17 March 2020

Polypipe Group plc
Audited results for the year ended 31 December 2019

Further progress in challenging markets

Polypipe Group plc ("Polypipe", the "Company" or the "Group"), a leading provider of sustainable water and climate management solutions for the built environment, today announces its audited results for the year ended 31 December 2019.

Financial Results

	2019	**2018**	**Change**
Statutory measures			
Revenue	£447.6m	£433.2m	+3.3%
Operating profit	£67.6m	£65.8m	+2.7%
Profit before tax	£60.1m	£58.2m	+3.3%
Earnings per share (basic)	24.9p	24.7p	+0.8%
Dividend per share	12.1p	11.6p	+4.3%
Alternative performance measures			
Underlying operating profit[1]	£78.1m	£74.0m	+5.5%
Underlying cash generated from operations[2]	£72.8m	£71.2m	+2.2%
Underlying operating margin[1]	17.4%	17.1%	+30bps
Underlying profit before tax[1]	£70.8m	£67.1m	+5.5%
Underlying earnings per share (basic)[1]	29.6p	28.4p	+4.2%
Leverage[6] (times pro forma EBITDA[3])	1.7	1.7	-

Financial Highlights

- Revenue growth of 3.3% despite challenging trading conditions and market uncertainty
- Underlying operating margin increase of 30 basis points to 17.4% – reflecting investments made through the year and of margin accretive acquisitions
- Operating profit 2.7% higher with underlying profit before tax 5.5% higher
- Underlying basic earnings per share of 29.6p, an increase of 4.2%
- Good operational cash generation and strong balance sheet
- Continued investment in business, capital expenditure of £22.3m
- Group pro forma leverage of 1.7x (2018: 1.7x), including impact of IFRS 16
- Proposed final dividend of 8.1p, bringing the total for the year to 12.1p, 4.3% ahead of last year
- IFRS16 has had the effect of increasing EBIT by £0.3m and net debt by £14.8m

Operational Highlights

- UK revenue growth of 3.6%
- Residential Systems revenue 6.1% higher than prior year
- Second half acquisition of Alderburgh, performing in line with our expectations and integration progressing well
- Prior year acquisitions of Manthorpe and Permavoid fully integrated, Manthorpe performing ahead of expectations
- Organisational change successfully implemented across Group to support future growth
- Polypipe Offsite Solutions division created to address specific needs of emerging modular build market

Sustainability Highlights

- Improving our sustainability has been a focus of the Group for some time and will continue to be as we look ahead to 2020. A comprehensive set of Group sustainability targets are being developed and will be reported on later in the year
- We launched our *'Inspiring Green Urbanisation'* design guide at the Future Build exhibition in March 2019 focused on helping provide more sustainable environmental solutions to the construction industry in water and climate management
- During the year we further increased our use of recycled plastic, which now represents 42.0% of the Group's overall plastic usage (2018: 40.2%)
- Carbon emissions (tCO2e) reduced by 10% in the year
- Sustainable credentials recognised by the London Stock Exchange with one of 74 "Green Economy Issuer" certificates for our work in this area

Outlook

- The Coronavirus pandemic is under close review by management. We are taking all appropriate actions to ensure the health, safety and wellbeing of our employees and to minimise disruption to our operations, whilst watching our end markets closely. To date, we have seen no direct impact on Group performance. The Group has a strong balance sheet and substantial headroom on its borrowing facility.
- We are positioned well over the medium term within our markets, delivering innovative new products, benefiting from legacy material substitution, legislative tailwinds and a "one stop shop" service for our customers across several different sectors of the construction industry.

Martin Payne, Chief Executive Officer, said:

- *"Our strategy continued to deliver over the year, with revenue and profit growth despite ongoing market uncertainty and challenging trading conditions, particularly in the second half of the year. Our balance of end markets, with their long-term growth drivers, together with good operational performance and contributions from our recent acquisitions positions us well. Our balance sheet and cash generation remain strong. Aside from the yet unknown effects of Coronavirus on the wider economy, we would expect the current year to be a year of progress for the Group."*

[1] Underlying profit and earnings measures are from continuing operations only and exclude certain non-underlying items and where relevant, the tax effect of these items. The Directors consider that these measures provide a better and more consistent indication of the Group's underlying financial performance and more meaningful comparison with prior and future periods to assess trends in our financial performance.

[2] Underlying cash generated from operations is defined as cash generated from operations after movement in net working capital and capital expenditure net of proceeds from disposals of property, plant and equipment.

[3] Pro forma EBITDA is defined as underlying operating profit before depreciation for the twelve months preceding the balance sheet date, excluding operating profit before depreciation from discontinued operations, adjusted where relevant to include a full year of EBITDA from acquisitions made during those twelve months.

[4] Net debt is defined as loans and borrowings net of unamortised issue costs less cash, including the effects of IFRS 16.

[5] The results for the year ended 31 December 2019 have been prepared in accordance with IFRS 16. As we have adopted the modified retrospective approach on transition, we have not restated prior year comparatives.

[6] Leverage is defined as net debt divided by pro forma EBITDA.

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

A live presentation will be given by Chief Executive Officer Martin Payne and Chief Financial Officer Paul James at 0900hrs (GMT) on Tuesday 17 March 2020.

To access the presentation, participants will be required to carry out a combination of the below two actions:

1. Dialling in to the below conference call number from their phones to listen to the presentation AND
2. Connecting to the webcast link to see the slides.

Dial-in phone number to hear the presentation:

UK Freephone Dial-In Number	0800 3767922
Standard International Dial-In number	+44 (0) 2071 928000
Conference PIN	7077239

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Participants are required to dial in to the call and access the weblink at 0845hrs (GMT), fifteen minutes before the start of the presentation.

Notes to Editors:

Polypipe Group plc ("Polypipe", the "Company" or the "Group"), a leading provider of sustainable water and climate management solutions for the built environment is the largest manufacturer in the UK, and among the ten largest manufacturers in Europe, of plastic piping systems for the residential, commercial, civils and infrastructure sectors by revenue. It is also a leading designer and manufacturer of energy efficient ventilation systems in the UK.

The Group operates from 19 facilities in total, and with over 20,000 product lines, manufactures the UK's widest range of plastic piping systems for heating, plumbing, drainage and ventilation. The Group primarily targets the UK and European building and construction markets with a presence in Italy, the Netherlands, Ireland and the Middle East and sales to specific niches in the rest of the world.

Group Results

Group revenue for the year ended 31 December 2019 was 3.3% higher than the prior year at £447.6m (2018: £433.2m).

Underlying operating profit was 5.5% higher than the prior year at £78.1m (2018: £74.0m). Underlying operating margin in 2019 was 30 basis points higher at 17.4% (2018: 17.1%). Investments made in 2019 in new production equipment and layout improvements to alleviate capacity constraints resulted in more efficient working and improved margins, combining with the full year effect of margin accretive acquisitions.

Underlying finance costs were higher than prior year at £7.3m (2018: £6.9m) due to the impact of IFRS 16 and higher borrowing levels following the acquisitions in 2019 and 2018, partly mitigated by lower interest rates from the refinanced revolving credit facility. Interest cover was 11.3x for the year (2018: 11.3x).

