Norcros plc
Annual report and accounts 2018

Norcros is a market leading supplier of high quality and innovative bathroom and kitchen products.

We have seven complementary UK businesses: Triton Showers, Merlyn, Vado, Croydex, Abode, Johnson Tiles and Norcros Adhesives, and three complementary businesses in South Africa: Tile Africa, Johnson Tiles South Africa and TAL.

Our businesses have a long, successful track record of serving consumers, architects, designers, retailers and wholesalers. Our emphasis is on innovation, quality and service combined with a strong understanding of our customers' needs.

We aim to use our strong brands, our innovative products and our leading market positions to drive investment returns and shareholder value.

UK portfolio:

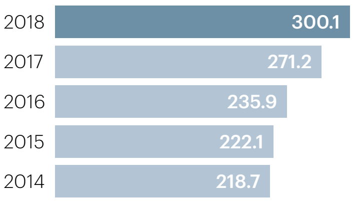
TRITON MERLYN VADO Croydex abode

Highlights

- Ninth consecutive year of growth
- Revenue up 10.7% at £300.1m (2017: £271.2m)
- Underlying operating profit up 15.1% at £27.4m (2017: £23.8m)
- Group operating profit was £19.6m (2017: £16.8m)
- Acquisition of Merlyn trading strongly, in line with expectations and fully integrated
- Further progress towards new strategic growth target
- Strong cash conversion
- Underlying ROCE at 18.0% (2017: 18.4%) – ahead of strategic target
- Full year dividend increased by 8.3% to 7.8p

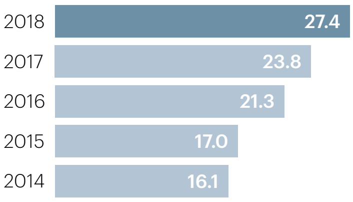
Total revenue £m

£300.1m +10.7%



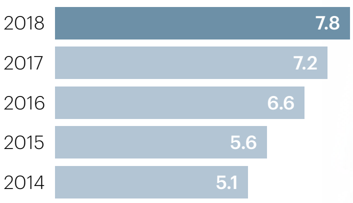
Underlying operating profit £m

£27.4m +15.1%



Dividends per share p

7.8p +8.3%



Pictured: Omika, by Vado, a beautiful collection of taps, showers and accessories designed by Jo Love.

Front cover: Material Lab is a design resource studio based in central London, showcasing a plethora of surface materials for the interior design and architectural community and at the same time, it allows Johnson Tiles and Vado to collaboratively target mutual customers.

Further information and investor updates can be found on our website at **www.norcros.com**

JOHNSON·TILES   norcros ADHESIVES

South African portfolio:

TILEAFRICA   JOHNSON·TILES®   tal

Our portfolio of brands is well established, with leading market positions.

UK

In the UK we offer a wide range of quality bathroom and kitchen products both for domestic and commercial applications. Our portfolio of businesses is well established, services a broad customer base and benefits from leading market positions and strong brands.

TRITON

Manufacturer and distributor of electric and mixer showers and accessories

Providing high quality and innovative electric and mixer showers to a wide range of retail and trade customers, assembled in the UK using parts sourced from Europe and the Far East

MERLYN

The UK and Ireland's no. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors

Design, engineer and craft the finest showering environments in the world

VADO

Manufacturer and distributor of taps, mixer showers, bathroom accessories and valves

Providing a wide range of high end brassware and accessories to retail and trade customers, assembled in the UK using parts sourced from Europe and the Far East

Croydex

Market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories

Offering a wide range of accessories and furniture for the bathroom such as toilet seats, wall-mounted cupboards, vanity units, shower rods, rails and curtains to retail and trade customers, sourced from the Far East

abode

A leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks

Designing and supplying high end kitchen taps, sinks and instant hot water taps in both the UK-branded and own-label segments, mainly sourced from Europe

JOHNSON·TILES

Manufacturer and distributor of ceramic wall and floor tiles

Offering a mixture of own-manufactured wall tile from our plant in Stoke on Trent, and wall and floor tile sourced from around the world, it is a "one-stop shop" for all customers' ceramic tile needs, from high volume floor tiles all the way to bespoke individual projects

norcros ADHESIVES

Manufacturer of tile and stone adhesives and ancillary products

Supplying ceramic tile adhesives and self-levelling compounds, as well as backing boards and other requirements, for wet rooms to both retail and trade customers from our state-of-the-art manufacturing facility in the UK

Read more about our UK businesses on pages 14 to 19

Triton's digital shower, launched in September 2017, created to incorporate customisable pre-sets to save favourite settings, a clear temperature read-out, plus a silent motor to avoid disturbing any 5 minute morning escapes. The portable wireless remote start/stop, with warm up function, means you can turn on the shower while you grab a bit longer in bed. The warm up is completed in minutes and automatically stops should you return to the Land of Nod.

SOUTH AFRICA

Our complementary businesses in South Africa operate principally from a shared manufacturing and administrative site near Johannesburg, allowing them to maximise operational, revenue and cost synergies.

TILEAFRICA

A leading retailer of local and international tiles and associated bathroom and kitchen products

A network of 34 showrooms throughout South Africa and Sub-Saharan Africa selling both own-manufactured tiles and adhesives from its sister companies and sourced products

JOHNSON·TILES

A leading manufacturer and distributor of ceramic wall and floor tiles

A well invested plant and technological know-how have positioned JTSA as the number two ceramic tile manufacturer in South Africa

tal

Leading manufacturer of tile adhesives, pourable floor coverings and tiling tools

Offering a range of products and accessories to be a "one-stop shop" for tile fixing solutions

Read more about our South African businesses on **pages 20 to 21**

Clearwater Store, opened in October 2017, new format "Bathroom Store within a Store" showcasing Vado, Evox and Croydex ranges.

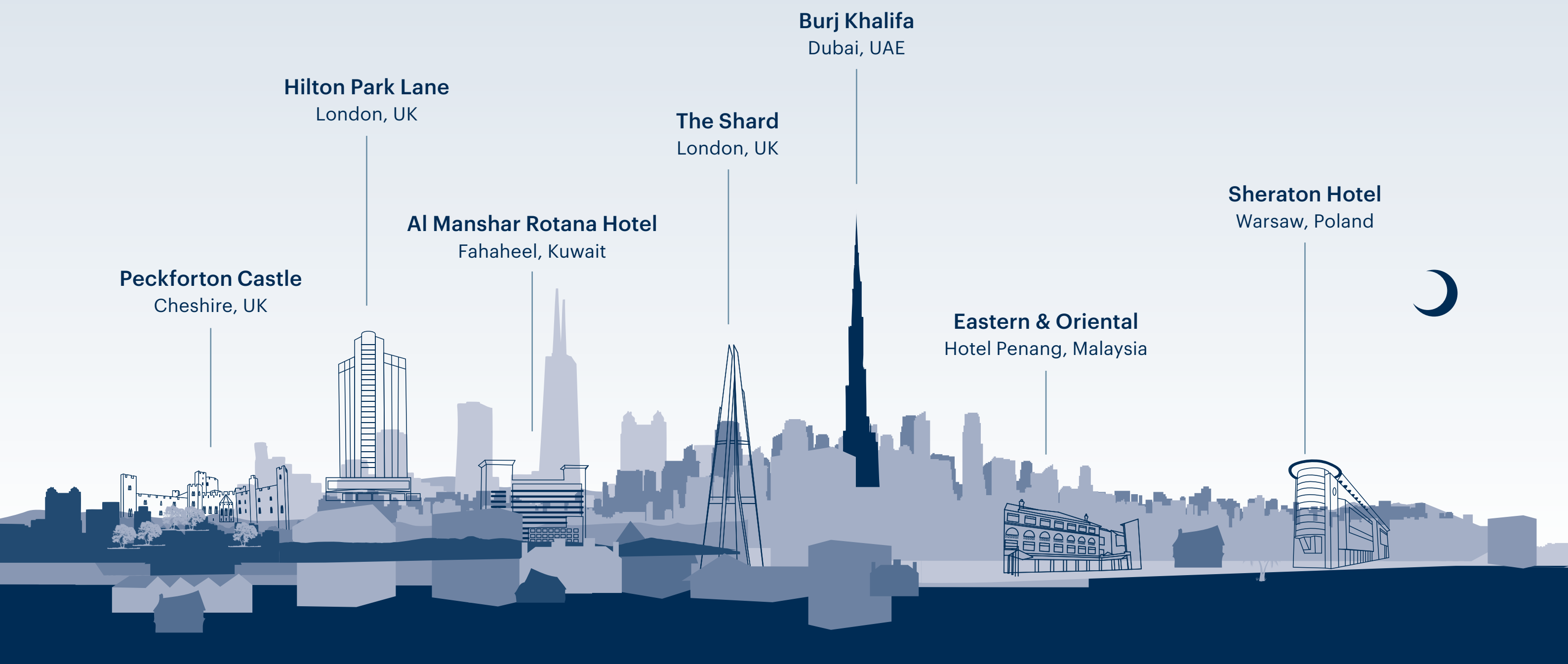
NORCROS DNA

- Leading market positions and brands
- Autonomous business units
- Innovation and new product development
- Complementary products and market synergies
- Channel management expertise
- Best in class sourcing and assembly
- Successful acquisition strategy
- Experienced management team

Read more in our Chairman's statement **pages 6 to 7**

International projects

Our products can be found in some of the most prestigious hotel, commercial and residential developments throughout the world.



Princess Tower
Dubai, UAE

Hotel Indigo
Wanchai, Hong Kong

Coricraft, Mall of Africa
Waterfall City, South Africa

Hilton Hawaiian Village
Honolulu, Hawaii

JW Marriott Marquis Hotel
Dubai, UAE

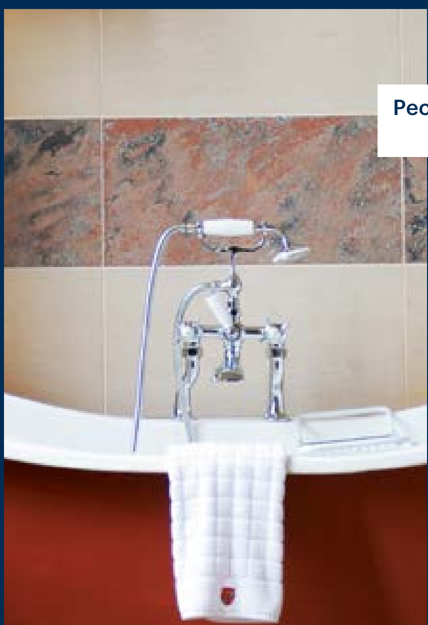
One Angel Square
Manchester, UK

Serena Hotel
Kampala, Uganda

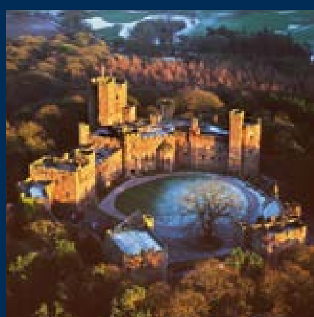
The Pearl
Doha, Qatar

Angaga Island Resort
Ari Atoll, Maldives

Central Market
Abu Dhabi, UAE



Peckforton Castle
Cheshire, UK



Norcros has recorded its ninth consecutive year of revenue and underlying operating profit growth.

Summary

- Ninth consecutive year of growth
- Underlying operating profit up 15.1% at £27.4m (2017: £23.8m)
- Group operating profit was £19.6m (2017: £16.8m)
- Acquisition of Merlyn – further progress towards strategic growth target
- Underlying ROCE at 18.0% (2017: 18.4%) – ahead of strategic target
- Full year dividend increased by 8.3% to 7.8p
- Definitions of alternative performance measures are provided in note 8

Overview

I am delighted to announce that Norcros has recorded its ninth consecutive year of revenue and underlying operating profit growth, with results in line with market expectations. The Group has also continued to make excellent progress towards its strategic objectives with the acquisition of the Merlyn business in the year.

Group revenue for the year was £300.1m, 10.7% higher than the prior year on a reported basis, 8.6% higher on a constant currency basis and 4.4% higher on a like for like constant currency basis. Underlying operating profit at £27.4m was 15.1% higher than the prior year, mainly reflecting the continued improvement in performance in our South African business, a first-time contribution from Merlyn, which was acquired in November 2017 and the improvement in performance at Triton partly offset by a lower contribution from Johnson Tiles. This has resulted in a 6.1% increase in underlying diluted earnings per share to 29.5p (2017: 27.8p).

Acquisition of Merlyn

The £59.1m acquisition of the Merlyn business, the UK and Ireland's no. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors, was the Group's largest acquisition and a further key step towards achieving our strategic goals. I have been encouraged by the seamless integration into the Norcros Group and the strong trading performance since being acquired.

The support for the Group's strategy from existing and new shareholders was evident in the year as the Group successfully raised £31.4m of new equity through an open offer and firm placing and increased its banking facilities to £120m to provide the appropriate funding structure for the Merlyn acquisition. The Group remains in a strong financial position, with a continued focus on cash generation in the year. Year-end net debt at £47.1m (2017: £23.2m) represents pro-forma leverage of 1.2 times underlying EBITDA.

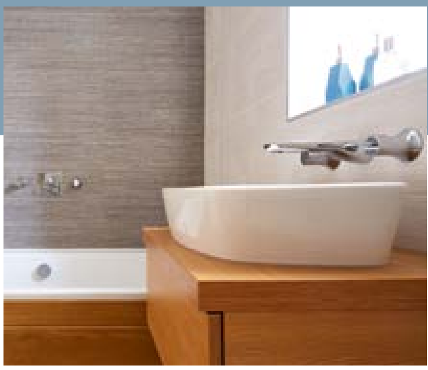
Dividend

The Board is recommending a final dividend for the year of 5.2p (2017: 4.8p) per share. When combined with the interim dividend of 2.6p (2017: 2.4p) per share, which was paid on 12 January 2018, this will make a total dividend for the year of 7.8p (2017: 7.2p) per share, an 8.3% increase on the previous year.

