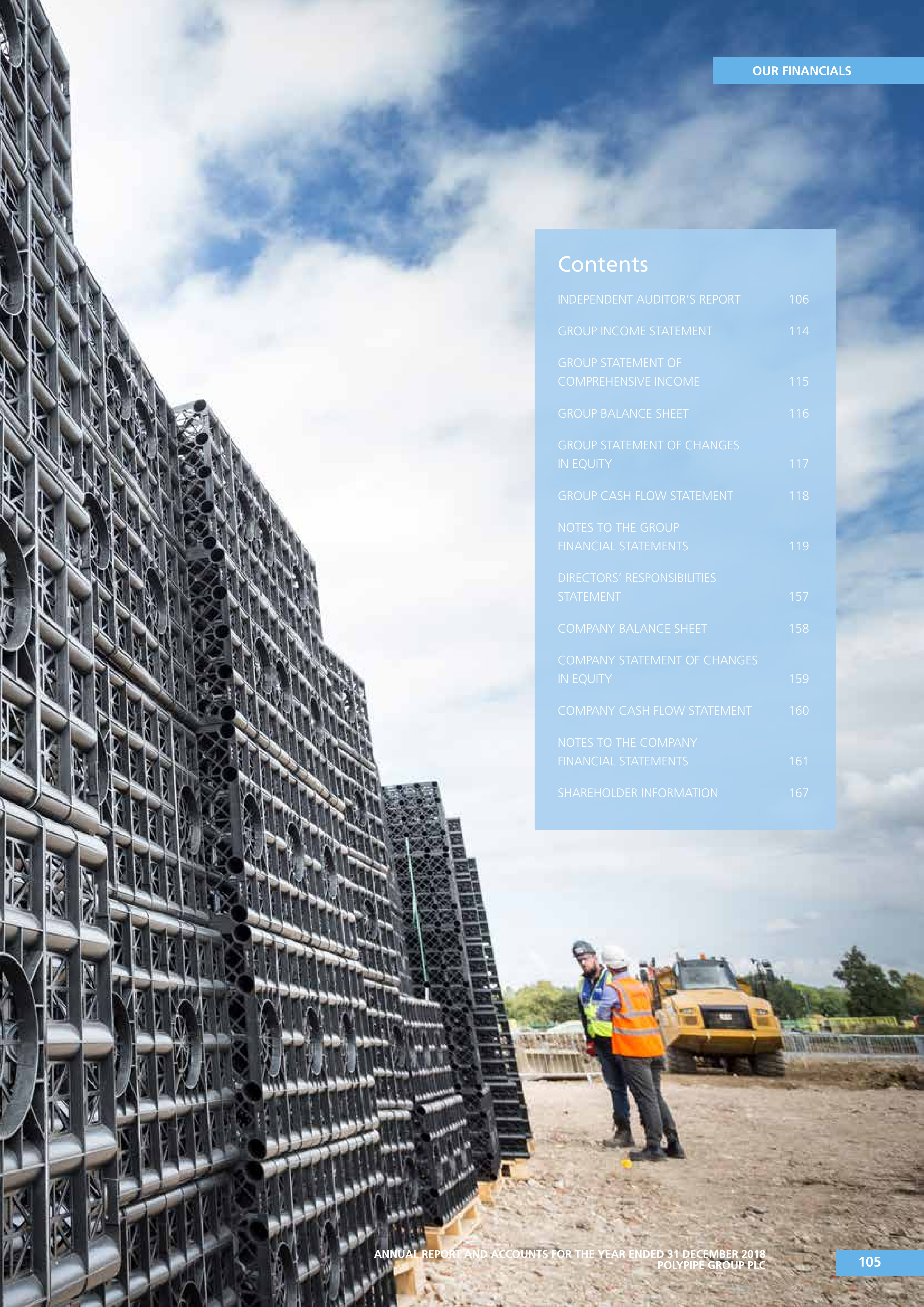

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP PLC

OPINION

In our opinion:

- Polypipe Group plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

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

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report below.

We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT

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

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

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

OVERVIEW OF OUR AUDIT APPROACH

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

KEY AUDIT MATTERS

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

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

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

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

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 14 reporting components of the Group, we selected all 14 components covering entities within the UK, Italy and the United Arab Emirates which represent the principal business units within the Group.

Of the 14 components selected, we performed an audit of the complete financial information of 11 components (full scope components) which were selected based on their size or risk characteristics. For the remaining three components (specific scope components), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2017: 100%) of the Group's Profit Before Tax, 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total Assets. For the current year, the full scope components contributed 99% (2017: 100%) of the Group's Profit Before Tax, 95% (2017: 100%) of the Group's Revenue and 98% (2017: 100%) of the Group's Total Assets. The specific scope component contributed 1% (2017: 0%) of the Group's Profit Before Tax, 5% (2017: 0%) of the Group's Revenue and 2% (2017: 0%) of the Group's Total Assets. The audit scope of these components may not have included testing of all significant accounts of the component.

