIVE SPLIT



- Executives
- Non-Executives

BOARD COMPOSITION, QUALIFICATION AND EXPERIENCE

At the year end, the Board comprised the independent Non-Executive Chairman, three Executive Directors and four Non-Executive Directors. Biographical details of the individual Directors can be found on pages 56 and 57. 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 B.1.1, the Nomination Committee and the Board have considered the independence of each of the Non-Executive Directors. The Board considered the Chairman and all the Non-Executive Directors to be independent throughout the period.

In accordance with UK Code Provision B.7.1, at the 2019 AGM and all future AGMs, the Board is proposing that all of the Directors will be subject to re-election. Louise Hardy will offer herself for election at the 2019 AGM and for re-election annually thereafter.

ROLE OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

It is the Chairman's duty to provide overall leadership and governance of the Board. In performing this role, the Chairman sets the Board agenda, ensures that adequate time is available for discussion of all agenda items and promotes a culture of openness, challenge and debate at Board meetings. The Chairman is also responsible for ensuring that the Directors have an understanding of the views of major shareholders.

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

INTERACTION BETWEEN THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

ROLE OF THE SENIOR INDEPENDENT DIRECTOR

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

APPOINTMENT AND TENURE

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

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

DIRECTORS' INDUCTION AND TRAINING/ PROFESSIONAL DEVELOPMENT

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the ongoing development of all Directors. Paul James and Louise Hardy 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, the Company's remuneration advisers and the Company's 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 and the Directors also received refresher training during the year on directors' responsibilities.

CORPORATE GOVERNANCE STATEMENT

Board induction process

STAGE 1	STAGE 2	STAGE 3
UNDERSTANDING THE BUSINESS This will include an overview of the Group structure, strategy, Board procedures	**MEETING THE TEAM** Meeting the senior management teams. Also meeting external brokers and advisers	**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

Details of the Directors' indemnity arrangements can be found on pages 75 and 76 of the Directors' Report.

INTERNAL CONTROLS AND RISK MANAGEMENT

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

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

The effectiveness of these systems is also reviewed through the work of the Audit Committee described on pages 70 to 73.

The key risks which the Board has focused on this year together with their potential impact and mitigating actions are set out on pages 42 to 49.

The Company has a risk management framework which adopts a top-down and a bottom-up view of the key risks on 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 C.2.3 of the UK Code.

FINANCIAL AND BUSINESS REPORTING PROCESS

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

The Group has a thorough assurance process in place in respect of the preparation, verification and approval of periodic financial reports which is set out in the report of the Audit Committee on pages 70 to 73.

This process includes:

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

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

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 1
FAIR

Is the report fair?

Is the whole story presented?

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

→

STAGE 2
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 3
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 2018 Annual Report and Accounts are representative of the year and present a fair, balanced and understandable overview.

CORPORATE GOVERNANCE STATEMENT

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.

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

In November 2018 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.

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

	Board Attendance	Audit Committee Attendance	Nomination Committee Attendance	Remuneration Committee Attendance
Current Directors				
Ron Marsh	10 of 10	–	3 of 3	5 of 5
Martin Payne	10 of 10	–	3 of 3	–
Paul James *	9 of 9	–	–	–
Glen Sabin	10 of 10	–	–	–
Moni Mannings	10 of 10	3 of 3	3 of 3	5 of 5
Paul Dean	10 of 10	3 of 3	3 of 3	5 of 5
Mark Hammond	10 of 10	3 of 3	3 of 3	5 of 5
Louise Hardy †	6 of 6	2 of 2	1 of 1	2 of 2

* Joined the Board on 5 March 2018.
† Joined the Board on 25 June 2018.

BOARD COMMITTEES

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

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

BOARD EVALUATION AND EFFECTIVENESS

Following the externally facilitated Board evaluation carried out in 2016 in accordance with UK Code Provision B.6.2, the Board and its Committees undertook an internal evaluation in 2018, which was facilitated by the Company Secretary and the Chairman. The evaluation consisted of a high-level questionnaire for the Directors' completion which was structured to provide Directors with an opportunity to express their views about:

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

The results of the performance evaluation were reviewed by the Board at its meeting in November 2018. The results of the evaluation indicated that the Directors consider the Board to be effective, collaborative and focused, with positive working relationships amongst all of its members. Notwithstanding the above, the Directors recognised the need to continue to improve and develop their contributions, and the following actions were agreed as a result of the exercise and will be progressed over the coming year:

- there would be a change of emphasis in terms of the reports to the Board and resulting discussions to focus on both the historic performance and key areas of focus for the future;
- the area of succession planning for both Board level and the appropriate tiers below Board level would be a key area of focus for 2019 and 2020, including, in particular, the mid-tier skilled workforce;
- presentations by the local management should be scheduled when Board meetings are held at each site, ensuring sufficient time is given to the management to present and engage with the Board; and a session would be held once a year between the Non-Executive Directors and the CEO to discuss succession planning.

In addition, the Chairman discussed with each Director their performance and their training needs and the Senior Independent Director led the assessment of the Chairman's leadership. As a result of these individual reviews, it is considered that the performance of each of the Directors continues to be effective and that each Director demonstrates sufficient commitment to his or her role. It was acknowledged that the objective of the Board in supporting the senior management team to improve the performance of the Group and promote the interests of the shareholders and stakeholders had been achieved and it would continue to constructively challenge the senior management team.

BOARD CULTURE

The Board is conscious of 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 2019.

The Group's core values of trust, support, experience and innovation underpin our culture along with our purpose, vision and mission. Our aim is to do 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 remain key performance parameters.

CORPORATE GOVERNANCE STATEMENT

Board evaluation process

STAGE 1
Directors consider areas of performance, both individual and as a Board/Committee by completing a questionnaire

→

STAGE 2
The results of the questionnaire are reviewed. Chairman and Company Secretary have a discussion over the performance of the Board

→

STAGE 3
Anonymised results of the evaluation are summarised to the Board and actions for improvement are discussed and agreed

ANNUAL GENERAL MEETING

The Company's Annual General Meeting (AGM) is to be held on 23 May 2019 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 Annual General Meeting (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. Louise Hardy offers herself for election at the 2019 AGM and for re-election annually thereafter.

Approved by the Board and signed on its behalf.

Ron Marsh
Chairman
19 March 2019

CORPORATE GOVERNANCE STATEMENT: STAKEHOLDER ENGAGEMENT

Responsibility for shareholder relations rests with the Chief Financial Officer. The Chief Financial Officer, in conjunction with the corporate broker, ensures that there is effective communication with shareholders on matters such as governance and strategy and that an active dialogue is maintained with investors through a planned programme of investor relations activities.

The Chairman, the Senior Independent Director and the other Directors are available to engage in dialogue with major shareholders as appropriate. Board members develop an understanding of the views of major shareholders through analysts' and brokers' briefings and any direct contact initiated by shareholders. The Board believes that there were appropriate mechanisms in place during the year for the Board to understand the views of shareholders and to communicate with them on matters including governance, remuneration, strategy and performance.

HOW WE ENGAGED WITH SHAREHOLDERS THIS YEAR

- **Investor roadshow** – As part of the investor relations programme, formal meetings with investors were scheduled to discuss the Group's interim and final results, and ad hoc meetings were also held throughout the year to ensure continued engagement with current and potential investors
- **Formal investor meetings** – In the intervening periods, the Company continues its dialogue with the investor community by meeting key investor representatives and holding investor roadshows
- **Capital Markets Day** – In May 2018 the Company held its first Capital Markets Day since it listed in April 2014. The event was well attended and provided potential investors with an insight into the Group's strategy and an introduction to the senior management team
- **Corporate website** – Our corporate website was updated during the year to make it more accessible for all our stakeholders
- **Annual Report and Accounts** – The Annual Report provides key information about the performance of the Group and is a key stakeholder communication tool
- **Annual General meeting** – The AGM gives shareholders the opportunity to meet members of the Board and the senior management team and to ask any questions they may have

KEY THEMES DISCUSSED WITH SHAREHOLDERS

- Key components of the Group's strategy
- Environmental and sustainability objectives
- High margins and strong cashflow generation and the Company's historical track record of deleveraging
- Innovation and productivity efficiencies
- M&A strategy
- Capital allocation

HOW WE ENGAGED WITH OTHER STAKEHOLDERS

- **Employees** – Annual employee engagement survey, regular works council forums and health and safety forums, recognition reward schemes, team briefings, continuous improvement workshops, digital media communications and newsletters
- **Suppliers** – Regular review meetings are held with key suppliers on a monthly or three-monthly basis in order to build and maintain a robust working relationship with our supply base
- **Communities and the Environment** – Each operation engages with its local community on an ongoing basis. They will seek to recruit locally, retain a skilled local workforce, build relationships with local community organisations and to support charitable initiatives
- **Customers** – Regular contact with existing and potential customers and distributors in order to strive to meet their needs

Read about our Stakeholders on pages 14 and 15

NOMINATION COMMITTEE

Ron Marsh
Chair of the Nomination Committee

2018 KEY ACHIEVEMENTS

- Appointment of Louise Hardy as a Non-Executive Director
- Review of Board composition and skills
- Review of Board and senior management succession plans

AREAS OF FOCUS IN 2019

- 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
- The Committee will continue to consider diversity in 2019, bearing in mind the recommendations from the Hampton-Alexander Review on FTSE Women Leaders and the Parker Review on Diversity of Boards, and will report on this in due course
- The Committee will continue 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 implements its strategy and the future skills and expertise needed as a result

DEAR SHAREHOLDER,

I am delighted to present the Report of the Nomination Committee (the Committee) for 2018. 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 Moni Mannings, Paul Dean, Mark Hammond and Louise Hardy, and Martin Payne (the Chief Executive Officer). Accordingly, there are six members. The Committee is chaired by the Board Chairman except when considering his own re-election.

In accordance with UK Code Provision B.2.1, the majority of the members were independent. During the year, Louise Hardy was appointed as a Non-Executive Director and as a member of the Committee.

The members of the Committee and details of their attendance at Committee meetings are set out on page 64. Biographies of each member are shown on pages 56 and 57. Under the Committee's Terms of Reference, the Committee will normally meet not less than twice a year and at such other times as the Chairman shall require. The Committee held three scheduled formal meetings during the year under review. After each Committee meeting, the Chairman reports to the Board on the main items discussed.

ROLE OF THE COMMITTEE

The Committee's main responsibilities are to evaluate the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and the Committees; to give full consideration to succession planning of Directors and other senior executives and to assist with the selection process of new Executive and Non-Executive Directors including the Chairman. The Committee's Terms of Reference were reviewed and updated in December 2018 and explain the Committee's role and responsibilities.

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.

In accordance with its Terms of Reference, the Committee is required to:

- review the structure, size and composition of the Board and make recommendations to the Board, as appropriate;
- consider succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board;
- review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- identify the balance of skills, knowledge, diversity and experience on the Board and nominate candidates to fill Board vacancies;
- identify and nominate for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- review the time commitment required from Non-Executive Directors;
- review the results of the Board performance evaluation process that relates to the composition of the Board; 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 65. At its meeting in December 2018, the Committee considered the contents of the review and concluded that the evaluation had found the Committee to be operating effectively and providing robust challenge to the business.

MAIN ACTIVITIES DURING THE YEAR

During the year under review, the Committee carried out a process to recruit 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 B.7.1. 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 re-election.

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

Information on the Directors' service agreements, shareholdings and share options is set out in the Directors' Remuneration Report on pages 95 to 103.

SUCCESSION PLANNING

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

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

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

NON-EXECUTIVE DIRECTOR APPOINTMENT

On the authority of the Committee, a subcommittee comprising Mrs Mannings, the Chairman and the Company Secretary met with three executive recruitment firms following which Warren Partners were engaged 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 before providing the subcommittee members with a longlist of candidates. The merits of all candidates on the longlist were discussed by Warren Partners and the subcommittee, including feedback from the interviews carried out by Warren Partners. Following this discussion, a shortlist of candidates was prepared by Warren Partners and the five candidates, all of whom were women, were interviewed by the subcommittee. Following this process, the subcommittee recommended three candidates be interviewed by the Executive Directors and the other Committee members. As a result, all Committee members agreed that Louise Hardy had the necessary attributes and skills that were being sought for the Non-Executive Director role and recommended her appointment to the Board.

DIVERSITY

The Committee supports diversity, acknowledging the advantages that come from having diverse viewpoints and the influence this can have in decision making. It is the aim of the Committee to always consider the benefits that arise from a diverse Board when making Board appointments. The 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, two of the eight Directors are female, as well as the Company Secretary. The Company is committed to working towards achievement of 33% women on the Board and in leadership positions by 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 50 to 53.

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
19 March 2019

AUDIT COMMITTEE

Paul Dean
Chair of the Audit Committee

2018 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
- Refresh and update of internal audit plan and resources
- Reviewed management's initial assessment of the impact of IFRS 16, Leases, on the Group's consolidated financial statements

AREAS OF FOCUS IN 2019

- Oversee the financial reporting process and management's implementation of IFRS 16, Leases
- Oversee the assimilation of Grant Thornton UK LLP as the Group's provider of internal audit services
- Oversee management's assessment of accounting for businesses acquired in 2018, including their evaluation and calculation of any contingent consideration
- Oversee management's review of the scope of external audits performed at the Group's various business units

DEAR SHAREHOLDER,

I am pleased to present the Report of the Audit Committee (the Committee) for 2018.

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 65), 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 is appointed by the Board and comprises four Non-Executive Directors, being Paul Dean, Mark Hammond, Louise Hardy and Moni Mannings. All Committee members are considered independent.

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

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

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

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 and updated during the year.

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 internally this year by means of a questionnaire completed by all Directors, following the external evaluation performed in 2016. At its meeting in November 2018, the Committee considered the results of the internal evaluation and concluded that it had found the Committee to be operating effectively, particularly in relation to the open and robust discussion of audit matters, thus providing the Board with a high level of assurance that they are dealt with appropriately. Areas which the Committee believed could potentially be improved were discussed and included in its action plan for next year.

MAIN ACTIVITIES DURING THE YEAR

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

At these meetings the Committee focused on the following areas:

Financial reporting

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

The Committee has considered whether, in its opinion, 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 financial position and performance, business model and strategy.

The Committee has concluded that 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.

AUDIT COMMITTEE

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 businesses acquired in 2018.

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 2018, 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.

During the year, a review of the Group's internal audit requirements was undertaken and, following a robust process, it was agreed that Grant Thornton UK LLP be 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.

OTHER ACTIVITIES

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

- considered the external audit plan and approved the audit fee;
- considered the viability statement and going concern assumption;
- instigated, monitored and reviewed the Group's response to an external review of cyber security performed during the year by 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 2018, the Committee has decided to recommend to the Board that Ernst & Young LLP should be reappointed for the 2019 audit and a resolution to this effect will be proposed at the 2019 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 will be 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 2018 and March 2019 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 2018.

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 two minor incidents during the year which were brought to the attention of the Committee. These were reviewed and discussed by the Committee and action was taken as appropriate in response.