Net debt, pre IFRS 16, decreased £14.2m to £150.0m (2018: £164.2m). Including the impact of IFRS 16, net debt was £164.8m. Cash conversion for the year was 93% (2018: 96%), leaving net debt to pro forma EBITDA at 1.6x (2018: 1.7x), increasing to 1.7x following the impact of IFRS 16.

Underlying profit before tax was 5.5% higher than the prior year at £70.8m (2018: £67.1m).

Non-underlying operating costs of £10.7m (2018: £8.9m) primarily relate to non-cash amortisation charges of £7.5m (2018: £5.9m) in respect of intangible assets arising from acquisitions since 2015, and £3.0m of costs associated with the acquisition of Alderburgh and other M&A costs.

The total tax charge for the year of £10.5m (2018: £9.4m) represents an effective tax rate of 17.5% (2018: 16.2%). The underlying effective tax rate of 16.8% (2018: 15.6%) was lower than the standard UK rate of tax of 19.0% (2018: 19.0%) primarily due to the benefit of patent box relief. The lower underlying effective tax rate in 2018 was primarily driven by the release of £0.6m legacy tax provisions and the recognition of a deferred tax asset in respect of previously unrecognised tax losses (£0.6m benefit). Adjusting for these effects, the underlying effective tax rate in 2019 would have been lower year on year.

Underlying profit from continuing operations was 4.1% higher than the prior year at £58.9m (2018: £56.6m), with underlying basic earnings per share from continuing operations 4.2% higher at 29.6 pence (2018: 28.4 pence).

Chief Executive Officer's Review

I am pleased to report that Polypipe has delivered another record performance in 2019, with revenue from continuing operations 3.3% higher than prior year at £447.6m (2018: £433.2m), underlying operating profit 5.5% higher than prior year at £78.1m (2018: £74.0m) and underlying basic earnings per share 4.2% higher than prior year at 29.6 pence per share (2018: 28.4 pence).

The year was characterised by political and economic uncertainty. While 2019 saw continued historically low interest rates, low inflation and near full employment leading to real wage growth, the political situation that unfolded during the year significantly impacted the construction market. Housebuilders started 8% fewer plots compared to the prior year and investors delayed commercial projects. Although the general election result brought some certainty, it was too late in the year to see any meaningful effect within the markets in which we operate.

Merchants adjusted stock levels throughout the year, firstly for what they thought would be an EU withdrawal in March 2019 and then October 2019, neither of which happened, and secondly for a slower second half end market. The Group has delivered another record performance in the year, which is testament to the strength and dedication of our management and employees, and I would like to thank them all for their contributions.

The Group made excellent progress on strategic initiatives during the year, exploiting the drivers of legacy material substitution and legislative tailwinds in water and climate management, and developing its 'one stop shop' offering for customers in the UK. We have also continued to invest in new products. During the year, we had a number of new, innovative and exciting product launches in line with our strategy, details of which can be found further on in my report. We also expanded the Group in the year with the acquisition of the Alderburgh Group of Companies in October 2019, underlining our ability and appetite to acquire businesses in line with our strategic objectives.

Equally important to the Group's success is to ensure we have the enablers to support our strategy into the future. Towards the end of 2019 we implemented a new organisational structure, creating four divisional management teams to be responsible for the businesses in the Group, evolving from what was previously a flat organisation structure. These divisional teams focus on strategic development within their markets, and the structure also gives the Group a platform on which to integrate further acquisitions, something that was increasingly challenging with the previous organisation structure. This new structure will be fully operational in 2020.

Sustainability continues to be at the heart of what we do. We provide sustainable environmental solutions to the construction industry in the water management and climate management space, launching our *'Inspiring Green Urbanisation'* design guide at the Future Build exhibition in March 2019. We not only help our customers create sustainable solutions, we also continue to drive our own business to be more sustainable. We have further increased our usage of recycled plastic during the year, with recycled plastic now representing 42.0% of our consumption of plastic, compared to 40.2% in 2018. This has been achieved through the further roll-out of our multi-layer extrusion process in our Residential Systems segment, helped in the latter part of the year with the acquisition of Alderburgh which uses recycled plastic for most of its production. We also reduced our carbon emissions in the year as measured by tonnes of carbon dioxide equivalent (tCO2e) by 10%. I am pleased to report that in December 2019 our sustainable credentials were recognised by the London Stock Exchange who awarded us one of 74 'Green Economy Issuer' certificates for our efforts in this area. We are working on a comprehensive set of sustainability targets for the Group and will report on these later in the year.

Coronavirus (COVID-19) is posing significant challenges for countries around the world, with the situation developing rapidly.

Polypipe's leadership team continues to monitor the situation closely and take appropriate actions where necessary. The health, safety and wellbeing of our people has always been, and continues to be, at the forefront of everything we do. The Group and its leadership team has a duty of care to its employees and customers, and the evaluation of risk and taking mitigating actions to protect our employees and customers is taken very seriously and is very much ingrained in our culture.

To that end, the actions we are taking include the following:

- Implementing business continuity plans to mitigate the specific risks associated with Coronavirus, to ensure disruption to normal operations and customer service is minimised.
- Increasing short term stock levels of core product ranges whilst employee numbers allow, to minimise supply disruption to our customers.
- Cancelling all non-essential overseas travel, including to and from our own overseas operations.
- Using electronic means of communication with customers, suppliers and employees where possible, minimising unnecessary social proximity.
- Instigating a regular internal communications programme to ensure our employees are aware of the latest relevant government advice regarding self-isolating, general WHO health advice, and the support that the Group can provide.
- We have a small manufacturing plant in Genoa, Italy where production has been suspended, and we are supporting our small number of overseas employees in the Middle East, Netherlands, France and Ireland as appropriate.
- Setting up a team of senior leaders to monitor and manage the situation as it develops.

There are certain features of Polypipe's business model that give it resilience including:

- We have 19 sites in the Group, 15 of which are in the UK, 11 of which are manufacturing sites, giving us a degree of flexibility in production, and flexibility of locations for key back office staff.
- We have over 200 injection moulding machines and over 100 extruders, which means we can manage our capacity in small steps, allowing us to closely match production to demand or available workforce.
- Our primary supply chain has limited dependence on overseas suppliers, and where there is dependence it is generally in areas that do not impact the Group's core product ranges.
- Strong balance sheet and cashflow, no defined pension scheme, significant headroom.

We will continue to monitor events and take actions where necessary and will update further as appropriate.

BUSINESS REVIEW

Revenue from continuing operations	2019 £m	2018 £m	Change %	LFL Change %
Residential Systems	**260.3**	245.3	6.1	(0.1)
Commercial and Infrastructure Systems	**187.3**	187.9	(0.3)	(3.5)
Revenue from continuing operations	**447.6**	433.2	3.3	(1.6)

Underlying operating profit	2019 £m	%	2018 £m	%	Change %
Residential Systems	**53.4**	**20.5**	46.3	18.9	15.3
Commercial and Infrastructure Systems	**24.7**	**13.2**	27.7	14.7	(10.8)
Underlying operating profit	**78.1**	**17.4**	74.0	17.1	5.5

RESIDENTIAL SYSTEMS

Revenue in our Residential Systems segment, which is almost exclusively derived from the UK market, was 6.1% higher than the prior year at £260.3m (2018: £245.3m), driven by the full year effect of the acquisition of Manthorpe Building Products on 25 October 2018, with like for like revenue excluding acquisitions broadly in line with the prior year.