Changes from the prior year

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

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 11 full scope components, audit procedures were performed on nine of these directly by the primary audit team. For the two full scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

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

OUR APPLICATION OF MATERIALITY

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

Materiality

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

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

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

Starting basis	Reported Profit Before Tax of £58.2m
Adjustments	Add discontinued Profit Before Tax of £0.3m
Materiality	Totals £58.5m Materiality of £2.9m (5% of materiality basis)

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £2.2m (2017: £2.3m). We have set performance materiality at this percentage due to the history of few misstatements indicating a lower risk of material misstatement in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.4m to £2.2m (2017: £0.5m to £2.3m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2017: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

OTHER INFORMATION

The other information comprises the information included in the Annual Report and Accounts set out on pages 01 to 104, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 62** – the statement given by the Directors that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 70 to 73** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 60** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POLYPIPE GROUP PLC

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' Responsibilities Statements set out on pages 79 and 157, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

Our approach was as follows:

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

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

OTHER MATTERS WE ARE REQUIRED TO ADDRESS

- We were appointed by the Company in 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the years ended 31 December 2012 to 31 December 2018.
- Other than our review of the Group's interim results for the period ended June 2018 and some audit related reporting work relating to Polypipe France prior to its disposal, no non-audit services were provided to the Group or the parent company. Therefore, no non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

USE OF OUR REPORT

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

Ernst & Young LLP.

Christabel Cowling
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Leeds
19 March 2019

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

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

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

GROUP BALANCE SHEET

AT 31 DECEMBER 2018

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

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

Martin Payne
Director
19 March 2019

Paul James
Director
19 March 2019

Company Registration No. 06059130

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Foreign currency retranslation reserve £m	Retained earnings £m	Total equity £m
At 31 December 2016	0.2	1.1	(4.6)	(3.5)	0.4	293.8	287.4
Profit for the year	–	–	–	–	–	33.7	33.7
Other comprehensive income	–	–	–	1.4	0.3	–	1.7
Total comprehensive income for the year	–	–	–	1.4	0.3	33.7	35.4
Dividends paid	–	–	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	–	–	(3.2)
Share-based payments charge	–	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	–	–	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	(2.1)	0.7	306.4	302.0
Profit for the year	–	–	–	–	–	49.1	49.1
Other comprehensive income	–	–	–	1.2	(0.2)	–	1.0
Total comprehensive income for the year	–	–	–	1.2	(0.2)	49.1	50.1
Dividends paid	–	–	–	–	–	(22.3)	(22.3)
Share-based payments charge	–	–	–	–	–	1.0	1.0
Share-based payments settled	–	–	0.5	–	–	(0.2)	0.3
Share-based payments excess tax benefit	–	–	–	–	–	0.1	0.1
At 31 December 2018	**0.2**	**1.1**	**(3.8)**	**(0.9)**	**0.5**	**334.1**	**331.2**

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. AUTHORISATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Group for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 19 March 2019 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2018 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the consolidated financial statements of the Group for the year ended 31 December 2018 and also in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies which follow set out those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2018.

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

2.2 Going concern

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

The Group holds 100% of the equity and controls 100% of the voting rights in all subsidiaries, with the exception of Equaflow Ltd, Sustainable Water and Drainage Systems BV, Sustainable Water and Drainage Systems Limited, Tree Ground Solutions BV and Water Management Solutions LLC (which has not traded since incorporation in Qatar in 2015). The treatment of non-controlling interests or any other non-voting right factors in respect of control is not material to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.4 Business combinations

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

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

2.5 Goodwill

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

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

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

2.6 Foreign currency translation

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

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

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

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

The assets and liabilities of foreign operations are translated into Pounds Sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at average exchange rates prevailing. The resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

2.7 Revenue from contracts with customers and interest income

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

2.7.1 Sale of goods

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

i) Performance obligations

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

ii) Variable consideration

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iii) Sales volume rebates

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

2.7.2 Interest income

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

2.8 Income taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.9 Property, plant and equipment

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

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

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

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

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

2.10 Intangible assets

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

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

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

Patents and brand names	10 to 15 years
Customer relationships	5 to 15 years
Licences	10 years

Research and development costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.11 Assets classified as held-for-sale

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

2.12 Impairment of non-financial assets

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

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

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

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

Goodwill

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

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

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

2.13 Leasing

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

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

2.14 Financial instruments – initial recognition and subsequent measurement

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

i) Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. The Group does not currently hold any fair value through other comprehensive income financial assets.