Pension scheme

The net deficit relating to our UK defined benefit pension scheme as calculated under IAS 19R has reduced to £48.0m at 31 March 2018 from £62.7m at 31 March 2017, primarily due to an increase in the discount rate to 2.65% and lower inflation expectations. We remain confident that our pension obligations continue to be appropriately funded and well managed, with the Company having paid £2.5m this year into the scheme in accordance with the agreement made with the Trustee in March 2016. A new triennial valuation dated 1 April 2018 and updated deficit recovery plan will need to be agreed between the Trustee and Company in due course and discussions are now underway.

CASE STUDY
VADO



Avant Homes

THE CHALLENGE

As one of the UK's leading privately-owned housebuilders, Avant Homes has built a renowned reputation for innovative design and specification. With 1,600 homes built in line with their prestigious reputation, the challenge for VADO has been to ensure all plumbers tasked with installing specified digital products are trained to do so, with many other developers specifying conventional shower valves.

THE SOLUTION

With Identity shower valves and Altitude basin mixers being specified nationally, training plumbers to install VADO's digital shower valve has been a vital cog in the product specification process. The Identity range has been designed with innovation at its core, therefore sufficient installation training will ensure maximum working capacity for complete customer satisfaction.

THE RESULT

With ongoing developments across the UK featuring VADO's brassware and digital products, each bathroom will boast high-performance taps and showers to accompany their stylish and contemporary interiors. Such projects will continue to boost VADO's superior reputation for specifying sustainable products for newly-developed homes, whilst boosting Avant Homes' quest to become the UK's home builder of choice.

Governance

As Chairman, one of my primary responsibilities is to ensure that the Group operates to the highest standards in all aspects of governance and risk management. Our aim at Norcros is to manage a growing business effectively, while ensuring that proper operating procedures and internal controls are maintained at all times. Transparency is central to this objective and you will find more detail about our approach and progress over the last year in the Corporate Governance section of this report.

People

We regard our employees as our most valuable asset and in recognition of this the Group aims to create an environment in which they can see their careers develop. On behalf of the Board I would like to once more thank the Group's employees who have helped to deliver upon the Group's strategic objectives and in particular for their dedication and contribution over the last twelve months. I would also like to welcome the management team and employees of Merlyn to the Group.

Strategy update

The Group implemented its strategy for growth in 2013, accompanied by a number of strategic targets. As detailed later in the report the execution of the 2013 strategy has been highly successful delivering improved returns for shareholders over the five-year period. During the year the Board reviewed its strategy and concluded that whilst the current strategy has been successful, a new "2023 Vision" for the Group and a refreshed set of strategic targets to 2023 was appropriate which combined would provide the strategic framework for the next phase of development of the Group. The 2023 Vision and Strategy is more fully set out in the strategy report section but in summary the objectives of the 2018 strategy are to continue to scale up the business through acquisitions and organically, focusing on complementary markets with attractive returns on capital and leveraging Group synergy opportunities.

The strategy has strong momentum, and this is reflected in the challenging new strategic targets as follows:

- we aim to grow revenue to £600m by 2023 (previously £420m by 2018);
- maintain approximately 50% of Group revenue derived outside the UK (no change); and
- delivering an improved and sustainable ROCE of over 15% (previously a 12–15% range) through the economic cycle.

The Board believes that our focus on being a leading supplier of bathroom and kitchen products in selected geographies, offering strong brands, contemporary designs with a reputation for quality, outstanding service and innovation will deliver improved and sustainable returns for shareholders.

Summary

The Group has delivered another strong performance in 2017/18 despite challenging market conditions and a weaker pound, reflecting the successful acquisition strategy and the sustained focus on driving organic growth through market share gain, investment in new products, operational efficiency programmes and geographic expansion. In addition, we have taken further steps towards achieving our vision and strategic goals with the acquisition of the Merlyn business during the year, which will extend our product offering and provide opportunities to drive additional revenue for the Group within our chosen sectors and geographies. The resilience of the Group's business portfolio including the recent acquisitions, together with our well-developed acquisition pipeline, give me confidence that we can continue to make strong progress in the current year towards our new medium-term strategic objectives.

Martin Towers

Martin Towers
Chairman
13 June 2018

The execution of our growth strategy continued apace and in the period we successfully completed our most significant acquisition to date.

Overview

Building on our record of sustained progress over recent years, Group revenue for the year increased by 10.7% to £300.1m (2017: £271.2m), by 8.6% on a constant currency basis, and by 4.4% on a like-for-like constant currency basis. Group underlying operating profit was £27.4m compared to £23.8m in the prior year.

The execution of our growth strategy continued apace and in the period we successfully completed our most significant acquisition to date. Merlyn, the UK and Ireland's no. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors, has immediately made a strong contribution to the Group. Additionally, Merlyn offers good synergistic opportunities for cross selling and further channel development across our Group businesses.

UK revenue for the year at £200.6m (2017: £182.3m) was 10.0% ahead of the prior year and 3.6% higher on a like for like basis. The like for like increase reflected the combination of strong revenue growth in the UK portfolio excluding Johnson Tiles of 9.8% and a decline in revenue of 11.5% in Johnson Tiles. UK underlying operating profit for the year was £1.2m higher than the prior year at £18.6m (2017: £17.4m) with an underlying operating margin of 9.3% (2017: 9.5%). The improvement in profit in the year mainly reflected the first time contribution from our newly acquired Merlyn business and the improvement in performance at Triton, partly offset by the decline in profitability in Johnson Tiles.

Whilst the actions to restructure the Johnson Tiles business in 2017 were completed successfully, market conditions in the second half of the year proved more challenging than expected. As a result, a further restructuring programme has commenced which will involve the loss of up to 50 jobs. This has resulted in an exceptional charge of £2.1m. Annualised savings are expected to be at least £2.0m and we remain confident that this decisive action will return the tile business back into profitability in the current year.

Our South African business continued the sustained progress of recent years with another year of strong growth. The combination of market share gain and the appreciation of the Rand against Sterling during the year resulted in reported revenue 11.9% ahead of the prior year at £99.5m (2017: £88.9m). On a constant currency basis revenue was 5.9% higher than last year. Underlying operating profit for the year increased by 38% to £8.8m (2017: £6.4m), including a £0.3m benefit from the stronger Rand. This reflected market share gains, further supply chain improvements and timely cost management. The return on sales was 8.8% (2017: 7.2%), a considerable increase on last year. In Johnson Tiles SA, the new product development programme and ongoing plant improvements contributed to another year of operating profit growth. In TAL, operational improvements in all three plants, together with market share gains, delivered underlying operating profit growth in the year. In Tile Africa, the expanded CX store programme and improvements in sourcing and price management contributed towards profit growth.

Summary

- Sustained progress over a number of years
- Merlyn has immediately made a strong contribution to the group
- UK revenue 10% ahead of prior year
- Another year of strong growth in South Africa
- A further restructuring programme has commenced in Johnson Tiles
- Funding capacity for further acquisitions and organic growth

Group underlying operating profit at £27.4m (2017: £23.8m) was 15.1% higher than the prior year, with Group underlying operating margins increasing to 9.1% (2017: 8.8%). Underlying operating cash flow improved to £31.0m (2017: £29.8m) reflecting the improved underlying operating profit, a successful inventory reduction programme at Johnson Tiles and growth related working capital investment.

During the year the Group agreed a new £120m (plus a £30m accordion) unsecured debt facility to support the acquisition of Merlyn and provide the funding capacity for further acquisitions and organic growth opportunities. This new facility will run for four years to 2021 with the option to extend for an additional year. Furthermore, to finance the Merlyn acquisition, the Group successfully raised £31.4m of equity through the admission of 18,254,161 new ordinary shares.

The Group has a strong Balance Sheet with net debt of £47.1m (2017: £23.2m), and pro forma leverage of 1.2 times underlying EBITDA (2017: 0.8 times).

Strategy

In April 2018 we announced a refreshed strategy for growth, the details of which are set out in detail on page 11. The new 2018–2023 strategy builds on the 2013–2018 strategic initiatives and defines a 2023 vision for the Group. The future performance of the Group will be measured against the key strategic targets set out in this refreshed strategy.

reddot award
product design

Merlyn Arysto Eight Infold Door is the winner of the prestigious Red Dot Design Award. The virtually frameless door has technical innovation combined with ingenious cutting-edge design, where each component has been precision engineered to reduce size, optimise space and maximise performance.

The current year's performance is benchmarked against the following three strategic targets established in 2013: to double Group revenue to £420m by 2018; to maintain revenue derived outside of the UK at approximately 50% of Group revenue; and to sustain a pre-tax return on underlying capital employed of 12% to 15% over the economic cycle.

We have again made solid progress in the current year against all three of these objectives. Group revenue in the current year has increased by 10.7% to £300.1m with our progress against the strategic target held back by the significant depreciation of the Rand/Sterling exchange rate since the objective was established in 2013. In constant currency terms, Group revenue would have been nearer to £330m.

On a Sterling reported basis, Group revenue derived outside of the UK was 44.3% (2017: 42.8%). In constant currency terms, we are in line with our target this year at 49.3% and remain focused on growing our current overseas markets and developing new ones to support this important strategic intent.

Along with our existing business portfolio all the recently acquired businesses have strongly contributed towards the Group achieving an underlying return on capital employed of 18.0% (2017: 18.4%), which is ahead of our 2013 strategic target.

Our track record in acquiring quality businesses in our targeted sectors and geographies, and our skill in seamlessly integrating them into the Group and further developing them, together with our growing pipeline of acquisition opportunities, gives me confidence that we will successfully deliver on our new 2023 vision and strategic targets and continue to create value for our shareholders. I am also encouraged by the growing number of synergies and organic growth opportunities being progressed throughout the expanded Group.

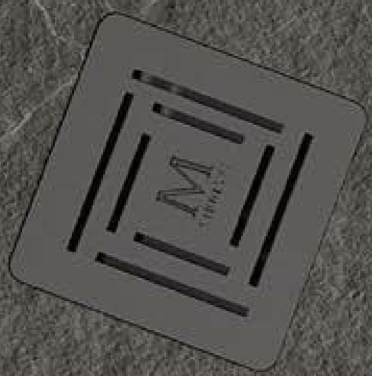
Summary and outlook

The Group has announced its 2023 vision and refreshed its strategic targets to 2023. This provides an important framework for all stakeholders as we continue to successfully grow and develop the Group. Whilst the drivers of demand in our industry in the medium term remain strong, the UK market in the short term remains challenging. With the continued investment in our sales and marketing initiatives and the decisive actions taken to realign our operating costs and the further opportunities that the acquisition of the Merlyn business brings, I am confident that our UK business is well placed to grow further. Our South African business has continued to deliver sustainable growth, and, notwithstanding the political unrest prior to the election of the new President, the medium-term outlook in South Africa remains positive, providing opportunities for the Group to continue to grow its market share. With our leading market positions, portfolio of strong brands, continued new product investment, strong financial position and self-help initiatives focused on market share gain and operational improvement, the Board remains confident that the Group should continue to make further progress for the year ending 31 March 2019.

Nick Kelsall
Group Chief Executive
13 June 2018

Consistent standards. Considerable resources.

We have a well established, successful track record of serving consumers, architects, designers, developers, retailers and wholesalers. Our emphasis is on strong branding, contemporary designs, trusted quality, outstanding service, innovation and breadth of range. We base our business on understanding our customers' needs. Norcros is a substantial group with consistent, high quality standards and considerable resources. We invest significantly and continuously in our people, brands, product development and processes and we aim to develop our business in both the quality of our products and the scale of our activities.



Our business model

Maximising shareholder value through continuous investment

People → Product → Processes

Continuous investment

We serve consumers, architects, designers, developers, retailers and wholesalers across the globe

Strong brands
Operating in the UK and South Africa, many of our brands are household names and hold market leading positions

Trusted quality
Leveraging our established positions, we have a reputation for innovation and leading edge technical capability

Outstanding service
We offer outstanding customer service, bespoke solutions and unrivalled technical support

Wide product range
We offer a "one-stop shop" of showering, bathroom and kitchen taps, sinks, bathroom accessories, tiles and fixing solutions

A focused growth strategy and strong results.

About our strategy
The Board believes the execution of this strategy will enhance shareholder value.

Organic growth will continue to be driven by capitalising on our leading market positions in the UK and South Africa. Our strategic initiatives will ensure we maintain the provision of innovative new product programmes, excellent customer service and investment in our brand portfolio. We will also reinforce our "designed in Britain" credentials as well as capture the growth opportunities in South Africa, Sub-Saharan Africa and the Middle East, where medium-term growth rates are likely to be higher than those in the more developed markets. We will continue to drive faster revenue growth in our existing export markets and develop new emerging export opportunities.

Acquisitions will be targeted at complementary market and industry segments exhibiting attractive returns on capital which are likely to be in bathroom and kitchen products with exposure to commercial and specification segments. The acquisitions of Abode in March 2016 and Merlyn in November 2017 represent the most recent examples of the execution of our strategy.

Our vision

"A leading supplier of bathroom and kitchen products in selected geographies, offering strong brands, contemporary designs, trusted quality, outstanding service, innovation and a wide product range."