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. During the year, the Committee was notified of a fraud in the Middle East which was investigated and appropriately managed by local and Group management. The Group is committed to a zero-tolerance position with regard to bribery. Those employees which the Group considers are more likely to be exposed to potential breaches of the Group's Anti-Bribery policy and statutory obligations under the UK Bribery Act have been provided with relevant guidance on compliance with their obligations. The Group maintains a record of all employees who have received this guidance and requests annual confirmations from each relevant individual stating that they have complied with the Group's policy.

By order of the Board.

Paul Dean
Chair of the Audit Committee
19 March 2019

External audit process review

STAGE 1
An assessment of the lead audit partner and the audit team

STAGE 2
A review of the audit approach, scope, determination of significant risk areas and materiality

STAGE 3
The execution of the audit

STAGE 4
Interaction with management and the Committee

STAGE 5
The quality of any recommendation points

STAGE 6
A review of independence, objectivity and scepticism

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the period ended 31 December 2018. 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 06 to 53) as the Board considers them to be of strategic importance.

THE COMPANY

Polypipe Group plc is a public company limited by shares, incorporated in England and Wales with registered number 06059130. Since 16 April 2014, the Company was and remains listed on the premium segment of the London Stock Exchange. While the Group operates predominately in the UK, it does have operations in France, Italy, 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 06 to 53. The principal activities of the Group are described in the Strategic Report on pages 06 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 153 to 156.

VIABILITY STATEMENT

In accordance with Provision C.2.2 of the UK Code, the Directors have assessed the prospects of the Group over a longer period than 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 2018, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. In their assessment of the viability of the Group, the Directors have considered each of the Group's principal risks and uncertainties detailed on pages 42 to 49 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 2021, being the period considered under the Group's current three-year strategic plan.

GOING CONCERN STATEMENT

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

DIRECTORS

The current Directors' biographies are set out on pages 56 and 57. In accordance with the UK Code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company. Louise Hardy joined the Board on 25 June 2018 and will offer herself for election at the 2019 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 61 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 95 to 103.

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.

DIRECTORS' REPORT

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 2018 the share capital of the Company was 199,999,862 ordinary shares of £0.001 each, of which 221,211 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 pages 146 and 147.

Authority of the Directors to allot shares

The Company passed a resolution at the AGM held on 23 May 2018 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). No shares have been issued under this authority.

This authority will expire at the Company's AGM to be held on 23 May 2019 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 2018 granting the Directors the authority to issue shares on a non pre-emptive basis up to £9,985.93 (representing 9,985,939 ordinary shares or approximately 5% of the ordinary share capital). No shares have been issued under this authority. A special resolution was also passed granting the Directors the authority to issue shares on a non pre-emptive basis in respect of an additional 5% of the ordinary share capital in connection with an acquisition or specified capital investment. No shares have been issued under this authority.

These authorities will expire at the Company's AGM to be held on 23 May 2019 and the Directors will be seeking a new authority to issue shares on a non pre-emptive basis up to £9,989.37. In addition to this, the Directors will seek authority to issue non pre-emptively for cash shares up to £9,989.37 (representing 9,989,375 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 2018 granting the Directors the authority to make market purchases up to 29,937,847 ordinary shares with a total nominal value of £29,937.85, representing approximately 14.99% of the Company's issued ordinary share capital.

The authority to make market purchases will expire at the Company's AGM to be held on 23 May 2019 and the Directors will be seeking a new authority to make market purchases up to 14.99% of the Company's issued ordinary share capital, which will only be exercised if the market and financial conditions make it advantageous to do so. Further details are set out in the explanatory notes on pages 05 to 06 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.

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 on pages 50 to 53 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 133.

OVERSEAS OPERATIONS

As explained in the Strategic Report, the Group operates in the UK, France, 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 42 to 49.

RESULTS AND DIVIDENDS

An interim dividend totalling 3.7 pence per share was paid on 21 September 2018, reflecting the continued strong cash generation of the Group. The Board recommends a final dividend of 7.9 pence per share. Shareholders will be asked to approve the final dividend at the AGM on 23 May 2019, for payment on 29 May 2019 to shareholders whose names appear on the register on 23 April 2019.

Total ordinary dividends paid and proposed for the year amount to 11.6 pence per share or a total return to shareholders of £23.1m.

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 on pages 50 to 53.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018 and 19 March 2019 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 2018		As at 19 March 2019	
Name of shareholder	Ordinary shares	% Voting rights	Ordinary shares	% Voting rights
Standard Life Aberdeen plc	22,985,517	11.51[1]	22,758,468	11.39[1]
Franklin Templeton Investments	13,375,127	6.70	13,338,341	6.68
Norges Bank Investment Management	8,551,340	4.28	8,551,340	4.28
Canaccord Genuity Wealth Management	8,698,865	4.35	8,449,802	4.23
JP Morgan Asset Management	6,991,333	3.50[1]	8,063,786	4.04[1]
BlackRock Inc.	7,702,212	3.86[1]	7,818,872	3.91[1]
The Vanguard Group, Inc	5,994,874	3.00[1]	6,270,298	3.14[1]

[1] Held indirectly.

AUDITOR

A resolution to reappoint Ernst & Young LLP as the Company's external auditor and to authorise the Directors to fix the auditor's remuneration will be proposed at the 2019 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 95 to 103, disclosure of the information listed in Listing Rule 9.8.4R is not applicable.

ANNUAL GENERAL MEETING

The 2019 AGM will be held on 23 May 2019 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
19 March 2019

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
19 March 2019

Paul James
Chief Financial Officer
19 March 2019

CASE
STUDY

Location:

Churchdown Surgery

Client: **Rutter Johnson, EPG**

Application: **Stormwater attenuation Consulting Engineer**

Product: **Permavoid, Polystorm, Permavoid Biomat and Permaceptor**

The Project

Polypipe bolsters flood defences at new £2.7m medical centre.

Polypipe supplied its Polystorm and Permavoid geocellular water management systems to protect a new £2.7m medical centre from flash floods.

The 1,191sqm Churchdown Surgery in Churchdown, Gloucestershire, can serve 20,000 patients, with consulting rooms, nurse treatment areas, training rooms and a large car park. Polypipe, consulting engineering firm EPG and civil engineer NGB Cheltenham had to deal with a water table that left only 130mm of cover in large hard landscaped areas, which meant a shallow attenuation system was required.

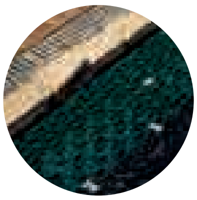
Building on the initial design by the contract engineer Rutter Johnson, a mixed product solution was supplied by Polypipe that included a Permavoid system for use beneath a large permeable paving car park and two Polystorm tanks utilising anti-oatation measures in soft landscape areas.

Due to the high water table, a 150mm deep system using 2,614 Permavoid cells delivered 138m^3 of stormwater storage beneath the hard landscaping surface. Permavoid was also selected due to its high structural load capacity.

In addition, 200 Polystorm PSM1a crates were used in soft landscaped areas, which provided a further 40m^3 of water storage. Both Polystorm attenuation tanks installed beneath the landscaped areas surrounding the car park were wrapped in a fully welded impermeable geomembrane. Both systems are designed to cope with and manage sudden heavy rainfall, which has affected the region in the past decade.

To treat oil and capture silt, 35m of Permachannel, Permavoid Biomat and four Permaceptor separators were used to channel the collected stormwater away from the site and into local water networks.

Following consultation with EPG and NGB, Polypipe delivered a customised Permaceptor much larger than its standard model. Each modified Permaceptor can treat a larger catchment area over 150sqm and was installed to reduce the amount of Permachannel and Permavoid Biomat cells needed within two isolated permeable car park areas separated from the Permavoid tank. As well as this, the main Permavoid tank beneath the car park area had a fully welded membrane to the base and sides.



"This project provided objectives that we knew Polypipe could deliver upon. With only 130mm cover on the car park we chose to use Permavoid beneath the car parking bays because of its load-bearing capability, and the ability of the system to negotiate the high water table on the site. By working with Polypipe's technical experts, we were able to design a system that could be considered 'good practice' by the SuDS manual, local and national planning documents."

– Phil Williams, consultant engineer at EPG

Contents

ANNUAL STATEMENT FROM THE CHAIR OF THE REMUNERATION COMMITTEE

"Our Remuneration Policy is designed to encourage achievement of our strategic goals and priorities by rewarding in line with performance and encouraging appropriate leadership behaviour"

Moni Mannings
Chair of the remuneration committee for the year ended 31 December 2018

DEAR SHAREHOLDER,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018. 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 2018 and also contains full details of how we intend to implement the approved Remuneration Policy during 2019. The Annual Report on Remuneration will be subject to an advisory vote at the 2019 AGM. Further details are set out on pages 95 to 103.

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

ALIGNING REMUNERATION WITH COMPANY STRATEGY

The Remuneration Policy is designed to encourage achievement of our strategic goals and priorities, details of which are set out on pages 18 to 21, by rewarding in line with underlying Company performance while encouraging leadership behaviour which carries an appropriate level of risk. This is achieved by an annual bonus arrangement which is linked to achieving profit targets, working capital targets and personal objectives and a long-term incentive plan which only rewards for shareholder value creation and delivery of long-term earnings growth.

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

PERFORMANCE IN 2018

The financial and operating performance of the Group in 2018 is set out on pages 114 to 156. The Company has continued to deliver sustainable returns and growth for its shareholders during 2018, achieving underlying operating profit of £74.0m, up 1.9% from 2017, and increasing underlying basic earnings per share from continuing operations by 4.4% to 28.4 pence per share.

Based on the Company's strong financial performance during the year and fulfilment of their individual objectives, the Committee determined that, in respect of 2018 performance, the Executive Directors each earned 48.9% of the maximum potential annual bonus, which in the case of Paul James, Chief Financial Officer (CFO), was prorated to reflect the amount of time served in his role during the year. In accordance with the approved Remuneration Policy, 25% of this bonus will be deferred into shares.

APPOINTMENT OF PAUL JAMES

The Committee approved the pay arrangements for Paul James, who joined the Company as CFO on 5 March 2018. Full details of those arrangements were set out on pages 65 to 66 of the 2017 Annual Report and Accounts.

LTIP AWARDS

In May 2018, 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 2019

The proposed implementation of the Remuneration Policy for our Executive Directors for 2019 is outlined on pages 95 to 97. Key decisions made by the Committee in relation to 2019 include:

- The award of a 4.4% salary increase for Martin Payne, which is consistent with the proposal of the Committee set out in the 2017 remuneration report to increase Martin Payne's salary over time to the same level as that of his predecessor, David Hall.
- The award of a 2.5% salary increase for Paul James and Glen Sabin, which is consistent with the average increase awarded to the Group's UK workforce for 2019.
- Maximum bonus potential and LTIP award levels for Martin Payne in 2019 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 2018). 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 2019. 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-vesting holding period for LTIP awards granted from 2019 onwards.
- Cumulative EPS targets equivalent to 4% to 10% per annum growth have been set for 2019 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.

I will be available to answer questions on the Remuneration Policy and the Annual Report on Remuneration at the AGM on 23 May 2019. 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.

Moni Mannings
Chair of the Remuneration Committee for the year ended 31 December 2018
19 March 2019

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.

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.

Read about our Strategy on pages 18 to 21

REMUNERATION POLICY

Purpose and link to strategy	Operation	Maximum opportunity	Performance conditions and provisions for recovery of sums paid[1]
Fixed pay			
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

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 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

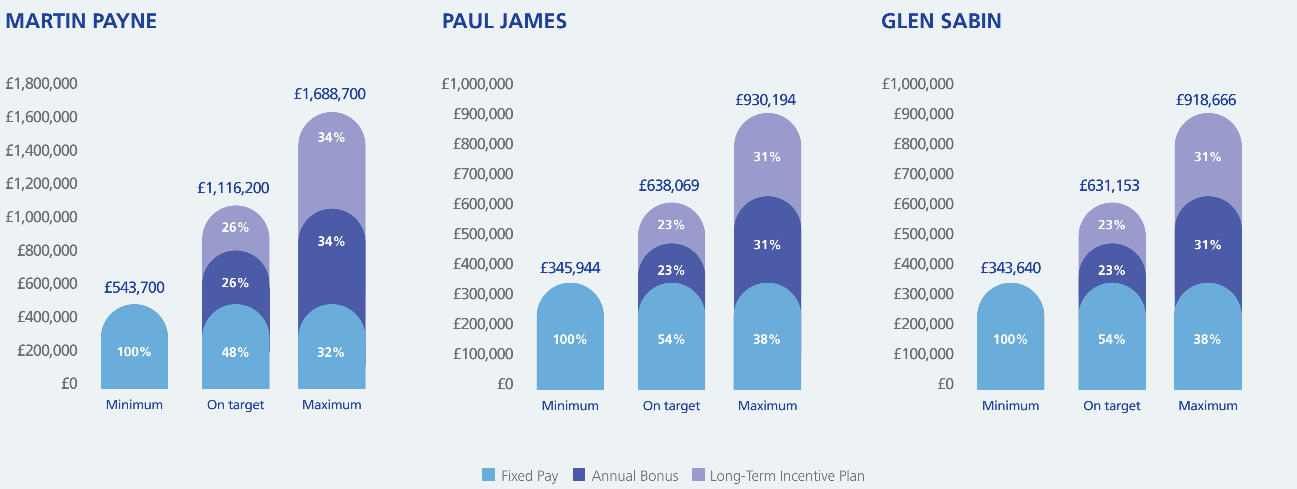
ILLUSTRATIONS OF APPLICATION OF REMUNERATION POLICY

The *Implementation of Remuneration Policy in 2019* section of the Annual Report on Remuneration details how the Committee intends to implement the Remuneration Policy during 2019.

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 2019. This comprises salary and benefits plus an annual bonus of up to a maximum of 125% of salary for Martin Payne and 100% of salary for Glen Sabin and Paul James and an LTIP award of 125% of salary for Martin Payne and 100% of salary for Glen Sabin and Paul James.

The charts are for illustrative purposes only and actual outcomes may differ from that shown. LTIP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans have been excluded. The totals shown in the charts relate to the potential value receivable by the current Executive Directors in relation to 2019.

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 2019 • Benefits – the value of benefits received in 2018 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

SERVICE CONTRACTS

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

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

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

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

POLICY ON PAYMENT FOR LOSS OF OFFICE

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

- The Committee may determine that the Executive Director is eligible to receive a bonus in respect of the financial year in which they cease employment. This bonus would usually be time apportioned and may be settled wholly in cash. In determining the level of bonus to be paid, the Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Committee.
- The treatment of outstanding share awards is governed by the relevant share plan rules as summarised below.

Deferred Share Bonus Plan

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

LTIP

- On cessation of employment, unvested awards will lapse unless cessation is as a result of death, ill health, injury, disability, transfer of employing company or business to which an individual's employment relates out of the Group or any other scenario in which the Committee determines at its discretion that good leaver treatment is appropriate (other than circumstances justifying summary dismissal). In these scenarios, unvested awards will usually continue until the normal vesting date unless the Committee determines that the award should vest earlier and will vest to an extent that takes into account the performance condition assessed at the date of vesting and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and cessation of employment.