Financial assets at amortised cost

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

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

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

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

Derecognition

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Impairment

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as held for trading unless they are designated as effective hedging instruments. Profits or losses on liabilities held for trading are recognised in the income statement. The only financial liability at FVTPL that is not designated as an effective hedging instrument is the contingent consideration – see Note 17.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Profits and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in finance revenues and finance costs, respectively.

Derecognition

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

iii) Offsetting of financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.15 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward foreign currency exchange contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

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

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

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

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

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

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

Cash flow hedge

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.16 Fair values

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

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

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

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

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

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

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

2.17 Inventories

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

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

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

2.18 Cash and short-term deposits

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

2.19 Pensions

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

2.20 Non-underlying items

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.21 Share-based payments

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

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

2.22 Cash dividend

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

2.23 Own shares

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

2.24 Provisions

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

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

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

3. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

3.1 Measurement of intangible assets

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

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

3.2 Revenue recognition and customer rebates

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

3. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

3.3 Impairment of non-financial assets

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

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

3.4 Provisions and contingent liabilities

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

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

3.5 Inventory provisioning

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

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Standards which have been adopted in the year

IFRS 9, Financial Instruments

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

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

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

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

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

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

4. NEW AND AMENDED STANDARDS AND INTERPRETATIONS CONTINUED

IFRS 15, Revenue from Contracts with Customers

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

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

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

Standards issued but not yet effective

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

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

IFRS 16, Leases

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

IFRS 16 was issued in January 2016 and is mandatory for annual reporting periods commencing 1 January 2019. The Group did not apply for early adoption of IFRS 16 and will first report under the new standard in the interim consolidated financial statements for the six months ending 30 June 2019, and the consolidated financial statements for the year ending 31 December 2019. The Group has reviewed all material leasing arrangements over the last year in light of the new lease accounting rules. The Group does not have any leases previously classified as finance leases. The Group will adopt the simplified approach to transition and will not restate comparative amounts for the year prior to first adoption. In 2019, the Group's lease commitments will be brought onto the Group's balance sheet and the timing of the recognition of lease costs in the income statement will change.

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

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

5. SEGMENT INFORMATION

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

The Group has two reporting segments – Residential Systems and Commercial and Infrastructure Systems. The reporting segments are organised based on the nature of the end markets served. There are no significant judgements in aggregating operating segments to arrive at the reporting segments. Inter-segment sales are on an arm's length basis in a manner similar to transactions with third parties.

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

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

Balance sheet

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

5. SEGMENT INFORMATION CONTINUED

Capital additions

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

Depreciation of property, plant and equipment

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

Non-underlying items before tax

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

5. SEGMENT INFORMATION CONTINUED

Geographical analysis

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

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

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

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

6. OPERATING PROFIT

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

7. AUDITOR'S REMUNERATION

The Group paid the following amounts to the Company's auditor in respect of the audit of the consolidated financial statements and for other services provided to the Group.

Auditor's remuneration for audit services:

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

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

8. NON-UNDERLYING ITEMS

Non-underlying items comprised:

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

Acquisition costs relate to the acquisition of Manthorpe Building Products Holdings Limited and Permavoid Limited as explained in Note 17.

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

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

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

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

8. NON-UNDERLYING ITEMS CONTINUED

Provisions comprised:

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

9. STAFF COSTS

Staff costs (including Directors) comprised:

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

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

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

10. DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out below:

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

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

11. FINANCE COSTS

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

12. INCOME TAX

(a) Tax charged in the income statement

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

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

12. INCOME TAX CONTINUED

(b) Reconciliation of the total tax charge

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

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

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

(c) Deferred income tax

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

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

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

12. INCOME TAX CONTINUED

A reconciliation of deferred income taxes for the years ended 31 December 2018 and 2017 is as follows:

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

(d) Change in corporation tax rate

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

Deferred income tax is measured at income tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on income tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax has therefore been provided at 17% (2017: 17%).

(e) Unrecognised tax losses

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

13. EARNINGS PER SHARE

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

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

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

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £7.5m (2017: £20.2m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and a more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

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

14. DIVIDEND PER SHARE

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2017	47.1	166.9	214.0
Additions	1.9	21.8	23.7
Disposals	–	(1.3)	(1.3)
Reclassified as assets held-for-sale	(11.5)	(31.4)	(42.9)
Exchange adjustment	0.3	1.2	1.5
At 31 December 2017	37.8	157.2	195.0
Additions	0.4	23.5	23.9
Disposals	–	(4.6)	(4.6)
Acquisition of businesses	8.4	2.8	11.2
Exchange adjustment	–	0.1	0.1
At 31 December 2018	46.6	179.0	225.6
Depreciation and impairment losses			
At 1 January 2017	10.6	102.4	113.0
Provided during the year	1.3	14.9	16.2
Disposals	–	(1.2)	(1.2)
Impairment	–	0.9	0.9
Reclassified as assets held-for-sale	(6.7)	(27.0)	(33.7)
Exchange adjustment	0.2	1.0	1.2
At 31 December 2017	5.4	91.0	96.4
Provided during the year	1.1	14.2	15.3
Disposals	–	(4.5)	(4.5)
At 31 December 2018	6.5	100.7	107.2
Net book value:			
At 31 December 2018	**40.1**	**78.3**	**118.4**
At 31 December 2017	32.4	66.2	98.6

