

# **Polypipe Group plc**

**Interim financial statements for the six months ended 30 June 2017**



8 August 2017

**Polypipe Group plc**  
**Interim results for the six months ended 30 June 2017**

***Continued strong performance***

Polypipe Group plc (“Polypipe”, the “Company” or the “Group”), a leading manufacturer of plastic piping and ventilation systems for the residential, commercial, civils and infrastructure sectors, today announces its unaudited interim results for the six months ended 30 June 2017.

**Financial Results**

	<b>H1 2017</b>	<b>H1 2016</b>	<b>Change</b>
Revenue	£242.0m	£223.3m	8.4%
Underlying operating profit <sup>1</sup>	£38.9m	£37.7m	3.1%
Underlying operating margin <sup>1</sup>	16.1%	16.9%	
Underlying profit before tax <sup>1</sup>	£35.5m	£33.7m	5.3%
Operating profit	£34.9m	£33.9m	2.8%
Profit before tax	£31.5m	£29.9m	5.3%
Earnings per share (diluted)	12.5p	12.0p	4.2%
Underlying earnings per share (diluted) <sup>1</sup>	14.3p	13.5p	5.9%
Cash generated from operations	£21.1m	£30.5m	(30.8)%
Dividend per share	3.6p	3.1p	16.1%

**Financial Highlights**

- Performance in line with management expectations
- Revenue 8.4% higher at £242.0m, or 6.9% on a like for like basis<sup>2</sup>
- UK revenue 6.8% ahead
- Underlying operating profit 3.1% higher at £38.9m
- Underlying diluted earnings per share 5.9% higher at 14.3 pence per share
- Net debt of 2.0 times LTM EBITDA<sup>3</sup> compared to 2.3 times in the prior year, and on track to meet management expectations for the year
- Interim dividend increased 16.1% to 3.6 pence per share

**Operational Highlights**

- Market outperformance in both UK segments, demonstrating continued success of strategic growth initiatives of legacy material substitution, carbon efficiency and water management.
- UK Residential Systems segment particularly strong with 9.2% growth driven predominantly by new house build.
- Pricing actions to recover H2 2016 input cost inflation progressively implemented through first half and successfully completed.
- Decisive action taken at our Middle East manufacturing plant (<1% Group revenue) to temporarily cease manufacturing and reduce costs in response to recent trade embargo between UAE and Qatar.

**Outlook**

- Market fundamentals continue to be robust, but we remain alert to potential impact from uncertainties arising from the recent UK election and Brexit negotiations.
  - Following a slow start to the year, the UK Roads programme is expected to accelerate in H2, underpinning demand in our UK Commercial and Infrastructure Systems segment.
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- With different sectors of the UK construction market performing at different rates the Group benefits from its strategic balance of activity with no over reliance on any one sector.
  - Middle East situation unlikely to be resolved in the short term.
  - Conditions in the French market continue to improve.
  - Well placed to continue to deliver results in line with management expectations for the year ending 31 December 2017.

**David Hall, Chief Executive Officer said:**

*“The Group has delivered another record performance, building on the strong momentum from last year and demonstrating that our strategic focus on structural growth opportunities is delivering results.*

*Although underlying fundamentals remain positive, the Group has experienced varying conditions in its different markets and has also faced some challenges in the first half of the year. I am encouraged by the way the business has risen to these challenges which is further evidence of the depth and strength of management across the Group. As a result of our growth initiatives, balanced exposure to our markets and overall performance, the Board is confident that the Group will continue to make progress in line with management expectations for the year.”*

<sup>1</sup> Underlying profit and earnings measures exclude certain non-underlying items which are provided in Note 4, and where relevant, the tax effect of these items. The Directors consider that these measures provide a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

<sup>2</sup> Like for like (LFL) measures are at constant currency translation. The structure of the Group is the same in both periods so no adjustment is necessary for acquisitions or disposals.

<sup>3</sup> LTM EBITDA is defined as underlying operating profit before depreciation for the twelve months preceding the balance sheet date.

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A copy of this report will be available on our website [www.polypipe.com](http://www.polypipe.com) today from 0700hrs (BST).

An analyst and investor presentation will be held today at Brunswick's offices, 16 Lincolns Inn Fields, London, WC2A 3ED at 1000 hrs (BST) with registration from 0930hrs.

For those unable to attend, a live conference call will be available at 1000 hrs (BST).

Dial-In number +44 (0) 1452 555 566

Conference ID 64328914

The presentation can be viewed [at this link](#).

