20 March 2018

Polypipe Group plc
Audited results for the year ended 31 December 2017

Further growth delivers another record performance

Polypipe Group plc ("Polypipe" or the "Group"), a leading manufacturer of plastic piping and ventilation systems for the residential, commercial, civils and infrastructure sectors, today announces its audited results for the year ended 31 December 2017.

Financial Results

	2017	2016 restated	Change
Revenue	£411.7m	£387.2m	+6.3%
Underlying operating profit[1]	£72.6m	£68.5m	+6.0%
Underlying operating margin[1]	17.6%	17.7%	-10bps
Underlying profit before tax[1]	£65.7m	£60.9m	+7.9%
Operating profit	£62.5m	£61.1m	+2.3%
Profit before tax	£55.6m	£53.5m	+3.9%
Earnings per share from continuing operations (basic)	22.7p	21.8p	+4.1%
Underlying earnings per share from continuing operations (basic)[1]	27.2p	24.7p	+10.1%
Leverage (times EBITDA[2])	1.6	1.9	0.3
Dividend per share	11.1p	10.1p	+9.9%

On 31 January 2018, the Group announced that it had entered into advanced negotiations to sell Polypipe France Holding SAS (Polypipe France). The Board determined that the sale was highly probable at 31 December 2017 and accordingly the results for Polypipe France have been treated as discontinued. Comparatives for 2016 have been restated where necessary to reflect this treatment.

Financial Highlights
- Revenue 6.3% higher at £411.7m
- Underlying operating profit 6.0% higher at £72.6m
- Underlying operating margin robust at 17.6% despite continued input cost inflation
- Underlying basic earnings per share from continuing operations 10.1% higher at 27.2 pence
- Net debt down to 1.6 times EBITDA[2]
- Recommended final dividend of 7.5 pence per share giving a full year dividend of 11.1 pence per share, 9.9% higher

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

Outlook

- Fundamentals in Residential Systems segment continue to be strong, driven by the new housebuild sector but UK RMI likely to remain challenging
- Commercial and Infrastructure project pipeline remains encouraging, although project delays impacting short-term performance
- Benefit of selling price increases, due to the pass-through of further polymer and other cost inflation, expected to come through from second quarter
- 2018 will be another year of progress for the Group and our expectations for the year remain unchanged

Martin Payne, Chief Executive Officer, said:

"Polypipe's balanced business model, underpinned by the long-term growth drivers of legacy material substitution and continuing legislative tailwinds, has helped produce another record performance in 2017. Against the backdrop of a mixed UK construction market performance, continued political and economic uncertainty, and challenges in some overseas markets, Polypipe has delivered strong results in line with our expectations by focusing on its core strategic growth drivers. UK construction market performance is likely to remain mixed, but with continued focus on our customers and a balanced exposure to the different sectors within construction, we look forward to another year of progression in 2018."

[1] Underlying profit and earnings measures are from continuing operations only and exclude certain non-underlying items and where relevant, the tax effect of these items. The Directors consider that these measures 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 our financial performance.

[2] EBITDA is defined as underlying operating profit before depreciation and includes operating profit before depreciation from discontinued operations.

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A copy of this report will be available on our website www.polypipe.com today from 0700hrs (GMT).

An analyst and investor presentation will be held today at Brunswick's offices at 16 Lincolns Inn Fields, London, WC2A 3ED at 0900hrs (GMT) with registration from 0830hrs.

For those unable to attend, a live conference call will be available at 0900hrs (GMT).

UK Freephone Dial-In Number	0800 376 7922
Standard International Dial-In number	+44 (0) 2071 928000
Conference PIN	8298336

Access to the slide presentation during this live event is available at: this link.

Capital Markets Day

A Capital Markets day will be held on 9 May 2018 at 3.00pm at the offices of Numis Securities Ltd., The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT. Please contact Nina Coad or Emma Walsh at Brunswick for further details.

Notes to Editors:

Polypipe is the largest manufacturer in the UK, and among the ten largest manufacturers in Europe, of plastic piping systems for the residential, commercial, civils and infrastructure sectors by revenue. It is also a leading designer and manufacturer of energy efficient ventilation systems in the UK.

