Polypipe

For a Sustainable Built Environment.

Annual Report and Accounts for the year ended 31 December 2020

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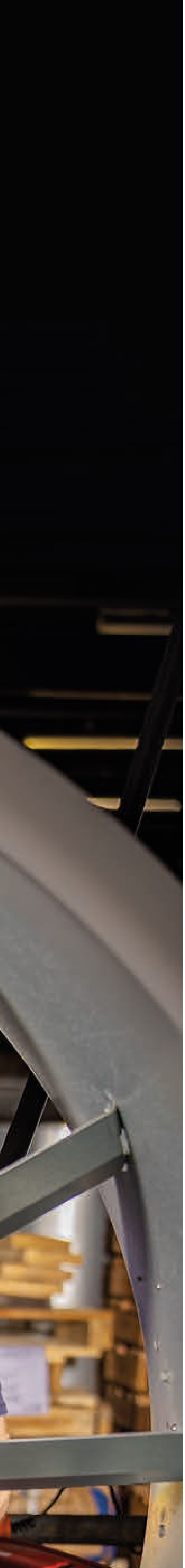


What We Do

Polypipe helps to create a better built environment, by developing and producing sustainable solutions to the key challenges faced in water, climate and ventilation management.

We apply considerable experience and application knowledge to supply some of the most prestigious buildings and infrastructure schemes across the UK and other target geographies.

We hold market leading positions across residential, commercial and infrastructure sectors, with some of the most well known brands in our industry.

How we do it

Our vision

Polypipe has a clear goal to be the leading, UK-focused, provider of sustainable construction products.

Our purpose

All of our colleagues share the common sense of purpose that they are 'Helping Construction Build Better'. This involves everything from building a better environment, building in a better way, through to building using modern methods of construction. We have a sense of place within the construction community, and see ourselves as collaborative partners within that community.

Our culture

We are a decentralised group where decision-making and expertise is close to our customers and our markets. We promote a culture where people understand how they contribute to our overall success, and we empower them to act with that in mind.

Our values

Our core values are around trust and innovation. Our businesses have done work to articulate these core values in ways they feel most suit them. But these local nuances always reflect the Group-wide commitment to integrity and creativity.

Winning sustainably

We're holding ourselves accountable by setting a clear strategy and measuring progress against ambitious targets. We have committed to raising the bar for sustainability, for ourselves and for others, and want to see smarter and more sustainable policies and practices right across our industry. Working together, we will make the built environment more sustainable for generations to come.

Highlights

The Group has demonstrated its strength and resilience in the face of the Covid-19 pandemic.

Highlights

- Revenue decline of 10.9% reflecting unprecedented trading environment in Q2, followed by a strong recovery, with second half in line with prior year
- Underlying operating profit severely impacted by reduced volumes in H1 and investment in Covid-19 measures; a much improved second half
- Continued strategic investment in business, capital expenditure of £25.1m
- Proposed final 2020 dividend of 4.8p per share, being a 40% payout ratio of net income
- Capital raise of £120m in H1 to strengthen balance sheet
- In February 2021, the Group acquired three businesses; Adey, Nu-Heat and Plura – with a strongly supported £96m capital raise helping to fund the Adey acquisition
- Polypipe Group plc to change its name to Genuit Group plc on 6 April 2021 reflecting continued progression of the Group, including the development of new product areas and the acquisition of a number of strong trading brands. We remain committed to our customer-facing brands, including Polypipe

Revenue

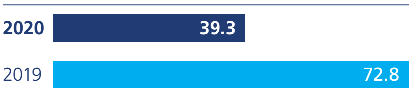
10.9% ↓

£m

Underlying cash generated from operations*

46.0% ↓

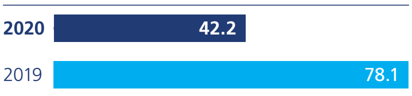
£m



Underlying operating profit

46.0% ↓

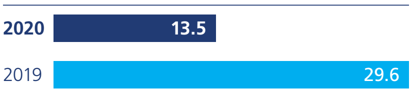
£m



Underlying basic earnings per share

54.4% ↓

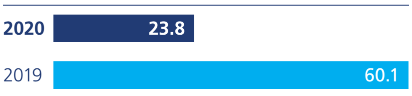
PPS



Profit before tax

60.4% ↓

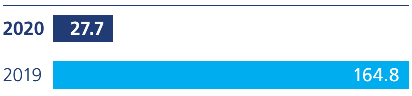
£m



Net debt

83.2% ↓

£m



* Before non-underlying items, as defined in Note 2.20 on page 117.

ESG Highlights

- We will continue to focus on serving the needs created by four key sustainability drivers:
  - Increasing need for resilient drainage
  - Need for green urbanisation
  - Increased focus on clean, healthy indoor air and ventilation; and
  - A move towards a low, or zero carbon, built environment
- We have set out a clear strategy and will measure performance in:
  - Circular economy – leading the industry in recycling and waste: For 2020, 45.9% of material was from recycled inputs – we have set a target of 62% by 2025
  - Climate change – reducing carbon emissions through products and operations – we achieved ISO 50001 accreditation and a reduction in CO_2e intensity of 7.8% in 2020
  - Innovation – driving new areas of growth – new Digital Director appointed
  - Our Vitality Index for 2020 was 22.8% – we have set a target of 25% by 2025
  - Developing our colleagues – we have joined The 5% Club and in the year 3.8% of our workforce were in accredited work and learn programmes
  - Key ESG metrics now incorporated into senior management long-term incentive plan

Read more on **pages 20 to 24**

Investment Proposition

Polypipe is the UK's leading provider of sustainable water and climate management solutions for the built environment.

1. UK Market leadership and balanced exposure to all sectors of the construction market and cycle

The Group is the largest plastic piping systems manufacturer in the UK, as well as the leading player in commercial ventilation. We have number one and two positions across many segments such as above ground drainage, underfloor heating, rainwater systems, drainage attenuation, and plastic plumbing. We have significant presence in residential, commercial and infrastructure sectors, in both new build and RMI.

2. Successful business model with significant barriers to entry, experienced management teams and skilled workforce

Through its business model Polypipe leverages its scale and expertise. Investment in efficiencies delivers continuous improvement and allows our workforce to develop new skills and knowledge which in turn provide barriers to entry and protect our market positions versus competition. Our decentralised business model allows our knowledgeable and experienced local teams to make decisions and act with agility, allowing us to combine the benefits of scale and speed.

3. Significant structural growth opportunities

We are focused on clear structural and environmental growth drivers which underpin a growth rate of 2 to 4% above construction market average across the cycle. Polypipe pursues growth opportunities organically and inorganically. As well as focusing on environmental growth drivers, we also continue to benefit from a structural shift from legacy materials such as copper, clay and concrete toward modern plastic alternatives. We also see significant headroom for technologies such as underfloor heating and mechanical ventilation and heat recovery, where penetration levels will benefit from regulatory drivers.

4. Strong ESG credentials with clear targets and sustainability at the heart of the business

Polypipe is recognised by the London Stock Exchange (LSE) as a 'Green Economy Issuer'. We have a series of committed targets for 2025 and report against these measures regularly. Our growth is linked to addressing the environmental challenges faced by society, and we address those challenges by operating as a sustainable business.

5. A strong, proven, financial track record

Our commitment to above market growth, and the ability to leverage our scale generate strong profitability and cash flow. Polypipe has delivered a successful M&A programme, with further potential for inorganic growth, both in our core and adjacent segments. Polypipe has a strong balance sheet to support that growth, with no defined benefit pension scheme.

Read more on **pages 12 to 24**

Chief Executive Officer's Review

'I am very proud of colleagues' contributions to the Group performance this year and to the greater good of their communities through what have been extremely difficult times for all of us.'

Martin Payne
Chief Executive Officer

"Throughout the crisis, our priority remained the health, safety and wellbeing of our employees and our consumers.

In what has been the most challenging year of our working lives, the Group has demonstrated a robust response to the Covid-19 pandemic. The crisis severely impacted the Group through the second and third quarters, but a sustained recovery in our markets through the fourth quarter left Group revenue for the year 10.9% lower than prior year at £398.6m (2019: £447.6m), with underlying operating profit 46.0% lower than prior year at £42.2m (2019: £78.1m) and underlying basic earnings per share 54.4% lower at 13.5 pence (2019: 29.6 pence).

This resilient performance is down to our incredible colleagues around the Group who have risen to, and overcome, the challenges in taking significant actions to ensure the health, safety and wellbeing of employees and their families, customers, suppliers, and visitors. Notwithstanding the actions that were taken to protect our people, the Group continued to supply through the first lockdown to Covid-19 projects such as the Nightingale Hospitals and other NHS and care facilities, as well as for essential repair and maintenance. In addition, throughout the year, the commitment of our employees to help communities was inspiring. Activities such as repurposing some of our machinery to manufacture and assemble visors in conjunction with local higher education establishments and distributing them to local NHS and care facilities, to donating spare PPE to local hospitals, to raising money and providing transport for local food banks, are just a few examples of our people supporting their communities. I am very proud of colleagues' contributions through what have been extremely difficult times.

2020 started well, with activity levels across the Group improving following the General Election result, albeit impacted by flooding in the North and Midlands in February 2020. The Covid-19 crisis then struck with volumes impacted across the Group, with overall demand levels reducing by up to two thirds in the second quarter driven by the closure of the housing market through April and part of May 2020 and ongoing Covid-19 compliant working practices on sites.

The Group took a number of actions throughout the year to keep our people safe, protect the business, preserve cash, and ensure the Group could continue to invest in its key product developments and projects, and exit the crisis on the front foot.

The Group implemented strict health and safety policies ensuring social distancing, mandatory use of PPE, temperature testing and enhanced cleaning regimes which have continued to be in place as volumes have increased.

We secured a £120m equity raise from investors in May 2020, drew down £100m under the Bank of England's Covid Corporate Financing Facility (CCFF) in May 2020, and agreed an extra £50m Covid-19 facility with our banks in addition to the Group's £300m revolving credit facility. The £100m CCFF loan was repaid to the Bank of England in September 2020. We initially deferred HMRC tax payments which have since been paid. We cancelled the 2019 final dividend, which was due for payment on 28 May 2020 with no 2020 interim dividend. The Board took a 20% voluntary reduction in salaries and fees between April and August 2020 inclusive.

In order to safeguard jobs, up to 60% of our workforce, 1,771 employees, were furloughed under the Government's Coronavirus Job Retention Scheme (CJRS), between March and August 2020 reflecting a reduction in volumes of up to 66% during that period. The £7.7m the Group claimed under the CJRS was paid to our employees, ensuring they had an income whilst avoiding large scale redundancies. Regrettably, restructuring actions needed to be taken in the second half of the year, including 104 redundancies, significantly fewer than the 250 at risk positions announced in July 2020. 1,667 employees have now returned to work and the Group has repaid CJRS amounts of £0.7m for employees subsequently made redundant.

In the latter part of May, the housing markets and new build developments reopened, and commercial and infrastructure sites continued to improve productivity, all under Covid-19 safe operating practices. The UK Government implemented temporary, but welcomed, policies to help boost the housing market, such as stamp duty holidays and Help to Buy extensions. Consequently, our markets started to recover through the third and fourth quarters, with RMI markets performing particularly strongly in this period as household expenditure was diverted from hospitality and leisure activities to home improvements. Overall, according to the Construction Products Association Winter forecast, the UK construction market contracted 14.3% in the year, and against this backdrop, the Group has performed well to deliver the results it has.

Strategy aligned to structural growth drivers

Whilst managing our way through the crisis, we have also focused on the future direction of the Group. We presented a strategy refresh at our Capital Markets Event in November 2020, reiterating our commitment to water and climate management solutions and delivering growth ahead of the UK construction market by both organic and inorganic focus on environmental, regulatory and sustainability-led drivers in this space. We are focused on four key growth drivers given the increasing needs in: resilient drainage; green urbanisation; clean, healthy air and low/zero carbon in heating, and construction more widely.

We continue to deliver on this strategy with investment in new products and technologies including Safe Haven, the ventilation system concept for high occupancy buildings including ultraviolet filters to kill airborne viruses, launched by our Nuaire business in November 2020. These initiatives continue to drive organic growth in these areas. Subsequent to the year end, we made three acquisitions, consistent with these strategic objectives. On 2 February 2021, we completed the £27m acquisition of Nu-Heat, the leading supplier of sustainable underfloor heating solutions, air and ground source heat pumps, and other renewable heating systems. On 10 February 2021, the Group completed the £210m acquisition of Adey, the UK's leading provider of magnetic filters, chemicals and related products, which protect against magnetite and other performance issues in water-based heating systems and improve energy efficiency. This was done in conjunction with a £96m equity raise which was achieved with a small premium to the previous market close, demonstrating the strong shareholder support Polypipe has for this acquisition and its wider strategic direction. The Group also completed the £1.25m acquisition of a 51% stake in Plura Composites Ltd, a manufacturer of a range of products for utility companies, road and rail operators, network builders and designers in the construction and maintenance of their networks and has some unique manufacturing expertise in pultrusion technology, compression moulding, injection moulding and fabrications. These additions to the Group are squarely in line with our strategy and demonstrate the Group's ability to deliver on that strategy.

These recent acquisitions follow Manthorpe, Alderburgh, Surestop, Permavoid and Nuaire, carried out since our IPO in 2014. They are all strong brands and leverage our commercial strengths. These acquisitions are part of our strategy of focusing on structural growth drivers and adjacent sectors, broadening our portfolio of products and technology. Given the significant evolution of the Group we will change the name of the Company from Polypipe Group plc to Genuit Group plc on 6 April 2021. We remain committed to our strong customer-facing brands of which Polypipe is a key example.

Adey shaped the future of water treatment, with the invention of the first magnetic filter

Sustainability is core to the Group's strategy, and during the year the Group committed to some stretching but achievable ESG targets by 2025 covering the circular economy, carbon emissions reductions, innovation, digital, diversity and inclusion and talent management. We have made good progress on a number of these initiatives, with some already yielding improvements against our targets. Our like-for-like carbon impact measure of CO_2e intensity improved by 7.8% compared to prior year. Polypipe Building Products have been awarded certification of ISO 50001, reflecting the focus they have put into their energy management processes. We see recycling as being core to our place in the circular economy, and by 2025 we have committed to at least 62% of our output being from recycled inputs; the maximum which current standards allow across our range. 2020 was a challenging year for recycled content, as the volatility in our markets moved our mix towards those products which do not currently allow its use. Nonetheless, we achieved a result of 45.9% of our tonnage being from recyclate. To achieve our goals and vision, we need a well-trained and engaged workforce. We are now signed up to the pledge of The 5% Club as part of our commitment to increase the proportion of our colleagues involved in some form of accredited learning programmes such as apprenticeships, graduate traineeships, or part time learning. In 2020, despite the pressures of the pandemic, we increased this proportion to 3.8%, compared to 2.8% in 2019.

Chief Executive Officer's Review continued

We undertake an annual survey to assess the level of engagement of our colleagues. We have targeted a 5% improvement per annum, and are delighted that, despite the obvious challenges of the working environment in 2020, the survey results were 6.1 percentage points better than prior year; a tremendous credit to our people at all levels in the business. We are deploying a number of diversity and inclusion initiatives to ensure that we are recruiting from the widest talent pool, and that our businesses reflect the communities and markets in which they operate. Our median gender pay gap in 2020 was 9.9%, compared to a UK-wide measure of 15.5%. In November 2020, we stated a number of digital and innovation initiatives to help future proof our Group. We have now recruited a Group Digital Director to help us on that journey. We also stated that by 2025 we would have a five-year Vitality Index (VI) of 25%, meaning that a quarter of our revenue in that year would derive from products as yet to be launched. We also want 40% of that total to come from genuinely innovative and breakthrough developments. Our launch of Safe Haven was one such development which has triggered significant interest. In 2020, our VI score was 22.8%, reflecting our already successful track record of innovation.

Residential Systems

Revenue in our Residential Systems segment, which is almost exclusively derived from the UK market, was 14.0% lower than the prior year at £223.9m (2019: £260.3m). Residential markets were significantly adversely impacted by Covid-19 in 2020, although much of this impact related to the earlier part of the year with first half revenue 28.1% lower than prior year. Second half revenue was broadly in line with prior year at £131.1m, just 0.2% lower, reflecting the significant improvement in performance in this segment as residential markets recovered.

According to the Construction Products Association, the overall private new house build market declined by 18.1% in the year, with the entire housing market closed down during April and much of May, and then with house developers slowly returning to site as they adjusted to Covid-19 safe operating practices through the Summer. There was some helpful stimulus from the UK Government, notably the stamp duty holiday for housing transactions below £500,000, and extension to the existing Help to Buy scheme, both of which have helped demand recover. Private new housing completions were 21.8% down on prior year but new housing starts were 32.4% lower than the prior year, as housebuilders continued to reduce work in progress and worked existing sites harder in the face of the uncertain outlook. Given the majority of the Group's products in this segment are used in the early stages of site and plot development, this has made the year even more challenging.

The private RMI market was more resilient in the year, being 11.5% down on prior year, with household expenditure being diverted from the hospitality and leisure sectors into home improvements. Within this performance, inflation related price increases of approximately 2% were successfully implemented early in the year. However, this leaves volumes for the year around 16% lower than the prior year, a strong performance given this challenging market backdrop.

Our innovation and product launches continued throughout the challenging environment of 2020 and were recognised by our industry. Manthorpe launched its Redshield range, which combines the requirements of fire integrity and thermal performance in a single cavity closer without the need for liners. This breakthrough innovation was recognised as Product of the Year at the Housebuilder Awards. Manthorpe also launched Thru-Air and Diamond Weep. These products address the complexities of cavity wall construction and reflect our deep knowledge of the applications they serve, and the challenges that users face. Innovation is not only about products, but also about looking at new ways to partner and to add value to our distribution partners. Polypipe Building Products was recognised for its best-in-class performance, when it was awarded Best Plumbing & Heating Manufacturer, in the Builders Merchants Journal Awards.

Business review

Revenue	2020 £m	2019 £m	Change %	LFL Change %
Residential Systems	**223.9**	260.3	(14.0)	(14.0)
Commercial and Infrastructure Systems	**174.7**	187.3	(6.7)	(12.0)
	398.6	447.6	(10.9)	(13.2)

Underlying operating profit	2020 £m	ROS %	2019 £m	ROS %
Residential Systems	**29.8**	**13.3**	53.4	20.5
Commercial and Infrastructure Systems	**12.4**	**7.1**	24.7	13.2
	42.2	**10.6**	78.1	17.4

Residential Systems delivered underlying operating profit of £29.8m (2019: £53.4m) representing a 13.3% margin (2019: 20.5%). As with volumes, the bulk of Covid-19 impact on margin occurred in the first half of the year, with second half margins improving to 17.1%, some 3.3 percentage points below prior year. Continued Covid-19 related costs and operating inefficiencies and increased virgin polymer prices in the latter part of the year prevented margins from returning to normal levels, but this performance still indicates a resilient recovery in margins as we come out of the crisis.

Commercial and Infrastructure Systems

Revenue in our Commercial and Infrastructure Systems segment was 6.7% lower than the prior year at £174.7m (2019: £187.3m), and 12.0% lower on a like-for-like basis excluding the acquisition in October 2019 of Alderburgh. Again, the second half has seen significant recovery compared to the first half with revenue only 2.5% lower than the prior year on a like-for-like basis in the second half.

UK revenue, which accounts for approximately 80% of the overall segment revenue, was 7.0% lower than the prior year, with strong recovery towards the end of the year. The commercial and infrastructure markets remained more resilient through the height of the crisis compared to the residential markets, with contractors being quicker back to work with Covid-19 safe operating procedures compared to house developers, with large scale infrastructure projects, such as Smart Motorway upgrades, able to continue largely without delay. The Construction Products Association shows the UK Commercial new work market 18.6% below prior year in 2020 which gives an indication of the resilience of the segment's performance in the year.

We launched several new ventilation and climate ranges during the year, with the focus on clean, healthy air growing during the pandemic. Safe Haven is a revolutionary new system which combines options for fresh air replenishment alongside virus eradication, and particulate removal. It is tailored for the requirements of individual projects, to deliver clean, fresh air around people's workspaces. We also launched XBOXER Hybrid, which is specifically designed to circulate healthy cool air around classrooms. Both ranges are attracting interest as specifiers seek assistance in improving the management of airflow in shared spaces. It was also pleasing to see XBOXER Hybrid being recognised at the Heating & Ventilation Awards. Elsewhere, the Click Weld technology in the MecFlow range, from Polypipe Building Services, has received an enthusiastic response from contractors and specifiers needing a fast, secure, jointing method. The range is particularly suited to high rise construction and was recognised in the Construction News Specialist Products Awards. Our successes extended beyond the UK, and it was particularly pleasing that our sustainable water management Permavoid range was recognised in the Middle East, as Green Building Product of the Year, at the Qatar Sustainability Awards.

Export revenue, which accounts for approximately 20% of overall segment revenue, was 6.0% lower than the prior year, with all markets impacted to varying degrees by Covid-19. One exception to this was Permavoid which recorded revenue growth of 30% in the year as it delivered on a number of key overseas projects in the green roof, podium deck and sports pitch markets.

Commercial and Infrastructure Systems delivered an underlying operating profit of £12.4m (2019: £24.7m) and represents a 7.1% margin (2019: 13.2%). Second half margins recovered to 9.9% from 3.8% in the first half, approximately 3.5 percentage points below normal levels, and again being impacted by Covid-19 related costs and operational inefficiencies, and higher virgin polymer prices.

Outlook

Our markets continue to recover, with recent extensions to the stamp duty holiday and the existing Help to Buy scheme, together with the recently announced Government mortgage guarantee scheme, providing further confidence in the new housebuilding sector. There remains continued improvement in RMI, commercial and infrastructure markets. Our medium-term demand drivers are stronger than ever – a continued structural UK housing shortage, the regulatory and environmental drivers around water and climate management, and increasingly indoor air quality, will be helpful tailwinds.

The robust response to the crisis to strengthen the Group's balance sheet and continue investment in new products has positioned the Group on the front foot coming out of the crisis. Our businesses have started the new year strongly with no discernible impact on demand from the current lockdown. With our newly acquired businesses Adey, Nu-Heat and Plura, the Board believes the Group is in a strong position to deliver an improved performance in 2021.

Martin Payne
Chief Executive Officer

Strategic Report

Polypipe's Marketplace

Following the impact of Covid-19 across construction sectors in 2020, 2021 promises a recovery, with markets expected to be back to 2019 levels during the first half of 2022.

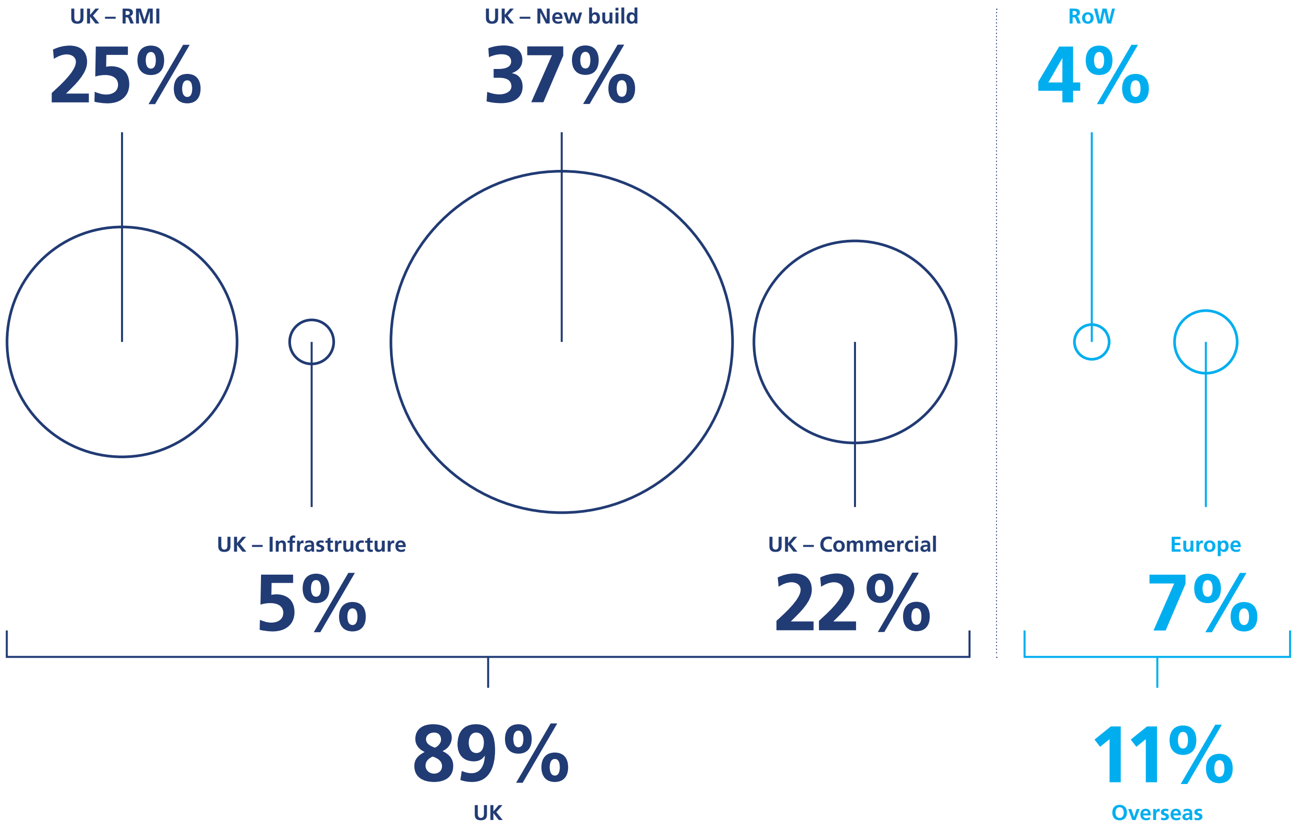
Summary

Total UK construction output is expected to have fallen by 14.3% (source: CPA/ONS) in 2020 compared to prior year. Following the first lockdown, when April saw a decline of 40%, the sector recovered at a faster rate than the wider economy, and showed resilience through the ongoing restrictions, as well as the second lockdown later in the year.

UK construction market outlook

The resilience shown during the second lockdown is expected to remain throughout lockdown three. Unlike during the first lockdown, this time the Government has explicitly stated that construction should remain open, and that it is a key sector of the economy. This continuation of site activity, albeit with ongoing productivity challenges, has sustained the recovery across the supply chain. The base case in CPA assumptions reflects a 14.0% level of growth versus 2020, with 2019 activity levels being surpassed in 2022 due to a further growth of 4.9%. Across the various sectors, there are various stimuli and drivers to sustain this momentum as outlined further below, as well as sites still working to contracts and deadlines that pre-date Covid-19.

Demand drivers



Polypipe's Marketplace continued

The residential sector

Private housing was one of the construction sectors that bounced back fastest and strongest following the end of the first lockdown. There was a helpful mix of pent-up demand from Q2, alongside the time pressures relating to phase one of Help to Buy, and the stamp duty holiday.

The profile of this recovery was focused more toward completions than starts, in part reflecting those time-based drivers meaning that buyers were in the market trying to complete transactions, more so than the developers building speculatively beyond their line of sight of orders. Based on this, starts were 32.4% below 2019 levels, whereas completions recovered in the second half and ended the year 21.8% below prior year at 129,250 homes (source: Ministry of Housing, Communities and Local Government). Residential repair, maintenance and improvement (RMI) proved more resilient, with activity continuing through the first lockdown. When lockdown restrictions began to ease, there was evidence of pent-up demand, along with consumers having more disposable income due to holiday postponements and lack of leisure opportunities more generally, leading to a sharp increase in home improvement activity. This was especially true in those sectors relating to outdoor work such as paving and decking etc., where anecdotal reports were of extremely high demand levels through the supply chain. Across the residential sector, private RMI activity was 11.5% below 2019 levels.

Permavoid being used for a rain garden installation, combining sustainable drainage with urban greening

Moving into 2021 the extent to which the resilience of the new housing continues will be linked to the wider economy, consumer confidence and the Government's policy decisions around extending stimulus or CJRS programmes if required. This is also, of course, set against the backdrop of the Government's mid term target of net 300,000 new homes per year, which is unlikely to be met by the mid 2020s as targeted; certainly without supportive policy decisions. The forecast from CPA is a 26.0% pick up in starts in 2021 to 122,986 units, as the major developers need to rebuild their work in progress pipeline, whereas after the flurry of completions activity in second half 2020 and early 2021, this would rebalance to a level of 147,825 units; nonetheless an increase of 14.1% vs 2020. Whilst these levels are lower than in the recent past, it is also significant to note the relative resilience of the sector, compared to the credit related crisis, when between 2008 –2013 inclusive, there was not one year with over 115,000 housing starts.
The CPA central assumption is that recovery will continue in new housing into 2022, albeit at a shallower gradient, partly due to strengthening comparators. The starts figure is predicted to rise to 148,449 dwellings, which is higher than the 2019 level, with completions also predicted to grow at 7.5%; and although slightly below the 2019 level, the number of starts at 158,942 would be the highest number of completed new homes since 2007. Residential RMI is forecast to increase by 10.1% in 2021, and a further 3.0% in 2022 which would also be an activity level slightly above that seen in 2019.

26.0%
Growth in housing starts 2021 vs 2020

Polypipe's modern, lightweight plastic products allow easy handling, and faster installation

Commercial construction

2020 was the third consecutive year of decline in the commercial new build sector, with Covid-19 exacerbating the recent trend, resulting in a decline of 18.6% versus prior year. The sector struggled with a lack of demand, as well as the impact of a productivity reduction on existing sites, so that although sites were active for the majority of the year, the value of their output was reduced. Within commercial construction, the largest subsector has been offices, which in the recent peak year of 2017 accounted for over a third of commercial construction. However, since that peak, whilst total commercial construction had fallen by 26% by 2020, the office sector has declined by 35% over the same period. However, whilst new office construction is at low levels, there are signs that office RMI work is significantly more active with the post Covid-19 world requiring new thinking around space, layout and ventilation. The other sector which has seen a structural change is, of course, retail, with 2020 37.1% below 2019. The growth in internet shopping and the decline of the high street is well documented, although some construction activity has been displaced and is now picked up in warehouse and distribution categories. Overall, the commercial sector is set for a moderate bounce back in 2021 of 6.9%.

Infrastructure

Infrastructure has been a core element of Government policy around 'build back better', and this along with the nature of outdoor work, generally with low labour intensity, meant this sector was more resilient than others during 2020, and only saw a decline of 4.5% versus prior year. Rail accounted for a third of all infrastructure activity in 2019, and with HS2 and other initiatives now underway, the infrastructure sector is expected to continue to outperform the general recovery. In 2021 CPA/ONS forecast infrastructure growth of 32.1% compared to 2020, with modest growth continuing into 2022 and beyond as road programmes and the peak of the investment cycle in certain regulated utilities also impacts the numbers.
The detail of the data in infrastructure can be less reliable than other sectors due to the size of orders being placed and the protracted delivery timescales thereafter, but nonetheless the trend is clear, and it is fairly certain that infrastructure will be the first segment to be running at 2019 levels or better as we emerge from the Covid-19 pandemic.

> "The speed of recovery in construction highlights the resilience of the sector, and the underlying fundamentals.

We’re Helping Construction Build Better

Polypipe has a clear sense of purpose, a vision, and a strategy by which to deliver against that vision.

Our vision

Our goal is to be the leading, UK-focused, sustainable construction products group.

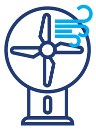
Providing solutions to the sustainability challenges of today is at the heart of what we do. Polypipe finds solutions for the environmental challenges facing our buildings, our infrastructure and our communities. In addressing these issues, we will focus on four key environment-led growth drivers, and in doing so we will outperform the underlying construction sector growth rates.

1

The increased need for resilient drainage systems. Planners and developers now have to consider more frequent and more extreme events, and need new solutions to manage water sustainably.

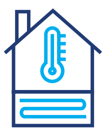
2

The need for green urbanisation. As population density puts pressure on our urban areas, the value of green spaces becomes ever more important. We see green urbanisation as a way of integrating solutions to improve air quality and wellbeing, whilst also providing water management functionality.



3

The need for cleaner, healthier air. The problem of particulates and pollutants in the air we breathe was already a key driver, and now the situation has expanded due to the Covid-19 pandemic, so that we also view well ventilated spaces as being part of the defences against viruses.



4

Low/zero carbon heating, and low carbon construction. The built environment is a contributor to carbon impact, and via regulation such as Part L, the way we heat homes and buildings needs to play a key role in meeting the UK’s climate change commitments to carbon reduction. Beyond that, we also see modernising construction methods and materials as having a role to play in reducing the carbon impact of the built environment.

We will do this by:

Winning sustainably
To be consistent with the environmental challenges we seek to address, we will also operate in a resilient way because we are in the business of sustainability.

Having a decentralised business model
So that decisions are made by people who understand customers and markets, and with the speed and agility today’s world demands. We ensure our goals are well understood by our colleagues so that they can be empowered to deliver them.

Focusing on core capabilities
Although we are fundamentally decentralised, we develop our key competencies in sales and marketing, innovation, leadership and talent management, supply chain, and innovative manufacturing so that we can leverage the benefits of our scale and the experience of our colleagues.

Case Study

Transformative flooding infrastructure to create a more resilient UK

Following storms Dennis and Ciara, which ripped through various UK towns and villages just over a year ago in February 2020, more than 82,000 homeowners claimed for flood and wind damage. The total cost of repairs topped £360m.[1]

In response, the Government acted on enduring pleas for help from local authorities and members of the public, and pledged £5.2bn to improve flood resilience up and down the country.

As part of the funding, over 2,000 new flood and coastal defences will be delivered, while thousands more upgrade and expansion projects will take place on existing flood protection infrastructure. All projects must be completed by 2027 which, the Government says, will make us a nation more resilient to flood risk, providing increased protection to over 336,000 vulnerable properties in England alone.

The extra funding came additionally to the £200m which had already been ringfenced for innovative flood defence projects, including sustainable drainage systems and nature based solutions – such as temporary or permanent water storage areas specifically designed to boost wildlife. This latter programme, which comes into play in April 2021, will deliver projects which in their design must simultaneously reduce flood risk and deliver additional community benefits.

Both are significant movements for the country but, crucially for Polypipe Civils & Green Urbanisation, will allow us to demonstrate the key role our products and integrated solutions play in futureproofing the country's infrastructure, particularly in relation to flooding and surface water drainage. Our water management systems are proven to not only improve flood resilience, but also support greater biodiversity which in turn helps achieve zero carbon and net gain objectives.

The Government's priorities to better protect the country from the impact of flooding go hand in hand with our own, long-standing objectives. We aim to be front and centre of the rollout of these transformative technologies, building on the many successful outcomes we have already achieved in some of the most flood-affected parts of the UK.

Permavoid cells being installed to prevent surface water flooding

Such was the case at Churchdown Surgery in Churchdown, Gloucestershire, which serves 20,000 patients from the local community. The village is prone to flooding and in 2007, Gloucestershire was hit by 78mm of rainfall in just 12 hours, which significantly impacted the surgery and its extensive car park, as well as having a knock on effect on the surrounding areas.

We were appointed to implement a solution which would mean that, even if the area experienced similar high rainfall the sewer and drainage systems would not be overwhelmed. Working together with consulting engineering firm EPG and civil engineers NGB Cheltenham, we assessed the existing water table in the car park, which offered limited water storage.

Building on the initial design, which had been delivered by contract engineer Rutter Johnson, we supplied 2,614 Permavoid cells – our shallow attenuation system with high structural load capacity – for use beneath the new permeable paving car park. This provided 138m^3 of shallow stormwater storage. 40m^3 of additional capacity was realised in two Polystorm tanks sited beneath the landscaped areas surrounding the car park. Both tanks were fitted with anti-flotation measures designed specifically for such high water table conditions.

The growing issue of climate change-driven flooding is a worldwide challenge exacerbated by increased population and city expansion. It is essential that the nation continues to invest in next generation solutions and takes a holistic approach. Storage of surface water creates innovative opportunities for reuse in urban landscapes that can support multifunctional green spaces, optimised to the local environmental and community needs.

1. https://eciu.net/analysis/briefings/climate-impacts/flood-risk-and-the-uk

£5.2bn

UK Government funding for flood defence schemes to be completed by 2027

Our Business Model

Our purpose

We address the challenges caused by climate change and urbanisation by providing water and climate management solutions. We're helping construction build better.

Our resources

People
Experts knowledgeable on our customers' applications and empowered to act.

IP/expertise
Innovation, continuous improvement and unique IP defends our market positions.

Strong leadership
Clear direction and focused resource allocation enables our colleagues to deliver our strategic vision.

Capital investment
Disciplined capital allocation to fund sustainable profitable growth, consistent with our strategic objectives.

How we create value

Smart solutions
Digital tools provide controls, monitoring systems and data management expertise which add value for customers.

Engineered solutions
Design and engineering expertise combine mechanical performance with economic value. Many of our solutions are bespoke for particular customer or project needs, where we can use our knowledge of applications and translate that into tailored offers.

Discrete products
Practical solutions to practical challenges. Our focus and passion for excellence begins with some of the simplest products in our ranges. Our scale affords automation and high levels of efficiency in these high volume lines.

Driven by competitive advantage

Trust
- Market leadership
- Respected brands

Value
- Intelligent engineered solutions
- Smarter thinking and better solutions

Capability
- Industry authority
- Product innovation

Sustainability
- Sustainable products and practices
- Addressing environmental challenges

Range
- Breadth and depth of product systems

Support
- Leading-edge design expertise
- Application-based technical support

Competence
- Manufacturing and logistics scale
- Bespoke product solutions

Our sustainability framework

Advancing the circular economy
We want to lead the industry in recycling and waste. It is our ambition to increase recyclability to its maximum threshold and to become a zero-to-waste operation.

Developing sustainable solutions
In order to drive new areas of growth, we want to scale innovation for sustainable products, increase the proportion of new and breakthrough products, and use digital technology to add value.

Creating sustainable value for our stakeholders

Customers
Quality and innovative products, engineered solutions that enable a sustainable built environment, support, value, range, bespoke solutions, thought leadership, Polypipe brand.

Investors
Dividend, capital growth opportunity, responsible and ethical investment.

Employees
Training and skills development, commitment to diversity, direct engagement and empowerment, providing a chance to make a difference.

Suppliers
Long-standing relationships, fair negotiation, certainty on payment, reputation, visibility on revenues.

Communities and the environment
Working towards a sustainable built environment, sustainable products and practices, enhancing the environment, while engaging with communities and charities.

To help our customers
Polypipe helps professionals create sustainable, engineered water and climate management solutions for the built environment.

Customers
- One-off installers
- Contract installers
- Civil engineers and contractors
- M&E specifiers

Who then deliver to the end user
- Housebuilders
- Civils and Commercial sector developers
- Asset owners and self-builders

With four environmental growth drivers

1 Requirements of resilient drainage
A warmer, wetter world with unexpected and more frequent weather events will need innovative flood water drainage systems better suited to the climate.

2 Climate management solutions for cleaner air
Pollution, particulates and viruses in the air pose a threat to health and wellbeing, particularly in cities. Intelligent climate management systems deliver cleaner and more hygienic air indoors.

3 The need for green urbanisation
Growing cities, impacted by climate change, suffer from the 'heat island effect'. Green urbanisation solutions mitigate this and help reduce water scarcity and increase biodiversity.

4 Low/zero carbon heating
As a result of the energy transition, there is increasing need for low and zero carbon heating solutions in the context of the move towards a more sustainable built environment.

Tackling climate change
We are committed to reducing the carbon footprint from our operations and products by focusing on reducing overall emissions without resorting to carbon offsetting.

Investing in an engaged and diverse workforce
We are determined to bring in different perspectives through building a much more diverse talent pool and supporting our colleagues and communities to build back better.

Six Strategic Growth Drivers

Providing solutions to sustainability challenges is at the heart of our growth agenda.

In order to achieve our vision and to outperform the underlying construction market, we focus on four environmental growth drivers, as well as seeking to capitalise on two further trends and opportunities.

Growth drivers driven by the sustainability challenges we face

The issues of climate change, carbon impact and air quality are key to society, and we recognise the role that the built environment has in tackling them. Therefore, we are focused on addressing four key drivers at the heart of our strategy:

1. The increasing need for resilient drainage
2. The need for green urbanisation
3. The focus on clean, healthy air
4. The move toward low/zero carbon heating, and construction more widely

In addition to this we also see the continuation of:

5. Legacy material substitution
6. Geographic growth

1

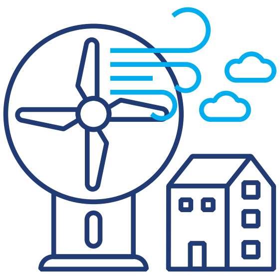
The increasing need for resilient drainage

As our climate changes, planners need to cater for more frequent extreme weather events. This combines with increased urbanisation to place higher demands upon flood and drainage management systems, requiring ever more sophisticated solutions. The need to manage large volumes of water, in a sustainable way, is a key issue facing planners and developers.

2

The need for green urbanisation

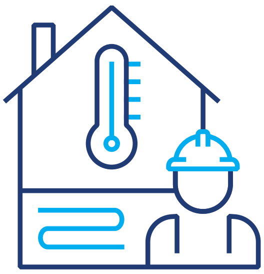
As more people live in our towns and cities, society is placing demands upon solutions which integrate drainage functionality along with providing better urban environments. The ability to use green spaces as part of water management, and as a way to promote air quality is a real opportunity to move beyond basic product functionality and to provide added societal value.



3

The focus on clean, healthy air

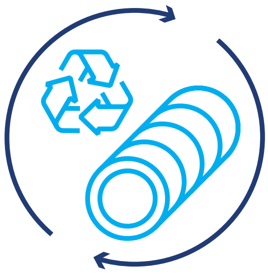
Air quality is a key challenge both within buildings and the open spaces of the built environment. The Covid-19 pandemic has heightened the focus on the need for well ventilated spaces in which to live, work or learn. The quality of the air we breathe inside buildings and in our external living space is now high on society's agenda.



4

Low/zero carbon heating and low carbon construction

Heating buildings with less carbon impact is a key component of the Government's commitment to addressing climate change. This is in regulatory form via building regulations such as Part L, but society is increasingly aware of the need for lower energy heat and consumers are being proactive in their choices. We see this trend alongside the need to address the broader carbon impact of construction activity, and we recognise the role the construction sector supply chain can play in becoming low/zero carbon.



5

Legacy material substitution

Although the majority of our target segments are now substantially converted to modern products, there are still some sectors where substitution continues to represent an opportunity. As materials develop, and attitudes change, so we see continued growth headroom through the ongoing move to plastic alternatives.

6

Geographic growth

Given the international nature of our growth drivers, many of our solutions are attractive in overseas markets. We see opportunities to serve these needs via export models or cooperation with local partners. Although we remain focused primarily on UK opportunities where we can best leverage our commercial footprint, we foresee geographic reach continuing to be a growth driver.

Key Performance Indicators

As a Board, we continually review our performance indicators that are critical to the measurement and delivery of our strategic objectives and sustainable shareholder returns.

We have defined our Key Performance Indicators (KPIs) to measure alignment between our operating activity and strategic goals.

Strategic objectives

Sustainable water management solutions	1
Sustainable climate management solutions	2
Legacy material substitution	3
Legislative tailwinds	4
Smart solutions, innovation and continuous improvement	5
Customer-focused complete solutions	6
Geographic reach	7

Financial KPIs

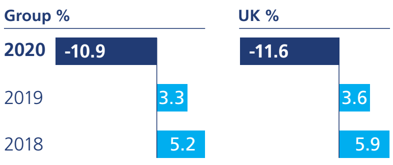
Sales growth

Link to strategic objectives:

3 4 6 7

The annual percentage growth in both Group and UK (by destination) revenue.

Importance to Polypipe
Our strategy is to ensure that investment in our people and operations drives sales growth which outperforms the construction market, thus enhancing our market leadership position.



Commentary
Group revenue decreased 10.9% compared to a decrease in the overall UK construction market of 14.3% as suggested in the CPA Winter forecast. This continued outperformance of the market reflected the benefit of our strategy including new product development and legacy material substitution.

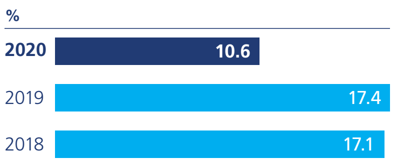
Underlying operating margin

Link to strategic objectives:

3 4 5 6 7

Underlying operating profit as a percentage of revenue.

Importance to Polypipe
Indicates that we are investing in the right initiatives and operating efficiently, by driving out non-value-added costs and delivering productivity gains.



