Polypipe Group plc

Interim financial statements for the six months ended 30 June 2016

16 August 2016

Polypipe Group plc

Interim Results for the Six Months Ended 30 June 2016

Record first half performance

Polypipe Group plc ("Polypipe" or the "Group"), a leading manufacturer of plastic piping and ventilation systems for the residential, commercial, civils and infrastructure sectors, today announces its half year unaudited results for the six months ended 30 June 2016.

Financial Results

	H1 2016	H1 2015	Change
Revenue	£223.3m	£170.4m	+31%
Underlying operating profit[1]	£37.7m	£25.7m	+47%
Underlying operating margin[1]	16.9%	15.1%	
Underlying profit before tax[1]	£33.7m	£23.3m	+45%
Profit before tax	£29.9m	£23.2m	+29%
Underlying earnings per share[1]	13.6p	9.2p	+48%
Earnings per share (basic)	12.0p	9.1p	+32%
Cash generated from operations	£30.5m	£17.8m	+71%
Interim dividend	3.1p	2.3p	+35%

Financial Highlights

- Revenue 31% higher at £223.3m
- UK revenue 8.1% ahead excluding acquisitions
- Underlying operating profit 47% higher at £37.7m
- 180bps improvement in underlying operating margin to a record 16.9%
- Underlying earnings per share 48% higher at 13.6 pence per share
- Cash generated from operations 71% higher at £30.5m
- Net debt down to 2.3 times pro-forma LTM EBITDA[2]
- Interim dividend increased 35% to 3.1p pence per share

Operational Highlights

- After an excellent start, demand from all segments of our core UK market has remained strong
- Continued progress in growth initiatives of substitution, carbon efficiency and water management
- Nuaire acquisition performing well – some early success in specification of Nuaire systems with Polypipe duct
- First delivery from manufacturing plant in Dubai made during July

Outlook

- Order intake has remained consistent with the normal seasonal pattern and yet to show any signs of weakening following the EU Referendum
- Despite uncertainty, fundamentals of the market remain robust
- The business is extremely well balanced across its various sectors and does not have an over reliance on any particular part of the industry
- Encouraging comments from UK Government recognising the need to provide stimulus for construction
- Plan to continue with development initiatives
- Alert to the economic situation - able to adapt capital expenditure and capacity quickly
- Net debt on track to be 2 times EBITDA[2] by year end

David Hall, Chief Executive said:

"We have delivered another record performance in the first half continuing the strong momentum from last year. Our strategic focus on the structural growth opportunities, together with the acquisition of our Nuaire ventilation business has accelerated our growth.

Despite the uncertain economic backdrop, the long-term structural drivers of our business remain strong, our balanced business model means that we are not overly exposed to any particular sector and the nature of the Group's production processes enables us to adapt and flex quickly to changes in demand. The Board is confident that the cash generative characteristics of the business and a commitment to remain agile will enable the Group to continue to develop and outperform, whatever the market conditions."

[1] Underlying profit and earnings measures exclude certain non-underlying items which are defined in Note 4 to the Financial Statements, and where relevant, the tax effect of these items.

[2] EBITDA is defined as operating profit before non-underlying items, depreciation and amortisation. Pro-forma LTM EBITDA is defined as EBITDA for the twelve months preceding the balance sheet date, adjusted to include a full year of EBITDA from acquisitions made during those twelve months.

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A copy of this report will be available on our website http://ir.polypipe.com/ today from 7.00am.

An analyst presentation will be held today, 16 August at 9.00am (BST). To dial in the call details are:

Participant dial in number - +44 (0) 1452 555 566

Conference ID – 64521841

Notes to Editors:

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

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

Group Results

Group revenue for the six months ended 30 June 2016 was 31% higher at £223.3m (2015: £170.4m). This substantial improvement is a result of our continued strategic focus on structural growth opportunities and legacy material substitution, together with a significant contribution from our Nuaire ventilation business acquired in August 2015. Excluding acquisitions, and on a constant currency basis, revenue was 8.0% higher than the prior year.