Our strategic objectives

1. Pursue a faster and focused growth strategy to scale up the size of the Group organically and by acquisition
2. Maintain investment in our strong brands and new product development
3. Leverage revenue synergies within our portfolio of complementary businesses
4. Target acquisitions in complementary markets with attractive returns on capital
5. Continue to ensure high standards of corporate governance and responsibility

Our strategic targets

Grow Group revenue to
£600m
by 2023

Maintain approximately
50%
of Group revenue derived outside the UK

Achieve a sustainable underlying return on capital employed of above
15%
through the economic cycle

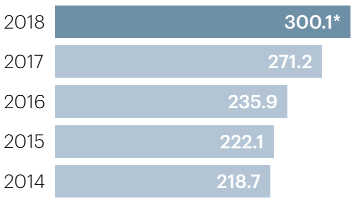
Key performance indicators

Measuring our progress.

We use the following key performance indicators (KPIs) to measure our progress against our strategic priorities.

Total revenue £m

£300.1m +10.7%



(*Constant currency basis: £329.5m[1])

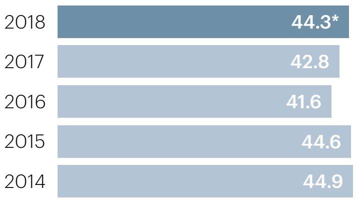
Definition Reported Group revenue for the year which excludes discontinued operations.

Performance Total revenue for the year increased by £28.9m (10.7%), 8.6% on a constant currency basis, and 4.4% on a constant currency like for like basis. UK revenues increased by 10.0% and by 3.6% on a like for like basis. South African revenues rose by 11.9% on a reported basis and by 5.9% on a constant currency basis.

1 When the strategic target to grow Group revenue to £420m by 2018 was first established in the year ended 31 March 2013, the Rand/Sterling average exchange rate was 13.37, compared to the average Rand/Sterling exchange rate for the year ended 31 March 2018 of 17.32. In order to demonstrate the underlying constant currency revenue growth over that period, Group revenue for the year ended 31 March 2018 has been recalculated as if the exchange rate had remained constant, and on that basis would have been £29.4m higher at £329.5m.

Group revenue outside the UK %

44.3% +1.5%



(*Constant currency basis: 49.3%[2])

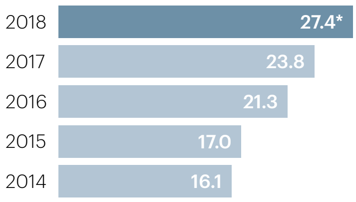
Definition Revenue from the Group's South African operating segment plus export revenue from the Group's UK operating segment.

Performance Group Revenue outside the UK has increased in the year to 44.3% based on another year of strong constant currency growth in South Africa alongside Rand appreciation against Sterling driving translational currency gains.

2 When the strategic target to maintain approximately 50% of Group revenue derived outside of the UK was first established in the year ended 31 March 2013, the Rand/Sterling average exchange rate was 13.37, compared to the average Rand/Sterling exchange rate for the year ended 31 March 2018 of 17.32. In order to demonstrate the underlying progress over that period, the share of Group revenue derived outside of the UK for the year ended 31 March 2018 has been recalculated as if the exchange rate had remained constant, and on that basis would have been 49.3%.

Underlying operating profit £m

£27.4m +15.1%



(*Constant currency basis: £30.2m[3])

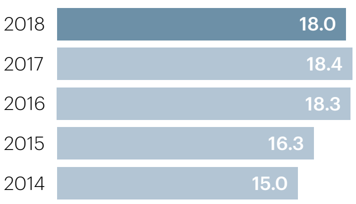
Definition Reported operating profit as adjusted for IAS 19R administrative expenses, acquisition related costs and exceptional operating items, as defined in note 8 to the financial statements.

Performance Underlying operating profit increased by £3.6m (+15.1%) principally reflecting the continued improvement in the Group's South African operating segment and the first time contribution of Merlyn.

3 In the year ended 31 March 2013, the Rand/Sterling average exchange rate was 13.37, compared to the average Rand/Sterling exchange rate for the year ended 31 March 2018 of 17.32. In order to demonstrate the underlying progress in profitability in constant currency terms over that period, Group underlying operating profit for the year ended 31 March 2018 has been recalculated as if the exchange rate had remained constant, and on that basis would have been £2.8m higher at £30.2m.

Underlying return on capital employed %

18.0% -40bps

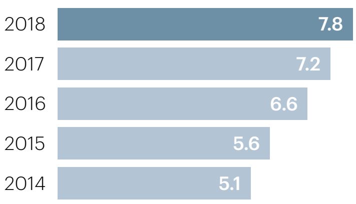


Definition Underlying operating profit expressed as a percentage of the average of opening and closing underlying capital employed (as defined in note 8 to the financial statements).

Performance Underlying ROCE remained above the strategic range of 12–15% over the economic cycle.

Dividends per share p

7.8p +8.3%

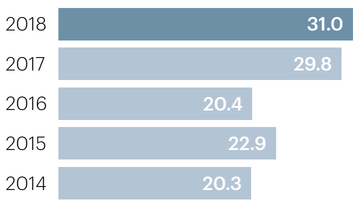


Definition The total of the interim dividend and the proposed final dividend for the financial year. 2014 and 2015 have been restated to reflect the 10:1 share consolidation completed on 29 September 2015.

Performance In line with the Board's progressive dividend policy the dividends per share increased 8.3% to 7.8p per share from 7.2p per share.

Underlying operating cash flow £m

£31.0m +4.0%



Definition Cash generated from continuing operations as adjusted for cash flows from exceptional items and pension fund deficit recovery contributions, as defined in note 8 to the financial statements.

Performance Underlying operating cash generation increased to £31.0m, an increase of £1.2m over the prior year, reflecting increased profitability and strong management of working capital.

Norcros has continued to make sustained progress during the year.

A summary of our key financials can be found below.

	2018 £m	2017 £m
Revenue	**300.1**	271.2
Operating profit	**19.6**	16.8
IAS 19R administrative expenses	**1.4**	2.0
Acquisition related costs	**4.3**	2.7
Exceptional operating items	**2.1**	2.3
Underlying operating profit	**27.4**	23.8

	2018 £m	2017 £m
Revenue – UK	**200.6**	182.3
Revenue – South Africa	**99.5**	88.9
Revenue – Group	**300.1**	271.2
Underlying operating profit – UK	**18.6**	17.4
Underlying operating profit – South Africa	**8.8**	6.4
Underlying operating profit – Group	**27.4**	23.8
Underlying operating profit margin – UK	**9.3%**	9.5%
Underlying operating profit margin – South Africa	**8.8%**	7.2%
Underlying operating profit margin – Group	**9.1%**	8.8%

	2018 £m	2017 £m
Underlying operating profit	**27.4**	23.8
Depreciation	**6.4**	6.4
Underlying EBITDA	**33.8**	30.2
Net working capital movement	**(2.8)**	(1.8)
Share-based payments	**0.9**	1.4
Cash-settlement of share options	**(0.9)**	—
Underlying operating cash flow	**31.0**	29.8

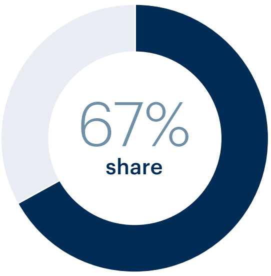
Underlying profit growth.

UK underlying operating profit grew by £1.2m to £18.6m (2017: £17.4m) with an operating margin of 9.3% (2017: 9.5%).

Highlights 2018

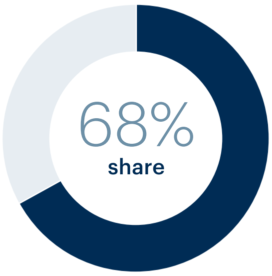
Share of Group revenue £m

£200.6m



Underlying operating profit £m

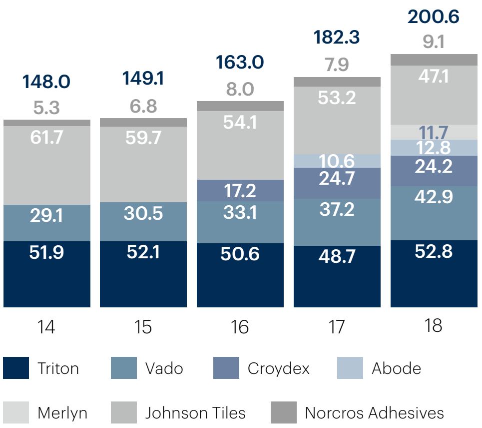
£18.6m



UK revenue £m

£200.6m

+10.0%



UK

In the UK, revenue increased in the year by 10.0% to £200.6m (2017: £182.3m). This includes a first time contribution of £11.7m from our newly acquired Merlyn business (acquired November 2017). On a like for like basis (excluding revenues from Merlyn), total revenue was 3.6% higher than the prior year. Second half UK like for like revenue declined by 0.8% compared to the 8.5% growth seen in the first half. This was largely due to significantly lower retail revenues at Johnson Tiles and a tough comparative period last year. Johnson Tiles apart, second half UK like for like revenue was 8.4% higher (H1 +11.4%). On a full year like for like basis the UK businesses, excluding Johnson Tiles, grew total revenues by 9.8% with strong growth in the trade and export sectors.

Underlying operating profit grew by £1.2m to £18.6m (2017: £17.4m) with an operating margin of 9.3% (2017: 9.5%). This mainly reflected a first time contribution from Merlyn combined with a strong performance from Triton which was partly offset by a lower contribution from Johnson Tiles.

Triton

Revenue at Triton, our market leading UK domestic shower business, was 8.4% higher at £52.8m (2017: £48.7m). Successful brand investment and new product range launches resulted in revenue growth in both the UK and export markets, maintaining Triton's brand and market leadership positions across its extensive customer base.

UK revenue was 7.0% higher than the prior year overall, with growth in the trade and retail sectors of 8.1% and 6.4% respectively. This performance was achieved following significant investment in a national TV, press, point of sale, online and social media marketing campaign (#SeeyoufirstthingBritain). The campaign was a great success, with improved brand recognition and growth from digital channels as consumers and the trade increasingly moved to buying showers online.

Triton's first national TV campaign (#SeeyoufirstthingBritain) proved to be a great success with improved brand recognition.

Export revenue, which represents approximately 19% of overall revenue, was 15.3% higher compared to the prior year. Export growth was driven by the success of the T90SR silent pump electric shower which has firmly established itself and is proving to be Ireland's favourite shower.

Triton has continued to invest significantly in new product ranges. Launches in the year include the new Omnicare product designed for the care market, the new digital mixer family H_2OST, new shower accessories and an expanded mixer shower range with accompanying bathroom mixer taps.

Triton was awarded two prestigious Home and Living Awards by the Daily and Sunday Express, Best Bathroom Supplier and Best of British, new national awards celebrating the brightest and best brands making a difference in the nation's homes. In the first award the judges recognised Triton's design strength, service and superb delivery capabilities, all great facets of the brand. The second award was in recognition of Triton's long-standing and ongoing support of British design and innovation and in particular for the new H_2OST digital mixer shower, which was recognised and celebrated for its ground-breaking style, design and superb features.

Pleasingly, Triton has cemented its position as a world class manufacturer, achieving the ISO 9001 (2015) standard, updated from ISO 9001 (2008) as well as continuing to meet ISO 14001 and the highest factory and product approvals and accreditations from BSI and BEAB.

Merlyn

Merlyn, the UK and Ireland's no. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors, recorded revenue of £11.7m for the period since acquisition on 23 November 2017, in line with the Board's expectations. For the twelve-month period ended 31 March 2018, including the relevant period prior to Norcros ownership, Merlyn grew revenue by 13.0% compared to the prior year.

UK retail grew by 18.5% and instrumental to this growth has been new product introductions including Mbox and Series 6 Frameless. Merlyn has recently been awarded the prestigious Red Dot 2018 Design Award for its Arysto Eight infold shower door enclosure.

Additionally, Merlyn has increased sales with independent retailers and buying groups, leading to it winning the Fortis Buying Group Supplier of the Year award.

On a year on year basis, including pre-acquisition revenues, the UK trade sector grew by 10.3% driven by further expansion in the specification channel with major account wins including McCarthy & Stone, Inhabit, Countryside Properties and Travis Perkins.

Consistent with our other recent acquisitions, it is pleasing to report that Merlyn has been integrated seamlessly into the Group. The performance of Merlyn since acquisition has been very encouraging, with the business generating an underlying operating profit and cash performance in line with the Board's expectations. We are also progressing potential Group synergies with new business wins being the initial area of focus.

> "The performance of Merlyn since acquisition has been very encouraging, with the business generating an underlying operating profit and cash performance in line with the Board's expectations."

CASE STUDY

MERLYN

Merlyn partners with Berkeley Group

THE CHALLENGE

To supply an exceptionally high premium specification of shower enclosures to complement Berkeley's luxury and top quality design project at Taplow Riverside, Buckinghamshire.

Situated along the River Thames this development of houses, apartments and penthouses needed the best high-value products to boast its exclusive location and price tag ranging from £575,000 to £1,675,000.

THE SOLUTION

Upon receipt of the brief from Berkeley "to be a world class business, generating long-term value by creating long term successful, sustainable places where people aspire to live", the team at Merlyn met with the Berkeley team to fully understand its brief and deliverables.

The finest in style and luxury, the 10 Series range guaranteed the quality feel and effortless function required for the new Berkeley homes.

THE RESULT

With its stylish and elegant finish, Merlyn has supplied the 10 Series range to the entire Berkeley Taplow Riverside development, supplying 250 units to date.

This development has since been awarded Thames Valley Development of the Year 2017.

Merlyn is sole supplier to Berkeley Oxford and Chiltern region which is responsible for this development.