The Group operates from 20 facilities in total, and with over 20,000 product lines, manufactures the UK's widest range of plastic piping systems for heating, plumbing, drainage and ventilation. The Group primarily targets the UK and European construction markets with a presence in Italy and the Middle East and sales to specific niches in the rest of the world.

Group Results

On 31 January 2018, the Group announced that it had entered into advanced negotiations to sell Polypipe France Holding SAS (Polypipe France). The Board considered that the sale was highly probable at 31 December 2017 and accordingly the results for Polypipe France have been treated as discontinued in this report. Comparatives for 2016 have been restated where necessary to reflect this treatment. Polypipe France generated revenue of £58.4m (2016: £49.7m) and underlying operating profit of £1.4m (2016: £0.9m) for the year ended 31 December 2017. The Board expects the transaction to complete in the first half of 2018.

Group revenue for the year ended 31 December 2017 was 6.3% higher than the prior year at £411.7m (2016 restated: £387.2m). There is no impact of acquisitions in the year and the effect of currency translation is immaterial, so like-for-like constant currency growth is also 6.3%. This strong result in mixed market conditions demonstrates the resilience the Group gets from its balanced exposure to the different sectors of the construction market, and the strength of its long-term growth drivers.

Underlying operating profit was 6.0% higher than the prior year at £72.6m (2016 restated: £68.5m) and represents an operating margin of 17.6% (2016 restated: 17.7%). This is a pleasing performance and demonstrates the Group's continued ability to recover materials and other cost inflation through selling price increases and cost reduction initiatives.

Finance costs of £6.9m (2016: £7.6m) were lower than the prior year due to lower average net debt in the year, and the lower interest rate margin payable on our borrowings as leverage reduces.

Net debt at 31 December 2017 of £148.4m does not reflect the net proceeds which will be received on the completion of the disposal of Polypipe France.

Underlying profit before tax was 7.9% higher at £65.7m (2016 restated: £60.9m).

Non-underlying operating costs of £10.1m (2016: £7.4m) primarily relate to non-cash amortisation charges of £5.5m (2016: £6.8m) in respect of intangible assets arising from the Nuaire acquisition, and £4.0m of restructuring costs in respect of the Board's decision to adopt an alternative manufacturing strategy in the Middle East and close the existing manufacturing plant. Further details on our Middle East strategy can be found in the Chief Executive Officer's Review below.

The total tax charge for the year of £10.6m (2016 restated: £10.1m) represents an effective tax rate of 19.1% (2016 restated: 18.9%). The underlying effective tax rate of 18.0% (2016 restated: 19.2%) is lower than the blended standard UK rate of tax of 19.25% (2016: 20.00%) due primarily to the benefit of patent box relief.

Underlying profit from continuing operations was 9.6% higher than the prior year at £53.9m (2016 restated: £49.2m), with underlying basic earnings per share from continuing operations 10.1% higher at 27.2 pence (2016 restated: 24.7 pence).

A loss from discontinued operations of £11.3m (2016 restated: £0.8m profit) relates to an impairment charge arising under IFRS 5 from the proposed disposal of Polypipe France and its reclassification to assets held-for-sale of £12.5m (2016 restated: £nil), net of the post-tax results of Polypipe France for the year of £1.2m profit (2016 restated: £0.8m profit).

Chief Executive Officer's Review

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

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

In January 2018, the Group announced that it was in advanced negotiations to dispose of its French subsidiaries (Polypipe France) to Ryb S.A., a private French business that operates in similar French markets to Polypipe France, for €16.5m on a cash-free, debt-free, normalised working capital basis. In 2017, Polypipe France generated revenue of £58.4m and underlying operating profit of £1.4m. There is very little strategic overlap between our UK and French businesses as they operate in different product areas, the latter operating in the significantly lower margin electrical conduit, potable water, gas and irrigation pipe product groups. Following a full review of the business, the Board decided Polypipe France was not core to the Group and to dispose of it. Completion of the transaction is expected in the first half of 2018. I believe this deal represents excellent shareholder value and once completed will allow the Group to concentrate on its higher margin product areas. For the purposes of this report, the results of Polypipe France have been treated as discontinued.