Underlying operating profit was 47% higher than the prior year at £37.7m (2015: £25.7m) and represents an operating margin of 16.9% (2015: 15.1%).

Underlying net finance costs of £4.0m (2015: £2.4m) were higher than the prior year due to increased net debt associated with the Nuaire acquisition, offset partially by the benefits of the improved banking facilities entered into at the same time.

Underlying profit before tax was 45% higher at £33.7m (2015: £23.3m).

Non-underlying operating costs of £3.8m (2015: £0.1m) were incurred and relate to goodwill amortisation of £3.9m arising from the Nuaire acquisition, and profit on sale of fixed assets of £0.1m.

The total tax charge (underlying and non-underlying) for the period of £5.9m (2015: £5.0m) represents an effective tax rate of 19.7%.

Underlying profit after tax was 48% higher at £27.1m (2015: £18.3m), with underlying basic earnings per share also 48% higher at 13.6 pence (2015: 9.2 pence).

Including non-underlying items, profit after tax was 32% higher at £24.0m (2015: £18.2m) with basic earnings per share also 32% higher at 12.0 pence (2015: 9.1 pence).

Business review

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

Revenue	H1 2016 £m	H1 2015 £m	Change %
Residential Piping Systems	105.4	90.2	16.9
Commercial and Infrastructure Piping Systems – UK	92.7	59.1	56.9
Inter Segment	(5.5)	(4.6)	
UK Operations	**192.6**	**144.7**	**33.1**
Commercial and Infrastructure – Mainland Europe	31.5	26.5	18.9
Inter Segment	(0.8)	(0.8)	
Group	**223.3**	**170.4**	**31.0**

Underlying operating profit	H1 2016 £m	H1 2015 £m	Change %
Residential Piping Systems	21.5	15.4	39.6
Commercial and Infrastructure Piping Systems – UK	15.2	9.4	61.7
UK Operations	**36.7**	**24.8**	**48.0**
Commercial and Infrastructure – Mainland Europe	1.0	0.9	11.1
Group underlying operating profit	**37.7**	**25.7**	**46.7**

Operational review

The Group's focus has been to continue to drive our growth initiatives in the areas of substitution, water management and carbon efficiency, developing our export business and establishing our manufacturing presence in Dubai, together with the integration and development of the businesses acquired last year, most notably Nuaire.

We have made positive progress with all of these initiatives, which combined with a strong market across most of our sectors helped drive revenue 31% higher compared to the same period last year. The UK operations maintained a strong organic growth rate of 8.1% in the period, and whilst this includes some merchant stocking ahead of price increases and two more working days compared to the first half of 2015, it also includes some carry over selling price deflation. Overall, taking all of these factors into account we believe we have continued to outpace the market in line with our targets.

The integration of the Nuaire business has continued to go well and Nuaire maintained its expected growth trajectory, achieving revenue growth of over 10% against the comparative period prior to the acquisition last year. We have enjoyed some success in securing joint specification for Nuaire mechanical units with Polypipe ducting and whilst specifications generally take some time to convert to orders we have seen some early success. In addition, we have started a programme of combining product platforms and sourcing products that were previously outsourced from within the Group.

Our project to set up manufacturing of Polystorm cellular products in Dubai has continued at pace, with the first units being despatched from the factory on Monday 18th July, just six months after signing the lease on the premises in the Jebel Ali Free Zone. The factory has attained all the local approvals and production has passed the relevant UK quality standards. This is an excellent achievement and now that we have the additional manufacturing capacity available we are actively working to secure more water management projects in the region.

Residential Piping Systems
Residential sector revenue was 16.9% higher at £105.4m, all of which was derived from the UK and Irish markets and excluding inter segment revenue represented 46% of Group revenue for the six months ended 30 June 2016 (2015: 51%). Excluding acquisitions, revenue was 5.0% higher than the same period last year, which is a combination of organic growth initiatives, market growth, two additional working days against the same period in 2015, some residue of pull forward from price increases implemented during the second quarter, though this was partially offset by selling price deflation as the effect of passing through lower material prices in the latter half of 2015 carried forward into 2016.