**Notes to Editors:**

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

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The Group operates from 20 facilities in total, and with over 20,000 product lines, manufactures the UK's widest range of plastic piping systems for heating, plumbing, drainage and ventilation. The Group primarily targets the UK, 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.

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## Group Results

Group revenue for the six months ended 30 June 2017 was 8.4% higher than the prior year at £242.0m (2016: £223.3m). On a constant currency basis, revenue was 6.9% higher than the prior year. The Group structure has remained the same in both periods so this represents organic growth with no adjustments required for acquisitions or disposals. This strong performance is a result of our continued focus on strategic growth initiatives such as legacy material substitution, legislative tailwinds in water management and carbon efficiency, and development of selected export markets.

Underlying operating profit was 3.1% higher than the prior year at £38.9m (2016: £37.7m). This represents an operating margin of 16.1% (2016: 16.9%), and reflects the expected time lag in progressive implementation of selling price increases to recover input cost inflation in the period.

Finance costs of £3.4m (2016: £4.0m) were lower than the prior year due to reduced levels of net debt together with improved margins through reduced leverage.

Non-underlying operating costs of £4.0m (2016: £3.8m) were incurred and relate to amortisation of intangible assets of £2.8m arising from the Nuairé acquisition, costs associated with the temporary cessation of production in our factory in the Middle East of £0.9m, and the consolidation of our ventilation businesses onto the Nuairé site of £0.3m.

The total tax charge for the period was £6.4m (2016: £5.9m). The underlying tax charge of £6.9m (2016: £6.6m) represents an effective underlying tax rate of 19.4% (2016: 19.6%).

Underlying profit after tax was 5.5% higher at £28.6m (2016: £27.1m), with underlying diluted earnings per share 5.9% higher at 14.3 pence (2016: 13.5 pence).

Including non-underlying items, profit after tax was 4.5% higher at £25.1m (2016: £24.0m) with diluted earnings per share also 4.2% higher at 12.5 pence (2016: 12.0 pence).

## Business Review

Revenue	H1 2017 £m	H1 2016 £m	Change %	LFL Change* %
Residential Systems	115.0	105.4	9.2	9.2
Commercial and Infrastructure Systems – UK	97.7	92.7	5.4	5.4
Inter-segment sales	(7.0)	(5.5)		
<b>UK operations</b>	<b>205.7</b>	<b>192.6</b>	<b>6.8</b>	<b>6.8</b>
Commercial and Infrastructure Systems – Mainland Europe	37.4	31.5	18.9	8.6
Inter-segment sales	(1.1)	(0.8)		
<b>Group revenue</b>	<b>242.0</b>	<b>223.3</b>	<b>8.4</b>	<b>6.9</b>

Underlying operating profit	H1 2017 £m	H1 2016 £m	Change %
Residential Systems	22.9	21.5	6.5
Commercial and Infrastructure Systems – UK	14.5	15.2	(3.9)
<b>UK operations</b>	<b>37.4</b>	<b>36.7</b>	<b>2.2</b>
Commercial and Infrastructure Systems – Mainland Europe	1.5	1.0	32.4
<b>Group underlying operating profit</b>	<b>38.9</b>	<b>37.7</b>	<b>3.1</b>

\* Like for like (LFL) measures are at constant currency translation. The structure of the Group is the same in both periods so no adjustment is necessary for acquisitions or disposals

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## Operational Review

The Group continued to focus on its core strategic growth initiatives in the period, in legacy material substitution, water management and carbon efficiency legislation, and development of selected export markets. We continue to make excellent progress in these areas, with revenue 8.4% higher than the prior year. The UK operations continued to outpace the market maintaining strong organic growth of 6.8%, with the UK Residential Systems segment showing the strongest growth in the period. Although selling price increases represent approximately 3% of the first half revenue growth, as noted in our 2016 Annual Report and Accounts, the earlier part of the year was impacted by the effect of the merchant order pull forward into December 2016, meaning underlying volume growth was broadly in line with revenue.

The Group has successfully implemented selling price increases and cost reduction measures progressively through the period to recover material cost and other inflation arising primarily from the effect of Sterling devaluation post the EU Referendum in June 2016. These measures leave the Group in a good position as we enter the second half of the year, and as anticipated the progressive nature of these actions through the first half has resulted in a return on sales of 16.1%, marginally lower than the same period last year.

A project to consolidate our Doncaster based ventilation business into our Nuaire business in Caerphilly, South Wales has been completed in the period. This will generate cost savings and service efficiencies which help drive improvements in the combined business. Exceptional costs of £0.3m relating to this project have been recorded in the results for the period.