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

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

As well as expanding capacity where necessary, we continue to invest in both new product technology and automation in our businesses. Our new £2.2m multi-layer extrusion lines in our main Doncaster plant became operational in the early part of 2017 which has allowed us to significantly increase the amount of recycled material used in manufacturing our drainage and latterly our soil and waste pipes. Towards the end of the year, our new £5.0m large diameter continuous corrugator came into operation at our Horncastle plant. This increases our capacity to manufacture 750mm and 900mm drainage pipes and allows the Group to make further inroads in this area of the market. These new pipes, as well as much of our existing civils drainage pipe offer, are manufactured from recycled milk bottles and other polyethylene consumer liquid bottles using our wash plant recycling facility at Horncastle. We consume approximately 44,000 tonnes of recycled material representing one third of the overall material requirement across the Group, and both of these projects further enhance our already strong sustainability and recycling credentials, something that is important to Polypipe, our customers and our wider stakeholders.

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

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

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

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

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

Residential Systems

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

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

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

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

Commercial and Infrastructure Systems

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

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

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

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

Outlook

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

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

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

Financial Review

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

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

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

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

Non-Underlying Items

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

Non-underlying items comprised:

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

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

Discontinued Operations

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

Exchange Rates

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

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

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

Finance Costs

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

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

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

Taxation

Underlying taxation:

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

Taxation on non-underlying items:

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

Earnings Per Share From Continuing Operations

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

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

Underlying basic EPS improved by 9.9% in 2017 due to the improved underlying operating result, lower interest costs and lower underlying tax rate as explained above.

Dividend

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

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

Balance Sheet

The Group's balance sheet is summarised below:

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

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

Pensions

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

Cash Flow and Net Debt

The Group's cash flow statement is summarised below:

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

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

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

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

Net debt of £148.4m comprised:

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

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

Financing

The Group has an RCF committed through to August 2020 with a facility limit at 31 December 2017 of £290m, reducing by £10m per annum at 31 December 2018 and 2019. At 31 December 2017, £185.0m of the RCF was drawn down. The Group is subject to two financial covenants. At 31 December 2017 there was significant headroom:

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

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

** Net debt: EBITDA

Principal Risks and Uncertainties

The principal risks and uncertainties which could impact the Group are those detailed in the Group's Annual Report and Accounts. These cover the Strategic, Financial and Operational risks and have not changed significantly during the year.

Forward-Looking Statements

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

Directors' Responsibilities

Each of the Directors confirms that, to the best of their knowledge, the consolidated financial statements, prepared in accordance with IFRS as adopted by European Union standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and the Group Results, Chief Executive Officer's Review and Financial Review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Annual General Meeting

The Annual General Meeting will be held at the Holiday Inn, High Road, Doncaster, DN4 9UX at 10.30am on 23 May 2018.

By order of the Board.

Martin Payne
Chief Executive Officer
20 March 2018

Paul James
Chief Financial Officer
20 March 2018

GROUP INCOME STATEMENT

for the year ended 31 December 2017

		2017			2016*		
	Notes	**Underlying £m**	**Non-Underlying £m**	**Total £m**	Underlying £m	Non-Underlying £m	Total £m
Continuing operations							
Revenue	2	**411.7**	**–**	**411.7**	387.2	–	387.2
Cost of sales	4	**(236.0)**	**(2.8)**	**(238.8)**	(219.1)	–	(219.1)
Gross profit		**175.7**	**(2.8)**	**172.9**	168.1	–	168.1
Selling and distribution costs		**(68.7)**	**-**	**(68.7)**	(64.4)	–	(64.4)
Administration expenses	4	**(34.4)**	**(1.8)**	**(36.2)**	(35.2)	–	(35.2)
Trading profit		**72.6**	**(4.6)**	**68.0**	68.5	–	68.5
Profit on disposal of property, plant and equipment	4	**–**	**–**	**–**	–	0.3	0.3
Impairment of freehold land and buildings	4	**–**	**–**	**–**	–	(0.9)	(0.9)
Amortisation of intangible assets	4	**–**	**(5.5)**	**(5.5)**	–	(6.8)	(6.8)
Operating profit	2, 3	**72.6**	**(10.1)**	**62.5**	68.5	(7.4)	61.1
Finance costs	5	**(6.9)**	**–**	**(6.9)**	(7.6)	–	(7.6)
Profit before tax	2	**65.7**	**(10.1)**	**55.6**	60.9	(7.4)	53.5
Income tax	6	**(11.8)**	**1.2**	**(10.6)**	(11.7)	1.6	(10.1)
Profit from continuing operations		**53.9**	**(8.9)**	**45.0**	49.2	(5.8)	43.4
Profit/(loss) from discontinued operations	4	**–**	**(11.3)**	**(11.3)**	–	0.8	0.8
Profit for the year attributable to the owners of the parent company		**53.9**	**(20.2)**	**33.7**	49.2	(5.0)	44.2
Basic earnings per share (pence)							
From continuing operations	7			**22.7**			21.8
From discontinued operations	7			**(5.7)**			0.4
	7			**17.0**			22.2
Diluted earnings per share (pence)							
From continuing operations	7			**22.5**			21.7
From discontinued operations	7			**(5.7)**			0.4
	7			**16.8**			22.1
Dividend per share (pence) – interim	8			**3.6**			3.1
Dividend per share (pence) – final	8			**7.5**			7.0
Total				**11.1**			10.1