Demand from the national housebuilders was strong throughout the half with an increasing number of new site openings. This sector continued to be mainly driven by the larger players, although increasingly more regionally spread than earlier years. Private RM&I (repairs maintenance and improvement) showed some improvement although the public sector remained relatively muted.

Growth in volumes combined with further mix improvement to our higher value products enabled Residential Piping Systems to deliver an underlying operating profit of £21.5m in the first half up 39.6% over the same period last year.

Commercial and Infrastructure Systems – UK
UK Commercial and Infrastructure revenue was 56.9% higher at £92.7m and excluding inter segment revenue represented 40% of overall Group revenue for the six months ended 30 June 2016 (2015: 34%). Excluding acquisitions, revenue was 13.5% higher than the same period last year. This segment includes our export business and after taking this and the same factors as in Residential into account, the results demonstrate a robust level of volume growth from demand in the core UK market.

Following the changes to the funding model for Highways England which created some hiatus during 2015, the published 2015-2020 road investment strategy programme is well under way, which is a key driver for our Civils business. Water management and flood prevention legislation continued to drive demand as work has commenced on more recently consented land.

Demand in the commercial environment (which because of our split by customer type also includes high rise residential) has also been strong. As with Residential, we have seen development become less London centric, with a good spread around the regional cities.

Costs of £0.8m resulting from the recruitment, training and setting up of the factory in the Middle East have been incurred during the period. There are no further costs to be incurred as the set up phase of this project is now completed.

Boosted by the Nuaire acquisition and the operational gearing effect of strong volume growth, offset by costs associated with setting up in Dubai, Commercial and Infrastructure Systems – UK delivered an underlying operating profit of £15.2m in the first half up 61.7% over the same period last year.

Commercial and Infrastructure Piping Systems - Europe
Continental European commercial and infrastructure revenue was £31.5m and represented 14% of overall Group revenue for the six months ended 30 June 2016 (2015: 15%). This represented growth of 18.9% against the first half of 2015, and 10.2% on a constant currency basis.

Market conditions have remained challenging in France, although there were early signs of improvement in the market at the beginning of the year, the second quarter saw significant disruption to the economy from strikes opposing labour reform. Margins remain tight and the distributors continue to be very cost focused. The benefit from the growth in volumes has in part been ameliorated by discounts to encourage stocking and may have resulted in some level of order pull forward. Demand from the municipality segment has remained constrained.

Underlying operating profits were at a consistent margin with first half of 2015, improving to £1.0m in the first half, up 11.1% over the same period last year.

Board and Management changes

On 25 May 2016 Peter Shepherd stepped down from the Board as Chief Financial Officer. On that date Martin Payne joined the Board as Chief Financial Officer. The transition has been aided by an effective handover and Martin's personal attributes and prior experience have enabled him to quickly become an established member of the team.

Outlook

In the first six weeks of the second half of the year (to 12th August), order intake across our business has remained consistent with the normal seasonal pattern with no discernible signs of weakening following the EU Referendum. We recognise that this may not be a guide to future demand, given we principally supply to professional projects, from residential extensions or renovations through to major infrastructure. We only receive orders for our products once construction has commenced and therefore there may be a degree of unwind if new projects do not start.

However, despite uncertainty, we believe the fundamentals of our market and structural drivers of our business remain robust. Our business is extremely well balanced across the various sectors and we do not have an over reliance on any particular part of the industry. There have been encouraging comments from the UK Government recognising the need to keep construction moving and indicating they are prepared to loosen fiscal policy to provide the necessary funding or stimulus to do so. We are further encouraged by early reports from the housebuilders and commitment from the banks to maintain mortgage availability.

Until we see evidence to suggest differently, we plan to continue with our development initiatives albeit cautiously. By virtue of our production processes we are able to flex our capacity quickly, we remain alert to the economic situation and will take whatever steps are appropriate to the market conditions as they unfold.