UK Residential market trends during 2019 have been mixed. According to the Construction Products Association, the overall private new house build market grew by 2%. However, within this performance, housing completions were 2% higher but new housing starts were 8% lower than the prior year, as housebuilders reduced work in progress and worked existing sites harder in the face of an uncertain outlook. This is an important distinction for the Group as the majority of our products in this segment are used in the early stages of site and plot development. Against this backdrop of reduced starts, as well as a weak private RMI market and the pre-Brexit merchant stock build in Q4 2018 unwinding in the first half of 2019, the Residential Systems segment's broadly flat like for like revenue is a strong performance. Within this performance price increases of approximately 3% were successfully implemented in the year, recovering cost inflation on a pound for pound basis, leaving volumes around 3% lower than the prior year, largely related to the unwind of merchant stock build in Q4 of 2018.

The process of integrating Manthorpe Building Products into the Group is now complete. I am delighted with how well the business fitted into the Group from a commercial, operational, and cultural perspective during 2019 which is a credit to the management team and employees at Manthorpe as well as the team at Polypipe. The implementation of operational and commercial synergies identified at the time of the acquisition is ahead of plan and consequently I am pleased to report that the performance of Manthorpe in its first full year of ownership has exceeded expectations.

During the year we created a new division within the Residential Systems segment called Polypipe Offsite Solutions. This will give specific focus to serving the emerging modular house building market using new and existing Group products to create solutions for delivery to the factory production line. Start-up expenditure was £0.2m in 2019 and will be £1.2m in 2020, and we will look to develop our position in this growing market.

The product development pipeline continues to deliver new and innovative solutions that capitalise on the strategic growth drivers of legacy material substitution, and legislative tailwinds in water and climate management. Nuaire won the prestigious H&V News award for Air Movement Product of

the Year, recognising its efforts in developing the innovative Noxmaster air filtration system. The product was praised by the judges for the attention paid to indoor air quality and to the testing and validation of the unit. Manthorpe's reputation for innovative product design was further enhanced in June 2019 when its G965 Dual Underfloor Vent won the Best Building Fabric product award at the 2019 Housebuilder Product awards, with this product subsequently being specified by a number of National Housebuilders.

Significant investment in new production equipment helped remove capacity constraints at our Broomhouse Lane site. In January 2019 we commissioned our fourth high output multilayer extrusion line for the manufacture of 110mm and 160mm PVC pipe with a recycled core, which not only increased capacity, but also underpins our commitment to increasing the recycled content of our products. Investment in yard expansion and layout improvements at Broomhouse Lane during the year has resolved the logistical bottlenecks encountered in the second half of 2018 and saw the site return to efficient operation. Together with a strong full year contribution from Manthorpe, an excellent performance from our residential ventilation businesses, and other cost saving initiatives, this helped Residential Systems deliver strong underlying operating profit growth of 15.3% to £53.4m (2018: £46.3m) representing a 20.5% margin (2018: 18.9%).

COMMERCIAL AND INFRASTRUCTURE SYSTEMS

Conditions in the UK Commercial and Infrastructure markets deteriorated progressively during the year. This resulted in revenue in our Commercial and Infrastructure Systems segment for the full year being 0.3% lower than the prior year at £187.3m (2018: £187.9m), or 3.5% lower on a like for like basis excluding acquisitions.

UK revenue, which accounts for approximately 80% of the overall segment revenue, was 1.5% lower than the prior year, driven by continued political and economic uncertainty causing project delays and cancellations, and towards the end of the year, adverse weather conditions and flooding in the Midlands and the North impacting contractors' ability to access sites. These conditions, together with some strong comparatives in the second half of 2018, were partially offset by revenue from the recently acquired Alderburgh Group.

Excellent progress has been made on product launches and projects in the year. Our Polystorm range (including geocellular attenuation tanks) was extended with the launch of the PSM5 'Polystorm Deep' product, to address performance levels in the forthcoming CIRIA 737 Regulations and to improve burial depth performance overall. In June, the world's first fully portable international standard hockey pitch was installed at The Twickenham Stoop ahead of the Pro League matches between Team GB and New Zealand. Laid in under a week, the unique modular pitch system uses Permavoid for both structural support and irrigation management. In March we launched our *'Inspiring Green Urbanisation'* design guide at the Future Build exhibition, showing how our next generation sustainable water management solutions will help re-imagine the urban landscape. Our Fuze range of HDPE electrofusion jointed soil stacks continue to make inroads into the market, on projects such as Essex House in Croydon, the world's tallest prefabricated twin tower with over 540 flats. Towards the end of the year, our Building Services division launched a new range of polypropylene high pressure hot and cold water distribution systems for tall buildings called MecFlow, with the unique click-weld electrofusion jointing technology and pre-cut fabricated parts for ease of assembly on site. This is a new part of the market for Polypipe, and fits with the Group's strategy of providing a 'one stop shop' for our customers. Initial contractor feedback is excellent, and the project bank looks healthy for 2020. Our Building Services division also launched the Advantage Service covering both Fuze and MecFlow product ranges, which provides design support, project programme integration, full fabrication service and pre-site testing. This innovative service provides our clients with fabricated parts delivered direct to site, which takes expensive skilled activity away from site and significantly reduces waste.

Export revenue, which accounts for approximately 20% of overall segment revenue, was 4.6% higher than the prior year, with improved volumes in Continental Europe and the full year effect of the Permavoid acquisition, which has a wider geographic reach, offset partially by further reductions in the Middle East as conditions in this market continue to be challenging.

On 1 October 2019, we announced the acquisition of 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, for a total consideration of £14.0m on a cash and debt free, normalised working capital basis. Alderburgh

sells products across six distinct categories, with *c*.80% of revenues derived from its geocellular attenuation systems, the stackable Versavoid system, and the Pluvial cube system. These products help address the requirements of the Sustainable Urban Drainage regulations by creating load-bearing tanks underground to store stormwater and let it drain away naturally, rather than letting stormwater rush into the watercourse creating flood events downstream. Unlike Polypipe's Polystorm and Permavoid systems which are manufactured as single finished cells, Alderburgh's Versavoid system is a stackable system, which means individual parts of the cell can be nested for transportation and assembled on site, which in certain situations can provide a more cost-effective and lower carbon emission solution. Furthermore, through its Solutek specialist installation service, Alderburgh offers a supply and fit solution to customers, something that has become increasingly popular in recent years and in which, to date, Polypipe has not participated. Although early days, the business has settled in to the Group well, and our focus will be on completing the integration process during the coming year and delivering the opportunities that the combination of Polypipe and Alderburgh create.

Commercial and Infrastructure Systems delivered an underlying operating profit of £24.7m (2018: £27.7m) and represents a 13.2% margin (2018: 14.7%). The key driver of reduced margin in the year in this segment relates to operational leverage on reduced UK volumes particularly in the second half.

OUTLOOK

The Coronavirus pandemic is under close review by management. We are taking all appropriate actions to ensure the health, safety and wellbeing of our employees and to minimise disruption to our operations, whilst watching our end markets closely. To date, we have seen no direct impact on Group performance. The Group has a strong balance sheet and substantial headroom on its borrowing facility to cater for emerging risks.

We are positioned well over the medium term within our markets, delivering innovative new products, benefiting from legacy material substitution, legislative tailwinds and a ’one stop shop‘ service for our customers across several different sectors of the construction industry.