- On a change of control, unvested LTIP awards will vest immediately to an extent that takes into account the performance condition assessed at the change of control and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the change of control. If other corporate events occur such as a demerger, delisting, special dividend, voluntary winding-up or other event which in the opinion of the Committee may affect the current or future value of shares, the Committee will determine whether unvested LTIP awards should vest. If they do vest, they will vest immediately to an extent that takes into account the performance condition assessed at the date of the event and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the date of the event.

Sharesave Plan

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

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

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE GROUP

The Committee does not formally consult with employees when determining Executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for Executive Directors 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, it is our intention to offer shareholders the opportunity to meet with the new Chair during 2019.

REMUNERATION COMMITTEE

MONI MANNINGS

Chair of the Remuneration Committee for the year ended 31 December 2018

2018 KEY ACHIEVEMENTS

- Approval of the updated Remuneration Policy by shareholders at the 2018 AGM
- Review and approval of the remuneration arrangements for the new CFO
- Review and approval of annual bonus targets following the sale of the French business and the acquisition of Permavoid and Manthorpe
- Review of the impact of the new UK Corporate Governance Code and approval of amendments to the Committee's terms of reference as well as appropriate policies and procedures
- Introduction of a post-vesting holding period for awards under the LTIP

AREAS OF FOCUS IN 2019

- Review of performance targets for awards under the LTIP to ensure they remain appropriate
- Embed updated policies and procedures following changes to Committee scope under the UK Corporate Governance Code

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 64. The CEO, Martin Payne, was also present at those meetings by invitation. The Committee meets as least three times a year and thereafter as required, and in 2018, 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.

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 2018. 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. 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 £18,950 (2017: £8,920) 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 2018, other departments within Deloitte LLP provided advice to the Company in relation to tax. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

ANNUAL REPORT ON REMUNERATION

UNAUDITED INFORMATION

IMPLEMENTATION OF REMUNERATION POLICY IN 2019

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy in 2019 for the Executive Directors.

Base annual salary

As described in the Annual Statement from the Chair of the Remuneration Committee, an annual salary review has been carried out by the Committee. The Committee approved a 2.5% increase in the CFO and COO's salaries effective from 1 January 2019. This increase is consistent with the average annual salary increase awarded to the Company's UK workforce for 2019. The Committee also approved a 4.4% increase in the CEO's salary, which, as stated in the 2017 remuneration report, formed part of the proposal agreed by the Committee to adopt a staged approach to bring his salary up to the same level as his predecessor.

	Salary 1 January 2019	Salary 1 January 2018	% increase
Martin Payne (CEO)	**£458,000**	£438,600	4.4
Paul James (CFO)*	**£292,125**	£285,000	2.5
Glen Sabin (COO)	**£287,513**	£280,500	2.5

* Appointed to the Board on 5 March 2018

Pension

In 2019, 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 2019, the Executive Directors will receive a standard package of other benefits consistent with those received in 2018.

Annual bonus

The annual bonus plan for 2019 will be broadly consistent with the bonus plan operated in 2018. Key features of the plan for 2019 are:

- There will be a maximum bonus opportunity of 125% of annual salary for Martin Payne and 100% of annual salary for Glen Sabin and Paul James.
- 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 2019 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 2019 financial year are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Directors' Remuneration Report to the extent that they do not remain commercially sensitive at that time.

LTIP

The Executive Directors will receive an award under the LTIP during 2019. Key terms of this award will be:

- Martin Payne will receive an award over shares worth 125% of annual salary at grant and Glen Sabin and Paul James will receive an award over shares worth 100% of annual salary at grant.
- Awards will become exercisable three years after grant.
- In the event that a material misstatement or miscalculation subsequently comes to light which results in too high a level of vesting under the LTIP or if evidence comes to light of material misconduct by an individual or if evidence emerges of a material health and safety breach, then the Committee has the flexibility to withhold or recover the value of shares granted under the LTIP.
- 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	<91.2 pence per share	0%
Threshold	91.2 pence per share	18.75%
Maximum	102.3 pence per share	75%

Threshold three-year cumulative underlying diluted EPS will be calculated using a 4% per annum growth on 2018 underlying diluted EPS. Maximum three-year cumulative underlying diluted EPS will be 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.

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. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.

Sharesave Plan

Invitations to UK employees (including Executive Directors) to participate in the Sharesave Plan 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 2019.

Non-Executive Director remuneration

During the year, Non-Executive Director fees were reviewed, following which it was agreed to increase the Non-Executive Director's base fee by 2.5% and the Chairman's fee by 2.5%. The table below shows the fee structure for Non-Executive Directors for 2019. 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.

	2019 fees
Chairman of the Board all-inclusive fee	**£146,370**
Basic Non-Executive Director fee	**£47,048**
Senior Independent Director additional fee	**£10,000**
Chair of Audit Committee additional fee	**£8,000**
Chair of Remuneration Committee additional fee	**£8,000**

AUDITED INFORMATION

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 102 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 2018 with comparative figures for 2017.

	2018							2017				
All figures shown in £'000	**Salary and fees**[1]	**Benefits**[2]	**Annual bonus**[3]	**Pension**[4]	**LTIP**[5]	**Other**[6]	**Total**	Salary and fees[1]	Benefits[2]	Annual bonus[3]	Pension[4]	Total
Executive Directors												
Martin Payne	**439**	**17**	**268**	**66**	**185**	**–**	**975**	327	14	236	60	637
Paul James[7]	**236**	**10**	**116**	**35**	**–**	**127**	**524**	–	–	–	–	–
Glen Sabin	**281**	**13**	**137**	**42**	**97**	**–**	**570**	69	5	45	10	129
Non-Executive Directors												
Ron Marsh	**143**	**–**	**–**	**–**	**–**	**–**	**143**	140	–	–	–	140
Paul Dean	**64**	**–**	**–**	**–**	**–**	**–**	**64**	63	–	–	–	63
Moni Mannings	**54**	**–**	**–**	**–**	**–**	**–**	**54**	53	–	–	–	53
Mark Hammond	**46**	**–**	**–**	**–**	**–**	**–**	**46**	45	–	–	–	45
Louise Hardy[8]	**24**	**–**	**–**	**–**	**–**	**–**	**24**	–	–	–	–	–

Notes to the table – methodology

1. Salary and fees – CFO and COO salaries were increased by 2.0% effective 1 January 2018 consistent with the average increases awarded to the Company's UK workforce. In 2018, the Non-Executive Director base fee and the Chairman's fee were also increased by 2.0%.
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 2018 annual bonus are set out on page 98.
4. Pension – the pension provision for all Executive Directors is 15%.
5. LTIP - for 2018, this relates 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 ending on 31 December 2018. This has been calculated using actual EPS performance and the Company's average share price for Q4 2018.
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.
7. Paul James was appointed to the Board as CFO on 5 March 2018.
8. Louise Hardy was appointed to the Board as NED on 25 June 2018.
9. Total remuneration paid to Directors in respect of 2018 is £2,400,000 (2017: £1,784,000, including £717,000 paid to David Hall who retired during the year).

ANNUAL REPORT
ON REMUNERATION

Annual bonus

The maximum annual bonus opportunity for the Executive Directors in 2018 was as follows:

- 125% of annual salary for Martin Payne.
- 100% of annual salary for Glen Sabin and 100% of salary for Paul James for the period from 5 March 2018, when he was appointed to the Board, to 31 December 2018.

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.

Performance measures and targets applying to the 2018 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%	£73.3m 17.5% of total bonus payable	£77.2m 35% of total bonus payable	£88. 8m 70% of total bonus payable	£74.0m	20.6%
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: objectives linked to progression of the Group's M&A agenda, including disposal of the French business and progression of the Group's strategy.			Fully achieved	10.0%
		Paul James: objectives linked to satisfactory transition into the CFO role, including management of key relationships and year-end leverage.			Fully achieved	10.0%
		Glen Sabin: objectives linked to successful implementation of an alternative agile manufacturing strategy in the Middle East and the completion of a succession planning and talent management programme for key employees.			Fully achieved	10.0%

	Total bonus payable % of maximum	Total bonus payable £'000 and % of annual salary
Martin Payne	48.9%	268 (61.1% of salary earned)
Paul James	48.9%	116 (48.9% of salary earned from 5 March 2018 to 31 December 2018)
Glen Sabin	48.9%	137 (48.9% of salary earned)

LTIP

The LTIP award granted in May 2016 vests in May 2019 based 25% on relative TSR performance over three years to May 2019 and 75% on EPS growth over the three financial years ending on 31 December 2018. As the EPS performance condition is complete, the vested value of this portion of the award is required to be included in the 2018 single figure table. The vested value of the TSR element of this award will be included in the 2019 single figure table.

Performance measure	Threshold	Maximum	Actual performance	% of award vesting (max 75%)	Vested shares	Estimated value of vested shares*
Three-year cumulative underlying diluted EPS	71.92 pence per share 18.75% of award vests	82.11 pence per share 75% of award vests	80.82 pence per share	67.9%	Martin Payne – 52,777 Glen Sabin – 27,655	Martin Payne – £184,931 Glen Sabin – £96,903

* Estimated value based on average share price in Q4 of 2018 of £3.504

SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

LTIP awards

An award was granted under the LTIP to selected senior executives, including the Executive Directors, in May 2018. This award is subject to the performance conditions described below and will become exercisable in May 2021.

	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	2 May 2018	143,671	£548,249	25% of award	EPS element – December 2020
Paul James†	Nil cost option	2 May 2018	70,536	£269,165	25% of award	
Glen Sabin	Nil cost option	2 May 2018	73,506	£280,499	25% of award	TSR element – December 2020

* The maximum number of shares that could be awarded has been calculated using the share price of £3.816 (average closing share price for 27 April – 1 May 2018) and is stated before the impact of reinvestment of the dividends paid since grant.

† Awards granted to Paul James, who was appointed on 5 March 2018, have been time prorated from the date of appointment.

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	<89.0 pence per share	0%	Below median	0%
Threshold	89.0 pence per share	18.75%	Median	6.25%
Maximum	101.7 pence per share	75%	Upper quartile	25%
Threshold three-year cumulative underlying diluted EPS is calculated using a 5% per annum growth on 2017 underlying diluted EPS. Maximum three-year cumulative underlying diluted EPS is calculated using a 12% per annum growth on 2017 underlying diluted EPS. Vesting for performance between Threshold and Maximum will be calculated pro rata on a straight-line basis.			*Comparator group comprises companies in the FTSE 250 Index that are classified as Industrials by the Industry Classification Benchmark. TSR performance will be measured over the three-year period to 31 December 2020. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.*	

Deferred Share Bonus Plan awards

On 2 May 2018, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2017 annual bonus. The value of these shares was included in the annual bonus figure in the 2017 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	15,476	£59,095	50% vests in each of May 2020 and May 2021
Glen Sabin	Deferred shares	2,964	£11,311	

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £3.816 per share.

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 2018 has been included in the single total figure of remuneration table on page 97. 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

Paul James was granted options on 4 October 2018 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	8,144 (2016)	–	£2.21	November 2019	–	–
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

David Hall, the former CEO, retired from the Company on 2 October 2017. As discussed in the 2017 Annual Report and Accounts, the Committee determined that David Hall should be entitled to receive a time prorated bonus for 2017 based on the Company's full-year performance (as outlined on page 70 of the 2017 Annual Report). A bonus payment of £286,764 was paid to David Hall in March 2018 and was included in the 2017 single figure of remuneration table on page 67 of the 2017 Annual Report and Accounts.

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 2018.

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

	Number of shares at 31 December 2018				
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]	115,575 (82.6% of salary)	294,628	23,717	10,449	8,144
Paul James[5]	–	70,536	–	30,755	6,040
Glen Sabin[5]	892,932 (1,016.8% of salary)	144,300	2,964	–	2,322
Ron Marsh	275,000	–	–	–	–
Paul Dean	5,000	–	–	–	–
Moni Mannings	–	–	–	–	–
Mark Hammond	15,000	–	–	–	–
Louise Hardy	–	–	–	–	–

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 Martin Payne in partial compensation for bonus and long-term incentive awards forfeited when he left his previous employer. Full details are set out on pages 55 to 57 of the 2016 Annual Report on Remuneration. A further 11,035 shares (including 586 dividend shares) vested during 2018 and are included, net of shares sold to satisfy the related personal tax liability, in the 'Shares owned outright' column. This also 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 100 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 2018 has been used (£3.274 per share).

Between 31 December 2018 and the date of this report, there were no changes in the shareholdings of current Directors outlined in the above table.

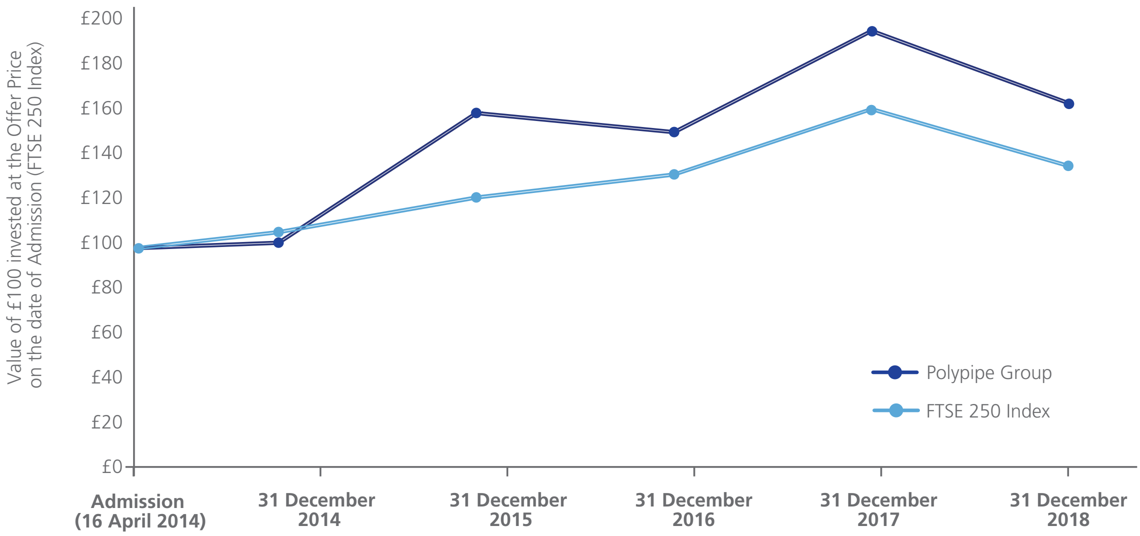
ANNUAL REPORT ON REMUNERATION

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 2018 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**
CEO single figure of remuneration £'000	955	919	948	717	218	**975**
Annual bonus payout (as a % of maximum opportunity)	88.7%	68.2%	69.4%	66.8%	66.8%	**48.9%**
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)	**n/a (no award vested in 2018)**

1. This reflects the remuneration received by David Hall, CEO for the period from 1 January 2017 to 1 October 2017.
2. This reflects the remuneration received by Martin Payne who was appointed as CEO on 2 October 2017 following the retirement of David Hall.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO

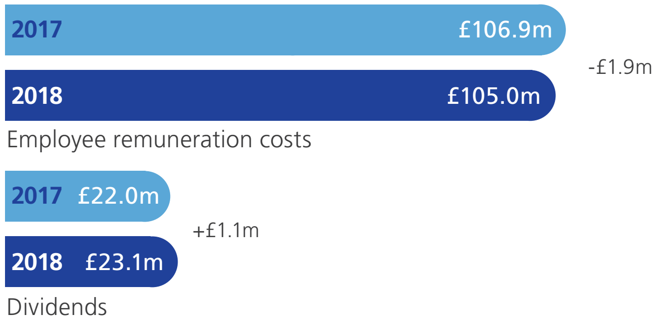
The table below illustrates the percentage change in annual salary, benefits and bonus between 2017 and 2018 for the CEO and the average for all Company UK employees. The CEO is a UK-based employee so the Committee feels that a comparator based on all UK employees is appropriate for the purposes of this analysis.