UK business review continued

UK continued

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £42.9m for the period (2017: £37.2m), 15.3% higher than the prior year. Vado delivered impressive growth in the UK, particularly in the specification segment, as well as growth in export markets resulting from the first full year of improved distribution arrangements in the Middle East.

UK revenue was 14.1% higher than the prior year with continued growth in both the trade and retail segments. UK trade sector revenue grew by 16.8% against the prior year, which followed 28.0% growth in the prior year, as Vado gained further share in the specification segment. Contracts with several of its existing major housebuilder clients were renewed and Vado products have been specified for home developments with new clients such as Renaker, Greystar and Springfield Homes. Vado was also awarded Supplier of the Year to the Fortis merchants buying group again, further recognising the continued investment in new product and customer service initiatives.

UK retail revenue was 2.3% ahead of last year as Vado continued to focus on increasing market share throughout its existing network. Investment in an expanded sales team and the launch of more consumer orientated marketing materials continue to facilitate growth.

Export revenue was 18.4% higher than last year, with significant growth achieved following changes made to Vado's distribution strategy in the Middle East as highlighted last year. Significant progress was also achieved in Africa, the Caribbean, New Zealand and Hong Kong where our distributor has opened a dedicated Vado showroom for architects and interior designers.

New product introductions continue to strengthen the Vado portfolio with the launch of Omika, a premium collection of taps, showers and accessories, designed by interior and product designer Jo Love. Significant upgrades were also made to Vado's bestselling thermostatic shower valve to further develop sales of this key product.

The Group has recently refurbished its London showroom, Material Lab, which now showcases Vado and Johnson Tiles products to the architect and design community and has directly led to multiple specification wins. Increased synergies between Vado and Johnson Tiles sales teams are also being realised as a result of the collaboration in this shared facility.

Underlying operating profit was lower than last year as the business continued to invest in additional sales and marketing initiatives and local warehousing infrastructure to maintain the excellent revenue growth and market share gain momentum.

> “Croydex export revenue, which accounts for approximately 17% (2017: 10.1%) of revenue, increased by 68% in the year, mainly from continued growth in Germany and the USA.”

Croydex

Croydex, our market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories, recorded revenue of £24.2m for the period (2017: £24.7m), 2.0% lower than the prior year.

UK revenue was 9.9% lower than last year, with retail sector revenue 15.9% lower and trade sector revenue 1.4% higher. The retail revenue decline principally reflected reduced demand from a major customer in the DIY sector, though there was promising growth in a number of other retail and department stores for Croydex, having rolled out a significant new branded offering across the Tesco estate (approx. 600 stores) and an expanded product range in John Lewis.

Trade revenue experienced modest growth as we commenced implementation of a focused specification sales strategy, winning a number of national commercial specifications. A new relationship with the major international sanitaryware brand ROCA also delivered OEM cabinet sales in the UK with further opportunities to expand internationally.

Export revenue, which accounts for approximately 17% (2017: 10.1%) of revenue, increased by 68% in the year, mainly from continued growth in Germany and the USA. Additionally, Croydex has penetrated the Italian market, with new ranges being rolled out into the Italian DIY market, offering further opportunity for geographic expansion.

Customer and market specific new products were rolled out through the year, many incorporating Croydex IP and innovation, which continues to attract customers offering them novel problem-solving solutions to installation and useful functional user benefits. Amongst these were new FlexiFix bathroom accessories for the German and South African markets, HangNLock cabinets into Germany and the USA, rust free metal bathroom storage products in Italy and a range of new shower accessories and cabinets for the Irish market. Domestic product development included new cabinets, toilet seats and bathroom storage products, many developed for both the Croydex brand and for own label OEM customers.

Underlying operating profit performance was below last year reflecting the overall decline in revenues, and further investment in sales, marketing and development expenditure in the UK and overseas markets. The business remained strongly cash generative.

CASE STUDY
ABODE

Bespoke taps for the Newfoundland development in Canary Wharf

THE CHALLENGE

Offering the very best in innovative architecture, exquisite design and panoramic views across Canary Wharf, the River Thames and the City of London, the upcoming Newfoundland development is set to become one of the capital's most desirable places to live.

In keeping with the stature of the project and working alongside Paula Rosa Manhattan, our challenge was to supply a high-end, WRAS approved, flow restricted kitchen tap delivering 4 litres of water per minute to work alongside the specified kitchens.

THE SOLUTION

Abode took stand out design pieces, tall, simple yet majestic, from its Linear range of mixertaps and developed the products to comprise built-in flow restrictors to meet the specified water saving requirements.

THE RESULT

A successful piece of engineering with an environmental edge to it as it restricts the amount of water used and wasted. Over 600 of the flow restricted Linear taps are set to be installed into the Newfoundland development with the first phase already delivered to our customer.

> "Abode recorded revenue of £12.8m for the period (2017: £10.6m), 20.8% higher than the prior year."

Abode
Abode, our leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks, recorded revenue of £12.8m for the period (2017: £10.6m), 20.8% higher than the prior year.

The business grew revenue equally across branded retail, contract and private label sectors as a result of new product introductions and range enhancements. In particular, sales of the patented Pronteau hot water taps have grown across all sectors. Abode launched over 50 new branded products that were well received by its trade customers, with the focus being on its growing kitchen sink business. Amongst these new products were new Abode and Pronteau branded products developed for launch into Wickes and Benchmarx stores.

Underlying operating profit performance was ahead of last year, with strong cash conversion.

UK business review continued

UK continued

Johnson Tiles

Johnson Tiles, the UK market leading ceramic tile manufacturer and a market leader in the supply of both own manufactured and imported tiles, recorded total revenue 11.5% lower at £47.1m (2017: £53.2m). Revenue in the first half of the year was 1.6% higher than the comparative period, but revenue in the second half declined sharply (23.4%) reflecting much softer market conditions. UK revenue was 10.0% lower than last year.

UK trade sector revenue was 4.5% lower than the prior year with first half revenues down 0.8% and second half revenues down 8.3%. The social housing market remains challenging as expenditure has been diverted away from bathroom refurbishments, albeit we continued to benefit from further growth with national and regional house developers and bespoke specifications.

UK retail revenue was 15.7% lower than the previous year with the decline in revenue of -36.2% in the second half much greater than expected and in stark comparison to the growth experienced in the first half of +9.8%. This decline reflected the expected loss in revenue following the Kingfisher unified programme but the slower than expected growth in new business secured with other major DIY accounts reflecting the more challenging market conditions in this sector.

Export revenue was 23.3% lower than the prior year mainly as low margin business in the Middle East was exited.

Whilst the actions to restructure the tile business in 2017 were completed successfully, including a significant reduction in stock levels, market conditions in the second half of the year proved more challenging than expected and the business remained loss making. As a result, we have implemented a further restructuring programme which will involve the loss of up to 50 jobs. This has resulted in an exceptional charge of £2.1m. Annualised savings are expected to be at least £2.0m and we remain confident that this decisive action will return the tile business back into profitability in the current year.

Johnson Tiles also continued to invest significantly in developing the market for Cristal Grip during the course of the year. The product is on display across all Leroy Merlin outlets in France, on trial in Leroy Merlin stores in Italy and Spain, and it is expected that trials with another retailer in Germany will start in the first half of this year.

CASE STUDY
JOHNSON TILES

Calming contemporary tones to Caverswall Barn Conversions

THE CHALLENGE

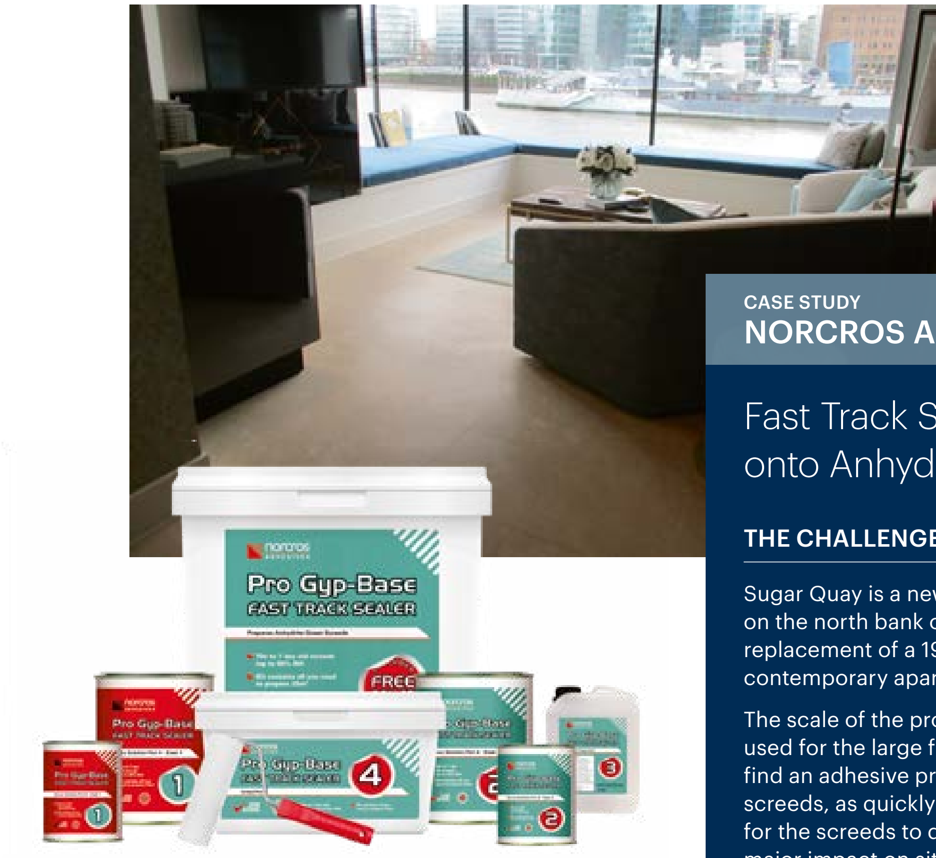
For a set of beautiful new barn conversions in Caverswall, Staffordshire, only the most luxurious finishes could match the high-end build.

THE SOLUTION

In the Willow, Daisy and Magnolia barns, Johnson Tiles' Natural Tones and Savoy range, in Leaf and Steel, were selected to help create a calming space in the bathrooms. And for the kitchens, Savoy in Caraway and Steel further enhanced the stylish and sophisticated surroundings.

THE RESULT

Adding an injection of trend-led flair, Johnson Tiles' products perfectly encapsulated the lavish look that was required by the client for this exclusive project.



Norcros Adhesives

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was 15.2% higher at £9.1m (2017: £7.9m).

Domestic revenue was 11.0% above last year, reflecting increased activity across existing trade and retail accounts, including growth in Wickes following the contract win highlighted last year. The manufacturing capacity upgrade was successfully completed in the period to meet increased demand.

Our small Middle East operation continues to gain traction with sales 67% ahead of last year. Brand development and market credibility continue to build, and our business is aligned with a number of stone fixers in the region. Recently, the business has won the contract to supply materials to the prestigious Bahrain Airport project, which commenced in the first quarter of this financial year.

In relation to new product development, we successfully launched the Pro Gyp-Base product, which is unique in the market and exploits a requirement for a fast-track method to allow tiling onto gypsum-based screeds within seven days, and a new range of efflorescence resistant grout. The Pro Gyp-Base product is an important step in our development of the resilient channel and has enabled strategic partnerships to be formed with Barratt, Unilin and Gypsol to provide a fixing system for soft flooring finishes.

Underlying operating profit performance was marginally below last year, reflecting the continued investment in the development of the Middle East market and increasing sales and marketing resource and initiatives in the UK.

CASE STUDY
NORCROS ADHESIVES

Fast Track Solution for Rigid Tiling onto Anhydrite Screeds

THE CHALLENGE

Sugar Quay is a new residential site under development on the north bank of the River Thames. It involves the replacement of a 1970’s office block with 165 contemporary apartments and studios.

The scale of the project required anhydrite screeds to be used for the large flooring area. The challenge was to find an adhesive product to allow tile to be fixed onto the screeds, as quickly as possible, without having to wait for the screeds to dry, a process that generally has a major impact on site schedules.

THE SOLUTION

Norcros Adhesives have worked with Gypsol, a leading manufacturer of anhydrite screed binder, to develop Pro Gyp Base Fast Track Sealer which allows anhydrite screeds to be tiled once the screed has achieved a Relative Humidity of 95%, generally 7 days after pumping. Following extensive trials, Pro Gyp Base Sealer was successfully used on the prestigious development.

THE RESULT

The use of Pro Gyp Base Sealer enabled tiling to be performed just 7 days after the screed had been laid and it also allowed floors to be tiled before the underfloor heating system was commissioned without any detrimental effect on the finished surface, a major achievement for the prestigious development.

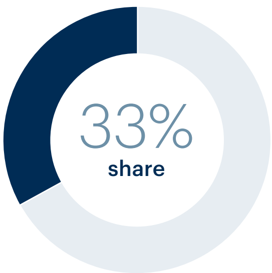
Continuation of sustained progress of recent years with another year of strong constant currency growth.

Underlying operating profit for the year improved by 38% reflecting market share gains, further supply chain improvements and the strong management of costs.