Commentary
Underlying operating margin decreased 6.8 percentage points to 10.6% due to significantly lower volumes in the first half of the year and ongoing costs associated with Covid-19.

Non-financial KPIs

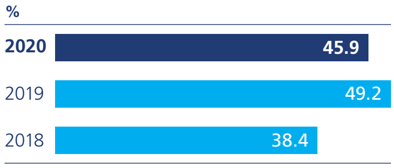
Recycling

Link to strategic objectives:

5 6

The proportion of the Group's overall polymer consumption satisfied with recycled materials.

Importance to Polypipe
The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations including reducing waste to landfill.



Commentary
We continued to invest in innovative and sustainable projects, such as the next generation of our Polysewer PVCu structured wall sewer pipes and fittings, an alternative to the more traditional concrete and metal products. However, the proportion of recycled materials used decreased because the proportion of regulated products manufactured increased.

Accident frequency

Link to strategic objectives:

5

The number of reported accidents as a proportion of the number of production hours across the whole Group.

Importance to Polypipe
Beyond mere compliance, this is an indicator of the state of health and safety at our various sites and the degree to which the workers are protected from work-related hazards at their workplace. Our aspiration is to achieve zero accidents every year.

Frequency per 100,000 hours worked

2020	4.26
2019	5.97
2018	6.04

Commentary
Accident frequency declined to 4.26 during the year, despite challenges caused by the Covid-19 pandemic, reflecting our continued focus on behavioural and cultural improvements in addition to standards and legal compliance.

Developing our workforce

Link to strategic objectives:

5

The proportion of our UK colleagues actively participating in The 5% Club recognised learn and work schemes such as apprenticeships, graduate trainee programmes and student sponsorships.

Importance to Polypipe
Developing and investing in our colleagues drives sales growth, operational efficiency and profitability whilst facilitating employee retention and enhancing workforce morale.

%

2020	3.8
2019	2.8
2018	1.3

Commentary
This measure increased 1.0 percentage point to 3.8%, despite the 2020 short-term challenges, due to our long-standing commitment to investing in, and developing, our colleagues.

Greenhouse gas emissions

Link to strategic objectives:

1 2 5

The intensity ratio is defined as the total tonnes of Scope 1 and 2 CO_2e produced per total tonnes of production.

Importance to Polypipe
The year-on-year improvement in this measure demonstrates our commitment to operate in an environmentally sustainable manner as the Group continues to grow.

Intensity ratio

2020	0.252
2019	0.273
2018	0.290

Commentary
Energy efficiency has continued to increase during the year, despite challenges caused by the Covid-19 pandemic. This has been achieved due to the initiatives adopted in the current and previous years, including energy efficiency awareness groups and third-party audits of our energy usage.

Underlying EPS

Link to strategic objectives:

3 4 5 6 7

Underlying diluted earnings per share.

Importance to Polypipe
Provides Polypipe's investors in particular with a consistent indication of the Group's underlying financial performance.

PPS

2020	13.3
2019	29.2
2018	28.1

Commentary
Underlying diluted earnings per share decreased to 13.3 pence driven by the reduction in Group revenue and operating margin due to the suddenness and speed of lost trade caused by the Covid-19 pandemic.

Cash conversion

Link to strategic objectives:

3 4 5 6 7

Operating cash flow excluding non-underlying items less net capital expenditure to underlying operating profit.

Importance to Polypipe
Our focus on cash conversion demonstrates our focus on efficiency as well as enabling us to fund future organic and inorganic growth.

%

2020	93
2019	93
2018	96

Commentary
Our cash conversion rate was 93%, reflecting the benefit of our disciplined approach to cash management despite the challenges caused by the Covid-19 pandemic.

Return on capital employed

Link to strategic objectives:

3 4 5 6 7

Return on capital employed is the ratio of underlying operating profit, adjusted for the full year benefit from acquisitions during the year, where relevant, to average net assets excluding loans and borrowings, cash and cash equivalents and taxation.

Importance to Polypipe
A key indicator of the efficient deployment of capital on the right initiatives and of Polypipe's overall business performance.

%

2020	8.0
2019	15.2
2018	16.3

Commentary
Despite the Covid-19 pandemic, the Group continued to invest in key, strategic and innovative projects.

Operating Responsibly

Polypipe is making the built environment more sustainable by helping create a more resilient planet, society, and business.

Our approach

In order to ensure we operate sustainably we have a framework which covers four areas, each of which has a series of measures, action plans and targets through to 2025.

1. Advancing the circular economy

We want to lead the industry in recycling and elimination of waste. It is our ambition to increase our use of recycled products to its maximum permitted threshold while pushing for those boundaries to be extended, and to become a zero to landfill operation.

2. Developing sustainable solutions

We recognise that the challenges faced within the built environment are changing, and require new solutions. Innovation is engrained in our culture, and is also key to the resilience of the business. We will continue to lead through innovation, and look to encompass digital capability in the solutions we develop.

3. Tackling climate change

We are committed to reducing the carbon footprint of our operations and products by reducing our carbon emissions without resorting to carbon offsetting. We also engage with our customers to look at ways to reduce the carbon impact of the construction processes in which we are involved.

4. Investing in an engaged and diverse workforce

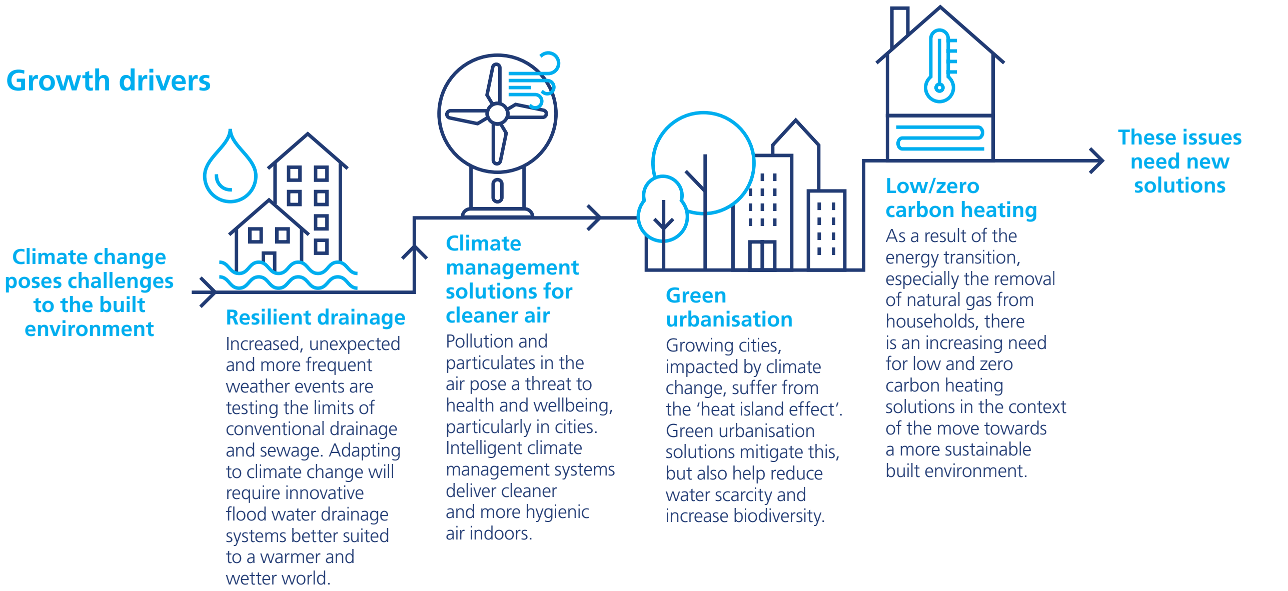
We are committed to drawing upon the widest possible talent pool, and recognise the benefits that diversity plays in bringing broad perspectives into the business. We measure our employee engagement, and commit to various 'learn while you work' programmes to ensure the continuous development of our colleagues.

Polypipe recognises the impact that we have on the built environment, both locally and at the macro scale. Our products and how they are produced have the capability to create a positive and sustainable impact. During 2020 a group of senior managers within Polypipe developed a series of granular targets and outline action plans which apply across the four areas of our sustainability framework. Some of these build on what we have been doing for some time, some stretch us in new areas, and they combine to give us a robust approach and series of targets to accelerate our progress over the next five years. These targets are well communicated internally and externally, and we hold ourselves accountable for delivery against them as we ensure a resilient business for the future. The topics and targets are embedded in appraisals of staff and management, and for some colleagues, form part of performance evaluation as part of their variable remuneration. Embedding our sustainability agenda across the workforce is a key focus for us in achieving our objectives. At the same time, reflecting the communities in which we exist, we have to articulate our sustainability credentials in order to recruit and retain talented people. We have committed to raising the bar for sustainability, for ourselves and for others, and we want to see smarter and more sustainable processes right across our industry. Working together, we will make the built environment more sustainable for generations to come.

Sustainable Solutions

Sustainability is core to our commercial strategy, driving innovation in both how we run our business and the products we create. We find solutions for the environmental challenges facing our infrastructure, our buildings and our communities.

Growth drivers



Increased, unexpected and more frequent weather events are testing the limits of conventional drainage and sewage systems, and planners are now required to design to take these extreme events into account. Adapting to climate change will require innovative floodwater drainage systems, better suited to a warmer and wetter world. As UK market leader, we provide a range of solutions to excessive rainfall events, and population density. Our Polystorm, Pluvial Cube, Versavoid and Ridgistorm-XL systems provide designers with a range of options and functionality so that they can integrate drainage performance within the landscaping and structural requirements of their projects.

Growing cities, impacted by climate change, suffer from the 'heat island effect' as warm air radiates between the buildings and from the results of excessive concretisation. Solutions for green urbanisation mitigate against this, but also reduce water scarcity and increase biodiversity. Polypipe's Permavoid and Polysync solutions allow designers to manage stormwater whilst creating green and vibrant spaces for people. Their use in podium solutions, green roofs and rain gardens help promote cooler healthy outdoor air, as well as a visually pleasing environment.

Pollution and particulates in the air pose a threat to health and wellbeing, particularly in cities. Some of our solutions above can help mitigate against this, but still the quality of the air we breathe in our homes and workplaces is an increasing source of concern. The issues of particulates have been high on the agenda for some time, and of course the Covid-19 pandemic has also heightened the importance of clean, well ventilated air in the fight against virus transmission.

Intelligent climate management systems deliver cleaner and more hygienic air indoors. Our systems, such as Safe Haven and Noxmaster, remove harmful viruses and particulates and form bespoke solutions to move clean air around homes, offices and schools.

As a result of energy transition, and the Government's climate change commitments, there is now an increasing need for low and zero carbon heating solutions in the context of the move towards a more sustainable built environment. In order to provide comfort with lower energy inputs, solutions need to be more efficient, and to make use of larger emitter surfaces. Our mechanical ventilation and heat recovery systems (MVHR) take warm air from kitchens, bathrooms and so on and reuse it to heat homes, whilst our intelligent underfloor heating systems effectively turn whole floor areas into radiators.

Sustainable Operations

While serving the issues of environmental change, we also ensure that we are winning sustainably. This means that we understand our impacts, and operate our business in a sustainable, resilient way.

Sustainable materials

Plastic is a durable flexible material that is essential to our lives and plays a critical role in sustainable infrastructure – but it must be used in the right manner. For too long, and by too many, plastic has been discarded, polluting our spaces and waterways. We take plastic waste, such as so-called single use bottles, and recycle it to create long lasting infrastructure and construction products. Many of these products have a design life of fifty or even a hundred years. It is just one part of our commitment to creating a more circular economy, and moving away from the old linear economy model of 'Take-Make-Waste'.

Polypipe has long been a leader in the use of recycled materials. Our multi million pound investment in our Horncastle plant has processed 105kt since it was commissioned. We have set an ambitious target of 62% of our total processed tonnage being from recyclate by 2025. The proportion of recycled material in many products is regulated by standards and norms, some of which are outdated and not representative of modern technical capability. The 62% target is the calculated maximum which standards would permit across our product mix. Through our industry bodies we will use our leading positions to work with partners to shape the regulatory agenda to enable more recycling to be used in more innovative ways, without compromising product performance. This means that in the medium term we hope to shift this ceiling on usage of recycled materials, and that we plan to do all we can to help the construction products sector play a greater role in the circular economy.

A future-proofed business

Innovation plays a key role in the resilience of our business. Identifying new solutions to the major environmental challenges the world is facing is core to our growth – but it requires innovation to create those sustainable products and solutions. We have set innovation targets to ensure that we focus not just on the performance of today, but also to ensure that we have solutions in place for the problems of the future. As part of our 2025 sustainability targets, we have committed to a Vitality Index level of 25%, which means that in 2025 a quarter of our revenue will be comprised of products and systems which do not yet exist. Furthermore, we aim to have 40% of those new products falling within the definition of breakthrough product innovation. We will also be introducing solutions that themselves are sustainable, and to ensure this is the case, our New Product Development (NPD) programmes now have environmental impact assessment as a fundamental part of their project management processes. We are also aware of the process innovation opportunities presented by digital, and are increasing our investment and resource levels to use digital capabilities around forecasting and pricing, as well as embedding digital reviews in NPD to explore ways of putting digital functionality in our new products and systems.

We are focused on developing the diversity of our workforce, recognising the critical role this plays in sustaining the culture of innovation and creativity that is key to delivering on our ambitions.

We also see programmes which allow colleagues to learn in work as a way to increase the skillset of our workforce, ensuring we keep pace with the challenges we face. We have joined The 5% Club, and are progressing well on that journey of increasing skill levels.

The environment and emissions

We aim to minimise the lasting impact of our operations on the environment, and sustainability is a key feature of our products and their impact on the environment. See page 21 for further details of our sustainable solutions for the environment.

Our modern and efficient injection moulding and extrusion operations use significant amounts of electricity. We monitor very closely our electricity usage, even at a machine level, and take a proactive approach to improve energy efficiency. The Group collects and analyses electricity and natural gas usage information from each business unit on a monthly basis.

The following tables on page 23 detail the energy consumption and greenhouse gas emissions (GHG) from the activities of the Group during the period January 2019 to December 2020. Our greenhouse gas emissions, reportable under SECR during the period specified above, were 36,516 tonnes CO_2e. This figure has been calculated using the UK Government's most recent GHG Conversion Factors for Company Reporting (2020). This is in line with standard industry practice and allows fair comparison with other UK businesses.

"

By 2025 we will reduce our Scope 1 and 2 carbon impact by 66%. We will achieve this without resorting to offsets.

This figure includes all the material Scope 1 and Scope 2 emissions, required to be disclosed by the specified legislation, plus additional Scope 3 emissions. The Scope 3 emissions include transmission losses and well-to-tank losses and have been included voluntarily, in line with previous submissions.

Our Group GHG emissions in tonnes of carbon dioxide equivalent (tCO_2e) by source were as shown in the table below.

Our Group GHG emissions in tonnes of carbon dioxide equivalent (tCO_2e) by scope and reporting period were as shown in the table below.

Our GHG emissions were calculated using the methodology set out in the updated GHG reporting guidance issued in June 2013 by the Department for Environment, Food and Rural Affairs (DEFRA). Carbon emission factors were taken from the Department for Business, Energy and Industrial Strategy's 2019 update of GHG Conversion Factors for Company Reporting, with the exception of non-UK electricity, which were taken from the European Residual Mixes 2017: Association of Issuing Bodies.

The introduction of SECR means that companies are required to publish annual energy consumption as well as emissions. The table below shows the total energy consumption for the Group and the split in energy source/fuel type. It is apparent that there have been reductions in energy consumption in both electricity and transport fuel, when compared to 2019. As mentioned previously, 2020 has been an unusual year as the Group's activity has been hampered by the UK's response to Covid-19, with the initial lockdown in 2020 halting productivity and reducing the requirement for transport. Gas consumption has increased when compared to 2019; Aylesford's CHP reducing the Group's demand for electricity, but also increasing the Group's reliance on gas.

Our Group energy consumption in megawatt hours (MWh) by type and reporting period were as shown in the table below.

Boundary, methodology and exclusions

An 'operational control' approach has been used to define the GHG emissions boundary. This approach captures emissions associated with the operation of all buildings such as warehouses, offices, and manufacturing sites, plus Group-owned transport. This also covers Polypipe's UK, Italy and the United Arab Emirates operations. This information was collected and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, 2019. Emissions have been calculated using the latest conversion factors provided by the UK Government. There are no material omissions from the mandatory reporting scope.
The reporting period is January 2019 to December 2020, as per the financial statements.

Energy efficiency initiatives

SECR legislation requires that every company provides some basic information in our Directors' Report on the energy efficiency initiatives carried out in the financial year covered by this Annual Report & Accounts. Further to demonstrating our commitment to sustainability through the recycling of end of life material at the Horncastle facility, we (as members of the UK's CCA scheme) have agreed to achieve a 3.8% improvement on 2018 efficiency by the end of 2022. Six of the Group's manufacturing sites fall under the CCA scheme, with a further two sites signing up to the scheme at the end of 2020.
To support achieving this target we have committed to reviewing our approach to energy management at the main manufacturing sites. Indeed, at the end of 2020, two of the main manufacturing sites; Broomhouse Lane and Neale Road, have achieved ISO 50001 certification.
The intention is to overhaul the current energy management framework across the Group, thus facilitating identification and implementation of energy saving opportunities.

Greenhouse gas emissions by source and reporting period

	%	2020	2019	Change
Source				
– fuel combustion (stationary)	13.0	**4,739**	3,261	45.3%
– fuel combustion (mobile)	30.8	**11,252**	13,976	(19.5)%
– fugitive emissions (F-gas)	1.8	**665**	940	(29.3)%
– purchased electricity	54.4	**19,860**	24,993	(20.5)%
Total emissions (tCO_2e)	100.0	**36,516**	43,170	(15.4)%
Output (tonnes of production)		**128,036**	139,308	(8.1)%
Intensity (tCO_2e) per tonne of production		**0.285**	0.310	(8.0)%

Greenhouse gas emissions by scope and reporting period

	2020	2019	Change
Total emissions (tCO_2e)	**36,516**	43,170	(15.4)%
Scope 1 and 2 emissions intensity*	**0.252**	0.273	(7.8)%
Scope 3 emissions intensity*	**0.033**	0.037	(9.5)%
Total emissions intensity*	**0.285**	0.310	(8.0)%

* Expressed in tCO_2e per tonne of output

Energy consumption by type and reporting period

Energy source (MWh)	%	2020	2019	Change
Electricity	53.2	**77,363**	86,803	(10.9)%
Gas	15.0	**21,789**	8,903	144.7%
Transport fuel	31.2	**45,431**	49,455	(8.1)%
Other fuel	0.6	**819**	Not reported	n/a
Total	100.0	**145,402**	145,161	0.2%

People

Polypipe Group employs some 3,000 colleagues. We recognise the contribution our people make to the Group's success, and are committed to attracting talent from the widest possible pool.

Employee engagement

We operate a decentralised business model, in order to delegate as much decision-making as possible to people who are close to customers and experts in their fields. This works best when our colleagues are engaged with their local business and the wider Group, and that they understand our goals and the role that they can play. We measure employee engagement every year via a survey. This was more challenging in 2020 due to the Covid-19 compliant working environments, but nonetheless our total aggregate engagement score improved by 6 percentage points to 61.8%. We are delighted that despite the challenging year, we were ahead of our communicated target of improving engagement scores by 5% per annum. Continuous improvement is a key part of our culture, and generates real financial benefits for the business as well as providing development opportunities for colleagues. Throughout the pandemic we have continued to invest in continuous improvement programmes, which places us in good stead for the future.

Learning and development

We retained our focus on developing and training our colleagues, despite the short-term challenges that 2020 presented. As part of our sustainability commitments, we have joined The 5% Club, which commits us to having 5% of our workforce actively involved in recognised learn and work schemes such as apprenticeships, graduate trainee programmes and student sponsorships. We have shown progress toward our target with a 2020 result of 3.8%.

Diversity and inclusion

We want to be able to attract people from the widest possible talent pool. This means that people of all ethnicities, disabilities, genders, sexual orientations and backgrounds must see Polypipe as a place in which they can feel welcomed, and capable of achieving progress. Therefore across our various businesses we are committed, for example, to having an ethnicity mix which reflects their local communities. We are implementing the key MacGregor-Smith recommendations to help us progress on this journey. We are also taking steps to achieve a Group-wide gender mix in line with the Hampton-Alexander Report guidelines. The Group wants an average gender pay gap across our businesses to be at least in line with the UK median gender pay gap. In 2020, our analysis showed that our gender pay gap had improved versus 2019, and stood at a median difference of 9.9% which compared to a UK median gap of 15.5% on the same basis. There is still work to do in this area and we are committed to various measures to improve this further. Regarding disabilities, the Group has regard for people's aptitude and ability to perform roles while maintaining a safe working environment. Where employees become disabled, the Group makes appropriate adjustments to their working environment or duties, endeavouring to maintain employment wherever possible and practicable.

Percentage of workforce in structured learning

3.8%

2019: 2.8%

Health, Safety and Wellbeing

The Group aims to continuously improve the quality and safety of the working environment for all employees.

The Group has a published health, safety and environment policy that sets out the overriding principles of health and safety for all employees. The Group divisions operate to externally accredited ISO/OHSAS standards. Group divisions apply the standards as a minimum level of compliance with additional internal processes covering aspects such as training, incident management audit and review.

Each operating site undertakes regular review of health, safety and environmental performance, discussing current and emerging risks and agreeing mitigation plans. Health and safety performance and details of all significant incidents are reviewed during the weekly executive meetings attended by the Executive Directors and certain senior managers. Details and learning are communicated across the Group ensuring a consistent approach and to prevent reoccurrence.

The Group recognises the importance of understanding and improving the safety culture. As such, we continue to deliver Group-wide behavioural based safety training programmes. Safety ambassadors were introduced in 2018 and are now fully established to continually monitor, advise, and improve safety performance in addition to increasing the positive profile of the cultural change plan.

The Group operates a formal system for reporting and recording hazards and near misses. The 'see it, sort it, report it' scheme encourages individuals across the business at all levels to report hazards and suggest solutions, and allows trends to be analysed. This reporting procedure continues to be a catalyst for multiple operational and safety-related projects.

The Group continued the implementation of a focused, formalised safety tour programme for management. These safety tours, undertaken by Executive Directors through to department managers, engage staff and further encourage health, safety and environmental discussion and improvement.

Covid-19 response

In response to the pandemic and the changing landscape and requirements throughout 2020, the Group implemented a series of measures to ensure that our operating sites and offices remained safe and secure. The Group followed Government advice as a minimum and will continue to do so. The business continued operating with those able to work remotely doing so, this included Executive and plc Board members with Board meetings and a Capital Market Event being delivered remotely.

All of our sites have extensive hand sanitiser stations, and temperature screening facilities

> "The Group is extremely proud of the contribution made by colleagues to allow safe working during the pandemic.

Health, Safety and Wellbeing continued

Significant physical and management measures have been introduced across the Group including:

- Covid-19 specific risk assessments are in place, communicated and under regular review. Additional and regular training and communications to all staff regarding the measures continue to be carried out. The Group applied 2-metre social distancing rules, where this is not possible additional controls such as physical screens and barriers are in place in addition to work process and layout changes. Increased cleaning and hygiene regimes are in place focusing on high touchpoint areas as identified in the Covid-19 risk assessments.
- The Group checks the temperature of all employees and visitors on arrival to site. Those with a high temperature are refused entry and advised to have a Covid-19 test. All employees and visitors are required to wear face coverings whilst on the premises.
- Selected departments use proximity sensors to support and inform the local management teams on areas where social distancing is not possible and identify areas of improvement in addition to monitoring individual compliance.

Various Group sites have been visited by the HSE Covid-19 inspection team as part of their ongoing programme to check business compliance. The inspectors noted high levels of compliance and best practice being applied.

Health and safety achievements in the year

Following eight consecutive RoSPA gold awards, the Group achieved the gold medal award for exceptional performance and dedicated support for health and safety within the organisation.

In February 2020, the Group held its first occupational health event at Manthorpe Building Products. Supported by the Group occupational health team, local health providers and charities provided information and health checks to employees.

The Group invites teams to submit details of projects carried out which have had a positive impact on health and safety. Sponsored by the executive team, the Polypipe CEO health and safety contribution award recognised two team projects and one individual contribution. In addition to internal recognition the Group donated £3,000 to the award winners' chosen charities.

Accident frequency

The table below sets out the KPIs used by the Group to monitor accident frequency:

	2020	2019	2018
Frequency per 100,000 hours worked			
– all accidents (excluding HSE reportable accidents*)	**3.78**	5.54	5.68
– HSE reportable accidents*	**0.48**	0.43	0.36
	4.26	5.97	6.04

* HSE reportable accidents based on specified injuries and the current seven-day absence from work reporting requirement in the UK and although there is no direct equivalent in mainland Europe and the Middle East, the same definition is applied.

Case Study

Nuaire creates Safe Haven for workplaces with innovative product launch

- Nuaire launches air distribution system to improve air quality in closed spaces
- Easy to install Haven Terminals range will simplify indoor air quality improvement

Leading air quality and ventilation manufacturing specialist, Nuaire, has announced the launch of its patent applied for Haven Terminals, a product designed to reduce or prevent the risk of spreading airborne pathogens and other pollutants in shared spaces.

Current Public Health England guidance states that: ‘The transmission of Covid-19 is thought to occur mainly through respiratory droplets generated by coughing and sneezing and through contact with contaminated surfaces. The predominant modes of transmission are assumed to be droplet and contact.’

At the beginning of the pandemic, airborne transmission was not considered a primary cause of infection. However, there is emerging evidence that Covid-19 can be spread through poorly ventilated spaces. So, for employers and people looking to return to the workplace as the pandemic continues, Nuaire’s Haven Terminals could provide the vital missing link in ensuring air quality is as good as it can be.

Commenting on the launch of Haven, Wayne Glover, Managing Director for Nuaire said: ‘The launch of Haven comes at just the right time for employers and their teams, with health being at the top of everyone’s agenda in the current climate. We believe that this unit addresses the shortfalls of common air ventilation practices and instead offers a straightforward method of ensuring that each occupant receives the correct amount of supply and extract ventilation for their general health, comfort, and wellbeing. Not only can this prove reassuring to employers and team members, but it can help to reduce workplace illnesses as we approach the harsh winter months.’

Haven has an extract capability whereby dirty or contaminated air can be removed from the indoor space and discharged to the building exterior, ensuring a consistent and optimally ventilated environment within individual workspaces. Air filtration of all known grades including Carbon Absorption, Coarse Particulate to HEPA, and more can be incorporated to offer additional peace of mind to the building owners and its occupants.

Wayne Glover continued: ‘Our Haven range of supply and extract terminals were in development long before the Covid-19 outbreak in response to helping customers provide healthy, well-ventilated working areas for their teams. However, the pandemic has served to further demonstrate the true importance of healthy indoor air quality. We wanted to create something that was easily configurable and simple to install, and we’ve done exactly that thanks to Haven’s dedicated components with self-healing features’.

> “We hope this product will become the standard for those looking to create healthy indoor spaces, or a ‘Safe Haven’ as we like to call them.

Read more at **pioneer.nuaire.co.uk/haven**

Nuaire Haven unit, ensuring constant replenishment and refreshment of clean, healthy air

Engagement with our Stakeholders

Engaging with and understanding the needs of our stakeholders forms an integral part of decision-making for both the Board and our senior management teams.

Our purpose is to create sustainable, engineered water and climate management solutions for the built environment. We believe that by considering material stakeholders in our strategic decision-making, this will develop a culture and strategy that will ensure the long-term success of the Group, and we recognise that each stakeholder has a vital role to play in the Group's future viability and success.

To effectively engage with stakeholders, it is imperative we seek to understand their needs and the individual value each of them brings to the Group. By considering the viewpoints of each respectively, we can ensure that our customers are satisfied with our innovative products and benefit from our services; our employees operate in a safe, diverse and desirable working environment; our suppliers experience fair payment terms and continue to work alongside us in a collaborative fashion; our impact on the climate is minimised and we continue to engage with and support the local communities in which we operate.

In considering the above, this approach to decision-making will, in turn, promote the success of the Company for the benefit of its members as a whole and create long-term sustainable growth and success for the Group. Engaging with and understanding the needs of our stakeholders therefore forms an integral part of decision-making for both the Board and our senior management team. The impact of Board decisions on the Company's stakeholders is regularly considered by the Board in the context of its key decisions, and the Company Secretary acts as a key driver in ensuring such engagement.

Despite 2020 being a challenging year bringing uncertainty for many, we are proud that we have continued to operate throughout the pandemic and support our stakeholders where possible, and we will continue to prioritise the needs of our stakeholders as the pandemic continues into 2021, making decisions in line with our values and purpose.

> "Despite 2020 being a challenging year, we are proud that we have continued to operate throughout the pandemic and support our stakeholders where possible.

Key issues

Customers

- Business development and relationships
- Sustainability
- Innovation
- Customer service

Shareholders

- Investor returns
- ESG and sustainability
- Innovation
- Risk management
- Strategy

Employees

- Communication
- Engagement
- Learning and development
- Health and wellbeing
- Employer of choice

Suppliers

- Continuity of supplies
- Ensuring product quality meets agreed standards
- Business development
- Support and utilising local suppliers
- Sustainability
- Innovation

Community

- Education
- Sustainable operations and environmental impact
- Charity
- Workforce of the future
- Sponsorship

How we engage	Outcomes	Value created
We work collaboratively on project planning and implementation. We engage with customers on training and education and facilitate regular cross community forums and events. We meet regularly with our customers to understand the obstacles they face in relation to energy efficiency, waste reduction and traditional construction methods. Annual surveys are sent to customers to obtain feedback.	• Increased stability and certainty on project timeframes, reduced cost and increased customer loyalty • Deploy energy efficient components delivering innovative designs and solutions • Safer, higher quality and speedier installations and delivery of value engineered solutions • Establishment of long-term partnerships enabling delivery of long-term sustainable solutions	• Revenue and profit growth • Improved efficiencies for the customer in terms of service, knowledge and sustainability • Creation of value for our customers by delivery of high quality, efficient and innovative products and solutions • Improved performance and reputation for our customers with the end users
We hold periodic Capital Markets Events inviting current and potential investors to attend. We hold roadshows and salesforce briefings after each results announcement and offer one-to-one meetings on request. We regularly attend broker and analyst conferences. Information for shareholders is also available on our investor relations website and through our various publications.	• Continued demand for the Company's shares (heightening shareholder returns) • Support for equity placings • Support for strategy including that pertaining to ESG • Support for investment decisions including M&A and capital expenditure • Acceptance of temporarily higher levels of debt	• Stable blue chip register • Reduced cost of capital • Stable and sustained share price
We circulate regular newsletters, videos and emails, hold business update meetings and host employee forums. Regular social events are organised by divisional social committees. Our Learning Management System is a dedicated Leadership & Development (L&D) resource and we form partnerships with specialist training providers. We provide access to an online wellbeing hub as well as direct access to on-site health and wellbeing support. We conduct staff surveys and regular appraisals to engage with employees.	• Investors in People – Silver Award • Communication of relevant and timely information and sharing of knowledge • Improved levels of engagement and employee satisfaction • Regular access to training at all levels • Improved awareness and support for health and wellbeing issues • Processes improved, initiatives developed, management buy-in at different levels	• Motivated, loyal and engaged workforce • Improved health and wellbeing resulting in reduced sickness absentees and employee dissatisfaction • Knowledgeable and innovative workforce • Attract and retain high quality employees • Fosters a culture of trust, honesty, positive morale and togetherness
We form and develop strong supplier relationships at all levels and across all disciplines, regularly engaging and partnering with key suppliers to develop initiatives for innovative solutions in a collaborative manner. We conduct regular reviews and audits and collaborate as appropriate on product development. We communicate efficiently with our suppliers in relation to product quality and forward orders.	• New and improved products and processes • Multiple sourcing and stable and predictable production for suppliers • Fair payment terms • Establishment of long term partnerships • Reduction in waste from our production processes via internal recycling, or onward sales to a third party thereby reducing landfill • Development of bespoke reformulated material to enhance the performance of our current product range	• Reduced risk to the business and certainty of a secure supply of essential materials and services • Incremental revenue and profit • Innovation (continuous improvement) • Sustainable and ethical supply chains • Long-term partnerships
Regular engagement with local authorities and businesses supporting the delivery of educational and vocational initiatives, providing mentoring and experience sharing at all levels, as well as opportunities for site visits. Annual adopted charities, local sponsorships and charitable donations of products. Participation in initiatives to help reduce environmental impact and monitor and respond to voluntary and legislative requirements, including performance testing of our products prior to launch.	• Donations made to local and national charities • Support and development of local educational institutions • Long standing sponsorship of local sports clubs, regular charitable events and fundraising • Cleaner and friendlier areas for the local communities • Increasing awareness of community employer and improving knowledge of plastic processing and recycling	• Development of employability and financial capability skills beyond the classroom • Delivery of effective education to disadvantaged student populations in local areas • Driving diversity across STEM related subjects • Reduce the impact of our overall activities on the environment • Brand creation, development and awareness

Section 172 Statement

Our Section 172 statement for the year ended 31 December 2020 gives further insight into how our key stakeholders have influenced some of the strategic decisions taken by the Board during the 2020 financial year.

One of the primary areas of focus for the Board is the impact its decisions or actions may have on key stakeholder groups of which fall under s172 of the Companies Act 2006. Board discussions therefore seek to appropriately consider the impact and views of these groups whilst always ensuring the need to promote the success of the Company for the benefit of its members as a whole. In light of this, the Board confirms that during the year under review it has given due regard (amongst other matters) to:

- the likely consequences of any decision in the long term
- the interests of the Group's employees
- the need to foster the Group's business relationships with suppliers, customers and others
- the impact of the Group's operations on the community and the environment
- the desirability of the Group maintaining a reputation for high standards of business conduct
- the need to act fairly as between members of the Company

This statement aims to help shareholders better understand and to provide some examples of how the Directors have discharged their s172 duties.

How the Board complied with its s172 duty

The duties under s172 form an integral part of the activities and decision-making of the Board and thus are inherent in its culture. The Board recognises that each decision it makes will have an impact in some form on all stakeholders. To ensure the Board is fully aware of these potential impacts and to promote those initiatives which are expected to have a positive outcome and minimise those which may have a negative outcome, it requires high quality information to be provided prior to meetings in a timely manner. This allows for a detailed and thorough discussion at meetings, enabling a considered, informed and balanced approach to decision-making. Our 2020 internal Board evaluation results confirmed that this is achieved, with agendas and papers being sufficiently detailed and designed to ensure adequate time is allocated to each item as appropriate, as well as confirming that the dynamic of the Board allows for open discussion and encourages diversity of thought. You can read more about our 2020 internal Board evaluation on page 58.

Minimising the impact of the Group's operations on the environment is core to our commercial strategy, and thus forms an integral part of the Board's strategic decision-making. You can read more about our sustainability framework and the impact of the Group's operations on the environment in our Strategic Report on pages 20 to 23.

Methods of engagement used by the Board

The Board uses varying methods of engagement depending on the stakeholder and the most appropriate method of engagement for the circumstances.

Engagement with stakeholders includes but is not limited to; press releases, announcements, Capital Markets Events, surveys, one-to-one contact, newsletters, forums, emails and videos.

To ensure regular engagement with employees, the Board has designated Louise Brooke-Smith as the Non-Executive Director responsible for employee engagement on its behalf.

Key Board decisions in 2020

Approval to proceed with the acquisition of Nu-Heat Holdings Limited
Use of the Government's Covid Corporate Financing Facility (CCFF) and Coronavirus Job Retention Scheme (CJRS) and subsequent full repayment of CCFF and part repayment of CJRS monies
Decision to carry out a non-pre-emptive placing of new ordinary shares of the Company in May 2020, raising gross proceeds of approximately £120m
Decision not to pay a final 2019 or interim 2020 dividend
Decision to temporarily reduce base salaries and fees of Board members by 20% during 2020
Decision to operate an H2 bonus scheme for senior management

Board and management decision making

Our key stakeholders are integral to the Group's long-term strategy, and their needs form part of everyday decision-making and are considered by the Board throughout the financial year when making strategic decisions. Ultimately, Board decisions are taken against the backdrop of what it considers to be in the best interest of the long-term financial success of the Company and these key stakeholders, using the information provided to it about the impact of the decision in question on relevant stakeholders. Some examples of when this has taken place are set out below.

Customers
We endeavour to create quality products with engineered solutions that enable a sustainable built environment for our customers, placing our customers' needs at the heart of our strategic decision making.

Shareholders
Creating a competitive advantage generates long-term value for our shareholders. Our strategy is to allocate capital in a disciplined way to fund sustainable profitable growth, yielding consistent returns to shareholders over the long-term.

Employees
As part of our strategy we are committed to developing the pool of talent of our employees across the Group, helping to develop their expertise and knowledge in their specific fields, fostering a culture which is diverse and recognises, as well as acknowledging, that our employees are a critical part of the Group's long-term sustainable success.

Suppliers
We value our suppliers and understand the benefit of maintaining long-standing relationships across the Group. We encourage fair negotiation with all suppliers, as well as certainty on payment. Protecting these relationships ensures positive impacts on the value chain and thus promotes sustainable success.

Community
The impact of our operations on the local communities and environments within which we operate are of paramount importance to the Group, in both daily operations, and also when making strategic long-term decisions. We recognise the positive differences we can make in our communities on an ongoing basis and the importance of regular engagement.

Board decision making

Our decision process	Stakeholders
In line with the Group's long-term strategy for growth and purpose, the Board gave approval to proceed with the acquisition of Nu-Heat during 2020, having prioritised and considered the long-term consequences of this acquisition on its stakeholders, in particular given the ongoing uncertainty as a result of the pandemic. As part of the decision-making process, the Board considered the potential synergies and financial benefits of the acquisition, as well as the environmental credentials of the target business and the benefit the acquisition would bring to shareholders and other stakeholders in terms of the long-term growth of the enlarged Group and potential returns.	
When the significance of Covid-19 became apparent, as well as the uncertainty over the likely duration of the pandemic, the Board was presented with the immediate need to mitigate the short-term risk for the Group and to protect the long-term interests of all stakeholders. Consequently, the Board made the decision to make use of the CCFF and the CJRS in order to attempt to ensure the ongoing viability of the Group in light of the challenges it was facing. In particular, a key priority for the Board was job protection for its employees to the fullest extent possible. The decision took into consideration the likely impact for all stakeholders, given that the key objective was to protect the Group's ability to continue to operate. As part of its regular review of the changing external environmental factors and the position of the Group, the Board felt that as the CJRS scheme existed to assist companies with job retention, when 104 employees were unfortunately made redundant during the year as a result of a Group-wide restructuring exercise, it was agreed that the monies the Group had received in relation to these employees whilst furloughed should be repaid, given the underlying purpose of the CJRS. The Board also made the decision to repay the CCFF, in light of the improving performance of the business in the second half of 2020.	
Following a scenario analysis exercise, this decision was made by the Board to strengthen the Group's balance sheet and reduce overall debt, and to assist in mitigating the risk that Covid-19 posed. It also raised funds to prevent investment being constrained and business decisions being influenced by a focus on leverage and covenant management, protecting the Company's long-term prospects. Approving this placing also enhanced operating strength and enabled the continuation of organic investment in new products and systems, and provided stability and strength to increase competitive positioning to help accelerate growth post Covid-19 which is beneficial to all stakeholders.	
In light of the severity of the pandemic, the Board took the decision to cancel the final dividend declared for 2019 and not to pay an interim dividend in 2020. Having reviewed the impact that this decision would have on shareholders in the short-term, but in line with their s172 duty to consider all stakeholders when making decisions, the Board felt this was a necessary step to protect the long-term interests of the Group.	
The Board considered and reviewed the assistance it was receiving from Government Coronavirus support schemes as well as the effect of its decisions on the wider workforce and felt it was appropriate to reduce Board salaries and fees in order to ensure alignment with employees and shareholders, given both groups were experiencing a financial impact as a result of the pandemic.	
The Board took the decision to operate an H2 bonus scheme for its senior management team, given the extreme challenges posed by the Covid-19 pandemic and the efforts and commitment required to drive the business through the crisis. The decision was taken to base maximum entitlement on 50% of typical annual entitlement, with a range of targets based on the operating case presented to investors at the time of the equity raise in May 2020.	

Chief Financial Officer's Report

'Although the Covid-19 pandemic impacted our financial performance in 2020, Polypipe's value creation model remains strong.'

Paul James
Chief Financial Officer

"

Investment in product development and innovation continues to be a key area of focus for the Group.

Revenue and operating margin

Group revenue for the year ended 31 December 2020 was £398.6m (2019: £447.6m), a decrease of 10.9%. UK revenue declined by 11.6% as volumes were significantly impacted by the Covid-19 pandemic. On a like-for-like basis, Group revenue decreased by 13.2%. This was ahead of the overall UK construction market where the Construction Products Association (CPA) Winter forecast suggested a year-on-year decline of 14.3%. Private housing new build and repair, maintenance and improvements (RMI) were the worst affected sectors in the initial lockdown but activity recovered mid-May. Private housing RMI activity returned to pre-Covid-19 levels in October. Infrastructure activity was less affected by the pandemic than other sectors of the construction industry, with output between January and October 2020 falling 5.9% compared to the prior year. By quarter, the business tracked the impact of the Covid-19 pandemic with a two-thirds loss of volume in April 2020 and the suddenness of the loss of volume created a high drop through impact on margins in Q2, resulting in an operating margin loss of over 15% for that quarter. The Group experienced a strong recovery in Q3, benefitting from an element of pent-up demand, with recovery momentum continuing into Q4 and the new year with minimal impact on operations from the third lockdown.

Operating profit was £30.4m, a decrease of 55.0%. The Group underlying operating margin declined to 10.6% (2019: 17.4%) as volumes were significantly lower in the first half of the year due to the impact of Covid-19 with the Group also bearing the ongoing costs of addressing the impact of the pandemic. Profit before tax decreased by 60.4% to £23.8m (2019: £60.1m).

The Group received £7.7m from the UK Government's Coronavirus Job Retention Scheme (CJRS). This was subsequently reduced by £0.7m following the repayment of funds received for employees made redundant as part of the Group's restructuring programme during the pandemic. The Group ceased with the CJRS on 31 August 2020 and repaid its loan under the Covid Corporate Financing Facility (CCFF) in September 2020. In addition, all deferred taxes have been repaid and the Group is no longer availing itself of Covid-19 related Government support.

Revenue and operating margin	**2020 £m**	2019 £m	Change
Revenue	**398.6**	447.6	-10.9%
Underlying operating profit	**42.2**	78.1	-46.0%
Underlying operating margin	**10.6%**	17.4%	-680bps

Revenue by geographic destination	**2020 £m**	2019 £m	Change
UK	**354.6**	401.2	-11.6%
Rest of Europe	**27.6**	23.6	+16.9%
Rest of World	**16.4**	22.8	-28.1%
Group	**398.6**	447.6	-10.9%

Revenue 10.9% lower at

£398.6m

Investment in product development and innovation continues to be a key area of focus for the Group. In 2020, underlying operating profit benefited from £1.0m of HMRC approved Research & Development Expenditure Credit scheme, relating to the year ended 31 December 2019. The prior year included £1.6m relating to the years ended 31 December 2017 and 31 December 2018.

Non-underlying items

Non-underlying items of £11.9m (2019: £10.7m) primarily relate to non-cash amortisation charges of £7.8m (2019: £7.5m) in respect of intangible assets arising from acquisitions since 2015 and £2.9m of costs related to acquisitions and other M&A costs. There was also £1.1m associated with the Group's restructuring during the Covid-19 pandemic.

Non-underlying items comprised:

	2020 £m	2019 £m
Amortisation of intangible assets	**7.8**	7.5
Acquisition costs	**0.6**	2.4
Contingent consideration on acquisitions	**2.4**	0.8
Restructuring costs	**1.1**	–
Non-underlying items before taxation	**11.9**	10.7
Taxation	**(1.0)**	(1.4)
Non-underlying items after taxation	**10.9**	9.3

Exchange rates

The Group trades predominantly in Sterling but has some revenue and costs in other currencies, mainly the US Dollar and the Euro, and takes appropriate forward cover on these cash flows using forward currency derivative contracts in accordance with its hedging policy.

Finance costs

Underlying finance costs were lower than prior year at £6.5m (2019: £7.3m) as net debt declined following the £120m equity placing in May 2020, the drawing down of £100m of funds under the Bank of England's CCFF between March and August, and the measures taken by the Group to preserve cash during the pandemic. Interest cover was 7.8x for the year (2019: 11.3x). In 2021, we expect net finance charges of circa £7m to £8m due to higher post acquisition drawdown of the revolving credit facility (RCF).