	Salary change (2017 to 2018)	Benefits change (2017 to 2018)	Annual bonus change (2017 to 2018)
CEO [1]	+ 4.4%	–	-28.9%
Average for all UK employees	+ 2.5%	–	-21.4%

1. This table reflects the fact that David Hall was CEO until 2 October 2017 and Martin Payne was appointed as CEO on 2 October 2017. Martin Payne's salary on appointment was lower than David Hall's CEO salary, and, as set out in the Annual Statement by the Chair of Remuneration Committee on page 83 of this report, the Committee has over time increased Mr Payne's salary to the same level as was received by David Hall.

RELATIVE IMPORTANCE OF THE SPEND ON PAY

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



SHAREHOLDER VOTING ON REMUNERATION RESOLUTIONS

Details of the votes cast in relation to our remuneration resolutions in 2018 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 2018 AGM	143,258,256 (96.43%)	5,285,135 (3.57%)	3,989,773

EXTERNAL BOARD APPOINTMENTS

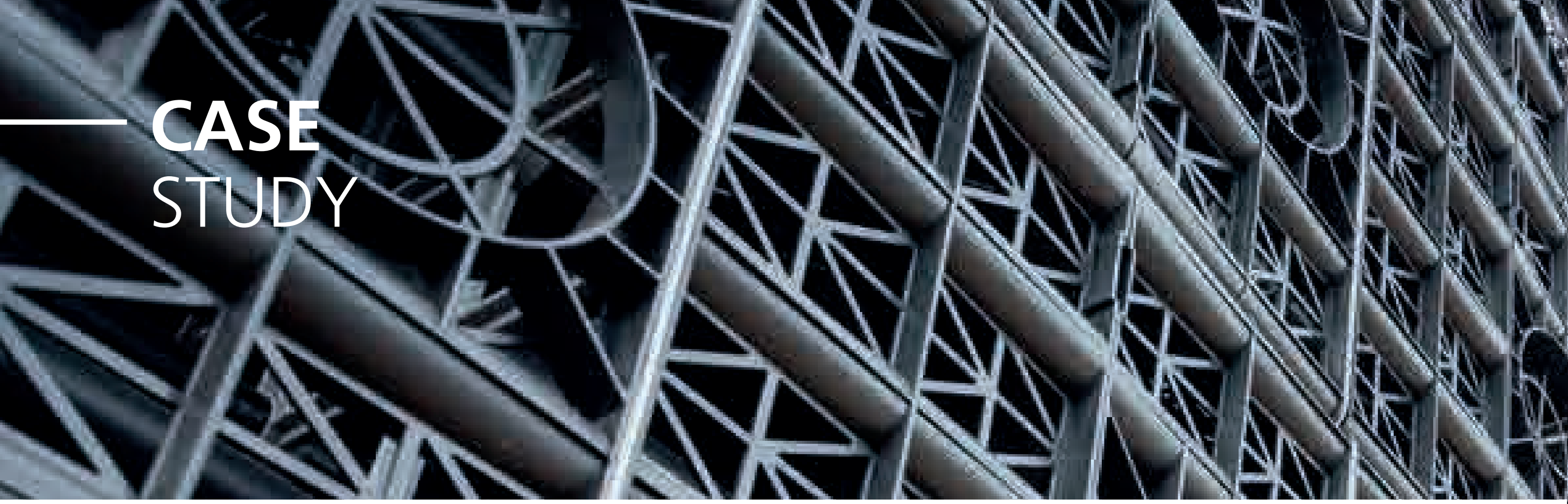
Executive Directors are not normally entitled to accept a Non-Executive Director appointment outside the Company without the prior approval of the Board. None of the current Executive Directors currently holds any such appointment.

ANNUAL GENERAL MEETING

This Annual Report on Remuneration will be subject to an advisory shareholder vote at our AGM to be held on 23 May 2019.

By order of the Board.

Moni Mannings
Chair of the Remuneration Committee for the year ended 31 December 2018
19 March 2019



CASE STUDY

Location:

Graven Hill Bicester

Client: **Careys Civil Engineering**

Application: **SuDS**

Product: **Polysewer, Ridgisewer, Ridgistorm-XL and Polystorm-R**

The Project

Polypipe delivers vital infrastructure for UK's largest self-build community

Polypipe has supplied a wide range of its thermoplastic pipe products for foul watermanagement, delivering vital infrastructure to the innovative Graven Hill project site in Bicester, Oxfordshire.

The Graven Hill project is set to become the UK's largest self-build community, offering plots for 1,900 homes across the site, with planning for further developments including a primary school, pubs and convenience shops accepted.

The 188-hectare site will provide purchasers with the chance to build their own home, with a focus on energy efficient materials, modular construction methods, and contemporary design. Following previous positive experiences with Polypipe, contractor Careys Civil Engineering recommended that the original clay and concrete design specification be changed to a more durable and cost-effective thermoplastic solution, incorporating Polysewer and Ridgisewer. The structured wall pipes offer ring stiffness and strength, while ensuring flexibility to allow for ground movement and differential settlement.

They can also be manufactured to exact specifications and delivered at precise times, reducing labour time on-site. To capture, store and control surface water run-off, over 220m of Ridgistorm-XL large diameter pipes were supplied in a stiffness class of SN2 to suit the site's ground conditions, together with two tanks manufactured using Polystorm-R cells.

Polypipe's Polystorm-R cells have a 95% void ratio, with a load-bearing capacity of up to 61 tonnes per square metre, making them ideally suited for trafficked and loaded applications at greater depths. The two tanks will provide over 336m of water storage, ensuring good resilience even in extreme weather events.

The solution included a system for foul water management using over 2,250m of Polypipe's Polysewer and 330m of Ridgisewer structured wall pipes, along with the necessary associated bends and fittings required to fit the pipe runs.

"We recommended … a thermoplastic solution, as we knew it would be safer, easier and quicker for our groundworkers to install, while offering the robust infrastructure required for this large-scale project."

– Mick McCaul, Construction Manager
at Careys Civil Engineering

Contents

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 2018 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 2018	Company Balance Sheet at 31 December 2018
Group Statement of Comprehensive Income for the year ended 31 December 2018	Company Statement of Changes in Equity for the year ended 31 December 2018
Group Balance Sheet at 31 December 2018	Company Cash Flow Statement for the year ended 31 December 2018
Group Statement of Changes in Equity for the year ended 31 December 2018	Notes 1 to 9 to the Company Financial Statements for the year ended 31 December 2018
Group Cash Flow Statement for the year ended 31 December 2018	
Notes 1 to 30 to the Group Financial Statements for the year ended 31 December 2018	

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 42 to 49 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 74 in the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 74 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit; or

- the Directors' explanation set out on page 74 in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

OVERVIEW OF OUR AUDIT APPROACH

Key audit matters	• Revenue recognition and recognition of customer rebates. • Acquisition accounting.
Audit scope	• We performed an audit of the complete financial information of 11 components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 100% of Profit Before Tax, 100% of Revenue and 100% of Total Assets.
Materiality	• Overall Group materiality of £2.9m (2017: £3.1m) which represents 5% of Profit Before Tax.

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 and recognition of customer rebates as key audit matters. This year we have added acquisition accounting as a result of the acquisitions made by the Group.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition and recognition of customer rebates		
Refer to the Report of the Audit Committee (page 72); Summary of Significant Accounting Policies (pages 120 to 121); and Note 3.2 to the consolidated financial statements (page 128). The Group has reported revenue of £433.2m (2017: £411.7m). Revenue is stated net of rebates payable. 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. There is opportunity for management to misstate the recording of revenue between periods in order to influence reported results. The Group's pricing structure includes rebate arrangements with customers, some of which involve estimation when determining the amount of rebate to be recognised. This is particularly the case for indirect rebates where the Group is reliant on 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.	For six of the components of the Group representing 84% of the Group's revenues we performed procedures using EY bespoke data analytics tools to test the appropriateness of journal entries recorded in the general ledger by correlating sales postings with cash receipts throughout the year. For the remaining components we performed tests of detail over revenue in the year, by agreeing a sample of sales to supporting documentation. We tested the accuracy of revenue cut-off around the year end. Our work comprised the agreement of sales transactions from either side of the year end to supporting documentation. We assessed for evidence of management bias by testing material manual journals either side of the year end and agreeing to supporting evidence. We tested the appropriateness of rebate provision calculations by agreeing a sample of amounts recognised to terms of agreements and other supporting documents. We assessed the indirect rebate expense by reference to external information sources to determine the reasonableness of amounts to be 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 with amounts provided at 31 December 2017 which gave us assurance over the accuracy of amounts previously provided. We assessed the completeness of rebate amounts recognised by reference to post year end payments and by obtaining satisfactory explanations where rebates had not been recognised for significant customers or for customers where rebates had been recognised in prior years. We performed full and specific scope audit procedures over this risk area in all locations, which covered 100% of the risk amounts.	We have concluded that revenue is appropriately recognised in the correct accounting period and found no evidence of management bias. We have concluded that the customer rebates expense and liability are appropriately recognised and that amounts estimated are reasonable.

Acquisition accounting

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Refer to the Report of the Audit Committee (page 72); Summary of Significant Accounting Policies (page 122); and Note 3.1 to the consolidated financial statements (page 128). During the year the Group made two business acquisitions. The accounting for acquisitions, including the allocation of the purchase price and the recognition of intangible assets and goodwill is required to be performed in accordance with IFRS 3, Business Combinations. This involves judgement and is a subjective area. Specifically, the valuation of intangible assets requires the identification of separately identifiable intangible assets acquired, the estimation of future cash flows and the selection of appropriate rates to be used for discounting. The identification of these intangible assets results in an equivalent reduction in the amount recognised as goodwill, and the other intangible assets give rise to an amortisation charge that, in accordance with the Group's policy, is disclosed separately in the income statement as a non-underlying item. The amounts recognised as intangible assets in the year were £23.3m of goodwill and £28.0m of other intangible assets. A contingent consideration liability of £1.7m has also been recognised in the year.	We verified that the allocation of the purchase price and the recognition of intangible assets was in accordance with IFRS 3, paying particular attention to complex areas such as fair values of intangible assets. We assessed whether the intangible assets that had been identified were complete, and whether the assigned useful economic lives of these assets were appropriate. We validated the fair value calculations prepared by management and its advisers with reference to source inputs and assessed the reasonableness of assumptions. We obtained and read the share purchase agreements (SPAs) relating to the acquisitions in the year, and vouched the consideration paid to supporting documentation. We reviewed the SPAs for any earn-out and contingent consideration clauses and assessed management's estimates of any related liabilities considering whether they were appropriately classified as either consideration or remuneration. We vouched significant acquisition costs to supporting documentation and ensured that they had been appropriately expensed. We confirmed that the necessary disclosures had been made in the financial statements, and considered the impact of acquisitions in the year on segmental disclosures. We performed full audit procedures over this risk area in the Group, which covered 100% of the risk amounts.	We have concluded that accounting for acquisitions has been performed in line with IFRS 3 and that the acquisitions have been appropriately disclosed.

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 14 reporting components of the Group, we selected all 14 components covering entities within the UK, Italy and the United Arab Emirates which represent the principal business units within the Group.

Of the 14 components selected, we performed an audit of the complete financial information of 11 components (full scope components) which were selected based on their size or risk characteristics. For the remaining three 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% (2017: 100%) of the Group's Profit Before Tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total Assets. For the current year, the full scope components contributed 99% (2017: 100%) of the Group's Profit Before Tax, 95% (2017: 100%) of the Group's Revenue and 98% (2017: 100%) of the Group's Total Assets. The specific scope component contributed 1% (2017: 0%) of the Group's Profit Before Tax, 5% (2017: 0%) of the Group's Revenue and 2% (2017: 0%) of the Group's Total Assets. The audit scope of these components may not have included testing of all significant accounts of the component.

Changes from the prior year

In the prior year, our coverage from full scope audits was 100% of the Group's Profit Before Tax, Revenue and Total Assets. The specific scope components in the current year were Polypipe France Holding SAS, which was sold on 29 March 2018, Manthorpe Building Products Holdings Limited, which was acquired on 25 October 2018, and Permavoid Limited, which was acquired on 31 August 2018. As all three of these components were not part of the Group for the full year to 31 December 2018, it was deemed reasonable, due to size and risk, that these entities would be assigned a specific scope only.

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 11 full scope components, audit procedures were performed on nine 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, a visit was undertaken by the primary audit team to the component team in Italy. This visit involved discussing the audit approach with the component team and any issues arising from their work and meeting with local management. Subsequently, the primary audit team participated in the closing meeting 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

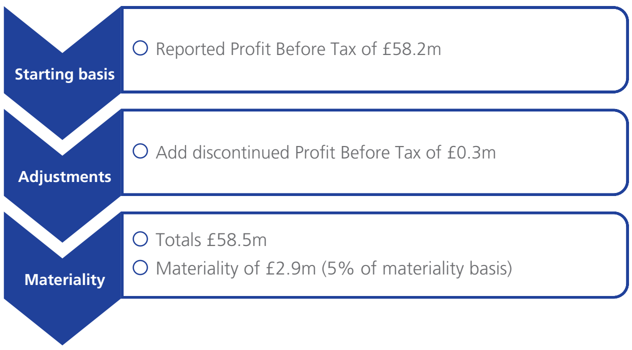
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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 £2.9m (2017: £3.1m), which is 5% (2017: 5%) of Profit Before Tax excluding non-underlying items other than amortisation of intangible assets. We believe that Profit Before Tax excluding non-underlying items other than amortisation of intangible assets provides us with the most relevant measure of Group profitability.

We determined materiality for the parent company to be £2.2m (2017: £2.3m), which is 1% (2017: 1%) of Total Equity.



Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £2.2m (2017: £2.3m). 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 £0.4m to £2.2m (2017: £0.5m to £2.3m).

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 £0.1m (2017: £0.2m), 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 104, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 62** – 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 70 to 73** – 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 60** – 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.

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF POLYPIPE GROUP PLC

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 79 and 157, 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.
- 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 seven years, covering the years ended 31 December 2012 to 31 December 2018.
- Other than our review of the Group's interim results for the period ended June 2018 and some audit related reporting work relating to Polypipe France prior to its disposal, 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
19 March 2019

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 2018

		2018			2017		
	Notes	Underlying £m	Non-underlying† £m	Total £m	Underlying £m	Non-underlying† £m	Total £m
Continuing operations							
Revenue	5	**433.2**	**–**	**433.2**	411.7	–	411.7
Cost of sales	8	**(251.8)**	**–**	**(251.8)**	(236.0)	(2.8)	(238.8)
Gross profit		**181.4**	**–**	**181.4**	175.7	(2.8)	172.9
Selling and distribution costs		**(69.6)**	**–**	**(69.6)**	(68.7)	–	(68.7)
Administration expenses	8	**(37.8)**	**(2.3)**	**(40.1)**	(34.4)	(1.8)	(36.2)
Trading profit		**74.0**	**(2.3)**	**71.7**	72.6	(4.6)	68.0
Amortisation of intangible assets	8	**–**	**(5.9)**	**(5.9)**	–	(5.5)	(5.5)
Operating profit	5, 6	**74.0**	**(8.2)**	**65.8**	72.6	(10.1)	62.5
Finance costs	8,11	**(6.9)**	**(0.7)**	**(7.6)**	(6.9)	–	(6.9)
Profit before tax	5	**67.1**	**(8.9)**	**58.2**	65.7	(10.1)	55.6
Income tax	8,12	**(10.5)**	**1.1**	**(9.4)**	(11.8)	1.2	(10.6)
Profit from continuing operations		**56.6**	**(7.8)**	**48.8**	53.9	(8.9)	45.0
Profit from discontinued operations	8	**–**	**0.3**	**0.3**	–	(11.3)	(11.3)
Profit for the year attributable to the owners of the parent company		**56.6**	**(7.5)**	**49.1**	53.9	(20.2)	33.7
Basic earnings per share (pence)							
From continuing operations	13			**24.5**			22.7
From discontinued operations	13			**0.2**			(5.7)
	13			**24.7**			17.0
Diluted earnings per share (pence)							
From continuing operations	13			**24.3**			22.5
From discontinued operations	13			**0.2**			(5.7)
	13			**24.5**			16.8
Dividend per share (pence) – interim	14			**3.7**			3.6
Dividend per share (pence) – final	14			**7.9**			7.5
	14			**11.6**			11.1

† Non-underlying items are presented separately. The definition of non-underlying items is included in the Group Accounting Policies on page 127. Non-underlying items are detailed in Note 8 to the consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Profit for the year attributable to the owners of the parent company	**49.1**	33.7
Other comprehensive income:		
Items which may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**0.1**	0.3
Recycling of foreign exchange differences to the income statement	**(0.3)**	–
Effective portion of changes in fair value of interest rate swaps	**1.4**	1.7
Tax relating to items which may be reclassified subsequently to the income statement	**(0.2)**	(0.3)
Other comprehensive income for the year net of tax	**1.0**	1.7
Total comprehensive income for the year attributable to the owners of the parent company	**50.1**	35.4
Attributable to the owners of the parent company from:		
Continuing operations	**50.2**	46.7
Discontinued operations	**(0.1)**	(11.3)
	50.1	35.4

GROUP BALANCE SHEET

AT 31 DECEMBER 2018

	Notes	31 December 2018 £m	31 December 2017 £m
Non-current assets			
Property, plant and equipment	15	**118.4**	98.6
Intangible assets	16	**401.9**	356.5
Total non-current assets	5	**520.3**	455.1
Current assets			
Assets classified as held-for-sale	19	**–**	24.0
Inventories	20	**58.1**	53.5
Trade and other receivables	21	**37.4**	34.5
Cash and cash equivalents	22	**46.2**	35.7
Total current assets		**141.7**	147.7
Total assets	5	**662.0**	602.8
Current liabilities			
Liabilities associated with assets classified as held-for-sale	19	**–**	(10.9)
Trade and other payables	25	**(99.6)**	(87.6)
Provisions	8	**–**	(2.2)
Contingent consideration	17	**(1.7)**	–
Derivative financial instruments	26	**(1.1)**	(2.5)
Income tax payable		**(6.3)**	(5.6)
Total current liabilities		**(108.7)**	(108.8)
Non-current liabilities			
Loans and borrowings	26	**(210.4)**	(184.1)
Other liabilities	26	**(0.7)**	(0.9)
Deferred income tax liabilities	12	**(11.0)**	(7.0)
Total non-current liabilities		**(222.1)**	(192.0)
Total liabilities	5	**(330.8)**	(300.8)
Net assets	5	**331.2**	302.0
Capital and reserves			
Equity share capital	23	**0.2**	0.2
Capital redemption reserve	23	**1.1**	1.1
Own shares	23	**(3.8)**	(4.3)
Hedging reserve	23	**(0.9)**	(2.1)
Foreign currency retranslation reserve	23	**0.5**	0.7
Retained earnings		**334.1**	306.4
Total equity		**331.2**	302.0

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

Martin Payne
Director
19 March 2019

Paul James
Director
19 March 2019

Company Registration No. 06059130

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	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 2016	0.2	1.1	(4.6)	(3.5)	0.4	293.8	287.4
Profit for the year	–	–	–	–	–	33.7	33.7
Other comprehensive income	–	–	–	1.4	0.3	–	1.7
Total comprehensive income for the year	–	–	–	1.4	0.3	33.7	35.4
Dividends paid	–	–	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	–	–	(3.2)
Share-based payments charge	–	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	–	–	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	(2.1)	0.7	306.4	302.0
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**

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £m	2017 £m
Operating activities			
Profit before tax		**58.2**	55.6
Finance costs	11	**7.6**	6.9
Operating profit		**65.8**	62.5
Profit before tax from discontinued operations	8	**0.3**	1.4
Non-cash items:			
Profit on disposal of property, plant and equipment	6	**(0.3)**	(0.1)
Non-underlying items:			
– amortisation of intangibles assets	8	**5.9**	5.5
– provision for restructuring costs	8	**–**	4.3
– provision for aborted acquisition costs	8	**–**	0.3
– provision for acquisition costs	8	**2.2**	–
– loss on disposal of assets classified as held-for-sale	8	**0.1**	–
Depreciation	5	**15.6**	16.2
Share-based payments		**1.0**	0.8
Cash items:			
– settlement of restructuring costs		**(2.3)**	(0.4)
– settlement of aborted acquisition costs		**(0.2)**	(0.1)
– settlement of acquisition costs		**(1.9)**	–
Operating cash flows before movement in working capital		**86.2**	90.4
Movement in working capital:			
Receivables		**(2.9)**	(3.2)
Payables		**10.8**	2.1
Inventories		**(4.1)**	(8.9)
Cash generated from operations		**90.0**	80.4
Income tax paid		**(11.2)**	(12.6)
Net cash flows from operating activities		**78.8**	67.8
Investing activities			
Acquisition of businesses net of cash at acquisition	17	**(56.1)**	–
Proceeds from disposal of property, plant and equipment		**0.9**	0.2
Purchase of property, plant and equipment		**(24.1)**	(23.4)
Disposal of subsidiary undertaking net of overdraft divested	19	**13.6**	–
Net cash flows from investing activities		**(65.7)**	(23.2)
Financing activities			
New bank loan		**226.1**	–
Repayment of bank loan		**(199.1)**	(7.0)
Interest paid		**(6.1)**	(6.6)
Dividends paid	14	**(22.3)**	(21.0)
Purchase of own shares		**–**	(3.2)
Proceeds from exercise of share options		**0.3**	2.5
Debt issue costs		**(1.6)**	–
Net cash flows from financing activities		**(2.7)**	(35.3)
Net change in cash and cash equivalents		**10.4**	9.3
Cash and cash equivalents at 1 January	22	**35.7**	26.5
Net foreign exchange difference		**0.1**	(0.1)
Cash and cash equivalents at 31 December	22	**46.2**	35.7

The net decrease in cash and cash equivalents in the year from discontinued operations included in the above was £4.2m (2017: £1.3m increase).

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 19 March 2019 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 2018 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The 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 2018 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 2018.

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

2.2 Going concern

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 December 2018. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

2.7.2 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. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** CONTINUED

2.9 Property, plant and equipment

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

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

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

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

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

2.10 Intangible assets

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

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

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

Patents and brand names	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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

2.13 Leasing

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

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

2.14 Financial instruments – initial recognition and subsequent measurement

IFRS 9 was adopted on 1 January 2018 with no impact as explained in Note 4.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, 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, 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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
- on 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.

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, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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:

3.2 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. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

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

IFRS 9, Financial Instruments

IFRS 9 addressed the classification, measurement and derecognition of financial assets and liabilities, introduced new rules for hedge accounting and a new impairment model for financial assets. The adoption of the new standard on 1 January 2018 had the following impact on the Group's financial assets and liabilities:

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

Financial liabilities: the new rules only affected the accounting for financial liabilities that were designated at fair value through profit or loss (FVTPL). The only liabilities on adoption designated as FVTPL were the forward foreign currency derivatives (see below). The only financial liability at FVTPL that is not designated as an effective hedging instrument is the contingent consideration – see Note 17. The derecognition rules have been transferred from IAS 39, Financial Instruments: Recognition and Measurement, and have not been changed.

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

Forward foreign currency derivatives: these were previously accounted for as held for trading derivatives at FVTPL. No change was required to the way in which these liabilities were recognised in prior years. However, the Group has adopted hedge accounting in 2018 for some of these derivatives which are accordingly measured at fair value through other comprehensive income under IFRS 9.

The new impairment model required the recognition of impairment provisions based on forward-looking expected credit losses rather than backward-looking incurred losses previously applied under IAS 39. This applies to financial assets classified at amortised cost, namely cash and cash equivalents and trade and other receivables. The only financial asset that was impaired and remained impaired under IFRS 9 was trade receivables. A large proportion of trade receivables are covered by credit insurance. Accordingly, there was no impact from the change to the loss allowance for trade receivables on adoption of IFRS 9.

4. **NEW AND AMENDED STANDARDS AND INTERPRETATIONS** CONTINUED

IFRS 15, Revenue from Contracts with Customers

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

We considered variable consideration, specifically in relation to rebates. The Group accounts for rebates as discussed in Notes 2.7 and 3.2 to the consolidated financial statements and there was no impact of adopting IFRS 15. In addition, due to the generally short-term nature of the Group's contracts, there was no impact on the timing of recognition of revenue prospectively.

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of adoption was recognised in retained earnings as of 1 January 2018 and the comparatives were not restated.

Standards issued but not yet effective

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

International Financial Reporting Standards (IFRSs)		**Effective date**
IFRS 16	Leases	1 January 2019

IFRS 16, Leases

Under IFRS 16 the present distinction between operating and finance leases will be removed, resulting in all leases being recognised on the balance sheet (except short-term leases and leases of low-value assets) and termed right-of-use assets. At inception, a right-of-use asset will be recognised together with an equivalent liability reflecting the discounted lease payments over the estimated term of the lease. While the overall cost of using the asset over the lease term should be the same, it is likely that the weighting of the charge between periods may differ due to the requirement to distinguish between the lease and non-lease elements of the agreement.

IFRS 16 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 will first report under the new standard in the interim consolidated financial statements for the six months ending 30 June 2019, and the consolidated financial statements for the year ending 31 December 2019. The Group has reviewed all material leasing arrangements over the last year in light of the new lease accounting rules. The Group does not have any leases previously classified as finance leases. The Group will adopt the simplified approach to transition and will not restate comparative amounts for the year prior to first adoption. In 2019, the Group's lease commitments will be brought onto the Group's balance sheet and the timing of the recognition of lease costs in the income statement will change.

The value of lease commitments at 31 December 2018 was £14.0m (see Note 27). The Group expects to recognise an increase in total liabilities within the range of £12.0m – £14.0m, and the same increase in total assets. The difference between the value of lease commitments and increase in total liabilities is largely driven by the requirement to discount the lease liabilities to present value.

On a pro forma basis the Group expects that underlying EBITDA would increase by approximately £3.9m, that underlying operating profit would increase by approximately £0.2m – £0.4m and that underlying profit before tax would reduce by approximately £0.1m – £0.3m for 2019 as a result of adopting the new rules. Operating cash flows will increase, and financing cash flows will decrease because repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

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.

	2018			2017		
	Residential Systems £m	**Commercial & Infrastructure Systems £m**	**Total £m**	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m
Continuing operations						
Segmental revenue	**249.9**	**197.2**	**447.1**	228.8	196.0	424.8
Inter segment revenue	**(4.6)**	**(9.3)**	**(13.9)**	(5.3)	(7.8)	(13.1)
Revenue	**245.3**	**187.9**	**433.2**	223.5	188.2	411.7
Underlying operating profit*	**46.3**	**27.7**	**74.0**	44.3	28.3	72.6
Non-underlying items – segmental	**(3.6)**	**(4.5)**	**(8.1)**	(2.1)	(7.7)	(9.8)
Segmental operating profit	**42.7**	**23.2**	**65.9**	42.2	20.6	62.8
Non-underlying items – Group			**(0.1)**			(0.3)
Operating profit			**65.8**			62.5
Non-underlying items – finance costs			**(0.7)**			–
Finance costs			**(6.9)**			(6.9)
Profit before tax			**58.2**			55.6

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 127, and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £8.9m (2017: £10.1m) are set out below at Non-underlying items before tax.

