CASE STUDY BURROWS LEA

Polypipe's Red Floor Slate Solid Floor System was specified for the ground floor of the farmhouse due to its ability to provide an ambient temperature throughout the property at a low energy output. On the first floor of the building, Polypipe's OverlayTM 18mm system was laid directly on top of the existing floors, avoiding the need for additional work to raise or lower the level of the underlying floor.

Each system was paired with a ground source heat pump as they worked in tandem to provide a high performance heating system with excellent energy efficiency.

The use of underfloor heating created a discreet, cost-effective heating system and maximised the visually impressive interior design of the farmhouse due to the removal of radiators.

OUR FINANCIALS

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP plc

OUR OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- Polypipe Group plc's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

WHAT WE HAVE AUDITED

Polypipe Group plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 31 December 2016	Balance sheet as at 31 December 2016
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related Notes 1 to 9 to the financial statements
Consolidated cash flow statement for the year then ended	
Related Notes 1 to 29 to the financial statements	

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

OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	○ Revenue recognition and recognition of customer rebates.
Audit scope	○ We performed an audit of the complete financial information of all components of the Group. ○ The components where we performed full audit procedures accounted for 100% of Profit Before Tax, 100% of Revenue and 100% of Total Assets.
Materiality	○ Overall Group materiality of £2.7m (2015: £2.3m) which represents 5% of Profit Before Tax (2015: 5% of the Group's Profit Before Tax excluding non-underlying items other than amortisation of intangible assets and profit on disposal of property, plant and equipment).

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition and recognition of customer rebates The timing of revenue recognition is relevant to the reported performance of the Group as a whole and also to the completeness of rebate expense and related year end liabilities as discussed below. There is opportunity to misstate the recording of revenue between periods in order to influence reported results. Furthermore, as described in Note 3 to the Group financial statements, the Group's pricing structure includes rebate arrangements with customers. Some of these arrangements involve estimation when determining the amount to be recognised as an expense in the year and a liability at the year end. This is particularly the case where the Group is reliant on information from customers which may not be available at the time the liabilities are recognised. Refer also to page 50 (Report of the Audit Committee).	We validated any material manual journals either side of the year end to assess for any evidence of management bias by checking to supporting documentation. We tested the accuracy of revenue cut off around the year end. Our work comprised the agreement of sales transactions from either side of the year end to supporting documentation. We also performed procedures where applicable using EY bespoke data analytics tools to test the appropriateness of journal entries recorded in the general ledger by correlating sales postings with cash receipts throughout the year. We tested the accuracy and appropriateness of rebate provision calculations by agreeing a sample of amounts recognised to terms of agreements and other supporting documents. We also compared year end customer rebate provisions and rebate costs in the year to prior year amounts and expectations. We compared a sample of rebate payments made in the year with amounts provided as at 31 December 2015 which, together with a review of ageing, gave us assurance over the accuracy of amounts previously provided. We assessed the completeness of rebate amounts recognised by reference to the Group's revenues in the year.	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 within an acceptable range.

In the prior year, our auditor's report also included a risk of material misstatement in relation to acquisitions. In the current year, there were no acquisitions so this risk has been removed.

Polypipe

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF POLYPIPE GROUP plc

THE SCOPE OF OUR AUDIT

Tailoring the scope

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

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

We performed an audit of the complete financial information of all twelve components selected ("full scope components"). Therefore for the current year, the full scope components where we performed audit procedures accounted for 100% of the Group's Profit Before Tax (2015: 100% of the Group's Profit Before Tax excluding non-underlying items other than amortisation of intangible assets and profit on disposal of property, plant and equipment), 100% (2015: 100%) of the Group's Revenue and 100% (2015: 100%) of the Group's Total Assets.

Changes from the prior year

The new business unit opened in Dubai in 2016 has been included within the full scope components this year.

Involvement with component teams

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

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

OUR APPLICATION OF MATERIALITY

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

Materiality

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

We determined materiality for the Group to be £2.7 million (2015: £2.3 million), which is 5% of Profit Before Tax (2015: 5% of the Group's Profit Before Tax excluding non-underlying items other than amortisation of intangible assets and profit on disposal of property, plant and equipment). We believe that Profit Before Tax provides us with the most relevant measure of Group profitability.

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% (2015: 75%) of our planning materiality, namely £2.0m (2015: £1.7m). We have set performance materiality at this percentage due to the past history of few misstatements indicating a lower risk of misstatement in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.4m to £2.0m (2015: £0.3m to £1.7m).

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 (2015: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statements set out on pages 65 and 109, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP plc

OPINION 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; and
- 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.
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement set out on pages 41 to 45 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and 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:
  - is consistent with the financial statements; and
  - has been prepared in accordance with applicable legal requirement;
- based on the work undertaken rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administrative, management and supervisory bodies and their committees) have been complied with if applicable.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report and Accounts is: ○ materially inconsistent with the information in the audited financial statements; or ○ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ○ otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement 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 entity's performance, business model and strategy; and whether the Annual Report and Accounts appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report, Directors' Report or Corporate Governance Statement set out on pages 4, 62 and 40, respectively. We are required 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.	We have no exceptions to report.

Listing Rules review requirements	We are required to review: ○ the Directors' statement in relation to going concern, and longer-term viability, both on page 62; and ○ the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: ○ the Directors' confirmation 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 disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated; ○ the Directors' statement 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 twelve months from the date of approval of the financial statements; and ○ the Directors' explanation 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.	We have nothing material to add or to draw attention to.

Stuart Watson
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Leeds
30 March 2017

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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Polypipe

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 Underlying £m	2016 Non-Underlying* £m	2016 Total £m	2015 Underlying £m	2015 Non-Underlying* £m	2015 Total £m
Revenue	5	**436.9**	**–**	**436.9**	352.9	–	352.9
Cost of sales		**(256.8)**	**–**	**(256.8)**	(210.0)	–	(210.0)
Gross profit		**180.1**	**–**	**180.1**	142.9	–	142.9
Selling and distribution costs		**(69.4)**	**–**	**(69.4)**	(56.4)	–	(56.4)
Administration expenses		**(41.3)**	**–**	**(41.3)**	(32.3)	(2.0)	(34.3)
Trading profit		**69.4**	**–**	**69.4**	54.2	(2.0)	52.2
Profit on disposal of property, plant and equipment	8	**–**	**0.3**	**0.3**	–	0.2	0.2
Impairment of freehold land and buildings	8	**–**	**(0.9)**	**(0.9)**	–	–	–
Amortisation of intangible assets	8	**–**	**(6.8)**	**(6.8)**	–	(3.0)	(3.0)
Operating profit	5, 6	**69.4**	**(7.4)**	**62.0**	54.2	(4.8)	49.4
Finance revenues	11	**–**	**–**	**–**	0.1	–	0.1
Finance costs	11	**(7.6)**	**–**	**(7.6)**	(6.3)	(1.7)	(8.0)
Profit before tax	5	**61.8**	**(7.4)**	**54.4**	48.0	(6.5)	41.5
Income tax	12	**(11.8)**	**1.6**	**(10.2)**	(9.2)	1.8	(7.4)
Profit for the year attributable to the owners of the parent company		**50.0**	**(5.8)**	**44.2**	38.8	(4.7)	34.1
Basic earnings per share (pence)	14			**22.2**			17.1
Diluted earnings per share (pence)	14			**22.1**			17.1
Dividend per share (pence) – interim	13			**3.1**			2.3
Dividend per share (pence) – final	13			**7.0**			5.5
Total				**10.1**			7.8