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

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

GROUP BALANCE SHEET

at 31 December 2017

	Notes	**31 December 2017 £m**	31 December 2016 £m
Non-current assets			
Property, plant and equipment	9	**98.6**	101.0
Intangible assets	10	**356.5**	371.6
Total non-current assets		**455.1**	472.6
Current assets			
Assets classified as held-for-sale	11	**24.0**	0.7
Inventories		**53.5**	52.2
Trade and other receivables		**34.5**	40.1
Cash and cash equivalents		**35.7**	26.5
Total current assets		**147.7**	119.5
Total assets		**602.8**	592.1
Current liabilities			
Liabilities associated with assets classified as held-for-sale	11	**(10.9)**	–
Trade and other payables	12	**(87.6)**	(91.8)
Provisions		**(2.2)**	–
Derivative financial instruments	12	**(2.5)**	(5.7)
Income tax payable		**(5.6)**	(7.0)
Total current liabilities		**(108.8)**	(104.5)
Non-current liabilities			
Loans and borrowings	12	**(184.1)**	(190.8)
Other liabilities	12	**(0.9)**	(2.1)
Deferred income tax liabilities		**(7.0)**	(7.3)
Total non-current liabilities		**(192.0)**	(200.2)
Total liabilities		**(300.8)**	(304.7)
Net assets		**302.0**	287.4
Capital and reserves			
Equity share capital		**0.2**	0.2
Capital redemption reserve		**1.1**	1.1
Own shares		**(4.3)**	(4.6)
Hedging reserve		**(2.1)**	(3.5)
Foreign currency retranslation reserve		**0.7**	0.4
Retained earnings		**306.4**	293.8
Total equity		**302.0**	287.4

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

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

GROUP CASH FLOW STATEMENT

for the year ended 31 December 2017

	Notes	**2017 £m**	2016* £m
Operating activities			
Profit before tax		**55.6**	53.5
Finance costs	5	**6.9**	7.6
Operating profit		**62.5**	61.1
Profit before tax from discontinued operations	4	**1.4**	0.9
Non-cash items:			
Profit on disposal of property, plant and equipment	4	**(0.1)**	(0.3)
Non-underlying items – amortisation of intangibles assets	4	**5.5**	6.8
– provision for restructuring costs	4	**4.3**	–
– settlement of restructuring costs		**(0.4)**	–
– impairment of freehold land and buildings	4	**–**	0.9
– provision for aborted acquisition costs	4	**0.3**	–
– settlement of aborted acquisition costs		**(0.1)**	–
Depreciation	9	**16.2**	16.3
Share-based payments		**0.8**	1.0
Operating cash flows before movement in working capital		**90.4**	86.7
Movement in working capital:			
Receivables		**(3.2)**	(8.3)
Payables		**2.1**	11.5
Inventories		**(8.9)**	(3.4)
Cash generated from operations		**80.4**	86.5
Income tax paid		**(12.6)**	(10.1)
Net cash flows from operating activities		**67.8**	76.4
Investing activities			
Proceeds from disposal of property, plant and equipment		**0.2**	0.4
Purchase of property, plant and equipment		**(23.4)**	(19.1)
Net cash flows from investing activities		**(23.2)**	(18.7)
Financing activities			
Repayment of bank loan		**(7.0)**	(25.5)
Interest paid		**(6.6)**	(7.3)
Dividends paid	8	**(21.0)**	(17.1)
Purchase of own shares		**(3.2)**	(2.9)
Proceeds from exercise of share options		**2.5**	-
Net cash flows from financing activities		**(35.3)**	(52.8)
Net change in cash and cash equivalents		**9.3**	4.9
Cash and cash equivalents at 1 January		**26.5**	21.6
Net foreign exchange difference		**(0.1)**	-
Cash and cash equivalents at 31 December		**35.7**	26.5