Balance sheet

	31 December 2018		31 December 2017	
	Total assets £m	**Total liabilities £m**	Total assets £m	Total liabilities £m
Continuing operations				
Residential Systems	**346.9**	**(68.1)**	287.0	(60.7)
Commercial and Infrastructure Systems	**268.9**	**(35.0)**	256.8	(32.5)
Total segment assets/(liabilities)	**615.8**	**(103.1)**	543.8	(93.2)
Discontinued operations	**–**	**–**	23.3	(10.9)
Current and deferred income taxes	**–**	**(17.3)**	–	(12.6)
Net debt	**46.2**	**(210.4)**	35.7	(184.1)
Total – Group	**662.0**	**(330.8)**	602.8	(300.8)
Net assets		**331.2**		302.0

5. SEGMENT INFORMATION CONTINUED

Capital additions

	2018 £m	2017 £m
Residential Systems	13.0	10.3
Commercial and Infrastructure Systems	10.9	12.1
Continuing operations	23.9	22.4
Discontinued operations	0.1	1.3
Total – Group	24.0	23.7

Depreciation of property, plant and equipment

	2018 £m	2017 £m
Residential Systems	8.3	8.0
Commercial and Infrastructure Systems	7.0	6.9
Continuing operations	15.3	14.9
Discontinued operations	0.3	1.3
Total – Group	15.6	16.2

Non-underlying items before tax

	2018 £m	2017 £m
Residential Systems – restructuring costs	–	0.3
Residential Systems – amortisation of intangible assets	2.1	1.8
Residential Systems – acquisition costs	1.5	–
Commercial and Infrastructure Systems – restructuring costs	–	4.0
Commercial and Infrastructure Systems – amortisation of intangible assets	3.8	3.7
Commercial and Infrastructure Systems – acquisition costs	0.7	–
UK operations	8.1	9.8
Group – unwind of discount on contingent consideration	0.1	–
Group – unamortised debt issue costs written off	0.6	–
Group – aborted acquisition costs	–	0.3
Group – loss on disposal of assets classified as held-for-sale	0.1	–
Continuing operations	8.9	10.1
Discontinued operations: loss recognised on remeasurement to fair value less costs to sell	–	12.5
Discontinued operations: profit from discontinued operations	(0.3)	(1.4)
Total – Group	8.6	21.2

5. SEGMENT INFORMATION CONTINUED

Geographical analysis

Revenue by destination	2018 £m	2017 £m
Continuing operations		
UK	**387.1**	365.7
Rest of Europe	**21.5**	18.9
Rest of World	**24.6**	27.1
Total – Group	**433.2**	411.7

Non-current assets	31 December 2018 £m	31 December 2017 £m
Continuing operations		
UK	**515.7**	451.1
Rest of Europe	**4.4**	4.0
Rest of World	**0.2**	–
Total – Group	**520.3**	455.1

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

The Group has two customers (2017: two) which individually accounted for more than 10% of the Group's total continuing revenue during 2018. These customers account for 16.9% and 14.2%, respectively (2017: 15.0% and 12.0%, respectively) and are included in both reporting segments.

6. OPERATING PROFIT

	2018 £m	2017 £m
Income statement charges		
Continuing operations		
Depreciation of property, plant and equipment (owned)	**15.3**	14.9
Cost of inventories recognised as an expense	**251.8**	238.8
Operating lease payments – minimum lease payments	**3.9**	4.6
Research and development costs written off	**0.7**	0.8
Discontinued operations		
Depreciation of property, plant and equipment (owned)	**0.3**	1.3
Cost of inventories recognised as an expense	**13.5**	46.1
Operating lease payments – minimum lease payments	**–**	0.1
Income statement credits – continuing operations		
Profit on disposal of property, plant and equipment	**0.3**	0.1

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:

	2018 £m	2017 £m
Audit of the Company's annual financial statements	**–**	–
Audit of the Company's subsidiaries	**0.3**	0.3
Total audit fees	**0.3**	0.3

The Group did not make any payments to the Company's auditor for non-audit services (2017: nil).

8. NON-UNDERLYING ITEMS

Non-underlying items comprised:

	2018			2017		
	Gross £m	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Cost of sales: Restructuring costs	**–**	**–**	**–**	2.8	(0.2)	2.6
Administration expenses: Restructuring costs	**–**	**–**	**–**	1.5	–	1.5
Administration expenses: Aborted acquisition costs	**–**	**–**	**–**	0.3	(0.1)	0.2
Administration expenses: Acquisition costs	**2.2**	**–**	**2.2**	–	–	–
Administration expenses: Loss on disposal of assets classified as held-for-sale	**0.1**	**–**	**0.1**	–	–	–
Amortisation of intangible assets	**5.9**	**(1.0)**	**4.9**	5.5	(0.9)	4.6
Finance costs: Unamortised debt issue costs written off	**0.6**	**(0.1)**	**0.5**	–	–	–
Finance costs: Unwind of discount on contingent consideration	**0.1**	**–**	**0.1**	–	–	–
Discontinued operations: Loss recognised on remeasurement to fair value less costs to sell	**–**	**–**	**–**	12.5	–	12.5
Discontinued operations: (Profit)/loss from discontinued operations	**(0.3)**	**–**	**(0.3)**	(1.4)	0.2	(1.2)
Total non-underlying items	**8.6**	**(1.1)**	**7.5**	21.2	(1.0)	20.2

Acquisition costs 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.

Gross restructuring costs of £4.3m were recognised in 2017 in respect of a change in our Commercial and Infrastructure Systems' manufacturing strategy in the Middle East (£4.0m) and the relocation of our Residential Systems' Domus Ventilation manufacturing facilities (£0.3m). Of the £4.0m Middle East restructuring costs, £1.7m were non-cash and the remaining £2.3m costs were fully cash settled during 2018. The Domus Ventilation restructuring plan was drawn up, announced and completed in 2017.

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

8. NON-UNDERLYING ITEMS CONTINUED

Provisions comprised:

	31 December 2018 £m	31 December 2017 £m
Restructuring costs	–	2.2

9. STAFF COSTS

Staff costs (including Directors) comprised:

	2018 £m	2017 £m
Continuing operations		
Wages and salaries	90.9	87.1
Social security costs	9.0	8.3
Other pension costs	2.8	2.6
	102.7	98.0
Discontinued operations		
Wages and salaries	1.6	6.2
Social security costs	0.7	2.6
Other pension costs	–	0.1
	2.3	8.9
	105.0	106.9

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

	2018 £m	2017 £m
Residential Systems	1,699	1,668
Commercial and Infrastructure Systems	1,257	1,257
Continuing operations	2,956	2,925
Discontinued operations	53	214
Total – Group	3,009	3,139

10. DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out below:

	2018 £m	2017 £m
Fees	**0.3**	0.3
Emoluments	**1.9**	1.8
	2.2	2.1

The aggregate amount of gains made by the Directors on the exercise of share options during the year was £nil (2017: £0.3m).

11. FINANCE COSTS

	2018 £m	2017 £m
Interest on bank loan	**5.8**	5.8
Debt issue cost amortisation	**0.4**	0.3
Other finance costs	**0.7**	0.8
Unamortised debt issue costs written off	**0.6**	–
Unwind of discount on contingent consideration	**0.1**	–
	7.6	6.9

12. INCOME TAX

(a) Tax charged in the income statement

	2018 £m	2017 £m
Continuing operations		
Current income tax:		
UK income tax	**11.6**	11.2
Overseas income tax	**0.1**	0.1
Current income tax charge	**11.7**	11.3
Adjustment in respect of prior years	**(0.5)**	–
Total current income tax	**11.2**	11.3
Deferred income tax:		
Origination and reversal of temporary differences	**(1.7)**	(0.7)
Adjustment in respect of prior years	**(0.1)**	–
Total deferred income tax	**(1.8)**	(0.7)
Total tax expense reported in the income statement	**9.4**	10.6
Discontinued operations		
Current income tax:		
Overseas income tax	**–**	0.2
Total tax expense reported in the income statement	**–**	0.2

Details of the non-underlying tax credit of £1.1m (2017: £1.0m) are set out in Note 8.

12. INCOME TAX CONTINUED

(b) Reconciliation of the total tax charge

A reconciliation between the tax expense and the product of accounting profit multiplied by the blended UK standard rate of income tax for the years ended 31 December 2018 and 2017 is as follows:

	2018 £m	2017 £m
Accounting profit before tax – continuing operations	58.2	55.6
Accounting profit multiplied by the blended UK standard rate of income tax of 19.00% (2017: 19.25%)	11.1	10.7
Expenses not deductible for income tax	0.8	0.4
Share-based payments	0.1	(0.4)
Adjustment in respect of prior years	(0.6)	–
Effects of patent box	(0.9)	(0.8)
Effects of changes in income tax rates	(0.1)	(0.1)
Effects of tax losses	(0.6)	–
Effects of other tax rates/credits	(0.4)	0.8
Total tax expense reported in the income statement – continuing operations	9.4	10.6
Total tax expense reported in the income statement – discontinued operations	–	0.2

The effective rate for the full year was 16.2% (2017: 19.1%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 15.6% (2017: 18.0%).

(c) Deferred income tax

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

	31 December 2018 £m	31 December 2017 £m
Continuing operations		
Deferred income tax liabilities/(assets)		
Short-term timing differences	9.9	6.2
Capital allowances in excess of depreciation	2.4	1.3
Share-based payments	(0.7)	(0.5)
Tax losses	(0.6)	–
Continuing operations	11.0	7.0
Discontinued operations	–	(0.3)

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 2018 and 2017 is as follows:

	2018 £m	2017 £m
Deferred income tax reported in the income statement	**(1.8)**	(0.7)
Deferred income tax reported in other comprehensive income	**0.2**	0.3
Share-based payments excess tax benefit	**(0.1)**	(0.1)
Deferred income tax disposed	**0.3**	–
Deferred income tax acquired	**5.7**	–
Net foreign exchange difference	**–**	(0.1)
	4.3	(0.6)

(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% (2017: 17%).

(e) Unrecognised tax losses

A deferred income tax asset of £0.6m in respect of surplus non-trading losses of £3.7m was recognised during the year ended 31 December 2018. No deferred income tax asset was recognised at 31 December 2017 in respect of those historical surplus non-trading losses of £3.7m since at that date recovery was uncertain.

13. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the year. The diluted earnings per share amounts are calculated by dividing profit for the year attributable to the owners of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of potential ordinary shares that would be issued on the conversion of all the dilutive share options into ordinary shares.

The calculation of basic and diluted earnings per share is based on the following:

	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	**198,989,726**	198,390,485
Effect of dilutive potential ordinary shares	**2,112,645**	1,788,892
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**201,102,371**	200,179,377

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £7.5m (2017: £20.2m). 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:

	2018	2017
Underlying profit for the year attributable to the owners of the parent company (£m)	**56.6**	53.9
Underlying basic earnings per share (pence)	**28.4**	27.2
Underlying diluted earnings per share (pence)	**28.1**	26.9

14. DIVIDEND PER SHARE

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 7.5p per share (2016: 7.0p)	**14.9**	13.9
Interim dividend for the year ended 31 December 2018 of 3.7p per share (2017: 3.6p)	**7.4**	7.1
	22.3	21.0
Proposed final dividend for the year ended 31 December 2018 of 7.9p per share (2017: 7.5p)	**15.7**	14.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2017	47.1	166.9	214.0
Additions	1.9	21.8	23.7
Disposals	–	(1.3)	(1.3)
Reclassified as assets held-for-sale	(11.5)	(31.4)	(42.9)
Exchange adjustment	0.3	1.2	1.5
At 31 December 2017	37.8	157.2	195.0
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
Depreciation and impairment losses			
At 1 January 2017	10.6	102.4	113.0
Provided during the year	1.3	14.9	16.2
Disposals	–	(1.2)	(1.2)
Impairment	–	0.9	0.9
Reclassified as assets held-for-sale	(6.7)	(27.0)	(33.7)
Exchange adjustment	0.2	1.0	1.2
At 31 December 2017	5.4	91.0	96.4
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
Net book value:			
At 31 December 2018	**40.1**	**78.3**	**118.4**
At 31 December 2017	32.4	66.2	98.6

The impairment charge in 2017 of £0.9m related to plant and equipment in the Middle East as explained in Note 8. The Polypipe France assets with a net book value of £9.2m were reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 19.

Included in freehold land and buildings is non-depreciable land of £14.7m (2017: £12.6m).

16. INTANGIBLE ASSETS

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Total £m
Cost						
At 1 January 2017	329.3	18.2	25.5	6.4	–	379.4
Reclassified as assets held-for-sale	(9.6)	–	–	–	–	(9.6)
At 31 December 2017	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
Amortisation and impairment						
At 1 January 2017	–	2.5	3.6	1.7	–	7.8
Charge for the year	–	1.8	2.5	1.2	–	5.5
At 31 December 2017	–	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
Net book value:						
At 31 December 2018	**343.0**	**26.4**	**20.4**	**11.3**	**0.8**	**401.9**
At 31 December 2017	319.7	13.9	19.4	3.5	–	356.5

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

During 2017 the Polypipe France goodwill of £9.6m was reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 19.

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 2018 £m**	31 December 2017 £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**	–
Others	**16.9**	14.9
	343.0	319.7

Impairment tests on the carrying amounts of goodwill are performed by analysing the carrying amount allocated to each CGU against its value in use. Value in use is calculated for each CGU as the net present value of that CGU's discounted future pre-tax cash flows. These pre-tax cash flows are based on budgeted cash flows information for a period of one year, construction industry forecasts of growth for the following year and growth of between 2% to 3% thereafter (2017: 2% to 3%).

16. INTANGIBLE ASSETS CONTINUED

A pre-tax discount rate of 10.0% (2017: 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 did not cause an impairment of goodwill.

17. ACQUISITIONS

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-free, debt-free and 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. The initial cash consideration of £4.3m included a payment of £0.3m for net cash at completion.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	2.9	2.9
Plant and equipment	0.3	–	0.3
Inventories	0.1	–	0.1
Trade and other receivables	1.2	–	1.2
Cash	0.3	–	0.3
Trade and other payables	(0.4)	(0.1)	(0.5)
Income tax liabilities	(0.1)	–	(0.1)
Deferred income tax	–	(0.5)	(0.5)
Net identifiable assets	**1.4**	**2.3**	**3.7**
Goodwill on acquisition			2.0
Estimated contingent consideration			(1.4)
Initial cash consideration			**4.3**

Patents, licences 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 and the related deferred income tax. 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 Permavoid has contributed £1.3m revenue and £0.2m underlying operating profit which is included in the Group income statement. If Permavoid had been acquired on 1 January 2018 the Group's results for the year ended 31 December 2018 would have shown revenue from continuing operations of £437.0m and underlying operating profit of £74.3m.

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

	£m
Cash consideration (included in cash flows from investing activities)	**4.3**
Cash acquired (included in cash flows from investing activities)	**(0.3)**
Acquisition costs (included in cash flows from operating activities)	**0.3**
Net cash flow on acquisition	**4.3**

Acquisition costs of £0.5m were expensed and are included in non-underlying items in administration expenses. Of the £0.5m acquisition costs, £0.3m were fully cash settled in the year and £0.2m is included in trade and other payables.

17. ACQUISITIONS CONTINUED

Contingent consideration at fair value of £1.7m has been recognised at the balance sheet date. Of this, £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 £0.3m is included in non-underlying items 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, and is being accrued over the two-year period. Of the £0.3m, £0.2m is included in administration expenses and £0.1m is included in finance costs. The EBITDA used to estimate the contingent cash consideration is derived from the budgets and forecasts for Permavoid. 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).