Interest is payable on the RCF at LIBOR plus an interest rate margin ranging from 0.90% to 2.75%. The interest rate margin at 31 December 2020 was 1.40% (2019: 1.65%).

In order to reduce the Group's exposure to potential future increases in interest rates, the Group previously entered into interest rate swaps which expired in August 2020, with interest payable at a fixed rate return of 1.735% (2019: 1.735%) (excluding margin).

Taxation

Underlying taxation

The underlying tax charge in 2020 was £6.3m (2019: £11.9m) representing an effective tax rate of 17.6% (2019: 16.8%). This was below the UK standard tax rate of 19.0% (2019: 19.0%). Patent box relief contributes to a lowering of the underlying effective tax rate by some 1.12 percentage points.

Taxation on non-underlying items

The non-underlying taxation credit of £1.0m represents an effective rate of 8.4% (2019: 13.1%).

Chief Financial Officer's Report continued

Final dividend of

4.8pps

Earnings per share

	2020	2019
Pence per share:		
Basic	**8.5**	24.9
Underlying basic	**13.5**	29.6
Diluted	**8.4**	24.6
Underlying diluted	**13.3**	29.2

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

Underlying basic EPS declined by 54.4% in 2020 due to the significant impact the Covid-19 pandemic had on the Group's underlying operating result after taxation.

Dividend

Our dividend policy is to pay a minimum of 40% of the Group's annual underlying profit after tax. Under normal circumstances, the Directors intend that the Group would pay the total annual dividend in two tranches, an interim dividend and a final dividend, to be announced at the time of announcement of the interim and preliminary results respectively, with the interim dividend being approximately one half of the prior year's final dividend. During the Covid-19 pandemic, as part of cash preservation measures, the Directors cancelled the final 2019 dividend, and no interim 2020 dividend was paid.

The Directors recognise the importance of dividends to shareholders and, following careful consideration and with the Group performing ahead of expectations, a final dividend of 4.8 pence per share is being recommended for payment on 26 May 2021 to shareholders on the register at the close of business on 23 April 2021. The ex-dividend date will be 22 April 2021.

Balance sheet

The Group's balance sheet is summarised below:

	2020 £m	2019 £m
Property, plant and equipment	**134.2**	125.8
Right-of-use assets	**12.9**	14.8
Goodwill	**345.4**	345.6
Other intangible assets	**48.4**	56.2
Net working capital	**2.0**	3.0
Taxation	**(10.2)**	(14.3)
Other current and non-current assets and liabilities	**(4.1)**	(4.9)
Net debt (loans and borrowings, and lease liabilities, net of cash and cash equivalents)	**(27.7)**	(164.8)
Net assets	**500.9**	361.4

The net value of property, plant and equipment has increased by £8.4m reflecting the Group's continued strategic investment in its businesses. The value of right-of-use assets has decreased by £1.9m. Goodwill decreased by £0.2m following the final review of the fair value of assets and liabilities acquired in October 2019 in respect of the Alderburgh group of companies. Other intangible assets reduced by £7.8m following the amortisation charge in the year of the same amount. Net working capital decreased by £1.0m as the Group focused on cash preservation measures during the Covid-19 pandemic, successfully limiting the risk of debtor delinquency in particular. Net debt is discussed below.

Net capital expenditure of

£24.5m

Pensions

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £4.2m (2019: £3.4m) reflecting the inclusion of the prior year acquisition and an overall increase in the number of scheme participants.

Cash flow and net debt

The Group's cash flow statement is summarised below:

	2020 £m	2019 £m
Operating cash flows before movement in net working capital	**60.0**	95.3
Add back non-underlying cash items	**2.3**	1.4
Underlying operating cash flows before movement in net working capital	**62.3**	96.7
Movement in net working capital	**1.5**	(5.9)
Capital expenditure, net	**(24.5)**	(21.9)
Proceeds from sale and leaseback	**–**	3.9
Underlying cash generated from operations after net capital expenditure	**39.3**	72.8
Income tax paid	**(8.2)**	(12.4)
Interest paid	**(5.4)**	(7.4)
Non-underlying cash items	**(2.3)**	(1.4)
Settlement of deferred and contingent consideration	**(1.8)**	–
Acquisition of businesses	**–**	(12.2)
Issue of Euro-Commercial Paper	**99.4**	–
Buyback of Euro-Commercial Paper	**(99.7)**	–
Net proceeds from issue of share capital	**116.4**	–
Debt issue costs	**(0.4)**	–
Dividends paid	**–**	(23.7)
Proceeds from exercise of share options net of purchase of own shares	**2.1**	2.4
Other	**(4.2)**	(3.9)
Movement in net debt – excluding IFRS 16	**135.2**	14.2
Movement in IFRS 16	**1.9**	(14.8)
Movement in net debt – including IFRS 16	**137.1**	(0.6)

Delivery of good cash generation remains core to the Group's strategy. Covid-19 initially had a significant impact on the Group's cash generation, but cash preservation measures taken during the pandemic helped preserve liquidity. Underlying cash generated from operations after net capital expenditure at £39.3m (2019: £72.8m) represents a conversion rate of 93% (2019: 93%). Net capital expenditure investment increased to £24.5m (2019: £18.0m) as the Group focused on investing in key, strategic and innovative projects. In 2021, we anticipate that capital expenditure will be approximately £34m with the acquisitions. The prior year included net proceeds of £3.9m from the sale and leaseback of the Group's truck fleet.

The HMRC approved PAYE and NIC payments deferral was utilised and paid in June 2020, and £9.8m of VAT due for payment in April and July 2020 was deferred to and paid in February 2021.

Net debt of £27.7m comprised:

	2020 £m	2019 £m	Change £m
Bank loans	**(60.0)**	(199.0)	139.0
Cash and cash equivalents	**44.1**	47.7	(3.6)
Net debt (excluding unamortised debt issue costs)	**(15.9)**	(151.3)	135.4
Unamortised debt issue costs	**1.1**	1.3	(0.2)
IFRS 16	**(12.9)**	(14.8)	1.9
Net debt	**(27.7)**	(164.8)	137.1
Net debt (excluding unamortised debt issue costs): pro forma EBITDA	**0.5**	1.7	(1.2)

Chief Financial Officer's Report continued

Leverage reduced to

0.3

times pro forma EBITDA

Financing

The Group has an RCF committed through to November 2023 with two further uncommitted annual renewals through to November 2025. The facility limit is £300m with a committed Covid-19 facility of £50m negotiated in May 2020 with a 12-month term expiring in May 2021. At 31 December 2020, £60m of the RCF was drawn down.

The Group is subject to two financial covenants. At 31 December 2020, there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant	Covenant requirement	Position at 31 December 2020
Interest cover	>4.0:1	**7.8:1**
Leverage	<3.0:1	**0.3:1**

Year end leverage for 2021 is expected to be under 1.5x EBITDA for the year after the three acquisitions and the £96.3m equity raise in February 2021.

Events after the balance sheet date

During February 2021, the Group acquired 51% of the share capital of Plura for £1.25m and £27.0m for 100% of the share capital of Nu-Heat, both paid for from the existing RCF. Adey was also acquired in February for £210.0m, part funded by the RCF and a strongly-supported equity placing of 8.2%, raising gross proceeds of £96.3m.

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 consist of a £300m RCF, with an extended committed Covid-19 facility of £50m. £240m of the RCF and the Covid-19 facility of £50m were undrawn at 31 December 2020. The Group issued commercial paper under the CCFF to the value of £100m, originally scheduled to mature on 12 March 2021 but was repaid early in September 2020. At 31 December 2020, liquidity headroom (cash and undrawn committed banking facilities) was £284.1m (2019: £148.7m). Focus will continue to be on deleveraging and our net debt to EBITDA ratio stood at 0.3x pro forma EBITDA at 31 December 2020 (2019: 1.6x), increasing to 0.5x (2019: 1.7x) including the effects of IFRS 16. This headroom means the Group enters 2021 well-positioned with a strong balance sheet.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 15 months. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

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.

Paul James
Chief Financial Officer

Principal Risks and Uncertainties

The Board seeks to mitigate the Group's exposure to strategic, financial and operational risk, both external and internal.

Framework for managing risk

The Board is responsible for ensuring that the Group maintains an effective risk management system. It determines the Group's approach to risk, its policies and the procedures that are implemented to mitigate exposure to risk.

Process

The Board continually assesses and monitors the key risks in the business and the Group has developed a risk management framework to identify, report and manage its principal risks and uncertainties. This includes the recording of all principal risks and uncertainties on a Group risk register, which is updated at least every six months. Risks are fully analysed, allocated owners, scored for both impact and probability, prioritised, and assessed for what mitigation is required.

External risks include macro-economic and political conditions, the weather, raw materials supply and pricing and information systems disruption. Internal risks include reliance on key customers, and recruitment and retention of key personnel.

The Board seeks to mitigate the Group's exposure to strategic, financial and operational risk, both external and internal. The effectiveness of key mitigating controls is continually monitored and subjected to periodic testing by the internal auditors.

Process

Top down

Identifying, assessing and mitigating risk at Group level

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Bottom up

Identifying, assessing and mitigating risk at business operational level

The Board

The Board continually assesses and monitors the key risks in the business and Polypipe has developed a risk management framework to identify, report and manage its principal risks and uncertainties.

This includes:

- The recording of all principal risks and uncertainties on a Group risk register which is updated at least every six months
- Analysing risks and allocating owners
- Scoring risks for impact and probability to determine the exposure to the business
- Outlining which risks should be prioritised and what mitigation is required

Internal audit

The effectiveness of key mitigating controls is continually monitored and subjected to periodic testing by the Group's internal auditors.

Operational level

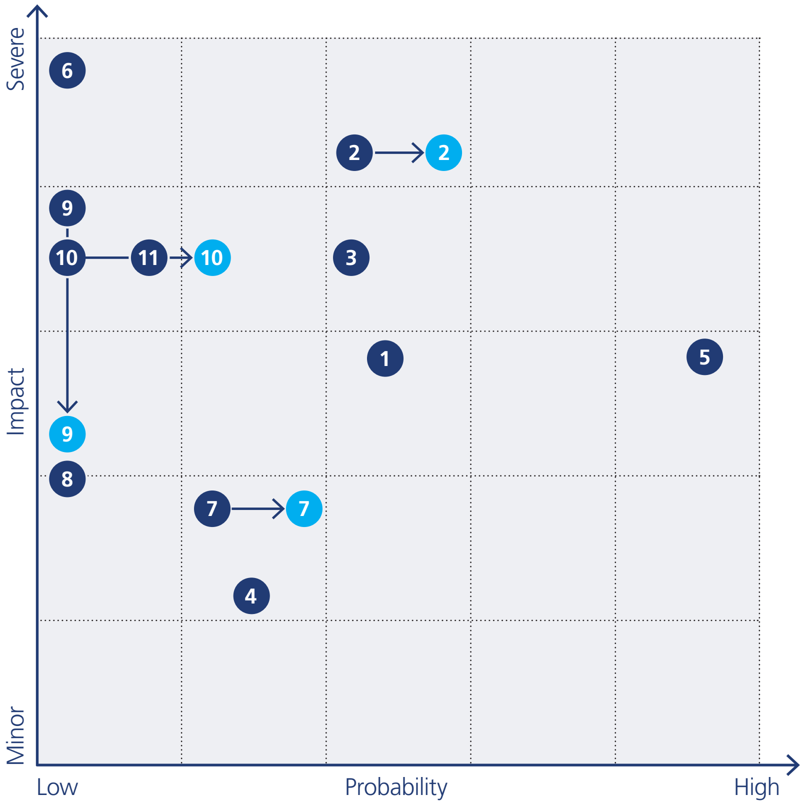
The risk management processes are embedded into the different operational areas within the Group.

The heat map table opposite highlights 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.

These risks have all been considered by the Board when developing the Group's viability statement. The Board does recognise, however, that it will not always be possible to eliminate these risks entirely. In addition, the principal and emerging risks listed below do not comprise all of the risks that the Group may face and they are not listed in order of priority, probability or magnitude of potential impact.

Risk appetite

The Board determines the appropriate level of risk for operating the business and pursuing its strategic objectives. A key focus of the Board is minimising exposure to financial, operational, human, legislative and reputational risks.



1. Raw materials supply and pricing
2. Business disruption
3. Reliance on key customers
4. Recruitment and retention of key personnel
5. Macro-economic and political conditions
6. Product failures
7. Failure of information systems or cyber breach
8. Acquisitions do not perform as expected
9. Liquidity and funding
10. Health, safety and environmental
11. Breach of legislation including GDPR, Competition Law, the Bribery Act and Sanctions Compliance

Emerging risks

Emerging risks are an area of focus. We identify and monitor any potential risks that could impact our industry and/or our business through our internal risk assessment process, looking at both the inherent risk and opportunity. Emerging risks are evolving and often new, and thus their full potential impact is still uncertain. The Board regularly reviews these risks and, where deemed appropriate, are added to the Group risk register.

Macro	
Cyber	Attacks by criminals and state actors in the cyber sphere are increasing in volume and sophistication. Whilst recognised already as a principal risk, it is an ever-evolving one, exacerbated by increased interconnectivity of devices.
Covid-19	The Covid-19 pandemic may be prolonged, leading to longer-term disruptions to supply chain, shifts in customer demand and/or our existing route to market, and travel restrictions.
Brexit	The overall cost of employment increases substantially from a constraint in the supply of key workers or increases in legislated living wage levels.
Climate	Although not a new risk, climate change is an ever-evolving risk with weather events increasing in frequency and intensity. The Group is best placed to help mitigate some of the worst effects of climate change on society with its products and solutions. Direct effects of climate change on the Group include increased flooding events leading to damage of the Group's production facilities thus hampering production.
Industry	
Recycling	As more manufacturers seek to use recycled material and demand for it more generally increases, existing supply may become constrained.
Counterfeiting	Copycat and/or counterfeit products could erode our market share and/or product reputation.
Customer	
Customer perception	In the post-Grenfell environment there may well be the perception that our, and our competitors', products contribute to an undermining of fire safety.

Principal Risks and Uncertainties continued

Risk	Potential impact	Mitigations	Change in potential impact and/or probability
1. Raw materials supply and pricing			
The Group is exposed to volatile raw material prices, particularly polymers, due to fluctuations in the market price of crude oil and other petroleum feedstocks, foreign currency exchange rate movements, and changes to suppliers' manufacturing capacity.	Any increase in the market price of crude oil or other petroleum feedstocks, foreign currency exchange rate movements, or changes to suppliers' manufacturing capacity could have a direct impact on the prices the Group pays for raw materials which could adversely affect its financial results. This impact is potentially exacerbated by Covid-19.	The Group employs experienced procurement specialists to ensure key supplies are secured on the best possible terms (e.g. polymers). Significant contracts are also reviewed by the Group Legal Counsel and Company Secretary. The Group seeks to pass on raw material price increases to its customers wherever possible. There is usually at least a three-month time lag from notification of the raw material price increase before selling prices can be adjusted in the market. The Group enters into forward foreign currency exchange rate contracts for the purchase of foreign currencies to manage its exposure to fluctuations in foreign currency exchange rates. Competitors of the Group are likely to experience the same pressures of any sustained raw material price increases.	No change
2. Business disruption			
The Group's manufacturing and distribution operations could be subjected to disruption due to incidents including, but not limited to, fire, failure of equipment, power outages, workforce strikes, pandemics, or unexpected or prolonged periods of severe weather.	Such incidents could result in the temporary cessation in activity, or disruption, at one of the Group's production facilities impeding the ability to deliver its products to its customers, thereby adversely affecting the Group's financial results. In addition, prolonged periods of severe weather could result in a slowdown in site construction activity reducing the demand for the Group's products thereby adversely affecting its financial results.	The Group has developed business continuity, crisis response, and disaster recovery plans which were enacted and proved successful in our response to Covid-19. The Group continually invests in the maintenance and upgrade of IT infrastructure and information systems which, amongst other matters, facilitated remote working in our response to Covid-19. The Group performs regular maintenance to minimise the risk of equipment failure. Finished goods holdings across the operations act as a limited buffer in the event of operational failure. The Group has the ability to transfer some of its production to alternative sites and could also subcontract out some of its tooling to reduce any potential loss in production capacity. The Group maintains sufficient liquidity to meet its liabilities when due under both normal and stressed conditions which it utilised in its response to Covid-19. The Group maintains a significant amount of insurance to cover business interruption and damage to property from such incidents. Independent insurer inspections take place across all sites to identify and assess potential hazards and business interruption risks.	Increased
3. Reliance on key customers			
Some of the Group's businesses are dependent on key customers in highly competitive markets.	Failure to manage relationships with key customers, whilst continuing to provide high-quality products delivered on time in full, and developing new, innovative products, could lead to a loss of business, thereby adversely affecting the Group's financial results.	The Group's strategic objective is to broaden its customer base wherever possible. The Group focuses on delivering exceptional customer service and maintains strong relationships with major customers through direct engagement at all levels. The Group maintains customer service matrices which are continually tracked and monitored with intervention made where required. The Group closely manages its customer pricing, rebates and credit terms to ensure that they remain both competitive and commercial. These are negotiated and approved by experienced senior management and reviewed by the Group Legal Counsel and Company Secretary. The Group continually seeks to innovate and develop its product lines to ensure its products are to the standard our customers expect.	No change

Risk	Potential impact	Mitigations	Change in potential impact and/or probability
4. Recruitment and retention of key personnel			
The Group is dependent on the continued employment and performance of our senior management team. The Group may also be exposed to skills shortages in certain areas which can result in salary cost pressures. This may be compounded if significant numbers of EU citizens decide to leave the UK following the UK's exit from the EU.	Loss of any key personnel without adequate and timely replacement, and/or skills shortages, could disrupt business operations, increase salary inflation, and adversely impact the Group's ability to profitably implement and deliver its growth strategy.	The Group's employment policies and practices across all levels of the business are kept under regular review, with the aim of being an 'employer of choice', thus aiding staff recruitment and retention. Staff engagement and turnover by business unit, job type, etc. is monitored and reported regularly at the Board and senior management team level. The Group has formal talent and succession plans, including our Apprentice and Polypipe Plus Graduate schemes, which facilitate staff development, progression and retention. The Group's reward and recognition systems are actively managed and regularly benchmarked to ensure key personnel are retained, engaged and motivated. We are continuing to provide support to our non-UK EU and EEA employees including, but not limited to, assistance with their EU Settlement Scheme applications.	No change
5. Macro-economic and political conditions			
The Group is dependent on the level of activity in the construction industry and is therefore susceptible to any changes in its cyclical economic conditions, Government policy, interest rates, and any political and economic uncertainty in relation to the post Brexit transition process.	Lower levels of activity within the construction industry could reduce sales and production volumes, thereby adversely affecting the Group's financial results.	The Group's strategy is to have its operations structured so that it has a balanced exposure to the residential, commercial and infrastructure construction sectors so as to reduce the impact of any adverse Government action or policy on any one of the construction sectors. The Group closely monitors trends in the industry, invests in market research and is an active member of the Construction Products Association. The Group uses Construction Products Association and other industry forecasts in its budgeting process. The Group closely manages its demand forecasts and costs through weekly operational review meetings.	No change
6. Product failures			
The Group manufactures products that are potentially vital to the safe operation of its customers' products or processes. These products are often incorporated into the fabric of a building or dwelling or buried in the ground as part of an infrastructure system and in each case, it would be difficult to access, repair, recall or replace such products.	A product failure or recall could result in a liability claim for personal injury or other damage leading to substantial financial settlements, damage to the Group's brand reputation, costs and expenses and diversion of key management's attention from the operation of the Group, which could all adversely affect the Group's financial results.	The Group operates comprehensive quality assurance systems and procedures at each site. Wherever required, the Group obtains certifications over its products to the relevant national and European standards including Kitemarks, BBAs, WRCs and WRACs. The Group maintains product liability insurance to cover third party claims arising from potential product failures or recalls.	No change

Principal Risks and Uncertainties continued

Risk	Potential impact	Mitigations	Change in potential impact and/or probability
7. Failure of information systems or cyber breach			
The Group is dependent on the continued efficient operation of its information systems and is therefore vulnerable to potential failures due to power losses, telecommunication failures, or from a security breach including the increasing levels and evolving tactics of sophisticated cyber criminals targeting businesses.	Disruption or failure of the information systems could affect the Group's ability to conduct its ongoing operations and/or result in data loss, which could adversely affect the Group's financial results, reputation and compliance with data protection regulators.	Firewalls are in place to protect the perimeter of the Group's networks and any off-site access to the Group's servers and applications is through secure Virtual Private Network connections. In addition, email and internet traffic filtering is in place to protect against potential viruses or malware entering the Group's networks. User and server computing devices have anti-virus software installed to protect from potential infection. These safeguards are essential whilst a significant number of our employees work remotely during the Covid-19 pandemic. The Group undertakes periodic cyber security risk audits performed by internal and external specialists, including the expedient introduction of mitigation controls and other recommended procedure updates. The Group contracts with several third-party providers to supply off-site, business continuity arrangements for wholesale or partial recovery of the key servers and applications which are used within the various business units of the Group. These continuity arrangements are subject to periodic validation and testing. Some business units of the Group also take advantage of their multi-site operations to provision server and applications recovery between those sites. There are a range of local, business unit-specific, back up processes which are performed on a daily, weekly and monthly basis. The Group continually invests in the maintenance and upgrade of IT infrastructure and information systems. All upgrades are carefully planned and actively managed by senior personnel to minimise potential business disruption.	Increased
8. Acquisitions do not perform as expected			
The management of acquisitions activity and their integration play a part in delivering the Group's growth strategy and there is a risk that any acquisitions may not perform as expected.	Ineffective management of acquisitions could lead to management distraction, a drain on financial resources, and impact on the Group's ability to successfully implement and deliver its growth strategy.	Full due diligence is performed before any acquisition is made. The Group seeks contractual assurances from the sellers to mitigate against any identified issues or risks. Formal Board level approvals are required in accordance with the Group's delegation of authority structure for any acquisition activity. Where appropriate, the Group will pay deferred consideration linked to the ongoing performance of the acquisition. The progress of any integration is closely monitored at Board and senior management team level.	No change
9. Liquidity and funding			
The risk that the Group will not be able to meets its short-term liquidity and long-term funding financial obligations as they fall due.	Insufficient cash deposits and/or finance facilities could result in the Group not being able to fund its operations.	The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This is achieved through suitable committed and uncommitted banking facilities with significant headroom, regular communication with our investors and relationship banks (including visits to our business units), regular review of our banking covenants and capital structure, ensuring our future cash flow is sustainable through detailed budgeting processes and reviews, robust forecasting and budgeting processes, and ensuring that credit risk arising from cash deposits with banks is mitigated by investments of surplus funds only being made with banks that have, as a minimum, a single A-credit rating. In May 2020, in response to the Covid-19 pandemic, we entered into a £50m Covid-19 12-month facility and conducted a non-pre-emptive placing of new shares generating gross proceeds of £120.0m. In February 2021, in connection with our acquisition strategy, we conducted another non-pre-emptive placing of new shares generating gross proceeds of £96.3m.	Decreased

Risk	Potential impact	Mitigations	Change in potential impact and/or probability
10. Health, safety and environmental			
The Group is subject to the requirements of UK and European environmental and occupational safety and health laws and regulations, including obligations to take the correct measures to prevent fatalities or serious injury, and investigate and clean up environmental contamination on or from properties.	Lack of management focus, poor cultural attitude or failure of the Group to comply with health, safety and environmental regulations and other obligations relating to environmental matters could result in the Group being liable for fines, suffering reputational damage, requiring modification to operations, increasing manufacturing and delivery costs, and could result in the suspension or termination of necessary operational permits, thereby adversely affecting the Group's financial results.	The Group has a formal Health, Safety and Environmental policy, and procedures are in place to monitor compliance with the policy. There is a Group Health, Safety and Environmental Director (with a team throughout the Group) with clear accountability for health, safety and environment ('HSE'). HSE performance is regularly tracked, reported and reviewed by all levels of management including the Board. The Group performs internal HSE audits and is subject to external HSE audits on a periodic basis. Investigations are performed to uncover cause and key learnings. If employees have failed to adhere to HSE policies, then they may be subject to disciplinary action. Key messages are constantly reinforced throughout the organisation. Appropriate safety measures were already in place, or were enhanced (with an increased focus on compliance and where necessary, improvement), to ensure we operate safely and our employees are protected during the Covid-19 pandemic.	Increased
11. Breach of legislation including GDPR, Competition Law, the Bribery Act and Sanctions Compliance			
Failure to comply with elements of a significantly increased and still evolving governance, legislative and regulatory business environment including, but not limited to, the General Data Protection Regulation, Competition Law, the Bribery Act and Sanctions Compliance.	Significant increases in the penalty regime across all areas of business could lead to significant fines and financial penalties in the event of a breach, alongside damage to the Group's reputation and potential current and future business.	The Group's in-house legal department and other specialist functions, supported by specialist external advisers, are responsible for monitoring changes to laws and regulations that affect the business and ongoing monitoring and training. Specific polices are in place in respect of GDPR, Competition Law, a Code of Ethics (including the Bribery Act), Sanctions Compliance, etc. Annual declarations of compliance are undertaken in respect of Competition Law and the Bribery Act. All business in higher risk countries requires approval by the Group Legal Counsel and Company Secretary. An external agency (Refinitiv) is used to check sanctions against companies and/or individuals. Training is provided to all relevant new employees on Competition Law including those changing roles.	No change

Non-financial information statement

The information presented within this Strategic Report and incorporated by cross-reference complies with the relevant non-financial reporting regulations. More specifically, the detail contained on pages 8 to 43 fulfils the requirements under Section 414CB of the Companies Act to report detail on environmental matters, the Company's employees, and social matters including further information and detailed targets, outcomes and impact on such matters. The Company's position on human rights and anti-bribery and corruption is detailed below, and a description of the Company's approach to policy compliance can be found on page 67. Information on the Company's business model can be found on pages 14 to 15.

Human rights

While the Group does not have a specific human rights policy, it does have an Anti-Slavery policy and Modern Slavery Act transparency statement which is available on the Company's website, within which we state our zero-tolerance policy towards any modern slavery or human trafficking rights violations.

Anti-bribery and corruption policy

The Group seeks to prohibit all forms of bribery and corruption within its businesses and complies with the requirements of all applicable anti-bribery and corruption laws. The Group requires all relevant employees and agents to confirm each year that they remain in compliance with the Group's Anti-Bribery policy. Further details of the Group's procedure for detecting and preventing fraud are provided in the Audit Committee Report on pages 63 to 67.

The Business Review and Strategic Report has been approved by the Board and signed on its behalf.

Martin Payne
Chief Executive Officer
16 March 2021

Governance

Chairman’s Letter

Good governance provides the infrastructure to improve the quality of the Board’s decisions and enables the more effective creation of long-term value.

Ron Marsh
Chairman

"Sustainability is at the heart of our growth agenda and we will continue to invest in innovative solutions to capitalise on key environmental drivers.

2020 in review

I am pleased to present the Polypipe 2020 Annual Report and Accounts following a strong and resilient performance by the Group, despite the difficulties experienced as a direct result of the Covid-19 pandemic. Following a year of uncertainty in 2019 due to the election and Brexit, hopes for a more certain 2020 were unfortunately not realised as it became dominated by the Covid-19 pandemic and the resulting impact on the UK and global economy. As a result, the year continued to bring economic and political uncertainty and difficult market conditions in UK construction as a whole, but our businesses performed well in the circumstances, with a recovery in the second half, resulting in revenue for the year ended 31 December 2020 10.9% lower than the prior year at £398.6m. Profit before tax was 60.4% lower than the prior year at £23.8m (2019: £60.1m). This resilient performance is down to the hard work of our colleagues around the Group who have risen to, and overcome, the challenges we faced in 2020. Notwithstanding the actions that were taken to protect our employees and their families, our customers and our suppliers, the Group’s sites remained operational as required and continued to supply through the lockdowns, including to Covid-19 projects such as the Nightingale Hospitals and other NHS and care facilities, as well as for essential repair and maintenance.

We also made a new appointment during the year, with Kevin Boyd joining the Board as a Non-Executive Director and Chair of the Audit Committee on 15 September 2020. Kevin brings further experience and skills to the Board, and I believe that we have a strong, diverse and multi-skilled Board in place with the necessary motivation and an appropriate balance of experience to continue to lead the Group during the next phase of its strategic development.

Paul Dean retired from the Board in September 2020 after serving as a Non-Executive Director and Chair of the Audit Committee for over six years and I would like to thank Paul on behalf of the Board for his valuable contribution during his time as a Non-Executive Director and Chair of the Audit Committee and wish him well for his future endeavours.

Dividend

Following the cancellation of the final 2019 dividend, which was due for payment on 28 May 2020, and the decision not to propose an interim 2020 dividend, the Board is pleased to report that business performance has recovered such that it is recommending a final dividend for 2020 of 4.8 pence per share, payable in May 2021.

Sustainability

Sustainability is at the heart of our growth agenda and we will continue to invest in innovative solutions to capitalise on key environmental drivers, as well as drive growth through ongoing legacy material substitution, and increasing our geographic reach. These powerful structural growth drivers will continue to drive market outperformance in the years to come and sustainability will be at the heart of how we run our businesses, so they are fit for the future. We have introduced the use of sustainability targets into our long-term incentive arrangements for the Executive Directors and senior management and will continue to make changes to ensure that where possible, sustainability underpins everything we do.

People

The exceptional effort and ongoing commitment of our employees continues to be a key driver of the Group’s strong performance. It is thanks to the incredible efforts of all our employees that the Group was able to continue to operate during the Covid-19 pandemic, and the loyalty, dedication and adaptability of our employees during this crisis should not go unrecognised.

Chairman's Letter continued

During 2020, the Board was updated regularly on employee matters by the CEO and COO, and continued to be impressed by the knowledge, enthusiasm, loyalty and commitment of our employees across the Group and the strong leadership that continues to motivate and encourage our employees. Succession planning continues to be an area of focus on the Board's agenda, with a specific focus on promoting and recruiting internal candidates as we recognise the significant pool of talent across the Group and subsequently endeavour to create training and development opportunities for employees to enable them to progress.

Culture

The Board is conscious of, and understands the importance of, aligning the Company's purpose, values and strategy to the culture of the Group to enable the delivery of long-term business and economic success. As a result, the Board endeavours to encourage a culture whereby employees understand the common Group purpose, strategy and decision-making hierarchy, but also feel empowered to act. The Board is aware of its role in shaping, monitoring and overseeing that culture, and recognises that for the right culture to exist across all of our businesses, our core values must be embedded in its approach to leadership, management and the long-term strategic decisions of the Group. The importance of this has never been more prevalent than it is today, and it is imperative that the Board promotes an open and transparent culture across the Group and drives the senior management teams in each business unit to maintain and foster an open culture, which is responsive to stakeholder expectations and needs as well as the external environment. You can read more about the culture of the Group and some examples of the way in which the Board encourages and engages within this Report on pages 56 to 57.

There was regular interaction during the year between the Board and members of the senior management teams across the Group through presentations and Board meetings and the annual strategy day, as well as direct engagement with employees, to ensure that they felt motivated, encouraged, and reassured, despite the uncertainty of the external environment. During the year, Louise Brooke-Smith took over the role of designated NED for workforce engagement from Mark Hammond, and this engagement also gives the Board an insight into how our employees view and engage with the Group's values and culture on a regular basis.

Section 172 Statement

In accordance with the 2018 UK Corporate Governance Code and the Companies Act 2006, the Board, in its decision-making processes, considers what is most likely to promote the success of the Company for its shareholders in the long term, as well as considering the interests of the Group's employees and other stakeholders and understanding the importance of taking into account their views. The Board also considers and takes seriously the Group's impact on the local communities within which it operates, as well as reviewing actions being taken to mitigate any negative impacts our operations have on the environment. Considering this, the Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole. The Board's activities and considerations in meeting this requirement are covered in detail in our s172 Statement.

Read more on **pages 30 to 31**

Ridgistorm-XL is a lightweight solution in diameters up to 3000mm for resilient drainage and stormwater alleviation

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The Board is conscious of, and understands the importance of, aligning the Company's purpose, values and strategy to the culture of the Group.

Board evaluation

During the 2020 financial year we undertook an internal evaluation of the Board and its Committees, and the results of this evaluation were discussed by the Board at its meeting in December 2020. The evaluation focused on four areas: Board Structure and Functionality; Board Meetings; Board Administration and Corporate Governance; and Personal Effectiveness and Overall Board Effectiveness. The evaluation concluded that the Board and its Committees are operating efficiently and effectively, and that Executive and Non-Executive Director views are aligned.

However, as the Board endeavours to operate at the highest level possible, it continuously looks for areas to improve, and the evaluation highlighted minor areas of focus to be targeted and improved upon in 2021, with progress subsequently being reviewed in next year's internal evaluation. The outcome of the evaluation process is discussed in more detail on page 58 of this Report.

Board composition and diversity

The composition and size of the Board will continue to be kept under review. We believe that our Board is well-balanced and diverse, with the right mix of skills, experience, independence and knowledge to allow it to discharge its duties and responsibilities effectively.

The Board will continue to work to ensure that an open culture is maintained and embedded in the operations of the Group at every level and is committed to and supports diversity in the widest sense, acknowledging the advantages that come from having diverse viewpoints in the decision-making process at Board and senior management level and across the wider workforce. The Company currently has 33% women on its Board and is committed to working towards achievement of 33% women in senior management positions, as set out in the Hampton-Alexander Review, during 2021. Following the recruitment of a Chief People Officer who joined the Company in March 2021, the Company now has 25% female representation at senior management level, being the executive committee and its direct reports. The Company remains committed to achieving the 33% target, but given the relatively small size of this group and the limited turnover of those within it, there is limited scope for immediate change. Our Nomination Committee has developed strong succession plans for the Board and senior management and these plans are reviewed at least annually. You can read more about the work of our Nomination Committee on pages 59 to 62.

Looking at 2021 and beyond

This letter is written at a time of both ongoing uncertainty brought about by the Covid-19 pandemic, but also hope for a return to a new normal and a more certain economic future into the remainder of 2021. Ensuring that the Group's responses to the challenges in exiting this pandemic continue to be appropriate and effective will form part of the key tasks for the Board in the coming months. I am confident however, that the Group fosters a culture across its businesses that will result in the right decisions and actions to promote the success of the Group for the long term, and for the benefit of our members as a whole.

Corporate Governance Report

I am also pleased to present the Company's Corporate Governance Report for the year ended 31 December 2020, on behalf of the Board.

The following pages of this Report and the Directors' Remuneration Report set out in greater detail how the principles and provisions of the 2018 UK Corporate Governance Code (the Code) have been applied and how the Board and its Committees have fulfilled their responsibilities during the year to ensure such high levels of governance are in place across the Group. As always, we welcome questions or comments from shareholders either via our website or, if appropriate, in person at the Annual General Meeting (AGM) scheduled to be held in Doncaster on 20 May 2021.

Ron Marsh
Chairman
16 March 2021

Directors and Officers

1. Ron Marsh

N R

Independent Non-Executive Chairman

Appointed: 27 May 2015

Ron Marsh was appointed to the Board on 28 March 2014 as the Senior Independent Director, and became Independent Non-Executive Chairman on 27 May 2015.
Ron is currently a Non-Executive Director of R. Faerch Plast A/S, the Senior Independent Director of Walstead Group Limited and was, from 1989 until 2013, Chief Executive of RPC Group. Ron is also Chairman of the UK-based Packaging Federation and the Alliance for European Polymers which was established under the auspices of EuPC (European Plastic Converters) in 2015. Ron has a Bachelor of Arts in History from Oxford University and is Chair of the Nomination Committee.

2. Martin Payne

N

Chief Executive Officer

Appointed: 2 October 2017

Martin Payne is our Chief Executive Officer, having joined Polypipe in May 2016 as Chief Financial Officer. Before joining Polypipe, Martin served as Group Finance Director at Norcros plc, a leading supplier of branded showers, taps, bathroom accessories, tiles and adhesives. His previous experience includes holding senior financial positions at JCB, the construction equipment manufacturer, and at IMI plc, the British-based engineering company. He is a Fellow of the Chartered Institute of Management Accountants, Chairman of the Board of the Construction Products Association, and has a Bachelor of Arts in Economics from Durham University.

3. Paul James

Chief Financial Officer

Appointed: 5 March 2018

Paul James is our Chief Financial Officer. Before joining Polypipe, Paul served as Group Financial Controller of Dixons Carphone plc, and prior to this role held the position of Group Financial Controller and Treasury Director of Inchcape plc and senior financial positions at British American Tobacco plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales and has a Bachelor of Science in Civil Engineering from Edinburgh University.

4. Glen Sabin

Chief Operating Officer

Appointed: 2 October 2017

Our Chief Operating Officer, Glen Sabin, has over 40 years' experience in the construction industry having started as an engineer with George Wimpey before moving into a commercial career, initially with Redland plc, followed by 22 years with Marshalls plc. Glen joined the Group in November 2004 as Managing Director of our UK Civils business before becoming Managing Director of our Building Products business in 2013, with additional overall responsibility for Civils and Building Services. He was Managing Director of the Plumbing and Drainage Division from 2016 to October 2017.

5. Mark Hammond

A N R

Senior Independent Director

Appointed: 16 April 2014

Mark Hammond's executive career spanned over 25 years in banking and private equity, most recently as Deputy Managing Partner of Caird Capital LLP at the time it led the IPO of Polypipe in 2014. He has been a member of the Institute of Chartered Accountants of Scotland since 1991 and was previously a Director of David Lloyd Leisure Limited and Tuffnell Parcels Express. Mark is currently a Director of Chaffin Holdings Limited and serves as Chair of Governors of Beechwood Park School, Markyate, Hertfordshire.
Mark was appointed Senior Independent Director on 22 June 2020.

6. Louise Hardy

A N R

Non-Executive Director

Appointed: 25 June 2018

Louise Hardy has over 25 years' experience in the construction sector, including working for Laing O'Rourke as Infrastructure Director within CLM, the consortium delivery partner for the Olympic Delivery Authority for the London 2012 Olympics. She has also worked at Bechtel Limited, AECOM and London Underground Limited, and is a Non-Executive Director of Crest Nicholson plc, Sirius Minerals plc and Severfield plc as well as Ebbsfleet Development Corporation, a non-departmental public body. She has a Bachelor of Science from the University of Warwick and is a fellow of the Institution of Civil Engineers. Louise is Chair of the Remuneration Committee.

7. Kevin Boyd

A N R

Non-Executive Director

Appointed: 22 September 2020

Kevin Boyd has extensive listed plc experience in the engineering and manufacturing sectors, bringing a strong combination of financial, strategic and multi-organisational expertise to the Board. He was previously the Chief Financial Officer of global engineering group Spirax-Sarco Engineering plc and prior to that Chief Financial Officer of Oxford Instruments plc and Radstone Technology plc. Kevin has a BEng from Queens's University Belfast, is a Chartered Engineer, a Chartered Accountant and a Fellow of the Institute of Chartered Accountants in England and Wales and the Institution of Engineering and Technology. He is currently a Non-Executive Director and the Audit Committee Chair of EMIS Group plc and a Non-Executive Director of Bodycote plc. Kevin is Chair of the Audit Committee.

8. Lisa Scenna A N R
Non-Executive Director

Appointed: 24 September 2019
Lisa Scenna has over 20 years' business experience working at executive director level in large private and publicly listed multinational corporations with a strong background in strategic and financial business change, with her most recent executive role being with the Morgan Sindall Group as Managing Director of MS Investments. Prior to this, she held executive roles with Laing O'Rourke, Stockland Group and Westfield Group in Australia. She is a Non-Executive Director of Cromwell Property Group, an Australian listed company. Lisa has a Bachelor of Commerce from the University of NSW, and is a member of the Australian Institute of Company Directors and the Institute of Chartered Accountants in Australia.

9. Louise Brooke-Smith A N R
Non-Executive Director

Appointed: 24 September 2019
Louise Brooke-Smith has extensive expertise in the property, construction and infrastructure industries, being an experienced property and planning advisor, past Global President of the Royal Institution of Chartered Surveyors and member of the Royal Town Planning Institute. She was formerly a partner at Arcadis LLP and is currently Global Development and Strategic Planning Adviser for Consilio Strategic Consultancy Limited. She is a Governing Board member of Birmingham City University, Chair of the Board of All We Can (International Relief & Development Agency), a regional Board member of the CBI, and a Board Trustee of The Land Trust and a Trustee of Birmingham Museum & Art Gallery. Louise holds a Bachelor of Science from Sheffield Hallam University and an honorary doctorate, and is a Freeman of the City of London. Louise is our nominated workforce engagement NED.

10. Emma Versluys
Group Legal Counsel and Company Secretary

Appointed: 28 June 2017
Emma Versluys is our Group Legal Counsel and Company Secretary and is Secretary to the Board and its three Committees. Before joining Polypipe, Emma was Deputy Company Secretary at Provident Financial plc, and has also held company secretarial roles at Serco plc and Alliance UniChem plc. She is an Associate of The Chartered Governance Institute and is also a solicitor.

Committees
In addition to the Polypipe Group plc Board, there are three Committees:

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chairman of Committee

1

2

3

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Corporate Governance Statement

This statement outlines the processes the Company has undertaken throughout the year to apply the Code and demonstrates compliance with each provision.

Compliance with the UK Corporate Governance Code

This Report, which is also available on the Company's website, explains key features of the Company's governance structure and is designed to provide a greater understanding of how the principles of the Code, published in July 2018 by the Financial Reporting Council (FRC), have been applied and the areas of focus during the year. The Code can be found on the FRC's website at www.frc.org.uk.

In accordance with the Listing Rules of the Financial Conduct Authority, the Board confirms that throughout the year ended 31 December 2020 and as at the date of this Report, the Company has complied with the principles of the Code.

The Report also includes items required by the FCA's Disclosure Guidance and Transparency Rules. The Board has ultimate responsibility for the approval of the Annual Report and Accounts. It has considered the content of the Annual Report and Accounts and confirms that, taken as a whole, it is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy.

Section 1: Board leadership and company purpose

Read more on **pages 45 to 57**

A. Effective and entrepreneurial board to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society

B. Purpose, values and strategy with alignment to culture

C. Resources for the company to meet its objectives and measure performance. Controls framework for management and assessment of risks

D. Effective engagement with shareholders and stakeholders

E. Consistency of workforce policies and practices to support long-term sustainable success

	Pages
Culture	56 to 57
Risk framework	53
Stakeholder engagement	28 to 29

Section 2: Division of responsibilities

Read more on **page 52**

F. Leadership of board by chair

G. Board composition and responsibilities

H. Role of non-executive directors

I. Company secretary, policies, processes, information, time and resources

	Pages
Directors' biographies	48 and 49
Roles and responsibilities	51

Section 3: Composition, succession and evaluation

Read more on **pages 58 to 62**

J. Board appointments and succession plans for board and senior management and promotion of diversity

K. Skills, experience and knowledge of board and length of service of board as a whole

L. Annual evaluation of board and directors and demonstration of whether each director continues to contribute effectively

	Pages
Board evaluation	58
Diversity	61
Succession planning	62

Section 4: Audit, risk and internal controls

Read more on **pages 63 to 67**

M. Independence and effectiveness of internal and external audit functions and integrity of financial and narrative statements

N. Fair, balanced and understandable assessment of the company's position and prospects

O. Risk management and internal control framework and principal risks company is willing to take to achieve its long-term objectives

	Pages
Fair, balanced, understandable	54 and 65
Risk management and internal control	66

Section 5: Remuneration

Read more on **pages 72 to 95**

P. Remuneration policies and practices to support strategy and promote long-term sustainable success with executive remuneration aligned to company purpose and value

Q. Procedure for executive remuneration, director and senior management remuneration

R. Authorisation of remuneration outcomes

	Pages
Remuneration Policy	77 to 85
Remuneration Report	86 to 95

Roles and responsibilities

The Board

The Board is responsible for the leadership and direction of the Group and is ultimately responsible to the Company's shareholders for the Company's long-term success. The Board takes the lead in areas such as establishing the Company's purpose, values, strategy, financial policy and ensuring that a sound system of internal control is maintained, whilst continually seeking to represent the interests of all material stakeholders. By delegating authority to its Committees, the Board directs and reviews the Group's operations within an agreed framework of controls, allowing risk to be assessed and managed within defined parameters.

The Board has established a formal schedule of matters reserved for its approval which are detailed later in this Report, and has delegated other specific responsibilities to its principal committees: the Audit, Nomination and Remuneration Committees. These responsibilities are clearly defined within the Terms of Reference of the respective Committees, which are reviewed on an annual basis to ensure they remain appropriate and that the Committees continue to operate effectively.