Financial Review

REVENUE AND OPERATING MARGIN

	2019 £m	2018 £m	Change
Revenue	**447.6**	433.2	+3.3%
Underlying operating profit	**78.1**	74.0	+5.5%
Underlying operating margin	**17.4%**	17.1%	+30bps

Revenue by geographic destination	**2019 £m**	2018 £m	Change
UK	**401.2**	387.1	+3.6%
Rest of Europe	**23.6**	21.5	+9.8%
Rest of World	**22.8**	24.6	-7.3%
Group	**447.6**	433.2	+3.3%

Group revenue for the year ended 31 December 2019 was £447.6m (2018: £433.2m), an increase of 3.3%. With the acquisition of Alderburgh on 1 October 2019, Group revenue includes £2.7m from this business for the period since acquisition. UK revenue growth was up 3.6% with approximately 2.8% driven by price increases, 4.9% from acquisitions as volumes declined 4.3%. On a like-for-like basis, Group revenue decreased by 1.6%. This was in line with the overall UK construction market where the Construction Products Association (CPA) winter forecast suggested another year-on-year decline. Uncertainty surrounding the UK post-Brexit and around major

infrastructure projects led the CPA to downgrade its autumn forecasts for construction output growth. The Group's year-on-year growth for the first half was strong at 6.2%, compared to second half growth of 0.6% which was impacted by challenging prior year comparators and weaker demand due to market uncertainty.

Operating profit was £67.6m, an increase of 2.7%. The Group underlying operating margin increased to 17.4% (2018: 17.1%) with the dilutive effects of price increases to recover inflation being more than offset by cost improvement initiatives undertaken progressively through the year and the accretive effect of acquisitions. Profit before tax increased by 3.3% to £60.1m (2018: £58.2m).

Investment in product development and innovation remains a key area of focus for the Group. In 2019, underlying operating profit benefited from £1.6m of HM Revenue & Customs approved Research & Development Expenditure Credit scheme, relating to the years ended 31 December 2017 and 2018. This will provide us with further opportunity to increase our investment in developing new and innovative products.

ACQUISITIONS

On 1 October 2019, the Group acquired Alderburgh, a specialist in the design, manufacture, supply and installation of modular storm water management and building protection systems, and associated land and buildings for £14.0m on a cash and debt free, normalised working capital basis. The acquisition of Alderburgh has contributed £2.7m to Group revenue in the year and revenue for the full 12-month period ended 31 December 2019 was £15.3m. The acquisition was funded entirely from the Group's revolving credit facility. Acquisition costs of £0.6m have been charged to non-underlying items.

IFRS 16, LEASES

IFRS 16, Leases, was issued in January 2016 and is mandatory for annual reporting periods commencing 1 January 2019. The Group did not apply for early adoption of IFRS 16 and has reported under the new standard in the consolidated financial statements for the year ended 31 December 2019. Existing leases mainly relate to cars, some property and forklift trucks used in warehousing. The Group does not have any leases previously classified as finance leases. The Group has adopted the modified retrospective approach to transition and has not restated comparative amounts for the year prior to first adoption. The Group's lease commitments have been brought onto the Group's balance sheet and the timing of the recognition of lease costs within the income statement has changed. The Group has recognised an increase in total liabilities of £14.8m, with the same increase in total assets.

NON-UNDERLYING ITEMS

Non-underlying items in both 2019 and 2018 included non-cash amortisation charges in respect of intangible assets recognised with acquisitions made since 2015. In addition, the amortisation of intangible assets charge in 2019 was impacted by the fair valuation of intangible fixed assets on the acquisition balance sheet of Alderburgh. Intangible assets have increased by £4.8m following the acquisition of Alderburgh, attracting additional amortisation of £0.1m. Acquisition costs in the year amounted to £3.2m.

Non-underlying items comprised:

	2019	2018
	£m	£m
Amortisation of intangible assets	**7.5**	5.9
Acquisition costs	**2.4**	2.0
Contingent consideration on acquisitions	**0.8**	0.3
Unamortised debt issue costs written off	**-**	0.6
Loss on disposal of assets classified as held-for-sale	**-**	0.1
Non-underlying items before taxation	**10.7**	8.9
Taxation	**(1.4)**	(1.1)
Non-underlying items after taxation	**9.3**	7.8

EXCHANGE RATES

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

FINANCE COSTS

Underlying finance costs of £7.3m (2018: £6.9m) were ahead of last year due to the impact of IFRS 16 and higher borrowing levels following the acquisitions in 2019 and 2018. Interest cover was 11.3x (2018: 11.3x).

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 2019 was 1.65% (2018: 1.65%).

In order to reduce exposure to future increases in interest rates the Group entered into interest rate swaps at fixed rates ranging between 1.735% and 2.21% (excluding margin) with notional amounts hedged ranging from £60.0m to £82.0m over the period of the interest rate swaps.

TAXATION

Underlying taxation:

The underlying tax charge in 2019 was £11.9m (2018: £10.5m) representing an effective tax rate of 16.8% (2018: 15.6%). This was below the UK standard tax rate of 19.0% (2018: 19.0%). Patent box relief contributes to a lowering of the effective tax rate by some 1.3 percentage points.

Taxation on non-underlying items:

The non-underlying taxation credit of £1.4m represents an effective rate of 13.1% (2018: 12.4%), due to £3.2m of acquisition costs being treated as disallowable for tax purposes.

EARNINGS PER SHARE FROM CONTINUING OPERATIONS

	2019	2018
Pence per share:		
Basic	**24.9**	24.5
Underlying basic	**29.6**	28.4
Diluted	**24.6**	24.3
Underlying diluted	**29.2**	28.1

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

Underlying basic EPS improved by 4.2% in 2019 due to the improved underlying operating result after taxation.

DIVIDEND

The final dividend of 8.1 pence per share is being recommended for payment on 28 May 2020 to shareholders on the register at the close of business on 24 April 2020. The ex dividend date will be 23 April 2020.

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

BALANCE SHEET

The Group's balance sheet is summarised below:

	2019	2018
	£m	£m
Property, plant and equipment	**125.8**	118.4
Right-of-use assets	**14.8**	-
Goodwill	**345.6**	343.0
Other intangible assets	**56.2**	58.9
Net working capital	**3.0**	(4.1)
Taxation	**(14.3)**	(17.3)
Other current and non-current assets and liabilities	**(4.9)**	(3.5)
Net debt (loans and borrowings, net of cash and cash equivalents and lease liabilities)	**(164.8)**	(164.2)
Net assets	**361.4**	331.2

The net value of property, plant and equipment has increased by £7.4m and, excluding the effect of the inclusion of assets from the acquisition of Alderburgh, increased by £1.5m. The value of right-of-use assets has increased by £14.8m following the Group's adoption of IFRS 16 in the year.

Goodwill increased by £2.6m due to the acquisition of Alderburgh. Other intangible assets increased by £4.8m with fair value adjustments associated with the acquisition of Alderburgh being offset by the routine amortisation of patents, brand names and customer relationships. Net working capital increased by £7.1m but is expected to normalise in the first half of 2020. Net debt is discussed below.

PENSIONS

The Group does not have any defined benefit pension schemes and only has defined contribution pension arrangements in place. Pension costs for the year amounted to £3.4m (2018: £2.8m).