Manthorpe

On 25 October 2018, the Group acquired 100% of the share capital of Manthorpe Building Products Holdings Limited (Manthorpe), a leading designer and manufacturer of moulded and extruded plastic and metal products to the UK and Irish residential and RMI markets, together with associated freehold land and buildings, for a total cash consideration of £56.7m on a cash-free, debt-free and normalised working capital basis. The cash consideration of £56.7m included a payment of £4.6m for net cash at completion and £8.0m for land and buildings that were separately transacted.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	25.1	25.1
Property, plant and equipment	10.5	–	10.5
Inventories	1.0	–	1.0
Trade and other receivables	3.8	–	3.8
Cash	4.6	–	4.6
Trade and other payables	(3.0)	(0.9)	(3.9)
Income tax liabilities	(0.5)	–	(0.5)
Deferred income tax	(0.1)	(5.1)	(5.2)
Net identifiable assets	**16.3**	**19.1**	**35.4**
Goodwill on acquisition			21.3
Total consideration			**56.7**

Patents, the 'Manthorpe' 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, provision for warranty-related costs and the deferred income tax arising on these adjustments and on the property acquired. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share. The goodwill is allocated entirely to the Residential Systems segment.

The fair value of trade and other receivables is £3.8m. The gross amount of trade and other receivables is £4.2m and it is expected that the full contractual amounts will be collected.

Post-acquisition Manthorpe has contributed £2.8m revenue and £0.9m underlying operating profit which is included in the Group income statement. If Manthorpe had been acquired on 1 January 2018 the Group's results for the year ended 31 December 2018 would have shown revenue from continuing operations of £447.6m and underlying operating profit of £78.2m.

17. ACQUISITIONS CONTINUED

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

	£m
Cash consideration (included in cash flows from investing activities)	**56.7**
Cash acquired (included in cash flows from investing activities)	**(4.6)**
Acquisition costs (included in cash flows from operating activities)	**1.2**
Stamp duty on asset purchase (included in cash flows from operating activities)	**0.4**
Net cash flow on acquisition	**53.7**

Acquisition costs of £1.5m were expensed and are included in non-underlying items in administration expenses. Of the £1.5m acquisition costs, £1.2m were fully cash settled in the year and £0.3m is included in trade and other payables.

Stamp duty of £0.4m on the land and buildings separately transacted has been capitalised in fixed assets.

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 2018 are set out in Note 4 to the parent company financial statements.

19. ASSETS CLASSIFIED AS HELD-FOR-SALE

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. After successful completion of the required employee consultation process the sale was completed on 29 March 2018. The cash consideration paid by Ryb S.A. was €16.5m on a cash-free, debt-free and normalised working capital basis. At 31 December 2017 the net assets of the French operations were classified as held-for-sale in the balance sheet. In accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, an impairment loss of £12.5m to remeasure the carrying amount of the assets to fair value less costs to sell was recognised following the reclassification of the net assets of Polypipe France Holding SAS as held-for-sale. An analysis of the assets classified as held-for-sale and liabilities associated with the assets classified as held-for-sale at 31 December 2017 was as follows:

	Book value £m	Impairment loss £m	31 December 2017 £m
Assets classified as held-for-sale			
Intangible assets	9.6	(9.6)	–
Property, plant and equipment	9.2	(2.9)	6.3
Inventories	7.7	–	7.7
Trade and other receivables	9.0	–	9.0
Deferred income tax assets	0.3	–	0.3
	35.8	(12.5)	23.3
Liabilities associated with assets classified as held-for-sale			
Trade and other payables	(9.5)	–	(9.5)
Income tax payable	(0.2)	–	(0.2)
Other liabilities	(1.2)	–	(1.2)
	(10.9)	–	(10.9)
Net assets classified as held-for-sale	24.9	(12.5)	12.4

19. ASSETS CLASSIFIED AS HELD-FOR-SALE CONTINUED

A total loss on disposal of £12.5m was anticipated and previously recognised. The actual loss on disposal at 29 March 2018 was £12.5m, after recycling of foreign exchange differences to the income statement, with no change to the loss on disposal previously recognised. The actual loss on disposal was calculated as follows:

	£m
Intangible assets	9.6
Property, plant and equipment	9.0
Inventories	8.4
Trade and other receivables	14.2
Deferred income tax assets	0.2
Trade and other payables	(14.0)
Other liabilities	(1.2)
Net assets sold	**26.2**
Disposal proceeds:	
Cash	14.0
Directly attributable costs	(0.6)
Net proceeds	**13.4**
Loss on disposal before tax and recycling of foreign exchange differences	**12.8**
Recycling of foreign exchange differences to the income statement	(0.3)
Loss on disposal	**12.5**

The net cash inflow from the disposal reported in investing activities was as follows:

	£m
Disposal proceeds	13.2
Directly attributable costs	(0.4)
Overdraft divested	0.8
Net cash inflow	**13.6**

The table below provides further detail of the discontinued operations:

	2018 £m	2017 £m
Revenue	**16.7**	58.4
Expenses	**(16.4)**	(57.0)
Profit before tax	**0.3**	1.4
Income tax	**–**	(0.2)
Profit from discontinued operations	**0.3**	1.2
Loss recognised on remeasurement to fair value less costs to sell	**–**	(12.5)
Profit from discontinued operations	**0.3**	(11.3)

19. ASSETS CLASSIFIED AS HELD-FOR-SALE CONTINUED

The remaining assets classified as held-for-sale comprised:

	31 December 2018 £m	31 December 2017 £m
Property, plant and equipment	–	0.7

These assets classified as held-for-sale consisted exclusively of freehold land currently not in use by the Group. The disposal of this asset was completed during 2018 resulting in a loss on disposal of £0.1m. The assets classified as held-for-sale were analysed between operating segments as follows:

	31 December 2018 £m	31 December 2017 £m
Residential Systems	–	0.4
Commercial and Infrastructure Systems	–	0.3
	–	0.7

20. INVENTORIES

	31 December 2018 £m	31 December 2017 £m
Raw materials	19.1	18.2
Work in progress	6.0	5.3
Finished goods	33.0	30.0
	58.1	53.5

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. The provision at 31 December 2018 was £4.2m (2017: £5.4m).

21. TRADE AND OTHER RECEIVABLES

	31 December 2018 £m	31 December 2017 £m
Trade receivables	31.3	28.6
Amounts owed by associated undertakings	0.2	–
Prepayments	5.9	5.9
	37.4	34.5

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.

21. TRADE AND OTHER RECEIVABLES CONTINUED

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

	31 December 2018			31 December 2017		
	Gross £m	**Allowance for expected credit losses £m**	**Net £m**	Gross £m	Allowance for expected credit losses £m	Net £m
Not past due	**27.2**	**–**	**27.2**	26.9	–	26.9
Past due 1–30 days	**3.4**	**–**	**3.4**	0.9	–	0.9
Past due 31–90 days	**1.2**	**(0.5)**	**0.7**	0.6	–	0.6
Past due more than 90 days	**0.1**	**(0.1)**	**–**	0.7	(0.5)	0.2
	31.9	**(0.6)**	**31.3**	29.1	(0.5)	28.6

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

	£m
At 31 December 2016	0.6
Charged to the income statement during the year	0.3
Utilised during the year	(0.4)
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**

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	31 December 2018 £m	31 December 2017 £m
Cash at bank and in hand	**46.2**	35.7

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 2018		31 December 2017	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000

* Millions of shares.

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

23. SHARE CAPITAL AND RESERVES CONTINUED

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 2018, the Group held 221,211 (2017: 402,746) of its own shares at an average cost of 292p (2017: 294p) per share. The market value of these shares at 31 December 2018 was £0.7m (2017: £1.6m). The nominal value of each share is £0.001.

The EBT held 748,000 shares at 31 December 2018 (2017: 748,000) at an average cost of 422p (2017: 422p) per share. The market value of these shares at 31 December 2018 was £2.4m (2017: £2.9m). 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 mentioned 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.

At 31 December 2018, the Group had bank debt of £212.0m (2017: £185.0m), an undrawn committed revolving credit facility of £88.0m (2017: £105.0m), cash of £46.2m (2017: £35.7m) and an uncommitted accordion facility of £50.0m (2017: £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 2018 and 31 December 2017.

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 2017 Number	Granted Number	Dividend accrual Number	Exercised Number	Lapsed/ forfeited Number	**31 December 2018 Number**	Date first exercisable	Expiry date
2014 Sharesave (granted 2014)	1.99	166,790	–	–	(166,790)[1]	–	**–**	n/a	n/a
2014 Sharesave (granted 2016)	2.21	1,293,640	–	–	(13,104)[2]	(92,194)	**1,188,342**	1 Nov 2019	30 April 2020
2014 Sharesave (granted 2017)	3.10	1,091,069	–	–	(193)[3]	(156,986)	**933,890**	1 Nov 2020	30 April 2021
2014 Sharesave (granted 2018)	2.98	–	933,693	–	–	(49,369)	**884,324**	1 Nov 2021	30 April 2022
2014 LTIP (granted 10 May 2016)	Nil	528,435	–	–	–	(33,159)	**495,276**	10 May 2019	10 May 2026
2014 LTIP (granted 31 May 2016)	Nil	77,743	–	–	–	–	**77,743**	31 May 2019	31 May 2026
2014 LTIP (granted 2 May 2017)	Nil	487,051	–	–	–	(24,464)	**462,587**	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	–	528,864	–	–	(7,547)	**521,317**	2 May 2021	2 May 2028
DSBP (granted 25 April 2017)	Nil	8,455	–	239	–	–	**8,694**	25 April 2019	25 April 2027
DSBP (granted 2 May 2018)	Nil	–	18,440	185	–	–	**18,625**	2 May 2020	2 May 2028
Other share awards (granted 31 May 2016)	Nil	21,681	–	500	(11,035)[4]	–	**11,146**	16 May 2019	31 May 2026
Other share awards (granted 21 March 2018)	Nil	–	85,645	1,546	–	(56,436)	**30,755**	30 June 2020	21 March 2028
		3,685,824	1,566,642	2,470	(191,122)	(420,155)	**4,643,659**		

1. The weighted average share price at the date of exercise of these options was £3.85.
2. The weighted average share price at the date of exercise of these options was £3.71.
3. The weighted average share price at the date of exercise of these options was £3.78.
4. The weighted average share price at the date of exercise of these options was £4.17.

At 31 December 2018, no share options were exercisable. At 31 December 2017, 166,790 share options were exercisable at a weighted average exercise price of £1.99 per share.

Sharesave Plan

Sharesave Plan options were granted to eligible employees on 4 October 2018 at an exercise price of £2.98 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 2021 to 2022.

Long-Term Incentive Plan (LTIP)

LTIP options were awarded to a number of senior executives on 2 May 2018. These options have an exercise date of 2021 to 2028. 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 2 May 2018, the Executive Directors received an award of shares under the DSBP relating to the 2017 annual bonus.

Other share awards

On 21 March 2018, other share awards in the form of nil cost options were made relating to buy-out arrangements to partially compensate Paul James for bonus and long-term incentive awards which were forfeited when he left his previous employer.

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, 11,035 were exercised on 16 May 2018 including 586 in respect of dividends accrued since the grant date. Further details are provided in the Annual Report on Remuneration.

All these equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of the equity-settled, share-based payments is expensed to the income statement on a straight-line basis over the vesting period, based on the Group's estimates of shares that will eventually vest, with a corresponding adjustment to equity. Fair value for the Sharesave Plan options and the EPS element of the LTIP options is measured by use of a Black–Scholes model. Fair value of the TSR element of the LTIP options is measured by use of a Monte Carlo model. The expected life used in the models has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The assumptions used for each share-based payment are as follows:

	2014 LTIP options granted 2 May 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

24. SHARE-BASED PAYMENTS CONTINUED

	2014 LTIP options granted 2 May 2017	2014 LTIP options granted 22 May 2017	2014 Sharesave options granted 2017
Share price at the date of grant	£4.03	£4.20	£4.09
Exercise price	Nil	Nil	£3.10
Shares under option	499,896	10,960	1,108,772
Vesting period (years)	3.00	3.00	3.25
Expected volatility	30.0%	29.9%	28.0%
Median volatility of the comparator group	29.9%	30.0%	n/a
Expected life (years)	3.00	3.00	3.25
Risk free rate	0.15%	0.18%	0.30%
Dividend yield	2.50%	2.40%	2.59%
TSR performance of the Company at the date of grant	31.7%	37.2%	n/a
Median TSR performance of the comparator group at the date of grant	17.0%	17.0%	n/a
Correlation (median)	22.4%	22.6%	n/a
Fair value per option	£3.44	£3.63	£0.91

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.

	2018 £m	2017 £m
Share-based payments charge for the year	**1.0**	1.2

25. TRADE AND OTHER PAYABLES

	31 December 2018 £m	31 December 2017 £m
Trade payables	**76.7**	68.5
Other taxes and social security costs	**9.4**	8.3
Accruals	**13.5**	10.8
	99.6	87.6

Trade payables are non-interest bearing and generally settled on 30 to 60 day terms.

26. FINANCIAL LIABILITIES

	31 December 2018 £m	31 December 2017 £m
Non-current loans and borrowings:		
Bank loan – principal	**212.0**	185.0
– unamortised debt issue costs	**(1.6)**	(0.9)
Total non-current loans and borrowings	**210.4**	184.1

26. FINANCIAL LIABILITIES CONTINUED

	31 December 2018 £m	31 December 2017 £m
Other financial liabilities:		
Trade and other payables	**99.6**	87.6
Forward foreign currency derivatives	**0.1**	–
Interest rate swaps	**1.0**	2.5
Other liabilities	**0.7**	0.9
Contingent consideration	**1.7**	–
	103.1	91.0

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 2018 was 1.65% (2017: 1.75%).

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 have been written off to the income statement.

At 31 December 2018, the Group had available, subject to covenant headroom and excluding the £50.0m uncommitted accordion facility, £88.0m (2017: £105.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2018.

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 2018, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2018
Interest cover (Underlying operating profit:Finance costs excluding debt issue cost amortisation)	>4.0:1	11.3:1
Leverage (Net debt:pro forma EBITDA)	<3.0:1	1.7:1

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:

Continuing operations	31 December 2018 £m	31 December 2017 £m
Land and buildings		
Within one year	**0.4**	1.2
After one year, but not more than five years	**3.1**	3.5
More than five years	**4.8**	5.7
	8.3	10.4

Continuing operations	31 December 2018 £m	31 December 2017 £m
Plant and equipment		
Within one year	**0.3**	0.2
After one year, but not more than five years	**2.8**	2.3
More than five years	**2.6**	2.6
	5.7	5.1

Capital commitments

At 31 December 2018, the Group had commitments of £3.7m (2017: £3.6m) relating to plant and equipment purchases.

28. RELATED PARTY TRANSACTIONS

Compensation of key management personnel (including Directors):

	2018 £m	2017 £m
Short-term employee benefits	**2.6**	2.9
Share-based payments	**0.3**	0.5
	2.9	3.4

Key management personnel comprise the Executive Directors and key divisional managers.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, contingent consideration, 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 dependent on the swap of either 2.21% or 1.735% (2017: 2.21% or 1.735%) (excluding margin):

Year ending 31 December	Notional amount – rate of 2.21% £m	Notional amount – rate of 1.735% £m
2019	–	82.0
To August 2020	–	72.2

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of a financial instrument or future cash flows will fluctuate because of changes in foreign currency exchange rates. The Group's exposure to the risk of changes in foreign currency exchange rates relates primarily to the Group's operating activities where the revenue or expense is denominated in a currency other than the functional currency of the entity undertaking the transaction.