Highlights 2018

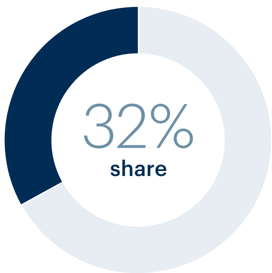
Share of Group revenue £m

£99.5m



Underlying operating profit £m

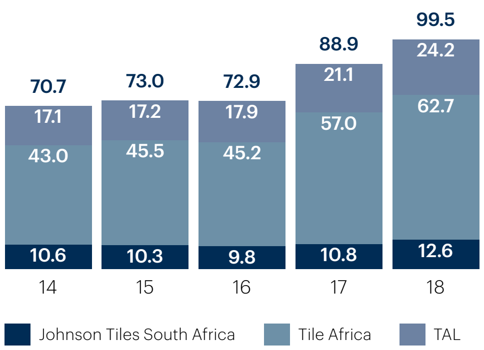
£8.8m



South Africa revenue £m

£99.5m

+11.9%



South Africa

Our South African business continued the sustained progress of recent years with another year of strong constant currency growth with revenue 5.9% higher than last year. The Rand appreciated against Sterling during the year with the average exchange rate 5.4% stronger at ZAR 17.32 (2017: ZAR 18.31), resulting in full year reported revenue 11.9% ahead of prior year at £99.5m (2017: £88.9m).

Underlying operating profit for the year improved by 38% to £8.8m (2017: £6.4m) including a £0.3m benefit from the stronger Rand. This reflected the market share gains, further supply chain improvements and the strong management of costs. The return on sales was 8.8% (2017: 7.2%), a considerable increase on last year.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business in South Africa, recorded external revenues of £12.6m, 9.6% higher than last year on a constant currency basis. On a reported basis revenue was 16.7% ahead of the £10.8m achieved in the prior year.

The business has again made good progress in both manufacturing and sales and is in the process of increasing plant capacity by 10% to support increased market demand.

A strong new product development programme has driven increased demand from our independent customer base. This demand has been met through increased plant throughput and lower demand from our export market and Zimbabwe in particular.

The new product development programme and ongoing plant improvements have helped deliver another year of operating profit growth.

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, delivered strong constant currency growth with revenue 4.2% higher on a constant currency basis, being 10.0% higher on a Sterling reported basis, at £62.7m (2017: £57.0m).

Progress has been made in sourcing and pricing management which drove improved margins. These benefits were particularly evident in the taps and bathroom segments as the business continues to benefit from the international sourcing infrastructure of Vado and Croydex. These Group synergies have been important in driving bathroom store-within-a-store revenues and the business will continue to invest in growing this segment in the year ahead.

Tile Africa now has 32 owned stores and two franchise stores. Two new stores were successfully opened in the period, at Southgate and Clearwater, both in the CX format. There are plans to open a further two CX format stores in the next twelve to 18 months.

Underlying operating profit for the year was ahead of last year and the business delivered strong cash conversion.

TAL

TAL, our market leading adhesives business in South Africa, delivered strong growth with constant currency independent sector revenue increasing 8.5% compared to prior year or 14.7% on a reported Sterling basis to £24.2m (2017: £21.1m). This reflected local market share gains which have been achieved through targeted product introductions and broadening of the customer base.

Operational improvements in all three plants, focused training programmes and procurement management have delivered a tangible and sustained improvement in our manufacturing performance.

These improvements together with the market share gains delivered underlying operating profit growth in the year. The business also maintained its record of strong cash conversion.

CASE STUDY
TAL

The Christiaan Barnard Memorial Hospital, Cape Town, South Africa

THE CHALLENGE

The new Christiaan Barnard Memorial Hospital was conceived as a living tribute to its namesake, Professor Christiaan Barnard, who performed the world's first heart transplant in 1967. Built on the sweeping foreshore, the 16-storey, purpose built hospital is set to become a landmark in the City of Cape Town. One of the early challenges for the architects and contractors was the preparation of several thousand square metres of concrete substrate to receive the final layers of vinyl sheeting. Moisture content in the substrate was quite high and the surface finish needed to be flawlessly level and smooth for the vinyl.

THE SOLUTION

TAL VaporStopHB was applied in two coats over the slabs throughout the building. VaporStop HB is a moisture tolerant 100% solids epoxy barrier coat that prevents the passage of water vapour and moisture through concrete slabs, into the underlayment compound and vinyl sheeting layers. This was followed by the application of TAL Screedmaster. Manufactured from rapid-setting shrinkage-compensated cement and selected aggregates, the self-levelling characteristics of this material ensure a totally smooth and level surface.

THE RESULT

TAL Construction products division supplied a technical installation solution for this iconic building. The system ensured a moisture free, perfectly flat, and smooth substrate for the application of the hygienic vinyl sheeting specified by the architects.

Underlying operating profit increased by 15.1% to £27.4m.

During the year the Group raised £31.4m of new equity and increased its banking facilities to £120m. The Group has a strong balance with year-end net debt at £47.1m.

Summary

- Group revenue increased by 10.7% to £300.1m (2017: £271.2m)
- Group underlying operating profit of £27.4m was 15.1% ahead of prior year
- Group operating profit was £19.6m (2017: £16.8m)
- Group underlying profit before tax of £26.3m was 14.8% ahead of the prior year
- Group profit before tax was £13.5m (2017: £11.5m)
- Underlying operating cashflow of £31.0m was 92% of underlying EBITDA (2017: 99%)
- Net debt at £47.1m represents 1.2 times underlying EBITDA on a pro forma[1] basis

1. Pro forma underlying EBITDA is the underlying EBITDA of the Group as reported plus underlying EBITDA of Merlyn for the period 1 April 2017 to 22 November 2018.

Financial overview

	2018 £m	2017 £m
Revenue	300.1	271.2
Underlying operating profit	27.4	23.8
IAS 19R administrative costs	(1.4)	(2.0)
Acquisition related costs	(4.3)	(2.7)
Exceptional operating items	(2.1)	(2.3)
Operating profit	19.6	16.8
Net finance costs	(6.1)	(5.3)
Profit before taxation	13.5	11.5
Taxation	(3.6)	(3.0)
Profit for the year	9.9	8.5

Revenue

Group revenue at £300.1m (2017: £271.2m) increased by 10.7% on a reported basis, 8.6% on a constant currency basis, and 4.4% on a constant currency like for like[2] basis.

Underlying operating profit

Underlying operating profit increased by 15.1% to £27.4m (2017: £23.8m). Our UK businesses delivered underlying operating profit of £18.6m (2017: £17.4m), and our South African businesses generated an underlying operating profit of £8.8m (2017: £6.4m). On a constant currency basis, the improvement in underlying operating profit in the South African businesses was £2.1m. Group underlying operating profit margin was 9.1% (2017: 8.8%).

IAS 19R administrative costs

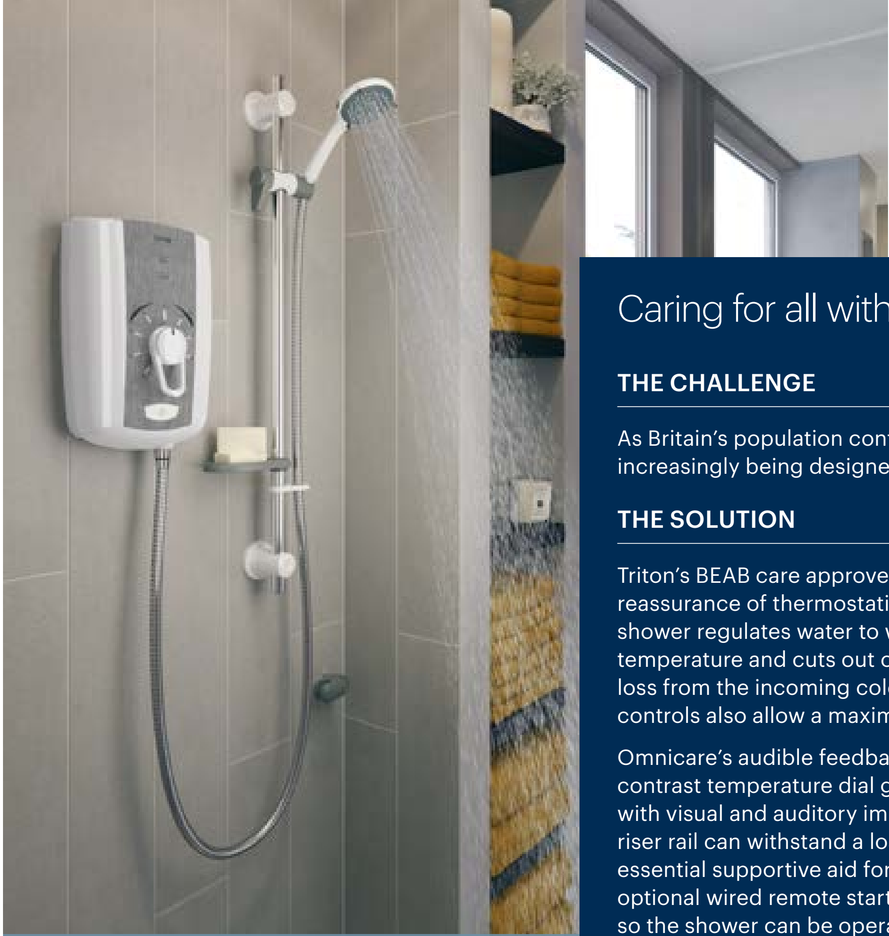
These costs represent the costs incurred by the Trustee of administering the UK pension schemes and are reflected in the Income Statement under IAS 19R. Costs of £1.4m (2017: £2.0m) have decreased on prior year due to restructuring costs incurred in 2017 and the lower year on year running costs resulting from this restructuring.

Acquisition related costs

A cost of £4.3m (2017: £2.7m) has been recognised in the year and is analysed as follows:

	2018 £m	2017 £m
Deferred remuneration	(0.3)	0.4
Intangible asset amortisation	2.2	1.2
Staff costs and advisory fees	2.4	1.1
	4.3	2.7

2. Like for like is defined as constant currency (2017 at 2018 monthly average rates) impact being £5.1m and excluding Merlyn revenue in 2018 of £11.7m.



CASE STUDY
TRITON

Caring for all with Triton's Omnicare

THE CHALLENGE

As Britain's population continues to grow, homes are increasingly being designed with inclusivity in mind.

THE SOLUTION

Triton's BEAB care approved Omnicare offers the reassurance of thermostatic technology. This means the shower regulates water to within +/-1°C of its intended temperature and cuts out completely in the event of flow loss from the incoming cold supply. Triton's Safe-set™ controls also allow a maximum temperature to be fixed.

Omnicare's audible feedback, tactile buttons and grey contrast temperature dial give added support to those with visual and auditory impairments. The dual-purpose riser rail can withstand a load of up to 150kg, offering an essential supportive aid for less mobile users. An optional wired remote start/stop button is also available so the shower can be operated from a distance.

THE RESULT

With safety at its core, Triton's Omnicare is the ideal solution for multigenerational homes - providing every user, parent or carer with total piece of mind.

In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred. There is a net credit of £0.3m in the year due to the release of overprovisions in earlier years.

Exceptional operating items

A net exceptional operating charge of £2.1m (2017: £2.3m) was recorded relating entirely to restructuring costs.

	2018 £m	2017 £m
Restructuring costs	2.1	2.3

In 2017 we implemented a restructuring programme at Johnson Tiles UK designed to improve its operating performance and increase manufacturing flexibility which resulted in a £2.3m exceptional charge. Notwithstanding the benefits of this restructuring the business remained loss making as market conditions proved more challenging than expected. As a result, the Board has implemented a further restructuring programme which will involve the loss of up to 50 jobs and has resulted in a 2018 exceptional charge of £2.1m.

Net finance costs

Net finance costs for the year of £6.1m (2017: £5.3m) increased mainly due to the £0.9m non-cash charge increase relating to the movement in the fair value of foreign exchange contracts totalling £3.1m (2017: £2.2m). Bank interest payable of £1.1m (2017: £0.9m) was higher than the previous year due to an increased level of debt following the Merlyn acquisition.

In addition, the Group has recognised a £1.6m interest cost in respect of the pension scheme liability (2017: £2.0m) which reduced by £0.4m principally reflecting the lower interest rate applied in the year.

Profit before tax

Underlying profit before tax was £26.3m (2017: £22.9m), reflecting the increased underlying operating profit of £3.6m noted above. Underlying profit before tax is reconciled as shown below:

	2018 £m	2017 £m
Profit before taxation from continuing operations	13.5	11.5
Adjusted for:		
– IAS 19R administrative expenses	1.4	2.0
– acquisition related costs (see note 5)	4.3	2.7
– exceptional operating items (see note 5)	2.1	2.3
– amortisation of costs of raising finance	0.3	0.2
– net movement on fair value of derivative financial instruments	3.1	2.2
– IAS 19R finance cost	1.6	2.0
Underlying profit before taxation	**26.3**	22.9

Group Finance Director's report continued

Taxation

The tax charge for the year of £3.6m (2017: £3.0m) represents an effective tax rate for the year of 26.7% (2017: 26.1%).

This increase in effective tax rate is mainly due to a higher proportion of the Group's taxable profits being generated in South Africa.

The standard rates of corporation tax in the UK and South Africa were 19% (2017: 20%) and 28% (2017: 28%) respectively.

Dividends

As previously announced, it is the Board's intention to continue a progressive yet prudent dividend policy subject to the Group's earnings, cash flow and balance sheet position. As such the Board is recommending a final dividend of 5.2p (2017: 4.8p) per share, which, if approved, together with the interim dividend of 2.6p (2017: 2.4p), makes a total dividend of 7.8p (2017: 7.2p) in respect of the year ended 31 March 2018.

This final dividend, if approved at the Annual General Meeting, will be payable on 2 August 2018 to shareholders on the register on 22 June 2018. The shares will be quoted ex-dividend on 21 June 2018.

Norcros plc operates a Dividend Reinvestment Plan (DRIP). If a shareholder wishes to use the DRIP the latest date to elect for this in respect of this final dividend is 6 July 2018.