Financial Review

Cash flow and net debt

Cash generated from operations during the period of £30.5m (2015: £17.8m) was 71% higher than the prior year. This result includes a working capital outflow of £15.2m (2015: £15.1m) which is consistent with the prior year. This is a standard feature of the Group's annual working capital cycle and arises primarily as a result of the timing of rebate settlements.

Capital expenditure of £8.4m (2015: £9.3m) whilst marginally ahead of depreciation in the period is behind where we had planned at the beginning of the year. In light of the general uncertainty around the impact of the EU Referendum result on our markets, a more measured approach to capital expenditure has been implemented. Consequently, capital expenditure for the year will be lower than previously expected at approximately £20m, which is still ahead of depreciation.

Net debt (including unamortised debt issuance costs) at 30 June 2016 reduced by £3.0m in the period to £191.3m, despite the normal first half working capital outflow noted above and the final dividend payment of £11.0m. Leverage has improved in the period to 2.3 times pro-forma LTM EBITDA from 2.5 times pro-forma LTM EBITDA at 31 Dec 2015, and is on track to achieve the post Nuaire acquisition deleveraging target of 2 times by the end of 2016 as stated in our 2015 Annual report and accounts.

Finance Costs

Net underlying finance charges for the six month period ended 30 June 2016 of £4.0m were £1.6m higher that the corresponding period due to the impact of the higher net debt associated with the acquisition of Nuaire, offset partially by the benefits of the improved banking facilities entered into at the time of the Nuaire acquisition. Interest is payable on the new RCF at LIBOR plus an interest rate margin ranging from 1.5% to 2.75% depending on leverage. The interest rate margin at 30 June 2016 was 2.0%.

In order to reduce exposure to future increases in interest rates the Group has entered into interest rate swaps at fixed rates ranging between 1.735% and 2.21% (excluding margin) with notional amounts hedged ranging from £60.0m to £91.7m over the period of the interest rate swaps. Details of these swaps are set out in note 10 to these interim accounts.

The unrealised mark to market adjustment on these forward interest rate swaps at 30 June 2016 was £5.4m adverse (31 December 2015: £2.1m adverse). The movement of £3.3m adverse in the period is included in the Group Statement of Comprehensive Income.

Taxation

The Group's tax charge for the six months ended 30 June 2016 was £5.9m (2015: £5.0m). The underlying tax rate (underlying tax: underlying profit before tax) has been provided at the estimated full year rate of 19.6% (2015 full year: 19.2%). This is marginally lower than the UK standard tax rate of 20% due to the benefit of patent box relief. The impact of our mainland European operations on the Group's effective tax rate is not material.

Dividend

The Board has declared an interim dividend of 3.1 pence per share, a 35% increase on the 2015 interim dividend. This dividend will be paid on 23 September 2016 to shareholders on the register at the close of business on 25 August 2016.

Our dividend policy is to pay a minimum of 40% of the Group's annual underlying profit after tax. The Directors intend that the Group will pay the total annual dividend in two tranches, an interim dividend and a final dividend, to be announced at the time of announcement of the interim and preliminary results respectively in the approximate proportions of one-third and two-thirds, respectively.

Going Concern

The Group continues to meet its day to day working capital and other funding requirements through a combination of long term funding and cash deposits. The Group's bank financing facilities consists of a £300m RCF of which £223.0m was drawn at 30 June 2016. Cash balances of a further £30.3m as at 30 June 2016 gives total facility headroom of £107.3m.

After making due enquiry, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue its operational existence for the foreseeable future and therefore have adopted the going concern principle in preparing these interim accounts.