The Board has also delegated to the Chief Executive Officer the responsibility for implementing the Group's business model and for the day-to-day operational management of the Group, supported by the Chief Financial Officer (CFO), the Chief Operating Officer (COO) and the senior management team. The Board has direct access to the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with and that the Board has full and timely access to relevant information. The Board may take independent professional advice in the furtherance of its duties if necessary, at the Company's expense.

Chairman

- Provides overall leadership and governance
- Sets the Board agenda
- Promotes a culture of openness, challenge and constructive debate
- Ensures Directors understand the views of major shareholders and stakeholders

Chief Executive Officer

- Executive management of the Group's business
- Develops and implements Group strategy and commercial objectives
- Leads senior management team in effecting decisions of the Board
- Communicates with the Board, shareholders, employees and other stakeholders

Executive Directors

- The CFO implements, manages and controls the Group's financial related activities, including the development of appropriate financial strategies and the management of investor relations
- The COO is responsible for the effective and efficient management of operations across the Group

Non-Executive Directors

- Scrutinise and constructively challenge the performance of Executive Directors and contribute to setting succession plans and remuneration
- Senior Independent Director acts as a sounding board for Chairman, appraises his performance, leads the other NEDs, and is a direct contact for shareholders if necessary

Company Secretary

- Provides advice to the Board on all governance and legal-related matters, as well as advising Directors on their duties
- Assists with all Board and shareholder meetings and related paperwork
- Facilitates induction and training programmes for Directors

Board Committees

The Board has delegated specific responsibilities to its Committees to assist it in successfully performing its duties. The Committees discuss and propose matters to the Board to allow it to make reasoned decisions and if required, appropriate actions. Each Committee has reported on its contributions to the Board's decision making during the year, which can be found later in this Governance Report. Biographies of the Chairs of each of the Board Committees, as well as all other Directors, are set out on pages 48 and 49.

Audit Committee

Key responsibilities

- Overseeing financial reporting
- Internal control systems
- Risk management systems
- Internal and external audit functions

Nomination Committee

Key responsibilities

- Reviewing structure, size and composition of the Board and its Committees
- Board succession planning
- Determining the skills and characteristics needed in Board candidates to ensure a diverse skillset
- Considering stakeholder perspectives when deciding on recruitment processes and selection criteria

Remuneration Committee

Key responsibilities

- Setting remuneration policy for Executive Directors
- Operating the Company's share incentive arrangements
- Senior management remuneration
- Oversight of remuneration-related policies

Corporate Governance Statement continued

Board composition, qualification and experience

At the year end, the Board comprised the independent Non-Executive Chairman, three Executive Directors and five Non-Executive Directors. Biographical details of the individual Directors can be found on pages 48 and 49. The Non-Executive Directors were appointed for the diversity of their backgrounds as well as their personal attributes and experience. The current Board members bring a wide range of skills and experience to the Board and all actively contribute to discussions.

The Nomination Committee and the Board have considered the independence of each of the Non-Executive Directors. The Board considered the Chairman and all the Non-Executive Directors to be independent throughout the period (or where applicable, from appointment).

In accordance with the Code Provision 18, all of the Directors are subject to annual re-election. Kevin Boyd will offer himself for election at the 2021 AGM and for re-election annually thereafter.

Separation of the roles of Chairman and Chief Executive Officer

The roles and responsibilities of the Chairman and the Chief Executive Officer are separate and clearly defined, with a distinct division of responsibilities.

It is the Chairman's duty to provide overall leadership and governance of the Board. In performing this role, the Chairman sets the Board agenda, ensures that adequate time is available for discussion of all agenda items and promotes a culture of openness, challenge and debate at Board meetings. The Chairman is also responsible for ensuring that the Directors have an understanding of the views of major shareholders. Supported by the Company Secretary, the Chairman keeps under review the adequacy of the training received by all Directors, particularly on stakeholder-related matters, and the induction received by new directors, especially those without previous board experience, as well as determining how best to ensure that the Board's decision-making processes give sufficient consideration to material stakeholders.

The Chief Executive Officer is responsible for executive management of the Group's business, consistent with the strategy and commercial objectives agreed by the Board. He leads the senior management team in effecting decisions of the Board and its Committees and is responsible for the maintenance and protection of the reputation of the Group.

The Chief Executive Officer is also responsible for ensuring that the affairs of the Group are conducted with the highest standards of integrity, probity and corporate governance.

Whilst the roles of the Chairman and Chief Executive Officer are separate, the partnership between both is based on mutual trust and facilitated by regular contact between them. The separation of authority enhances the independent oversight of the executive management by the Board and helps to ensure that no one individual on the Board has unfettered authority.

Role of the Senior Independent Director

Mark Hammond was appointed Senior Independent Director (SID) of the Company in June 2020 in anticipation of Paul Dean's retirement in September 2020. He is available to shareholders if they have concerns that cannot be addressed through normal channels. The role of the SID is to act as a sounding board for the Chairman and an intermediary for the other Directors when necessary. The SID is also available to chair the Board in the absence of the Chairman and has authority to add items to the agenda of any regular or special meeting of the Board. The role of the SID is considered to be an important check and balance in the Group's governance structure.

Appointment and tenure

The Non-Executive Directors serve on the basis of letters of appointment which are available for inspection at the Company's registered office. The letters of appointment set out the expected time commitment of the Non-Executive Directors who, on appointment, undertake that they have sufficient time to carry out their duties.

There is no fixed expiry date. The Executive Directors' service contracts are also available for inspection at the Company's registered office. The notice period for the Executive Directors is 12 months.

External appointments

As outlined in the Code, all Non-Executive Directors should have sufficient time to meet their Board responsibilities. To ensure this is monitored regularly, all external appointments, including those of the Chairman, are reviewed at every Board meeting. The Board has reviewed the nature of each appointment and the expected time commitment for each Director and concluded that none of these appointments compromises the effectiveness of the individual Director or the Board, and is satisfied that each Non-Executive Director has sufficient time to discharge their duties to the Company. Further details of our Non-Executive Directors' external appointments can be found in their Biographies on pages 48 and 49.

Directors' induction and training/professional development

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the ongoing development of all Directors. Kevin Boyd joined the Board during the year and received an induction which involved three UK site visits, product briefings and training, and individual meetings with the outgoing Audit Committee Chair, the Company Secretary, members of the senior management team, and the Company's internal and external auditors.

As the internal and external business environment changes, it is important to ensure that Directors' skills and knowledge are refreshed and updated regularly. The Board was therefore given presentations during the year by the Company's financial advisers and brokers, as well as several presentations by senior management, in addition to the annual strategy day, the majority of which were held virtually. At Board meetings held during the year, the Company Secretary updated the Board on new legislation and regulations as well as changes to the current legislative and regulatory regimes to which the Company is subject.

Board Induction Process
Kevin Boyd

1

Understanding the business

This will include an overview of the Group structure, strategy and Board procedures

2

Meeting the team

Meetings are held with the senior management teams in Head Office and the divisions, as well as meeting external brokers and advisers

3

Visiting sites

Visits to sites to understand the operations of the businesses. As a result of Covid-19, the usual induction process included virtual meetings where face to face meetings were not possible or essential

Kevin Boyd joined the Board in September 2020 amidst the Covid-19 pandemic, which made facilitating a full and effective induction programme more difficult to achieve. Despite this, it was a priority to ensure that the Company adapted to the circumstances, and that Kevin felt welcomed and had access to all resources necessary to help him familiarise himself with the structure, strategy and key members of the Group. Upon joining, Kevin received presentations from the senior team, the Company Secretary provided an overview of the Board procedures and he had meetings (albeit virtually) with the Chairman, SID and the CFO to help in understanding the Board dynamics and his role as the newly appointed Audit Committee Chair. In addition to this, Kevin met virtually with members of the senior management teams and the brokers, as well as the external and internal auditors. Over the course of late September and October, restrictions were ever changing in different parts of the UK and this meant that all site visits that are typically conducted as part of our new director induction programme were not possible. Despite this, Kevin still managed to visit some of our sites in accordance with Government regulations, and we are hopeful he will be able to safely complete these visits during 2021.

'Starting a new role during a global pandemic poses unique challenges, and since joining the Board of Polypipe as a Non-Executive Director, all of our meetings have been held virtually with the exception of a socially distanced interview with the Chair and SID in the centre of Oxford during the recruitment process! Nevertheless, I have been really pleased at how my colleagues on the Board and within the Company have striven to make me welcome and to bring me up to speed. I was able to conduct a few site visits and am looking forward to completing that part of my induction and hopefully meeting my Board colleagues face to face over the next year.'

Kevin Boyd

Directors' conflicts of interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where he or she may have a direct or indirect interest that conflicts with the interests of the Company. The Company has robust procedures in place to identify, authorise and manage such conflicts of interest, and these procedures have operated effectively during the year.

All potential conflicts approved by the Board are recorded in a conflicts of interest register which is maintained by the Company Secretary and reviewed by the Board on a regular basis. Directors have a continuing duty to update the Board with any changes to their conflicts of interest.

Directors' indemnity and insurance

The Company maintains Directors' and Officers' liability insurance to cover legal proceedings against Directors and Officers acting in that capacity. Details of the Directors' indemnity arrangements can be found on page 69 of the Directors' Report.

Internal controls and risk management

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. It is also responsible for maintaining sound risk and internal control systems in accordance with Provision 25 of the Code and confirms that:

- there is an ongoing process for identifying, evaluating, and managing the principal risks faced by the Group
- the systems have been in place for the year under review and up to the date of approval of the Annual Report and Accounts
- the systems are regularly reviewed by the Board
- the systems accord with the FRC guidance on risk management, internal control and related financial and business reporting

The effectiveness of these systems is also reviewed through the work of the Audit Committee described on pages 63 to 67. The key risks which the Board has focused on this year, together with their potential impact and mitigating actions are set out on pages 38 to 43.

The Company has a risk management framework which adopts a top-down and a bottom-up view of the key risks, which involves both the downward cascade and upward escalation of risks between the Group and the business units. It comprises a risk register template, a risk profile template and assessment guidelines to be used by both the Group and business units when considering risk. It also includes a detailed approach to formally recording and independently assessing Group level risks. Given the increased size of the Group and the current remit of the Audit Committee, a review was conducted of the risk management framework and reporting structure, following which, it was agreed that a separate risk committee be established in 2021, with responsibility for risk management on behalf of the Board.

The Board has conducted a review of the effectiveness of the system of internal controls and risk management and is satisfied that it complies with Provision 29 of the Code.

Corporate Governance Statement continued

Fair, Balanced and Understandable

In order to ensure our financial and business reporting is fair, balanced and understandable, the Company follows the process outlined below:

1

Fair

Is the report fair?

Is the whole story presented?

Are the key messages in the narrative reflected in the financial reporting?

2

Balanced

Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report?

Are the statutory and adjusted measures explained clearly with appropriate prominence?

3

Understandable

Is there a clear and understandable framework to the report?

Are the important messages highlighted appropriately throughout the document?

Conclusion

Following its review, the Board was of the opinion that the 2020 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview.

Financial and business reporting process

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance, strategy and business model of the Company. In addition to the Annual Report and Accounts, the Company also ensures that other price-sensitive reports and other information are published externally.

The Group has a thorough assurance process in place in respect of the preparation, verification and approval of periodic financial reports which is set out in the Report of the Audit Committee on pages 63 to 67.

This process includes:

- the involvement of qualified, professional employees with an appropriate level of experience (both in Group Finance and throughout the Group's businesses)
- formal sign-off from appropriate business unit senior executives
- comprehensive review and, where appropriate, challenge from appropriate Group senior management and Executive Directors
- a transparent process to ensure full disclosure of information to the external auditor
- oversight by the Audit Committee, involving (amongst other duties):
  - a detailed review of key financial reporting judgements which have been discussed by management
  - review and, where appropriate challenge on matters including:
    - the consistency of, and any changes to, significant accounting policies and practices during the year
    - significant adjustments resulting from an external audit
    - the viability statement assumptions
    - the going concern assumption

The above process provides comfort to the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable.

Board meetings

As a result of the Covid-19 pandemic, the Board met more regularly during the year than in previous years, given the challenges facing the business and the key decisions requiring Board discussion and approval as a result. In total, there were 23 Board meetings held, the majority of them virtually, to discuss and review progress on issues affecting the Group. A number of Committee meetings were also held during the year. Details of attendance at Board and Committee meetings are shown in the table below.

Current Directors	Board Attendance	Audit Committee Attendance	Nomination Committee Attendance	Remuneration Committee Attendance
Ron Marsh	**23/23**	–	**6/6**	**9/9**
Martin Payne	**23/23**	–	**6/6**	–
Paul James	**23/23**	–	–	–
Glen Sabin	**22/23**	–	–	–
Paul Dean*	**20/20**	**3/3***	**3/3***	**6/6***
Mark Hammond	**23/23**	**4/4**	**6/6**	**9/9**
Louise Hardy	**23/23**	**4/4**	**6/6**	**9/9**
Lisa Scenna	**22/23**	**4/4**	**6/6**	**9/9**
Louise Brooke-Smith	**23/23**	**4/4**	**6/6**	**9/9**
Kevin Boyd†	**3/3†**	**1/1†**	**3/3†**	**3/3†**

* Retired from the Board on 15 September 2020
† Joined the Board on 22 September 2020

As the table on page 54 demonstrates, every effort is made to ensure that all Directors, where possible, attend scheduled Board meetings. However, in the event that a Director is unable to attend a meeting, they are nevertheless provided with the meeting papers and information relating to the meeting and are able to discuss the issues arising with the Chairman and other Directors.

Senior management from across the Group, and advisers, attend some of the meetings for discussion of specific items in greater depth and to provide training and updates.

In order to provide the Board with greater visibility of the Group's operations and to provide further opportunities to meet senior management, the Board will usually visit the Group's business unit locations on a rolling basis each year. Such visits allow the Board to gain a deeper understanding of local market dynamics and to assess management performance and potential. However, due to the restrictions in place during the year as a result of Covid-19, the Board only visited the Group's operations in Caerphilly in February 2020, after which all Board meetings were held virtually. During this visit, the Board members received a management presentation and toured the factory and distribution centres. The Board also held a Board dinner ahead of the scheduled Board meeting to provide a more relaxed forum in which the Board members were able to have additional discussions amongst themselves and with the senior management team at that location, which improved the focus of the formal Board meeting and allowed for employee engagement by the Board. It is the intention of the Board to resume these regular Board dinners and site visits once the Covid-19 restrictions are lifted.

Every year, the Board holds an annual strategy day, where it spends a full day with senior management to discuss current performance of the Group and the strategic plan. Due to the impact of the pandemic and the Covid-19 restrictions in place, this strategy day was held virtually in 2020, with members of senior management from across the Group presenting the updated strategy and proposed implementation of this strategy within each division. Despite the session being held virtually, this did not inhibit the interaction between the Board members and senior management, with engagement and challenge at a high level throughout. During the year, the Chairman held regular (virtual) meetings with the Non-Executive Directors without the Executive Directors present, and the Non-Executive Directors met on one occasion without the Chairman being present to appraise the Chairman's performance, as discussed later in this Report.

Schedule of matters reserved for the Board

The schedule of matters reserved for the Board includes the consideration and approval of:

- strategy and overall management and leadership of the Group
- financial items – including the Group's annual budget, dividend policy, annual and half-yearly accounts, accounting policies, and monetary limits
- the risk management system and internal controls
- contracts with third parties not in the ordinary course of business
- legal, administration and pension arrangements
- the Group's corporate governance arrangements
- the operation of the Company's share option schemes as recommended by the Remuneration Committee
- Directors' and Officers' insurance coverage and the commencement or settlement of any major litigation
- setting and assessing the appropriateness and ongoing development of the Group's culture, and monitoring behaviour across the businesses to ensure culture is aligned with the Group's values
- communications with shareholders and the issue of shareholder circulars
- identifying those who they consider their key stakeholders to be and why, keeping this under regular review
- Board and senior management appointments and arrangements
- conflicts of interest where permitted by the Company's Articles of Association

Board Committees

The Board has appointed three Board Committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. The role and responsibilities of each Committee are set out in formal Terms of Reference. These Terms of Reference have been reviewed during the year and adjusted as necessary to reflect legislative changes and best practice and to improve the individual and collective Committees' efficiency and effectiveness. The Terms of Reference are available on the Company's website.

The Committees carry out their required duties and make recommendations to the Board for approval. Each Committee Chair provides an update to the Board on the key discussions and decisions made at the preceding Committee meeting.

> "The Group has a thorough assurance process in place in respect of preparation, verification and approval of periodic financial reports.

Corporate Governance Statement continued

Case Study

Our Culture

The Board is conscious of, and understands the importance of, aligning the Company's purpose, values and strategy to the culture of the Group to enable long-term business and economic success. Our culture is unique as we are a decentralised Group where day-to-day decision making and product expertise is close to our customers and our markets. As a result, the Board endeavours to encourage a culture whereby employees understand the common Group purpose, strategy and decision-making hierarchy, but also feel empowered to act. We recognise that our employees are our greatest asset in helping us achieve our vision of being the leading, UK focussed, provider of sustainable construction products. The Board is aware of the role it plays in shaping, monitoring and overseeing our culture, and recognises that for the right culture to exist across all of our businesses, our core values must be embedded in its approach to leadership, management and the long-term strategic decisions for the Group.

The Board aims to promote a culture whereby our employees understand their value and contribution to the Group's overall success, motivating them and bringing them on our journey in addressing the challenges caused by climate change and urbanisation through our water and climate management solutions. Together, we're helping construction build better. Our core values of trust, support, experience, and innovation underpin our culture. Our businesses have adopted these core values and articulated them in ways they feel most suit them, their customers, their employees and the communities in which they operate. These nuances are what makes our culture unique, because despite these subtle adaptations across our businesses, our core values do not change and each business is working towards the same purpose, and thus our culture remains consistent.

Our dedicated employee engagement Non-Executive Director ensures employee views are considered by the Board in its strategic decision-making, and the Executive Directors then communicate the agreed strategic direction to the senior management teams across the Group in terms of how we can fulfil our purpose through our values, ensuring there is a consistent approach at all levels.

Employee engagement therefore is one of the key methods to ensuring a unified culture exists across the Group. Our methods of engagement come in a variety of forms and from all levels. On a regular basis, emphasis is placed on the health and wellbeing of our employees to ensure they feel safe and supported. We provide regular opportunities for our employees to develop their skills through training and development, encouraging innovation, experience and career development, as well as ensuring at a local level that employees understand our goals and the role that they can play in achieving them. We are committed to carrying out our business responsibly and ensuring we promote sustainable operations and minimise adverse environmental and social impacts.

This is embedded in management and employee reward schemes, where health and safety matters remain one of the key performance parameters. In addition to regular engagement, additional engagement takes place when required. For example, throughout the unprecedented circumstances of the Covid-19 pandemic, the Board prioritised keeping communication channels open with employees through direct newsletters, messages and videos from the CEO to all employees, keeping them motivated, encouraged, and reassured. Some examples of the way in which we engage with our employees to promote and maintain this culture are outlined opposite.

Encouraging an open and transparent culture across the Group to promote our values, help achieve our purpose and vision, as well as fostering and maintaining a culture which is responsive to stakeholder expectations and the external environment will continue to be a priority for the Board and it will continue to work to ensure this remains successfully embedded in its operations in 2021.

"

The Board aims to promote a culture whereby our employees understand their value and contribution to the Group's overall success.

Our fabrication capabilities allow us to provide bespoke solutions for customers' needs

Health of our employees

We recently introduced a new online resource for employees entitled 'Your Wellbeing Hub' which is accessible from any device and contains sections dedicated to physical health, mental health, healthy eating and a kids corner with activities for families. It contains links to NHS and Government initiatives such as Change 4 Life, but also to Polypipe-specific services such as access to an onsite chiropractor, Westfield Health services and a host of positive affirmations and guided meditations via the House of Wellbeing.

In addition, in partnership with Sano Physiotherapy, we undertook a six-month trial of an on-site, weekly, free physiotherapy service for employees at our Doncaster sites. The trial was a success and is now a permanent service offered to all Group employees. It has also been extended to include an extra fortnightly clinic, with appointments being accessed face to face or virtually. Our partner, Sano Physiotherapy, have extensive experience in delivering Occupational Health Physiotherapy and their aim is to work with us to identify the causes of pain, provide effective treatment and resolutions, and to prevent or shorten periods of absence due to musculoskeletal pain or disorder.

Encouraging employees to contribute to reducing the impact of climate change in line with our purpose, raising the bar for sustainability

Our employees are actively encouraged to participate in initiatives which help reduce the impact of climate change, working with each other, as well as within the communities in which we operate. Some examples of the initiatives we participated in during 2020 across the Group include:

- Signing up to Operation Clean Sweep® – led in the UK by the British Plastics Federation, the initiative's aim is to ensure that plastic pellets, flakes, and powders that pass through manufacturing facilities in the UK are contained and do not escape into waterways
- Litter picking in local areas
- Obtaining the Zero to Landfill award
- Working with a local school collecting their used HDPE bottles, which we then recycle at our polymer processing plant and turn into products
- Environmental and energy awareness training
- Investment in our waste management area, dedicating a new team to sort and segregate waste products

2020 induction programme and the online Learning Management System

Our induction programme is delivered to every new member of staff and currently takes place on a weekly basis. The process was updated during 2020 in preparation for furloughed staff to return to work and included the significant changes to daily working life such as wearing masks, use of hand sanitiser, social distancing and one-way systems in place across the shop floor.

New training courses were created through our online Learning Management system. All employees across the Group have access to the system so they are able to access all relevant training, which includes, but is not limited to, 'Mental Health Awareness in the Workplace' and updated Manual Handling procedures. For those employees working on site at our manufacturing sites, we provided a quiet place for them to train, offering our full support whilst they used the updated system. For some employees, we created an email account to allow them to join, for others it was helping them use a computer for the first time. A tailored site tour was also delivered; this included a mini tour of their work area and a full site tour, so each employee knew the protocols that were required.

Corporate Governance Statement continued

Board evaluation and effectiveness

In accordance with the Code Provision 21, the Board and its Committees undertook an externally facilitated evaluation in 2019, which was carried out by Genius Boards and facilitated by the Chairman and the Company Secretary. The results of the evaluation indicated that the Board is focused and engaging and operating effectively and efficiently. However, the Board recognised the need to continue to improve culture and engage collectively in developing their contributions. The actions that were agreed to promote further effectiveness were detailed in our 2019 Annual Report. Progress on some of the key recommendations are shown in the table below.

Following the external evaluation in 2019, the Board conducted an internal evaluation during the financial year, which consisted of an online anonymous questionnaire to allow all Directors to give honest feedback, as well as ensuring ease of access whilst all Directors were working remotely. The same format of questionnaire was also completed for each Committee, focusing on four different areas: Board Structure and Functionality, Board Meetings, Board Administration and Corporate Governance and Personal Effectiveness and Overall Board Effectiveness.

Following this, the results were discussed between the Chairman and the Company Secretary in the first instance, and then shared with the Board in the December 2020 Board meeting. The results showed that the Board was collective in its opinion of its overall effectiveness, that it was operating efficiently and effectively, and Executive Directors' and Non-Executive Directors' views were largely aligned which was a positive outcome. The area which was highlighted as being the main area for focusing on improvement was the Board's assessment of the ongoing development and appropriateness of the Group's culture and it was agreed that this would be a target for improvement during 2021. Progress on this will be reported on in the 2021 Annual Report.

Annual General Meeting

The Company's Annual General Meeting (AGM) is scheduled to be held on 20 May 2021. All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. A copy of the notice of AGM can be found on the Company's website.

The AGM is the Company's principal forum for communication with private shareholders. The Chairman of the Board and the Chair of each of the Committees will be available to answer shareholders' questions at the AGM.

The notice of AGM will be sent out to shareholders at least 20 working days before the meeting. Results will be announced to the London Stock Exchange via a Regulatory Information Service announcement and published on the Company's website.

Re-election of Directors

At the AGM, all Directors will retire and submit themselves for election or re-election. As a result of the Board evaluation exercise, as Chairman I am satisfied that each Director continues to show the necessary level of commitment to their role and has sufficient time available to fulfil his or her duties, to justify their re-election. Kevin Boyd will offer himself for election at the 2021 AGM and for re-election annually thereafter.

Approved by the Board and signed on its behalf.

Ron Marsh
Chairman
16 March 2021

Recommendation	Action Taken
Consideration of separation of the role of Audit Committee Chair and Senior Independent Director	Following Kevin Boyd's appointment to the Board and Paul Dean's retirement, Mark Hammond was appointed as SID and Kevin Boyd as Chair of the Audit Committee to separate these roles
Review of Committee membership in light of all Non-Executive Directors being members of all three Committees	Following discussion, it was agreed that the membership of the Committees should remain unchanged given the small size of the Board and importance of all NEDs being involved in all Committee business
Increased focus on the people and talent agenda and the role of HR	The Company has recruited a Chief People Officer who will have responsibility for driving these people-focused strategies forward
Focus on further improving communication between Board members outside of formal Board meetings	Increased formal and informal communication between Board members outside of formal meetings has taken place, and will continue into 2021
Consideration of the timing of Board and Committee meetings, in particular when reviewing and approving interim and full year results	Given the move to virtual meetings in 2020, it was agreed to revisit this action in 2021 when more time resulting from travel to the Group's sites makes this more relevant
Board communications, internally and with stakeholders	Regular communication took place with internal and external stakeholders during the year to ensure that all stakeholders were kept informed of news, developments and the performance of the Group

Nomination Committee Report

Letter from the Chair of the Nomination Committee

Ron Marsh
Chair of the Nomination Committee

Committee Members and Attendance

Ron Marsh 6/6	Louise Hardy 6/6
Mark Hammond 6/6	Lisa Scenna 6/6
Louise Brooke-Smith 6/6	Martin Payne 6/6
Kevin Boyd 3/3†	Paul Dean 3/3*

† Kevin joined the Board on 22 September 2020 and has attended all Nomination Committee meetings since his appointment

* Paul retired from the Board on 15 September 2020 and attended all Nomination Committee meetings prior to his retirement

Dear Shareholder

I am delighted to present the Report of the Nomination Committee (the Committee) for 2020, reporting on the work of the Committee during the year, as well as its ongoing objectives and responsibilities.

The role of the Nomination Committee is to establish and maintain a process for appointing new Board members, to manage, in consultation with the Chairman, the succession of the Chief Executive Officer and to support the Board in fulfilling its overall duties. With the implementation of the updated UK Corporate Governance Code (the Code) in 2018, the Committee's importance and prevalence in maintaining and promoting the culture of the Company has become more apparent, and this is one of the key ongoing considerations of the Committee.

Paul Dean, Senior Independent Director and Chair of the Audit Committee, retired from the Board on 15 September 2020, having served on the Board since the Company's IPO in 2014. I would like personally to thank Paul for his valuable contribution during his tenure on the Board and for his contribution to the success of the Group. As a result of Paul's retirement, the Committee recommended the appointment of Mark Hammond as Senior Independent Director with effect from 22 June 2020, in order to allow for a smooth transition period before Paul's departure. Louise Brooke-Smith was appointed as the designated employee engagement NED in Mr Hammond's place, also with effect from 22 June 2020.

During the year, the Committee oversaw the successful recruitment of a new independent Non-Executive Director, Kevin Boyd, who joined the Board and was appointed as Chair of the Audit Committee on 22 September 2020, adding further to the diversity of the Board's skills, knowledge and experience. Kevin was appointed as Chair of the Audit Committee due to his financial background and experience, and also became a member of both the Nomination and Remuneration Committees. Further details of Kevin's experience can be found in his biography on page 48. Further details of the recruitment process are described in this Report.

The Committee is supported by a strong Secretariat function and has access to the Company Secretary at all times, ensuring it is kept up to date with all recommended guidance. The succession guidance issued by the Financial Reporting Council (FRC), as well as the Guidance on Board Effectiveness, and the Code, recommend that Nomination Committees should look deeper into the Company to identify future leaders, adopting a wider outlook in identifying potential directors. The Succession Planning Development Policy was reviewed and updated at the Committee meeting in December 2020, ensuring developments and related guidance were incorporated into the future succession planning strategies of the Committee. In addition, the Company has taken the decision to create a new executive role of Chief People Officer, whose remit includes responsibility for all aspects of our people strategy, including talent management and succession.

The Committee focuses on ensuring that individual Directors and the Board as a whole have the necessary experience and skills to support the Company's strategic direction, as well as the Board's ability to successfully oversee its delivery of such strategy. Our considerations on these matters when making changes to the Board during the year are showcased in more detail in this Report. I will be available at the AGM to answer any questions about the work of the Committee.

Ron Marsh
Chair of the Nomination Committee
16 March 2021

Nomination Committee Report continued

2020 Key Achievements

Appointment of Kevin Boyd as Non-Executive Director and Chair of the Audit Committee

Oversight of ongoing recruitment process for successor for Group COO

Appointment of Mark Hammond as Senior Independent Director and Louise Brooke-Smith as employee engagement NED

Areas of Focus in 2021

Non-Executive Directors
Succession planning for Non-Executive Directors

Executive Directors
Succession planning for the Chief Operating Officer

Succession Planning
Continuation of the development of succession plans, talent management and diversity in conjunction with the newly appointed Chief People Officer

Committee membership and meetings

The Committee comprises Ron Marsh (the Chairman), all of the Non-Executive Directors, being Kevin Boyd, Mark Hammond, Louise Hardy, Lisa Scenna and Louise Brooke-Smith, and Martin Payne (the Chief Executive Officer). Paul Dean was also a member of the Committee until 15 September 2020, when he retired from the Board. Accordingly, there are seven members. The Committee is chaired by the Board Chairman except when considering his own re-election.

In accordance with the Code Provision 17, the majority of the members were independent. During the year, Kevin Boyd was appointed as Non-Executive Director and as member of the Committee. The members of the Committee and details of their attendance at all Committee meetings are set out on page 54. Biographies of each member are shown on pages 48 and 49. Under the Committee's Terms of Reference, the Committee will normally meet not less than twice a year and at such other times as the Chairman shall require. The Committee held two scheduled formal meetings during the year under review and an additional four meetings to discuss and progress the appointment of the new Non-Executive Director and to discuss and progress succession planning for the Chief Operating Officer, Glen Sabin, who indicated during 2020 his intention to step down from the Board in 2021. After each Committee meeting, the Chairman reports to the Board on the main items discussed, as well as reporting on the nature and content of its discussion, recommendations and action to be taken.

Role of the Committee

The Committee's main responsibilities are to evaluate the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board and the Committees; to give full consideration to succession planning of Directors and other senior executives; and to assist with the selection process of new Executive and Non-Executive Directors including the Chairman. The Committee's Terms of Reference explain the Committee's role and responsibilities and were reviewed in December 2020 to ensure they remain appropriate. The Terms of Reference can be found on the Company's website.

The Company Secretary acts as Secretary to the Committee. In accordance with its Terms of Reference, the Committee is required to:

- review the structure, size and composition of the Board and make recommendations to the Board, as appropriate
- consider succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Group and the future skills and expertise needed on the Board
- review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace
- identify the balance of skills, knowledge, diversity and experience on the Board
- identify and nominate candidates to fill Board vacancies as and when they arise and recommend them for the approval of the Board
- review the time commitment required from Non-Executive Directors
- review the results of the Board performance evaluation process that relate to the composition of the Board and the Committee's own performance
- review and approve the Group's diversity policy and evaluate its effectiveness on a regular basis

Governance

In accordance with the Code Principle L, the Board and its Committees are required to be evaluated on an annual basis. Following the external evaluation in 2019, an internal evaluation of the performance of the Board and its Committees was conducted during 2020, with a focus on how effectively members work together to achieve objectives. Appointments to the Board are subject to formal, rigorous and transparent procedures and include consideration, where appropriate, of comments and feedback from the annual evaluation of the Board. Further detail of the results of the Board evaluation can be found on page 58 of the Corporate Governance Report.

At its meeting in December 2020, the Committee considered the contents of the review and concluded that the evaluation had found the Committee to be operating effectively and efficiently, communicating as required with the Board in relation to matters within its remit, thereby assisting in the Board's decision-making.

Diversity

Promoting diversity within the workplace continues to be a key item on the UK Corporate Governance agenda and the Committee welcomes the Hampton-Alexander Review which seeks to improve Board and senior leadership diversity across FTSE 350 companies. The Company has made good progress towards achieving the requirement of 33% women in its executive committee and direct reports thereto, having achieved the 33% requirement at Board level in 2019. Following the recruitment of a Chief People Officer, who joined the Company in March 2021, the Company now has 25% female representation at senior management level, being the executive committee and its direct reports. The Company remains committed to achieving the 33% requirement, but given the relatively small size of this group and the limited turnover of those within it, there is limited scope for immediate change.

The Committee supports and encourages diversity in line with Principle J of the Code, acknowledging the advantages that come from having diverse viewpoints and the influence this can have on decision making. It is the aim of the Committee to always consider the benefits that arise from a diverse Board when making Board appointments. The Company's recruitment and appointment strategy is based on the merits of the individual candidates, without bias towards age, gender, marital or family status, race, sexual orientation, religion or belief or any disability. Currently, three of the nine Directors are female, as well as the Company Secretary. Further details of our diversity split are set out within this Report.

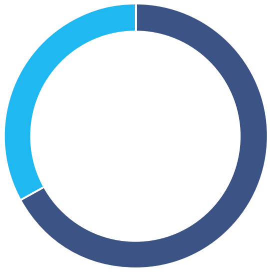
Diversity will continue to be a key consideration for the Committee into 2021 when assessing the composition of the Board and senior management, to ensure the continued development of a diverse pipeline for succession and to develop our policies and procedures to help integrate diversity into strategic decision-making. By continuing to embrace diversity, the Committee believes the Board and Group will better understand how differences in approach, background, mindset and experience amongst employees can benefit the Company and ultimately its stakeholders, in line with the Directors' s172 duties.

Whilst we continue to commit to making progress, we recognise that further progress is still necessary in order to fulfil our overall diversity ambitions and as set out above, it is a priority for 2021 to achieve further progress in this area in conjunction with the newly appointed Chief People Officer.

Main activities during the year

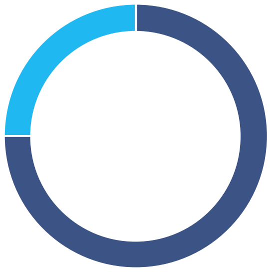
During the year under review, the Committee carried out the process to recruit a Non-Executive Director to replace Paul Dean. In addition, the Committee oversaw the recruitment process for the Chief People Officer and commenced a process to find a successor for Glen Sabin, the COO. The Committee also carried out its duties as listed above and has given particular focus to succession planning for both the Board members as well as senior executives.

Board Gender Diversity (%)



Male	67
Female	33

Senior Management Gender Diversity (%)



Male	75
Female	25

Overall workforce who are female

24%

2019: 23%

Nomination Committee Report continued

Recruitment Process

Non-Executive Director appointment

In light of Paul Dean's intended retirement from the Board in 2020, the Committee, following a robust tender process, appointed Odgers Berndtson to identify potential candidates for the Non-Executive Director and Audit Committee Chair role.

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Odgers Berndtson undertook an extensive search process using the brief provided by the Committee, reviewed CVs and interviewed numerous candidates.

↓

On the authority of the Committee, a sub-committee comprising Mr Hammond, the Chairman and the Company Secretary was appointed to review the longlist of candidates, and the merits of all candidates on the longlist were discussed in detail by Odgers Berndtson and the sub-committee, including feedback from the interviews carried out by them.

↓

Following this discussion, a shortlist of candidates was prepared by Odgers Berndtson and these five candidates were interviewed by the sub-committee.

↓

Following this process, the sub-committee recommended two candidates be interviewed by the Executive Directors and the other Committee members. As a result, all Committee members agreed that Kevin Boyd had the necessary attributes and skills that were being sought for the Non-Executive Director and Audit Committee Chair role and recommended his appointment to the Board.

As stated in the Corporate Governance Report, all of the Company's Directors will retire and each will offer themselves for election or re-election at the forthcoming AGM in accordance with the Code Provision 18.

The Chairman confirms that the Committee has considered the performance evaluation and the contribution and commitment of all Directors. The Chairman has confirmed to the Board that their performance and commitment is such that the Company should support their election or re-election, as appropriate. In addition, the Board evaluated each Director's time commitments, and was satisfied that, in line with the Code, they each continued to allocate sufficient time in order to discharge their responsibilities effectively, including attendance at Board and applicable Committee meetings as well as time needed to prepare for meetings, and other additional commitments that may arise during the usual course of business.

The Committee recognises the importance of the time commitment of each Director to shareholders, and thus this will continue to be kept under review for all Directors during 2021. No Director was able to vote in respect of their own election/re-election when consideration was given to Director election/re-election at the AGM.

Information on the Directors' service agreements, shareholdings and share options is set out in the Directors' Remuneration Report on pages 84 to 93.

One of the recommendations of the external Board evaluation in 2019 was to consider the separation of the role of Senior Independent Director from that of the Audit Committee Chair. The Committee reviewed this recommendation in light of the retirement of Paul Dean in September 2020, and agreed that on his retirement, these roles would be split. Mark Hammond was therefore appointed as Senior Independent Director and Louise Brooke-Smith was appointed as the employee engagement NED in Mark's place.

During the year the Committee appointed Odgers Berndtson to assist in identifying potential candidates to succeed Paul Dean as Non-Executive Director and Audit Committee Chair. Odgers Berndtson confirmed their independence on appointment and that they had no other connection with the Company or any individual Directors.

Succession planning

A key activity of the Committee is to keep under review the Group's succession plans for members of the Board and senior managers across the Group over the short, medium and long term to ensure that the composition of the Board and senior management team remains appropriately balanced between new and innovative thinking and longer-term stability. Management training and development plans are provided to senior and middle management where appropriate in order to continue to develop the pipeline of internal talent for the future.

In addition, the Committee considers emergency succession planning and is comfortable that a framework is in place should key management roles need to be covered on an interim basis. Board appointment criteria are considered automatically as part of the Committee's review of succession planning and matters of Director tenure are viewed on a case-by-case basis.

Tenure of Non-Executive Directors

Appointments to the Board are typically made for an initial term of three years and are ordinarily limited to three consecutive terms in office, subject to annual re-election by shareholders at the AGM.

By order of the Board.

Ron Marsh
Chair of the Nomination Committee
16 March 2021

Audit Committee Report

Letter from the Chair of the Audit Committee

Kevin Boyd
Chair of the Audit Committee

Committee Members and Attendance

Kevin Boyd **1/1†**	Louise Hardy **4/4**
Mark Hammond **4/4**	Lisa Scenna **4/4**
Louise Brooke-Smith **4/4**	Paul Dean **3/3***

† Kevin joined the Board on 22 September 2020 and has attended all Audit Committee meetings since his appointment

* Paul retired from the Board on 15 September 2020 and attended all Audit Committee meetings prior to his retirement

Dear Shareholder,

I am pleased to present the Report of the Audit Committee (the Committee) for 2020, having taken over the Chairmanship of the Committee from Paul Dean in September, when he retired from the Board.

The role of the Committee is to support the Board in fulfilling its governance responsibilities, including ensuring that the interests of our shareholders are properly protected in relation to financial reporting. Members of the Committee are appointed by the Board, on the recommendation of the Nomination Committee, from its Non-Executive Directors, in accordance with the 2018 UK Corporate Governance Code (the Code) requirements and other FRC related guidance.

Throughout 2020, the Committee continued to focus on the integrity of the Group's financial reporting practices, risk management and internal controls, and the quality of the internal and external audit processes, providing challenge to the decisions and judgements made by management. We will continue to keep our activities under review to ensure we comply with all applicable regulations and so that we can be confident that the Company continues to operate in a controlled and managed way.

The main responsibilities and activities of the Committee are detailed further in this Report, which confirms that any decisions that have been made have been done so in accordance with the Directors' duty under s172 to promote the success of the Company for the benefit of its members as a whole.

Changes during 2020

2020 was a year of continual challenge, and as a result, the Committee was required to regularly consider such challenges and the resulting risks. This Report outlines some of these considerations in more detail.

Areas of focus included the impact of the pandemic and its implications on the interim and full year financial statements, as well as considering the risks and changes faced due to Brexit. Despite the unprecedented circumstances, the Committee and Board have faced these with resilience and dedication, and reacted quickly and appropriately, including, for example, the early decision to delay the publication of the interim results until September.

Annual Report 2020

The Board has asked the Committee to oversee the process for determining whether the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy. The judgements and factors the Committee considered when reviewing the 2020 Annual Report are outlined on page 65, as well as its conclusions in this regard.

Performance of the Committee

As a result of its work undertaken during the year and taking into account the feedback from the annual internal Board and Committee evaluation (further details are set out on page 65), the Committee considers that it has acted in accordance with its Terms of Reference and has ensured the independence, objectivity and effectiveness of the external and internal auditors.

I will be available at the AGM to answer any questions about the work of the Committee.

Kevin Boyd
Chair of the Audit Committee
16 March 2021

Audit Committee Report continued

2020 Key Achievements

Oversight of full year and interim audits

Review of the draft 2019 Annual Report and Accounts and oversight of the external audit

Review of the interim results

Review of the emerging risks review process and register

Areas of Focus in 2021

External Audit Tender
Oversight of the external audit tender process

Whistleblowing
Oversight of the implementation of an external whistleblowing line and updated reporting process

Committee membership and meetings

The Committee comprises five Non-Executive Directors, being Kevin Boyd, Mark Hammond, Louise Hardy, Lisa Scenna and Louise Brooke-Smith. Paul Dean was also a member of the Committee and Chair until 15 September 2020, when he retired from the Board. All Committee members are considered to be independent.

In accordance with the requirements of Provision 24 of the Code, Kevin Boyd is designated as the Committee member with recent and relevant financial experience. All other members of the Committee are deemed to have the necessary ability and experience to understand the financial statements.

The Committee as a whole has competence relevant to the sector in which the Group operates. The Committee discharges its responsibilities through a series of scheduled formal meetings during the year. Each meeting has a formal agenda which is linked to the events in the financial calendar of the Group. Attendees at each of the meetings include the Committee members as well as, by invitation, the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Group Financial Controller, the external auditor, Ernst & Young LLP and Grant Thornton UK LLP who provide internal audit services to the Group. The Company Secretary is also Secretary to the Committee.

The Committee held four formal meetings during the year. In accordance with best practice, the Committee met with the Ernst & Young LLP lead audit partner without executive management being present.

Role of the Committee

The full responsibilities of the Committee are set out in its Terms of Reference which are available on the Company's website. The Terms of Reference have been reviewed during the year to ensure they remain appropriate and any relevant updates made accordingly.

The key responsibilities of the Committee are to:

- assist the Board with the discharge of its responsibilities in relation to internal and external audits
- monitor and review the Group's internal control and risk management systems
- monitor and review the effectiveness of the Group's internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor
- monitor the integrity of the financial statements of the Group including its annual and half-yearly reports, trading updates, preliminary results announcements and any other formal announcements relating to its financial performance, and reviewing significant financial reporting issues and judgements
- where requested by the Board, review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position and performance, business model and strategy
- oversee the relationship with the external auditor including their appointment, reappointment and/or removal; approval of the scope of the annual audit, their remuneration and the terms of engagement; monitor and review their independence and objectivity, the effectiveness of the audit process and the extent of non-audit services performed
- report to the Board on how it has discharged its responsibilities

Governance

In accordance with best practice, the effectiveness of the Committee was evaluated this year as part of the internal Board and Committee evaluation. This took the form of an anonymous questionnaire to encourage open feedback, ensuring the evaluation provided a valuable feedback mechanism for identifying concerns, improving effectiveness and highlighting areas for further improvement.

At its meeting in March 2021, the Committee considered the results of the internal evaluation and concluded that it had found the Committee to be operating efficiently and effectively. All responses to the questionnaire showed that the Committee was unanimous in its view of the effectiveness of all functions of the Committee, thus providing the Board with a high level of assurance that key issues are dealt with appropriately.

Main activities during the year

As part of the process of working with the Board to carry out its responsibilities and to maximise its effectiveness, meetings of the Committee normally take place prior to the Board meetings, at which the Chair of the Committee provides an update to the Board.

Details of the areas focused on by the Committee are set out below.

Financial reporting

During the year, Committee meetings were held prior to the Board meetings to approve the Group's interim and final results announcements and to consider the financial reporting judgements made by management. These considerations are made through a review of the accounting papers and financial reports prepared by management and reports prepared by the Group's external auditor.