Towards the end of the period, it became clear that the trade embargo between many of the Gulf states and Qatar would severely impact revenue in our manufacturing unit in Dubai. Approximately 60% of pipeline projects emanate from Qatar and the business had just started to deliver to two significant infrastructure projects for Doha, which would have absorbed the bulk of our local manufacturing capacity. With no imminent solution in sight to this issue, and in recognition of the more general project financing issues in the wider Gulf in recent months meaning order cycles are becoming extended, the decision was taken to temporarily cease manufacturing in Dubai. Stock is available to service short term orders from non-Qatari customers, and manufacturing can be resumed at relatively short notice. However, a significant proportion of the manufacturing workforce has been made redundant, leaving only key operational management in place. Exceptional costs of £0.9m relating to this decision have been recorded in the results for the period, covering redundancy costs and stock provisions.

### ***Residential Systems***

Residential Systems segment revenue was 9.2% higher at £115.0m (2016: £105.4m), all of which was derived from the UK and Irish markets, and excluding inter segment revenue represented 47% of Group revenue for the six months ended 30 June 2017 (2016: 46%). The effect of selling price increases in the period largely offsets the effect of the merchant order pull forward into December 2016 noted in our 2016 Annual Report and Accounts, and so this growth is largely volume driven.

Demand has remained robust from the national house builders throughout the first half, with particularly strong demand for our underground products as they continue to open new sites. As the house builders move through different build phases on site, demand is beginning to pick up in our above ground product ranges. We continue to see the UK RM&I (repairs maintenance and improvement) market as static, with housing transactions remaining muted and consumer confidence impacted by post-election uncertainty and negative real wage growth.

This continued growth in volumes enabled Residential Systems to deliver an underlying operating profit of £22.9m in the first half, up 6.5% over the same period last year and representing a return on sales of 19.9% (2016: 20.4%). The progressive implementation of selling price increases and cost reduction measures to mitigate post EU Referendum material cost and other inflation resulted in margins being marginally lower than prior year.

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### **Commercial and Infrastructure Systems – UK**

Commercial and Infrastructure Systems UK segment revenue was 5.4% higher at £97.7m (2016: £92.7m), and excluding inter segment revenue represented 38% of overall Group revenue for the six months ended 30 June 2017 (2016: 40%). This segment includes our export business as well as the results of our manufacturing operation in the Middle East.

Water management and flood prevention legislation continued to drive demand for our Polystorm attenuation cells as residential driven infrastructure is installed. Furthermore, light commercial ventilation continues to perform well, driven by carbon efficiency legislation. Growth in the UK in the first half has been somewhat impacted by delays in roads projects such as the A14 upgrade, although there are encouraging signs that this project will commence in the second half. Export markets, and in particular Middle East markets, have remained tough. Project financing delays in the Middle East and distributor credit issues, combined with the ban on exporting from the UAE to Qatar have resulted in overall export revenue (including revenue from our Dubai manufacturing facility) being below the prior year. As previously noted, the decision has been taken to temporarily cease manufacturing in Dubai.

Underlying operating profit in the period at £14.5m (2016: £15.2m) was 3.9% lower than the prior year, and represents a return on sales of 14.9% (2016: 16.4%). Again, progressive implementation of selling price increases and cost reduction measures to mitigate post EU Referendum material cost and other inflation, combined with the lower revenues from our higher margin export business, meant that margins were lower than prior year.

### **Commercial and Infrastructure Systems - Europe**

Revenue in our Commercial and Infrastructure Systems – Europe segment at £37.4m (2016: £31.5m) represented 15% of overall Group revenue for the six months ended 30 June 2017 (2016: 14%). This represented growth of 18.9% against the prior year, and 8.6% on a constant currency basis. This segment relates predominantly to our French operations, although it also includes Effast, our Italian pressure pipe business.

There have been some encouraging signs of recovery in the French market, and this has helped drive demand, particularly in the utilities sector where potable water, irrigation and gas pipes have all shown reasonable growth. The market however remains very price competitive, with distributors continuing to compete heavily with each other. Underlying operating profits improved to £1.5m (2016: £1.0m) representing an improved margin of 3.9% (2016: 3.4%) with improved volumes driving this performance.

### **Board and Management Changes**

On 24<sup>th</sup> May 2017, the Group announced that David Hall, Chief Executive Officer, is to retire on 2<sup>nd</sup> October 2017, and is to be succeeded by Martin Payne, currently Chief Financial Officer. It further announced that Glen Sabin, currently Managing Director Polypipe Plumbing and Heating Division, would be appointed to the Board as Chief Operating Officer, also on 2<sup>nd</sup> October 2017. The handover process is progressing well, as is the process to find a new Chief Financial Officer. Further announcements will be made in due course.