Principal risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance have not changed from those which are set out in detail in the principal risks and uncertainties section of our 2015 Annual Report. The Board believes that whilst not specifically noted, the potential impact of the recent EU Referendum result is covered within these principal risks and uncertainties. These cover:

- Increases in the market price of petroleum feedstocks can have a direct impact on the prices we pay for our raw materials.
- The Group's manufacturing and distribution operations could be subjected to disruption due to factors including incidents such as fire, failure of equipment, power outages, strikes or unexpected or prolonged periods of severe weather.
- Our businesses are dependent on key customers continuing to order from us.
- The ability to attract and retain our Executive Management Team and qualified personnel.
- Cyclical economic conditions and conditions affecting the construction industry.
- Government action and policies.
- Changes in government regulations and standards relating to the manufacture and use of building materials, particularly plastics and polymers.
- The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes. A product failure or recall could result in a liability claim for personal injury or other damage and damage to the Group's brand reputation.
- The Group is dependent on the continued efficient operation of its information systems and therefore vulnerable to potential failures and security breaches.
- Management of acquisitions and their integration into the Group.
- The Group's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk, liquidity risk and interest rate risk.

A copy of the 2015 Annual Report is available on the Group's website, www.polypipe.com

Forward Looking Statements

Certain statements in this full year report are forward looking. Although the Group believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements, whether as a result of new information, future events or otherwise.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as adopted by the EU;
- The Interim Management Report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

This report was approved by the board of directors on 16 August 2016 and is available on the Company's website www.polypipe.com under "Investors", then "Results Centre".

By order of the Board

David Hall	**Martin Payne**
Chief Executive Officer	**Chief Financial Officer**

INTERIM GROUP INCOME STATEMENT

for the six months ended 30 June 2016 (unaudited)

	Notes	Six months ended 30 June 2016			Six months ended 30 June 2015		
		Underlying £m	Non-Underlying* £m	Total £m	Underlying £m	Non-Underlying* £m	Total £m
Revenue	3	223.3	-	223.3	170.4	-	170.4
Cost of sales		(129.8)	-	(129.8)	(102.3)	-	(102.3)
Gross profit		93.5	-	93.5	68.1	-	68.1
Selling and distribution costs		(34.3)	-	(34.3)	(26.1)	-	(26.1)
Administration expenses		(21.5)	-	(21.5)	(16.3)	(0.1)	(16.4)
Trading profit		37.7	-	37.7	25.7	(0.1)	25.6
Profit on sale of fixed assets		-	0.1	0.1	-	-	-
Amortisation of acquisition intangibles		-	(3.9)	(3.9)	-	-	-
Operating profit	3	37.7	(3.8)	33.9	25.7	(0.1)	25.6
Financial income	5	-	-	-	0.1	-	0.1
Financial expense	5	(4.0)	-	(4.0)	(2.5)	-	(2.5)
Profit before tax		33.7	(3.8)	29.9	23.3	(0.1)	23.2
Taxation	6	(6.6)	0.7	(5.9)	(5.0)	-	(5.0)
Profit for the year attributable to the owners of the parent company		27.1	(3.1)	24.0	18.3	(0.1)	18.2
Basic earnings per share (pence)	7	13.60		12.04	9.18		9.13
Diluted earnings per share (pence)	7	13.54		11.99	9.16		9.11
Dividend per share (pence) – Interim	8			3.1			2.3

* Non-underlying items are detailed in note 4.

INTERIM GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June 2016	Six months ended 30 June 2015
	£m	£m
Profit for the period	**24.0**	**18.2**
Other comprehensive income:		
Items which will be reclassified subsequently to profit and loss:-		
Exchange differences on translation of foreign operations	**1.9**	**(1.2)**
Effective portion of changes in fair value of interest rate swap derivative	**(3.3)**	**0.6**
Tax relating to items that will be reclassified	**0.6**	**(0.2)**
Other comprehensive income for the period net of tax	**(0.8)**	**(0.8)**
Total comprehensive income for the period attributable to owners of the parent	**23.2**	**17.4**

INTERIM GROUP BALANCE SHEET

at 30 June 2016 (unaudited)