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

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

16. INTANGIBLE ASSETS

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Total £m
Cost						
At 1 January 2017	329.3	18.2	25.5	6.4	–	379.4
Reclassified as assets held-for-sale	(9.6)	–	–	–	–	(9.6)
At 31 December 2017	319.7	18.2	25.5	6.4	–	369.8
Acquisition of businesses	23.3	14.5	3.6	9.1	0.8	51.3
At 31 December 2018	343.0	32.7	29.1	15.5	0.8	421.1
Amortisation and impairment						
At 1 January 2017	–	2.5	3.6	1.7	–	7.8
Charge for the year	–	1.8	2.5	1.2	–	5.5
At 31 December 2017	–	4.3	6.1	2.9	–	13.3
Charge for the year	–	2.0	2.6	1.3	–	5.9
At 31 December 2018	–	6.3	8.7	4.2	–	19.2
Net book value:						
At 31 December 2018	**343.0**	**26.4**	**20.4**	**11.3**	**0.8**	**401.9**
At 31 December 2017	319.7	13.9	19.4	3.5	–	356.5

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

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

Impairment testing of goodwill

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

Carrying amount of goodwill allocated to each of the CGUs:

CGU	31 December 2018 £m	31 December 2017 £m
Building Products	**146.1**	146.1
Building Services	**31.4**	31.4
Civils	**36.0**	36.0
Nuaire	**91.3**	91.3
Manthorpe	**21.3**	–
Others	**16.9**	14.9
	343.0	319.7

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

16. INTANGIBLE ASSETS CONTINUED

A pre-tax discount rate of 10.0% (2017: 10.0%) has been applied in determining the recoverable amounts of CGUs. The pre-tax discount rate is estimated based on the Group's risk adjusted cost of capital.

The Group has applied sensitivities to assess whether any reasonably possible changes in assumptions could cause an impairment that would be material to these consolidated financial statements. The application of these sensitivities did not cause an impairment of goodwill.

17. ACQUISITIONS

Permavoid

On 31 August 2018, the Group acquired 100% of the share capital of Permavoid Limited (Permavoid), a specialist designer and supplier of surface water management solutions in commercial, residential, and sports pitch applications, for an initial cash consideration of £4.3m on a cash-free, debt-free and normalised working capital basis, and further contingent consideration of up to £12.5m depending on the EBITDA performance of Permavoid in the two years to 30 September 2020. The initial cash consideration of £4.3m included a payment of £0.3m for net cash at completion.

Details of the acquisition are as follows:

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

Patents, licences and customer relationships have been recognised as specific intangible assets as a result of this acquisition. Fair value adjustments principally relate to the recognition of intangible assets and the related deferred income tax. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share. The goodwill is allocated entirely to the Commercial and Infrastructure Systems segment.

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

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

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

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

17. ACQUISITIONS CONTINUED

Contingent consideration at fair value of £1.7m has been recognised at the balance sheet date. Of this, £1.4m is contingent on EBITDA performance in the first year of trading following acquisition and has been included in the purchase consideration. The balance of £0.3m is included in non-underlying items and relates to a second payment that is contingent on EBITDA performance in the second year of trading following acquisition and the continued employment of key personnel, and is being accrued over the two-year period. Of the £0.3m, £0.2m is included in administration expenses and £0.1m is included in finance costs. The EBITDA used to estimate the contingent cash consideration is derived from the budgets and forecasts for Permavoid. The fair value of the consideration has been derived by discounting the estimated cash consideration at 10.0% (being the Group's estimated risk adjusted cost of capital).

Manthorpe

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

Details of the acquisition are as follows:

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

Patents, the 'Manthorpe' brand and customer relationships have been recognised as specific intangible assets as a result of this acquisition. Fair value adjustments principally relate to the recognition of intangible assets, provision for warranty-related costs and the deferred income tax arising on these adjustments and on the property acquired. The goodwill arising on the acquisition primarily represents the assembled workforce, technical expertise and market share. The goodwill is allocated entirely to the Residential Systems segment.

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

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

17. ACQUISITIONS CONTINUED

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

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

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

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

18. INVESTMENTS

Details of Group undertakings

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 December 2018 are set out in Note 4 to the parent company financial statements.