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. Basis of preparation

The preliminary results for the year ended 31 December 2017 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the consolidated financial statements of the Group for the year ended 31 December 2017. Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted are consistent with those of the previous year.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2016 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2017 will be filed in due course. The auditors' report on these accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

2. Segment information

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

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

As explained in Note 11, the operations of Polypipe France have been classified as discontinued during the year and consequently the comparative financial information has been restated where appropriate to meet the presentational requirements of IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, to take account of this change.

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

* Underlying result is stated before non-underlying items.

Geographical analysis

Revenue by destination	**2017 £m**	2016 £m
Continuing operations		
UK	**365.7**	338.3
Rest of Europe	**18.9**	17.0
Rest of World	**27.1**	31.9
Total – Group	**411.7**	387.2

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

3. Operating profit

	2017 £m	2016 £m
Income statement charges		
Continuing operations		
Depreciation of property, plant and equipment (owned)	**14.9**	15.0
Cost of inventories recognised as an expense	**238.8**	219.1
Operating lease payments – minimum lease payments	**4.0**	4.5
Research and development costs written off	**0.8**	0.5
Discontinued operations		
Depreciation of property, plant and equipment (owned)	**1.3**	1.3
Cost of inventories recognised as an expense	**46.1**	38.9
Operating lease payments – minimum lease payments	**0.1**	0.4
Income statement credits – continuing operations		
Profit on disposal of property, plant and equipment	**0.1**	0.3

4. Non-underlying items

Non-underlying items comprised:

	2017			2016		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Cost of sales: Restructuring costs	**2.8**	**(0.2)**	**2.6**	–	–	–
Administration expenses: Restructuring costs	**1.5**	**-**	**1.5**	–	–	–
Administration expenses: Aborted acquisition costs	**0.3**	**(0.1)**	**0.2**	–	–	–
Profit on disposal of property, plant and equipment	**–**	**–**	**–**	(0.3)	–	(0.3)
Impairment of freehold land and buildings	**–**	**–**	**–**	0.9	–	0.9
Amortisation of intangible assets	**5.5**	**(0.9)**	**4.6**	6.8	(1.6)	5.2
Discontinued operations: *loss recognised on remeasurement to fair value less costs to sell*	**12.5**	**–**	**12.5**	**–**	**–**	**–**
Discontinued operations: *(profit)/loss from discontinued operations*	**(1.4)**	**0.2**	**(1.2)**	(0.9)	0.1	(0.8)
Total non-underlying items	**21.2**	**(1.0)**	**20.2**	6.5	(1.5)	5.0

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

5. Finance costs

	2017 £m	2016 £m
Interest on bank loan	**5.8**	6.6
Debt issue cost amortisation	**0.3**	0.4
Other finance costs	**0.8**	0.6
Finance costs	**6.9**	7.6

6. Income tax

(a) Tax charged in the income statement

	2017 £m	2016 £m
Continuing operations		
Current income tax:		
UK income tax	**11.2**	12.4
Overseas income tax	**0.1**	–
Total current income tax	**11.3**	12.4
Deferred income tax:		
Origination and reversal of temporary differences	**(0.7)**	(2.0)
Effect of changes in income tax rates	**-**	(0.3)
Total deferred income tax	**(0.7)**	(2.3)
Total tax expense reported in the income statement	**10.6**	10.1

	2017 £m	2016 £m
Discontinued operations		
Current income tax:		
Overseas income tax	**0.2**	0.1
Total tax expense reported in the income statement	**0.2**	0.1

Details of the non-underlying tax credit of £1.0m (2016: £1.5m) are set out in Note 4.