- **Fair, balanced and understandable**
  A key requirement of the financial statements is that they are fair, balanced and understandable. In reaching a judgement as to whether this is the case, the Annual Report and Accounts is reviewed and assessed by the Committee to ensure that the information being presented to shareholders is in such a way that allows them to accurately review and determine the position of the Group.

  As part of this assessment, the Committee considers and reviews the disclosures and the processes and controls underlying its production, and ensures that it correctly reflects the Company's performance in the reporting year in a clear and concise manner, as well as being consistent throughout. Further details on this process can be found in the Corporate Governance Report on page 54.

  Following this assessment, the Committee concluded that in its opinion, the Annual Report and Accounts were appropriate and consistent and therefore enabled the Committee to report to the Board that it had determined that the Annual Report and Accounts is fair, balanced and understandable.

- **Viability statement**
  The viability statement is a longer-term view of the sustainability of the Company's proposed strategy and business model, considering wider economic and market developments as well as giving a clearer and broader view of solvency, liquidity and risk management. The Committee considered the current viability statement during the year and the current three-year period and remained of the opinion that this continued to be appropriate, taking into account the risk scenarios presented, the sensitivities for the impact of the combined risks, the reverse stress testing, and the available headroom after applying the sensitivities. The full statement can be found in the Directors' Report on page 68, which contains further detail on the process, assumptions and testing which underpin it.

- **Going concern**
  In determining whether the Group can continue to adopt the going concern basis, the Committee considers and reviews the Group's overall resources for the foreseeable future covering a period of at least 15 months, as well as considering the principal risks and uncertainties identified on pages 38 to 43. Following this review, the Committee agreed that the forecasts presented were reasonable, and therefore the Annual Report and Accounts have been prepared on a going concern basis. Our going concern statement for the Group can be found in the Directors' Report on page 68.

Significant financial reporting risk, judgement and estimates

The significant risk reviewed by the Committee in respect of the year under review were as follows:

- Revenue recognition and customer rebates – The Committee considered the operating effectiveness of controls surrounding revenue recognition and management's subjective assessment and recognition of customer rebate liabilities at the half year and year end.

The significant estimates reviewed by the Committee in respect of the year under review were as follows:

- Impairment of non-financial assets – The Committee considered a detailed report prepared by management setting out the assumptions used in determining whether goodwill, other intangible assets or property, plant and equipment required impairment for any of the business units. This included a review of the discount rate and growth factors used to calculate the discounted projected future cash flows, the sensitivity analysis applied, and the discounted projected future cash flows used to support the carrying amount of the goodwill.
- Provisions and contingent liabilities – The Committee considered various reports prepared by management which assess the likelihood that targets will be achieved which trigger a liability to the previous owners of Permavoid, quantify the possible range of that liability, and how that liability should be calculated and disclosed in the consolidated financial statements.

Audit Committee Report continued

Internal control, internal audit and risk management

Internal audit performs an integral role in the Group's governance structure and the Committee has reviewed and approved the scope of the rolling internal audit programme in relation to the Group's internal controls and procedures at each of the meetings held during the year. The Committee reviews and challenges the results and reports from Grant Thornton UK LLP, who carry out the internal audit work, and the adequacy of management's responses and proposed resolutions.

The Group's risk assessment process, including how significant financial risks are managed and mitigated, is a key area of focus for the Committee. During the year, the Committee monitored and reviewed the Group's risk management framework and the results of testing performed by the Group's internal audit function on specific elements of that framework. There were no significant internal control failings or weaknesses during the year. Further details of the Group's risk management and internal control processes are provided on page 38 of the Strategic Report and the Board's assessment of the effectiveness of these processes is detailed on page 53 of the Corporate Governance Report.

Following a review by the Committee and the Board in relation to the risk management framework and reporting structure, it was agreed that given the increased size of the Group and the current remit of the Committee, a separate risk committee be established in 2021 with responsibility for risk management on behalf of the Board.

Other activities

Other activities undertaken by the Committee during the year included the following:

- consideration of the external audit plan and approval of the audit fee
- consideration of the impact of new financial reporting standards and legislative requirements on the Group, including IFRS 16
- review of the Committee's performance, effectiveness and constitution
- reviewed of the Group's tax strategy
- recommending the Report of the Audit Committee for approval by the Board

External audit appointment

The Committee carefully considers the reappointment of the external auditor each year prior to making its recommendation to the Board. As part of this process, the Committee considers the independence of the external auditor, the effectiveness of the external audit process, its remuneration, and the terms of engagement. Having reviewed the performance of Ernst & Young LLP in 2020, the Committee has decided to recommend to the Board that Ernst & Young LLP should be reappointed for the 2021 audit and a resolution to this effect will be proposed at the 2021 AGM.

In accordance with current professional standards, the external auditor is required to change the lead audit partner every five years in order to protect auditor independence and objectivity. Ernst & Young LLP were awarded the external audit in 2012 following a competitive tender process. The lead audit partner was rotated in 2017. In addition, the senior audit manager was rotated in 2019 following completion of the 2018 full-year audit. In accordance with the Code, the Competition and Markets Authority (CMA) Order and the EU Audit Directive, it is the Company's intention to put the audit out to tender at least every ten years. Accordingly, the Company plans to run a competitive tender process in or before 2022.

Effectiveness of the External Audit Process

The Committee operated a formal process for reviewing the effectiveness of Ernst & Young LLP during the year under review.

Ernst and Young LLP confirmed its independence in November 2020 and March 2021 as it presented to the Committee on its determination of independence, to enable the Committee to fully, and appropriately, assess its independence.

Following this review, the Committee concluded that the external auditor remained independent. As a result, and after considering the above matters, the Committee considered that the audit had been effective and recommended to the Board that Ernst & Young LLP be reappointed as external auditor to the Group.

Process

1. An assessment of the lead audit partner and the audit team
2. A review of the audit approach, scope, determination of significant risk areas and materiality
3. The execution of the audit
4. Interaction with management and the Committee
5. The quality of any recommendation points
6. A review of independence, objectivity and scepticism

Non-audit services

The Group's non-audit services policy restricts the external auditor from performing certain non-audit services in accordance with the Revised Ethical Standard 2016 issued by the FRC. All non-audit services proposed to be performed by the external auditor must be pre-approved and sponsored by a senior executive with a detailed written recommendation including: the nature and scope of the proposed service, the supplier selection process and criteria, the chosen supplier and selection rationale, the relationship of the individual within the external auditor to perform the proposed service with those undertaking the audit work, a fee estimate and the category of non-audit service, if relevant. In addition, the external auditor must provide a written statement of independence approved by the lead audit partner. All non-audit services proposed to be performed by the external auditor with a fee estimate in excess of £10,000 must also be pre-approved by the Committee. This policy and approach further enhances auditor objectivity and independence. There were no exceptions to this policy during 2020.

Fraud, whistleblowing and the UK Bribery Act

The Committee recognises the importance of effective whistleblowing policies as being an additional tool to strengthen governance, by ensuring a reliable system is in place to identify and correct any unlawful or unethical conduct. The Committee monitors any reported incidents under its whistleblowing policy, and the Company has now appointed a third-party reporting provider to support the internal processes and to give employees the confidence to freely report concerns.

This policy is included in the Employee Handbook as well as being accessible as a standalone policy, and sets out the procedure for employees to raise legitimate concerns about any wrongdoing in financial reporting or other matters such as:

- something that could be unlawful
- a miscarriage of justice
- a danger to the health and safety of any individual
- damage to the environment
- improper conduct

There were no incidents during the year which were required to be brought to the attention of the Committee.

The Committee also reviews the Group's procedure for detecting fraud and the systems and controls in place to prevent a breach of anti-bribery legislation. A thorough review of the Group anti-bribery processes took place during the year, and as a result a new policy was issued and approved by the Board in December 2020. This policy sets out the procedures to which employees must adhere and is aimed at reducing the risk of fraud occurring. The Group is committed to a zero-tolerance position with regard to bribery. Those employees whom the Group considers are more likely to be exposed to potential breaches of the Group's anti-bribery policy and statutory obligations under the UK Bribery Act have been provided with relevant guidance on compliance with their obligations. The Group will continue to maintain a record of all employees who have received this guidance and request annual confirmations from each relevant individual stating that they have complied with the Group's policy.

By order of the Board.

Kevin Boyd
Chair of the Audit Committee
16 March 2021

"

Despite the unprecedented circumstances of 2020, the Committee and Board have faced these with resilience and dedication, and reacted quickly and appropriately, including for example the early decision to delay the publication of the interim results to September.

Directors' Report

Statutory and other information

Introduction

The Directors present their Annual Report and Accounts for the year ended 31 December 2020. In accordance with the Companies Act 2006 as amended, and the Listing Rules and the Disclosure Guidance and Transparency Rules, the Reports within the Governance section of the Annual Report and Accounts should be read in conjunction with one another, and with the Strategic Report. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 8 to 43) as the Board considers them to be of strategic importance.

The Company

Polypipe Group plc is a public company limited by shares, incorporated in England and Wales, with registered number 06059130. Since 16 April 2014, the Company has been listed on the premium segment of the London Stock Exchange. While the Group operates predominantly in the UK, it does have operations in Ireland, Italy, the Netherlands and the United Arab Emirates.

Strategic Report

The Companies Act 2006 requires the Company to present a fair review of the development and performance of the Group's business during the financial year and the position of the business at the end of that year. This review is contained within the Strategic Report on pages 8 to 43. The principal activities of the Group are described in the Strategic Report on pages 9 to 26.

Financial risk management

The Group's financial risk management objectives and policies, including information on financial risks that materially impact the Group and financial instruments used by the Group (if any), are disclosed in Note 28 to the Group's consolidated financial statements on pages 134 to 137.

Viability statement

In accordance with Provision 31 of the Code, the Directors have assessed the prospects of the Group over a longer period than the 15 months required by the 'going concern' provision. The Board conducted this review for a period of three years as the Group's Strategic Review covers a three-year period.

During 2020, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

In their assessment of the viability of the Group, the Directors have considered each of the Group's principal risks and uncertainties, including a combined scenario which reflects the impact of multiple risks, detailed on pages 38 to 43 of the Strategic Report. The Directors believe that the Group is well placed to manage its business risks successfully, having considered the current economic outlook. In making this assessment, the Board has assumed that the Revolving Credit Facility (RCF) expiring in November 2023 will be extended or replaced with an equivalent facility.

Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2023, being the period considered under the Group's current three-year strategic plan.

Going concern statement

The Directors have made enquiries into the adequacy of the Group's financial resources, through a review of the Group's budget and medium-term financial plan, including cash flow forecasts. The Group has modelled a range of scenarios, with the base forecast being one in which, over the 18 months ending 30 June 2022, sales gradually recover to pre-Covid-19 levels and then grow in line with construction industry forecasts.

In addition, the Directors have considered several downside scenarios, including adjustments to the base forecast, a period of significantly lower like-for-like sales, profitability and cash flows. Consistent with our principal risks and uncertainties, these downside scenarios included, but were not limited to, loss of production, loss of a major customer, product failure, recession, increases in interest rates and increases in raw material prices. Downside scenarios also included a combination of these risks, and reverse stress testing.

At 31 December 2020, the Group had available, excluding the £50m Covid-19 facility, £240m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. These borrowing facilities are available until at least November 2023, subject to covenant headroom. In addition, on 11 February 2021, the Company conducted a non-pre-emptive placing of new ordinary shares generating gross proceeds of £96m and drew down £120m net from the RCF as part of the post year end acquisition funding. The Directors are satisfied that the Group has sufficient liquidity and covenant headroom to withstand adjustments to the base forecast, as well as the downside scenarios. In addition, the Directors have noted the range of possible additional liquidity options available to the Group, should they be required.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 15 months. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Directors

The current Directors' biographies are set out on pages 48 and 49. In accordance with the Code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company. Kevin Boyd joined the Board on 22 September 2020 and will offer himself for election at the 2021 AGM, and for re-election annually thereafter.

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in our Articles of Association (the Articles). They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors. Directors must retire and put themselves forward for election at their first AGM following their appointment and every third anniversary thereafter. However, the Directors wishing to continue to serve as members of the Board will seek re-election annually in accordance with the Code.

Details of the Non-Executive Directors' letters of appointment are given on page 52 under 'Appointment and tenure'. The Executive Directors have service contracts under which 12 months' notice is required by both the Company and the Executive Director.

Powers of Directors

The general powers of the Directors set out in Article 104 of the Articles provide that the business of the Company shall be managed by the Board which may exercise all the powers of the Company, subject to any limitations imposed by applicable legislation or the Articles. The general powers of the Directors are also limited by any directions given by special resolution of the shareholders of the Company which are applicable on the date that any power is exercised.

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Directors' Remuneration Report on page 84.

Directors' indemnity arrangements

Directors and officers of the Company are entitled to be indemnified out of the assets of the Company in respect of any liability incurred in relation to the Company or any associate Company, to the extent the law allows. In this regard, the Company is required to disclose that, under Article 224 of the Articles, the Directors have the benefit of an indemnity, to the extent permitted by the Companies Act 2006, against liabilities incurred by them in the execution of their duties and exercise of their powers. This indemnity has been in place since the Company's listing in 2014 and remains in place. The Company has purchased and maintained throughout the financial period Directors' and Officers' liability insurance.

Share capital

As at 31 December 2020 the share capital of the Company was 228,466,162 ordinary shares of £0.001 each, of which 965 ordinary shares were held in treasury. Details of the Company's share capital are disclosed in Note 23 to the Group's consolidated financial statements on pages 129 and 130. As at 16 March 2021, the share capital of the Company was 247,170,247 ordinary shares of £0.001 each, of which 965 where held in treasury, following the non-pre-emptive placing on 10 February 2021.

Authority of the Directors to allot shares

The Company passed a resolution at the AGM held on 21 May 2020 authorising the Directors to allot ordinary shares up to an aggregate nominal amount of £133,998.24 (representing approximately two-thirds of the ordinary share capital). On 26 October 2020, the Company allotted 500,000 shares pursuant to this authority in connection with the Company's employee share schemes. This authority will expire at the Company's 2021 AGM and the Directors will be seeking a new authority to allot shares, to ensure that the Directors continue to have the flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares. There are no current plans to issue new shares except in connection with employee share schemes.

Issue of shares

A special resolution was passed at the AGM held on 21 May 2020 granting the Directors the authority to issue shares on a non-pre-emptive basis up to an aggregate nominal amount of £10,049.87 (representing 10,049,867 ordinary shares or approximately 5% of the ordinary share capital). A special resolution was also passed granting the Directors the authority to issue shares on a non pre-emptive basis in respect of an additional 5% of the ordinary share capital in connection with an acquisition or specified capital investment. The Company issued 18,704,085 on a non-pre-emptive basis on 10 February 2021 in conjunction with the acquisition of Adey.

These authorities will expire at the Company's 2021 AGM and the Directors will be seeking a new authority to issue shares for cash on a non-pre-emptive basis up to £164,778.51. In addition to this, the Directors will seek authority to issue non-pre-emptively for cash shares up to £12,358.51 (representing 12,358,512 ordinary shares or approximately 5% of the ordinary share capital) for use only in connection with an acquisition or specified capital investment, in accordance with the Pre-Emption Group Statement of Principles as updated in March 2015.

Purchase of own shares by the Company

A special resolution was passed at the AGM held on 21 May 2020 granting the Directors the authority to make market purchases of up to 30,129,503 ordinary shares with a total nominal value of £30,129.50, representing approximately 14.99% of the Company's issued ordinary share capital. The authority to make market purchases will expire at the Company's 2021 AGM and the Directors will be seeking a new authority to make market purchases up to 14.99% of the Company's issued ordinary share capital, which will only be exercised if the market and financial conditions make it advantageous to do so. Further details are set out in the explanatory notes of the notice convening the AGM.

Rights attaching to shares

The rights attaching to the ordinary shares are summarised as:

- the ordinary shares rank equally for voting purposes
- on a show of hands each shareholder has one vote and on a poll each shareholder has one vote per ordinary share held
- each ordinary share ranks equally for any dividend declared
- each ordinary share ranks equally for any distributions made on a winding-up of the Company
- each ordinary share ranks equally in the right to receive a relative proportion of shares in the event of a capitalisation of reserves
- the ordinary shares are freely transferable

Directors' Report continued

- no ordinary shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights

Amendment to the Company's Articles

The Company may alter its Articles by special resolution passed at a general meeting of the Company. A resolution to amend the Articles was voted on and passed by shareholders at the 2020 AGM.

Political donations

The Group made no political donations during the year.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Strategic Report on pages 22 to 23 and forms part of this Report by reference.

Future developments within the Group

The Strategic Report contains details of likely future developments within the Group. The Group's research and development costs are disclosed in Note 6 to the Group's consolidated financial statements on page 121.

Overseas operations

As explained in the Strategic Report, the Group operates in the UK, Ireland, Italy, the Netherlands and the United Arab Emirates.

Post balance sheet events

Subsequent to the year end, on 2 February 2021 the Group announced the acquisition of Nu-Heat (Holdings) Limited for a cash consideration of £27m on a cash-free, debt-free basis. The acquisition was funded via the Group's existing debt facilities. On 5 February 2021, the Group took a 51% controlling interest in Plura Composites Limited for a cash consideration of £1.25m.

On 10 February 2021, the Group announced that it had entered into an agreement to acquire London Topco Limited (Adey) for a cash consideration of £210m on a cash-free, debt-free basis, which was funded by existing debt facilities and a non-pre-emptive placing of 18,704,085 new ordinary shares at £5.15 per share, generating gross proceeds of £96.3m.

Principal risks and uncertainties

The Board has carried out a robust assessment of our current key risks and these are summarised in the Principal Risks and Uncertainties section of the Strategic Report on pages 38 to 43.

Results and dividends

No interim dividend was paid during 2020. The Board recommends a final 2020 dividend of 4.8 pence per share. Shareholders will be asked to approve the final dividend at the AGM, for payment on 26 May 2021 to shareholders whose names appear on the register on 23 April 2021.

Total ordinary dividends paid and proposed for the year amount to 4.8 pence per share or a total return to shareholders of £11.8m.

Employees

The Company's policies in relation to the employment of disabled persons and gender breakdown and employee involvement are included in the Strategic Report on page 24 and Nomination Committee Report on page 61.

Substantial shareholders

As at 31 December 2020 and 16 March 2021, the Company was aware of the interests in voting rights representing 3% or more of the issued ordinary share capital of the Company set out below. This information was correct at the date of notification. It should be noted that these holdings may have changed since they were notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

	As at 31 December 2020		**As at 16 March 2021**	
Name of shareholder	Ordinary shares	% Voting rights	**Ordinary shares**	**% Voting rights**
Standard Life Aberdeen	21,638,931	9.47	**24,869,755**	**10.06**
Franklin Templeton	11,700,000	5.12	**10,891,699**	**4.41**
Impax Asset Mgt	11,580,558	5.07	**12,460,776**	**5.04**
Lansdowne Partners	10,372,699	4.54	**11,193,478**	**4.53**
Majedie Asset Mgt	9,919,726	4.34	**9,719,274**	**3.93**
Norges Bank	7,078,106	3.10	**4,186,646**	**1.69**

Auditor

A resolution to reappoint Ernst & Young LLP as the Company's external auditor and to authorise the Directors to fix the auditor's remuneration will be proposed at the 2021 AGM.

Directors' statement of disclosure of information to auditor

Each of the Directors has confirmed that as at the date of this Report:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Directors have taken all reasonable steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Requirements of the Listing Rules

Apart from the details of any long-term incentive scheme as required by Listing Rule 9.4.3.R, which is disclosed in the Directors' Remuneration Report on pages 86 to 95, disclosure of the information listed in Listing Rule 9.8.4R is not applicable.

Annual General Meeting

The 2021 AGM is scheduled to be held on 20 May 2021. A full description of the business to be conducted at the meeting is set out in the separate notice of AGM.

By order of the Board.

Emma Versluys
Company Secretary
16 March 2021

Directors' Responsibilities Statement

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group's consolidated financial statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006.

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

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, the Group's consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

In preparing the Group's consolidated financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance
- state whether IASs in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the Group's consolidated financial statements
- prepare the Group's consolidated financial statements on the going concern basis unless it is appropriate to presume that the Group will not continue in business

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Directors' responsibility statement

The Directors confirm, to the best of their knowledge, that:

- the Group's consolidated financial statements, prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and undertakings included in the consolidation taken as a whole
- the Annual Report and Accounts, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy

By order of the Board.

Martin Payne
Chief Executive Officer

Paul James
Chief Financial Officer
16 March 2021

Letter from the Chair of the Remuneration Committee

Louise Hardy
Chair of the Remuneration Committee

Committee Members and Attendance

Louise Hardy 9/9	Kevin Boyd 3/3†
Mark Hammond 9/9	Ron Marsh 9/9
Lisa Scenna 9/9	Louise Brooke-Smith 9/9
Paul Dean 6/6*	

† Kevin joined the Board on 22 September 2020 and has attended all Remuneration Committee meetings since his appointment

* Paul retired from the Board on 15 September 2020 and attended all Remuneration Committee meetings prior to his retirement

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020.

The report is split into two sections in line with legislative reporting regulations:

- The proposed Remuneration Policy (the Policy) contains details of the various components of the Policy, which will be subject to a binding shareholder vote at our 2021 Annual General Meeting (AGM) and will have effect from the date on which it is approved. Details of the key changes to the Policy are set out in the table on page 78.
- The Annual Report on Remuneration contains details of remuneration received by Directors in 2020 and also contains full details of how we intend to implement the updated Policy during 2021. The Annual Report on Remuneration will be subject to an advisory vote at the 2021 AGM. Further details are set out on pages 86 to 95.

This Directors' Remuneration Report is compliant with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, the UK Listing Authority Listing Rules and the Companies Act 2006 and has been prepared on a 'comply or explain' basis with regard to the remuneration provisions included in the UK Corporate Governance Code 2018 (the Code).

Aligning remuneration with Company strategy

The Policy is designed to encourage achievement of our strategic goals and priorities, details of which are set out on pages 12 to 26, by rewarding in line with underlying Company performance while encouraging leadership behaviour which carries an appropriate level of risk. This is achieved by an annual bonus arrangement, which is linked to achieving profit targets, working capital targets and personal objectives and a long-term incentive plan, which only rewards for shareholder value creation and delivery of long-term earnings growth.

Remuneration policy review

The 2021 AGM marks the third anniversary of the current Policy which requires the Committee to seek shareholder approval for an updated Policy at the 2021 AGM. As a result, the Committee undertook a review of the Policy during the year. The current Policy has operated on similar terms since the Company's IPO in 2014 and the review undertaken during the year confirmed that the current pay model, including a base salary, pension and benefits, and short and long-term incentives remains appropriate, having aligned pay with performance since IPO.

However, to take account of our increased size and complexity since IPO and in recognition of the importance of sustainability to the Group, we are proposing to make a number of changes to the Policy. Whilst our Policy is generally aligned with investor 'best practice' expectations, we are also taking the opportunity to update the Policy to bring it further in line with the recommendations of the Code.

The key changes that we are proposing to make are as follows:

1. Implement a phased increase to remuneration quantum in light of the growth in size and complexity of the Group since IPO. The specific changes being made are as follows:
   a. The maximum annual bonus opportunities of the Executive Directors will increase by 25% of salary with effect from 1 January 2021 (to 150% of salary for the CEO and 125% of salary for other Executive Directors), with the proportion of annual bonus to be deferred also increasing from 25% to 33%
   b. The maximum annual long-term incentive award opportunities for the Executive Directors are to be increased over the period from 2021 to 2022. The CEO will receive a 2021 LTIP award at 150% of salary (from 125% of salary in 2020) with the other Executive Directors receiving a 125% of salary award in 2021 and a 150% of salary award in 2022 (from 100% of salary in 2020)
   c. We are refining our performance metrics to include sustainability targets in our long-term incentive plan which reflects the central importance of sustainability to our future strategy and replacing the personal targets within the annual bonus with structured strategic targets
   d. We are aligning incumbent Executive Directors' pension provision with those of the wider workforce (from 15% to 5% of salary by the end of FY 2022) in response to changes in the Code
   e. In line with best practice, we are also introducing broader recovery and withholding provisions and an incentive override facility into the operation of our plans

The above revisions reflect the fact that only limited changes to quantum have been made since IPO, notwithstanding the growth in the Group and so it is necessary to address the issue of quantum which is giving rise to pay compression.

The increase in size and complexity of the Group has taken place as we have successfully executed our strategy of moving up the value chain from the provision of discrete products, to offering a complete suite of engineered and smart solutions for both water and climate management solutions. This transformation has been achieved through a combination of organic and acquisition led growth (including acquiring and successfully integrating Alderburgh, Manthorpe and Permavoid over the past three years with further enhanced capabilities also now in operation following our recent acquisitions of Nu-Heat and Adey). The scale of our growth is best evidenced by the change in our market capitalisation which has increased from circa £490m at IPO in 2014 to circa £1.4bn at the end of February 2021.

The proposals have been structured taking into account institutional investors' expectations in relation to demonstrating restraint in pay quantum in that the increases have been phased, but they also recognise that if the Company is to continue to be able to attract and retain the appropriate calibre of executive to continue delivering against its growth strategy it needs to be able to offer competitive remuneration.

Outside of changes to the Policy, the Committee also reviewed the Executive Directors' salaries and whilst these are set at a material discount to salaries in companies of a similar size and complexity, the conclusion was that Executive Director salaries would not be increased beyond the standard increase to be awarded to the wider workforce with effect from 1 April 2021. This was considered the appropriate decision in light of institutional investors' requests for pay restraint and also in light of the wider economic environment in light of Covid-19 (i.e. it was not considered appropriate to materially increase both fixed and variable pay in 2021).

However, noting that holding the Executive Director pay below market rates is not sustainable given the compression it creates, the Committee's intention is to adjust Executive Directors' salaries with effect from 1 January 2022 to rates which reflect the current size and complexity of the Group. The precise rates of increase have yet to be determined, but the analysis undertaken in connection with the Policy review work suggests this is likely to be in the region of 10%, with a final decision on increases taken at the end of the current financial year, which will also take into account any cost of living increase. The changes to Director pay will not be made in isolation and following the appointment of a new Chief People Officer, the need for wider adjustments to pay for those below market will also be considered over the next 12 months.

The above changes were the subject of an extensive consultation with the Company's major shareholders and the leading shareholder advisory bodies. The Committee received positive feedback from investors consulted, specifically in relation to the proposal to phase the increases to quantum, in the alignment of the Executive Director pension provision with the wider workforce from the end of 2022 and the increased proportion of annual bonus deferred into shares.

The Committee did consider whether it was appropriate to move forward with the adjustments detailed below in light of Covid-19. Noting the feedback from major shareholders in consultation, and that the payment of any higher quantum in relation to 2021 (above workforce related salary increases) would be driven from the achievement against robust performance targets, it was concluded that we should move forward with the revisions to Policy.

Outside of the Policy review, the most substantial issues considered by the Committee during the past year are set out below.

Letter from the Chair of the Remuneration Committee continued

Executive remuneration in 2020

2020 proved to be an exceptional year as a result of the onset of Covid-19 which caused an immediate significant reduction in our market volumes as detailed in the Strategic Report. In response, management took early actions, with the priority being safeguarding the health and wellbeing of our employees, ensuring we supported our customers and also protecting the long-term prospects of the Company through securing additional liquidity via a fully subscribed placing. We also participated in the Government's Coronavirus Job Retention Scheme. However, the early actions we took enabled the delivery of a robust performance in H2 as trading in our markets recovered, which meant we were able to limit redundancies to 104 employees and reimburse the CJRS monies received by the Company from the Government for those employees made redundant. We are proud of our employees' response through Covid-19 and note that we were able to use our manufacturing sites to make visors which we distributed into local NHS and care homes, as well as supporting the Nightingale programme and other repurposing of NHS facilities for care and recovery.

In light of Covid-19, we took the decision to cancel the payment of the final 2019 dividend and also decided not to pay an interim 2020 dividend.

The early actions described above (and in the CEO and CFO reviews in more detail) resulted in a robust performance in tough market conditions and we achieved an underlying operating profit of £42.2m and a diluted underlying basic earnings per share of 13.3 pence per share. However, in response to the circumstances noted above, the Committee considered how these factors should be reflected in the Directors' 2020 remuneration. The actions the Committee took, with the full agreement of the Board, included a reduction to Board members' salaries and fees by 20% during the months of April through August, as well as the decision not to operate the annual bonus plan for Executive Directors during 2020.

With regards to performance over the longer term, the 2018 LTIP Awards will vest to the extent that EPS growth and Total Shareholder Return (TSR) performance targets were met over the three years ended 31 December 2020. As a result of delivering above market total shareholder returns over this period, 25% of this Award will vest in May 2021.

The Committee believes that the vesting of part of the 2018 LTIP Award is appropriate on the basis of the sustained performance delivered over the three year performance period. No adjustments were made to the performance conditions in light of Covid-19 with the Company delivering a three year TSR of 50.7% versus the upper quartile TSR generated by the companies comprising the FTSE 250 Industrials segment which was 23.1%. In light of the level of TSR created over the three year period, the Committee was comfortable with the vesting result and considers the level of reward to be proportionate, having had regard to the Company's broad range of stakeholders. The Committee believes that the Policy has operated as intended and that remuneration within the year was proportionate and appropriate.

2020 LTIP Awards

In June 2020, the Committee approved the grant of LTIP awards to the Executive Directors and other senior management. Award levels were 125% of annual salary for Martin Payne, and 100% of annual salary for Paul James and Glen Sabin. These award levels are significantly below the maximum of 200% of annual salary permitted under the current Policy.

The Committee considered a number of possible performance measures, but in light of the challenges in setting meaningful financial targets with financial guidance suspended during the Covid-19 crisis, it was agreed that it was appropriate to set a relative TSR measure only for this award, measuring the Company against the FTSE 250 Industrials comparators. This target was considered to be similarly challenging to the previous targets set based on a combination of EPS growth and TSR.

Key remuneration decisions for 2021

The proposed implementation of the Policy for our Executive Directors for 2021 is outlined on pages 87 to 89. Key decisions made by the Committee in relation to 2021 include:

- The award of a 2.2% salary increase for all Executive Directors with effect from 1 April 2021, which is consistent with the average increase awarded to the Group's UK workforce for 2021.
- Maximum bonus potential and the LTIP award level in 2021 will increase for Martin Payne to 150% of salary (from 125% of salary for each element). Maximum bonus potential and the LTIP award level for the other Executive Directors will increase to 125% of salary for each element (from 100% of salary for each element).
- The performance measures to be used to assess Company annual performance in 2021 will include Group underlying operating profit and working capital financial measures which determine 90% of the annual bonus. Structured health and safety and customer service targets will operate for the remaining 10%.

- The proportion of the LTIP subject to underlying diluted EPS will be set at 50% of the 2021 awards with TSR determining 25% of the vesting of the awards and the remaining 25% subject to defined and measurable long-term sustainability targets.
- The Committee intends to undertake a final review of the range of targets to apply to the 2021 LTIP awards prior to grant to ensure that any changes to the external environment can be taken into account. The current intention is that the underlying diluted EPS targets will require EPS to be at least 26.4p for FY2023 for threshold vesting to take place, with maximum vesting requiring EPS to be at least 31.3p. The TSR targets will require our performance to be between median and upper quartile versus our FTSE 250 Industrial comparator companies for threshold to maximum vesting to take place. The sustainability targets are set to be similarly challenging to the EPS and TSR targets and include increasing the amount of recycled plastics in our products, reducing our emissions intensity and achieving membership of The 5% Club which supports employees with achieving the right skills to achieve future success. The sustainability targets directly align with the 2025 targets set out to the market at our Capital Markets Event last year. Overall, the targets were set after having regard to the proposed quantum of award and both internal planning and external market expectations for our future performance so as to strike an appropriate balance between being realistic and meaningful for participants at the lower end of the range and providing a stretch at the top end of the range.
- The Committee believes that this combination of short-term and longer-term metrics and targets will provide a fair and rounded assessment of Company performance.

Governance developments

The Code came into effect for the Company on 1 January 2019. Since our 2018 Remuneration Policy was prepared to comply with institutional investors' 'best practice' expectations, we are already compliant with the majority of remuneration provisions included in the Code. However, the Committee did consider the areas of non-compliance within policy during the year and concluded that it was appropriate to introduce a post-cessation of employment shareholding requirement for Executive Directors into policy, having adopted this as a matter of good practice in 2020. Accordingly, any Executive Director leaving the Company will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary for a period of two years. With regards to Executive Director pension provision, as set out above, this will reduce to 5% of salary at the end of 2022 and we have also taken the opportunity to broaden the existing recovery and withholding provisions and to introduce an incentive override provision into our plans.

Context of Director pay within the Company

During the year, the Committee reviewed the analysis of the overall gender pay gap and equity of role-based pay within the Company. The Board and the Committee will continue to monitor the situation going forward and were satisfied appropriate actions were being taken.

As required by legislation we have included pay ratios between the Chief Executive Officer and our wider workforce using remuneration earned in 2020. As part of its discussions on this issue, the Committee noted that the ratio was consistent with the scope and responsibilities of the different roles undertaken by the individuals included in the analysis and that the ratios were within the range disclosed by other FTSE 250 companies to date.

Following the retirement of Paul Dean and appointment of Kevin Boyd in September 2020, as well as the recommendations following the external Board evaluation in 2019, Mark Hammond was appointed as Senior Independent Director in Mr Dean's place, and Louise Brooke-Smith was appointed as the Non-Executive Director with responsibility for employee engagement which includes, where appropriate, engagement with employees on how executive remuneration aligns with wider Company pay policy. Reference to the wider disclosures of this role is set out in the Governance section of this Annual Report on pages 46 and 56. We have set out our compliance with Provision 40 of the Code in more detail on page 77.

I will be available to answer questions on the Policy and the Annual Report on Remuneration at the AGM.

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the AGM.

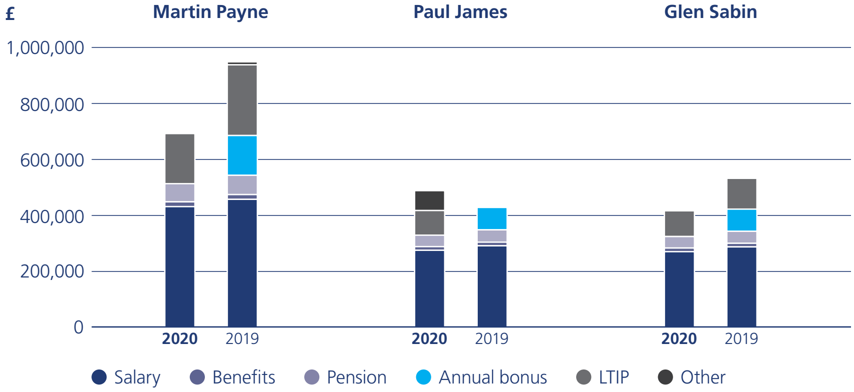
Louise Hardy
Chair of the Remuneration Committee
16 March 2021

Remuneration at a Glance

Performance Snapshot
Long-Term Incentive Plan Performance

Performance		Achievement (% of max)	
70.79p Three-year cumulative underlying diluted EPS	**Above upper quartile** TSR performance relative to comparator group	**0%** Three-year cumulative underlying diluted EPS	**100%** TSR performance relative to comparator group

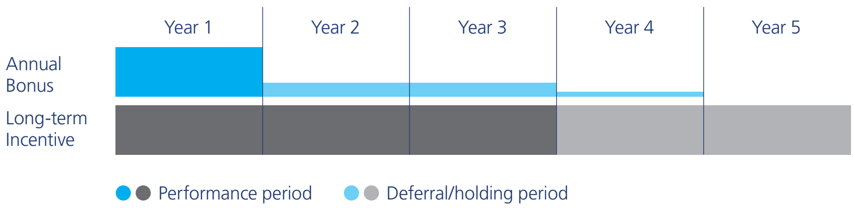
Total Remuneration



Executive Director	Year	Salary £'000s	Benefits £'000s	Pension £'000s	Annual bonus £'000s	Long-term incentive £'000s	Other £'000s	Total remuneration £'000s
Martin Payne	**2020**	**432**	**17**	**65**	**–**	**179**	**–**	**693**
	2019	458	17	69	142	253	5	944
Paul James	**2020**	**276**	**13**	**41**	**–**	**88**	**71**	**489**
	2019	292	13	44	80	–	–	429
Glen Sabin	**2020**	**271**	**13**	**41**	**–**	**92**	**–**	**417**
	2019	288	13	43	79	110	–	533

Full details are disclosed on page 90, The 'Other' amount for Paul James relates to buyout awards on recruitment that vested during the year.

Incentive Timelines



No annual bonus was operated in 2020 for the Executive Directors.

Implementation for 2021

Base Salary	2.2% increase for all Executive Directors (effective from 1 April): – Martin Payne – £482,118 – Paul James – £307,509 – Glen Sabin – £302,653
Benefits	No change
Pension	15% of salary
Bonus	**Maximum opportunity:** – Martin Payne – 150% of salary – Paul James – 125% of salary – Glen Sabin – 125% of salary • Subject to underlying operating profit, working capital, H&S and customer service targets • 33% deferred into shares. Half the shares vest two years from grant and half three years from grant
LTIP	**Maximum opportunity:** – Martin Payne – 150% of salary – Paul James – 125% of salary – Glen Sabin – 125% of salary • Awards subject to underlying diluted EPS, relative TSR and sustainability performance measures • Two year post-vesting holding period applies
Share Ownership	• 200% of salary in employment share ownership guideline and a post-employment requirement to retain the lower of the shares held at cessation of employment and 200% of salary for two years

Remuneration Policy

This part of the Report sets out the Directors' Remuneration Policy (Policy).

Polypipe's current Policy was approved by shareholders at the 2018 AGM (the full remuneration policy is set out in the 2017 Annual Report and Accounts). As a result, the Remuneration Committee reviewed the Policy. This part of the report sets out the changes proposed to the Policy and the rationale for those changes. This Policy will be subject to a binding shareholder vote at the 2021 AGM. It is intended that the Policy will apply for three years and that the Policy will apply to payments made from the date of approval. The information provided in this section of the Directors' Remuneration Report is not subject to audit.

As detailed in our Committee Chair's letter, our Policy and practices are designed to support strategy and promote long-term sustainable success. Executive remuneration is aligned to Company purpose and values, especially with the introduction of greater emphasis on health and safety, customer service and sustainability in the application of Policy from 2021, and our overall Policy is clearly linked to the successful delivery of the Company's long-term strategy. The changes of substance in this Policy from the Policy approved by shareholders at the 2018 AGM are set out on page 78.

Corporate Governance Code Requirements

In line with the UK Corporate Governance Code, the Policy has been tested against the six factors listed in Provision 40 of the Code as follows:

Clarity

The Policy is clearly disclosed on pages 77 to 85 and the implementation of the Policy is set out on pages 87 to 89. The Report is set out in a clear and straightforward manner.

Simplicity

Remuneration structures are as simple as possible and market typical, whilst at the same time incorporating the necessary structural features to ensure a strong alignment to performance and strategy.

Risk

The Committee believes that the performance targets in place for the incentive schemes provide appropriate rewards for stretching levels of performance without driving behaviour which is inconsistent with the Company's risk profile. In addition, the Policy has been shaped to discourage inappropriate risk taking through a weighting of incentive pay towards long-term incentives, the balance between financial and non-financial measures in the annual bonus and bonus deferral, recovery provisions, and shareholding requirements. To avoid conflicts of interest, Committee members are required to disclose any conflicts or potential conflicts ahead of Committee meetings. No Executive Director or other member of management is present when their own remuneration is under discussion.

Predictability

Elements of the Policy are subject to caps and dilution limits. Examples of how remuneration varies depending on performance is set out in the scenario charts. Any incentive payout is ultimately at the discretion of the Committee.

Proportionality

There is an equal balance between short-term and long-term incentives and performance conditions include both financial and non-financial performance linked to strategy. Incentive targets are set to be stretching and incentivising.

Alignment to culture

The Policy rewards for supporting the Company's growth focused culture, but in a way that focuses on health and safety, customers and sustainability.

Remuneration Policy continued

Summary of proposed Policy changes and rationale for the change

Elements of remuneration	
Fixed Pay	
Base salary	There is no change proposed to the remuneration policy for Base Salary.
Benefits	No proposed changes to policy.
Pension	To align the remuneration policy with the UK Corporate Governance Code, Executive Director pension contributions will be aligned with the wider workforce rate by the end of 2022. Any new Executive Director will be appointed on the workforce rate of 5% of salary, incumbent Executive Director pension is currently set at 15% of salary. In line with current best practice expectations, the Executive Directors' pension provision will reduce to 5% of salary at the end of 2022.
Variable Pay	
Annual Bonus	The maximum opportunities of the Executive Directors are to be increased with effect from 1 January 2021. The increases are to be made to align the Executive Directors with market comparable bonus opportunities: • **Chief Executive Officer:** to 150% of salary from 125% of salary (current market rate is 150% based on FTSE 250 median market practice) • **Other Executive Directors**: 125% of salary from 100% of salary (current market rate is 125% to 150% based on FTSE 250 median market practice) The proportion of annual bonus to be deferred into Company shares is being increased to 33% of the total bonus payable from 25%. Deferred bonuses vest equally after two and three years. There is no change to the policy on performance measures, although it is worth noting that the Committee has implemented a tougher approach to setting non-financial targets from FY 2021 in light of the higher bonus opportunity. Non-financial targets to apply from FY 2021 will include the replacement of the current subjective 'personal' targets with structured health and safety and customer satisfaction targets. The Policy has also been updated to reflect best practice, including (i) broader recovery and withholding provisions and (ii) an incentive override.
Long-Term Incentive Plan (LTIP)	The maximum opportunities of the Executive Directors are to be increased over the period to FY 2022 in order to align the Executive Directors with market comparable long term incentive opportunities: • **Chief Executive Officer:** to 150% of salary from 125% of salary (current market rate is 150% based on FTSE 250 median market practice) • **Other Executive Directors:** 125% of salary from 100% of salary in FY 2021 and 150% of salary from FY 2022 (current market rate is 150% based on FTSE 250 median market practice) There are no changes to the policy wording regarding the performance measures but it is worth noting that the Committee plans to introduce defined measurable long-term sustainability targets into the LTIP with a weighting of 25% to reflect the Company's strategic focus on delivering sustainable business solutions. The Policy has also been updated to reflect best practice, including (i) broader recovery and withholding provisions and (ii) an incentive over-ride.
Share Ownership Requirements	The current share ownership guideline which is set at 200% of salary for any Executive Director is to be retained in the new Policy. This mirrors wider FTSE 250 market practice and is expected to be achieved over a five-year timeframe. In line with the UK Corporate Governance Code, the current post-employment share ownership requirement will also be retained such that departing Executive Directors will be expected to retain the lower of their share ownership at cessation of employment and 200% of salary for a minimum period of two years.

Proposed Remuneration Policy

Executive Directors

Fixed Pay	
Base Salary	
Purpose and link to strategy	To appropriately recognise skills, experience and responsibilities and attract and retain talent by ensuring salaries are market competitive.
Operation	Generally reviewed annually with any increase normally taking effect from 1 January, although the Committee may award increases at other times of the year if it considers it appropriate. The review takes into consideration a number of factors, including (but not limited to): • The individual Director's role, experience and performance. • Business performance. • Market data for comparable roles in appropriate pay comparators. • Pay and conditions elsewhere in the Group.
Maximum opportunity	No absolute maximum has been set for Executive Director base salaries. Current Executive Director salaries are set out in the Annual Report on Remuneration section of this Remuneration Report. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: • Salaries would typically be increased at a rate consistent with the average salary increase for UK employees. • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). • Larger increases may also be considered appropriate if a Director has been initially appointed to their position on the Board at a lower than typical salary.
Performance conditions and provisions for recovery of sums paid[1]	No performance conditions. Recovery and withholding provisions do not apply.
Benefits	
Purpose and link to strategy	To provide market-competitive benefits.
Operation	Benefits currently include company car (or car allowance), income protection insurance, private family medical insurance, permanent health insurance and life assurance of four times annual salary. The Committee has discretion to add to or remove benefits provided to Executive Directors. Executive Directors are entitled to reimbursement of reasonable expenses. Executive Directors also have the benefit of a qualifying third party indemnity from the Company as well as Directors' and Officers' liability insurance.
Maximum opportunity	There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role.
Performance conditions and provisions for recovery of sums paid[1]	No performance conditions. Recovery and withholding provisions do not apply.
Pension	
Purpose and link to strategy	To provide market-competitive retirement benefits.
Operation	Current policy is for the Company to contribute to the Group Pension Plan, a personal pension scheme and/or provide a cash allowance in lieu of pension.
Maximum opportunity	New joiners will receive a pension-related contribution in line with the wider workforce (currently 5% of salary). Incumbent Executive Directors will receive a pension-related contribution of 15% of salary, reducing to the level of the wider workforce with effect from 31 December 2022 (5% of salary).
Performance conditions and provisions for recovery of sums paid[1]	No performance conditions. Recovery and withholding provisions do not apply.