Balance Sheet

The Group's balance sheet is summarised below.

	2018 £m	2017 £m
Property, plant and equipment	45.0	43.0
Goodwill and intangible assets	98.9	44.8
Deferred tax	4.0	11.0
Net current assets excluding cash and borrowings	58.0	53.0
Pension scheme liability	(48.0)	(62.7)
Other non-current assets and liabilities	(6.2)	(9.3)
Cash and borrowings	(47.1)	(23.2)
Net assets	**104.6**	56.6

Total net assets increased by £48.0m to £104.6m (2017: £56.6m). The acquisition of the Merlyn business resulted in an increase in goodwill and intangible assets of £56.2m and other assets of £12.6m on acquisition.

Property, plant and equipment increased by £2.0m overall, and included additions of £7.5m (2017: £7.9m) and acquisitions (the Merlyn business) of £0.8m (2017: £nil). The depreciation charge was £6.4m (2017: £6.4m) and exchange differences were £0.1m (2017: £3.3m). The disposals in the year had no impact on net book value which was the same in the prior year.

The deferred tax asset reduced by £7.0m to £4.0m (2017: £11.0m). The decrease relates to a £4.3m deferred tax liability recognised on the acquisition of Merlyn and a reduction in the deferred tax asset of £2.5m reflecting the current year actuarial gains in the pension plan.

Pension schemes

The gross defined benefit pension scheme valuation of the UK scheme showed a deficit of £48.0m compared to a deficit of £62.7m last year. Whilst the value of scheme assets reduced by £4.8m in the year, the value of the liabilities fell by £19.5m, which was due to the combination of a higher discount rate of 2.65% (2017: 2.60%), lower inflation expectations and the latest mortality improvement assumption.

The most recent triennial actuarial valuation for the Group's UK defined benefit pension scheme was completed in March 2015 and showed a deficit of £73.5m (2012: £61.9m) representing an 84% funding level (2012: 85%). The increased deficit was driven predominantly by historically low gilt yields. The current deficit recovery plan was agreed with the Scheme Trustee, with a cash contribution of £2.5m per annum starting in April 2016, and increasing with CPI, for a period of ten years. A new triennial valuation dated 1 April 2018 and updated deficit recovery plan will need to be agreed between the Trustee and Company in due course and discussions are now underway.

In line with the above agreement the Group made deficit recovery contributions of £2.5m (2017: £2.5m) into its UK defined benefit pension scheme during the year.

The Group's contributions to its defined contribution pension schemes were £3.5m (2017: £3.1m).

Cash flow and net debt

Net debt increased by £23.9m in the year to £47.1m (2017: £23.2m) primarily reflecting the acquisition of Merlyn (which was partly debt funded). A summary of the movement in net debt is shown below.

Underlying operating cash flow was £1.2m higher than in the prior year at £31.0m (2017: £29.8m). Overall underlying cash conversion in the year was 91.7% of underlying EBITDA (2017: 98.7%).

Cash generated from operating activities was £2.0m lower than the previous year at £23.5m, largely due to the £3.2m increase in outflows from exceptional items and acquisition related costs partly offset by the £1.2m improvement in underlying operating cash flows. Cash flows from exceptional items and acquisition related costs primarily relate to costs related to the acquisition of Merlyn and the restructuring costs at Johnson Tiles.

	2018 £m	2017 £m
Underlying operating cash flow	**31.0**	29.8
Cash flows from exceptional items and acquisition related costs	(5.0)	(1.8)
Pension fund deficit recovery contributions	(2.5)	(2.5)
Cash flow generated from operations	**23.5**	25.5
Net interest paid	(1.1)	(0.9)
Taxation	(4.9)	(1.9)
Net cash generated from operating activities	**17.5**	22.7
Capital expenditure	(7.7)	(8.0)
Acquisitions	(59.1)	(2.7)
Dividends	(5.0)	(4.2)
Issue of share capital	30.1	—
Other items	0.3	1.5
Movement in net debt	(23.9)	9.3
Opening net debt	(23.2)	(32.5)
Closing net debt	(47.1)	(23.2)

Acquisition expenditure of £59.1m relates entirely to the acquisition of Merlyn. In the previous year, outflows relating to acquisitions included the final deferred consideration payment of £2.5m to the former shareholders of Vado and £0.2m paid in respect of the acquisition of Abode.

Capital expenditure at £7.7m (2017: £8.0m) included investment in a kiln conversion at Johnson Tiles and a plant upgrade for Norcros Adhesives. In South Africa, major items of investment included the new store at Clearwater and other store upgrades, mainly at Woodmead and Germiston, together with investment in new inspection machinery at JTSA.

Bank funding

In November 2017 the Group agreed an unsecured £120m revolving credit facility plus a £30m accordion facility with Lloyds Bank plc, HSBC Bank plc and Barclays Bank plc. The banking facility matures in November 2021 with an option (subject to bank approval) to extend for a further year.

Foreign currency translation

Profits from our overseas operations are translated at the average exchange rate for the year and the balance sheets of these operations are translated at the closing rate of exchange. The table on page 26 sets out the relevant exchange rates used.

The movement in average exchange rates compared to 2017 had the effect of increasing 2017 reported Group revenue and Group underlying operating profit by £5.1m and £0.3m respectively.

Alternative performance measures

The Group employs a number of alternative performance measures to assess the performance of its operations. These should not be viewed as a replacement of, or superior to, those defined by Generally Accepted Accounting Principles (GAAP). Definitions of alternative performance measures and, where relevant, reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures are provided in note 8 to the financial statements.

Key performance indicators

Management uses a full suite of measures to manage and monitor the performance of its individual businesses. The Board considers that its key performance indicators are the most relevant measures in terms of monitoring its progress towards creating shareholder value. The relevant statistics for 2018 and 2017 are shown on page 12.

Shaun Smith
Group Finance Director
13 June 2018

Group Finance Director's report continued

	Average rate vs £	
	2018	2017
South African Rand	17.32	18.31
Euro	1.14	1.19
US Dollar	1.33	1.31

	Closing rate vs £	
	2018	2017
South African Rand	16.65	16.77
Euro	1.14	1.17
US Dollar	1.41	1.25

	2018	2017	Change %
Revenue (£m)	300.1	271.2	10.7%
Underlying operating profit (£m)	27.4	23.8	15.1%
Underlying profit before tax (£m)	26.3	22.9	14.8%
Underlying diluted earnings per share (pence)	29.5	27.8	6.1%
Underlying return on capital employed (%)	18.0	18.4	(2.2%)
Underlying operating cash flow (£m)	31.0	29.8	4.0%
Net debt (£m)	(47.1)	(23.2)	103%

Definitions of alternative performance measures are provided in note 8 to the financial statements.

Principal risks and uncertainties

Identification and management of risks

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance. The Group has procedures in place to identify and monitor risks at the appropriate level and ensure that suitable mitigating actions are developed and put in place where possible.

During the year the Board led a ground-up evaluation of the risks facing each individual business and the Group as a whole. This took the form of each business carrying out a detailed risk assessment, categorising the risks in terms of their likelihood of occurrence and potential impact. Each business risk assessment was reviewed and challenged by Executive Management and the new Head of Internal Audit and Risk who was appointed during the year, following which a Group-wide risk assessment was prepared and reviewed by the Board. Going forward the divisional risk assessments will be reviewed periodically throughout the year and a formal annual review will be undertaken at Board level.

Principal risks

The Directors confirm they have undertaken a robust assessment of the principal risks and uncertainties facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The table sets out the principal risks and uncertainties facing the Group at the date of this Annual Report and how they are being managed or mitigated. The principal risks do not comprise all the risks that the Group may face and they are not listed in any order of priority.

Viability statement

In accordance with provision C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a longer period than the twelve months required by the "going concern" provision. Taking into account the Group's current position and the nature of the risks and uncertainties it faces, the Board has decided to assess the viability of the Group over a three-year period to 31 March 2021. The Board considers this period appropriate as it believes it is not possible to credibly forecast beyond this time horizon, it reviews annually a three-year strategic plan and it is also the period over which long-term incentives are set for Executive Directors and senior management.

The Strategic Report section on pages 1 to 33 sets out the key details of the Group's financial performance, capital management, business environment and outlook. The principal risks and uncertainties set out on pages 27 to 30 detail the principal risks the Group is exposed to, including foreign exchange, interest rate, credit and liquidity risk, together with the Group's actions to mitigate its exposures to these risks.

The strategic plan is built up by individual business, using the output of the annual budgeting process for year one and applying conservative general and business-specific assumptions to build years two and three. The Board considers the outputs from this plan, including the Group's cash flows, headroom under existing financial facilities, dividend cover and other key financial ratios over the three-year period. The strategic plan is then subject to scenario testing and sensitivity analysis which involves flexing a number of the underlying main assumptions, both individually and in conjunction, together with mitigating actions that the Directors would consider undertaking. The Board then focused on an extreme but plausible scenario, similar to that encountered by the Group following the global financial crisis of 2008/9 and considered the impact on its financial performance after taking mitigating actions.

Based on this assessment the Board believes that, taking into account its current position, the principal risks it faces, and the mitigating actions available to it, the Group will be able to continue in operation and to meet its liabilities as they fall due for the three-year period of their assessment.

Risk and description	Potential effects	Mitigating actions	Change
Cyber risk and data loss The Group relies heavily on several processes and automated systems to manage data and conduct its business. The continuing prevalence and increasing sophistication of cyber-crime and data loss incidents, along with more stringent data protection legislation compliance requirements, present risks to all businesses and organisations across the globe.	A major failure of systems or a cyber-attack could result in a temporary inability to conduct operations or a loss of commercial and/or customer data. Such an incident may result in regulatory breaches, financial loss, disruption or damage to the reputation of the Group.	The Group uses modern systems and ensures that they are adequately maintained and upgraded to mitigate the risk of failure. The latest network and security protocols are deployed, which are regularly updated and tested, to protect against cyber-attack or loss of data. The Group continues to provide regular updates to employees to raise awareness of the risk of cyber-attack. The Group has purchased specific cyber insurance to mitigate the impact of any cyber related losses. During the year, an extensive programme has been undertaken to ensure Group compliance with the requirements of the new General Data Protection Regulation (GDPR) which came into force on 25 May 2018. A similar programme of work is underway in South Africa relating to the Protection of Personal Information (POPI) Act. Although there is currently no clear date for when this comes into force, the Group has committed to achieving compliance by the end of FY19.	No change

Principal risks and uncertainties continued

Risk and description	Potential effects	Mitigating actions	Change
Uncertainty surrounding Brexit Negotiations are underway to agree the terms of the UK's exit from the European Union. There is continuing uncertainty around how this will potentially impact the Group's operations and what the ramifications will be in the markets in which the Group carries on its business.	Changes in the way goods are imported into and exported from the UK may result in higher tariffs and other cost increases. Economic uncertainty may impact input costs, consumer confidence and demand for the Group's products.	The Group continues to regularly monitor the markets and economic indicators in which it trades and is experienced in implementing appropriate mitigating actions. The Group has strong relationships with technical specialists and regularly liaises with them to ensure that the Group is well placed to react to legislative or other changes which occur as a result of Brexit.	No change
Market conditions Demand in our markets is dependent on new building activity and repair, maintenance and improvement (RMI) activity in both the public and private sectors. This is in turn influenced by macroeconomic factors, consumer confidence and government spending policy. In South Africa, the recent change in political leadership and the resulting improvement in governance practices and forecasted fiscal consolidation have improved growth prospects. Credit agencies have kept the rating unchanged, with Moody's changing its outlook from negative to stable.	If market conditions unexpectedly deteriorated, demand for our products would reduce, impacting profitability and cash generation.	There are a number of factors that would limit the impact on the Group of a deterioration in market conditions such as the geographic spread of our businesses, a flexible cost base and supply chain, and the replacement cycle of a number of our key products. On an ongoing basis, actions are taken to ensure that the Group has the time and ability to react to unexpected changes in demand, such as maintaining appropriate headroom against its borrowing facilities and covenants, maintaining strong controls on working capital and capital expenditure, and having disciplined planning, budgeting and forecasting processes. In previous cyclical downturns, management has proved effective in proactively responding to such events, and it continues to have similar measures available to minimise the effects on profitability and cash generation should the need arise. During the year in response to soft trading at Johnson Tiles the Group implemented a further restructuring of the business.	No change
Foreign currency exchange risk The Group's financial performance is subject to the effects of fluctuations in foreign exchange rates. In particular, the Group sources a significant proportion of its components and goods for resale from the Far East and Europe which are denominated in foreign currencies (primarily the US Dollar and the Euro).	Should Sterling or the South African Rand weaken against the major currencies this could result in an increase in future input costs.	The Group typically seeks to hedge its foreign exchange transactional flows for up to twelve months forward, which largely removes the effects of day to day exchange rate volatility on our businesses. Regular monitoring of exchange rates and market conditions, together with frequent dialogue with suppliers, allows our businesses time to negotiate revised commercial terms with customers to mitigate the impact of longer-term changes in exchange rates. The Group may, where it is considered appropriate, denominate some of its borrowings in other currencies to hedge translational asset risk.	No change