### **Outlook**

Despite the uncertainty caused by EU exit negotiations and the recent UK election, the Group has performed well in the first half of the year, and is well placed to achieve management expectations for the year to 31 December 2017.

The market outlook for the second half remains mixed with new house building continuing to perform well, and with some of the road projects beginning to gather pace, the infrastructure market looks as if it will perform better in the second half. We believe that UK RMI has been static and will continue to be challenging given potential consumer confidence headwinds such as negative real wage growth and continued low levels of housing transactions. Neither the wider Middle East project financing issues nor the more specific Qatar situation show any signs of being resolved in the short term, but exports into other markets are being explored to mitigate the impact on our overall export business, which is not material to the Group.

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Despite the uncertainties in some sectors of the market, other parts are expected to continue to perform well. With the long term strategic growth drivers of legacy material substitution, legislative tailwinds in water management and carbon efficiency, and development of selected export markets still strong, and a balanced exposure to the different sectors within the UK construction market, the group is confident of making further progress.

## Financial Review

### *Finance Costs*

Net underlying finance costs for the six-month period ended 30 June 2017 of £3.4m were £0.6m lower than the prior year primarily due to lower net debt as well as reduced interest rate margins resulting from reduced leverage. Interest is payable on the Group's revolving credit facility at LIBOR plus an interest rate margin ranging from 1.25% to 2.75% depending on leverage. The interest rate margin at 30 June 2017 was 1.75%.

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 £72.2m to £91.7m over the period of the interest rate swaps. Details of these swaps are set out in Note 10 to these condensed set of consolidated financial statements.

The unrealised mark to market adjustment on these forward interest rate swaps at 30 June 2017 was £3.3m adverse (31 December 2016: £4.2m adverse). The movement of £0.9m favourable 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 2017 was £6.4m (2016: £5.9m). The underlying tax rate (underlying tax: underlying profit before tax) has been provided at the estimated full year rate of 19.4% (2016 full year: 19.6%). The UK standard tax rate reduced from 20% to 19% on 1 April 2017, and therefore on a simple time apportioned basis the UK standard tax rate for the calendar year 2017 will be 19.25%, broadly in line with the Group's underlying rate. The impact of our mainland European operations on the Group's effective tax rate is not material.

### *Cash Flow and Net Debt*

Cash generated from operations during the period amounted to £21.1m (2016: £30.5m). This result includes a working capital outflow of £26.1m (2016: £15.5m). A significant first half working capital outflow is a standard feature of the Group's annual working capital cycle and arises primarily as a result of the timing of rebate settlements. The working capital outflow for the current period is larger than the same period last year for two reasons. Firstly, creditor outflows are £8.4m worse than prior year and relate to differences in the timing of purchases in the lead up to the half year, driven by merchant order pull forward in both periods. Secondly, stock levels have increased by £6.0m in the period compared to £2.4m in the prior year, which reflects stock getting back to normal levels following strong pre price increase demand in December 2016. Whilst the creditor issue is one of timing only, the stock increase is likely to be permanent whilst demand stays at current levels.

Capital expenditure of £11.3m (2016: £8.4m) is £3.2m higher than depreciation and in line with management expectations of £25.0m for the year. The large diameter continuous corrugator project at our Horncastle site (which accounts for £2.2m in the period) continues to make good progress and is planned to be operational in the first half of 2018.

Net debt (including unamortised debt issue costs) at 30 June 2017 was £178.0m and is after the final dividend of £13.9m (2016: £11.0m) and the working capital outflow and capital expenditure noted above. Leverage at 2.0 times LTM EBITDA compares to 2.3 times proforma LTM EBITDA at 30 June 2016 and 1.9 times LTM EBITDA at 31 December 2016. The Group's working capital cycle means cash generation is significantly stronger in the second half of the year such that leverage will reduce in line with management expectations for the year.

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### **Dividend**

The Board has declared an interim dividend of 3.6 pence per share, a 16.1% increase on the 2016 interim dividend. This dividend will be paid on 22 September 2017 to shareholders on the register at the close of business on 25 August 2017.

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 £300.0m revolving credit facility of which £92.0m was undrawn at 30 June 2017. Cash balances of a further £29.0m as at 30 June 2017 gives total facility headroom of £121.0m.