19. ASSETS CLASSIFIED AS HELD-FOR-SALE

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

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

19. ASSETS CLASSIFIED AS HELD-FOR-SALE CONTINUED

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

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

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

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

The table below provides further detail of the discontinued operations:

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

19. ASSETS CLASSIFIED AS HELD-FOR-SALE CONTINUED

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

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

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

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

20. INVENTORIES

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

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

21. TRADE AND OTHER RECEIVABLES

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

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

Expected credit losses

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

21. TRADE AND OTHER RECEIVABLES CONTINUED

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

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

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

	£m
At 31 December 2016	0.6
Charged to the income statement during the year	0.3
Utilised during the year	(0.4)
At 31 December 2017	0.5
Charged to the income statement during the year	0.1
Utilised during the year	–
At 31 December 2018	**0.6**

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

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

Cash at bank earns interest at variable rates based on daily bank deposit rates. The Group only deposits cash surpluses with banks that have as a minimum a single A credit rating.

23. SHARE CAPITAL AND RESERVES

Share capital

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

* Millions of shares.

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

23. SHARE CAPITAL AND RESERVES CONTINUED

Capital redemption reserve

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

Own shares

Own shares represent the cost of Polypipe Group plc shares purchased in the market and held by the Company, and/or the employee benefit trust (EBT), to satisfy the future exercise of options under the Group's share option schemes.

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

The EBT held 748,000 shares at 31 December 2018 (2017: 748,000) at an average cost of 422p (2017: 422p) per share. The market value of these shares at 31 December 2018 was £2.4m (2017: £2.9m). The nominal value of each share is £0.001.

Hedging reserve

The hedging reserve contains the effective portion of the cash flow hedge relationships entered into by the Group in respect of interest rate swaps and forward foreign currency derivatives as mentioned in Note 26.

Foreign currency retranslation reserve

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

Capital management

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

At 31 December 2018, the Group had bank debt of £212.0m (2017: £185.0m), an undrawn committed revolving credit facility of £88.0m (2017: £105.0m), cash of £46.2m (2017: £35.7m) and an uncommitted accordion facility of £50.0m (2017: £nil). A key objective of the Group is to maintain sufficient liquidity (cash and committed bank facilities) in order to meet its cash commitments including interest payments due on that debt.

No changes were made to the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017.

24. SHARE-BASED PAYMENTS

Share options were granted by the Company under its various share option schemes as detailed in the table below:

	Exercise price £	31 December 2017 Number	Granted Number	Dividend accrual Number	Exercised Number	Lapsed/ forfeited Number	**31 December 2018 Number**	Date first exercisable	Expiry date
2014 Sharesave (granted 2014)	1.99	166,790	–	–	(166,790)[1]	–	**–**	n/a	n/a
2014 Sharesave (granted 2016)	2.21	1,293,640	–	–	(13,104)[2]	(92,194)	**1,188,342**	1 Nov 2019	30 April 2020
2014 Sharesave (granted 2017)	3.10	1,091,069	–	–	(193)[3]	(156,986)	**933,890**	1 Nov 2020	30 April 2021
2014 Sharesave (granted 2018)	2.98	–	933,693	–	–	(49,369)	**884,324**	1 Nov 2021	30 April 2022
2014 LTIP (granted 10 May 2016)	Nil	528,435	–	–	–	(33,159)	**495,276**	10 May 2019	10 May 2026
2014 LTIP (granted 31 May 2016)	Nil	77,743	–	–	–	–	**77,743**	31 May 2019	31 May 2026
2014 LTIP (granted 2 May 2017)	Nil	487,051	–	–	–	(24,464)	**462,587**	2 May 2020	2 May 2027
2014 LTIP (granted 22 May 2017)	Nil	10,960	–	–	–	–	**10,960**	22 May 2020	22 May 2027
2014 LTIP (granted 2 May 2018)	Nil	–	528,864	–	–	(7,547)	**521,317**	2 May 2021	2 May 2028
DSBP (granted 25 April 2017)	Nil	8,455	–	239	–	–	**8,694**	25 April 2019	25 April 2027
DSBP (granted 2 May 2018)	Nil	–	18,440	185	–	–	**18,625**	2 May 2020	2 May 2028
Other share awards (granted 31 May 2016)	Nil	21,681	–	500	(11,035)[4]	–	**11,146**	16 May 2019	31 May 2026
Other share awards (granted 21 March 2018)	Nil	–	85,645	1,546	–	(56,436)	**30,755**	30 June 2020	21 March 2028
		3,685,824	1,566,642	2,470	(191,122)	(420,155)	**4,643,659**		

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

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

Sharesave Plan

Sharesave Plan options were granted to eligible employees on 4 October 2018 at an exercise price of £2.98 per share, a 20% discount to the average share price over the three business days preceding the offer. Participating employees can exercise their options to purchase the shares acquired through their savings plans at the option price after three years. These options have an exercise date of 2021 to 2022.