Risk and description	Potential effects	Mitigating actions	Change
Pension scheme management The Group has a defined benefit pension scheme with 7,300 members and liabilities of £447m against assets of £339m. Corporate bond and gilt yields remain near historically low levels. Triennial valuations are undertaken every three years, after which recovery plans are agreed between the scheme Trustee and the Company. A new triennial valuation dated 1 April 2018 is now underway. As part of this a new deficit recovery plan will be agreed which may result in increased Company contributions being required.	The Group's financial results show an aggregate deficit in this scheme, as at 31 March 2018, of £48.0m (2017: £62.7m) assessed in accordance with IAS 19 (revised). There are various risks that could adversely affect the funding of the defined benefits under the scheme and consequently the Group's funding obligations.	The scheme was closed to new members and future accrual with effect from 1 April 2013 and replaced by an auto-enrolment compliant defined contribution scheme. Risks from rising costs of providing a final salary pension scheme have therefore been materially reduced. Executive Management regularly monitors the funding position of the scheme and is represented on both the Trustee board and its investment committee to monitor and assess investment performance and other risks to the Group. The Group considers each valuation (IAS 19R valuations and each triennial valuation) and reassesses its position with regard to its pension commitments in conjunction with external actuarial advice. The triennial valuation and associated recovery plan agreed with the scheme Trustee provide certainty over deficit recovery contributions for three years, with the latest valuation dated 1 April 2018 currently underway.	No change
Loss of key customers Whilst the Group has a diverse range of customers there are nevertheless certain key customers who account for high levels of revenue.	Many of the contractual arrangements with customers are short term in nature (as is common in our markets) and there exists a risk that the current performance of a business may not be maintained if such contracts were not renewed or extended or were maintained at lower volumes due to a decline in economic activity.	The importance of relationships with key customers is recognised and managed by senior personnel within the Group who have direct and regular access to their counterparts at the highest levels of management. Rebate schemes and incentive programmes help maintain these key relationships in a competitive market situation. The Group stresses key selling points such as continuity of supply, financial strength of the Group and the level of customer service to help maintain relationships. As well as an excellent product offering, the Group is also able to take care of customers' sourcing, storage and logistics requirements.	No change
Competition The Group operates within a highly competitive environment in all its markets.	The Group recognises that there is a risk to its results and financial condition caused by the actions of its competitors, including competitors' marketing strategies and new product development.	To help identify such risks, the competitive environment, the specific marketplace and the actions of particular competitors are discussed at both Group and operating divisional Board meetings. In addition, each market is carefully monitored to identify any significant shift in policy by any competitor, any change in the routes to market, or any indication of new competitors and/or new product technology entering the market.	No change
Reliance on production facilities The Group has a number of manufacturing facilities for the manufacture of tiles and adhesives.	If any of these facilities (including technology used to operate them) were to fail, the effect on the Group could be significant.	The Group has a well-established ongoing preventative maintenance programme as well as a comprehensive "annual shutdown" programme throughout its manufacturing operations. Furthermore, the Group has developed an experienced globally co-ordinated product sourcing function which could mitigate the risk of failure. Finished inventory holdings across the operations act as a limited buffer in the event of operational failure. Disaster recovery plans are in place and a business interruption insurance policy is maintained to mitigate losses caused by a serious insurable event affecting manufacturing capability.	No change

Principal risks and uncertainties continued

Risk and description	Potential effects	Mitigating actions	Change
Loss of key supplier, availability of raw materials/ components/energy, and supply chain failure Raw materials, components and energy represent a significant proportion of the Group's input costs. Availability of supply and product quality standards are key to minimising risk.	The Group's extended supply chain with its dependency on interconnected third parties for manufacturing has a number of potential points of failure. In particular, the lack of supply of raw materials such as clay or sand, components such as electronics or brassware, or gas or electricity could have significant impacts on the Group's ability to manufacture product. In addition, the risk of energy supply interruption is an elevated risk in South Africa as its utility infrastructure is less well developed than in the UK.	The Group manages the risk in its supply chain through long-term relationships with key suppliers, audits of key suppliers and dual supply of critical materials or components where considered appropriate, and by holding appropriate levels of stock. The Group maintains strict product quality standards and, in particular, has procurement and quality control resource in China to ensure these standards are adhered to. The Group will also look to mitigate risks on energy supply where these arise.	No change
Staff retention and recruitment The Group employs around 2,100 people worldwide.	The Group's ability to grow and increase its market share depends significantly on its continuing ability to recruit and retain highly skilled employees in each area of its activities. Future growth plans may be restricted or delayed by difficulties experienced in recruiting and retaining appropriate staff.	Group policy is to remunerate its personnel in line with market rates and practice. In addition to competitive salaries there are annual bonus schemes, share options and other benefits offered. Executives and key management are incentivised via an Approved Performance Share Plan (APSP). A grant of options under the APSP has taken place annually since 2011. The Group is able to offer employees appropriate training and opportunities for advancement and has a demonstrable track record of internal promotion.	No change
Interest rate risk The Group pays interest and other facility fees based on local base rates and LIBOR rates.	A significant increase in interest rates would affect the Group's profitability and cash flow.	The Group's interest rate risk is reviewed regularly by Executive Management and at least annually as part of the Group budget process, and where considered appropriate the Group will enter into hedging arrangements. Given the current low level of interest rates, it is not considered advantageous to enter into hedging arrangements at the current time.	No change
Acquisition risk Part of the Group's strategy is to grow through selective acquisitions.	Performance of acquired businesses may not reach expectations impacting Group profitability and cash flows.	The Group has detailed target appraisal procedures in place, including appropriate due diligence, and has senior management experienced in M&A work. The Group also has robust Board approval procedures in place to ensure independent review of proposals. Integration plans are finalised prior to acquisition so that newly acquired businesses are integrated efficiently and swiftly after acquisition. The acquisitions of Vado, Croydex, Abode and most recently Merlyn provide demonstrable evidence of the Group's ability to successfully integrate new businesses.	No change

Ensuring long-term sustainability.

The Board promotes the success of Norcros for the benefit of its shareholders as a whole. In doing this, the Board takes regular account of many things, including the interests of all employees, the importance of positive relationships with suppliers and customers and the significance of environmental, ethical and social factors affecting the Group. We recognise that management of these matters is key to ensuring the long-term sustainability of our businesses.

Employees

The importance of good relations with all employees is well recognised and accepted throughout the Group. The Group is fully committed to keeping its employees informed about their work unit and the wider business, but because the Group's activities are generally organised on a de-centralised basis, with each operating business having a reasonable degree of autonomy over its operations, there is no uniform set of arrangements for employee involvement imposed throughout the Group. Nevertheless, all businesses in the Group are strongly encouraged to devise and adopt whatever means of employee consultation best suits their circumstances. We believe this approach provides flexibility and enables divisional management to tailor their approach to employee engagement to the needs of their particular business. The Board stays in touch with all our employees via regular meetings with divisional management and site visits to our operations.

Across Norcros, great emphasis is placed on the recruitment, training and development of our people. All businesses have training programmes for staff, and we have examples of best practice regarding management development. Norcros also recognises the need to train its staff in order to give them the necessary skills to perform their duties to the high standards required.

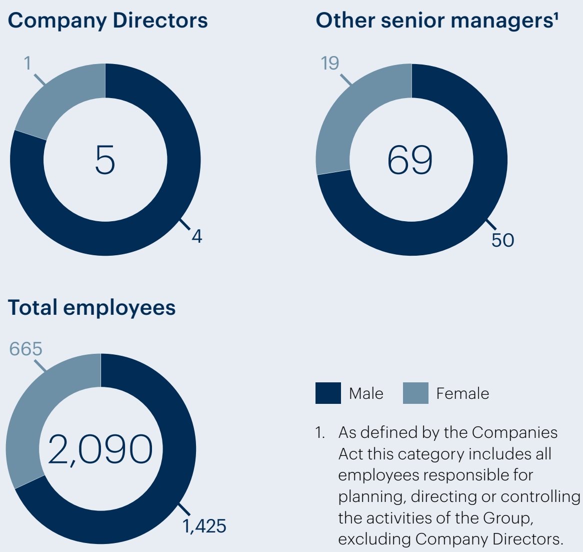
For example, as featured on page 32, we have launched several educational initiatives at Norcros South Africa. We are committed across all Norcros businesses to education and career development.

The Group recognises its responsibilities towards disabled persons and therefore all applications from such persons are fully and fairly considered bearing in mind the respective aptitudes and abilities of the applicant. In the event of existing employees becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of an able-bodied person.

Our people are key to our success as a business and we value the individuality and diversity that each employee brings. Prior to any senior appointment, the Nominations Committee ensures the best person for the role is appointed and in doing so gives due consideration to gender and diversity.

At senior leadership levels 27% of employees are female.

GENDER OF DIRECTORS AND EMPLOYEES



1. As defined by the Companies Act this category includes all employees responsible for planning, directing or controlling the activities of the Group, excluding Company Directors.

In April 2018 the Group published its gender pay gap statistics for its UK employees in accordance with the Gender Pay Gap Reporting Regulations. These are available on our website: www.norcros.com. They show the existence of a gender pay gap. Based on current reported information, Norcros in the UK has a gender pay gap which ranks us towards the middle of the ranking of the reporting entities, using the "mean average hourly rate" measure.

The Board of Norcros plc is committed to gender equality and is satisfied that there is no pay inequality at Norcros – men and women are paid equally for equal work. However, for historical and sociological reasons, there is a preponderance of male employees in some areas of the business, particularly in senior roles. This generates a gender pay gap, as these roles tend to be better paid and receive larger bonuses. As stated above, the Board is committed to promoting diversity in all its forms, and will seek to address the causes of this imbalance, where this is practicable.

Business partners

We seek to create and maintain long-term relationships with our key suppliers, and often work together with suppliers and customers to develop new products and improve existing ones.

Corporate responsibility and sustainability continued

Human rights

The Directors do not consider human rights to be a material risk for the Group, principally due to the existing regulatory frameworks in place in the UK and South Africa, being the primary geographical locations in which we operate. In South Africa, the business is cognisant of its responsibilities under the Broad-Based Black Economic Empowerment legislation.

The Group has its Modern Slavery Act statement, and a policy in support of this, but does not at the present time have general policies which specifically address human rights. Our corporate values focus on respect, integrity and fairness, and we welcome the debate on the role of business in promoting human rights.

The environment

Care for the environment and sustainability are at the forefront of all our activities and products. The Board recognises that the Group's activities do have an impact on the environment. We seek to manufacture all our products in a sustainable way, and many of the products themselves contain environmental features – for example, our taps and showers encourage water and energy saving and our tiles and adhesives use recycled products where appropriate. In addition, our taps can include a filtered water function which reduces demand for bottled mineral water.

Norcros is committed to minimising this impact by continually improving its efficiency in terms of energy, water and material consumption. We also have rigorous programmes to seek to ensure compliance with all environmental legislation and requirements relating to our operations and our products.

The Group aims to minimise its carbon footprint. Its greenhouse gas emissions are reported on in detail on page 64. We are pleased to report that there has been a reduction in overall emissions compared to last year, notwithstanding the overall growth in the activities of the Group. Relative to revenue, emissions have fallen by 17.7% year on year. We are cognisant of our obligations in the UK as regards the Energy Savings Opportunity Scheme initiative, and we were fully compliant with this in the financial year under review.

For further information on Norcros' commitment to the environment and sustainability please visit the "Corporate Responsibility" section of www.norcros.com.

Ethics

The Group aims to act with integrity towards all stakeholders in its businesses and respects the laws, regulations and customs in all the countries within which it operates. The Group makes every effort to ensure its employees are aware of, and comply with, the relevant business' ethical code.

The Group has implemented an anti-bribery policy to comply with the Bribery Act 2010. Appropriate procedures are in place at each location to mitigate the risk of any employee committing an offence under this Act.

We have published a Modern Slavery Act statement, which emphasises the Group's commitment to the eradication of slavery and human trafficking, both within Norcros and in its supply chains.

In order to ensure an open culture of legal and ethical compliance, all of the businesses in the Group have in place "whistleblowing" procedures, so that any concerns can be raised. During the year we have refreshed our "whistleblowing" procedures and the Audit Committee has reviewed these arrangements and is satisfied that all Group employees may, in confidence, raise concerns about possible improprieties.

Educational initiatives

This year has seen the launch of several programmes aimed at skills development for the previously unemployed in society. At a basic level, our Norcros Tiling Academy took in another batch of very enthusiastic learners, keen to learn the trade of tiling. In another programme, 24 young unemployed people were selected by Norcros SA to commence a year of study and workplace experience to lift them into the realm of the employable. In addition, six more unemployed people were accepted onto an artisan apprentice programme. At a more senior level, eleven new graduates, fresh from university, were recruited for positions across the business, particularly in areas of skill scarcity. Each graduate was assigned a mentor and given a year-long development programme.

Finally, two popular programmes for existing employees of any age have given staff the chance to complete their schooling, and for the children of Norcros employees to be given extra classes in maths and science subjects.

Above: Norcros Unemployed Upliftment programme.
Left: Norcros SA Graduate Programme.

> "24 young unemployed people were selected by Norcros SA to commence a year of study and workplace experience to lift them into the realm of the employable."

Community Work: Tile Africa, partnering with the Gauteng Education Department

Over the past few years, the lack of proper ablution facilities in state schools has become a key focus for the Gauteng Department of Education. With the lack of proper toilet facilities, the poor state of school sanitation has affected the children's ability to learn, and increased the risk to their health. In response, Tile Africa has started a revamp programme for the ablution facilities of four Primary Schools in the local community. February 2018 saw the first facility at Emmangweni Primary School, in Tembisa, opened by Nick Kelsall and Shaun Smith from Norcros plc, along with representatives from the Gauteng Department of Education. The school's children, delighted with their new facilities, danced and sang the visitors into the school premises. A programme of education on cleaning and maintaining the new facilities has also been launched.

Above: Emmangweni Primary School – welcoming Nick Kelsall and Shaun Smith.

Before.

After.

> Tile Africa has started a revamp programme for the ablution facilities of four Primary Schools in the local community. The school's children, delighted with their new facilities, danced and sang the visitors into the school premises."