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

### **Principal Risks and Uncertainties**

The Board continually assesses and monitors the key risks of the business and Polypipe has developed a risk management framework to identify, report, and manage its principal risks and uncertainties. The principal risks and uncertainties that could have a material impact on the Group's performance and prospects, and the mitigating activities which are aimed at reducing the impact or likelihood of a major risk materialising, have not changed from those which are set out in detail in the principal risks and uncertainties section of our 2016 Annual Report and Accounts. The Directors believe that, whilst not specifically noted, the potential impact of the EU Referendum result is covered within these principal risks and uncertainties.

These principal risks and uncertainties cover raw material prices; business disruption; reliance on key customers; recruitment and retention of key personnel; economic conditions; Government action and policies; Government regulations and standards relating to the manufacture and use of building materials; product liability; information systems; acquisitions and financial risk management (foreign currency exchange risk, credit risk, liquidity risk and interest rate risk).

A copy of the 2016 Annual Report and Accounts is available on the Company's website [www.polypipe.com](http://www.polypipe.com).

### **Forward-Looking Statements**

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

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## Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of consolidated financial statements has been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union; and
- The Interim Management Report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Guidance 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 consolidated 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 Guidance 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 and Accounts that could do so.

This report was approved by the Board of Directors on 8 August 2017 and is available on the Company's website [www.polypipe.com](http://www.polypipe.com).

The Directors of the Company are:

Ron Marsh	Chairman
David Hall	Chief Executive Officer
Martin Payne	Chief Financial Officer
Paul Dean	Non-executive Director and Senior Independent Director
Mark Hammond	Non-executive Director
Moni Mannings	Non-executive Director

By order of the Board:

**D G Hall**  
Chief Executive Officer

**M K Payne**  
Chief Financial Officer

# INTERIM GROUP INCOME STATEMENT

for the six months ended 30 June 2017 (unaudited)

	Notes	Six months ended 30 June 2017			Six months ended 30 June 2016		
		Underlying £m	Non- Underlying* £m	Total £m	Underlying £m	Non- Underlying* £m	Total £m
<b>Revenue</b>	<b>3</b>	<b>242.0</b>	<b>-</b>	<b>242.0</b>	223.3	-	223.3
Cost of sales		(144.1)	(1.2)	(145.3)	(129.8)	-	(129.8)
<b>Gross profit</b>		<b>97.9</b>	<b>(1.2)</b>	<b>96.7</b>	93.5	-	93.5
Selling and distribution costs		(37.9)	-	(37.9)	(34.3)	-	(34.3)
Administration expenses		(21.1)	-	(21.1)	(21.5)	-	(21.5)
<b>Trading profit</b>		<b>38.9</b>	<b>(1.2)</b>	<b>37.7</b>	37.7	-	37.7
Profit on disposal of property, plant and equipment		-	-	-	-	0.1	0.1
Amortisation of intangible assets		-	(2.8)	(2.8)	-	(3.9)	(3.9)
<b>Operating profit</b>	<b>3</b>	<b>38.9</b>	<b>(4.0)</b>	<b>34.9</b>	37.7	(3.8)	33.9
Finance costs	<b>5</b>	(3.4)	-	(3.4)	(4.0)	-	(4.0)
<b>Profit before tax</b>		<b>35.5</b>	<b>(4.0)</b>	<b>31.5</b>	33.7	(3.8)	29.9
Income tax	<b>6</b>	(6.9)	0.5	(6.4)	(6.6)	0.7	(5.9)
<b>Profit for the period attributable to the owners of the parent company</b>		<b>28.6</b>	<b>(3.5)</b>	<b>25.1</b>	27.1	(3.1)	24.0
Basic earnings per share (pence)	<b>7</b>			<b>12.7</b>			12.0
Diluted earnings per share (pence)	<b>7</b>			<b>12.5</b>			12.0
Dividend per share (pence) – interim	<b>8</b>			<b>3.6</b>			3.1

\* Non-underlying items are presented separately. Non-underlying items are detailed in Note 4 to the condensed set of consolidated financial statements.

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# INTERIM GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
<b>Profit for the period attributable to the owners of the parent company</b>	<b>25.1</b>	24.0
<b>Other comprehensive income/(expense):</b>		
<b>Items which will be reclassified subsequently to the income statement:</b>		
Exchange differences on translation of foreign operations	<b>0.3</b>	1.9
Effective portion of changes in fair value of interest rate swaps	<b>0.9</b>	(3.3)
Tax relating to items that will be reclassified to the income statement	<b>(0.1)</b>	0.6
<b>Other comprehensive income/(expense) for the period net of tax</b>	<b>1.1</b>	(0.8)
<b>Total comprehensive income for the period attributable to the owners of the parent company</b>	<b>26.2</b>	23.2

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# INTERIM GROUP BALANCE SHEET

at 30 June 2017 (unaudited)