	30 June 2016 £m	30 June 2015 £m	31 December 2015 £m
Non-Current Assets			
Property, plant and equipment	99.9	90.9	98.1
Goodwill	329.3	239.5	329.3
Other intangible assets	45.3	-	49.1
Total non-current assets	474.5	330.4	476.5
Current Assets			
Inventories	51.0	39.5	47.5
Trade and other receivables	51.9	31.8	30.5
Cash and cash equivalents	30.3	36.4	21.6
Total current assets	133.2	107.7	99.6
Total assets	607.7	438.1	576.1
Current Liabilities			
Trade and other payables	(88.8)	(60.5)	(80.3)
Other financial liabilities	(6.1)	(1.9)	(2.2)
Income tax payable	(7.0)	(5.2)	(4.7)
Total current liabilities	(101.9)	(67.6)	(87.2)
Non-Current Liabilities			
Loans and borrowings	(221.6)	(118.3)	(215.9)
Other liabilities	(2.0)	(1.9)	(2.0)
Deferred tax liability	(8.7)	(1.0)	(10.0)
Total non-current liabilities	(232.3)	(121.2)	(227.9)
Total liabilities	(334.2)	(188.8)	(315.1)
Net assets	273.5	249.3	261.0
Capital and reserves			
Equity share capital	0.2	0.2	0.2
Capital redemption reserve	1.1	1.1	1.1
Treasury shares	(1.7)	(1.7)	(1.7)
Hedging Reserve	(4.4)	(1.5)	(1.7)
Foreign currency retranslation reserve	(0.6)	(2.9)	(2.5)
Retained earnings	278.9	254.1	265.6
Total equity	273.5	249.3	261.0

INTERIM GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016 (unaudited)

	Share capital	Capital redemption reserve	Treasury Shares	Hedging reserve	Foreign currency retranslation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
Six months ended 30 June 2016							
Opening balance	0.2	1.1	(1.7)	(1.7)	(2.5)	265.6	261.0
Profit for the period	-	-	-	-	-	24.0	24.0
Other comprehensive income / (expense)	-	-	-	(2.7)	1.9	-	(0.8)
Total comprehensive income for the period	-	-	-	(2.7)	1.9	24.0	23.2
Dividends paid	-	-	-	-	-	(11.0)	(11.0)
Share-based payments	-	-	-	-	-	0.3	0.3
Closing balance	0.2	1.1	(1.7)	(4.4)	(0.6)	278.9	273.5
Six months ended 30 June 2015							
Opening balance	0.2	1.1	(1.7)	(1.9)	(1.7)	241.7	237.7
Profit for the period	-	-	-	-	-	18.2	18.2
Other comprehensive income / (expense)	-	-	-	0.4	(1.2)	-	(0.8)
Total comprehensive income for the period	-	-	-	0.4	(1.2)	18.2	17.4
Dividends paid	-	-	-	-	-	(6.0)	(6.0)
Share-based payments	-	-	-	-	-	0.2	0.2
Closing balance	0.2	1.1	(1.7)	(1.5)	(2.9)	254.1	249.3

INTERIM GROUP CASH FLOW STATEMENT

for the six months ended 30 June 2016 (unaudited)