* Non-underlying items are presented separately. The definition of non-underlying items is included in the Group Accounting Policies on page 86. Non-underlying items are detailed in Note 8 to the consolidated financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m
Profit for the year attributable to the owners of the parent company	**44.2**	34.1
Other comprehensive income/(expense):		
Items which will be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**2.9**	(0.8)
Effective portion of changes in fair value of interest rate swap derivatives	**(2.1)**	0.3
Tax relating to items that may be reclassified	**0.3**	(0.1)
Other comprehensive income/(expense) for the year net of tax	**1.1**	(0.6)
Total comprehensive income for the year attributable to the owners of the parent company	**45.3**	33.5

Polypipe

GROUP BALANCE SHEET

AT 31 DECEMBER 2016

	Notes	**31 December 2016 £m**	31 December 2015 £m
Non-current assets			
Property, plant and equipment	15	**101.0**	98.1
Intangible assets	16	**371.6**	378.4
Total non-current assets	5	**472.6**	476.5
Current assets			
Assets held for sale	19	**0.7**	–
Inventories	20	**52.2**	47.5
Trade and other receivables	21	**40.1**	30.5
Cash and cash equivalents	22	**26.5**	21.6
Total current assets		**119.5**	99.6
Total assets	5	**592.1**	576.1
Current liabilities			
Trade and other payables	25	**(91.8)**	(80.3)
Other financial liabilities	26	**(5.7)**	(2.2)
Income tax payable		**(7.0)**	(4.7)
Total current liabilities		**(104.5)**	(87.2)
Non-current liabilities			
Loans and borrowings	26	**(190.8)**	(215.9)
Other liabilities	26	**(2.1)**	(2.0)
Deferred income tax liabilities	12	**(7.3)**	(10.0)
Total non-current liabilities		**(200.2)**	(227.9)
Total liabilities	5	**(304.7)**	(315.1)
Net assets	5	**287.4**	261.0
Capital and reserves			
Equity share capital	23	**0.2**	0.2
Capital redemption reserve	23	**1.1**	1.1
Treasury shares	23	**(4.6)**	(1.7)
Hedging reserve	23	**(3.5)**	(1.7)
Foreign currency retranslation reserve	23	**0.4**	(2.5)
Retained earnings		**293.8**	265.6
Total equity		**287.4**	261.0

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

M K Payne
Director
30 March 2017

Company Registration No. 06059130

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity share capital £m	Capital redemption reserve £m	Treasury shares £m	Hedging reserve £m	Foreign currency retranslation reserve £m	Retained earnings £m	Total equity £m
At 31 December 2014	0.2	1.1	(1.7)	(1.9)	(1.7)	241.7	237.7
Profit for the year	–	–	–	–	–	34.1	34.1
Other comprehensive income/(expense)	–	–	–	0.2	(0.8)	–	(0.6)
Total comprehensive income/(expense) for the year	–	–	–	0.2	(0.8)	34.1	33.5
Dividends paid	–	–	–	–	–	(10.6)	(10.6)
Share-based payments	–	–	–	–	–	0.4	0.4
At 31 December 2015	0.2	1.1	(1.7)	(1.7)	(2.5)	265.6	261.0
Profit for the year	–	–	–	–	–	44.2	44.2
Other comprehensive income/(expense)	–	–	–	(1.8)	2.9	–	1.1
Total comprehensive income/(expense) for the year	–	–	–	(1.8)	2.9	44.2	45.3
Dividends paid	–	–	–	–	–	(17.1)	(17.1)
Purchase of own shares	–	–	(2.9)	–	–	–	(2.9)
Share-based payments charge	–	–	–	–	–	1.3	1.3
Share-based payments settled	–	–	–	–	–	(0.3)	(0.3)
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2016	**0.2**	**1.1**	**(4.6)**	**(3.5)**	**0.4**	**293.8**	**287.4**

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £m	2015 £m
Operating activities			
Profit before tax		**54.4**	41.5
Net finance costs	11	**7.6**	7.9
Operating profit		**62.0**	49.4
Non-cash items:			
Profit on disposal of property, plant and equipment	8	**(0.3)**	(0.2)
Non-underlying exceptional items – amortisation of intangibles assets	8	**6.8**	3.0
– impairment of freehold land and buildings	8	**0.9**	–
Depreciation	15	**16.3**	15.1
Share-based payments		**1.0**	0.4
Operating cash flows before movement in working capital		**86.7**	67.7
Movement in working capital:			
Receivables		**(8.3)**	1.6
Payables		**11.5**	5.2
Inventories		**(3.4)**	(1.9)
Cash generated from operations		**86.5**	72.6
Income tax paid		**(10.1)**	(5.2)
Net cash flows from operating activities		**76.4**	67.4
Investing activities			
Interest received	11	**–**	0.1
Proceeds from disposal of property, plant and equipment		**0.4**	0.4
Acquisition of businesses – purchase consideration	17	**–**	(155.2)
– cash at acquisition	17	**–**	5.7
Purchase of property, plant and equipment		**(19.1)**	(19.3)
Net cash flows from investing activities		**(18.7)**	(168.3)
Financing activities			
Drawdown of bank loan		**–**	148.5
Repayment of bank loan		**(25.5)**	(51.0)
Interest paid		**(7.3)**	(5.8)
Dividends paid	13	**(17.1)**	(10.6)
Refinancing costs		**–**	(1.7)
Purchase of own shares		**(2.9)**	–
Net cash flows from financing activities		**(52.8)**	79.4
Net change in cash and cash equivalents		**4.9**	(21.5)
Cash and cash equivalents at 1 January	22	**21.6**	43.1
Cash and cash equivalents at 31 December	22	**26.5**	21.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2016 were authorised for issue by the Board of Directors on the 30 March 2017 and the balance sheet was signed on the Board's behalf by M K Payne.

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 2016 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 2016 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 2016.

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 the nearest 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 2016. 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 re-assesses 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

Polypipe

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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.

Any contingent consideration to be transferred to the vendor is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and subsequent settlement is accounted for within equity.

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 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 recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

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

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

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

2.7 Revenue recognition

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

Sale of goods

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

Interest income

Interest 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2.9 Property, plant and equipment

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

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

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.10 Intangible assets

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

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

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

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

Research and development costs

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually (at 31 December) and 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 statement of comprehensive income.

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 statement of comprehensive income on a straight-line basis over the lease term.

2.14 Financial instruments

(i) Financial assets

Initial recognition and measurement

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

All financial assets are recognised initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Derecognition

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

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

Impairment

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Profits or losses on liabilities held for trading are recognised in profit or loss.