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
<b>Non-current assets</b>			
Property, plant and equipment	104.2	99.9	101.0
Intangible assets	368.8	374.6	371.6
<b>Total non-current assets</b>	<u>473.0</u>	<u>474.5</u>	<u>472.6</u>
<b>Current assets</b>			
Assets held for sale	0.7	-	0.7
Inventories	58.3	51.0	52.2
Trade and other receivables	59.2	51.9	40.1
Cash and cash equivalents	29.0	30.3	26.5
<b>Total current assets</b>	<u>147.2</u>	<u>133.2</u>	<u>119.5</u>
<b>Total assets</b>	<u>620.2</u>	<u>607.7</u>	<u>592.1</u>
<b>Current liabilities</b>			
Trade and other payables	(93.1)	(88.8)	(91.8)
Other financial liabilities	(3.3)	(6.1)	(5.7)
Income tax payable	(7.2)	(7.0)	(7.0)
<b>Total current liabilities</b>	<u>(103.6)</u>	<u>(101.9)</u>	<u>(104.5)</u>
<b>Non-current liabilities</b>			
Loans and borrowings	(207.0)	(221.6)	(190.8)
Other liabilities	(2.1)	(2.0)	(2.1)
Deferred income tax liabilities	(6.9)	(8.7)	(7.3)
<b>Total non-current liabilities</b>	<u>(216.0)</u>	<u>(232.3)</u>	<u>(200.2)</u>
<b>Total liabilities</b>	<u>(319.6)</u>	<u>(334.2)</u>	<u>(304.7)</u>
<b>Net assets</b>	<u>300.6</u>	<u>273.5</u>	<u>287.4</u>
<b>Capital and reserves</b>			
Equity share capital	0.2	0.2	0.2
Capital redemption reserve	1.1	1.1	1.1
Treasury shares	(4.6)	(1.7)	(4.6)
Hedging reserve	(2.7)	(4.4)	(3.5)
Foreign currency retranslation reserve	0.7	(0.6)	0.4
Retained earnings	305.9	278.9	293.8
<b>Total equity</b>	<u>300.6</u>	<u>273.5</u>	<u>287.4</u>

# INTERIM GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 (unaudited)

	Equity share capital	Capital redemption reserve	Treasury shares	Hedging reserve	Foreign currency retranslation reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m	£m
<b>Six months ended 30 June 2017</b>							
<b>Opening balance</b>	<b>0.2</b>	<b>1.1</b>	<b>(4.6)</b>	<b>(3.5)</b>	<b>0.4</b>	<b>293.8</b>	<b>287.4</b>
Profit for the period	-	-	-	-	-	25.1	25.1
Other comprehensive income	-	-	-	0.8	0.3	-	1.1
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.8</b>	<b>0.3</b>	<b>25.1</b>	<b>26.2</b>
Dividends paid	-	-	-	-	-	(13.9)	(13.9)
Share-based payments	-	-	-	-	-	0.9	0.9
<b>Closing balance</b>	<b>0.2</b>	<b>1.1</b>	<b>(4.6)</b>	<b>(2.7)</b>	<b>0.7</b>	<b>305.9</b>	<b>300.6</b>
<b>Six months ended 30 June 2016</b>							
<b>Opening balance</b>	<b>0.2</b>	<b>1.1</b>	<b>(1.7)</b>	<b>(1.7)</b>	<b>(2.5)</b>	<b>265.6</b>	<b>261.0</b>
Profit for the period	-	-	-	-	-	24.0	24.0
Other comprehensive (expense)/income	-	-	-	(2.7)	1.9	-	(0.8)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2.7)</b>	<b>1.9</b>	<b>24.0</b>	<b>23.2</b>
Dividends paid	-	-	-	-	-	(11.0)	(11.0)
Share-based payments	-	-	-	-	-	0.3	0.3
<b>Closing balance</b>	<b>0.2</b>	<b>1.1</b>	<b>(1.7)</b>	<b>(4.4)</b>	<b>(0.6)</b>	<b>278.9</b>	<b>273.5</b>