CASH FLOW AND NET DEBT

The Group's cash flow statement is summarised below:

	2019	2018
	£m	£m
Operating cash flows before movement in net working capital	**95.3**	86.2
Add back non-underlying cash items	**1.4**	4.4
Underlying operating cash flows before movement in net working capital	**96.7**	90.6
Movement in net working capital	**(5.9)**	3.8
Capital expenditure	**(21.9)**	(23.2)
Proceeds from sale and leaseback	**3.9**	-
Underlying cash generated from operations after net capital expenditure	**72.8**	71.2
Income tax paid	**(12.4)**	(11.2)
Interest paid	**(7.4)**	(6.1)
Non-underlying cash items	**(1.4)**	(4.4)
Acquisition of businesses	**(12.2)**	(56.1)
Disposal of businesses	**-**	13.6
Dividends paid	**(23.7)**	(22.3)
Proceeds from exercise of share options net of purchase of own shares	**2.4**	0.3
Other	**(3.9)**	(0.8)
Movement in net debt, pre IFRS 16	**14.2**	(15.8)
Lease liabilities – IFRS 16	**(14.8)**	-
Movement in debt – including IFRS 16	**(0.6)**	(15.8)

Delivery of good cash generation remains core to the Group's strategy. Underlying cash generated from operations after net capital expenditure at £72.8m (2018: £71.2m) represents a conversion rate of 93% (2018: 96%). The slight decline in conversion rate was attributable to increased levels of working capital which are expected to normalise through the course of 2020. Net capital expenditure investment fell to £18.0m (2018: £23.2m), following the Group's decision to carry out the sale and leaseback of its truck fleet in December 2019. Net proceeds from the sale were £3.9m. The Group continued to focus its investment on capacity expansion, efficiency improvement and innovation projects. The Group spent £12.2m on the acquisition of Alderburgh in October 2019.

Net debt of £164.8m comprised:

	2019	2018	Change
	£m	£m	£m
Bank loans	**(199.0)**	(212.0)	13.0
Cash and cash equivalents	**47.7**	46.2	1.5
Net debt (excluding unamortised debt issue costs)	**(151.3)**	(165.8)	14.5
Unamortised debt issue costs	**1.3**	1.6	(0.3)
IFRS 16	**(14.8)**	-	(14.8)
Net debt	**(164.8)**	(164.2)	(0.6)
Net debt (excluding unamortised debt issue costs): pro forma EBITDA	**1.7**	1.7	

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 an uncommitted 'accordion' facility of up to £50m on top. At 31 December 2019, £199m of the RCF was drawn down.

The Group is subject to two financial covenants. At 31 December 2019 there was significant headroom and facility interest cover and net debt to EBITDA covenants were comfortably achieved:

Covenant:	Covenant requirement	Position at 31 December 2019
Interest cover	>4.0:1	11.3:1
Leverage	<3.0:1	1.5:1

At 31 December 2019, liquidity headroom (cash and undrawn committed banking facilities) was £148.7m (2018: £134.2m). Focus will continue to be on deleveraging and our net debt to EBITDA ratio stood at 1.6x pro forma EBITDA at 31 December 2019 (2018: 1.7x), increasing to 1.7x including the effects of IFRS 16. This headroom means the Group enters 2020 well-positioned with a strong balance sheet.

Principal Risks and Uncertainties

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

Forward-Looking Statements

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

Directors' Responsibilities

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

Annual General Meeting

The Annual General Meeting is scheduled to be held on 21 May 2020.

By order of the Board.

Martin Payne	**Paul James**
Chief Executive Officer	Chief Financial Officer

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** **Underlying** **£m**	**Non-underlying** **£m**	**Total** **£m**	2018 Underlying £m	Non-underlying £m	Total £m
Continuing operations							
Revenue	3	**447.6**	**–**	**447.6**	433.2	–	433.2
Cost of sales	4	**(255.2)**	**–**	**(255.2)**	(251.8)	–	(251.8)
Gross profit		**192.4**	**–**	**192.4**	181.4	–	181.4
Selling and distribution costs		**(71.7)**	**–**	**(71.7)**	(69.6)	–	(69.6)
Administration expenses	5	**(42.6)**	**(3.0)**	**(45.6)**	(37.8)	(2.3)	(40.1)
Trading profit		**78.1**	**(3.0)**	**75.1**	74.0	(2.3)	71.7
Amortisation of intangible assets	5	**–**	**(7.5)**	**(7.5)**	–	(5.9)	(5.9)
Operating profit	3, 4	**78.1**	**(10.5)**	**67.6**	74.0	(8.2)	65.8
Finance costs	5, 6	**(7.3)**	**(0.2)**	**(7.5)**	(6.9)	(0.7)	(7.6)
Profit before tax	3	**70.8**	**(10.7)**	**60.1**	67.1	(8.9)	58.2
Income tax	7	**(11.9)**	**1.4**	**(10.5)**	(10.5)	1.1	(9.4)
Profit from continuing operations		**58.9**	**(9.3)**	**49.6**	56.6	(7.8)	48.8
Profit from discontinued operations	5	**–**	**–**	**–**	–	0.3	0.3
Profit for the year attributable to the owners of the parent company		**58.9**	**(9.3)**	**49.6**	56.6	(7.5)	49.1
Basic earnings per share (pence)							
From continuing operations	8			**24.9**			24.5
From discontinued operations	8			**–**			0.2
	8			**24.9**			24.7
Diluted earnings per share (pence)							
From continuing operations	8			**24.6**			24.3
From discontinued operations	8			**–**			0.2
	8			**24.6**			24.5
Dividend per share (pence) – interim	9			**4.0**			3.7
Dividend per share (pence) – final	9			**8.1**			7.9
	9			**12.1**			11.6

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £m	2018 £m
Profit for the year attributable to the owners of the parent company	**49.6**	49.1
Other comprehensive income:		
Items which may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**(0.4)**	0.1
Recycling of foreign exchange differences to the income statement	**–**	(0.3)
Effective portion of changes in fair value of interest rate swaps	**0.5**	1.4
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)**	(0.2)
Other comprehensive income for the year net of tax	**0.1**	1.0
Total comprehensive income for the year attributable to the owners of the parent company	**49.7**	50.1
Attributable to the owners of the parent company from:		
Continuing operations	**49.7**	50.2
Discontinued operations	**–**	(0.1)
	49.7	50.1

GROUP BALANCE SHEET

AT 31 DECEMBER 2019

	Notes	31 December 2019 £m	31 December 2018 £m
Non-current assets			
Property, plant and equipment	10	**125.8**	118.4
Right-of-use assets		**14.8**	–
Intangible assets	11	**401.8**	401.9
Total non-current assets		**542.4**	520.3
Current assets			
Inventories		**59.7**	58.1
Trade and other receivables		**40.8**	37.4
Cash and cash equivalents		**47.7**	46.2
Total current assets		**148.2**	141.7
Total assets		**690.6**	662.0
Current liabilities			
Trade and other payables	14	**(97.5)**	(99.6)
Lease liabilities	14	**(2.9)**	–
Deferred and contingent consideration	14	**(3.4)**	(1.7)
Derivative financial instruments	14	**(0.5)**	(1.1)
Income tax payable		**(3.8)**	(6.3)
Total current liabilities		**(108.1)**	(108.7)
Non-current liabilities			
Loans and borrowings	14	**(197.7)**	(210.4)
Lease liabilities	14	**(11.9)**	–
Other liabilities	14	**(1.0)**	(0.7)
Deferred income tax liabilities		**(10.5)**	(11.0)
Total non-current liabilities		**(221.1)**	(222.1)
Total liabilities		**(329.2)**	(330.8)
Net assets		**361.4**	331.2
Capital and reserves			
Equity share capital		**0.2**	0.2
Capital redemption reserve		**1.1**	1.1
Own shares		**–**	(3.8)
Hedging reserve		**(0.4)**	(0.9)
Foreign currency retranslation reserve		**0.1**	0.5
Retained earnings		**360.4**	334.1
Total equity		**361.4**	331.2