Loans and borrowings

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

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

Derecognition

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

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

iii) Offsetting of financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iv) Fair values

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

v) Derivative financial instruments

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

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

vi) Hedge accounting

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

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

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

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

Cash flow hedge

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

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

2.15 Inventories

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

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.16 Cash and short-term deposits

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

2.17 Pensions

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

2.18 Non-underlying items

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

2.19 Share-based payments

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

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

2.20 Treasury 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 treasury 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 the Group's own equity instruments. No dividends are earned on these shares. The shares are ignored for the purposes of calculating the Group's earnings per share.

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 judgements and estimates have the most significant effect on amounts recognised in the consolidated financial statements:

3.1 Impairment of non-financial assets

In accordance with IFRS, the Group considers whether there are any indicators of impairment of 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 budget/forecast 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. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

3.2 Revenue recognition and customer rebates

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

3.3 Measurement of intangible assets

The measurement of intangible assets other than goodwill on a business combination involves the estimation of future cash flows and other inputs relevant to the valuation model being applied. Acquisitions are disclosed in Note 17.

3.4 Provisions against inventories

The Directors make judgements based on experience regarding the level of provision required to state inventories at their net realisable value.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards which have been adopted in the year

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

Standards issued but not yet effective

The following listing of standards and interpretations issued are those that the Group reasonably expect 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 Accounting Standards (IAS/IFRSs)		Effective date
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

None of these standards or interpretations are expected to have a material impact on the Group's consolidated financial statements with the exception of 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 for those with a very low value). 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. Whilst the overall cost of using the asset over the lease term should be the same, it is likely that the weighting of the charge between periods may differ due to the requirement to distinguish between the lease and non-lease elements of the agreement. Adoption of this standard is likely to result in an increase in gross assets and gross liabilities in the balance sheet, and finance costs being reclassified in the income statement. Currently the Group does not have any finance leases but does have operating leases which are disclosed in Note 27.

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

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NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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 three reporting segments - Residential Systems (all UK by origin), Commercial and Infrastructure Systems (UK) and Commercial and Infrastructure Systems (Mainland Europe). The reporting segments are organised based on the nature of the end markets served. Our Middle East factory is included within Commercial and Infrastructure Systems (UK) due to the strong link with UK manufactured export product. 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.

	2016			2015		
	Revenue £m	**Result £m**	**Underlying result* £m**	Revenue £m	Result £m	Underlying result* £m
Residential Systems	**207.6**	**39.3**	**39.1**	182.6	33.0	32.8
Commercial and Infrastructure Systems (UK)	**184.2**	**29.1**	**29.0**	131.5	20.2	20.1
Inter-segment sales	**(11.0)**	**–**	**–**	(10.2)	–	–
UK operations	**380.8**	**68.4**	**68.1**	303.9	53.2	52.9
Commercial and Infrastructure Systems (Mainland Europe)	**57.9**	**1.3**	**1.3**	50.4	1.2	1.3
Inter-segment sales	**(1.8)**	**–**	**–**	(1.4)	–	–
Non-underlying group items	**–**	**(7.7)**	**–**	–	(5.0)	–
Total – Group	**436.9**	**62.0**	**69.4**	352.9	49.4	54.2
Net finance costs		**(7.6)**	**(7.6)**		(7.9)	(6.2)
Profit before tax		**54.4**	**61.8**		41.5	48.0

* Underlying result is stated before non-underlying items as defined in the Group Accounting Policies on page 86, and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £7.4m (2015: £6.5m) are set out below.

Balance sheet

	31 December 2016		31 December 2015	
	Total Assets £m	**Total Liabilities £m**	Total Assets £m	Total Liabilities £m
Residential Systems	**280.6**	**(60.8)**	280.0	(53.6)
Commercial and Infrastructure Systems (UK)	**245.0**	**(29.1)**	237.0	(20.9)
UK operations	**525.6**	**(89.9)**	517.0	(74.5)
Commercial and Infrastructure Systems (Mainland Europe)	**40.0**	**(9.7)**	37.5	(10.0)
Total segment assets/(liabilities)	**565.6**	**(99.6)**	554.5	(84.5)
Current and deferred income taxes	**–**	**(14.3)**	–	(14.7)
Net debt	**26.5**	**(190.8)**	21.6	(215.9)
Total – Group	**592.1**	**(304.7)**	576.1	(315.1)
Net assets		**287.4**		261.0

5. SEGMENT INFORMATION CONTINUED

Capital additions

	2016 £m	2015 £m
Residential Systems	**8.6**	8.3
Commercial and Infrastructure Systems (UK)	**9.6**	9.3
UK operations	**18.2**	17.6
Commercial and Infrastructure Systems (Mainland Europe)	**1.5**	1.8
Total – Group	**19.7**	19.4

Depreciation of property, plant and equipment

	2016 £m	2015 £m
Residential Systems	**8.3**	7.7
Commercial and Infrastructure Systems (UK)	**6.4**	6.0
UK operations	**14.7**	13.7
Commercial and Infrastructure Systems (Mainland Europe)	**1.6**	1.4
Total – Group	**16.3**	15.1

Non-underlying items

	2016 £m	2015 £m
Residential Systems – profit on disposal of property, plant and equipment	**(0.2)**	(0.2)
Commercial and Infrastructure Systems (UK) – profit on disposal of property, plant and equipment	**(0.1)**	(0.1)
UK operations	**(0.3)**	(0.3)
Commercial and Infrastructure Systems (Mainland Europe) – loss on disposal of property, plant and equipment	**–**	0.1
Group – amortisation of intangible assets	**6.8**	3.0
Group – impairment of freehold land and buildings	**0.9**	–
Group – acquisition costs	**–**	2.0
Group – finance costs	**–**	1.7
Total – Group	**7.4**	6.5

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT INFORMATION CONTINUED

Geographical analysis

Revenue by destination	2016 £m	2015 £m
UK	**338.3**	276.7
Rest of Europe	**63.7**	54.2
Rest of World	**34.9**	22.0
Total – Group	**436.9**	352.9

Non-current assets	2016 £m	2015 £m
UK	**450.1**	455.0
Rest of Europe	**22.5**	21.5
Total – Group	**472.6**	476.5

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

The Group has three customers which individually account for more than 10% of the Group's total revenue during 2016. These customers account for 12.5%, 11.1% and 9.4% respectively, and are included in both reporting segments.