# INTERIM GROUP CASH FLOW STATEMENT

for the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m	Year ended 31 December 2016 £m
<b>Operating activities</b>			
<b>Profit before tax</b>	<b>31.5</b>	29.9	54.4
Net finance costs	<b>3.4</b>	4.0	7.6
<b>Operating profit</b>	<b>34.9</b>	33.9	62.0
Non-cash items:			
Profit on disposal of property, plant and equipment	<b>(0.1)</b>	(0.1)	(0.3)
Non-underlying items:			
– amortisation of intangible assets	<b>2.8</b>	3.9	6.8
– provision for restructuring costs	<b>1.2</b>	-	-
– settlement of restructuring costs	<b>(0.3)</b>	-	-
– impairment of freehold land and buildings	-	-	0.9
Depreciation	<b>8.1</b>	8.0	16.3
Share-based payments	<b>0.6</b>	0.3	1.0
<b>Operating cash flows before movement in working capital</b>	<b>47.2</b>	46.0	86.7
Movement in working capital:			
Receivables	<b>(18.9)</b>	(20.3)	(8.3)
Payables	<b>(1.2)</b>	7.2	11.5
Inventories	<b>(6.0)</b>	(2.4)	(3.4)
<b>Cash generated from operations</b>	<b>21.1</b>	30.5	86.5
Income tax paid	<b>(6.4)</b>	(4.3)	(10.1)
<b>Net cash flows from operating activities</b>	<b>14.7</b>	26.2	76.4
<b>Investing activities</b>			
Proceeds from disposal of property, plant and equipment	<b>0.2</b>	0.2	0.4
Purchase of property, plant and equipment	<b>(11.3)</b>	(8.4)	(19.1)
<b>Net cash flows from investing activities</b>	<b>(11.1)</b>	(8.2)	(18.7)
<b>Financing activities</b>			
Drawdown of bank loan	<b>16.0</b>	5.5	-
Repayment of bank loan	-	-	(25.5)
Interest paid	<b>(3.2)</b>	(3.8)	(7.3)
Dividends paid	<b>(13.9)</b>	(11.0)	(17.1)
Purchase of own shares	-	-	(2.9)
<b>Net cash flows from financing activities</b>	<b>(1.1)</b>	(9.3)	(52.8)
<b>Net change in cash and cash equivalents</b>	<b>2.5</b>	8.7	4.9
Cash and cash equivalents – opening balance	<b>26.5</b>	21.6	21.6
<b>Cash and cash equivalents – closing balance</b>	<b>29.0</b>	30.3	26.5

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

## 1. Basis of preparation

Polypipe Group plc is incorporated in the UK. The condensed set of consolidated financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34, Interim Financial Reporting, as adopted by the European Union.

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of consolidated 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 2016. These statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the full Annual Report and Accounts for the year ended 31 December 2016.

The comparative figures for the financial year ended 31 December 2016, 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 following listing of standards and interpretations issued are those that the Group reasonably expect to have an impact on disclosures, financial position or performance; but which have an effective date after the date of these consolidated financial statements. The Group has not early adopted them and plans to adopt them from the effective dates adopted by the European Union.

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

None of these standards or interpretations are expected to have a material impact on the Group's consolidated financial statements with the exception of IFRS 16, Leases. Under IFRS 16 the present distinction between operating and finance leases will be removed, resulting in all leases being recognised on the balance sheet (except for those with a very low value). At inception, a right-of-use asset will be recognised together with an equivalent liability reflecting the discounted lease payments over the estimated term of the lease. Whilst the overall cost of using the asset over the lease term should be the same, it is likely that the weighting of the charge between periods may differ due to the requirement to distinguish between the lease and non-lease elements of the agreement. Adoption of this standard is likely to result in an increase in gross assets and gross liabilities in the balance sheet, and finance costs being reclassified in the income statement. Currently the Group does not have any finance leases but does have operating leases. It is not practicable to provide a reasonable financial estimate of the effect of these standards until a detailed review has been completed.

The condensed set of consolidated 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 2017 apart from compensation of key management personnel.

Two non-statutory measures have been used in preparing the condensed set of consolidated financial statements:

- Underlying profit and earnings measures exclude certain non-underlying items which are provided in Note 4, and where relevant, the tax effect of these items. The Directors consider that these measures provide a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.
- LTM EBITDA is defined as underlying operating profit before depreciation for the twelve months preceding the balance sheet date.



# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

## 2. Financial risks, estimates, assumptions and judgements

The preparation of the condensed set of consolidated 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 set of consolidated 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 2016.