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
	£m	£m	£m
Operating activities			
Profit before tax	**29.9**	**23.2**	**41.5**
Add back net financing costs	**4.0**	**2.4**	**7.9**
Operating profit	**33.9**	**25.6**	**49.4**
Non cash items:			
Gain on disposal of property, plant and equipment	**(0.1)**	**-**	**(0.2)**
Non-underlying items – amortisation of acquisition intangibles	**3.9**	**-**	**3.0**
Depreciation	**8.0**	**7.3**	**15.1**
Operating cash flow before movement in working capital	**45.7**	**32.9**	**67.3**
Movement in working capital:			
Receivables	**(20.3)**	**(11.4)**	**1.6**
Payables	**7.5**	**(3.6)**	**5.6**
Inventories	**(2.4)**	**(0.1)**	**(1.9)**
Cash generated from operations	**30.5**	**17.8**	**72.6**
Income tax paid	**(4.3)**	**(1.9)**	**(5.2)**
Net cash flows from operating activities	**26.2**	**15.9**	**67.4**
Investing Activities			
Interest received	**-**	**0.1**	**0.1**
Proceeds from disposal of property, plant and equipment	**0.2**	**0.1**	**0.4**
Acquisition of new businesses			
– purchase consideration	**-**	**(6.0)**	**(155.2)**
– cash at acquisition	**-**	**0.8**	**5.7**
Purchase of property, plant and equipment	**(8.4)**	**(9.3)**	**(19.3)**
Net cash flow used in investing activities	**(8.2)**	**(14.3)**	**(168.3)**
Financing activities			
New bank loans	**5.5**	**-**	**148.5**
Bank loan repayment	**-**	**-**	**(51.0)**
Interest paid	**(3.8)**	**(2.3)**	**(5.8)**
Dividend paid	**(11.0)**	**(6.0)**	**(10.6)**
Refinancing costs	**-**	**-**	**(1.7)**
Net cash flows from financing activities	**(9.3)**	**(8.3)**	**79.4**
Net increase/(decrease) in cash and cash equivalents	**8.7**	**(6.7)**	**(21.5)**
Cash and cash equivalents – opening balance	**21.6**	**43.1**	**43.1**
Cash and cash equivalents – closing balance	**30.3**	**36.4**	**21.6**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

at 30 June 2016

1. Basis of preparation

Polypipe Group plc is incorporated in the UK. The condensed interim financial statements have been prepared in accordance with the Disclosure and Transparency rules of the Financial Conduct Authority and IAS 34 "Interim Financial Reporting (as adopted by the EU)".

As required by the Disclosure and Transparency rules of the Financial Conduct Authority, the interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2015. These statements do not include all the information required for full annual financial statements and should be read in conjunction with the full annual report for the year ended 31 December 2015.

The comparative figures for the financial year ended 31 December 2015, where reported, are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

There are no accounting standards or interpretations that have become effective in the current reporting period which have had a material effect on the net assets, results and disclosures of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued that is not yet effective.

The financial statements are prepared on a going concern basis. This is considered appropriate given that the company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future.

There have been no related party transactions in the period to 30 June 2016 apart from compensation of key management personnel.

Two non statutory measures have been used in preparing these Financial Statements.

Underlying profit and earnings measures exclude certain non-underlying items which are defined in Note 4 to the Financial Statements, and where relevant, the tax effect of these items.

EBITDA is defined as operating profit before non-underlying items, depreciation and amortisation. Pro-forma LTM EBITDA is defined as EBITDA for the twelve months preceding the balance sheet date, adjusted to include a full year of EBITDA from acquisitions made during those twelve months.

2. Financial risks, estimates, assumptions and judgements

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

3. Segment information

The group has three reporting segments - Residential Piping Systems (all UK by origin), Commercial and Infrastructure Piping Systems – UK and Commercial and Infrastructure Piping Systems – Mainland Europe. Several operating segments that have similar economic characteristics have been aggregated into these three reporting segments.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

at 30 June 2016

	Six months ended 30 June 2016			Six months ended 30 June 2015		
	Revenue £m	Result £m	Underlying result £m	Revenue £m	Result £m	Underlying result £m
Residential Piping Systems	105.4	21.6	21.5	90.2	15.4	15.4
Commercial & Infrastructure Piping Systems (UK)	92.7	15.2	15.2	59.1	9.4	9.4
Inter segment	(5.5)	-	-	(4.6)	-	-
UK Operations	192.6	36.8	36.7	144.7	24.8	24.8
Commercial & Infrastructure Piping Systems (Mainland Europe)	31.5	1.0	1.0	26.5	0.9	0.9
Inter segment	(0.8)	-	-	(0.8)	-	-
Non-underlying group items		(3.9)	-	-	(0.1)	-
Total Group	223.3	33.9	37.7	170.4	25.6	25.7
Net finance costs		(4.0)	(4.0)		(2.4)	(2.4)
Profit before taxation		29.9	33.7		23.2	23.3

Given stable market conditions, our revenues have historically been broadly similar between the first and second halves of the year.