Long-Term Incentive Plan (LTIP)

LTIP options were awarded to a number of senior executives on 2 May 2018. These options have an exercise date of 2021 to 2028. The vesting of each award is subject to the satisfaction of certain performance criteria, of which 25% is based on total shareholder return (the TSR element) and 75% is based on earnings per share performance (the EPS element). Further details of the scheme are provided in the Annual Report on Remuneration.

24. SHARE-BASED PAYMENTS CONTINUED

Deferred Share Bonus Plan (DSBP)

On 2 May 2018, the Executive Directors received an award of shares under the DSBP relating to the 2017 annual bonus.

Other share awards

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

In 2016 other share awards in the form of nil cost options were made relating to buy-out arrangements to partially compensate Martin Payne for bonus and long-term incentive awards which were forfeited when he left his previous employer. Of these, 11,035 were exercised on 16 May 2018 including 586 in respect of dividends accrued since the grant date. Further details are provided in the Annual Report on Remuneration.

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

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

	2014 LTIP options granted 2 May 2018	2014 Sharesave options granted 2018
Share price at the date of grant	£3.87	£3.73
Exercise price	Nil	£2.98
Shares under option	528,864	933,693
Vesting period (years)	3.00	3.25
Expected volatility	30.3%	29.2%
Median volatility of the comparator group	29.8%	n/a
Expected life (years)	3.00	3.25
Risk free rate	0.89%	0.89%
Dividend yield	2.87%	3.00%
TSR performance of the Company at the date of grant	3.6%	n/a
Median TSR performance of the comparator group at the date of grant	1.4%	n/a
Correlation (median)	24.6%	n/a
Fair value per option	£3.20	£0.92

24. SHARE-BASED PAYMENTS CONTINUED

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

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

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

25. TRADE AND OTHER PAYABLES

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

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

26. FINANCIAL LIABILITIES

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

26. FINANCIAL LIABILITIES CONTINUED

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

Bank loan

On 19 November 2018, the Group entered into an Amendment and Restatement Agreement with various lenders in respect of the Group's previous revolving credit facility agreement dated 4 August 2015. The bank loan, which comprises a £300.0m revolving credit facility and £50.0m uncommitted accordion facility, is secured and matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible). Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 0.90% to 2.75% which is dependent on the Group's leverage (net debt as a multiple of EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2018 was 1.65% (2017: 1.75%).

The Group incurred £1.7m of debt issue costs in respect of entering into the Amendment and Restatement Agreement dated 19 November 2018 which have been capitalised and are being amortised to the income statement over the term of the facility to November 2023. Unamortised debt issue costs of £0.6m in respect of entering into the Amendment and Restatement Agreement dated 4 August 2015 have been written off to the income statement.

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

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt as a multiple of EBITDA and interest cover. At 31 December 2018, the Group was not in breach of any bank covenants. The covenant position was as follows:

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

The interest cover and leverage covenants remain at 4.0:1 and 3.0:1, respectively, throughout the remaining term of the revolving credit facility to November 2023, though there exists the option to apply to extend the leverage covenant to 3.5:1 for a limited period of time if the Group makes an acquisition.

27. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has entered into commercial leases on certain properties and plant and equipment. These leases have an average life of between five to ten years.

Future minimum rentals payable under non-cancellable operating leases comprised:

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

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

Capital commitments

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

28. RELATED PARTY TRANSACTIONS

Compensation of key management personnel (including Directors):

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans and borrowings, contingent consideration, derivative financial instruments and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables and cash that are derived directly from its operations.

The Group is exposed to interest rate cash flow, foreign currency exchange, credit and liquidity risk.

The Group's senior management oversees the mitigation of these risks which are summarised as follows:

Interest rate cash flow risk

The interest rate on the Group's £300m revolving credit facility is variable, being payable at LIBOR plus a margin. To reduce the Group's exposure to potential future increases in interest rates the Group has entered into interest rate swaps for the following notional amounts, with interest payable at a fixed rate return dependent on the swap of either 2.21% or 1.735% (2017: 2.21% or 1.735%) (excluding margin):

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

Foreign currency exchange risk

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

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

Foreign currency exchange sensitivity

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

Change in exchange rate	Effect on net assets £m	Effect on profit after tax £m
2018		
10% strengthening of Pounds Sterling: against Euro	**(0.4)**	**(0.1)**
10% weakening of Pounds Sterling: against Euro	**0.5**	**0.1**
10% strengthening of Pounds Sterling: against United Arab Emirates Dirham	**(0.2)**	**(0.1)**
10% weakening of Pounds Sterling: against United Arab Emirates Dirham	**0.3**	**0.1**
2017		
10% strengthening of Pounds Sterling: against Euro	(1.8)	(0.1)
10% weakening of Pounds Sterling: against Euro	2.2	0.1
10% strengthening of Pounds Sterling: against United Arab Emirates Dirham	(0.1)	0.3
10% weakening of Pounds Sterling: against United Arab Emirates Dirham	0.1	(0.4)

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Credit risk

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

Trade receivables

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

The requirement for impairment is analysed at each balance sheet date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the balance sheet date is the carrying amount of each class of financial assets as disclosed in Note 21.