Proposed Remuneration Policy continued

Executive Directors continued

Variable Pay	
Annual Bonus[2][3]	
Purpose and link to strategy	To link reward to key financial and operational targets for the forthcoming year. Additional alignment with shareholders' interests through the operation of bonus deferral.
Operation	The Executive Directors are participants in the annual bonus plan which is reviewed annually to ensure that bonus opportunity, performance measures and targets are appropriate and supportive of the business plan. No more than two thirds of an Executive Director's annual bonus is delivered in cash following the release of audited results and the remaining amount is deferred into an award over Company shares under the Deferred Share Bonus Plan. • Deferred awards are usually granted in the form of conditional share awards or nil-cost options (and may also be settled in cash). • Deferred awards usually vest in two equal tranches two and three years after award although may vest early on leaving employment or on a change of control (see later sections). • An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).
Maximum opportunity	The maximum award that can be made to an Executive Director under the annual bonus plan is 150% of salary for the Chief Executive and 125% of salary for other Executive Directors.
Performance conditions and provisions for recovery of sums paid[1]	The bonus is based on performance assessed over one year using appropriate financial, operational and individual performance measures. The majority of the bonus will be determined by measures of Group financial performance. A sliding scale of targets is set for each Group financial measure with payout at no more than 25% for threshold financial performance increasing to 100% for maximum performance. The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Executive Director. Details of the bonus measures operating each year will be included in the relevant Annual Report on Remuneration. The Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the annual bonus plan. Any bonus payout is ultimately at the discretion of the Committee. The cash bonus will be subject to recovery and/or deferred shares will be subject to withholding at the Committee's discretion in exceptional circumstances where, within three years of the bonus determination or before the vesting of each tranche of deferred shares, a material misstatement or miscalculation comes to light which resulted in an overpayment under the annual bonus plan or if evidence comes to light of material misconduct by an individual or a material health and safety breach or actions that subsequently gave rise to serious reputational damage or insolvency.
Long-Term Incentive Plan (LTIP)[3][4]	
Purpose and link to strategy	To link reward to key strategic and business targets for the longer term and to align Executive Directors' interests with shareholders' interests.
Operation	Awards are usually granted annually under the LTIP to selected senior executives. Individual award levels and performance conditions on which vesting will be dependent are reviewed annually by the Committee. Awards may be granted as conditional awards of shares, nil-cost options or, if appropriate, as cash-settled equivalents. Awards normally vest or become exercisable at the end of a period of at least three years following grant although may vest early on leaving employment or on a change of control (see later sections). Awards to Executive Directors that vest are subject to a two-year holding period (other than in exceptional circumstances such as death). An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).
Maximum opportunity	The maximum annual award permitted under the LTIP is shares with a market value (as determined by the Committee) of 200% of salary. Under the 2021 Remuneration Policy, for incumbent Directors, awards will be limited to 150% of salary. Each year the Committee determines the actual award level for individual senior executives within this limit.
Performance conditions and provisions for recovery of sums paid[1]	All LTIP awards granted to Executive Directors must be subject to a performance condition. Vesting of Executive Directors' LTIP awards would be dependent on measures which could include Group earnings, return on capital employed, total shareholder return and sustainability, with the precise measures and weighting of the measures determined by the Committee ahead of each award. Performance will usually be measured over a performance period of at least three years. For achieving a 'threshold' level of performance against a performance measure, no more than 25% of the portion of the LTIP award determined by that measure will vest. Vesting then increases on a sliding scale to 100% for achieving a maximum performance target. The Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the LTIP. LTIP awards may be subject to withholding or recovery at the Committee's discretion in exceptional circumstances where, before the later of the vesting of an award and the second anniversary of the end of the performance period, a material misstatement or miscalculation comes to light, or evidence comes to light that during that performance period there was material misconduct by an individual or a material health and safety breach or actions that subsequently gave rise to serious reputational damage or insolvency.

Variable Pay	
Sharesave Plan[3]	
Purpose and link to strategy	To create staff alignment with the Group and promote a sense of ownership.
Operation	UK tax-approved monthly savings scheme facilitating the purchase of shares through share options at a discounted exercise price by all eligible UK employees. Executive Directors are eligible to participate on the same basis as other UK employees.
Maximum opportunity	Monthly savings limit of £500 (or such other limit as may be approved from time to time by HMRC) under all savings contracts held by an individual.
Performance conditions and provisions for recovery of sums paid	The Sharesave Plan is structured in accordance with HMRC requirements so has no performance conditions but requires participants to make regular contributions into a savings contract. Malus and clawback provisions do not apply.
Share Ownership Guidelines	
Purpose and link to strategy	To create alignment between the long-term interests of Executive Directors and shareholders.
Operation	Executive Directors have been required to build and maintain a shareholding as a percentage of salary in the form of shares in the Company since Admission. Executive Directors are expected to achieve the shareholding requirement within five years of an individual becoming subject to the requirement.
Maximum opportunity	Any Executive Director in employment is expected to achieve a shareholding with a value of 200% of salary. Any Executive Director leaving the Company will be expected to retain the lower of the shares held at cessation of employment and shares to the value of 200% of salary for a period of two years.
Performance conditions and provisions for recovery of sums paid	Not applicable.

Notes to table:

1. The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may also adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Directors' Remuneration Report.
2. Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Committee based on a range of relevant reference points, including, for Group financial targets, the Group's business plan and are designed to be appropriately stretching.
3. The Committee may: (a) in the event of a variation of the Company's share capital, demerger, special dividend or dividend in specie or any other corporate event which it reasonably determines justifies such an adjustment, adjust; and (b) amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans. Share awards may be settled by the issue of new shares or by the transfer of existing shares. In line with prevailing best practice at the time this Remuneration Policy is approved, any issuance of new shares is limited to 5% of share capital over a rolling ten-year period in relation to discretionary employee share schemes and 10% of share capital over a rolling ten-year period in relation to all-employee share schemes.
4. Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Use of earnings and return on capital employed measures would reward management for delivery of key financial measures of Company success that should result in sustainable value creation. Use of a total shareholder return measure would align management's interests with the interests of our shareholders. Use of sustainability measures will align management with the Company's long-term commitment to building a sustainable operating business. Targets are considered ahead of each grant of LTIP awards by the Committee, taking into account relevant external and internal reference points and are designed to be appropriately stretching.
5. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the 2015 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder approved Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
6. The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Proposed Remuneration Policy continued

Non-Executive Directors

Non-Executive Director (NED) fees	
Purpose and link to strategy	To appropriately recognise responsibilities, skills and experience by ensuring fees are market competitive.
Operation	NED fees comprise payment of an annual basic fee and additional fees for further Board responsibilities such as: • Senior Independent Director • Chair of Audit Committee • Chair of Remuneration Committee • Employee engagement The Chairman of the Board receives an all-inclusive fee. No NED participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a NED may receive the grossed-up costs of travel as a benefit. NEDs are entitled to reimbursement of reasonable expenses. Fees are reviewed annually. NEDs also have the benefit of a qualifying third party indemnity from the Company and Directors' and Officers' liability insurance.
Maximum opportunity	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. No absolute maximum has been set for individual NED fees. Current fee levels are set out in the Annual Report on Remuneration section of this Remuneration Report. The Company's Articles of Association provide that the total aggregate fees paid to the Chairman and NEDs will not exceed £2,000,000 per annum.

Illustrations of application of Remuneration Policy

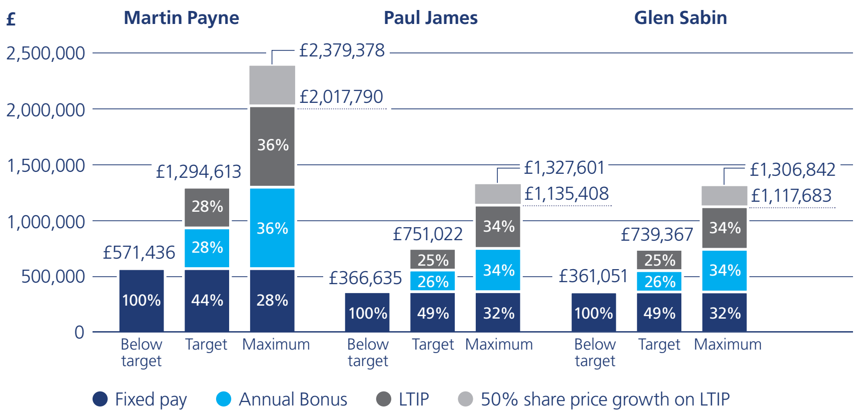
The 'Implementation of Remuneration Policy in 2021' section of the Annual Report on Remuneration details how the Committee intends to implement the Policy during 2021.

The charts to the right illustrate, in three assumed performance scenarios, the total value of the remuneration package potentially receivable by Martin Payne, Paul James and Glen Sabin in relation to 2021. This comprises salary and benefits plus an annual bonus of up to a maximum of 150% of salary for Martin Payne and 125% of salary for Glen Sabin and Paul James and an LTIP award of 150% of salary for Martin Payne and 125% of salary for Paul James and Glen Sabin.

The charts are for illustrative purposes only and actual outcomes may differ from that shown. LTIP awards have been shown at face value and also allowing for a 50% increase in share price under the maximum performance scenario. All-employee share plans have been excluded. The totals shown in the charts relate to the potential value receivable by the current Executive Directors in relation to 2021.

Potential Remuneration outcomes for the Executive Directors

Assumed performance	Assumptions used
All performance scenarios (Fixed pay) Consists of total fixed pay, including base salary, benefits and pension	• Base salary – salary effective as at 1 April 2021 • Benefits – the value of benefits received in 2020 have been included • Pension – 15% of salary
Minimum performance (Variable pay)	• No payout under the annual bonus • No vesting under the LTIP
Performance in line with expectations (Variable pay)	• 50% of the maximum payout under the annual bonus • 50% vesting under the LTIP
Maximum performance (Variable pay)	• 100% of the maximum payout under the annual bonus • 100% vesting under the LTIP



Approach to recruitment remuneration

Principles

In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Committee will apply the following principles:

- The Committee will take into consideration all relevant factors, including the experience of the individual, market data and existing arrangements for other Executive Directors, with a view that any arrangements should be in the best interests of both the Company and our shareholders, without paying more than is necessary.
- Typically, the new appointment will have (or be transitioned onto) the same remuneration structure as the other Executive Directors, in line with the Policy.
- Upon appointment, the Committee may consider it appropriate to offer additional remuneration arrangements in order to secure the appointment. In particular, the Committee may consider it appropriate to 'buy out' terms or remuneration arrangements forfeited on leaving a previous employer (discussed below).
- The Committee may provide costs and support if the recruitment requires relocation of the individual.
- Where an Executive Director is an internal promotion, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Components and approach

The remuneration package offered to new appointments may include any element within the Policy, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders, subject to the limits on variable pay set out above in the Policy.

In considering which elements to include, and in determining the approach for all relevant elements, the Committee will take into account a number of different factors, including (but not limited to) market practice, existing arrangements for other Executive Directors and internal relativities. If appropriate, different measures and targets may be applied to a new appointee's annual bonus in their year of joining.

The Committee would seek to structure buyout and variable pay awards on recruitment to be in line with the Company's remuneration framework so far as practical but, if necessary, the Committee may also grant such awards outside of that framework as permitted under Listing Rule 9.4.2 subject to the limits on variable pay set out above. The exact terms of any such awards (e.g. the form of the award, time frame, performance conditions, and leaver provisions) would vary depending upon the specific commercial circumstances.

Maximum level of variable pay

The maximum level of variable remuneration which may be granted to new Executive Directors in respect of recruitment shall be limited to the maximum permitted under the Policy, namely 350% of their annual salary. This limit excludes any payments or awards that may be made to buy out the Executive Director for terms, awards or other compensation forfeited from their previous employer (discussed below).

Buyouts

To facilitate recruitment, the Committee may make a one-off award to buy out compensation arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting/performance period remaining and the form of the award (e.g. cash or shares). The overriding principle will be that any buyout award should be of comparable commercial value to the compensation which has been forfeited. However, such buyout awards would only be considered where there is a strong commercial rationale to do so.

Recruitment of Non-Executive Directors

In the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the Policy for Non-Executive Directors. However, the Committee (or the Board as appropriate) may include any element within the Policy, or any other element which the Committee considers is appropriate given the particular circumstances, with due regard to the best interests of shareholders. In particular, if the Chairman or a Non-Executive Director takes on an executive function on a short-term basis, they would be able to receive any of the standard elements of Executive Director pay.

Proposed Remuneration Policy continued

Service contracts

Key terms of the current Executive Directors' service agreements and Non-Executive Directors' letters of appointment are summarised in the table below. It is envisaged that any future appointments would have equivalent contractual arrangements unless otherwise stated in this Report.

Provision	Policy
Notice period	Executive Directors – 12 months' notice by either the Company or the Executive Director.
	Non-Executive Directors – at the Company's discretion, Non-Executive Directors may have a notice period of up to three months.
Termination payment	Following the serving of notice by either party, the Company may terminate employment of an Executive Director with immediate effect by paying a sum equal to salary. Executive Directors are not contractually entitled to any bonus for the period of service in the year in which their employment ends.
	Non-Executive Directors are only entitled to receive any fee accruing in respect of the period up to termination.
Expiry date	Executive Directors have rolling 12-month notice periods so have no fixed expiry date.
	Non-Executive Directors' letters of appointment have no fixed expiry date.

In accordance with the Code, each Director will retire annually and put themselves forward for re-election at each AGM of the Company.

All Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office at Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES.

Policy on payment for loss of office

In relation to payments under non-contractual incentive schemes, the Committee would take the following factors into account:

- The Committee may determine that the Executive Director is eligible to receive a bonus in respect of the financial year in which they cease employment. This bonus would usually be time apportioned and may be settled wholly in cash. In determining the level of bonus to be paid, the Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Committee.
- The treatment of outstanding share awards is governed by the relevant share plan rules as summarised below.

Deferred Share Bonus Plan

- On cessation of employment, unvested shares will vest in full unless the Committee determines otherwise.
- On a change of control, unvested shares will vest in full.
- If other corporate events occur, such as a demerger, delisting, special dividend, voluntary winding-up or other event which in the opinion of the Committee may affect the current or future value of shares, the Committee will determine whether unvested shares should vest.

LTIP

- On cessation of employment, unvested awards will lapse unless cessation is as a result of death, ill health, injury, disability, transfer of employing company or business to which an individual's employment relates out of the Group or any other scenario in which the Committee determines at its discretion that good leaver treatment is appropriate (other than circumstances justifying summary dismissal). In these scenarios, unvested awards will usually continue until the normal vesting date unless the Committee determines that the award should vest earlier and will vest to an extent that takes into account the performance condition assessed at the date of vesting and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and cessation of employment.
- On a change of control, unvested LTIP awards will vest immediately to an extent that takes into account the performance condition assessed at the change of control and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the change of control. If other corporate events occur, such as a demerger, delisting, special dividend, voluntary winding-up or other event which in the opinion of the Committee may affect the current or future value of shares, the Committee will determine whether unvested LTIP awards should vest. If they do vest, they will vest immediately to an extent that takes into account the performance condition assessed at the date of the event and, unless the Committee determines otherwise, to an extent that takes into account the period of time between grant of the award and the date of the event.

Sharesave Plan

- Options become exercisable immediately on death, ceasing employment due to injury, disability, retirement, redundancy, sale of the employing company or business to which an individual's employment relates out of the Group or on a change of control/voluntary winding-up of the Company.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his/her cessation of office or employment.

Consideration of employment conditions elsewhere in the Group

The Committee appreciates the importance of effective engagement with the wider workforce and so the Committee have introduced a nominated Non-Executive Director responsible for employee engagement. Mark Hammond held this role until June 2020 and Louise Brooke-Smith has held this role since June 2020. Both Mark and Louise have engaged with employees during the course of the year to the extent that this was possible given the restrictions imposed by the Covid-19 pandemic. This engagement covered a wide variety of topics and both Mark and Louise reported to the Committee that there were no concerns raised regarding the alignment between executive remuneration and wider workforce pay.

The Committee reviews workforce remuneration, related policies and is conscious of the importance of ensuring that its pay decisions for Executive Directors and the senior management team are regarded as fair and reasonable within the business.

As outlined in the Policy table, pay and conditions across the Group are one of the specific considerations taken into account when the Committee is considering changes in salaries for the Executive Directors and the senior management team.

Differences in policy from broader employee population

A greater proportion of Executive Directors' potential wealth is 'at risk', either through their existing shareholding or through LTIP awards than for our employees generally and a greater proportion is determined by performance than for our employees generally. However, common principles underlie the pay policy throughout the Company, including for the Executive Directors. In particular, we place great emphasis throughout the Company on reward being linked to performance (either Group performance or performance of an individual's business unit) and on encouraging share ownership (through participation in the LTIP or an all-employee share scheme).

Consideration of shareholders' views

The Company is mindful of general investor views on certain aspects of remuneration, and continues to take these views into account, where appropriate, when setting Executive Director remuneration. The Committee Chair is available to meet with any shareholders who wish to discuss any aspect of the Company's Policy in more detail.

During 2020 and 2021, a formal consultation with the Company's top 20 shareholders and the shareholder advisory bodies was carried out in relation to the updated Policy to be approved by shareholders at the 2021 AGM. The Chair of the Committee and the Company Secretary met with those shareholders who requested a meeting to discuss the proposed Policy in more detail and to answer specific queries. The feedback received from these meetings and the written responses was generally supportive and was discussed in detail by the Committee as it finalised the Policy proposals.

Annual Report on Remuneration

Remuneration Committee Report

The Annual Report on Remuneration describes how the Directors' Remuneration Policy, approved by shareholders at the Annual General Meeting in May 2018, has been applied in the financial year ended 31 December 2020. This Annual Report on Remuneration will be put to an advisory shareholder vote at the 2021 AGM.

Role of the Committee

The role of the Committee is to determine all aspects of Executive Director pay, ensuring that the remuneration framework both attracts and retains leaders who are appropriately incentivised to deliver the Group's strategy, aligning with the interests of members and promoting the long-term success of the Group for the benefit of its stakeholders as a whole. The Committee also reviews workforce remuneration and related policies and ensures alignment of its rewards with culture. It also monitors pay arrangements for other senior executives and oversees the operation of all share plans.

Details about the role of the Committee are set out in its Terms of Reference which are reviewed annually and were last updated in December 2020. These can be found on the Company's website.

Committee membership and meetings

The Committee comprises all of the Non-Executive Directors, all of whom are considered to be independent, and their attendance at meetings during the year is set out in the table on page 54 as well as detailed in the Letter from the Chair of the Remuneration Committee. Kevin Boyd was appointed to the Committee on appointment to the Board in September 2020. The CEO, Martin Payne, was also present at those meetings by invitation. Paul Dean stepped down as a member of the Committee on his retirement from the Board on 15 September 2020.

The Committee typically meets at least three times a year and thereafter as required, and in 2020, the Committee met nine times.

External advisers

Korn Ferry was appointed with effect from 1 January 2020 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Korn Ferry on market practice, updates and benchmarking, as well as advice and support in relation to the revised Remuneration Policy. The Committee was satisfied that the advice provided by Korn Ferry was objective and independent, having noted their commitment to the Code of Conduct. During the year, the fees (charged on a time plus expenses basis) paid to Korn Ferry were £99,350 (2019: £23,600 paid to Deloitte LLP). Korn Ferry is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

2020 Key Achievements

- Review and update of Remuneration Policy in consultation with shareholders and shareholder advisory bodies
- Timely management of remuneration related decisions during the Covid-19 crisis, including reduction in Executive Director salaries and changes to annual LTIP award timing and targets

Areas of Focus in 2021

Remuneration Policy
Implementation of updated Remuneration Policy and follow on review of Group-wide remuneration arrangements for senior management

Review of targets
Performance against the targets set will be reviewed regularly throughout the year

Unaudited information

Implementation of Remuneration Policy in 2021

This section provides an overview of how the Committee is proposing to implement the Policy in 2021 for the Executive Directors.

Base annual salary

As described in the Annual Statement from the Chair of the Remuneration Committee, an annual salary review has been carried out by the Committee. The Committee approved a 2.2% increase in the CEO, CFO and COO's salaries effective from 1 April 2021. Whilst increases are normally with effect from 1 January each year, the increases for 2021 were delayed across the Company to 1 April 2021. This increase is consistent with the average annual salary increase awarded to the Company's UK workforce for 2021.

	Salary 1 April 2021	Salary 1 January 2020	% increase
Martin Payne (CEO)	£482,118	£471,740	2.2
Paul James (CFO)	£307,509	£300,889	2.2
Glen Sabin (COO)	£302,653	£296,138	2.2

Pension

In 2021, the Executive Directors will receive a Company contribution worth 15% of annual salary to the Group Pension Plan, a personal pension scheme, or as a cash allowance. This was reduced in 2018 from 20%, the level of contribution under the previous Remuneration Policy. As detailed in the Letter from the Chair of the Remuneration Committee, any new Executive Director would be appointed on a pension in line with the wider workforce rate at 5% of salary and incumbent Executive Directors will be aligned with the wider workforce rate of 5% by the end of 2022.

Other benefits

In 2021, the Executive Directors will receive a standard package of other benefits consistent with those received in 2020.

Annual bonus

The annual bonus plan for 2021 will, subject to shareholder approval, be operated in accordance with the updated Policy. Key features of the plan for 2021 are:

- There will be a maximum bonus opportunity of 150% of annual salary for Martin Payne and 125% of annual salary for Paul James and Glen Sabin.
- 33% of any bonus earned will be deferred into shares under the Deferred Share Bonus Plan (DSBP). Half of these shares will vest two years post grant and the remaining half will vest three years post grant.
- In the event that a material misstatement or miscalculation subsequently comes to light which resulted in an overpayment under the annual bonus plan or if evidence comes to light of material misconduct by an individual, or if evidence comes to light of a material health and safety breach or actions that subsequently gave rise to serious reputational damage or insolvency, then the Committee has the flexibility to withhold the value of shares granted under the DSBP and/or to require repayment of an appropriate portion of the annual bonus cash award in respect of the relevant bonus year.
- The Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the annual bonus plan.

The annual bonus targets for 2021 for Executive Directors will be based on Group Underlying Operating Profit (70%), Working Capital (20%), Customer Service (5%) and Health and Safety (5%).

The targets for these performance measures in relation to the 2021 financial year are deemed to be commercially sensitive. However, retrospective disclosure of the targets and performance against them will be provided in next year's Directors' Remuneration Report to the extent that they do not remain commercially sensitive at that time.

Annual Report on Remuneration continued

LTIP

It is expected that the Executive Directors will receive awards under the LTIP during 2021. As at the time of preparing this Remuneration Report the Committee's intention is to grant the awards on the basis described below. Should there be any change to the approach set out below, this would be detailed in the Stock Exchange announcement made at the time of granting the awards and detailed in next year's Remuneration Report.

- Martin Payne will receive an award over shares worth 150% of annual salary at grant and Paul James and Glen Sabin will receive an award over shares worth 125% of annual salary at grant.
- Awards will become exercisable three years after grant.
- In the event that a material misstatement or miscalculation subsequently comes to light which results in too high a level of vesting under the LTIP, or if evidence comes to light of material misconduct by an individual, or if evidence comes to light of a material health and safety breach or actions that subsequently gave rise to serious reputational damage or insolvency, then the Committee has the flexibility to withhold or recover the value of shares granted under the LTIP.
- The Remuneration Committee has discretion, where it believes it to be appropriate, to override the formulaic outcome arising from the LTIP.
- Awards will be subject to a two-year post-vesting holding requirement.
- Awards will be subject to a combination of underlying diluted EPS, relative TSR performance measures and sustainability targets assessed over a three-year period as detailed below.

Underlying Diluted Earnings per share (EPS) (50% of award)

The EPS targets are a range around FY 2023 EPS as opposed to setting cumulative EPS targets as in prior years. Setting the targets with reference to the final year of the three year performance period mirrors standard market practice and reduces the impact on the condition of the near term uncertainties caused by Covid-19. The targets have also been set allowing for recent acquisitions (i.e. including Nu-Heat, Plura and Adey). The range of targets to apply is as follows:

FY 2023 Underlying Diluted EPS	Vesting (% total award)
Below 26.4p	0%
26.4p	25%
31.3p	100%

Straight-line vesting between performance points

Relative Total Shareholder Return Targets (25% of the award)

The relative TSR targets remain unchanged from those operated in prior years with our performance compared against those companies included in the FTSE 250 Index that are classified as 'Industrials' (circa 40 comparator companies). This group remains the most appropriate set of comparator companies as it includes those companies that are the most similar in terms of size and business type to Polypipe, and so it is likely to be management actions that drive out-performance as opposed to external market factors. Vesting takes place as follows:

Relative TSR versus FTSE 250 Industrials	Vesting (% total award)
Below median	0%
Median	25%
Upper quartile (or better)	100%

Straight-line vesting between performance points

Sustainability Targets (25% of the award)

Sustainability targets align with the key elements of Polypipe's sustainability strategy and require delivery in line with the Company's published 2025 targets. The 25% of the award subject to sustainability targets is split into three equal components as follows:

Carbon Reduction Targets (8.33% of the total award)

The range of targets is set based on our emissions intensity which is defined as Scope 1 and Scope 2 tonnes of CO_2e per tonne of output.

FY 2023 Emissions Intensity	Vesting (% total award)
Below 0.167	0%
0.167	25%
0.141	100%

Straight-line vesting between performance points

The 2020 baseline from which the above targets were set is 0.252 and so the above targets are considered stretching and in line with our 2025 targeted reductions.

Use of Recycled Plastics (8.33% of the total award)
The range of targets relates to the proportion of our products that are manufactured from recycled products.

FY 2023 % Recycled Materials Used	Vesting (% total award)
Below 51.4%	0%
51.4%	25%
61.2%	100%

Straight-line vesting between performance points

The 2020 baseline from which the above targets were set is 45.9% and so the above targets are considered stretching and in line with our 2025 targeted reductions.

The 5% Club (8.33% of the total award)
The first two sustainability targets directly align with Polypipe's focus on improvements in the way we work with the third target aligning with creating a sustainable business culture through our commitment to The 5% Club. This initiative, to which we fully subscribe, focuses on the development of greater skills and training through 'earn and learn' job opportunities. Our 2025 objective is to achieve 5% of our workforce in 'earn and learn' positions with our FY2023 target set out below:

Progress towards 5% Club	Vesting (% total award)
Below 4.2%	0%
4.2%	25%
5%	100%

Straight-line vesting between performance points

The 2020 baseline from which the above targets were set is 3.8% and so the above targets are considered stretching.

The targets were set after having regard to the proposed quantum of award and both internal planning and external market expectations for future performance so as to strike an appropriate balance between being realistic and meaningful for participants at the lower end of the range, and providing a stretch at the top end of the range. Overall, the targets are considered at least as challenging as those set in prior years noting the increased size and complexity of the Company following the acquisitions noted above.

Sharesave Plan
Invitations to UK employees (including Executive Directors) to participate in the Sharesave Plan have been issued annually over the last three years and to all Group employees in 2021. The Board is proposing to continue to issue invitations to join the Plan on an annual basis, and all eligible employees will therefore be invited to join the Plan in 2021.

Non-Executive Director remuneration
During the year, Non-Executive Director fees were reviewed, following which it was agreed to increase the Non-Executive Director base fee by 2.2% and the Chairman's fee by 2.2%. The table below shows the fee structure for Non-Executive Directors with effect from 1 April 2021. Non-Executive Director fees are determined by the full Board except for the fee for the Chairman of the Board, which is determined by the Committee. During the year, the Committee introduced an additional fee for the employee engagement role carried out by the nominated NED.

	2021 Fees
Chairman of the Board all-inclusive fee	**£154,077**
Basic Non-Executive Director fee	**£49,525**
Senior Independent Director additional fee	**£10,000**
Chair of Audit Committee additional fee	**£8,000**
Chair of Remuneration Committee additional fee	**£8,000**
Employee engagement NED fee	**£8,000**

Annual Report on Remuneration continued

Audited information

The information provided in this section of the Remuneration Report up until the 'Unaudited information' heading on page 93 is subject to audit.

Single total figure of remuneration

The following table sets out the total remuneration for Executive Directors and Non-Executive Directors for 2020 with comparative figures for 2019.

	2020								
All figures shown in £'000	Salary and fees[1]	Benefits[2]	Pension[3]	Total Fixed	Annual bonus[4]	LTIP[5]	Total Variable	Other[6]	Total remuneration
Executive Directors									
Martin Payne	**432**	**17**	**65**	**514**	**–**	**179**	**179**	**–**	**693**
Paul James	**276**	**13**	**41**	**330**	**–**	**88**	**88**	**71**	**489**
Glen Sabin	**271**	**13**	**41**	**325**	**–**	**92**	**92**	**–**	**417**
Non-Executive Directors									
Ron Marsh	**138**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**138**
Paul Dean[7]	**41**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41**
Mark Hammond[8]	**53**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53**
Louise Hardy	**52**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**52**
Lisa Scenna	**44**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**44**
Louise Brooke-Smith[9]	**49**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**49**
Kevin Boyd[10]	**17**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17**

	2019								
All figures shown in £'000	Salary and fees[1]	Benefits[2]	Pension[3]	Total Fixed	Annual bonus[4]	LTIP[5]	Total Variable	Other[6]	Total remuneration
Executive Directors									
Martin Payne	458	17	69	544	142	253	395	5	944
Paul James	292	13	44	349	80	-	80	–	429
Glen Sabin	288	13	43	344	79	110	189	–	533
Non-Executive Directors									
Ron Marsh	146	–	–	–	–	–	–	–	146
Paul Dean	65	–	–	–	–	–	–	–	65
Mark Hammond	51	–	–	–	–	–	–	–	51
Louise Hardy	54	–	–	–	–	–	–	–	54
Lisa Scenna	13	–	–	–	–	–	–	–	13
Louise Brooke-Smith	13	–	–	–	–	–	–	–	13
Kevin Boyd[10]	–	–	–	–	–	–	–	–	–

Notes to the table – methodology

1. Salary and fees – as disclosed in the 2019 Annual Report, Executive Directors' salaries were increased by 3.0% with effect from 1 January 2020, consistent with the average increases awarded to the Company's UK workforce. In 2020, the Non-Executive Director base fee and the Chairman's fee were also increased by 3.0%. Due to Covid-19, Executive and Non-Executive Directors waived salaries and fees by 20% of salary during the months of April through to August. As a result Martin Payne, Paul James and Glen Sabin waived salary of £39,312, £25,074 and £24,678 respectively. The fee for the Chairman was reduced by £12,563 and the NED base fee was reduced by £4,038. There was no reduction to other NED fees such as Committee Chairman fees.
2. Benefits – this represents the taxable value of all benefits. Executive Directors receive benefits including car allowance, private family medical insurance and life assurance of four times annual salary.
3. Pension – the pension provision for all Executive Directors is 15%.
4. Annual bonus – the bonus is typically paid 75% in cash and 25% deferred into shares under the DSBP. As a result of the Covid-19 pandemic, the annual bonus was not operated for Executive Directors in 2020.
5. LTIP – For 2020, this relates to the estimated value of the 2018 LTIP award which was subject to an EPS and TSR performance target over the three-year period ended on 31 December 2020 further details can be found on page 91. The value of the 2018 award has been calculated using Company's average share price for Q4 2020 (£4.98). The estimated amount of the 2018 award that is attributable to share price appreciation is £41,843 for Martin Payne, £20,544 for Paul James and £21,408 for Glen Sabin. The Committee did not apply any discretion as a result of the share price appreciation.
5. LTIP – For 2019, is based on the value of the vested 2017 award and the TSR element of the 2016 award. As noted in the 2019 annual report, the double counting of part of the 2016 LTIP award and 2017 LTIP award in the 2019 LTIP single figure value is due to the TSR performance period applying to the 2016 award running from 10 May 2016 (i.e. mid-year) as opposed to the start of the financial year (page 95 of the 2019 Annual Report sets out the details). No further double counting will operate as subsequent TSR periods run from the start of each financial year. Of the £253,080 LTIP value for Martin Payne £57,565 relates to the TSR element for the 2016 award and £95,515 for the 2017 award. Of this the value that is attributable to share price appreciation for the TSR element of the 2016 award is £13,746 and £36,310 for the 2017 award. Of the £110,424 LTIP value for Glen Sabin, £30,162 relates to the TSR element for the 2016 award and £80,262 for the 2017 award. Of this the value that is attributable to share price appreciation for the TSR element of the 2016 award is £9,722 and £14,906 for the 2017 award. The Committee did not apply any discretion as a result of the share price appreciation.
6. Other – for 2020, this column comprises £70,742, being the value of 16,300 shares by Paul James on 16 September 2020 which, as previously disclosed, were awarded in partial compensation for long-term incentive awards forfeited when he left his previous employer Dixons Carphone plc. The shares have been valued at the share price when the award was exercised of £4.34. For 2019, this includes £5,429, being the value of the grant of options to Martin Payne under the Sharesave Plan during the year. The grant has been valued at 24.3% of the face value of shares under option, which is the IFRS 2 valuation for this award.
7. Paul Dean retired from the Board on 15 September 2020.
8. Mark Hammond ceased to be employee engagement NED on 22 June 2020 and was appointed as the Senior Independent Director on 22 June 2020.
9. Louise Brooke-Smith was appointed as the employee engagement NED on 22 June 2020.
10. Kevin Boyd was appointed to the Board as NED and Chair of the Audit Committee on 22 September 2020.
11. Total remuneration paid to Directors in respect of 2020 is £1,993,000 (2019: £2,247,000).

Annual bonus

As a result of the ongoing Covid-19 pandemic, the Committee made the decision not to operate the annual bonus plan for the Executive Directors in 2020.

LTIP vesting

The LTIP award granted in May 2018 vests in May 2021 based 25% on relative TSR performance and 75% on EPS growth over the three financial years ended on 31 December 2020. The vested value of the award is therefore required to be included in the 2020 single figure table.

Performance measure	Threshold	Maximum	Actual performance	% of total award vesting	Vested shares	Estimated value of vested shares*
Three-year cumulative underlying diluted EPS	89.0 pence per share 18.75% of award vests	101.7 pence per share 75% of award vests	70.79 pence	0%	Martin Payne – 0	Martin Payne – 0
					Paul James – 0	Paul James – 0
					Glen Sabin – 0	Glen Sabin – 0
TSR performance relative to comparator group	Below median 0% of award vests	Upper quartile 25% of award vests	Above upper quartile	25%	Martin Payne – 35,917	Martin Payne – £178,903
					Paul James – 17,634	Paul James – £87,835
					Glen Sabin – 18,376	Glen Sabin – £91,531

* Estimated value based on average share price in Q4 of 2020 of £4.981.

Deferred Share Award

On 21 March 2018, Paul James was granted an award of shares to partially compensate him for bonus and long-term incentive awards that were forfeited when he left his previous employer, Dixons Carphone plc. Details of the awards granted are set out below and full details of the award terms are set out on page 66 of the 2017 Annual Report and Accounts. No awards were outstanding as at 31 December 2020. The value of the share award exercised in September 2020 has been included in the single total figure of remuneration table on page 90. No further performance conditions applied to these shares as they were compensation for awards which similarly were not subject to further performance conditions.

	Type of award	Maximum number of shares	Face value (£)*	Vesting date
Paul James	Deferred shares	27,445	£108,271	5 March 2020†
	Deferred shares	27,445	£108,271	5 March 2021†
	Deferred shares	30,755	£121,328	30 June 2020^

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £3.945 per share.

† These awards, granted in compensation for forfeited bonus, lapsed in September 2018 when the Committee determined that no bonus was payable and therefore there was no bonus forfeit payable.

^ These awards were exercised on 16 September 2020 and the value on exercise is set out in the "Other" column in the table on page 90.

Scheme interests awarded during the financial year

LTIP awards

An award was granted under the LTIP to selected senior executives, including the Executive Directors, in June 2020. This award is subject to the performance conditions described below and will become exercisable in June 2023.

	Type of award	Date of grant	Maximum number of shares	Face value (£)*	Threshold Vesting (% of award)	End of performance period
Martin Payne	Nil cost option	22 June 2020	132,660	£589,673	25% of award	31 December 2022
Paul James	Nil cost option	22 June 2020	67,691	£300,886	25% of award	31 December 2022
Glen Sabin	Nil cost option	22 June 2020	66,622	£296,134	25% of award	31 December 2022

* The maximum number of shares that could be awarded has been calculated using the share price of £4.445 (average closing share price for 17 to 19 June 2020) and is stated before the impact of reinvestment of the dividends paid since grant.

Given the challenges in setting long-term targets in the prevailing market conditions, the Committee agreed that vesting of the 2020 LTIP awards would be subject to a 100% relative TSR performance condition measured over a three-year performance period. Vesting is calculated on a straight-line basis.

TSR performance condition (100% of award)

Ranking in TSR comparator group	% of overall award vesting
Below median	0%
Median	25%
Upper quartile	100%

Comparator group comprises companies in the FTSE 250 Index that are classified as Industrials by the Industry Classification Benchmark. TSR performance will be measured over the three-year period to 31 December 2022. Vesting for performance between Median and Upper quartile will be calculated pro rata on a straight-line basis.

Annual Report on Remuneration continued

Deferred Share Bonus Plan awards

On 22 June 2020, the Executive Directors received an award of shares under the Deferred Share Bonus Plan relating to the 2019 annual bonus. The value of these shares was included in the annual bonus figure in the 2019 single total figure of remuneration. No further performance conditions apply to these shares.

	Type of award	Maximum number of shares	Face value (£)*	Vesting date
Martin Payne	Deferred shares	7,996	£35,543	50% vests in each of June 2022 and June 2023
Paul James	Deferred shares	4,490	£19,962	
Glen Sabin	Deferred shares	4,420	£19,647	

* The maximum number of shares awarded was calculated using the average closing share price for the three dealing days prior to grant of £4.445 per share.

Sharesave Plan

Details of the Executive Directors' SAYE options are set out below. No performance conditions apply to these options.

	Type of award	Number of shares under option (year of grant)	Number of shares exercised	Option price (£)	Options exercisable from	Market price on date of exercise (£)	Notional gain on exercise (£)
Martin Payne	Share Option	5,901 (2019)	–	£3.05	November 2022	–	–
Glen Sabin	Share Option	– (2017)	2,322	£3.10	November 2020	£4.55	£10,565
Paul James	Share Option	6,040 (2018)	–	£2.98	November 2021	–	–

The option price represents a 20% discount to the average closing price of a share on the three dealing days prior to the relevant invitation date. The notional gain is the difference between the option price and the market price of the shares on the date of exercise.

Payments to past Directors

There were no payments to past Directors during the year.

Payments for loss of office

There were no payments for loss of office during the year.

Statement of Directors' shareholdings and share interests

Executive Directors are expected to achieve the shareholding requirement of 200% of salary within five years of an individual becoming subject to the requirement. The Committee reviews ongoing individual performance against the shareholding requirement at the end of each financial year. Paul James commenced employment with the Company during 2018 and is building up his shareholding in line with the aforementioned five-year timescale. Both Martin Payne and Glen Sabin met this requirement as at 31 December 2020.

The number of shares held by Directors is set out in the table below:

	Number of shares at 31 December 2020			
Director	Shares owned outright	Interests in share incentive schemes, subject to performance conditions	Interests in share incentive schemes, awarded without performance conditions	
		LTIP(1)	DSBP(2)	Sharesave Plan(3)
Martin Payne(4)(7)	219,810 (278% of salary)	410,752	31,475	5,901
Paul James(5)(7)	21,917 (43% of salary)	206,817	11,256	6,040
Glen Sabin(6)(7)	713,552 (1,438% of salary)	207,635	13,955	–
Ron Marsh	308,707	–	–	–
Paul Dean(8)	5,000	–	–	–
Mark Hammond	17,247	–	–	–
Louise Hardy	–	–	–	–
Lisa Scenna	10,112	–	–	–
Louise Brooke-Smith	–	–	–	–
Kevin Boyd(9)	4,500	–	–	–

Notes to the table

1. This relates to shares awarded under the LTIP.
2. This relates to shares awarded under the DSBP.
3. This relates to share options granted under the Sharesave Plan.
4. During the year, Martin Payne had (a) 39,901 LTIP shares vest, retained net of shares sold to pay personal tax liability; and (b) 12,509 DSBP shares (inclusive of 651 dividend shares) vest, retained net of shares sold to pay personal tax liability. All of these are included in the 'Shares Owned Outright' column.
5. During the year, Paul James had a Deferred Share Award over 30,755 shares (in partial compensation for bonus and long-term incentive awards forfeited when he left his previous employer) vest, net of shares sold to pay personal tax liability. These are included in the 'Shares Owned Outright' column.
6. During the year, Glen Sabin (a) exercised his options over 52,148 LTIP shares, retained net of shares sold to pay personal tax liability; (b) had 1,539 DSBP shares (inclusive of 57 dividend shares) vest, retained net of shares sold to pay personal tax liability; and (c) 2,322 shares vest under the Sharesave Plan. All of these are included in the 'Shares Owned Outright' column.
7. For the purposes of determining the value of Executive Director shareholdings, the individual's current annual salary and the share price as at 31 December 2020 has been used (£5.97 per share).
8. Paul Dean retired from the Board on 15 September 2020.
9. Kevin Boyd joined the Board on 22 September 2020.

Between 31 December 2020 and the date of this Report, there were the following changes in the shareholdings of current Directors as a result of their participation in the Company's placing on 10 February 2021:

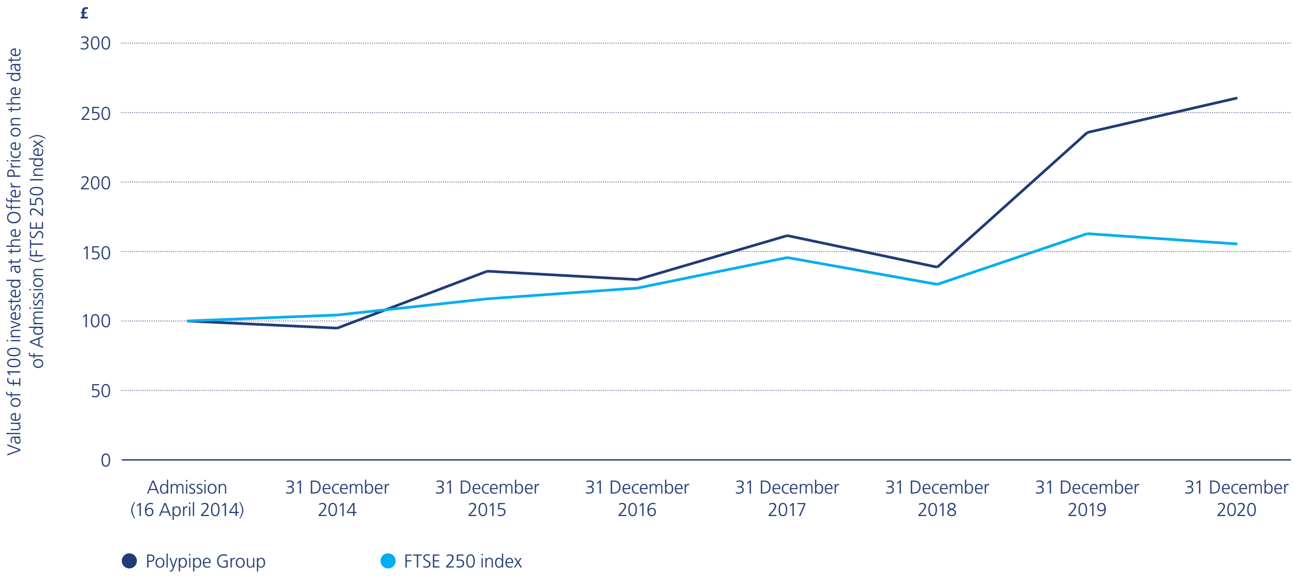
Director	Number of shares acquired
Ron Marsh	25,273
Martin Payne	17,995
Paul James	1,941
Lisa Scenna	4,854
Kevin Boyd	5,825

Unaudited information

The information provided in this section of the Directors' Remuneration Report is not subject to audit.

Performance graph and CEO remuneration table

The chart below compares the Total Shareholder Return performance of the Company over the period from Admission to 31 December 2020 to the performance of the FTSE 250 Index. This index has been chosen because it is a recognised equity market index of which the Company is a member. The base point in the chart for the Company equates to the Offer Price of £2.45 per share.