The Group enters into forward foreign currency exchange contracts for the purchase and sale of foreign currencies in order to manage its exposure to fluctuations in currency rates primarily in respect of US Dollar and Euro receipts and payments.

Foreign currency exchange sensitivity

The table below demonstrates the sensitivity to a 10% change in the Euro exchange rate and the United Arab Emirates Dirham exchange rate versus Pounds Sterling, the presentational currency of the Group used for translation purposes, on the net assets and profit after tax of the Group. The Group's exposure to foreign currency exchange rate changes for all other currencies is not material.

Change in exchange rate	Effect on net assets £m	Effect on profit after tax £m
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**
2017		
10% strengthening of Pounds Sterling: against Euro	(1.8)	(0.1)
10% weakening of Pounds Sterling: against Euro	2.2	0.1
10% strengthening of Pounds Sterling: against United Arab Emirates Dirham	(0.1)	0.3
10% weakening of Pounds Sterling: against United Arab Emirates Dirham	0.1	(0.4)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including cash deposits with banks.

Trade receivables

Customer credit risk is managed by each subsidiary subject to the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major export customers are generally covered by letters of credit or other forms of credit insurance.

The requirement for impairment is analysed at each balance sheet date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into 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.

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 2018, 69.0% (2017: 68.2%) 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 (£46.2m at 31 December 2018) and its undrawn committed revolving credit facility (£88.0m at 31 December 2018) 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 2018 and 31 December 2017 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 £46.2m and undrawn and committed credit facilities of £88.0m at 31 December 2018, 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 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
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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

31 December 2017

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	185.0	185.0
Other financial liabilities:				
Trade and other payables	87.6	–	–	87.6
Forward foreign currency derivatives	4.2	3.2	–	7.4
Interest rate swaps	–	–	2.5	2.5
Other liabilities	–	–	0.9	0.9
	91.8	3.2	188.4	283.4

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)	**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**
Contingent consideration (designated as financial liabilities at FVTPL)	**1.7**	**1.7**
Total at 31 December 2018	**213.2**	**213.2**

	Carrying value £m	Fair value £m
Forward foreign currency derivatives	–	–
Interest rate swaps	2.5	2.5
Interest bearing loans and borrowings due after more than one year	184.1	184.1
Total at 31 December 2017	186.6	186.6

The fair values were determined as follows by reference to:

- forward foreign currency derivatives: quoted exchange rates.
- interest rate swaps: market values.
- contingent consideration: Directors' assessment of the likelihood that financial targets will be achieved – see Note 17.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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 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 2018 and 2017.

30. CONSOLIDATED CASH FLOW STATEMENT

The net cash flows in respect of Polypipe France were as follows:

	2018 £m	2017 £m
Operating	**(1.2)**	2.5
Investing	**(0.6)**	(1.2)
Financing	**(2.4)**	–
Net cash (outflow)/inflow	**(4.2)**	1.3

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 2018

	Notes	31 December 2018 £m	31 December 2017 £m
Non-current assets			
Investments	4	**234.8**	234.0
Current assets			
Amounts owed by subsidiary undertakings and other receivables	5	**95.5**	84.1
Total assets		**330.3**	318.1
Current liabilities			
Amounts owed to subsidiary undertakings and other payables	6	**(110.4)**	(85.7)
Net assets		**219.9**	232.4
Capital and reserves			
Equity share capital	7	**0.2**	0.2
Capital redemption reserve	7	**1.1**	1.1
Own shares	7	**(3.8)**	(4.3)
Retained earnings		**222.4**	235.4
Total equity		**219.9**	232.4

Included in retained earnings is profit for the year of £8.5m (2017: £6.7m).

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

Martin Payne
Director
19 March 2019

Paul James
Director
19 March 2019

Company Registration No. 06059130

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 31 December 2016	0.2	1.1	(4.6)	249.8	246.5
Profit for the year	–	–	–	6.7	6.7
Total comprehensive income for the year	–	–	–	6.7	6.7
Dividends paid	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	(3.2)
Share-based payments charge	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	235.4	232.4
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**

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Operating activities		
Profit before tax	**8.5**	6.7
Net finance revenues	**(11.5)**	(10.0)
Operating loss	**(3.0)**	(3.3)
Non-cash items: Share-based payments	**0.2**	0.1
Operating cash flows before movement in working capital	**(2.8)**	(3.2)
Movement in working capital:		
Payables	**0.2**	0.1
Inter-group balances	**13.1**	14.8
Net cash flows from operating activities	**10.5**	11.7
Investing activities		
Interest received	**11.5**	10.0
Net cash flows from investing activities	**11.5**	10.0
Financing activities		
Dividends paid	**(22.3)**	(21.0)
Purchase of own shares	**–**	(3.2)
Proceeds from exercise of share options	**0.3**	2.5
Net cash flows from financing activities	**(22.0)**	(21.7)
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 2018

1. AUTHORISATION OF FINANCIAL STATEMENTS

The parent company financial statements of Polypipe Group plc (the 'Company') for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 19 March 2019 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 2018 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the financial statements of the Company for the year ended 31 December 2018 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 2018.

The Company's financial statements have been prepared on a historical cost basis. The financial statements are presented in Pounds Sterling and all values are rounded to one decimal place of a million (£m) unless otherwise indicated. No income statement or statement of comprehensive income is presented by the Company as permitted by Section 408 of the Companies Act 2006. The results of Polypipe Group plc are included in the consolidated financial statements of Polypipe Group plc.

2.2 Going concern

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

2.3 Investments

Investments in subsidiary undertakings are held at historical cost less any applicable provision for impairment.

2.4 Share-based payments

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

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings are recognised by the Company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a corresponding adjustment to equity equivalent to the IFRS 2 cost in subsidiary undertakings.

2.5 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

IFRS 9 was adopted on 1 January 2018 with no impact as explained in Note 4 to 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

	2018 £m	2017 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2017 of 7.5p per share (2016: 7.0p)	**14.9**	13.9
Interim dividend for the year ended 31 December 2018 of 3.7p per share (2017: 3.6p)	**7.4**	7.1
	22.3	21.0
Proposed final dividend for the year ended 31 December 2018 of 7.9p per share (2017: 7.5p)	**15.7**	14.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

4. INVESTMENTS

	Shares in subsidiary undertakings £m
Cost:	
At 1 January 2017	233.3
Additions – share-based payments	0.7
At 31 December 2017	234.0
Additions – share-based payments	0.8
At 31 December 2018	234.8
Net book value:	
At 31 December 2018	**234.8**
At 31 December 2017	234.0
At 1 January 2017	233.3

In 2018, an adjustment in respect of share-based payments of £0.8m (2017: £0.7m) 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 £2.6m (2017: £1.8m).

4. INVESTMENTS CONTINUED

The companies in which the Company has an interest at 31 December 2018 are shown below:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Drain Products Europe BV[1]	The Netherlands	Ordinary €100	100%*
Equaflow Ltd[2]	England & Wales	Ordinary £1	50%*
Ferrob Ventilation Ltd[2]	England & Wales	Ordinary £1	100%*
Hayes Pipes (Ulster) Limited[3]	Northern Ireland	Ordinary £1	100%*
Home Ventilation (Ireland) Limited[4]	Northern Ireland	Ordinary £1	100%*
Infra Green Limited[2]	England & Wales	Ordinary £1	100%*
Insulated Damp-Proof Course Limited[2]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Limited[2]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Holdings Limited[2]	England & Wales	Ordinary £1	100%*
Mason Pinder (Toolmakers) Limited[2]	England & Wales	Ordinary £1	100%*
Mr Plumber Limited[2]	England & Wales	Ordinary £1	100%*
Nu-Oval Acquisitions 1 Limited[2]	England & Wales	Ordinary £0.94 – £1	100%*
Nu-Oval Acquisitions 2 Limited[2]	England & Wales	Ordinary £1	100%*
Nu-Oval Acquisitions 3 Limited[2]	England & Wales	Ordinary £1	100%*
Nuaire Limited[2]	England & Wales	Ordinary £1	100%*
Nuhold Limited[2]	England & Wales	Ordinary £0.1	100%*
Oracstar Limited[2]	England & Wales	Ordinary £1	100%*
Oval (1888) Limited[2]	England & Wales	Ordinary £0.01	100%*
Permavoid Limited[2]	England & Wales	Ordinary £1	100%*
Permavoid Technologies Limited[2]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) Limited[2]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) LLC[5]	United States of America	Ordinary $1	100%*
Plumbexpress Limited[2]	England & Wales	Ordinary £1	100%*
Pipe Holdings plc[2]	England & Wales	Ordinary £1	100%*
Pipe Holdings 1 plc[2]	England & Wales	Ordinary £1	100%*
Pipe Holdings 2 Limited[2]	England & Wales	Ordinary £1	100%*
Pipe Luxembourg Sarl[6]	Luxembourg	Ordinary £1	100%
Polypipe Building Products Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe Commercial Building Systems Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe Civils Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe (Ireland) Ltd[3]	Northern Ireland	Ordinary £1	100%*
Polypipe Middle East FZE[7]	United Arab Emirates	Ordinary 1m UAE Dirhams	100%*
Polypipe Italia SRL[8]	Italy	Ordinary €0.52	100%*
Polypipe Limited[2]	England & Wales	Ordinary £0.1	100%*
Polypipe Terrain Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Holdings Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe T.D.I. Limited[2]	England & Wales	Ordinary £1	100%*
Polypipe Trading Limited[2]	England & Wales	Ordinary £0.1	100%*
Polypipe (Ulster) Limited[3]	Northern Ireland	Ordinary £1	100%*
Polypipe Ventilation Limited[2]	England & Wales	Ordinary £1	100%*

4. INVESTMENTS CONTINUED

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Robimatic Limited[2]	England & Wales	Ordinary £1	100%*
Surestop Limited[2]	England & Wales	Ordinary £1	100%*
Sustainable Water and Drainage Systems BV[1]	The Netherlands	Ordinary €1	50%*
Sustainable Water and Drainage Systems Limited[2]	England & Wales	Ordinary £1	50%*
Tree Ground Solutions BV[1]	The Netherlands	Ordinary €10	50%*
Water Management Solutions LLC[9]	Qatar	Ordinary 1,000 Qatari Riyals	49%*

All the companies operate principally in their country of registration and in the same class of business as the Group. The shares in the undertakings marked with an asterisk are held by subsidiary undertakings.

Registered offices of subsidiaries:

1. Kattenburgerstraat 5, 1018, JA, Amsterdam, The Netherlands.
2. Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES.
3. Dromore Road, Lurgan, Co. Armagh, BT66 7HL.
4. 19 Bedford Street, Belfast, BT2 7EJ.
5. 251 Little Falls Drive, Wilmington, Delaware, 19808-1674, United States of America.
6. 5 Rue Guillaume Kroll, L-1882 Luxembourg.
7. PO Box 18679, Showroom A2 SR 07, First Al Khail Street, Jebel Ali Free Zone, Dubai, United Arab Emirates.
8. Localita Pianmercato 5C-D-H, 16044 Cicagna, Genova, Italy.
9. Level 15, Commercial Bank Plaza, West Bay, Doha, Qatar.

5. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS AND OTHER RECEIVABLES

	31 December 2018 £m	31 December 2017 £m
Amounts owed by subsidiary undertakings	95.3	83.8
Deferred income tax assets	0.2	0.2
Other receivables	–	0.1
	95.5	84.1

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 2018 £m	31 December 2017 £m
Amounts owed to subsidiary undertakings	110.0	85.4
Other payables	0.4	0.3
	110.4	85.7

7. SHARE CAPITAL AND RESERVES

Share capital

	31 December 2018 Number*	31 December 2018 £	31 December 2017 Number*	31 December 2017 £
Authorised share capital:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000

* Millions of shares.

The ordinary shares are voting non-redeemable shares and rank equally as to dividends, voting rights and any return of capital on winding up.

Details of share options in issue on the Company's share capital and share-based payments are set out in Note 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 profit for the year dealt with in the financial statements of the Company was £8.5m (2017: £6.7m 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 2018		31 December 2017	
	Purchases from related parties £m	**Amounts owed to related parties £m**	Purchases from related parties £m	Amounts owed to related parties £m
Polypipe Limited	**24.6**	**110.0**	24.8	85.4

Loans from related parties	**Interest received £m**	**Amounts owed by related parties £m**	Interest received £m	Amounts owed by related parties £m
Pipe Holdings 1 plc:				
Eurobonds	**9.0**	**68.7**	7.8	59.7
Preference shares	**2.5**	**19.3**	2.2	16.8
Other	**–**	**0.9**	–	0.9
Pipe Holdings 2 Limited	**–**	**6.4**	–	6.4
	11.5	**95.3**	10.0	83.8

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 2018	19 March 2019
Annual General Meeting	23 May 2019
Final dividend for year ended 31 December 2018	
– Ex-dividend date	18 April 2019
– Record date	23 April 2019
– Payment date	29 May 2019
Half yearly results for six months ending 30 June 2019	13 August 2019
Half yearly dividend for six months ending 30 June 2019	
– Ex-dividend date	29 August 2019
– Record date	30 August 2019
– Payment date	20 September 2019

REGISTRAR SERVICES

Our shareholder register is managed and administered by Link Asset Services. Link Asset Services should be able to help you with most questions you have in relation to your holding in Polypipe Group plc shares.

Link Asset Services can be contacted at:

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

www.linkassetservices.com

Telephone: 0871 664 0300 (calls cost 12p a minute plus network extras, lines are open 9 am–5:30 pm (Mon–Fri); from outside the UK: +44 (0) 371 664 0300)

E-mail: enquiries@linkgroup.co.uk

In addition, Link offers a range of other services to shareholders including a share dealing service and a share portal to manage your holdings.

SHARE DEALING SERVICE

A share dealing service is available to existing shareholders to buy or sell the Company's shares via Link Market Services.

Online and telephone dealing facilities provide an easy to access and simple to use service.

For further information on this service, or to buy or sell shares, please contact:

www.linksharedeal.com – online dealing

0371 664 0445 – telephone dealing

email: info@linksharedeal.com

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell their shares. Shareholders in any doubt as to what action to take are recommended to seek financial advice from an independent financial adviser authorised by the Financial Services and Markets Act 2000.

SHAREHOLDER INFORMATION

PRINCIPAL GROUP BUSINESSES

UK

Polypipe Building Products
Broomhouse Lane
Edlington
Doncaster
South Yorkshire
DN12 1ES

Neale Road
Doncaster
South Yorkshire
DN2 4PG

Polypipe Ulster
Dromore Road
Lurgan
Co. Armagh
BT66 7HL

Polypipe Civils
Charnwood Business Park
North Road
Loughborough
LE11 1LE

Holmes Way
Horncastle
LN9 6JW

Polypipe 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

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

Registrar and transfer office

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers

Deutsche Bank AG
Numis Securities Limited

Annual Report and Accounts

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