(b) Reconciliation of the total tax charge

A reconciliation between the tax expense and the product of accounting profit multiplied by the blended UK standard rate of income tax for the years ended 31 December 2017 and 2016 is as follows:

	2017 £m	2016 £m
Accounting profit before tax – continuing operations	**55.6**	53.5
Accounting profit multiplied by the blended UK standard rate of income tax of 19.25% (2016: 20.00%)	**10.7**	10.7
Expenses not deductible for income tax	**0.4**	0.7
Non-taxable income	–	(0.1)
Share-based payments	**(0.4)**	(0.3)
Effects of patent box	**(0.8)**	(0.7)
Effects of changes in income tax rates	**(0.1)**	–
Effects of other tax rates / credits	**0.8**	(0.2)
Total tax expense reported in the income statement – continuing operations	**10.6**	10.1
Total tax expense reported in the income statement – discontinued operations	**0.2**	0.1

The effective rate for the full year was 19.1% (2016: 18.9%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 18.0% (2016: 19.2%).

(c) Deferred income tax

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

	31 December 2017 £m	31 December 2016 £m
Continuing operations		
Deferred income tax liabilities / (assets)		
Short-term timing differences	**6.2**	6.5
Capital allowances in excess of depreciation	**1.3**	1.4
Share-based payments	**(0.5)**	(0.4)
Continuing operations	**7.0**	7.5
Discontinued operations	**(0.3)**	(0.2)

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

A reconciliation of deferred income taxes for the years ended 31 December 2017 and 2016 is as follows:

	2017 £m	2016 £m
Deferred tax reported in the income statement	**(0.7)**	(2.3)
Deferred tax reported in other comprehensive income	**0.3**	(0.3)
Share-based payments excess tax benefit	**(0.1)**	(0.1)
Net foreign exchange difference	**(0.1)**	–
	(0.6)	(2.7)

(d) Change in corporation tax rate

The Chancellor has announced that the main UK corporation tax rate will be reduced from the current rate of 19%, which was applied from 1 April 2017, to 17% from 1 April 2020. The reduction in the corporation tax rate to 17% was included within the UK Finance Act 2016 that was enacted in September 2016.

Deferred income tax is measured at income tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on income tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax has therefore been provided at 17% (2016: 17%).

(e) Unrecognised tax losses

A deferred income tax asset of £0.6m (2016: £1.0m) in respect of surplus non-trading losses of £3.7m (2016: £5.5m), has not been recognised at 31 December 2017 as its recovery is uncertain.

7. 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:

	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	**198,390,485**	198,930,384
Share options	**1,788,892**	1,053,339
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**200,179,377**	199,983,723

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £20.2m (2016: £5.0m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	2017	2016
Underlying profit for the year attributable to the owners of the parent company (£m)	**53.9**	49.2
Underlying basic earnings per share (pence)	**27.2**	24.7
Underlying diluted earnings per share (pence)	**26.9**	24.6

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

8. Dividends per share

	2017 £m	2016 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2016 of 7.0p per share (2015: 5.5p)	**13.9**	11.0
Interim dividend for the year ended 31 December 2017 of 3.6p per share (2016: 3.1p)	**7.1**	6.1
	21.0	17.1
Proposed final dividend for the year ended 31 December 2017 of 7.5p per share (2016: 7.0p)	**14.9**	13.9