GROUP STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

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

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019 £m**	2018 £m
Operating activities			
Profit before tax		**60.1**	58.2
Finance costs	6	**7.5**	7.6
Operating profit		**67.6**	65.8
Profit before tax from discontinued operations	5	**–**	0.3
Non-cash items:			
Profit on disposal of property, plant and equipment		**(0.8)**	(0.3)
Research and development expenditure credit		**(1.6)**	–
Non-underlying items:			
– amortisation of intangible assets	5	**7.5**	5.9
– provision for acquisition costs	5	**3.0**	2.2
– loss on disposal of assets classified as held-for-sale	5	**–**	0.1
Depreciation: property, plant and equipment		**16.6**	15.6
Depreciation: right-of-use assets		**3.2**	–
Share-based payments		**1.2**	1.0
Cash items:			
– settlement of restructuring costs		**–**	(2.3)
– settlement of aborted acquisition costs		**(0.2)**	(0.2)
– settlement of acquisition costs		**(1.2)**	(1.9)
Operating cash flows before movement in working capital		**95.3**	86.2
Movement in working capital:			
Receivables		**2.2**	(2.9)
Payables		**(7.3)**	10.8
Inventories		**(0.8)**	(4.1)
Cash generated from operations		**89.4**	90.0
Income tax paid		**(12.4)**	(11.2)
Net cash flows from operating activities		**77.0**	78.8
Investing activities			
Acquisition of businesses net of cash at acquisition		**(12.2)**	(56.1)
Proceeds from disposal of property, plant and equipment		**0.9**	0.9
Purchase of property, plant and equipment		**(22.3)**	(24.1)
Disposal of subsidiary undertaking net of overdraft divested		**–**	13.6
Net cash flows from investing activities		**(33.6)**	(65.7)
Financing activities			
New bank loan		**–**	226.1
Net repayment of bank loan		**(13.0)**	(199.1)
Proceeds from sale and leaseback of plant and equipment		**3.4**	-
Interest paid		**(7.4)**	(6.1)
Dividends paid	9	**(23.7)**	(22.3)
Proceeds from exercise of share options		**2.4**	0.3
Debt issue costs		**–**	(1.6)
Settlement of lease liabilities		**(3.5)**	–
Net cash flows from financing activities		**(41.8)**	(2.7)
Net change in cash and cash equivalents		**1.6**	10.4
Cash and cash equivalents at 1 January		**46.2**	35.7
Net foreign exchange difference		**(0.1)**	0.1
Cash and cash equivalents at 31 December		**47.7**	46.2

The net decrease in cash and cash equivalents in the year from discontinued operations included in the above was £nil (2018: £4.2m).

1. Basis of preparation

The preliminary results for the year ended 31 December 2019 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as endorsed by the European Union regulations as they apply to the consolidated financial statements of the Group for the year ended 31 December 2019. Whilst the financial information included in this preliminary announcement has been computed in accordance with the recognition and measurement requirements of IFRS, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies adopted have been consistently applied in all material aspects to all the periods presented, except for the adoption of new standards effective 1 January 2019.

The financial information set out in this announcement does not constitute the statutory accounts for the Group within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2018 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2019 will be filed in due course. The auditors' report on these accounts was not qualified or modified and did not contain any statement under sections 498(2) or (3) of the Companies Act 2006 or any preceding legislation.

2. Change in accounting standards

The Group adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adoption of IFRS 16 at 1 January 2019 was as follows:

	£m
Assets	
Right-of-use assets	14.0
Total assets	***14.0***
Liabilities	
Lease liabilities	14.0
Total liabilities	***14.0***
Total adjustment on equity:	
Retained earnings	-
Non-controlling interests	-
	-

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified its leases as finance or operating leases, based on an evaluation of the terms and conditions, whether it retained or acquired the significant risks and rewards of ownership of these assets and accordingly whether the lease required an asset and liability to be recognised on the balance sheet. Leases where the lessor retained a significant portion of the risks and benefits of ownership of the asset were classified as operating leases and accordingly the leased property was not capitalised, rentals payable were charged in the income statement as rent expense on a straight-line basis over the lease term, and any prepaid or accrued rent was recognised under prepayments and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using incremental borrowing rates at the date of initial application.

The Group also applied the available practical expedients wherein it:

- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, at 1 January 2019:

- Right-of-use assets of £14.0m were recognised and presented separately in the balance sheet. Additional lease liabilities of £14.0m (included in interest bearing loans and borrowings) were recognised; and
- There was no deferred tax impact.

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments at 31 December 2018 as follows:

	£m
Operating lease commitments at 31 December 2018	14.0
Additional lease commitments identified at 31 December 2018	2.0
	16.0
Weighted average incremental borrowing rate at 1 January 2019	3.12%
Discounted operating lease commitments at 1 January 2019	14.0
Lease liabilities at 1 January 2019	**14.0**

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

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 estimated 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).

c) Amounts recognised in the balance sheet and income statement

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets				Lease liabilities
	Freehold land and buildings	**Plant and other equipment**	**Motor vehicles**	**Total**	
	£m	**£m**	**£m**	**£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	(1.5)	(1.4)	(0.3)	(3.2)	0.0
Unwind of discount					(0.3)
Payments					3.5
At 31 December 2019	**7.1**	**7.5**	**0.2**	**14.8**	**(14.8)**

3. Segment information

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

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

	2019			2018		
	Residential Systems £m	**Commercial & Infrastructure Systems £m**	**Total £m**	Residential Systems £m	Commercial & Infrastructure Systems £m	Total £m
Continuing operations						
Segmental revenue	**264.8**	**197.1**	**461.9**	249.9	197.2	447.1
Inter-segment revenue	**(4.5)**	**(9.8)**	**(14.3)**	(4.6)	(9.3)	(13.9)
Revenue	**260.3**	**187.3**	**447.6**	245.3	187.9	433.2
Underlying operating profit*	**53.4**	**24.7**	**78.1**	46.3	27.7	74.0
Non-underlying items – segmental	**(3.5)**	**(5.4)**	**(8.9)**	(3.6)	(4.5)	(8.1)
Segmental operating profit	**49.9**	**19.3**	**69.2**	42.7	23.2	65.9
Non-underlying items – Group			**(1.6)**			(0.1)
Operating profit			**67.6**			65.8
Non-underlying items – finance costs			**(0.2)**			(0.7)
Finance costs			**(7.3)**			(6.9)
Profit before tax			**60.1**			58.2

* Underlying operating profit is stated before non-underlying items as defined in the Group Accounting Policies in the Annual Report and Accounts, and is the measure of segment profit used by the Group's CODM. Details of the non-underlying items of £10.7m (2018: £8.9m) are set out below at non-underlying items before tax.