Annual Report on Remuneration continued

The table below summarises the CEO single figure for total remuneration, annual bonus payouts and long-term incentive vesting levels as a percentage of maximum opportunity over this period.

	2014	2015	2016	2017[1]	2017[2]	2018[3]	2019[3]	**2020**
CEO single figure of remuneration £'000	955	919	948	717	218	1,014	944	**693**
Annual bonus payout (as a % of maximum opportunity)	88.7%	68.2%	69.4%	66.8%	66.8%	48.9%	24.8%	**n/a**
LTIP vesting out-turn (as a % of maximum opportunity)	n/a (no award vested in 2014)	n/a (no award vested in 2015)	n/a (no award vested in 2016)	n/a (no award vested in 2017)	n/a (no award vested in 2017)	87.8%	54.5%	**25%**

1. This reflects the remuneration received by David Hall, CEO for the period from 1 January 2017 to 1 October 2017.
2. This reflects the remuneration received by Martin Payne who was appointed as CEO on 2 October 2017 following the retirement of David Hall.
3. The 2018 LTIP vesting out-turn shows the payout as a percentage of maximum of the 2016 award. The 2019 figure shows the payout for the 2017 award and the 2020 figure shows the payout for the 2018 award.

Percentage change in the remuneration of the Directors (audited)

The table below sets out the percentage change in base salary, value of taxable benefits and bonus for all the Directors compared with the average percentage change for employees.

	Average percentage change 2019–2020		
	Salary/fees	Taxable benefits	Annual bonus
Executive Directors			
Martin Payne	+3.0%*	0%	-100%**
Paul James	+3.0%*	0%	-100%**
Glen Sabin	+3.0%*	0%	-100%**
Non-Executive Directors			
Ron Marsh	+3.0%	n/a	n/a
Paul Dean	+3.0%	n/a	n/a
Mark Hammond	+3.0%	n/a	n/a
Louise Hardy	+3.0%	n/a	n/a
Lisa Scenna	+3.0%	n/a	n/a
Louise Brooke-Smith	+3.0%	n/a	n/a
Kevin Boyd	n/a	n/a	n/a
Employee average	+3.0%	0%	+24%

* This 3.0% excludes the impact of the voluntary salary reduction during the year.
** The Annual Bonus Plan for Executive Directors was not operated during 2020.

CEO pay ratio

The table below illustrates the ratio between CEO pay for 2020 (as shown in the single figure table on page 90) and the indicative full-time equivalent total remuneration for employees ranked at the lower quartile, median and upper quartile.

In line with the relevant legislation, the analysis has been completed using Option B (i.e. using the Company's most recent gender pay gap information) with the actual FTE remuneration for these employees calculated for the 2020 full year. The same methodology used for calculating the single total figure of remuneration for the CEO has been used for calculating the pay and benefits of these three UK employees. The Company believes that this methodology is appropriate and that the employees included in the analysis are suitably representative for the CEO pay ratio comparison.

The employees used in the calculations were identified using the most recent gender pay gap data for 2020 on 16 March 2021, following the end of the financial year. Included in the data are 1,620 UK employees from across all of our businesses with employees furloughed during the year excluded to avoid artificially depressing the employee pay quartiles versus the current ongoing rates of remuneration. Option B was used as it was deemed the most appropriate in the circumstances. It should be noted that the CEO's total remuneration for 2020 reflects the salary reduction in response to the Covid-19 pandemic, as well as the vesting for the 2018 LTIP awards. This means that the salary ratio has the potential to underemphasise current pay differentials.

However, the ratio is considered within the expected range for the Company (and remains so if the CEO's temporary 2020 salary reduction is removed) and is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

CEO pay ratio	2019	**2020**
Method	A	**B**
Upper quartile	28:1	**19:1**
Median	37:1	**24:1**
Lower quartile	44:1	**29:1**

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2020 are set out below:

	Salary	Total Pay
CEO single figure	£432,000	£693,000
Upper quartile	£35,730	£36,109
Median	£27,246	£28,480
Lower quartile	£20,830	£23,529

Relative importance of the spend on pay

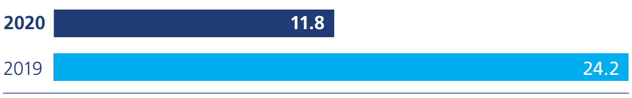
The chart below illustrates the total expenditure on pay for all of the Company's employees compared to dividends payable to shareholders.

Employee Remuneration Costs

£m

Dividends

£m



Shareholder voting on Remuneration resolutions

Details of the votes cast in relation to our remuneration resolutions in 2018 and 2020 are summarised below:

	Votes for	Votes against	Votes withheld
Approval of the Remuneration Policy – 2018 AGM	127,934,229 (87.62%)	18,067,599 (12.38%)	6,537,337
Approval of the Annual Report on Remuneration – 2020 AGM	166,938,923 (99.11%)	1,499,233 (0.89%)	7,708,046

External board appointments

Executive Directors are not normally entitled to accept a Non-Executive Director appointment outside the Company without the prior approval of the Board.

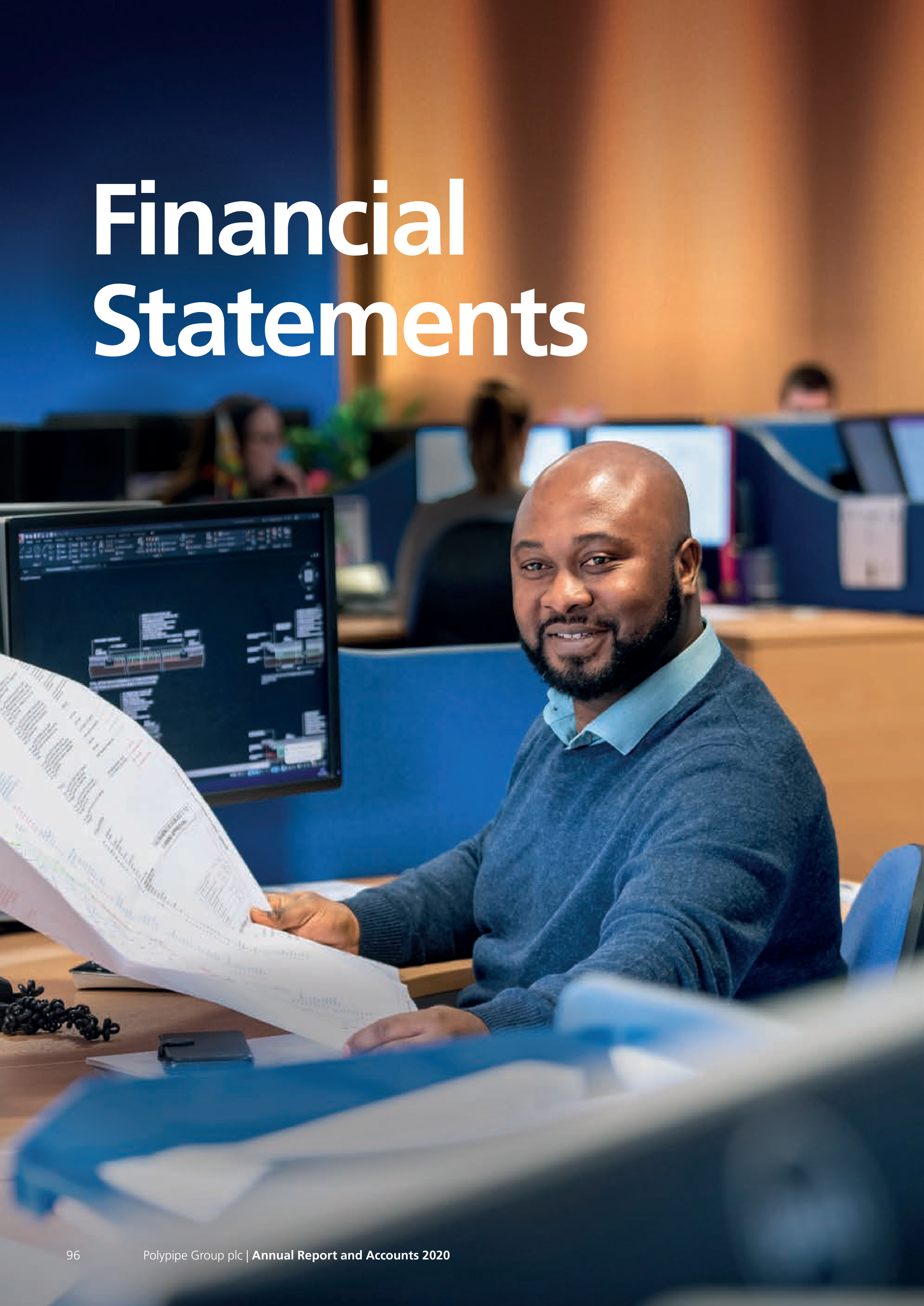
Annual General Meeting

This Annual Report on Remuneration will be subject to an advisory shareholder vote at our AGM scheduled to be held on 20 May 2021.

By order of the Board.

Louise Hardy
Chair of the Remuneration Committee
16 March 2021

Financial Statements



Independent Auditor's Report

to the Members of Polypipe Group plc

Opinion

In our opinion:

- Polypipe Group plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with Section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Polypipe Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise:

Group	Parent company
Group Income Statement for the year ended 31 December 2020	Company Balance Sheet at 31 December 2020
Group Statement of Comprehensive Income for the year ended 31 December 2020	Company Statement of Changes in Equity for the year ended 31 December 2020
Group Balance Sheet at 31 December 2020	Company Cash Flow Statement for the year ended 31 December 2020
Consolidated Statement of Changes in Equity for the year ended 31 December 2020	Related Notes 1 to 10 to the Company Financial Statements, including a summary of significant accounting policies
Group Cash Flow Statement for the year ended 31 December 2020	
Related Notes 1 to 29 to the Group Financial Statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, as regards the parent company financial statements, as applied in accordance with Section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Independent Auditor's Report continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Performing a walkthrough of the Group's financial close process to confirm our understanding of management's going concern assessment process and engaging with management early to ensure all key risk factors we identified were considered in their assessment;
- Obtaining management's going concern assessment, including the cash flow forecasts for the companies acquired post year end, and covenant calculations for the going concern period which covers the period to 30 June 2022, then performing procedures to confirm the clerical accuracy and appropriateness of the underlying model including validating the credit facility assumptions;
- Assessing the Group's base scenario for consistency with cash flow forecasts used in the goodwill impairment assessment over which we have performed detailed audit procedures to challenge the base case assumptions, including analysis of external market data to consider any contradictory future sector forecasts as set out in the Risk of an Unrecognised Impairment of Goodwill key audit matter;
- Agreeing cash flow forecasts for the companies acquired post year end to management's investment case and challenging the key assumptions underpinning the cash flow forecasts including growth rates and margin;
- Reviewing and reperforming management's stress test of their cash forecasts and covenant calculations in order to quantify, then consider internal and external data to assess the likelihood of the downside scenarios required to exhaust the Group's forecast liquidity and breach the Group's covenant ratios;
- Considering the impact and feasibility of potential mitigating activities that are within control of management, such as reduction in capital expenditure and dividend payments; and
- Reviewing the Group's going concern disclosures included in the Annual Report and Accounts in order to assess their completeness and conformity with the reporting standards.

We observed that at 31 December 2020 the Group had cash and cash equivalents of £44.1m in addition to undrawn committed facilities of £240.0m, and we confirmed that the Group's RCF facility is not due for renewal until November 2023. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of 15 months from when the financial statements are authorised for issue.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	We performed an audit of the complete financial information of 17 components and audit procedures on specific balances for a further nine components.
	The components where we performed full scope audit procedures accounted for 99% of Profit Before Tax, 98% of Revenue and 98% of Total Assets.
Key audit matters	Risk of inappropriate revenue recognition.
	Risk of inaccurate recognition of customer rebates.
	Risk of an unrecognised impairment of goodwill.
Materiality	Overall Group materiality of £2.5m (2019: £3.2m) which represents 5% of normalised profit before tax adjusted for non-recurring costs predominantly relating to acquisitions and restructuring activities presented as non-underlying items.

An overview of the scope of the parent company and Group audits

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 26 reporting components of the Group, we selected all components covering entities within the UK, Italy and the United Arab Emirates, which represent the principal business units within the Group.

Of the 26 components selected, we performed an audit of the complete financial information of 17 components ('full scope components') which were selected based on their size or risk characteristics. For the remaining nine components ('review scope components'), we performed review procedures and audit procedures to validate the cash balance at the balance sheet date.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the Group's Profit Before Tax, 100% (2019: 100%) of the Group's Revenue and 100% (2019: 100%) of the Group's Total Assets. The audit scope of the review scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of Total Assets tested for the Group.

Changes from the prior year

The full scope components in the current year include one component acquired in 2019 that was designated as specific scope for 2019. The remaining full scope components are consistent with the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 17 full scope components, audit procedures were performed on 15 of these directly by the primary audit team with the audits being led by the Senior Statutory Auditor. For the two full scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Impact of the Covid-19 pandemic

Due to the travel restrictions in place, the Senior Statutory Auditor has been unable to travel to Italy and the United Arab Emirates during the current year to visit members of the component audit team. In order to perform oversight of the non-UK component teams, the primary team interacted regularly with the teams where appropriate during the various stages of the audit process and through the review of planning and conclusion deliverables and other key working papers with a focus on the key audit matters.

The Senior Statutory Auditor held closing calls with each component team via video conferencing enabling direct interaction and oversight of local audit teams.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of our component teams.

Key audit matters

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

Independent Auditor's Report continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of inappropriate revenue recognition		
Refer to the Report of the Audit Committee (page 65); Summary of Significant Accounting Policies (page 111); and Note 3.2 to the consolidated financial statements (page 118). The Group has reported revenue of £398.6m (2019: £447.6m). Revenue is stated net of rebates payable which are considered in the subsequent key audit matter. The timing of revenue recognition is relevant to the reported performance of the Group as a whole and to the completeness of rebate expense and related year end liabilities. Through manual adjustments, there is the opportunity to misstate revenue between periods in order to influence reported results. There has been no change in our assessment of this risk when compared to the prior year.	Procedures to respond to this risk were performed by both the UK and overseas audit teams. For 13 of the full scope components, representing 96% of the Group's revenue, we performed data analytics procedures over the correlation of sales and cash receipts to test the existence of revenue recorded in the general ledger. For the remaining full scope components covering 2% of revenue we performed tests of detail over revenue recognised in the year, by agreeing a sample of sales to supporting documentation including proof of delivery and testing related cash receipts. For all full scope components, we tested the accuracy of revenue cut-off at the balance sheet date. Our work comprised the agreement of a sample of sales transactions, including those recognised through manual journals, either side of the year end by assessing contract terms and reviewing proof of the timing of the transactions. We assessed for evidence of management bias by testing manual journals either side of the year end and agreeing journal entries to supporting evidence.	Through our procedures performed we have not identified any unsupported manual adjustments to revenue, or any unexplained anomalies from our revenue analytics. The current year was the first year we performed detailed audit procedures in relation to the Alderburgh business unit following acquisition in H2 of 2019. No significant manual adjustments or unusual accounting entries were identified through our testing. We concluded that revenue recognised in the year is appropriate and found no evidence of management bias.
Risk of inaccurate recognition of customer rebates		
Refer to the Report of the Audit Committee (page 65); Summary of Significant Accounting Policies (page 111); and Note 3.2 to the consolidated financial statements (page 118). The total value of customer rebates recognised in the year and provided for at the balance sheet date is material. The Group's pricing structure includes rebate arrangements with customers, some of which involve estimation when determining the value of the rebate to be provided for at the balance sheet date. This is particularly the case for indirect rebates within the Residential Systems operating segment where the Group is reliant on sales volume information from customers which may not be available at the time the liabilities are recognised. There has been no change in our assessment of this risk when compared to the prior year.	Procedures to respond to this risk were performed by the primary audit team. We compared a sample of indirect rebate payments made in the year to amounts provided at 31 December 2019 to assess the accuracy of management's previous estimates. We walked through management's process for estimating rebate expenses and settling these liabilities. This process included assessing the impact of the Covid-19 pandemic on the availability of customer forecasts and the frequency of rebate claims used in management's estimate. We compared the rebate costs recognised in the year to our independently generated expectations based on external market data and the Group's trading performance to identify unusual trends against our expectations. We assessed the accuracy of management's estimates during 2020 through comparison of initial estimates to subsequent claim amounts and final settlements. For a sample of indirect customers, we have developed our own expectation of the year end accrual with reference to rebate agreements and third party data including National Housebuilders Association information and market communications made by indirect customers in order to identify then consider any contradictory evidence. We have assessed the accuracy of the year end accrual through comparison of management's estimates to year end claims and expected final settlement amounts. We have assessed completeness of the year end accrual through: reviewing post year end claims and payments; comparing historic claim activity for the accrued customers; and holding discussions with the commercial team to understand the process for identifying new agreements.	We found no material difference between the prior year rebate accrual and the actual rebates incurred. This provides assurance over management's historical ability to accurately estimate the rebate provision. We concluded that management's judgements were materially consistent with our expectations and recalculations based on external sources, post year end claim activity, and historic settlement rates. We concluded that the rebates expense recognised during the year and the liability at the period end is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of an unrecognised impairment of goodwill		
Refer to the Report of the Audit Committee (page 65); Summary of Significant Accounting Policies (page 113); and Note 3.3 to the consolidated financial statements (page 118). Total carrying value of goodwill totalled to £345.4m (2019: £345.6m). Management are required to perform an impairment assessment annually or when indicators of impairment are identified. Management's impairment assessment involves using estimates of forecast future cash flows, terminal growth rates, and the appropriate discount rate. The risk exists that management's assumptions are overly optimistic and as such reach an inappropriate conclusion that no impairment is required. The economic impact of the Covid-19 pandemic has reduced operating cash flows in all CGUs, however, we consider the risk of impairment to particularly relate to the Alderburgh CGU as this CGU is most susceptible to fluctuations in key assumptions.	Procedures to respond to this risk were performed by the primary audit team. We understood management's process for reviewing and approving budgets, identifying key assumptions, and reviewing and approving the annual impairment assessment. We assessed the appropriateness of the individual CGUs identified in line with the accounting standard requirements. We engaged EY specialists to support the primary audit team in concluding on the appropriateness of management's discount rate relative to our own assessment. We held discussions with Divisional and Group management to understand and challenge key assumptions including the speed of revenue recovery following the economic impact of the Covid-19 pandemic. We assessed management's cash flow forecasts with reference to historic forecasting accuracy, Board approved budgets, and external sector forecasts from a range of sources to incorporate different and potentially contradictory sector outlooks. We performed stress tests for each CGU to assess the feasibility of downside scenarios required to result in an impairment of the goodwill. We reviewed the financial statement disclosures to ensure key assumptions and sensitivities are appropriately disclosed.	Based on our procedures we consider the key assumptions used in management's model and the conclusion of no impairment to be reasonable. Our procedures have highlighted the Alderburgh CGU to be sufficiently sensitive to fluctuations in the key assumptions to require further disclosure. We consider the disclosure within Note 17 to appropriately reflect the sensitivities of the impairment conclusion for the Alderburgh CGU.

Independent Auditor's Report continued

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £2.5m (2019: £3.2m), which is 5% (2019: 5%) of normalised profit before tax adjusted for non-recurring costs relating to acquisitions and restructuring activities. As a result of the impact of the Covid-19 pandemic on the Group's profit before tax, we considered it appropriate to normalise the profit before tax amount used to calculate our materiality. Our calculation of normalised profit considered the Group's profit before tax in the preceding two years, the actual profit before tax in 2020 and the forecast profit before tax in future periods. We believe that this basis provides us with the most relevant measure of the Group's profitability.

We determined materiality for the parent company to be £3.1m (2019: £3.8m), which is 1% (2019: 2%) of total equity.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 75%) of our planning materiality, namely £1.9m (2019: £2.4m). We have set performance materiality at this percentage due to the history of few misstatements indicating a lower risk of material misstatement in the financial statements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.4m to £1.4m (2019: £0.5m to £1.7m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2019: £0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report and Accounts set out on pages 1 to 95, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Accounts.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

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

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 68;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 68;
- Directors' statement on fair, balanced and understandable set out on page 71;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 38 to 43;
- The section of the Annual Report and Accounts that describes the review of effectiveness of risk management and internal control systems set out on page 53; and
- The section describing the work of the Audit Committee set out on pages 63 to 67.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statements set out on pages 71 and 138, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union for the Group financial statements, and as regards the parent company financial statements, as applied in accordance with Section 408 of the Companies Act 2006, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.

Independent Auditor's Report continued

- We understood how Polypipe Group plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur in relation to revenue and rebate accounting.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

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

Other matters we are required to address

- Following the recommendation from the Audit Committee, we were appointed by the Company in 2012 to audit the financial statements for the year ending 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ending 31 December 2012 to 31 December 2020.
- Other than our review of the Group's interim results for the period ended 30 June 2020 and audit related reporting work relating to a Special Purpose Audit related to the Permavoid acquisition and covenant compliance certificate procedures, no non-audit services were provided to the Group or the parent company. Therefore, no non-audit services prohibited by the FRC's Ethical Standard were provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Ernst & Young LLP.

Christabel Cowling
(Senior statutory auditor)
for and on behalf of
Ernst & Young LLP,
Statutory Auditor
Leeds
16 March 2021

Notes:

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

Group Income Statement

For the year ended 31 December 2020

	Notes	2020 Underlying £m	2020 Non-underlying† £m	2020 Total £m	2019 Underlying £m	2019 Non-underlying† £m	2019 Total £m
Revenue	5	**398.6**	**–**	**398.6**	447.6	–	447.6
Cost of sales	6	**(242.5)**	**–**	**(242.5)**	(255.2)	–	(255.2)
Gross profit		**156.1**	**–**	**156.1**	192.4	–	192.4
Selling and distribution costs		**(65.0)**	**–**	**(65.0)**	(71.7)	–	(71.7)
Administration expenses	8	**(48.9)**	**(4.0)**	**(52.9)**	(42.6)	(3.0)	(45.6)
Trading profit		**42.2**	**(4.0)**	**38.2**	78.1	(3.0)	75.1
Amortisation of intangible assets	8	**–**	**(7.8)**	**(7.8)**	–	(7.5)	(7.5)
Operating profit	5, 6	**42.2**	**(11.8)**	**30.4**	78.1	(10.5)	67.6
Finance costs	8,11	**(6.5)**	**(0.1)**	**(6.6)**	(7.3)	(0.2)	(7.5)
Profit before tax	5	**35.7**	**(11.9)**	**23.8**	70.8	(10.7)	60.1
Income tax	8,12	**(6.3)**	**1.0**	**(5.3)**	(11.9)	1.4	(10.5)
Profit for the year attributable to the owners of the parent company		**29.4**	**(10.9)**	**18.5**	58.9	(9.3)	49.6
Basic earnings per share (pence)	13			**8.5**			24.9
Diluted earnings per share (pence)	13			**8.4**			24.6
Dividend per share (pence) – interim	14			–			4.0
Dividend per share (pence) – final	14			**4.8**			–
	14			**4.8**			4.0

† Non-underlying items are presented separately. The definition of non-underlying items is included in the Group Accounting Policies on page 117. Non-underlying items are detailed in Note 8 to the consolidated financial statements.

Group Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 £m	2019 £m
Profit for the year attributable to the owners of the parent company	**18.5**	49.6
Other comprehensive income:		
Items which may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**0.3**	(0.4)
Effective portion of changes in fair value of interest rate swaps	**0.5**	0.5
Effective portion of changes in fair value of forward foreign currency derivatives	**–**	0.1
Tax relating to items which may be reclassified subsequently to the income statement	**(0.1)**	(0.1)
Other comprehensive income for the year net of tax	**0.7**	0.1
Total comprehensive income for the year attributable to the owners of the parent company	**19.2**	49.7

Group Balance Sheet

At 31 December 2020

	Notes	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Property, plant and equipment	15	**134.2**	125.8
Right-of-use assets	16	**12.9**	14.8
Intangible assets	17	**393.8**	401.8
Total non-current assets	5	**540.9**	542.4
Current assets			
Inventories	20	**52.6**	59.7
Trade and other receivables	21	**61.6**	40.8
Income tax receivable		**0.6**	–
Cash and cash equivalents	22	**44.1**	47.7
Total current assets		**158.9**	148.2
Total assets	5	**699.8**	690.6
Current liabilities			
Trade and other payables	25	**(112.2)**	(97.5)
Lease liabilities	16, 26	**(3.5)**	(2.9)
Deferred and contingent consideration	18	**(3.4)**	(3.4)
Derivative financial instruments	26	**–**	(0.5)
Income tax payable		**–**	(3.8)
Total current liabilities		**(119.1)**	(108.1)
Non-current liabilities			
Loans and borrowings	26	**(58.9)**	(197.7)
Lease liabilities	16, 26	**(9.4)**	(11.9)
Other liabilities	26	**(0.7)**	(1.0)
Deferred income tax liabilities	12	**(10.8)**	(10.5)
Total non-current liabilities		**(79.8)**	(221.1)
Total liabilities	5	**(198.9)**	(329.2)
Net assets	5	**500.9**	361.4
Capital and reserves			
Equity share capital	23	**0.2**	0.2
Capital redemption reserve	23	**1.1**	1.1
Own shares	23	**–**	–
Hedging reserve	23	**–**	(0.4)
Foreign currency retranslation reserve	23	**0.4**	0.1
Other reserves	23	**116.5**	–
Retained earnings		**382.7**	360.4
Total equity		**500.9**	361.4

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

Martin Payne
Director
16 March 2021

Paul James
Director
16 March 2021

Company Registration No. 06059130

Group Statement of Changes in Equity

For the year ended 31 December 2020

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Hedging reserve £m	Foreign currency retrans-lation reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 31 December 2018	0.2	1.1	(3.8)	(0.9)	0.5	–	334.1	331.2
Profit for the year	–	–	–	–	–	–	49.6	49.6
Other comprehensive income	–	–	–	0.5	(0.4)	–	–	0.1
Total comprehensive income for the year	–	–	–	0.5	(0.4)	–	49.6	49.7
Dividends paid	–	–	–	–	–	–	(23.7)	(23.7)
Share-based payments charge	–	–	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.8	–	–	–	(1.4)	2.4
Share-based payments excess tax benefit	–	–	–	–	–	–	0.6	0.6
At 31 December 2019	0.2	1.1	–	(0.4)	0.1	–	360.4	361.4
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**18.5**	**18.5**
Other comprehensive income	**–**	**–**	**–**	**0.4**	**0.3**	**–**	**–**	**0.7**
Total comprehensive income for the year	**–**	**–**	**–**	**0.4**	**0.3**	**–**	**18.5**	**19.2**
Issue of share capital (See Note 23)	**–**	**–**	**–**	**–**	**–**	**120.0**	**–**	**120.0**
Transaction costs on issue of share capital	**–**	**–**	**–**	**–**	**–**	**(3.5)**	**–**	**(3.5)**
Share-based payments charge	**–**	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Share-based payments settled	**–**	**–**	**–**	**–**	**–**	**–**	**2.1**	**2.1**
Share-based payments excess tax benefit	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**
At 31 December 2020	**0.2**	**1.1**	**–**	**–**	**0.4**	**116.5**	**382.7**	**500.9**

Group Cash Flow Statement

For the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Operating activities			
Profit before tax		**23.8**	60.1
Finance costs	11	**6.6**	7.5
Operating profit		**30.4**	67.6
Non-cash items:			
Profit on disposal of property, plant and equipment	6	**(0.2)**	(0.8)
Transaction costs on issue of share capital		**0.1**	–
Research and development expenditure credit		**(1.0)**	(1.6)
Non-underlying items:			
– amortisation of intangible assets	8	**7.8**	7.5
– provision for acquisition costs	8	**2.9**	3.0
– provision for restructuring costs	8	**1.1**	–
Depreciation of property, plant and equipment	5, 15	**16.3**	16.6
Depreciation of right-of-use assets	5, 16	**3.5**	3.2
Share-based payments	24	**1.4**	1.2
Cash items:			
– settlement of acquisition costs	18	**(1.2)**	(1.4)
– settlement of restructuring costs		**(1.1)**	–
Operating cash flows before movement in working capital		**60.0**	95.3
Movement in working capital:			
Receivables		**(21.3)**	2.2
Payables		**15.6**	(7.3)
Inventories		**7.2**	(0.8)
Cash generated from operations		**61.5**	89.4
Income tax paid		**(8.2)**	(12.4)
Net cash flows from operating activities		**53.3**	77.0
Investing activities			
Settlement of deferred and contingent consideration	18	**(1.8)**	–
Acquisition of businesses net of cash at acquisition	18	**–**	(12.2)
Proceeds from disposal of property, plant and equipment		**0.6**	0.9
Purchase of property, plant and equipment		**(25.1)**	(22.3)
Net cash flows from investing activities		**(26.3)**	(33.6)
Financing activities			
Issue of share capital		**120.0**	–
Transaction costs on issue of share capital		**(3.6)**	–
Debt issue costs		**(0.4)**	–
Issue of Euro-Commercial Paper		**99.4**	–
Buyback of Euro-Commercial Paper		**(99.7)**	–
Net repayment of bank loan		**(139.0)**	(13.0)
Interest paid		**(5.4)**	(7.4)
Proceeds from sale and leaseback of property, plant and equipment		**–**	3.4
Dividends paid	14	**–**	(23.7)
Proceeds from exercise of share options		**2.1**	2.4
Settlement of lease liabilities	16	**(4.0)**	(3.5)
Net cash flows from financing activities		**(30.6)**	(41.8)
Net change in cash and cash equivalents		**(3.6)**	1.6
Cash and cash equivalents at 1 January	22	**47.7**	46.2
Net foreign exchange difference		**–**	(0.1)
Cash and cash equivalents at 31 December	22	**44.1**	47.7

Notes to the Group Financial Statements

For the year ended 31 December 2020

1. Authorisation of financial statements

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 16 March 2021 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

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

2. Summary of significant accounting policies

The basis of preparation and accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2020 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Group's consolidated financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

The accounting policies which follow set out those policies which apply in preparing the consolidated financial statements for the year ended 31 December 2020.

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

2.2 Going concern

The Directors have made enquiries into the adequacy of the Group's financial resources, through a review of the Group's budget and medium-term financial plan, including cash flow forecasts. The Group has modelled a range of scenarios, with the base forecast being one in which, over the 18 months ending 30 June 2022, sales gradually recover to pre-Covid-19 levels and then grow in line with construction industry forecasts.

In addition, the Directors have considered several downside scenarios, including adjustments to the base forecast, a period of significantly lower like-for-like sales, profitability and cash flows. Consistent with our Principal Risks and Uncertainties these downside scenarios included, but were not limited to, loss of production, loss of a major customer, product failure, recession, increases in interest rates and increases in raw material prices. Downside scenarios also included a combination of these risks, and reverse stress testing.

At 31 December 2020, the Group had available, excluding the £50m Covid-19 facility, £240m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. These borrowing facilities are available until at least November 2023, subject to covenant headroom. In addition, on 11 February 2021, the Company conducted a non-pre-emptive placing of new ordinary shares generating gross proceeds of £96m and drew down £120m net from the revolving credit facility as part of the post year end acquisition funding. The Directors are satisfied that the Group has sufficient liquidity and covenant headroom to withstand adjustments to the base forecast, as well as the downside scenarios. In addition, the Directors have noted the range of possible additional liquidity options available to the Group, should they be required.

As a result, the Directors have satisfied themselves that the Group has adequate financial resources to continue in operational existence for a period of at least the next 15 months. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

2.4 Business combinations

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

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

2.5 Goodwill

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

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

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

2.6 Foreign currency translation

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

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

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

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

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

2.7 Revenue from contracts with customers and interest income

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

2.7.1 Sale of goods

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

i) Performance obligations

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

ii) Variable consideration

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

iii) Sales volume rebates

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

Notes to the Group Financial Statements
continued

2. Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.11 Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to the income statement over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

2.12 Impairment of non-financial assets
The Group assesses at each balance sheet date whether there are any indicators that an asset may be impaired.

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

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

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

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

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

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

Notes to the Group Financial Statements
continued

2. Summary of significant accounting policies
continued

2.13 Leasing

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its expected useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

2.14 Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities are classified as held for trading unless they are designated as effective hedging instruments. Profits or losses on liabilities held for trading are recognised in the income statement. The only financial liability at FVTPL that is not designated as an effective hedging instrument is the deferred and contingent consideration (see Note 18).

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

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

Notes to the Group Financial Statements
continued

2. Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

Note 28 sets out the details of the fair values of the derivative financial instruments used for hedging purposes.

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

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

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 28.

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Group Financial Statements
continued

3. Judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgement(s), in the consolidated financial statements in the years ended 31 December 2020 and 2019:

3.1 Measurement of intangible assets

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

3.2 Revenue recognition and customer rebates

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

3.3 Impairment of non-financial assets

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

The Group's impairment test for goodwill is based on a value-in-use calculation. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budgets and forecasts for the next four years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the asset or the cash-generating unit (CGU) being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs are further explained in Note 17.

3.4 Contingent liabilities

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

4. New and amended accounting standards and interpretations

Accounting standards or interpretations which have been adopted in the year

There were no accounting standards or interpretations that have become effective in the year which had an impact on disclosures, financial position or performance.

Accounting standards or interpretations issued but not yet effective

There were no accounting standards or interpretations issued which have an effective date after the date of these consolidated financial statements that the Group reasonably expects to have an impact on disclosures, financial position or performance.

5. Segment information

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

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

	2020			2019		
	Residential Systems £m	**Commercial & Infrastructure Systems £m**	**Total £m**	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m
Segmental revenue	**228.4**	**183.0**	**411.4**	264.8	197.1	461.9
Inter-segment revenue	**(4.5)**	**(8.3)**	**(12.8)**	(4.5)	(9.8)	(14.3)
Revenue	**223.9**	**174.7**	**398.6**	260.3	187.3	447.6
Underlying operating profit*	**29.8**	**12.4**	**42.2**	53.4	24.7	78.1
Non-underlying items – segmental	**(4.4)**	**(7.4)**	**(11.8)**	(3.5)	(5.4)	(8.9)
Segmental operating profit	**25.4**	**5.0**	**30.4**	49.9	19.3	69.2
Non-underlying items – Group			**–**			(1.6)
Operating profit			**30.4**			67.6
Non-underlying items – finance costs			**(0.1)**			(0.2)
Finance costs			**(6.5)**			(7.3)
Profit before tax			**23.8**			60.1

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies on page 117 and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £11.9m (2019: £10.7m) are set out below at Non-underlying items before tax.

Balance sheet

	31 December 2020		31 December 2019	
	Total assets £m	**Total liabilities £m**	Total assets £m	Total liabilities £m
Residential Systems	**369.5**	**(81.3)**	354.9	(72.3)
Commercial and Infrastructure Systems	**285.6**	**(47.9)**	288.0	(44.9)
Total segment assets/(liabilities)	**655.1**	**(129.2)**	642.9	(117.2)
Current and deferred income taxes	**0.6**	**(10.8)**	–	(14.3)
Net debt excluding lease liabilities	**44.1**	**(58.9)**	47.7	(197.7)
Total – Group	**699.8**	**(198.9)**	690.6	(329.2)
Net assets		**500.9**		361.4

Capital additions

	2020 £m	2019 £m
Residential Systems	**13.6**	11.8
Commercial and Infrastructure Systems	**11.2**	9.9
Total – Group	**24.8**	21.7

Right-of-use asset additions

	2020 £m	2019 £m
Residential Systems	**0.9**	2.4
Commercial and Infrastructure Systems	**0.6**	1.6
Total – Group	**1.5**	4.0

Depreciation of property, plant and equipment

	2020 £m	2019 £m
Residential Systems	**7.9**	9.1
Commercial and Infrastructure Systems	**8.4**	7.5
Total – Group	**16.3**	16.6

Notes to the Group Financial Statements
continued

5. Segment information continued

Depreciation of right-of-use assets

	2020 £m	2019 £m
Residential Systems	**1.6**	1.3
Commercial and Infrastructure Systems	**1.9**	1.9
Total – Group	**3.5**	3.2

Non-underlying items before tax

	2020 £m	2019 £m
Residential Systems – amortisation of intangible assets	**3.4**	3.5
Residential Systems – acquisition costs	**0.6**	–
Residential Systems – restructuring costs	**0.4**	–
Commercial and Infrastructure Systems – amortisation of intangible assets	**4.4**	4.0
Commercial and Infrastructure Systems – acquisition costs	**2.3**	1.4
Commercial and Infrastructure Systems – restructuring costs	**0.7**	–
UK operations	**11.8**	8.9
Group – unwind of discount on contingent consideration	**0.1**	0.2
Group – acquisition costs	**–**	1.6
Total – Group	**11.9**	10.7

Geographical analysis

Revenue by destination	2020 £m	2019 £m
UK	**354.6**	401.2
Rest of Europe	**27.6**	23.6
Rest of World	**16.4**	22.8
Total – Group	**398.6**	447.6

Non-current assets	31 December 2020 £m	31 December 2019 £m
UK	**535.3**	536.7
Rest of Europe	**5.4**	5.5
Rest of World	**0.2**	0.2
Total – Group	**540.9**	542.4

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

The Group has two customers (2019: two) which individually accounted for more than 10% of the Group's total revenue during 2020. These customers accounted for 14.0% and 10.9%, respectively (2019: 17.0% and 13.5%, respectively) and are included in both reporting segments.

6. Operating profit

	2020 £m	2019 £m
Income statement charges		
Depreciation of property, plant and equipment (owned)	**16.3**	16.6
Depreciation of right-of-use assets	**3.5**	3.2
Cost of inventories recognised as an expense	**242.5**	255.2
Research and development costs written off	**1.0**	0.9
Income statement credits		
Profit on disposal of property, plant and equipment	**0.2**	0.8

7. Auditor's remuneration

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

Auditor's remuneration for audit services:

	2020 £m	2019 £m
Audit of the Company's annual financial statements	**–**	–
Audit of the Company's subsidiaries	**0.5**	0.4
Total audit fees	**0.5**	0.4

The Group paid the Company's auditor £0.1m for audit related assurance services (2019: £0.1m).

8. Non-underlying items

Non-underlying items comprised:

	2020			2019		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Administration expenses: Acquisition costs – acquisition and other M&A activity	**2.9**	**(0.4)**	**2.5**	3.0	(0.1)	2.9
Administration expenses: Restructuring costs	**1.1**	**(0.2)**	**0.9**	–	–	–
Amortisation of intangible assets	**7.8**	**(0.4)**	**7.4**	7.5	(1.3)	6.2
Finance costs: Unwind of discount on contingent consideration	**0.1**	**–**	**0.1**	0.2	–	0.2
Total non-underlying items	**11.9**	**(1.0)**	**10.9**	10.7	(1.4)	9.3

Acquisition costs in 2020 relate to the contingent consideration treated as remuneration in respect of the acquisition of Permavoid, as detailed in Note 18, and costs associated with the acquisitions that completed subsequent to the year end (see Note 29). The costs in 2019 relate to the acquisition of the Alderburgh group of companies and other M&A activity.

Restructuring costs are in relation to actions taken to mitigate the impact of Covid-19, including 104 redundancies.

Notes to the Group Financial Statements
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9. Staff costs

Staff costs (including Directors) comprised:

	2020 £m	2019 £m
Wages and salaries	**94.0**	98.0
Social security costs	**10.1**	10.0
Other pension costs	**4.2**	3.4
	108.3	111.4

Staff costs in 2020 include a net credit of £7.0m received under the UK Government's Coronavirus Job Retention Scheme (CJRS). The Group ceased with the CJRS on 31 August 2020.

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

	2020	2019
Residential Systems	**1,723**	1,726
Commercial and Infrastructure Systems	**1,373**	1,335
Total – Group	**3,096**	3,061

10. Directors' remuneration

Details of the Directors' remuneration are set out below:

	2020 £m	2019 £m
Fees	**0.4**	0.4
Emoluments	**1.4**	1.9
	1.8	2.3

Further details of Directors' remuneration are provided in the Annual Report on Remuneration. The aggregate amount of gains made by the Directors on the exercise of share options during the year was £0.6m (2019: £0.4m).

11. Finance costs

	2020 £m	2019 £m
Interest on bank loan	**4.2**	6.2
Debt issue cost amortisation	**0.6**	0.3
Unwind of discount on lease liabilities	**0.5**	0.3
Other finance costs	**1.2**	0.5
Unwind of discount on contingent consideration	**0.1**	0.2
	6.6	7.5

12. Income tax

(a) Tax expense reported in the income statement

	2020 £m	2019 £m
Current income tax:		
UK income tax	**5.0**	11.6
Overseas income tax	**0.1**	0.1
Current income tax	**5.1**	11.7
Adjustment in respect of prior years	**(0.3)**	(0.2)
Total current income tax	**4.8**	11.5
Deferred income tax:		
Origination and reversal of temporary differences	**(1.1)**	(1.3)
Effects of changes in income tax rates	**1.4**	–
Deferred income tax	**0.3**	(1.3)
Adjustment in respect of prior years	**0.2**	0.3
Total deferred income tax	**0.5**	(1.0)
Total tax expense reported in the income statement	**5.3**	10.5

Details of the non-underlying tax credit of £1.0m (2019: £1.4m) are set out in Note 8.

(b) Reconciliation of the total tax expense

A reconciliation between the tax expense and the product of accounting profit multiplied by the UK standard rate of income tax for the years ended 31 December 2020 and 2019 is as follows:

	2020 £m	2019 £m
Accounting profit before tax	**23.8**	60.1
Accounting profit multiplied by the UK standard rate of income tax of 19.0% (2019: 19.0%)	**4.5**	11.4
Expenses not deductible for income tax	**0.2**	0.6
Non-taxable income	**(0.2)**	(0.3)
Adjustment in respect of prior years	**(0.1)**	0.1
Effects of patent box	**(0.4)**	(0.8)
Effects of changes in income tax rates	**1.2**	(0.4)
Effects of other tax rates/credits	**0.1**	(0.1)
Total tax expense reported in the income statement	**5.3**	10.5

The effective rate for the full year was 22.3% (2019: 17.5%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 17.6% (2019: 16.8%).

(c) Deferred income tax

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

	31 December 2020 £m	31 December 2019 £m
Deferred income tax liabilities/(assets)		
Short-term timing differences	**8.8**	9.2
Capital allowances in excess of depreciation	**4.3**	3.3
Share-based payments	**(1.8)**	(1.4)
Tax losses	**(0.5)**	(0.6)
	10.8	10.5

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

A reconciliation of deferred income taxes for the years ended 31 December 2020 and 2019 is as follows:

	2020 £m	2019 £m
Deferred income tax reported in the income statement	**0.5**	(1.0)
Deferred income tax reported in other comprehensive income	**0.1**	0.1
Share-based payments excess tax benefit	**(0.3)**	(0.6)
Deferred income tax acquired	**–**	1.0
	0.3	(0.5)

(d) Change in corporation tax rate

The Finance (No.2) Act 2015 reduced the main UK corporation tax rate to 19%, effective from 1 April 2017. A further reduction in the main UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by the Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the rate, thereby maintaining the current rate of 19%. Deferred income tax on the balance sheet has been measured at 19% (2019: 17%) which represents the future main UK corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing Covid-19 pandemic. These included an increase to the main UK corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred income tax balances at the year end.

(e) Unrecognised tax losses

A deferred income tax asset of £0.5m (2019: £0.6m) is held in respect of surplus non-trading losses of £2.7m (2019: £3.2m).

Notes to the Group Financial Statements
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13. Earnings per share

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

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

	2020	2019
Weighted average number of ordinary shares for the purpose of basic earnings per share	**218,122,445**	199,330,121
Effect of dilutive potential ordinary shares	**2,545,315**	2,263,540
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**220,667,760**	201,593,661

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £10.9m (2019: £9.3m). 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:

	2020	2019
Underlying profit for the year attributable to the owners of the parent company (£m)	**29.4**	58.9
Underlying basic earnings per share (pence)	**13.5**	29.6
Underlying diluted earnings per share (pence)	**13.3**	29.2

14. Dividend per share

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2019 of nil per share (2018: 7.9p)	**–**	15.7
Interim dividend for the year ended 31 December 2020 of nil per share (2019: 4.0p)	**–**	8.0
	–	23.7
Proposed final dividend for the year ended 31 December 2020 of 4.8p per share (2019: nil)	**11.8**	–

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

15. Property, plant and equipment

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2019	46.6	179.0	225.6
Additions	2.4	19.3	21.7
Disposals	–	(11.8)	(11.8)
Acquisition of businesses	3.1	2.8	5.9
Exchange adjustment	–	(0.3)	(0.3)
At 31 December 2019	52.1	189.0	241.1
Additions	3.4	21.4	24.8
Disposals	(1.2)	(50.5)	(51.7)
Acquisition of businesses	–	0.2	0.2
Exchange adjustment	–	0.3	0.3
At 31 December 2020	**54.3**	**160.4**	**214.7**
Depreciation and impairment losses			
At 1 January 2019	6.5	100.7	107.2
Provided during the year	1.2	15.4	16.6
Disposals	–	(8.3)	(8.3)
Exchange adjustment	–	(0.2)	(0.2)
At 31 December 2019	7.7	107.6	115.3
Provided during the year	2.0	14.3	16.3
Disposals	(1.2)	(50.1)	(51.3)
Exchange adjustment	–	0.2	0.2
At 31 December 2020	**8.5**	**72.0**	**80.5**
Net book value			
At 31 December 2020	**45.8**	**88.4**	**134.2**
At 31 December 2019	44.4	81.4	125.8

Included in freehold land and buildings is non-depreciable land of £17.4m (2019: £16.2m).