6. OPERATING PROFIT

	2016 £m	2015 £m
Income statement charges		
Depreciation of property, plant and equipment (owned)	**16.3**	15.1
Cost of inventories recognised as an expense	**256.8**	210.0
Operating lease payments – minimum lease payments	**4.9**	3.6
Research and development costs written off	**0.5**	0.3
Income statement credits		
Profit on disposal of property, plant and equipment	**0.3**	0.2

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:

	2016 £m	2015 £m
Audit of the Company's annual financial statements	**–**	–
Audit of the Company's subsidiaries	**0.3**	0.2
Total audit fees	**0.3**	0.2

Auditor's remuneration for non-audit services:

	2016 £m	2015 £m
Total non-audit fees	**–**	0.6

8. NON-UNDERLYING ITEMS

Non-underlying items comprise:

	2016			2015		
	Gross £m	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Administration expenses:						
Acquisition costs	**–**	**–**	**–**	2.0	–	2.0
Profit on disposal of property, plant and equipment	**(0.3)**	**–**	**(0.3)**	(0.2)	–	(0.2)
Impairment of freehold land and buildings	**0.9**	**–**	**0.9**	–	–	–
Amortisation of intangible assets	**6.8**	**(1.6)**	**5.2**	3.0	(0.5)	2.5
Finance costs:						
Unamortised debt issue costs relating to refinanced debt written off	**–**	**–**	**–**	1.7	(0.3)	1.4
Tax:						
Adjustment in respect of prior years' current income tax	**–**	**–**	**–**	–	(0.8)	(0.8)
Effect of changes in income tax rates on prior years' deferred income tax	**–**	**–**	**–**	–	(0.2)	(0.2)
Total non-underlying items	**7.4**	**(1.6)**	**5.8**	6.5	(1.8)	4.7

9. STAFF COSTS

Staff costs (including Directors) for the year were:

	2016 £m	2015 £m
Wages and salaries	**86.8**	70.0
Social security costs	**10.0**	8.5
Other pension costs	**2.7**	1.7
Total – Group	**99.5**	80.2

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

	2016 No.	2015 No.
Residential Systems	**1,537**	1,422
Commercial and Infrastructure Systems (UK)	**1,151**	842
UK operations	**2,688**	2,264
Commercial and Infrastructure Systems (Mainland Europe)	**250**	247
Total – Group	**2,938**	2,511

NOTES TO THE GROUP FINANCIAL STATEMENTS

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10. DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out below:

	2016 £'000	2015 £'000
Fees	**282**	299
Emoluments	**1,828**	1,465
Group contributions to money purchase pension scheme	**–**	–
	2,110	1,764

11. NET FINANCE COSTS

	2016			2015		
	Underlying £m	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Bank interest income	**–**	**–**	**–**	0.1	–	0.1
Finance revenues	**–**	**–**	**–**	0.1	–	0.1
Interest on bank loan	**6.6**	**–**	**6.6**	5.4	–	5.4
Debt issue cost amortisation	**0.4**	**–**	**0.4**	0.4	–	0.4
Other finance costs	**0.6**	**–**	**0.6**	0.5	–	0.5
Unamortised debt issue costs relating to refinanced debt written off	**–**	**–**	**–**	–	1.7	1.7
Finance costs	**7.6**	**–**	**7.6**	6.3	1.7	8.0
Net finance costs	**7.6**	**–**	**7.6**	6.2	1.7	7.9

12. INCOME TAX

(a) Tax charged in the income statement

	2016 £m	2015 £m
Current income tax:		
UK income tax	**12.4**	8.0
Overseas income tax	**0.1**	0.2
Current income tax charge	**12.5**	8.2
Adjustment in respect of prior years	**–**	(0.8)
Total current income tax	**12.5**	7.4
Deferred income tax:		
Origination and reversal of temporary differences	**(2.0)**	0.1
Effect of changes in income tax rates	**(0.3)**	(0.1)
Total deferred income tax	**(2.3)**	–
Tax expense in the income statement	**10.2**	7.4

Details of the non-underlying tax credit of £1.6m (2015: £1.8m) 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 UK standard rate of income tax for the years ended 31 December 2016 and 2015 is as follows:

	2016 £m	2015 £m
Accounting profit before tax	**54.4**	41.5
Accounting profit multiplied by the UK standard rate of income tax of 20.0% (2015: 20.25%)	**10.9**	8.4
Expenses not deductible for income tax	**0.7**	0.8
Non-taxable income	**(0.1)**	(0.4)
Share-based payments	**(0.3)**	–
Adjustments in respect of current income tax of previous years	**–**	(0.8)
Effects of patent box	**(0.7)**	(0.4)
Effects of other tax rates / credits	**(0.3)**	(0.2)
Total tax expense reported in the income statement	**10.2**	7.4

The effective rate for the full year was 18.8% (2015: 17.8%). If the impact of non-underlying costs is excluded, the underlying income tax rate would be 19.1% (2015: 19.2%).

(c) Deferred income tax

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

	2016 £m	2015 £m
Deferred income tax liabilities		
Short-term timing differences	**6.3**	8.3
Capital allowances in excess of depreciation	**1.4**	1.7
Share-based payments	**(0.4)**	–
	7.3	10.0

The Group offsets tax assets and liabilities if, and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same tax authority.

(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 20%, which was applied from 1 April 2015, to 19% from 1 April 2017 and 17% from 1 April 2020. The reduction in the corporation tax rate to 17% was included within the UK Finance Act 2016 that was enacted in September 2016.

Deferred income tax is measured at income tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on income tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax has therefore been provided at 17%.

(e) Unrecognised tax losses

A deferred income tax asset of £1.0m (2015: £1.0m) in respect of surplus non-trading losses of £5.5m (2015: £5.6m), has not been recognised at 31 December 2016 as its recovery is uncertain.

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13. DIVIDENDS PER SHARE

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2015 of 5.5p per share (2014: 3.0p)	**11.0**	6.0
Interim dividend for the year ended 31 December 2016 of 3.1p per share (2015: 2.3p)	**6.1**	4.6
	17.1	10.6
Proposed final dividend for the year ended 31 December 2016 of 7.0p per share (2015: 5.5p)	**13.9**	10.9

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.

14. 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 ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

Number of shares

	2016 £m	2015 £m
Weighted average number of ordinary shares for the purpose of basic earnings per share	**198,930,384**	199,267,136
Share options	**1,053,339**	540,243
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**199,983,723**	199,807,379

Underlying earnings per share is based on the result for the year after tax, excluding the impact of non-underlying items, of £50.0m (2015: £38.8m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	2016	2015
Underlying profit for the year attributable to the owners of the parent company (£m)	**50.0**	38.8
Underlying basic earnings per share (pence)	**25.1**	19.5
Underlying diluted earnings per share (pence)	**25.0**	19.4

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2015	44.0	130.3	174.3
Additions	1.8	17.6	19.4
Acquisition of businesses	2.6	2.6	5.2
Disposals	–	(2.0)	(2.0)
Exchange adjustment	(0.3)	(1.5)	(1.8)
At 31 December 2015	48.1	147.0	195.1
Additions	1.2	18.5	19.7
Disposals	–	(3.2)	(3.2)
Reclassified as assets held for sale	(3.2)	–	(3.2)
Exchange adjustment	1.0	4.6	5.6
At 31 December 2016	47.1	166.9	214.0
Depreciation and impairment losses			
At 1 January 2015	9.0	76.1	85.1
Provided during the year	1.3	13.8	15.1
Disposals	–	(1.8)	(1.8)
Exchange adjustment	(0.2)	(1.2)	(1.4)
At 31 December 2015	10.1	86.9	97.0
Provided during the year	1.4	14.9	16.3
Disposals	–	(3.1)	(3.1)
Impairment	0.9	–	0.9
Reclassified as assets held for sale	(2.5)	–	(2.5)
Exchange adjustment	0.7	3.7	4.4
At 31 December 2016	10.6	102.4	113.0
Net book value:			
At 31 December 2016	**36.5**	**64.5**	**101.0**
At 31 December 2015	38.0	60.1	98.1

The impairment charge of £0.9m relates to surplus freehold land and buildings at Wolverhampton that is being actively marketed and writes down its carrying amount to £0.7m being its fair value less costs to sell. The written down asset has been reclassified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Included in freehold land and buildings is non-depreciable land of £13.0m (2015: £13.0m).