Revenue by geographical market:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
UK	171.4	131.5
Rest of Europe	35.5	28.5
Rest of World	16.4	10.4
Total - Group	223.3	170.4

4. Non-underlying items

Non-underlying items comprised:

	Six months ended 30 June 2016			Six months ended 30 June 2015		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Administration expenses:						
Acquisition costs	-	-	-	0.1	-	0.1
Profit on sale of property, plant and equipment:	0.1	-	0.1	-	-	-
Amortisation of acquired intangible assets:	(3.9)	0.7	(3.2)	-	-	-
Total non-underlying items	(3.8)	0.7	(3.1)	0.1	-	0.1

5. Net financing costs

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Bank interest income	-	0.1
Financial income	-	0.1
Interest on bank loan	3.5	2.1
Debt issue cost amortisation	0.2	0.2
Other finance charges	0.3	0.2
Financial expense	4.0	2.5
Net financing costs	4.0	2.4

6. Taxation

Tax has been provided on the profit before taxation, at the estimated effective rate for the full year of 19.7% (2015: 21.6%). Tax on underlying profits is 19.6% (2015: 21.5%).

7. Earnings per share

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

Underlying earnings per share is based on the result for the period after taxation, excluding the impact of non-underlying items of £3.1m (2015: £0.1m). The Directors consider that this measure gives a better and more consistent indication of the Group's underlying performance.

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	199,273,278	199,260,681
Share options	831,665	422,263
Weighted average number of ordinary shares for the purpose of diluted earnings per share	200,104,943	199,682,944

8. Dividends

The directors have proposed an interim dividend for the current year of £6.2m which equates to 3.1p per share.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

at 30 June 2016

9. Analysis of net debt

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Year ended 31 December 2015 £m
Cash and cash equivalents	**30.3**	**36.4**	**21.6**
Interest bearing loans and borrowings due after more than one year:			
- Bank loans	(223.0)	(120.0)	(217.5)
- Unamortised debt issuance costs	1.4	1.7	1.6
	(221.6)	**(118.3)**	**(215.9)**
Net debt	**(191.3)**	**(81.9)**	**(194.3)**

10. Financial instruments

Fair value of financial instruments

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

All derivative financial instruments are shown in the balance sheet at fair value.

30 June 2016	**Carrying value £m**	**Fair value £m**
Foreign currency derivative contracts	**(0.7)**	**(0.7)**
Interest rate swap	**(5.4)**	**(5.4)**

30 June 2015	**Carrying value £m**	**Fair value £m**
Foreign currency derivative contracts	**(0.1)**	**(0.1)**
Interest rate swap	**(1.8)**	**(1.8)**

31 December 2015	**Carrying value £m**	**Fair value £m**
Foreign currency derivative contracts	**(0.1)**	**(0.1)**
Interest rate swap	**(2.1)**	**(2.1)**

The interest rate on the Group's £300m Revolving Credit Facility is variable, being payable at LIBOR plus a margin. To reduce the Group's exposure to future increases in interest rates the Group has entered into interest rate swaps for the following notional amounts, with interest payable at a fixed rate return dependant on the swap of either 2.21% or 1.735% (2015: 2.21%) (excluding margin):

Year ended 31 December	**Notional amount – rate of 2.21% £m**	**Notional amount – rate of 1.735% £m**
2016	**60.0**	**-**
2017	**70.2**	**10.7**
2018	**66.6**	**25.1**
2019	**-**	**82.0**
To August 2020	**-**	**72.2**

The fair value of the interest rate swap was determined by reference to market values. Forward currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturities of the contracts.

Fair value hierarchy

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

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

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

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

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

There have been no transfers in any direction in the period.

INDEPENDENT REVIEW REPORT TO POLYPIPE GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 which comprises the Interim Group Income Statement, the Interim Group Statement of Comprehensive Income, the Interim Group Balance Sheet, the Interim Group Statement of Changes in Equity, the Interim Group Cash Flow Statement and the related notes 1 to 10. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Leeds

16 August 2016