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low. At 31 December 2018, 69.0% (2017: 68.2%) of net trade receivables were covered by credit insurance which is subject to the normal policy deductibles.

Financial instruments and cash deposits

The Group maintains strong liquidity through cash balances and deposits (£46.2m at 31 December 2018) and its undrawn committed revolving credit facility (£88.0m at 31 December 2018) which matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible).

Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Deposits of surplus funds are made only with banks that have as a minimum a single A credit rating. The Group's maximum exposure to credit risk for the components of the balance sheet at 31 December 2018 and 31 December 2017 is the carrying amounts as illustrated in Note 22.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group had cash and cash equivalents of £46.2m and undrawn and committed credit facilities of £88.0m at 31 December 2018, and no debt maturities within 12 months.

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

31 December 2018

	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	212.0	212.0
Other financial liabilities:				
Trade and other payables	99.6	–	–	99.6
Contingent consideration	–	1.4	0.3	1.7
Forward foreign currency derivatives	1.9	2.3	–	4.2
Interest rate swaps	–	–	1.0	1.0
Other liabilities	–	–	0.7	0.7
	101.5	3.7	214.0	319.2

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

31 December 2017

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

Fair values of financial assets and financial liabilities

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

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

	Carrying value £m	**Fair value £m**
Forward foreign currency derivatives (designated as hedging instruments)	**0.1**	**0.1**
Interest rate swaps (designated as hedging instruments)	**1.0**	**1.0**
Interest bearing loans and borrowings due after more than one year (designated as financial liabilities measured at amortised cost)	**210.4**	**210.4**
Contingent consideration (designated as financial liabilities at FVTPL)	**1.7**	**1.7**
Total at 31 December 2018	**213.2**	**213.2**

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

The fair values were determined as follows by reference to:

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recognised fair value are observable, either directly or indirectly; and

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

The fair values disclosed above, with the exception of contingent consideration which is categorised as Level 3, all relate to items categorised as Level 2.

There have been no transfers in any direction between Levels 1, 2 or 3 in the years ended 31 December 2018 and 2017.

30. CONSOLIDATED CASH FLOW STATEMENT

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

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

DIRECTORS' RESPONSIBILITIES STATEMENT

IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

In preparing the financial statements, the Directors are required to:

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

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

COMPANY BALANCE SHEET

AT 31 DECEMBER 2018

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

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

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

Martin Payne
Director
19 March 2019

Paul James
Director
19 March 2019

Company Registration No. 06059130

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 31 December 2016	0.2	1.1	(4.6)	249.8	246.5
Profit for the year	–	–	–	6.7	6.7
Total comprehensive income for the year	–	–	–	6.7	6.7
Dividends paid	–	–	–	(21.0)	(21.0)
Purchase of own shares	–	–	(3.2)	–	(3.2)
Share-based payments charge	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.5	(1.4)	2.1
Share-based payments excess tax benefit	–	–	–	0.1	0.1
At 31 December 2017	0.2	1.1	(4.3)	235.4	232.4
Profit for the year	–	–	–	8.5	8.5
Total comprehensive income for the year	–	–	–	8.5	8.5
Dividends paid	–	–	–	(22.3)	(22.3)
Share-based payments charge	–	–	–	1.0	1.0
Share-based payments settled	–	–	0.5	(0.2)	0.3
At 31 December 2018	**0.2**	**1.1**	**(3.8)**	**222.4**	**219.9**

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £m	2017 £m
Operating activities		
Profit before tax	**8.5**	6.7
Net finance revenues	**(11.5)**	(10.0)
Operating loss	**(3.0)**	(3.3)
Non-cash items: Share-based payments	**0.2**	0.1
Operating cash flows before movement in working capital	**(2.8)**	(3.2)
Movement in working capital:		
Payables	**0.2**	0.1
Inter-group balances	**13.1**	14.8
Net cash flows from operating activities	**10.5**	11.7
Investing activities		
Interest received	**11.5**	10.0
Net cash flows from investing activities	**11.5**	10.0
Financing activities		
Dividends paid	**(22.3)**	(21.0)
Purchase of own shares	**–**	(3.2)
Proceeds from exercise of share options	**0.3**	2.5
Net cash flows from financing activities	**(22.0)**	(21.7)
Net change in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**–**	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. AUTHORISATION OF FINANCIAL STATEMENTS