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NOTES TO THE GROUP FINANCIAL STATEMENTS

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16. INTANGIBLE ASSETS

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Customer order book £m	Total £m
Cost						
At 1 January 2015	235.0	–	–	–	–	235.0
Acquisition of businesses	94.3	18.2	25.5	6.4	2.0	146.4
At 31 December 2015	329.3	18.2	25.5	6.4	2.0	381.4
At 31 December 2016	329.3	18.2	25.5	6.4	2.0	381.4
Amortisation and impairment						
At 1 January 2015	–	–	–	–	–	–
Charge for the year	–	0.7	1.0	0.5	0.8	3.0
At 31 December 2015	–	0.7	1.0	0.5	0.8	3.0
Charge for the year	–	1.8	2.6	1.2	1.2	6.8
At 31 December 2016	–	2.5	3.6	1.7	2.0	9.8
Net book value:						
At 31 December 2016	**329.3**	**15.7**	**21.9**	**4.7**	**–**	**371.6**
At 31 December 2015	329.3	17.5	24.5	5.9	1.2	378.4

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

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated for impairment testing purposes to a number of cash-generating units (CGUs). These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Carrying amount of goodwill allocated to each of the CGUs:

CGU

	31 December 2016 £m	31 December 2015 £m
Building Products	**146.1**	146.1
Terrain	**31.4**	31.4
Civils	**36.0**	36.0
Nuaire	**91.3**	91.3
Others	**24.5**	24.5
	329.3	329.3

Impairment tests on the carrying amounts of goodwill are performed by analysing the carrying amount allocated to each CGU against its value in use. Value in use is calculated for each CGU as the net present value of that CGU's discounted future pre-tax cash flows. These pre-tax cash flows are based on budgeted cash flows information for a period of one year, construction industry forecasts of growth for the following year and growth of between 2% to 3% thereafter (2015: 2% to 3%).

A pre-tax discount rate of 10.0% (2015: 10.7%) 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.

16. INTANGIBLE ASSETS CONTINUED

The Group has applied sensitivities to assess whether any reasonable possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. In the case of Polypipe France's goodwill of £9.6m (2015: £9.6m), included in "others", this would be fully impaired if the revenue growth rate assumption from 2017 onwards of between 2.5% and 3.4% per annum, which is based on Euroconstruct and OECD forecasts, proved to be optimistic and revenue decline of between -1.5% and -2.4% per annum was achieved. Polypipe France's goodwill would also be fully impaired if the assumed revenue growth rates were achieved but the contribution margin fell by 320 bps due to competitive pressures. Goodwill would also be impaired through a combination of these sensitivities. The value in use of Polypipe France is calculated in Euros whereas the goodwill balance is denominated in Pounds Sterling. Accordingly, any movement in the Pounds Sterling exchange rate versus Euros may, amongst other factors, impact the Polypipe France goodwill impairment test.

17. ACQUISITIONS

There were no acquisitions during the year ended 31 December 2016. The notes below relate to acquisitions that took place in 2015.

Surestop

On 30 January 2015 the Group acquired 100% of the share capital of Surestop Limited, a company which manufactures and supplies a range of patented water mains switch-off devices. The cash consideration of £6.0 million included a payment of £0.8 million for net cash at completion.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	1.7	1.7
Plant and equipment	0.7	–	0.7
Inventories	0.1	–	0.1
Trade and other receivables	0.5	–	0.5
Cash	0.8	–	0.8
Trade and other payables	(0.4)	–	(0.4)
Income tax liabilities	(0.1)	–	(0.1)
Deferred income tax	–	(0.3)	(0.3)
Net identifiable assets	**1.6**	**1.4**	**3.0**
Goodwill on acquisition			3.0
Total consideration			**6.0**

Patents and the 'Surestop' brand 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 related deferred income tax. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share.

Post-acquisition Surestop contributed £2.1m revenue and £0.8m operating profit during the year ended 31 December 2015 which was included in the Group income statement. If Surestop had been acquired on 1 January 2015 the Group's results for the year ended 31 December 2015 would have shown revenue of £353.1m and underlying operating profit of £54.2m.

NOTES TO THE GROUP FINANCIAL STATEMENTS

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17. ACQUISITIONS CONTINUED

Nuaire

On 18 August 2015 the Group acquired 100% of the share capital of Nu-Oval Acquisitions 1 Limited (Nuaire), a leading provider of ventilation solutions. The cash consideration of £149.2 million included a payment of £4.9 million for net cash at completion.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	50.4	50.4
Plant and equipment	4.7	(0.2)	4.5
Investments	0.2	(0.2)	–
Inventories	6.0	–	6.0
Trade and other receivables	11.1	–	11.1
Cash	4.9	–	4.9
Trade and other payables	(9.1)	(0.7)	(9.8)
Income tax liabilities	(0.4)	–	(0.4)
Deferred income tax	0.2	(9.0)	(8.8)
Net identifiable assets	**17.6**	**40.3**	**57.9**
Goodwill on acquisition			91.3
Total consideration			**149.2**

Patents, the 'Nuaire' brand, customer relationships and the customer order book 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 related deferred income tax and the application of fair values on acquisition. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share.

Post-acquisition Nuaire has contributed £21.9m revenue and £3.2m operating profit during the year ended 31 December 2015 which was included in the Group income statement. If Nuaire had been acquired on 1 January 2015 the Group's results for the year ended 31 December 2015 would have shown revenue of £395.4m and underlying operating profit of £62.9m.

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 2016 are set out in Note 4 to the parent company financial statements.

19. ASSETS HELD FOR SALE

Assets held for sale comprise:

	31 December 2016 £m	31 December 2015 £m
Property, plant and equipment	**0.7**	–

Assets held for sale consist exclusively of freehold land currently not in use by the Group. It is expected that the disposal of this asset will be completed during 2017. The assets held for sale are analysed between operating segments as follows:

	31 December 2016 £m	31 December 2015 £m
Residential Systems	**0.4**	–
Commercial and Infrastructure Systems (UK)	**0.3**	–
	0.7	–

20. INVENTORIES

	31 December 2016 £m	31 December 2015 £m
Raw materials	**17.4**	15.9
Work in progress	**6.1**	4.6
Finished goods	**28.7**	27.0
	52.2	47.5

All inventories are carried at cost less a provision to take account of slow moving and obsolete items. The provision as at 31 December 2016 is £6.1m (2015: £6.2m).