## 3. Segment information

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

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Revenue £m	Result £m	Underlying result £m	Revenue £m	Result £m	Underlying result £m
Residential Systems	115.0	22.6	22.9	105.4	21.6	21.5
Commercial and Infrastructure Systems – UK	97.7	13.6	14.5	92.7	15.2	15.2
Inter-segment sales	(7.0)			(5.5)		
<b>UK operations</b>	<b>205.7</b>	<b>36.2</b>	<b>37.4</b>	<b>192.6</b>	<b>36.8</b>	<b>36.7</b>
Commercial and Infrastructure Systems - Mainland Europe	37.4	1.5	1.5	31.5	1.0	1.0
Inter-segment sales	(1.1)			(0.8)		
Non-underlying Group items	-	(2.8)	-	-	(3.9)	-
<b>Total – Group</b>	<b>242.0</b>	<b>34.9</b>	<b>38.9</b>	<b>223.3</b>	<b>33.9</b>	<b>37.7</b>
Net finance costs		(3.4)	(3.4)		(4.0)	(4.0)
Profit before tax		<b>31.5</b>	<b>35.5</b>		<b>29.9</b>	<b>33.7</b>

Geographical analysis

Revenue by destination:

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
UK	185.7	171.4
Rest of Europe	41.0	35.5
Rest of World	15.3	16.4
<b>Total – Group</b>	<b>242.0</b>	<b>223.3</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

## 4. Non-underlying items

Non-underlying items comprised:

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Profit on disposal of property, plant and equipment	-	-	-	0.1	-	0.1
Restructuring costs	(1.2)	-	(1.2)	-	-	-
Amortisation of intangible assets	(2.8)	0.5	(2.3)	(3.9)	0.7	(3.2)
<b>Total non-underlying items</b>	<b>(4.0)</b>	<b>0.5</b>	<b>(3.5)</b>	<b>(3.8)</b>	<b>0.7</b>	<b>(3.1)</b>

Restructuring costs of £1.2m (2016: £nil) related to the temporary cessation of production in our factory in the Middle East of £0.9m and the consolidation of our ventilation business on to one site of £0.3m.

## 5. Finance costs

	Six months ended 30 June 2017 £m	Six months ended 30 June 2016 £m
Interest on bank loan	2.8	3.5
Debt issue cost amortisation	0.2	0.2
Other finance costs	0.4	0.3
<b>Finance costs</b>	<b>3.4</b>	<b>4.0</b>

## 6. Income tax

Tax has been provided on the profit before tax, at the estimated effective rate for the full year of 20.3% (2016: 19.7%). Tax on underlying profit before tax was 19.4% (2016: 19.6%).

## 7. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period attributable to the owners of the parent company 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 the owners of the parent company 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.

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

	Six months ended 30 June 2017	Six months ended 30 June 2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	198,287,022	199,273,278
Share options	2,196,051	831,665
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>200,483,073</b>	<b>200,104,943</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

Underlying earnings per share is based on the result for the period after tax, excluding the impact of non-underlying items of £3.5m (2016: £3.1m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Underlying profit for the period attributable to the owners of the parent company (£m)	<u>28.6</u>	<u>27.1</u>
Underlying basic earnings per share (pence)	<u>14.4</u>	<u>13.6</u>
Underlying diluted earnings per share (pence)	<u>14.3</u>	<u>13.5</u>

## 8. Dividends

The Directors have proposed an interim dividend for the current year of £7.1m which equates to 3.6 pence per share.

## 9. Analysis of net debt

	30 June 2017 £m	30 June 2016 £m	31 December 2016 £m
Cash and cash equivalents	<u>29.0</u>	<u>30.3</u>	<u>26.5</u>
Non-current loans and borrowings:			
- Bank loan	(208.0)	(223.0)	(192.0)
- Unamortised debt issue costs	<u>1.0</u>	<u>1.4</u>	<u>1.2</u>
	<u>(207.0)</u>	<u>(221.6)</u>	<u>(190.8)</u>
<b>Net debt</b>	<u>(178.0)</u>	<u>(191.3)</u>	<u>(164.3)</u>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

## 10. Other financial liabilities

### *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 financial liabilities equates to fair value.

<b>30 June 2017</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Interest rate swaps	<b>(3.3)</b>	<b>(3.3)</b>

  

<b>30 June 2016</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Forward foreign currency derivatives	(0.7)	(0.7)
Interest rate swaps	(5.4)	(5.4)

  

<b>31 December 2016</b>	<b>Carrying value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>
Forward foreign currency derivatives	(1.5)	(1.5)
Interest rate swaps	(4.2)	(4.2)

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% (2016: 2.21% or 1.735%) (excluding margin):

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

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

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

### ***Fair value hierarchy***

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

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

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

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

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

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

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# INDEPENDENT REVIEW REPORT TO POLYPIPE GROUP PLC

## Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the interim financial report for the six months ended 30 June 2017 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 consolidated 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 interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

As disclosed in Note 1, the annual consolidated financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this interim 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 consolidated financial statements in the interim 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 UK. 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 consolidated financial statements in the interim financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority.

Ernst & Young LLP

Leeds

8 August 2017

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