The parent company financial statements of Polypipe Group plc (the 'Company') for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 19 March 2019 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

Polypipe Group plc is a public limited company incorporated and domiciled in England and Wales. The principal activity of the Company is that of a holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and accounting policies used in preparing the historical financial information for the year ended 31 December 2018 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the financial statements of the Company for the year ended 31 December 2018 and also in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

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

2.2 Going concern

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

2.3 Investments

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

2.4 Share-based payments

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

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

2.5 Cash dividend

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.6 Own shares

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

2.7 Financial instruments

IFRS 9 was adopted on 1 January 2018 with no impact as explained in Note 4 to the Group's consolidated financial statements. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's only financial assets are amounts owed by subsidiary undertakings – see Note 5.

3. DIVIDEND PER SHARE

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

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

4. INVESTMENTS

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

In 2018, an adjustment in respect of share-based payments of £0.8m (2017: £0.7m) was made to shares in subsidiary undertakings, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings. The total contribution to date was £2.6m (2017: £1.8m).

4. INVESTMENTS CONTINUED

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

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

4. INVESTMENTS CONTINUED

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

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

Registered offices of subsidiaries:

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

5. AMOUNTS OWED BY SUBSIDIARY UNDERTAKINGS AND OTHER RECEIVABLES

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

No allowance for expected credit losses is deemed necessary in respect of amounts owed by subsidiary undertakings.

6. AMOUNTS OWED TO SUBSIDIARY UNDERTAKINGS AND OTHER PAYABLES

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

7. SHARE CAPITAL AND RESERVES

Share capital

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

* Millions of shares.

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

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

Capital redemption reserve

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

Own shares

The Company, and/or the employee benefit trust, holds own shares for the granting of Polypipe Group plc shares to employees and Directors. These shares are recognised at cost and presented in the balance sheet as a deduction from equity. No profit or loss is recognised in the income statement on the purchase, sale, issue or cancellation of these shares. No dividends are earned on these shares.

8. PROFIT FOR THE FINANCIAL YEAR

Polypipe Group plc has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The profit for the year dealt with in the financial statements of the Company was £8.5m (2017: £6.7m profit for the year).

The only employees remunerated by the Company were the Directors of the Company. Remuneration paid to the Directors is disclosed in Note 10 to the Group's consolidated financial statements.

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

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

9. RELATED PARTY TRANSACTIONS

The following table provides the analysis of transactions that have been entered into with related parties:

	31 December 2018		31 December 2017	
	Purchases from related parties £m	**Amounts owed to related parties £m**	Purchases from related parties £m	Amounts owed to related parties £m
Polypipe Limited	**24.6**	**110.0**	24.8	85.4

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

Other related party transactions are disclosed in Note 28 to the Group's consolidated financial statements.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

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

REGISTRAR SERVICES

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

Link Asset Services can be contacted at:

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

www.linkassetservices.com

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

E-mail: enquiries@linkgroup.co.uk

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

SHARE DEALING SERVICE

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

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

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

www.linksharedeal.com – online dealing

0371 664 0445 – telephone dealing

email: info@linksharedeal.com

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

SHAREHOLDER INFORMATION

PRINCIPAL GROUP BUSINESSES

UK

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

Neale Road
Doncaster
South Yorkshire
DN2 4PG

Polypipe Ulster
Dromore Road
Lurgan
Co. Armagh
BT66 7HL

Polypipe Civils
Charnwood Business Park
North Road
Loughborough
LE11 1LE

Holmes Way
Horncastle
LN9 6JW

Polypipe Building Services
New Hythe Business Park
College Road
Aylesford
Kent
ME20 7PJ

Nuaire
Western Industrial Estate
Caerphilly
CF83 1NA

Domus Ventilation
Cambria House
Caerphilly Business Park
Van Road
Caerphilly
CF83 3ED

Manthorpe Building Products
Brittain Drive
Codnor Gate Business Park
Ripley
DE5 3ND

Mainland Europe

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Italy

Permavoid
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1018, JA
Amsterdam
The Netherlands

Middle East

Polypipe Middle East FZE
PO Box 18679
Showroom A2 SR 07
First Al Khail Street
Jebel Ali Free Zone
Dubai
United Arab Emirates

CONTACT DETAILS AND ADVISERS

Company registration number and registered office
06059130

Broomhouse Lane
Edlington
Doncaster
South Yorkshire
DN12 1ES

Independent auditor

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Principal bankers

Lloyds
Sheffield

RBS
Leeds

Santander
Leeds

Citibank
London

HSBC
Birmingham

Registrar and transfer office

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

Stockbrokers

Deutsche Bank AG
Numis Securities Limited