21. TRADE AND OTHER RECEIVABLES

	31 December 2016 £m	31 December 2015 £m
Trade receivables	**34.9**	25.7
Other receivables	**1.2**	1.2
Prepayments and accrued income	**4.0**	3.6
	40.1	30.5

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

21. TRADE AND OTHER RECEIVABLES CONTINUED

Impairment losses

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

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

	31 December 2016			31 December 2015		
	Gross £m	**Provisions £m**	**Net £m**	Gross £m	Provisions £m	Net £m
Not past due	**31.1**	**–**	**31.1**	24.2	–	24.2
Past due 1–30 days	**2.1**	**–**	**2.1**	0.6	–	0.6
Past due 31–90 days	**2.0**	**(0.3)**	**1.7**	0.9	–	0.9
Past due more than 90 days	**0.3**	**(0.3)**	**–**	0.6	(0.6)	–
	35.5	**(0.6)**	**34.9**	26.3	(0.6)	25.7

The movements in provisions for impairment of trade receivables were as follows:

	£m
At 31 December 2014 and 2015	0.6
Charged to the income statement during the year	–
Utilised during the year	–
At 31 December 2016	**0.6**

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2016 £m	31 December 2015 £m
Cash at bank and in hand	**26.5**	21.6

Cash at bank earns interest at floating 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

	2016		2015	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000

* Millions of shares

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

Capital redemption reserve

Following the consolidation and sub-division of shares in 2014 the Company's deferred shares were cancelled. In order to maintain the Company's capital a transfer was made from retained earnings to a capital redemption reserve.

23. SHARE CAPITAL AND RESERVES CONTINUED

Treasury shares

Treasury shares represent the cost of Polypipe Group plc shares purchased in the market and held by the Company, and/or the EBT, to satisfy the future exercise of options under the Group's share option schemes. At 31 December 2016 the Group held 1,714,148 (2015: 730,478) of its own shares at an average cost of 268p (2015: 234p) per share. The market value of the shares at 31 December 2016 was £5.6m (2015: £2.5m). The nominal value of each share is £0.001.

The EBT did not hold any shares at 31 December 2016 (2015: nil).

Hedging reserve

The hedging reserve contains the effective portion of the cash flow hedge relationships entered into by the Group.

Foreign currency retranslation reserve

The foreign currency retranslation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains an appropriate capital structure to support its business objectives and maximise shareholder value. The Group regards shareholders' equity and net debt as its capital. The Group's net debt is defined as cash and cash equivalents, loans and borrowings and derivative financial assets and liabilities.

At 31 December 2016 the Group had bank debt of £192.0m (2015: £217.5m), an undrawn committed revolving credit facility of £108.0m (2015: £82.5m) and cash of £26.5m (2015: £21.6m). 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 2016 and 31 December 2015.

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 2015 Number	Granted Number	Exercised Number	Lapsed / forfeited Number	**31 December 2016 Number**	Date first exercisable	Expiry date
2014 SAYE (granted 2014)	1.99	1,593,183	–	(16,330)	(89,773)	**1,487,080**	8 Sept 2017	8 March 2018
2014 SAYE (granted 2016)	2.21	–	1,422,700	–	(7,003)	**1,415,697**	15 Sept 2019	15 March 2020
2014 LTIP (granted 2014)	Nil	36,314	–	–	–	**36,314**	8 Sept 2017	8 Sept 2024
2014 LTIP (granted 10 May 2016)	Nil	–	552,803	–	–	**552,803**	10 May 2019	10 May 2026
2014 LTIP (granted 31 May 2016)	Nil	–	77,743	–	–	**77,743**	31 May 2019	31 May 2026
Deferred Share Bonus Plan 2015	Nil	64,956	–	(22,155)	–	**42,801**	28 April 2017	28 April 2018
Deferred Share Bonus Plan 2016	Nil	–	47,302	(16,128)	–	**31,174**	26 April 2018	26 April 2019
Other share awards – CFO buyout arrangement 2016	Nil	–	95,183	(50,601)	–	**44,582**	23 July 2017	16 May 2026
		1,694,453	2,195,731	(105,214)	(96,776)	**3,688,194**		

NOTES TO THE GROUP FINANCIAL STATEMENTS

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24. SHARE-BASED PAYMENTS CONTINUED

SAYE

SAYE options were granted to eligible employees on 15 September 2016 at an exercise price of £2.21 per share, a 20% discount to the average share price over the three 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 2019 to 2020.

LTIP

LTIP's were awarded to a number of senior executives on 10 May 2016 and 31 May 2016. These options have an exercise date of 2019 to 2026. The vesting of each award is subject to the satisfaction of certain performance criteria of which 25% is based on total shareholder return (the TSR element) and 75% is based on earnings per share performance (the EPS element). Further details of the scheme are provided in the Annual Report on Remuneration.

Deferred share bonus plan

On 26 April 2016, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2015 annual bonus. Peter Shepherd's deferred bonus share awards vested upon cessation of employment on 3 June 2016 in accordance with the Group's standard policy for good leavers, and were settled in cash.

Other share awards

Other share awards in the form of nil cost options were made relating to buy-out arrangements to partially compensate the Chief Financial Officer for bonus and long-term incentive awards which were forfeited when he left his previous employer. 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 SAYE options and the EPS element of the LTIP's is measured by use of a Black-Scholes model. Fair value of the TSR element of the LTIP's is measured by use of a Monte Carlo model. The expected life used in the model 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 granted 10 May 2016	2014 LTIP granted 31 May 2016	2014 SAYE granted 2016
Share price at date of grant	£2.87	£3.18	£2.77
Exercise price	Nil	Nil	£2.21
Shares under option	552,803	77,743	1,422,700
Vesting period (years)	3	3	3.25
Expected volatility	25.4%	25.6%	26.7%
Median volatility of the comparator group	26.1%	26.0%	n/a
Expected life (years)	3	3	3.25
Risk free rate	0.50%	0.58%	0.18%
Dividend yield	2.80%	2.53%	3.35%
TSR performance of the Company at the date of grant	(3.3%)	7.4%	n/a
Median TSR performance of the comparator group at the date of grant	(1.6%)	2.8%	n/a
Correlation (median)	13.4%	13.4%	n/a
Fair value per option (£)	£2.323	£2.650	£0.604

The expected volatility is based on historical share price movements. The Directors anticipate it is possible the performance criteria in relation to the LTIP may not be met.

24. SHARE-BASED PAYMENTS CONTINUED

	2016 £m	2015 £m
Charge for the year	**1.3**	0.4

25. TRADE AND OTHER PAYABLES

	31 December 2016 £m	31 December 2015 £m
Trade payables	**66.6**	59.5
Other taxes and social security costs	**11.4**	10.0
Accruals	**13.8**	10.8
	91.8	80.3

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

26. FINANCIAL LIABILITIES

	31 December 2016 £m	31 December 2015 £m
Non-current loans and borrowings:		
Bank loan – principal	**192.0**	217.5
– unamortised debt issue costs	**(1.2)**	(1.6)
Total non-current loans and borrowings	**190.8**	215.9
Other financial liabilities:		
Trade and other payables	**91.8**	80.3
Forward foreign currency derivatives	**1.5**	0.1
Interest rate swaps	**4.2**	2.1
Other liabilities	**2.1**	2.0
	99.6	84.5

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

26. FINANCIAL LIABILITIES CONTINUED

Bank loan

The bank loan, which is a revolving credit facility, is secured and expires in full in August 2020. Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 1.25% to 2.75% which is dependent on the Group's leverage (net debt as a multiple of EBITDA) and reduces as the Group's leverage reduces. The interest margin at the 31 December 2016 was 2.00% (2015: 2.25%).