Geographical analysis

Revenue by destination	**2019 £m**	2018 £m
Continuing operations		
UK	**401.2**	387.1
Rest of Europe	**23.6**	21.5
Rest of World	**22.8**	24.6
Total – Group	**447.6**	433.2

4. Operating profit

	2019 £m	2018 £m
Income statement charges		
Continuing operations		
Depreciation of property, plant and equipment (owned)	**16.6**	15.3
Depreciation of right-of-use assets	**3.2**	–
Cost of inventories recognised as an expense	**255.2**	251.8
Operating lease payments – minimum lease payments	**-**	3.9
Research and development costs written off	**0.9**	0.7
Discontinued operations		
Depreciation of property, plant and equipment (owned)	**–**	0.3
Cost of inventories recognised as an expense	**–**	13.5
Operating lease payments – minimum lease payments	**–**	–
Income statement credits – continuing operations		
Profit on disposal of property, plant and equipment	**0.8**	0.3

5. Non-underlying items

Non-underlying items comprised:

	2019			2018		
	Gross £m	**Tax £m**	**Net £m**	Gross £m	Tax £m	Net £m
Administration expenses: Acquisition costs – acquisition and other M&A activity	**3.0**	**(0.1)**	**2.9**	2.2	–	2.2
Administration expenses: Loss on disposal of assets classified as held-for-sale	**–**	**–**	**–**	0.1	–	0.1
Amortisation of intangible assets	**7.5**	**(1.3)**	**6.2**	5.9	(1.0)	4.9
Finance costs: Unamortised debt issue costs written off	**–**	**–**	**–**	0.6	(0.1)	0.5
Finance costs: Unwind of discount on contingent consideration	**0.2**	**–**	**0.2**	0.1	–	0.1
Discontinued operations: Profit from discontinued operations	**–**	**–**	**–**	(0.3)	–	(0.3)
Total non-underlying items	**10.7**	**(1.4)**	**9.3**	8.6	(1.1)	7.5

Acquisition costs in 2019 relate to the acquisition of the Alderburgh Group of companies and other M&A activity. The costs in 2018 relate to the acquisitions of Manthorpe Building Products Holdings Limited and Permavoid Limited.

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

The discontinued operations relate to the sale of Polypipe France Holding SAS.

6. Finance costs

	2019 £m	2018 £m
Interest on bank loan	**6.2**	5.8
Debt issue cost amortisation	**0.3**	0.4
Unwind of discount on lease liabilities	**0.3**	–
Other finance costs	**0.5**	0.7
Unamortised debt issue costs written off	**–**	0.6
Unwind of discount on contingent consideration	**0.2**	0.1
	7.5	7.6

7. Income tax

(a) Tax charged in the income statement

	2019 £m	2018 £m
Continuing operations		
Current income tax:		
UK income tax	**11.6**	11.6
Overseas income tax	**0.1**	0.1
Current income tax charge	**11.7**	11.7
Adjustment in respect of prior years	**(0.2)**	(0.5)
Total current income tax	**11.5**	11.2
Deferred income tax:		
Origination and reversal of temporary differences	**(1.3)**	(1.7)
Adjustment in respect of prior years	**0.3**	(0.1)
Total deferred income tax	**(1.0)**	(1.8)
Total tax expense reported in the income statement	**10.5**	9.4

Details of the non-underlying tax credit of £1.4m (2018: £1.1m) are set out in Note 5.

(b) Reconciliation of the total tax charge

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 2019 and 2018 is as follows:

	2019 £m	2018 £m
Accounting profit before tax – continuing operations	**60.1**	58.2
Accounting profit multiplied by the UK standard rate of income tax of 19.0% (2018: 19.0%)	**11.4**	11.1
Expenses not deductible for income tax	**0.6**	0.8
Non-taxable income	**(0.3)**	0.1
Adjustment in respect of prior years	**0.1**	(0.6)
Effects of patent box	**(0.8)**	(0.9)
Effects of changes in income tax rates	**(0.4)**	(0.1)
Effects of tax losses	**–**	(0.6)
Effects of other tax rates/credits	**(0.1)**	(0.4)
Total tax expense reported in the income statement – continuing operations	**10.5**	9.4

The effective rate for the full year was 17.5% (2018: 16.2%). If the impact of non-underlying items is excluded, the underlying income tax rate would be 16.8% (2018: 15.6%).

(c) Deferred income tax

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

	31 December 2019 £m	31 December 2018 £m
Continuing operations		
Deferred income tax liabilities/(assets)		
Short-term timing differences	**9.2**	9.9
Capital allowances in excess of depreciation	**3.3**	2.4
Share-based payments	**(1.4)**	(0.7)
Tax losses	**(0.6)**	(0.6)
Continuing operations	**10.5**	11.0

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 2019 and 2018 is as follows:

	2019 £m	2018 £m
Deferred income tax reported in the income statement	**(1.0)**	(1.8)
Deferred income tax reported in other comprehensive income	**0.1**	0.2
Share-based payments excess tax benefit	**(0.6)**	(0.1)
Deferred income tax disposed	**–**	0.3
Deferred income tax acquired	**1.0**	5.7
	(0.5)	4.3

(d) Change in corporation tax rate

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

Deferred income tax is measured at income tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on income tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred income tax has therefore been provided at 17% (2018: 17%).

(e) Unrecognised tax losses

A deferred income tax asset of £0.6m (2018: £0.6m) is held in respect of surplus non-trading losses of £3.2m (2018: £3.7m).

8. 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:

	2019	2018
Weighted average number of ordinary shares for the purpose of basic earnings per share	**199,330,121**	198,989,726
Effect of dilutive potential ordinary shares	**2,263,540**	2,112,645
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**201,593,661**	201,102,371

Underlying earnings per share is based on the result for the year after tax excluding the impact of non-underlying items of £9.3m (2018: £7.5m). The Directors consider that this measure provides a better and more consistent indication of the Group's underlying financial performance and a more meaningful comparison with prior and future periods to assess trends in our financial performance. The underlying earnings per share is calculated as follows:

	2019	2018
Underlying profit for the year attributable to the owners of the parent company (£m)	**58.9**	56.6
Underlying basic earnings per share (pence)	**29.6**	28.4
Underlying diluted earnings per share (pence)	**29.2**	28.1

9. Dividend per share

	2019 £m	2018 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2018 of 7.9p per share (2017: 7.5p)	**15.7**	14.9
Interim dividend for the year ended 31 December 2019 of 4.0p per share (2018: 3.7p)	**8.0**	7.4
	23.7	22.3
Proposed final dividend for the year ended 31 December 2019 of 8.1p per share (2018: 7.9p)	**16.1**	15.7

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.

10. Property, plant and equipment

	Freehold land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 1 January 2018	37.8	157.2	195.0
Additions	0.4	23.5	23.9
Disposals	–	(4.6)	(4.6)
Acquisition of businesses	8.4	2.8	11.2
Exchange adjustment	–	0.1	0.1
At 31 December 2018	46.6	179.0	225.6
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
Depreciation and impairment losses			
At 1 January 2018	5.4	91.0	96.4
Provided during the year	1.1	14.2	15.3
Disposals	–	(4.5)	(4.5)
At 31 December 2018	6.5	100.7	107.2
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
Net book value			
At 31 December 2019	**44.4**	**81.4**	**125.8**
At 31 December 2018	40.1	78.3	118.4

Included in freehold land and buildings is non-depreciable land of £16.2m (2018: £14.7m).