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

9. Property, plant and equipment

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2016	48.1	147.0	195.1
Additions	1.2	18.5	19.7
Disposals	–	(3.2)	(3.2)
Reclassified as assets held-for-sale	(3.2)	–	(3.2)
Exchange adjustment	1.0	4.6	5.6
At 31 December 2016	47.1	166.9	214.0
Additions	1.9	21.8	23.7
Disposals	–	(1.3)	(1.3)
Reclassified as assets held-for-sale	(11.5)	(31.4)	(42.9)
Exchange adjustment	0.3	1.2	1.5
At 31 December 2017	37.8	157.2	195.0
Depreciation and impairment losses			
At 1 January 2016	10.1	86.9	97.0
Provided during the year	1.4	14.9	16.3
Disposals	–	(3.1)	(3.1)
Impairment	0.9	–	0.9
Reclassified as assets held-for-sale	(2.5)	–	(2.5)
Exchange adjustment	0.7	3.7	4.4
At 31 December 2016	10.6	102.4	113.0
Provided during the year	1.3	14.9	16.2
Disposals	–	(1.2)	(1.2)
Impairment	–	0.9	0.9
Reclassified as assets held-for-sale	(6.7)	(27.0)	(33.7)
Exchange adjustment	0.2	1.0	1.2
At 31 December 2017	5.4	91.0	96.4
Net book value:			
At 31 December 2017	**32.4**	**66.2**	**98.6**
At 31 December 2016	36.5	64.5	101.0

The impairment charge in 2017 of £0.9m related to plant and equipment in the Middle East as explained in Note 4. The Polypipe France assets with a net book value of £9.2m were reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 11.

The impairment charge in 2016 of £0.9m related 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 was reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations.

Included in freehold land and buildings is non-depreciable land of £12.6m (2016: £13.0m).

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

10. Intangible assets

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Customer order book £m	Total £m
Cost						
At 31 December 2016	329.3	18.2	25.5	6.4	2.0	381.4
Reclassified as assets held-for-sale	(9.6)	–	–	–	–	(9.6)
At 31 December 2017	319.7	18.2	25.5	6.4	2.0	371.8
Amortisation and impairment						
At 1 January 2016	–	0.7	1.0	0.5	0.8	3.0
Charge for the year	–	1.8	2.6	1.2	1.2	6.8
At 31 December 2016	–	2.5	3.6	1.7	2.0	9.8
Charge for the year	–	1.8	2.5	1.2	–	5.5
At 31 December 2017	–	4.3	6.1	2.9	2.0	15.3
Net book value:						
At 31 December 2017	**319.7**	**13.9**	**19.4**	**3.5**	**–**	**356.5**
At 31 December 2016	329.3	15.7	21.9	4.7	–	371.6

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

The Polypipe France goodwill of £9.6m was reclassified as held-for-sale in accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, as explained in Note 11.

11. Assets classified as held-for-sale

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. The cash consideration payable by Ryb S.A. will be €16.5m on a cash-free, debt-free and normalised working capital basis. It was determined that the sale was highly probable at 31 December 2017 and accordingly the net assets of the French operations have been classified as held-for-sale in the consolidated balance sheet. In accordance with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations, an impairment loss of £12.5m to remeasure the carrying amount of the assets to fair value less costs to sell has been recognised following the reclassification of the net assets of Polypipe France Holding SAS as held-for-sale. An analysis of the assets held-for-sale and liabilities associated with the assets held-for-sale is as follows:

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

The table below provides further detail of the discontinued operations:

	2017 £m	2016 £m
Revenue	**58.4**	49.7
Expenses	**(57.0)**	(48.8)
Profit before tax	**1.4**	0.9
Income tax	**(0.2)**	(0.1)
Profit from discontinued operations	**1.2**	0.8
Loss recognised on remeasurement to fair value less costs to sell	**(12.5)**	–
Profit/(loss) from discontinued operations	**(11.3)**	0.8

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

	31 December 2017 £m	31 December 2016 £m
Property, plant and equipment	**0.7**	0.7

These assets classified as held-for-sale consist exclusively of freehold land currently not in use by the Group. It is expected that the disposal of this asset will be completed during 2018. The assets classified as held-for-sale are analysed between operating segments as follows:

	31 December 2017 £m	31 December 2016 £m
Residential Systems	**0.4**	0.4
Commercial and Infrastructure Systems	**0.3**	0.3
	0.7	0.7

12. Financial liabilities

	31 December 2017 £m	31 December 2016 £m
Non-current loans and borrowings:		
Bank loan – principal	**185.0**	192.0
– unamortised debt issue costs	**(0.9)**	(1.2)
Total non-current loans and borrowings	**184.1**	190.8

	£m	£m
Other financial liabilities:		
Trade and other payables	**87.6**	91.8
Forward foreign currency derivatives	**-**	1.5
Interest rate swaps	**2.5**	4.2
Other liabilities	**0.9**	2.1
	91.0	99.6

Bank loan

The bank loan, which is a revolving credit facility, is secured and expires in full in August 2020. Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 1.25% to 2.75% which is dependent on the Group's leverage (net debt as a multiple of EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2017 was 1.75% (2016: 2.00%).