During the year, the Group carried out a review of its plant and other equipment register and removed assets with a gross cost of £48.8m and associated accumulated depreciation of £48.7m. These assets were no longer in use and/or fully depreciated.

Capital commitments

At 31 December 2020, the Group had commitments of £1.2m (2019: £4.0m) relating to plant and equipment purchases.

Notes to the Group Financial Statements
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16. Right-of-use assets and lease liabilities

	Right-of-use assets				Lease liabilities
	Freehold land and buildings £m	Plant and other equipment £m	Motor vehicles £m	Total £m	£m
At 1 January 2019	8.5	5.1	0.4	14.0	(14.0)
Additions	0.1	3.8	0.1	4.0	(4.0)
Depreciation of right-of-use assets	(1.5)	(1.4)	(0.3)	(3.2)	–
Unwind of discount on lease liabilities	–	–	–	–	(0.3)
Settlement of lease liabilities	–	–	–	–	3.5
At 31 December 2019	7.1	7.5	0.2	14.8	(14.8)
Additions	0.2	1.3	–	1.5	(1.5)
Depreciation of right-of-use assets	(1.5)	(1.9)	(0.1)	(3.5)	–
Unwind of discount on lease liabilities	–	–	–	–	(0.5)
Settlement of lease liabilities	–	–	–	–	4.0
Exchange adjustment	0.1	–	–	0.1	(0.1)
At 31 December 2020	**5.9**	**6.9**	**0.1**	**12.9**	**(12.9)**

17. Intangible assets

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Total £m
Cost						
At 1 January 2019	343.0	32.7	29.1	15.5	0.8	421.1
Acquisition of businesses	2.6	1.7	1.2	1.9	–	7.4
At 31 December 2019	345.6	34.4	30.3	17.4	0.8	428.5
Acquisition of businesses	(0.2)	–	–	–	–	(0.2)
At 31 December 2020	**345.4**	**34.4**	**30.3**	**17.4**	**0.8**	**428.3**
Amortisation and impairment losses						
At 1 January 2019	–	6.3	8.7	4.2	–	19.2
Charge for the year	–	2.8	2.8	1.8	0.1	7.5
At 31 December 2019	–	9.1	11.5	6.0	0.1	26.7
Charge for the year	–	3.0	2.8	1.9	0.1	7.8
At 31 December 2020	**–**	**12.1**	**14.3**	**7.9**	**0.2**	**34.5**
Net book value						
At 31 December 2020	**345.4**	**22.3**	**16.0**	**9.5**	**0.6**	**393.8**
At 31 December 2019	345.6	25.3	18.8	11.4	0.7	401.8

Goodwill arising on the acquisition of businesses was reduced by £0.2m during the year following finalisation of the calculation of the fair value of assets and liabilities acquired in October 2019 in respect of the Alderburgh group of companies (see Note 18).

Impairment testing of goodwill

Goodwill is not amortised but is subject to annual impairment testing. Goodwill has been allocated for impairment testing purposes to a number of cash-generating units (CGUs) which represent the lowest level in the Group at which goodwill is monitored for internal management purposes. The carrying amount of goodwill allocated to each of the CGUs is as follows:

CGU	31 December 2020 £m	31 December 2019 £m
Building Products	**146.1**	146.1
Building Services	**31.4**	31.4
Civils	**36.0**	36.0
Manthorpe	**21.3**	21.3
Nuaire	**91.3**	91.3
Others (comprising Alderburgh, Domus, Italy, Permavoid, Robimatic, Surestop and Ulster)	**19.3**	19.5
	345.4	345.6

Impairment tests on the carrying amounts of goodwill are performed by analysing the carrying amount allocated to each CGU against its value-in-use. Value-in-use is calculated for each CGU as the net present value of that CGU's discounted future pre-tax cash flows. These pre-tax cash flows are based on budgeted cash flows information for a period of one year, construction industry forecasts of growth for the following year and growth of between 2.68% to 2.80% thereafter (2019: 1% to 2%). The expected impact of Covid-19 has been reflected in the Group's approved budgets with sales, margins and cash flows reflecting new standard operating procedures and potential increased costs to reflect revised Government and industry health and safety guidelines as well as potential delays to customers' projects due to site curtailments or closures.

A pre-tax discount rate of 10.0% (2019: 10.0%) has been applied in determining the recoverable amounts of CGUs. The pre-tax discount rate is estimated based on the Group's risk adjusted cost of capital.

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

However, the headroom resulting from the value-in-use calculations indicates that the Alderburgh CGU is sensitive to changes in the key assumptions and management considers that a reasonably possible change in any single assumption could give rise to an impairment of the corresponding carrying amount of goodwill and other intangible assets of £2.5m and £4.3m, respectively. The detailed sensitivity analysis indicates that the following changes in each of these key assumptions would result in the headroom being eliminated and thus an impairment recognised:

- Operating margins declining to 7.7% per annum from that used in the value-in-use calculations of 10.3% per annum.
- The pre-tax discount rate increasing to 12.5% from that used in the value-in-use calculations of 10.0%.
- A reduction of 25% in the overall forecast operating cash flows used in the value-in-use calculations.

It should be noted that a deterioration in a combination of these key assumptions could result in a larger reduction in assessed headroom.

18. Acquisitions

Acquisition-related deferred and contingent consideration comprised:

	31 December 2020 £m	31 December 2019 £m
Contingent consideration on Permavoid acquisition	**3.4**	2.5
Deferred consideration on Alderburgh acquisition	**–**	0.9
	3.4	3.4

Acquisition-related cash flows comprised:

	2020 £m	2019 £m
Operating cash flows – settlement of acquisition costs		
Alderburgh	**–**	0.6
Manthorpe	**–**	0.3
Permavoid	**–**	0.3
Other – aborted acquisition costs	**1.2**	0.2
	1.2	1.4

	2020 £m	2019 £m
Investing cash flows – acquisition of businesses net of cash at acquisition		
Alderburgh	**0.3**	12.2
Permavoid	**1.5**	–
	1.8	12.2

Notes to the Group Financial Statements
continued

18. Acquisitions continued

Alderburgh
On 1 October 2019, the Group acquired the Alderburgh group of companies (Alderburgh), a leading designer, manufacturer and installer of plastic injection-moulded stormwater attenuation tanks, structural waterproofing and geocellular membranes, gas barrier and ventilation materials, supplying the UK, Irish and Scandinavian markets. The initial cash consideration of £9.7m included a payment of £0.5m for net cash on completion and was net of loans and borrowings at acquisition of £3.0m. Additional debt and debt-like items amounted to £1.8m. Deferred consideration of £0.3m was paid during the year upon agreement of the completion accounts.

Patents, the 'Alderburgh' brand and customer relationships have been recognised as specific intangible assets as a result of this acquisition. Fair value adjustments principally related to the recognition of intangible assets, the application of fair values to property, plant and equipment and the deferred income tax liabilities arising on these adjustments. The goodwill arising on the acquisition, which was reduced by £0.2m during the year following finalisation of the calculation of the fair value of assets and liabilities acquired, primarily represented the assembled workforce, technical expertise and market share. The goodwill is allocated entirely to the Commercial and Infrastructure Systems segment.

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

During the year a payment of £1.5m was made that was contingent on EBITDA performance in the first year of trading following acquisition and was included in the purchase consideration in 2019. Contingent consideration at fair value of £3.4m has been recognised at 31 December 2020 and relates to a payment that is contingent on EBITDA performance in the second year of trading following acquisition and the continued employment of key personnel. This payment was accrued over the two-year period. No other contingent consideration is being accrued or is expected to be paid. Accordingly, the aggregate consideration is expected to be approximately £9.2m.

Contingent consideration was determined using the Directors' assessment of the likelihood that financial targets would be achieved. The fair value of the consideration was derived by discounting the estimated cash consideration at 10.0% (being the Group's estimated risk adjusted cost of capital). The actual cash consideration paid was in line with the prior year estimate and was derived from the actual performance of Permavoid.

19. Investments

Details of Group undertakings
Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital at 31 December 2020 are set out in Note 4 to the parent company financial statements.

20. Inventories

	31 December 2020 £m	31 December 2019 £m
Raw materials	**16.3**	17.9
Work in progress	**7.6**	8.1
Finished goods	**28.7**	33.7
	52.6	59.7

All inventories are carried at cost less a provision to take account of slow-moving and obsolete items. The provision at 31 December 2020 was £6.8m (2019: £4.3m).

21. Trade and other receivables

	31 December 2020 £m	31 December 2019 £m
Trade receivables	**51.6**	36.1
Amounts owed by associated undertakings	**0.5**	0.3
Prepayments	**9.5**	4.4
	61.6	40.8

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

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

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

	31 December 2020			31 December 2019		
	Gross £m	Allowance for expected credit losses £m	Net £m	Gross £m	Allowance for expected credit losses £m	Net £m
Not past due	**40.2**	**(0.1)**	**40.1**	30.7	–	30.7
Past due 1 to 30 days	**9.7**	**(0.1)**	**9.6**	4.1	–	4.1
Past due 31 to 90 days	**0.8**	**(0.1)**	**0.7**	0.9	–	0.9
Past due more than 90 days	**2.0**	**(0.8)**	**1.2**	1.3	(0.9)	0.4
	52.7	**(1.1)**	**51.6**	37.0	(0.9)	36.1

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

	£m
At 31 December 2018	0.6
Acquisition of businesses	0.5
Charged to the income statement during the year	0.2
Utilised during the year	(0.4)
At 31 December 2019	0.9
Charged to the income statement during the year	0.7
Utilised during the year	(0.5)
At 31 December 2020	**1.1**

22. Cash and cash equivalents

Cash and cash equivalents comprised:

	31 December 2020 £m	31 December 2019 £m
Cash at bank and in hand	**44.1**	47.7

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

23. Share capital and reserves

Share capital

	31 December 2020		31 December 2019	
	Number*	£	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**228**	**228,466**	201	201,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**228**	**228,466**	201	201,000

* Millions of shares.

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

Notes to the Group Financial Statements
continued

23. Share capital and reserves continued

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

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

At 31 December 2020, the Group held 965 (2019: 2,504) of its own shares at an average cost of 420p (2019: 420p) per share. The market value of these shares at 31 December 2020 was less than £0.1m (2019: less than £0.1m). The nominal value of each share is £0.001.

The EBT held 205,907 shares at 31 December 2020 (2019: 648,986) at an average cost of 0.1p (2019: 0.1p) per share. The market value of these shares at 31 December 2020 was £1.2m (2019: £3.5m). The nominal value of each share is £0.001.

Hedging reserve
The hedging reserve contains the effective portion of the cash flow hedge relationships entered into by the Group in respect of interest rate swaps and forward foreign currency derivatives as discussed in Note 28.

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

Other reserves
On 7 May 2020, the Group conducted a non-pre-emptive placing of 26,966,300 new ordinary shares at £4.45 per share generating gross proceeds of £120.0m. The placing was undertaken using a cashbox structure. As a result, the Group was able to take relief under Section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to other reserves. Advisers' fees of £3.5m have been netted off against the gross proceeds. A further £0.1m of listing fees have been incurred and charged to the income statement in 2020.

Capital management
The primary objective of the Group's capital management is to ensure that it maintains an appropriate capital structure to support its business objectives and maximise shareholder value. The Group regards shareholders' equity and net debt as its capital. The Group's net debt is defined as cash and cash equivalents, loans and borrowings, and lease liabilities. At 31 December 2020, the Group had bank debt of £60.0m (2019: £199.0m), an undrawn committed revolving credit facility of £240.0m (2019: £101.0m), cash of £44.1m (2019: £47.7m), an uncommitted Covid-19 facility of £50.0m (2019: £50.0m) and lease liabilities of £12.9m (2019: £14.8m). A key objective of the Group is to maintain sufficient liquidity (cash and committed bank facilities) in order to meet its cash commitments including interest payments due on that debt. No changes were made to the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019.

24. Share-based payments

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

	Exercise price £	31 December 2019 Number	Granted Number	Exercised Number	Lapsed/ forfeited Number	31 December 2020 Number	Date first exercisable	Expiry date
2014 Sharesave (granted 2016)	2.21	47,064	–	(40,959)[1]	(6,105)	**–**	1 Nov 2019	30 April 2020
2014 Sharesave (granted 2017)	3.10	854,609	–	(701,320)[2]	(22,827)	**130,462**	1 Nov 2020	30 April 2021
2014 Sharesave (granted 2018)	2.98	754,054	–	(9,668)[3]	(54,833)	**689,553**	1 Nov 2021	30 April 2022
2014 Sharesave (granted 2019)	3.05	1,236,344	–	(3,150)[4]	(118,455)	**1,114,739**	1 Nov 2022	30 April 2023
2014 Sharesave (granted 2020)	3.45	–	1,618,815	–	(7,720)	**1,611,095**	1 Dec 2023	31 May 2024
2014 LTIP (granted 10 May 2016)	Nil	201,562	–	(59,460)[5]	–	**142,102**	10 May 2019	10 May 2026
2014 LTIP (granted 2 May 2017)	Nil	449,377	–	(114,385)[6]	(292,049)	**42,943**	2 May 2020	2 May 2027
2014 LTIP (granted 22 May 2017)	Nil	10,960	–	–	(4,987)	**5,973**	22 May 2020	22 May 2027
2014 LTIP (granted 2 May 2018)	Nil	499,266	–	–	(14,675)	**484,591**	2 May 2021	2 May 2028
2014 LTIP (granted 30 April 2019)	Nil	539,628	–	–	(13,477)	**526,151**	30 April 2022	30 April 2029
2014 LTIP (granted 22 Nov 2019)	Nil	23,531	–	–	–	**23,531**	22 Nov 2022	22 Nov 2029
2014 LTIP (granted 22 June 2020)	Nil	–	633,899	–	–	**633,899**	22 June 2023	22 June 2030
DSBP (granted 25 April 2017)	Nil	4,781	–	(4,471)[7]	(310)	**–**	25 April 2020	25 April 2027
DSBP (granted 2 May 2018)	Nil	19,155	–	(9,577)[8]	–	**9,578**	2 May 2021	2 May 2028
DSBP (granted 30 April 2019)	Nil	31,430	–	–	–	**31,430**	30 April 2021	30 April 2029
DSBP (granted 22 June 2020)	Nil	–	16,906	–	–	**16,906**	22 June 2022	22 June 2030
Other share awards (granted 21 March 2018)	Nil	30,755	–	(30,755)[9]	–	**–**	30 June 2020	21 March 2028
		4,702,516	2,269,620	(973,745)	(535,438)	**5,462,953**		

1. The weighted average share price at the date of exercise of these options was £5.31.
2. The weighted average share price at the date of exercise of these options was £4.75.
3. The weighted average share price at the date of exercise of these options was £4.68.
4. The weighted average share price at the date of exercise of these options was £4.48.
5. The weighted average share price at the date of exercise of these options was £4.36.
6. The weighted average share price at the date of exercise of these options was £4.49.
7. The weighted average share price at the date of exercise of these options was £4.40.
8. The weighted average share price at the date of exercise of these options was £4.41.
9. The weighted average share price at the date of exercise of these options was £4.28.

At 31 December 2020, 321,480 (2019: 248,626) share options were exercisable at a weighted average exercise price of £1.26 (2019: £0.42) per share.

Sharesave Plan

Sharesave Plan options were granted to eligible employees on 29 October 2020 at an exercise price of £3.45 per share, a 20% discount to the average share price over the three business days preceding the offer. Participating employees can exercise their options to purchase the shares acquired through their savings plans at the option price after three years. These options have an exercise date of 2023 to 2024.

Long-Term Incentive Plan (LTIP)

LTIP options were awarded to a number of senior executives on 22 June 2020. These options have an exercise date of 2023 to 2030. The vesting of each award is subject to total shareholder return. Further details of the scheme are provided in the Annual Report on Remuneration.

Deferred Share Bonus Plan (DSBP)

On 22 June 2020, the Executive Directors received an award of shares under the DSBP relating to the 2019 annual bonus.

Notes to the Group Financial Statements
continued

24. Share-based payments continued

Other share awards

In 2018, other share awards in the form of nil cost options were made relating to buy-out arrangements to partially compensate Paul James for bonus and long-term incentive awards which were forfeited when he left his previous employer. Of these, 30,755 were exercised on 16 September 2020. Further details are provided in the Annual Report on Remuneration.

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

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

	2014 LTIP options granted 22 June 2020	**2014 Sharesave options granted 2020**
Share price at the date of grant	£4.40	£4.54
Exercise price	Nil	£3.45
Shares under option	633,899	1,618,815
Vesting period (years)	3.00	3.25
Expected volatility	33.9%	33.4%
Median volatility of the comparator group	38.2%	n/a
Expected life (years)	3.00	3.25
Risk free rate	(0.05)%	(0.11)%
Dividend yield	2.5%	2.5%
TSR performance of the Company at the date of grant	(18.5)%	n/a
Median TSR performance of the comparator group at the date of grant	(24.4)%	n/a
Correlation (median)	33.3%	n/a
Fair value per option	£2.71	£1.18

	2014 LTIP options granted 30 April 2019	2014 LTIP options granted 22 November 2019	2014 Sharesave options granted 2019
Share price at the date of grant	£4.40	£4.67	£3.79
Exercise price	Nil	Nil	£3.05
Shares under option	539,628	23,531	1,253,043
Vesting period (years)	3.00	3.00	3.25
Expected volatility	29.3%	25.6%	30.5%
Median volatility of the comparator group	30.9%	28.5%	n/a
Expected life (years)	3.00	3.00	3.25
Risk free rate	0.83%	0.48%	0.49%
Dividend yield	2.64%	2.55%	3.14%
TSR performance of the Company at the date of grant	36.8%	46.8%	n/a
Median TSR performance of the comparator group at the date of grant	7.9%	25.4%	n/a
Correlation (median)	28.0%	23.6%	n/a
Fair value per option	£3.58	£4.02	£0.92

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

	2020 £m	2019 £m
Share-based payments charge for the year	**1.4**	1.2

25. Trade and other payables

	31 December 2020 £m	31 December 2019 £m
Trade payables	**75.1**	74.2
Other taxes and social security costs	**18.6**	9.5
Accruals	**18.5**	13.8
	112.2	97.5

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

26. Financial liabilities

	31 December 2020 £m	31 December 2019 £m
Non-current loans and borrowings:		
Bank loan		
– principal	**60.0**	199.0
– unamortised debt issue costs	**(1.1)**	(1.3)
Total non-current loans and borrowings	**58.9**	197.7
Cash at bank and in hand	**(44.1)**	(47.7)
Net debt excluding lease liabilities	**14.8**	150.0

	31 December 2020 £m	31 December 2019 £m
Other financial liabilities:		
Trade and other payables	**112.2**	97.5
Interest rate swaps	**–**	0.5
Lease liabilities	**12.9**	14.8
Other liabilities	**0.7**	1.0
Deferred and contingent consideration	**3.4**	3.4
	129.2	117.2

Bank loan

On 19 November 2018, the Group entered into an Amendment and Restatement Agreement with various lenders in respect of the Group's previous revolving credit facility agreement dated 4 August 2015. The bank loan, which comprised a £300.0m revolving credit facility and £50.0m uncommitted accordion facility, was secured and would have matured in November 2023 (with two further uncommitted annual renewals through to November 2025 possible). The Group incurred £1.7m of debt issue costs in respect of entering into the Amendment and Restatement Agreement dated 19 November 2018 which were capitalised and are being amortised to the income statement over the term of the facility to November 2023.

On 4 May 2020, the Group entered into a revised Amendment and Restatement Agreement with its banking group to provide the additional £50.0m Covid-19 facility for a period of 12 months, leaving the Group with £350.0m of total revolving credit facilities for the next 12 months. The Group also secured agreement from its banking group to temporarily waive certain requirements within the Group's revolving credit facility and suspend the June 2020 quarterly leverage covenant test. The Group incurred £0.3m of debt issue costs in respect of entering into the revised Amendment and Restatement Agreement which were capitalised and are being amortised to the income statement over the 12-month term of the facility.

Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 0.90% to 2.75% which is dependent on the Group's leverage (net debt excluding lease liabilities as a multiple of pro forma EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2020 was 1.40% (2019: 1.65%). Pro forma EBITDA for the year was £59.6m (2019: £97.1m), and is defined as pre-IFRS 16 underlying operating profit (excluding depreciation, amortisation and share-based payment charges), for the 12 months preceding the balance sheet date adjusted where relevant to include a full year of EBITDA from acquisitions made during those 12 months.

At 31 December 2020, the Group had available, subject to covenant headroom and excluding the £50.0m Covid-19 facility, £240.0m (2019: £101.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the Group Financial Statements
continued

26. Financial liabilities continued

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt, excluding lease liabilities, as a multiple of pro forma EBITDA and interest cover. At 31 December 2020, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2020
Interest cover (Underlying operating profit : Finance costs excluding debt issue cost amortisation)	>4.0:1	7.8:1
Leverage (Net debt excluding lease liabilities : pro forma EBITDA)	<3.0:1	0.3:1

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

Euro-Commercial Paper
On 1 May 2020, the Group entered into a £100.0m Euro-Commercial Paper Programme with Citibank N.A. (acting as Issuing and Paying Agent) under the UK Government's joint HM Treasury and Bank of England Covid Corporate Financing Facility (CCFF). On 14 May 2020, the Company drew down £99.463m under the CCFF and issued £100.0m of Euro-Commercial Paper to the Bank of England at a coupon rate of 0.65% per annum maturing on 12 March 2021. On 8 September 2020, the Euro-Commercial Paper was bought back for £99.710m inclusive of accrued coupon. The Company incurred minimal costs in respect of entering into the CCFF, which have been charged to the income statement in 2020.

27. Related party transactions

Compensation of key management personnel (including Directors):

	2020 £m	2019 £m
Short-term employee benefits	**2.3**	2.8
Share-based payments	**0.4**	0.5
	2.7	3.3

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

28. Financial risk management objectives and policies

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

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

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

Interest rate cash flow risk
The interest rate on the Group's £300m revolving credit facility is variable, being payable at LIBOR plus a margin.

In order to reduce the Group's exposure to potential future increases in interest rates, the Group previously entered into interest rate swaps which expired in August 2020, with interest payable at a fixed rate return of 1.735% (2019: 1.735%) (excluding margin).

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

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

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

Change in exchange rate	Effect on net assets £m	Effect on profit after tax £m
2020		
10% strengthening of Pounds Sterling: against Euro	**(0.5)**	**(0.1)**
10% weakening of Pounds Sterling: against Euro	**0.6**	**0.1**
2019		
10% strengthening of Pounds Sterling: against Euro	(0.5)	(0.1)
10% weakening of Pounds Sterling: against Euro	0.6	0.1

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

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

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

The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low. At 31 December 2020, 39% (2019: 57%) of net trade receivables were covered by credit insurance which is subject to the normal policy deductibles.

Financial instruments and cash deposits
The Group maintains strong liquidity through cash balances and deposits (£44.1m at 31 December 2020) and its undrawn committed revolving credit facility (£240.0m at 31 December 2020 excluding the £50.0m Covid-19 facility) which matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible).

Credit risk arising from cash deposits with banks is managed in accordance with the Group's established treasury policy, procedures and controls. Deposits of surplus funds are made only with banks that have as a minimum a single A credit rating. The Group's maximum exposure to credit risk for the components of the balance sheet at 31 December 2020 and 31 December 2019 is the carrying amounts as illustrated in Note 22.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group had cash and cash equivalents of £44.1m and undrawn and committed credit facilities excluding the £50.0m Covid-19 facility of £240.0m at 31 December 2020, and no debt maturities within 12 months.

Notes to the Group Financial Statements
continued

28. Financial risk management objectives and policies continued

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

31 December 2020	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	60.0	60.0
Other financial liabilities:				
Trade and other payables	112.2	–	–	112.2
Deferred and contingent consideration	3.4	–	–	3.4
Forward foreign currency derivatives	5.6	–	–	5.6
Lease liabilities	0.8	2.7	9.4	12.9
Other liabilities	–	–	0.7	0.7
	122.0	2.7	70.1	194.8

31 December 2019	< 3 months £m	3 to 12 months £m	1 to 5 years £m	Total £m
Bank loan – principal	–	–	199.0	199.0
Other financial liabilities:				
Trade and other payables	97.5	–	–	97.5
Deferred and contingent consideration	2.3	1.1	–	3.4
Forward foreign currency derivatives	6.2	0.4	–	6.6
Interest rate swaps	–	0.5	–	0.5
Lease liabilities	0.7	2.2	11.9	14.8
Other liabilities	–	–	1.0	1.0
	106.7	4.2	211.9	322.8

Fair values of financial assets and financial liabilities

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

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

	Carrying value £m	Fair value £m
Forward foreign currency derivatives (designated as hedging instruments)	–	–
Interest-bearing loans and borrowings due after more than one year (designated as financial liabilities measured at amortised cost)	58.9	58.9
Deferred and contingent consideration (designated as financial liabilities at FVTPL)	3.4	3.4
Lease liabilities (designated as financial liabilities measured at amortised cost)	12.9	12.9
Total at 31 December 2020	75.2	75.2

	Carrying value £m	Fair value £m
Forward foreign currency derivatives (designated as hedging instruments)	–	–
Interest rate swaps (designated as hedging instruments)	0.5	0.5
Interest-bearing loans and borrowings due after more than one year (designated as financial liabilities measured at amortised cost)	197.7	197.7
Deferred and contingent consideration (designated as financial liabilities at FVTPL)	3.4	3.4
Lease liabilities (designated as financial liabilities measured at amortised cost)	14.8	14.8
Total at 31 December 2019	216.4	216.4

The fair values were determined as follows by reference to:

- Forward foreign currency derivatives: quoted exchange rates.
- Interest rate swaps: market values.
- Deferred and contingent consideration: Directors' assessment of the likelihood that financial targets will be achieved (see Note 18).
- Lease liabilities: present value of lease payments to be made over the lease terms.

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

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

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

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

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

There have been no transfers in any direction between Levels 1, 2 or 3 in the years ended 31 December 2020 and 2019.

29. Subsequent events

Subsequent to the year end, on 2 February 2021, the Group announced the acquisition of Nu-Heat (Holdings) Limited (Nu-Heat), the leading supplier of sustainable underfloor heating solutions, air and ground source heat pumps, and other renewable heating systems, for a cash consideration of £27.0m on a cash-free, debt-free basis. The acquisition was funded via the Group's existing debt facilities, with total proceeds paid on completion.

On 5 February 2021, the Group took a 51% controlling interest in Plura Composites Ltd (Plura) for a cash consideration of £1.25m. Plura provides a range of products for utility companies, road and rail operators, network builders and designers in the construction and maintenance of their networks. Plura's manufacturing expertise lies in pultrusion, compression moulding, injection moulding and fabrications.

On 10 February 2021, the Group announced it had entered into an agreement to acquire London Topco Limited (Adey) for a cash consideration of £210.0m on a cash-free, debt-free basis. Adey is the UK's leading provider of magnetic filters, chemicals and related products, which protect against magnetite and other performance issues in water-based heating systems and improve energy efficiency, operating in predominantly residential end markets. The acquisition was initially funded via the Group's existing debt facilities.

The purchase prices in respect of Adey, Nu-Heat and Plura are in the process of being allocated in accordance with IFRS 3. Accordingly, the initial accounting for these acquisitions is incomplete and therefore no tables of the identifiable assets and liabilities have been presented.

On 11 February 2021, the Group conducted a non-pre-emptive placing of 18,704,085 new ordinary shares with Deutsche Bank AG, London Branch and Numis Securities Limited, acting as joint bookrunners, at £5.15 per share generating gross proceeds of £96.3m. Advisers' fees of £2.6m were incurred.

Directors' Responsibilities Statement

In relation to the parent company financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006.

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

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance
- state whether IASs in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business

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

Company Balance Sheet

At 31 December 2020

	Notes	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Investments	4	**243.8**	242.7
Current assets			
Amounts owed by subsidiary undertakings and other receivables	5	**190.6**	91.0
Total assets		**434.4**	333.7
Current liabilities			
Amounts owed to subsidiary undertakings and other payables	6	**(120.0)**	(135.9)
Net assets		**314.4**	197.8
Capital and reserves			
Equity share capital	7	**0.2**	0.2
Capital redemption reserve	7	**1.1**	1.1
Own shares	7	**–**	–
Other reserves	7	**116.5**	–
Retained earnings		**196.6**	196.5
Total equity		**314.4**	197.8

Included in retained earnings is a loss for the year of £3.5m (2019: £2.3m loss).

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

Martin Payne
Director
16 March 2021

Paul James
Director
16 March 2021

Company Registration No. 06059130

Company Statement of Changes in Equity

For the year ended 31 December 2020

	Equity share capital £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Retained earnings £m	Total equity £m
At 31 December 2018	0.2	1.1	(3.8)	–	222.4	219.9
Loss for the year	–	–	–	–	(2.3)	(2.3)
Total comprehensive income for the year	–	–	–	–	(2.3)	(2.3)
Dividends paid	–	–	–	–	(23.7)	(23.7)
Share-based payments charge	–	–	–	–	1.2	1.2
Share-based payments settled	–	–	3.8	–	(1.4)	2.4
Share-based payments excess tax benefit	–	–	–	–	0.3	0.3
At 31 December 2019	0.2	1.1	–	–	196.5	197.8
Loss for the year	**–**	**–**	**–**	**–**	**(3.5)**	**(3.5)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(3.5)**	**(3.5)**
Issue of share capital	**–**	**–**	**–**	**120.0**	**–**	**120.0**
Transaction costs on issue of share capital	**–**	**–**	**–**	**(3.5)**	**–**	**(3.5)**
Share-based payments charge	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Share-based payments settled	**–**	**–**	**–**	**–**	**2.1**	**2.1**
Share-based payments excess tax benefit	**–**	**–**	**–**	**–**	**0.1**	**0.1**
At 31 December 2020	**0.2**	**1.1**	**–**	**116.5**	**196.6**	**314.4**

Company Cash Flow Statement

For the year ended 31 December 2020

	31 December 2020 £m	31 December 2019 £m
Operating activities		
(Loss) / profit before tax	**(3.5)**	(2.3)
Net finance cost / (income)	**0.3**	(2.2)
Operating loss	**(3.2)**	(4.5)
Transaction costs on issue of share capital	**0.1**	–
Non-cash items: Share-based payments	**0.3**	0.3
Operating cash flows before movement in working capital	**(2.8)**	(4.2)
Movement in working capital:		
Receivables	**(0.1)**	–
Payables	**(1.0)**	1.4
Inter-group balances	**(114.3)**	28.9
Net cash flows from operating activities	**(118.2)**	26.1
Investing activities		
Interest received	**–**	2.2
Investment in subsidiary undertakings	**–**	(7.0)
Net cash flows from investing activities	**–**	(4.8)
Financing activities		
Issue of share capital	**120.0**	–
Transaction costs on issue of share capital	**(3.6)**	–
Issue of Euro-Commercial Paper	**99.4**	–
Buyback of Euro-Commercial Paper	**(99.7)**	–
Dividends paid	**–**	(23.7)
Proceeds from exercise of share options	**2.1**	2.4
Net cash flows from financing activities	**118.2**	(21.3)
Net change in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**–**	–

Notes to the Company Financial Statements

For the year ended 31 December 2020

1. Authorisation of financial statements

The parent company financial statements of Polypipe Group plc (the 'Company') for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 16 March 2021 and the balance sheet was signed on the Board's behalf by Martin Payne and Paul James.

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

2. Summary of significant accounting policies

The basis of preparation and accounting policies used in preparing the historical financial information for the year ended 31 December 2020 are set out below. These accounting policies have been consistently applied in all material respects to all the periods presented.

2.1 Basis of preparation and statement of compliance with IFRSs

The Company's financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020.

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

2.2 Going concern

The Directors have made enquiries into the adequacy of the Company's financial resources, through a review of the Group's budget and medium-term financial plan, including cash flow forecasts. The Group has modelled a range of scenarios, with the base forecast being one in which, over the 18 months ending 30 June 2022, sales gradually recover to pre-Covid-19 levels and then grow in line with construction industry forecasts.

In addition, the Directors have considered several downside scenarios, including adjustments to the base forecast, a period of significantly lower like-for-like sales, profitability and cash flows. Consistent with our Principal Risks and Uncertainties these downside scenarios included, but were not limited to, loss of production, loss of a major customer, product failure, recession, increases in interest rates and increases in raw material prices. Downside scenarios also included a combination of these risks, and reverse stress testing.

At 31 December 2020, the Group had available, excluding the £50m Covid-19 facility, £240m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. These borrowing facilities are available until at least November 2023, subject to covenant headroom. In addition, on 11 February 2021, the Company conducted a non-pre-emptive placing of new ordinary shares generating gross proceeds of £96m and drew down £120m net from the revolving credit facility as part of the post year end acquisition funding. The Directors are satisfied that the Group has sufficient liquidity and covenant headroom to withstand adjustments to the base forecast, as well as the downside scenarios. In addition, the Directors have noted the range of possible additional liquidity options available to the Group, should they be required.

As a result, the Directors have satisfied themselves that the Company has adequate financial resources to continue in operational existence for a period of at least the next 15 months. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2.3 Investments

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

2.4 Share-based payments

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

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

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

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

2.7 Financial instruments
The Company policy for accounting for financial instruments is consistent with the Group policy detailed in Note 2.14 of the Group's consolidated financial statements. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's only financial assets are amounts owed by subsidiary undertakings (see Note 5).

3. Dividend per share

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2019 of nil per share (2018: 7.9p)	–	15.7
Interim dividend for the year ended 31 December 2020 of nil per share (2019: 4.0p)	–	8.0
	–	23.7
Proposed final dividend for the year ended 31 December 2020 of 4.8p per share (2019: nil)	**11.8**	–

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

4. Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 January 2019	234.8
Additions – share-based payments	0.9
Waiver of interest costs and dividend payments	7.0
At 31 December 2019	242.7
Additions – share-based payments	1.1
At 31 December 2020	**243.8**
Net book value	
At 31 December 2020	**243.8**
At 31 December 2019	242.7
At 1 January 2019	234.8

In 2020, an adjustment in respect of share-based payments of £1.1m (2019: £0.9m) was made to shares in subsidiary undertakings, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings. The total contribution to date was £4.6m (2019: £3.5m).

On 13 March 2019, the Company agreed to waive future interest costs on Eurobond securities, and dividend payments on preference shares, due to it by Pipe Holdings 1 plc. On the same date, £7.0m of historical interest costs and dividend payments due to the Company by Pipe Holdings 1 plc were waived.

Notes to the Company Financial Statements
continued

4. Investments continued

The companies in which the Company had an interest at 31 December 2020 are shown below:

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held
Alderburgh Limited[1]	England & Wales	Ordinary £1	100%*
Alderburgh Ireland Limited[2]	Republic of Ireland	Ordinary €1	100%*
Drain Products Europe BV[3]	The Netherlands	Ordinary €100	100%*
Environmental Sustainable Solutions Ltd[1]	England & Wales	Ordinary £1	100%*
Equaflow Ltd[1]	England & Wales	Ordinary £1	50%*
Ferrob Ventilation Ltd[1]	England & Wales	Ordinary £1	100%*
Genuit Limited[1]	England & Wales	Ordinary £1	100%*
Genuit Group Limited[1]	England & Wales	Ordinary £0.01	100%*
Hayes Pipes (Ulster) Limited[4]	Northern Ireland	Ordinary £1	100%*
Home Ventilation (Ireland) Limited[5]	Northern Ireland	Ordinary £1	100%*
Infra Green Limited[1]	England & Wales	Ordinary £1	100%*
Insulated Damp-Proof Course Limited[1]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Limited[1]	England & Wales	Ordinary £1	100%*
Manthorpe Building Products Holdings Limited[1]	England & Wales	Ordinary £1	100%*
Mason Pinder (Toolmakers) Limited[1]	England & Wales	Ordinary £1	100%*
Nuaire Limited[1]	England & Wales	Ordinary £1	100%*
Nuhold Limited[1]	England & Wales	Ordinary £0.1	100%*
Nu-Oval Acquisitions 1 Limited[1]	England & Wales	Ordinary £0.94 – £1	100%*
Nu-Oval Acquisitions 2 Limited[1]	England & Wales	Ordinary £1	100%*
Nu-Oval Acquisitions 3 Limited[1]	England & Wales	Ordinary £1	100%*
Oracstar Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) Limited[1]	England & Wales	Ordinary £1	100%*
Permavoid Technologies (USA) LLC[6]	United States of America	Ordinary $1	100%*
Pipe Holdings plc[1]	England & Wales	Ordinary £1	100%*
Pipe Holdings 1 plc[1]	England & Wales	Ordinary £1	100%*
Pipe Holdings 2 Limited[1]	England & Wales	Ordinary £1	100%*
Pipe Luxembourg Sarl[7]	Luxembourg	Ordinary £1	100%
Plumbexpress Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Limited[1]	England & Wales	Ordinary £0.1	100%*
Polypipe Building Products Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Civils Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Commercial Building Systems Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe (Ireland) Ltd[4]	Northern Ireland	Ordinary £1	100%*
Polypipe Italia SRL[8]	Italy	Ordinary €0.52	100%*
Polypipe Middle East FZE[9]	United Arab Emirates	Ordinary 1m UAE Dirhams	100%*
Polypipe T.D.I. Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Terrain Holdings Limited[1]	England & Wales	Ordinary £1	100%*
Polypipe Trading Limited[1]	England & Wales	Ordinary £0.1	100%*
Polypipe (Ulster) Limited[4]	Northern Ireland	Ordinary £1	100%*
Polypipe Ventilation Limited[1]	England & Wales	Ordinary £1	100%*
Robimatic Limited[1]	England & Wales	Ordinary £1	100%*
Solutek Environmental Limited[1]	England & Wales	Ordinary £1	100%*
Surestop Limited[1]	England & Wales	Ordinary £1	100%*
Sustainable Water and Drainage Systems BV[3]	The Netherlands	Ordinary €1	50%*
Sustainable Water and Drainage Systems Limited[1]	England & Wales	Ordinary £1	50%*
Tree Ground Solutions BV[3]	The Netherlands	Ordinary €10	50%*
Water Management Solutions LLC[10]	Qatar	Ordinary 1,000 Qatari Riyals	49%*

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

Registered offices of subsidiaries:

1. Broomhouse Lane, Edlington, Doncaster, South Yorkshire, DN12 1ES.
2. Ballybrack, Kilmacthomas, Co. Waterford.
3. Kattenburgerstraat 5, 1018, JA, Amsterdam, The Netherlands.
4. Dromore Road, Lurgan, Co. Armagh, BT66 7HL.
5. 19 Bedford Street, Belfast, BT2 7EJ.
6. 251 Little Falls Drive, Wilmington, Delaware, 19808-1674, United States of America.
7. 15 Boulevard F.W. Raiffeisen, L-2411 Luxembourg.
8. Localita Pianmercato 5C-D-H, 16044 Cicagna, Genova, Italy.
9. PO Box 18679, Showroom A2 SR 07, First Al Khail Street, Jebel Ali Free Zone, Dubai, United Arab Emirates.
10. Level 15, Commercial Bank Plaza, West Bay, Doha, Qatar.

5. Amounts owed by subsidiary undertakings and other receivables

	31 December 2020 £m	31 December 2019 £m
Amounts owed by subsidiary undertakings	**189.9**	90.5
Deferred income tax assets	**0.6**	0.5
Prepayments	**0.1**	–
	190.6	91.0

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

6. Amounts owed to subsidiary undertakings and other payables

	31 December 2020 £m	31 December 2019 £m
Amounts owed to subsidiary undertakings	**119.2**	134.1
Other payables	**0.8**	1.8
	120.0	135.9

7. Share capital and reserves

Share capital

	31 December 2020		31 December 2019	
	Number*	**£**	Number*	£
Authorised share capital:				
Ordinary shares of £0.001 each	**228**	**228,466**	201	201,000
Allotted, called up and fully paid:				
Ordinary shares of £0.001 each	**228**	**228,466**	201	201,000

* Millions of shares.

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

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

Capital redemption reserve

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

Own shares

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

Other reserves

On 7 May 2020, the Group conducted a non-pre-emptive placing of 26,966,300 new ordinary shares at £4.45 per share generating gross proceeds of £120.0m. The placing was undertaken using a cashbox structure. As a result, the Group was able to take relief under section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to other reserves. Advisers' fees of £3.5m have been netted off against the gross proceeds. A further £0.1m of listing fees have been incurred and charged to the income statement in 2020.

Notes to the Company Financial Statements
continued

8. Profit for the financial year

Polypipe Group plc has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The loss for the year dealt with in the financial statements of the Company was £3.5m (2019: £2.3m loss for the year).

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

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

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

9. Related party transactions

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

	31 December 2020		31 December 2019	
	Purchases from related parties £m	**Amounts owed to related parties £m**	Purchases from related parties £m	Amounts owed to related parties £m
Polypipe Limited	**14.9**	**119.2**	24.1	134.1

	Interest received £m	**Loan advanced £m**	**Amounts owed by related parties £m**	Interest received £m	Amounts owed by related parties £m
Pipe Holdings 1 plc:					
Eurobonds	–	**–**	**64.9**	1.7	64.9
Preference shares	–	**–**	**18.3**	0.5	18.3
Other	–	**–**	**0.9**	–	0.9
Pipe Holdings 2 Limited	–	**–**	**6.4**	–	6.4
Pipe Holdings plc	–	**99.4**	**99.4**	–	–
	–	**99.4**	**189.9**	2.2	90.5

Other related party transactions are disclosed in Note 27 to the Group's consolidated financial statements.

10. Subsequent events

On 11 February 2021, the Company conducted a non-pre-emptive placing of 18,704,085 new ordinary shares with Deutsche Bank AG, London Branch and Numis Securities Limited, acting as joint bookrunners, at £5.15 per share generating gross proceeds of £96.3m. Advisers' fees of £2.6m were incurred.

Shareholder Information

Financial calendar

Preliminary Announcement of Results for the year ended 31 December 2020	16 March 2021
Annual General Meeting	20 May 2021
Final dividend for the year ended 31 December 2020	
– Ex-dividend date	22 April 2021
– Record date	23 April 2021
– Payment date	26 May 2021
Half yearly results for the six months ending 30 June 2021	17 August 2021
Half yearly dividend for the six months ending 30 June 2021	
– Ex-dividend date	2 September 2021
– Record date	3 September 2021
– Payment date	24 September 2021

Registrar services

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

Link Asset Services can be contacted at:

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

www.linkassetservices.com

Shareholder helpline for information relating to your shares call: +44 (0)371 664 0300

Website helpline for information on using this website call: +44 (0)371 664 0391

Calls to 0371 are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom are charged at the applicable international rate.

We are open between 09:00–17:30, Monday to Friday excluding public holidays in England and Wales.

e-mail: enquiries@linkgroup.co.uk

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

Share dealing service

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

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

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

www.linksharedeal.com – online dealing
0371 664 0445 – telephone dealing

email: info@linksharedeal.com

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

Principal Group businesses

UK

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Broomhouse Lane
Edlington
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Neale Road
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South Yorkshire
DN2 4PG

Polypipe Ulster
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Co. Armagh
BT66 7HL

Polypipe Civils
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North Road
Loughborough
LE11 1LE

Holmes Way
Horncastle
LN9 6JW

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

Nuaire
Western Industrial Estate
Caerphilly
CF83 1NA

Domus Ventilation
Cambria House
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Caerphilly
CF83 3ED

Manthorpe Building Products
Brittain Drive
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Ripley
DE5 3ND

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Rochdale
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Sheffield

RBS
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NatWest
Leeds

Santander
Leeds

Citibank
London

HSBC
Birmingham

Registrar and transfer office

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Stockbrokers

Deutsche Bank AG
Numis Securities Limited

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