11. Intangible assets

	Goodwill £m	Patents £m	Brand names £m	Customer relationships £m	Licences £m	Total £m
Cost						
At 1 January 2018	319.7	18.2	25.5	6.4	–	369.8
Acquisition of businesses	23.3	14.5	3.6	9.1	0.8	51.3
At 31 December 2018	343.0	32.7	29.1	15.5	0.8	421.1
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
Amortisation and impairment losses						
At 1 January 2018	–	4.3	6.1	2.9	–	13.3
Charge for the year	–	2.0	2.6	1.3	–	5.9
At 31 December 2018	–	6.3	8.7	4.2	–	19.2
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
Net book value						
At 31 December 2019	**345.6**	**25.3**	**18.8**	**11.4**	**0.7**	**401.8**
At 31 December 2018	343.0	26.4	20.4	11.3	0.8	401.9

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

Impairment testing of goodwill

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

Carrying amount of goodwill allocated to each of the CGUs:

CGU	**31 December 2019 £m**	31 December 2018 £m
Building Products	**146.1**	146.1
Building Services	**31.4**	31.4
Civils	**36.0**	36.0
Nuaire	**91.3**	91.3
Manthorpe	**21.3**	21.3
Others	**19.5**	16.9
	345.6	343.0

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 1% to 2% thereafter (2018: 2% to 3%).

A pre-tax discount rate of 10.0% (2018: 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, which included a scenario for the potential impact of the Coronavirus, did not cause an impairment of goodwill.

12. Acquisitions

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 consideration of £9.7m included a payment of £0.5m for net cash on completion and is net of loans and borrowings at acquisition of £3.0m. Additional debt and debt like items amounted to £1.8m.

Details of the acquisition are as follows:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	4.8	4.8
Property, plant and equipment	6.0	(0.1)	5.9
Inventories	1.0	–	1.0
Trade and other receivables	3.2	–	3.2
Cash and cash equivalents	0.5	–	0.5
Trade and other payables	(3.3)	–	(3.3)
Loans and borrowings	(3.0)	–	(3.0)
Income tax payable	(0.1)	–	(0.1)
Deferred income tax liabilities	(0.4)	(0.6)	(1.0)
Net identifiable assets	**3.9**	**4.1**	**8.0**
Goodwill on acquisition			2.6
Estimated deferred consideration			(0.9)
Initial cash consideration			**9.7**

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

Post-acquisition Alderburgh has contributed £2.7m revenue and £nil underlying operating profit which is included in the Group income statement. If Alderburgh had been acquired on 1 January 2019 the Group's results for the year ended 31 December 2019 would have shown revenue from continuing operations of £462.9m and underlying operating profit of £78.8m.

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

	£m
Cash consideration (included in cash flows from investing activities)	**9.7**
Cash acquired (included in cash flows from investing activities)	**(0.5)**
Loans and borrowings acquired and settled (included in cash flows from investing activities)	**3.0**
	12.2
Acquisition costs (included in cash flows from operating activities)	**0.6**
Net cash flows on acquisition	**12.8**

Acquisition costs of £0.6m were expensed and are included in non-underlying items in administration expenses. Of the £0.6m acquisition costs, £0.5m were fully cash settled in the year and £0.1m was included in trade and other payables.

Deferred consideration at fair value of £0.9m has been recognised at the balance sheet date. This relates to the completion payment which is payable upon agreement of the completion accounts and has been included in the purchase consideration.

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 of up to £12.5m depending on the EBITDA performance of Permavoid in the two years to 30 September 2020.

Contingent consideration at fair value of £2.5m has been recognised at 31 December 2019 (2018: £1.7m). Of this, £1.4m (2018: £1.4m) is contingent on EBITDA performance in the first year of trading following acquisition and has been included in the purchase consideration. The balance of £1.1m (2018: £0.3m) has been included in non-underlying items (£0.8m in 2019 and £0.3m in 2018) and relates to a second payment that is contingent on EBITDA performance in the second year of trading following acquisition and the continued employment of key personnel. This second payment is being accrued over the two-year period. Of the £0.8m (2018: £0.3m), £0.6m (2018: £0.2m) is included in administration expenses and £0.2m (2018: £0.1m) is included in finance costs.

Contingent consideration was determined using the Directors' assessment of the likelihood that financial targets will be achieved. The fair value of the consideration has been derived by discounting the estimated cash consideration at 10.0% (being the Group's estimated risk adjusted cost of capital). The estimated cash consideration is derived from the budgets and forecasts for Permavoid.

13. Discontinued operations

On 31 January 2018, the Group announced that it had entered into exclusive negotiations to sell Polypipe France Holding SAS, its French operations, to Ryb S.A., a France-based manufacturer and distributor of plastics in Europe. After successful completion of the required employee consultation process, the sale was completed on 29 March 2018.

The table below provides further detail of the discontinued operations:

	2018 £m
Revenue	16.7
Expenses	(16.4)
Profit before tax	0.3
Income tax	–
Profit from discontinued operations	0.3

14. Financial liabilities

	31 December 2019 £m	31 December 2018 £m
Non-current loans and borrowings:		
Bank loan – principal	**199.0**	212.0
– unamortised debt issue costs	**(1.3)**	(1.6)
Total non-current loans and borrowings	**197.7**	210.4

	31 December 2019 £m	31 December 2018 £m
Other financial liabilities:		
Trade and other payables	**97.5**	99.6
Forward foreign currency derivatives	**–**	0.1
Interest rate swaps	**0.5**	1.0
Lease liabilities	**14.8**	-
Other liabilities	**1.0**	0.7
Deferred and contingent consideration	**3.4**	1.7
	117.2	103.1

Bank loan

On 19 November 2018, the Group entered into an Amendment and Restatement Agreement with various lenders in respect of the Group's previous revolving credit facility agreement dated 4 August 2015. The bank loan, which comprises a £300.0m revolving credit facility and £50.0m uncommitted accordion facility, is secured and matures in November 2023 (with two further uncommitted annual renewals through to November 2025 possible). Interest is payable on the bank loan at LIBOR plus an interest margin ranging from 0.90% to 2.75% which is dependent on the Group's leverage (net debt as a multiple of EBITDA) and reduces as the Group's leverage reduces. The interest margin at 31 December 2019 was 1.65% (2018: 1.65%).

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

At 31 December 2019, the Group had available, subject to covenant headroom and excluding the £50.0m uncommitted accordion facility, £101.0m (2018: £88.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met at 31 December 2019.

The Group is subject to a number of covenants in relation to its bank loan which, if breached, would result in the bank loan becoming immediately repayable. These covenants specify certain maximum limits in terms of net debt as a multiple of EBITDA and interest cover. At 31 December 2019, the Group was not in breach of any bank covenants. The covenant position was as follows:

Covenant	Covenant requirement	Position at 31 December 2019
Interest cover (Underlying operating profit:Finance costs excluding debt issue cost amortisation)	>4.0:1	11.3:1
Leverage (Net debt excluding leases liabilities:pro forma EBITDA)	<3.0:1	1.5:1

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.