At 31 December 2017, the Group had available, subject to covenant headroom, £105.0m (2016: £108.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2017.

The facility reduced by £10m to £290m at 31 December 2017 and will reduce by a further £10m each year, regardless of leverage, at 31 December 2018 and 2019; the remainder is available until August 2020.

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt as a multiple of EBITDA and interest cover. At 31 December 2017, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2017
Interest cover (Underlying operating profit:Finance costs excluding debt issue cost amortisation)	>4.0:1	11.5:1
Leverage (Net debt:EBITDA)	<3.0:1	1.6:1

The interest cover and leverage covenants remain at 4.0:1 and 3.0:1, respectively, throughout the remaining term of the revolving credit facility to August 2020.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

13. Consolidated cash flow statement

The analysis of cash generated from operations split by continuing and discontinued operations is as follows:

	2017 £m	2016 £m
Continuing operations		
Profit before tax	**55.6**	53.5
Finance costs	**6.9**	7.6
Operating profit	**62.5**	61.1
Non-cash items:		
Profit on disposal of property, plant and equipment	**(0.1)**	(0.3)
Non-underlying items – amortisation of intangibles assets	**5.5**	6.8
– provision for restructuring costs	**3.4**	–
– settlement of restructuring costs	**(0.4)**	–
– impairment of freehold land and buildings	**–**	0.9
– impairment of plant and equipment	**0.9**	–
– provision for aborted acquisition costs	**0.3**	–
– settlement of aborted acquisition costs	**(0.1)**	–
Depreciation	**14.9**	15.0
Share-based payments	**0.8**	1.0
Operating cash flows before movement in working capital	**87.7**	84.5
Movement in working capital:		
Receivables	**(2.5)**	(8.2)
Payables	**0.7**	13.4
Inventories	**(8.0)**	(4.7)
Cash generated from operations	**77.9**	85.0
Income tax paid	**(12.6)**	(10.1)
Net cash flows from operating activities	**65.3**	74.9
Investing activities		
Proceeds from disposal of property, plant and equipment	**0.2**	0.4
Purchase of property, plant and equipment	**(22.2)**	(18.1)
Net cash flows from investing activities	**(22.0)**	(17.7)
Financing activities		
Repayment of bank loan	**(7.0)**	(25.5)
Interest paid	**(6.6)**	(7.3)
Dividends paid	**(21.0)**	(17.1)
Purchase of own shares	**(3.2)**	(2.9)
Proceeds from exercise of share options	**2.5**	-
Net cash flows from financing activities	**(35.3)**	(52.8)
Net change in cash and cash equivalents	**8.0**	4.4
Cash and cash equivalents at 1 January	**24.5**	20.3
Net foreign exchange difference	**(0.2)**	(0.2)
Cash and cash equivalents at 31 December	**32.3**	24.5

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 December 2017

	2017 **£m**	2016 £m
Discontinued operations		
Profit before tax from discontinued operations	**1.4**	0.9
Loss recognised on remeasurement to fair value less costs to sell	**(12.5)**	–
Operating (loss)/profit	**(11.1)**	0.9
Non-cash items:		
Non-underlying item – loss recognised on remeasurement to fair value less costs to sell	**12.5**	–
Depreciation	**1.3**	1.3
Operating cash flows before movement in working capital	**2.7**	2.2
Movement in working capital:		
Receivables	**(0.7)**	(0.1)
Payables	**1.4**	(1.9)
Inventories	**(0.9)**	1.3
Net cash flows from operating activities	**2.5**	1.5
Investing activities		
Purchase of property, plant and equipment	**(1.2)**	(1.0)
Net cash flows from investing activities	**(1.2)**	(1.0)
Net change in cash and cash equivalents	**1.3**	0.5
Cash and cash equivalents at 1 January	**2.0**	1.3
Net foreign exchange difference	**0.1**	0.2
Cash and cash equivalents at 31 December	**3.4**	2.0