At 31 December 2016, the Group had available, subject to covenant headroom, £108.0m (2015: £82.5m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2016.

£10m of the £300m revolving credit facility was reviewed at 31 December 2016 and the revolving credit facility was not reduced by £10m since the leverage ratio (Net debt:EBITDA) at 31 December 2016 was less than or equal to 2.25:1. The facility will reduce by £10m each year, regardless of leverage, at 31 December 2017, 2018 and 2019; the remainder is available until August 2020.

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt as a multiple of EBITDA and interest cover. At 31 December 2016 the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2016
Interest cover (Underlying operating profit:Net finance costs excluding debt issue cost amortisation)	>4.00:1	9.7:1
Leverage (Net debt:EBITDA)	<3.25:1	1.9:1

The interest cover covenant remains at 4.0:1 throughout the duration of the revolving credit facility. The leverage covenant reduces to 3.0:1 at 30 September 2017 and remains at that level until August 2020.

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 5 to 10 years.

Future minimum rentals payable under non-cancellable operating leases were as follows:

	31 December 2016 £m	31 December 2015 £m
Land and buildings		
Within one year	**0.3**	0.1
After one year, but not more than five years	**3.1**	0.8
More than five years	**9.5**	10.6
	12.9	11.5
	£m	£m
Other		
Within one year	**0.2**	0.2
After one year, but not more than five years	**2.9**	2.8
More than five years	**3.2**	1.7
	6.3	4.7

Capital commitments

At 31 December 2016, the Group had commitments of £6.5m (2015: £3.9m) relating to plant and equipment purchases.

28. RELATED PARTY TRANSACTIONS

Compensation of key management personnel (including Directors)

	2016 £m	2015 £m
Short-term employee benefits	**2.7**	2.4
Post-employment benefits	**0.2**	0.1
Share-based payments	**0.2**	–
	3.1	2.5

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, 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 on the following page.

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 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 dependant on the swap of either 2.21% or 1.735% (2015: 2.21% or 1.735%) (excluding margin):

Year ended 31 December	Notional amount – rate of 2.21% £m	Notional amount – rate of 1.735% £m
2017	70.2	10.7
2018	66.6	25.1
2019	–	82.0
To August 2020	–	72.2

Foreign currency exchange risk

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Foreign currency exchange sensitivity

The table below demonstrates the sensitivity to a 10% change in the Euro 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
2016		
10% strengthening of Pounds Sterling: against Euro	**(1.4)**	**(0.1)**
10% weakening of Pounds Sterling: against Euro	**1.8**	**0.1**
2015		
10% strengthening of Pounds Sterling: against Euro	(1.1)	–
10% weakening of Pounds Sterling: against Euro	1.4	–

Credit risk

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

Trade receivables

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

The requirement for impairment is analysed at each balance sheet date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each class of financial assets as disclosed in Note 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 2016, 75.3% (2015: 79.4%) 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 (£26.5m at 31 December 2016) and its undrawn £108.0m committed revolving credit facility which matures in August 2020.

Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Deposits of surplus funds are made only with banks that have as a minimum a single A credit rating. The Group's maximum exposure to credit risk for the components of the balance sheet at 31 December 2016 and 31 December 2015 is the carrying amounts as illustrated in Note 22.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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 £26.5m at 31 December 2016, £108.0m of undrawn and committed credit facilities and no debt maturities within twelve months.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2016

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan	–	–	192.0	192.0
Other financial liabilities:				
Forward foreign currency derivatives	0.8	0.6	0.1	1.5
Interest rate swaps	–	–	4.2	4.2
Trade and other payables	91.8	–	–	91.8
Other liabilities	–	–	2.1	2.1
	92.6	0.6	198.4	291.6

Year ended 31 December 2015

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan	–	–	217.5	217.5
Other financial liabilities:				
Forward foreign currency derivatives	0.1	–	–	0.1
Interest rate swaps	–	–	2.1	2.1
Trade and other payables	80.3	–	–	80.3
Other liabilities	–	–	2.0	2.0
	80.4	–	221.6	302.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Fair values of financial assets and financial liabilities

The book value of trade and other receivables, trade and other payables, cash balances, bank loan and other liabilities equates to fair value.

The table below sets out the Group's accounting classification of its other financial assets and liabilities and their carrying amounts and fair values.

	Carrying value £m	**Fair value £m**
Forward foreign currency derivatives	**1.5**	**1.5**
Interest rate swaps	**4.2**	**4.2**
Interest bearing loans and borrowings due after more than one year	**190.8**	**190.8**
Total at 31 December 2016	**196.5**	**196.5**

	Carrying value £m	Fair value £m
Forward foreign currency derivatives	0.1	0.1
Interest rate swaps	2.1	2.1
Interest bearing loans and borrowings due after more than one year	215.9	215.9
Total at 31 December 2015	218.1	218.1

The fair value of the interest rate swaps were determined by reference to market values.

Forward foreign currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturities of the contracts.

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 recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair values disclosed above all relate to items categorised as Level 2.

There have been no transfers in any direction in the years ended 31 December 2016 and 2015.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.

Polypipe

COMPANY BALANCE SHEET
AT 31 DECEMBER 2016

	Notes	**31 December 2016 £m**	31 December 2015 £m
Non-current assets			
Investments	4	**233.3**	232.7
Current assets			
Amounts owed by subsidiary undertakings and other receivables	5	**74.0**	65.3
Total assets		**307.3**	298.0
Current liabilities			
Amounts owed to subsidiary undertakings and other payables	6	**(60.8)**	(37.5)
Net assets		**246.5**	260.5
Capital and reserves			
Equity share capital	7	**0.2**	0.2
Capital redemption reserve	7	**1.1**	1.1
Treasury shares	7	**(4.6)**	(1.7)
Retained earnings		**249.8**	260.9
Total equity		**246.5**	260.5

Included within retained earnings is profit for the year of £5.0m (2015: £4.7m).

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

M K Payne
Director
30 March 2017

Company Registration No. 06059130

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity share capital £m	Capital redemption reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m
At 31 December 2014	0.2	1.1	(1.7)	266.4	266.0
Profit for the year	–	–	–	4.7	4.7
Total comprehensive income for the year	–	–	–	4.7	4.7
Dividends paid	–	–	–	(10.6)	(10.6)
Share-based payments	–	–	–	0.4	0.4
At 31 December 2015	0.2	1.1	(1.7)	260.9	260.5
Profit for the year	–	–	–	5.0	5.0
Total comprehensive income for the year	–	–	–	5.0	5.0
Dividends paid	–	–	–	(17.1)	(17.1)
Purchase of own shares	–	–	(2.9)	–	(2.9)
Share-based payments charge	–	–	–	1.3	1.3
Share-based payments settled	–	–	–	(0.3)	(0.3)
At 31 December 2016	**0.2**	**1.1**	**(4.6)**	**249.8**	**246.5**

Polypipe

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £m	2015 £m
Operating activities		
Profit before tax	**4.9**	4.7
Net finance revenues	**(8.7)**	(7.6)
Operating loss	**(3.8)**	(2.9)
Non-cash items: Share-based payments	**0.4**	–
Operating cash flows before movement in working capital	**(3.4)**	(2.9)
Movement in working capital:		
Receivables	**–**	(0.1)
Payables	**0.1**	–
Inter-group balances	**14.6**	6.0
Net cash flows from operating activities	**11.3**	3.0
Investing activities		
Interest received	**8.7**	7.6
Net cash flows from investing activities	**8.7**	7.6
Financing activities		
Purchase of own shares	**(2.9)**	–
Dividends paid	**(17.1)**	(10.6)
Net cash flows from financing activities	**(20.0)**	(10.6)
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 2016

1. AUTHORISATION OF FINANCIAL STATEMENTS

The parent company financial statements of Polypipe Group plc (the "Company") for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 30 March 2017 and the balance sheet was signed on the Board's behalf by M K Payne.

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 2016 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 2016 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 2016.

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 Treasury 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 treasury 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 the Company's own equity instruments. No dividends are earned on these shares.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. DIVIDENDS PER SHARE

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2015 of 5.5p per share (2014: 3.0p)	**11.0**	6.0
Interim dividend for the year ended 31 December 2016 of 3.1p per share (2015: 2.3p)	**6.1**	4.6
	17.1	10.6
Proposed final dividend for the year ended 31 December 2016 of 7.0p per share (2015: 5.5p)	**13.9**	10.9

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 2015	232.3
Additions – share-based payments	0.4
At 31 December 2015	232.7
Additions – share-based payments	0.6
At 31 December 2016	233.3
Net book value:	
At 31 December 2016	**233.3**
At 31 December 2015	232.7
At 1 January 2015	232.3

In 2016, an adjustment in respect of share-based payments of £0.6m (2015: £0.4m) 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 is £1.1m (2015: £0.5m).

The companies in which the Company has an interest at 31 December 2016 are shown below:

Name of company	**Country of incorporation**	**Holding**	**Proportion of voting rights and shares held**
Ferrob Ventilation Ltd[1]	England & Wales	Ordinary £1	100%*
Hayes Pipes (Ulster) Limited[2]	Northern Ireland	Ordinary £1	100%*
Home Ventilation (Ireland) Limited[3]	Northern Ireland	Ordinary £1	100%*
Insulated Damp-Proof Course Limited[1]	England & Wales	Ordinary £1	100%*
Mason Pinder (Toolmakers) Limited[1]	England & Wales	Ordinary £1	100%*
Mr Plumber Limited[1]	England & Wales	Ordinary £1	100%*
Nu-Oval Acquisitions 1 Limited[1]	England & Wales	Ordinary £0.94 - £1	100%*
Nu-Oval Acquisitions 2 Limited[1]	England & Wales	Ordinary £1	100%*
Nu-Oval Acquisitions 3 Limited[1]	England & Wales	Ordinary £1	100%*
Nuaire Limited[1]	England & Wales	Ordinary £1	100%*
Nuhold Limited[1]	England & Wales	Ordinary £0.1	100%*

4. INVESTMENTS CONTINUED

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Oracstar Limited[1]	England & Wales	Ordinary £1	100%*
Oval (1888) Limited[1]	England & Wales	Ordinary £0.01	100%*
Plumbexpress Limited[1]	England & Wales	Ordinary £1	100%*
Pipe Holdings Plc[1]	England & Wales	Ordinary £1	100%*
Pipe Holdings 1 Plc[1]	England & Wales	Ordinary £1	100%*
Pipe Holdings 2 Limited[1]	England & Wales	Ordinary £1	100%*
Pipe Luxembourg Sarl[4]	Luxembourg	Ordinary £1	100%
Polypipe Building Products Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Commercial Building Systems Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Civils Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe France SAS[5]	France	Ordinary €200	100%*
Polypipe France Holding SAS[5]	France	Ordinary €1.76	100%*
Polypipe Holdings (Ireland) Limited[6]	Republic of Ireland	Ordinary £1	100%*
Polypipe (Ireland) Ltd[2]	Northern Ireland	Ordinary £1	100%*
Polypipe Middle East FZE[7]	Dubai	Ordinary 1m UAE Dirhams	100%*
Polypipe Italia SRL[8]	Italy	Ordinary €0.52	100%*
Polypipe Limited[1]	England & Wales	Ordinary £0.1	100%*
Polypipe Terrain Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Holdings Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe T.D.I. Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Trading Limited[1]	England & Wales	Ordinary £0.1	100%*
Polypipe (Ulster) Limited[2]	Northern Ireland	Ordinary £1	100%*
Polypipe Ventilation Limited[1]	England & Wales	Ordinary £1	100%*
Robimatic Limited[1]	England & Wales	Ordinary £1	100%*
Surestop Limited[1]	England & Wales	Ordinary £1	100%*
Water Management Solutions LLC[9]	Qatar	Ordinary 1,000 Qatari Riyals	49%*

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

Registered office of subsidiaries

1. Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES
2. Dromore Road, Lurgan, Co. Armagh, BT66 7HL
3. 19 Bedford Street, Belfast, BT2 7EJ
4. 5 Rue Guillaume Kroll, L-1882 Luxembourg
5. 11, rue d'Altkirch, F-68580 Seppois-Le-Bas, France
6. 1 Ontario Terrace, Portobello Bridge, Rathmines, Dublin 6, Ireland
7. PO Box 18679, Showroom A2 SR 07, First Al Khail Street, Jebel Ali Free Zone, Dubai, United Arab Emirates
8. Localita Pianmercato 5C-5D, 16044 Cicagna (GE), Italy
9. Level 15, Commercial Bank Plaza, West Bay, Doha, Qatar

Polypipe

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS AND OTHER RECEIVABLES

	31 December 2016 £m	31 December 2015 £m
Amounts owed by subsidiary undertakings	**73.8**	65.2
Deferred tax	**0.1**	–
Other receivables	**0.1**	0.1
	74.0	65.3

6 AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS AND OTHER PAYABLES

	31 December 2016 £m	31 December 2015 £m
Amounts owed to subsidiary undertakings	**60.6**	37.4
Other payables	**0.2**	0.1
	60.8	37.5

7. SHARE CAPITAL AND RESERVES

Share capital

	2016		2015	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**200**	**200,000**	200	200,000

* Millions of shares

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

Details of share options in issue on the Company's share capital and share-based payments are set out in Note 24 to the Group's consolidated financial statements.

Capital redemption reserve

Following the consolidation and sub-division of shares in 2014 the Company's deferred shares were cancelled. In order to maintain the Company's capital a transfer was made from retained earnings to a capital redemption reserve.

Treasury shares

The Company, and/or the EBT, holds own shares for the granting of Polypipe Group plc shares to employees and Directors. These treasury 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 the Company's own equity instruments. 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 the year dealt within the financial statements of the Company is £5.0m (2015: £4.7m profit for the year).

Remuneration paid to the Directors of the Company is disclosed in Note 10 to the Group's consolidated financial statements.

Amounts paid to the Company's auditor in respect of the audit of the financial statements of the Company are disclosed in Note 7 to the Group's consolidated financial statements.

Fees paid to the auditors for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because the Group's consolidated financial statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in Note 7 to the Group's consolidated financial statements.

9. RELATED PARTY TRANSACTIONS

These are disclosed in Note 28 to the Group's consolidated financial statements.