Social

Our commitment to the society in which we operate is deep. Every Group business has programmes of social engagement, including many charitable activities. Each business has a track record of supporting local and national charities and other voluntary sector organisations. Given our de-centralised structure, business units in the Group are encouraged to become involved in and support local initiatives where possible. The Executive Management of the Group supports this commitment to our society and reviews each business' activities on a monthly basis.

A specific example of our commitment to the society in which we operate is given in the case study for Norcros South Africa above.

Strategic Report

To the members of Norcros plc

The Strategic Report provides a review of the business for the financial year and describes how we manage risks.

The report outlines the developments and performance of the Group during the financial year and the position at the end of the year and discusses the main trends and factors that could affect the business in the future.

Key performance indicators are published to show the performance and position of the Group. Also provided is an outline of the Group's vision, strategy and objectives, along with the business model.

Approval

The Group Strategic Report on pages 1 to 33 of Norcros plc was approved by the Board and signed on its behalf by:

Nick Kelsall
Group Chief Executive
13 June 2018

Board of Directors

A strong leadership team committed to driving our strategy for growth

Martin Towers
Chairman

Committee membership

A N R

Date of appointment

Joined the Board in July 2011 and was appointed Chairman in November 2012

Length of tenure

Six years

Skills and experience

Martin is also the non-executive chairman of Tyman plc and Restore plc. He is currently the senior independent director of RPC Group plc but will step down from the board in July 2018. He was formerly chief executive officer of Spice plc and prior to that group finance director of Kelda Group plc, Spring Ram Corporation plc and McCarthy and Stone plc. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Nick Kelsall
Group Chief Executive

Date of appointment

Chief Executive on 1 April 2011 having previously served as Group Finance Director since October 1996

Length of tenure

Seven years

Skills and experience

Nick joined Norcros as Finance Director of H&R Johnson Tiles Limited in 1993. Formerly, Nick had held a number of senior financial management positions with Touche Ross, Manchester, and, immediately prior to joining Norcros, with Waterford Wedgwood Group plc. Nick was appointed as Group Chief Executive on 1 April 2011 having previously served as Group Finance Director since October 1996. He is a member of the Institute of Chartered Accountants in England and Wales.

Shaun Smith
Group Finance Director

Date of appointment

Appointed Group Finance Director in April 2016

Length of tenure

Two years

Skills and experience

Shaun was group finance director and treasurer at AGA Rangemaster Group plc (formerly Glynwed International Plc) until its takeover in 2015. He began his career in retail management and corporate treasury at Marks and Spencer plc before joining Glynwed International Plc in 1989. Shaun is a qualified Corporate Treasurer and has an economics degree. He is also a non-executive director of Air Partner plc.

A Audit Committee
N Nominations Committee
R Remuneration Committee
Chairman of Committee

David McKeith
Non-executive Director

A N R

Appointed to the Board in July 2013

Four years

David is Senior Independent Director and Chairman of the Audit Committee. David was a senior partner of the Manchester and Liverpool offices of PricewaterhouseCoopers LLP and served on its UK supervisory board. David was until August 2016 a non-executive director and audit committee chairman of Sportech plc, and is the chairman of the Halle Orchestra, Manchester. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Jo Hallas
Non-executive Director

A N R

Appointed to the Board in September 2012

Five years

Jo is Chairman of the Remuneration Committee. She is also a business group director for Spectris plc with responsibility for the in-line instrumentation and industrial controls segments. Prior to that Jo was general manager of the Invensys Residential Controls business and she has held a number of senior management positions with Bosch and Procter & Gamble both in the UK and overseas. Jo is a Chartered Engineer.

Richard Collins
Company Secretary

Joined the Company in June 2013 as Company Secretary and Group Counsel

Five years

Richard qualified as a solicitor in 1988 and was previously company secretary and director of risk and compliance at Vertex Financial Services. Prior to that, Richard was company secretary and head of legal with Tribal Group plc, Blick plc and Aggregate Industries plc.

Re-election of all Directors
It is proposed that each Director will seek re-election at the 2018 AGM. The Board is satisfied that the Directors, individually and collectively, contain the balance of technical expertise, skills and experience to manage the Company's affairs and to further the Group's strategic objectives. In particular, each Director has experience of growing an international business, organically, as well as by acquisition.

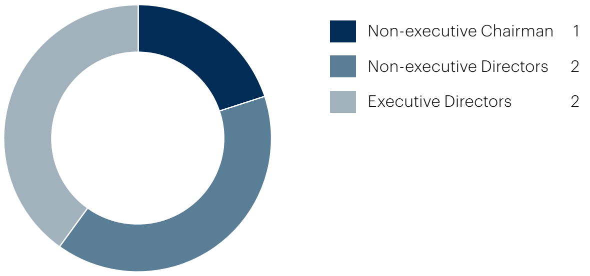
Corporate governance

Committed to ensuring high standards of corporate governance.

Chairman's introduction to governance

For the year under review the Company has complied with the UK Corporate Governance Code. We have carried out a thorough evaluation of board performance which remains satisfactory.

Breakdown of Executive and Non-executive Directors



Board of Directors

The Board is committed to ensuring that high standards of corporate governance are maintained by Norcros plc and is accountable to the Company's shareholders for good corporate governance. Its policy is to manage the affairs of the Company in accordance with the principles of the UK Corporate Governance Code referred to in the Listing Rules of the UK Listing Authority. For the year under review, the Company has complied with the UK Corporate Governance Code as revised in 2016 (the Code) in all respects. A copy of the code is publicly available from www.frc.org.uk. The following sections of this statement describe the Board's approach to corporate governance and how the principles of the Code are applied. These sections refer to the year ended 31 March 2018, unless otherwise stated.

Looking to the future, the Board is actively considering the proposed changes to the Code, currently being considered, which could constitute a fundamental review of corporate governance in the UK. We will assess the likely consequences of the revised Code when it is published, which is expected later in 2018.

Board balance and independence

The Board currently comprises a Non-executive Chairman, two Non-executive Directors and two Executive Directors, who are all equally responsible for the proper stewardship and leadership of the Company. The Directors holding office at the date of this report and their biographical details are given on pages 34 to 35.

Taking into account the provisions of the Code, the Chairman and the two Non-executive Directors are considered by the Board to be independent of the Company's Executive Management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The terms and conditions of appointment of the Chairman and the Non-executive Directors are available for inspection at the registered office of the Company. The letters of appointment set out the expected time commitment. Other significant commitments of the Chairman and Non-executive Directors are disclosed to the Board on a regular basis throughout the year. The Board is satisfied that the Chairman's other significant commitments do not prevent him from devoting sufficient time to the Company.

Governance structure

The Board
Martin Towers (C)

Audit Committee	Remuneration Committee	Nominations Committee
David McKeith (C) Martin Towers Jo Hallas	Jo Hallas (C) Martin Towers David McKeith	Martin Towers (C) David McKeith Jo Hallas

David McKeith is the Senior Independent Non-executive Director. He is available to shareholders if they have any issues or concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to address or resolve, or for which such contact is inappropriate.

All Directors are supplied, in a timely manner, with all relevant documentation and financial information to assist them in the discharge of their duties by the making of well informed decisions that are in the best interests of the Company as a whole. The Board regularly reviews the management and financial performance of the Company, as well as long-term strategic planning and risk assessment. Regular reports are given to the Board on matters such as pensions, health and safety, and litigation.

Any concerns that a Director may have about how the Group is being run or about a course of action being proposed by the Board will, if they cannot be resolved once those concerns have been brought to the attention of the other Directors and the Chairman, be recorded in the Board minutes. In the event of the resignation of a Non-executive Director, that Director is encouraged to send a written statement setting out the reasons for the resignation to the Chairman who will then circulate it to the other members of the Board and the Company Secretary.

Chairman and Group Chief Executive

The positions of Chairman and Group Chief Executive are held by separate individuals and the Board has clearly defined their responsibilities. The Chairman is primarily responsible for the effective working of the Board, ensuring that each Director, particularly the Non-executive Directors, is able to make an effective contribution. The Group Chief Executive has responsibility for running the Group's businesses and for the implementation of the Board's strategy, policies and decisions.

Board, Committee and Director evaluation

The performance of the Board is appraised by the Chairman. The Executive and Non-executive Directors are evaluated individually by the Chairman. The Board, led by the Senior Independent Non-executive Director, appraises the Chairman, and the Board evaluates the performance of its three Committees. Evaluation processes are conducted periodically and they are organised to fit in with Board priorities and succession planning activity. A formal evaluation took place in the year under review in accordance with the requirements of the Code. This evaluation was conducted by means of detailed questionnaires, the results of which were then considered as appropriate, combined with meetings and discussions. The Chairman is responsible for the review of each Director's development and ongoing training requirements to ensure that the performance of each Director continues to be effective.

Advice for Directors

Procedures have been adopted for the Directors to obtain access through the Company Secretary to independent professional advice at the Company's expense, where that Director judges it necessary in order to discharge their responsibilities as a Director of the Company.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board policies and procedures are complied with. Both the appointment and removal of the Company Secretary are matters reserved for decision by the Board.

Board procedures

The Board has a formal schedule of matters specifically reserved to it for decision which it reviews periodically. This ensures the Board takes all major strategy, policy and investment decisions affecting the Company. In addition, it is responsible for business planning and risk management policies and the development of policies for areas such as safety, health and environmental policies, Directors' and senior managers' remuneration and ethical issues. The Board provides direction to the management of the Company, and it is ultimately accountable for the performance of the Group.

The Board operates in such a way as to ensure that all decisions are made by the most appropriate people in a timely manner that will not unnecessarily delay progress. The Board has formally delegated specific responsibilities to Board Committees, namely the Nominations Committee, Audit Committee and Remuneration Committee. The Terms of Reference of those Committees are published on the Company's website at www.norcros.com.

The report of the Nominations Committee is on page 45, the report of the Audit Committee is on pages 40 to 44 and the report of the Remuneration Committee is on pages 46 to 62.

The Board will also appoint committees to approve specific processes as deemed necessary, such as aspects of corporate transactions or to authorise share option administrative actions.

The Directors and management teams of each Group company are responsible for those business entities. They are tasked with the delivery of targets approved by the Board on budgets, strategy and policy.

Corporate governance continued

Directors' roles

The Executive Directors work solely for the Group. However, in appropriate circumstances, Executive Directors will be encouraged to take on one non-executive directorship in another non-competing company or organisation. The Group Chief Executive has no non-executive directorships and the Group Finance Director is a non-executive director of Air Partner plc. This non-executive role provides useful experience and does not adversely impact his duties to the Company.

The terms and conditions of appointment of the Non-executive Directors are available upon written request from the Company. All the Non-executive Directors confirm that they have sufficient time to meet the requirements of their role. They also confirm to disclose to the Company their other commitments and to give an indication of the time involved in each such commitment.

The annual evaluation process includes an assessment of whether the Non-executive Director is spending enough time to fulfil his/her duties. If a Non-executive Director is offered an appointment elsewhere, the Chairman is informed before any such offer is accepted and the Chairman will subsequently inform the Board.

The Board has suitable procedures in place for ensuring that its powers to authorise conflict situations are operated effectively. Such powers are operated in accordance with the Company's Articles of Association by means of each Director having a responsibility to notify the Board of any conflict situation and for the Board to deal with that situation as appropriate.

The Board ensures that all new Directors (including Non-executive Directors) will receive a full, formal and tailored induction on joining the Company. As part of that induction procedure, the Chairman will offer to major shareholders the opportunity to meet a new Non-executive Director. The Chairman also periodically assesses the training and development needs of all Directors and ensures that any suitable training and updates are provided to Directors.

Retirement by rotation

Each of the Directors is subject to election by shareholders at the first Annual General Meeting after their appointment. Thereafter, in accordance with the Company's Articles of Association, all of the Directors are subject to retirement by rotation such that one third of the Directors retire from the Board each year and each Director must seek re-election at intervals of no more than three years. However, the Board has decided that every Director should, where appropriate, offer themselves for re-election at each Annual General Meeting. Accordingly, each continuing Director will seek re-election at the next Annual General Meeting. Biographical details of all of the Directors are set out on pages 34 to 35, where there is also a statement on the Directors' suitability for re-election.

Financial reporting

When releasing the annual and interim financial statements the Directors aim to present a fair, balanced and understandable assessment of the Group's results and prospects. The Directors have a collective responsibility for the preparation of the Annual Report and Accounts which is more fully explained in the Statement of Directors' Responsibilities on page 65.

Attendance by individual Directors at meetings of the Board and its Committees

The attendance of Directors at the Board and principal Board Committee meetings during the year is detailed in the table below:

	Main Board 8 meetings	Audit Committee 3 meetings	Remuneration Committee 5 meetings	Nominations Committee 2 meetings
Martin Towers, Chairman	8/8	3/3	5/5	2/2
Jo Hallas	8/8	3/3	5/5	2/2
David McKeith	8/8	3/3	5/5	2/2
Nick Kelsall	8/8	—	—	—
Shaun Smith	8/8	—	—	—

Relations with shareholders

The Company recognises the importance of maintaining good communications with shareholders. The Company takes a number of steps to ensure that the Board and, in particular, the Non-executive Directors develop an understanding of the views of major shareholders about the Company. Directors have regular meetings with the Company's major shareholders and have regular feedback on the views of those shareholders through the Company's broker. Reports of these meetings, and any shareholder communications during the year, are given to the Board. In addition, the Company publishes any significant events affecting the Group and updates on current trading. The Chairman and the Non-executive Directors are also offered the opportunity to attend meetings with major shareholders and the Non-executive Directors, and in particular the Senior Independent Director, would attend such meetings if requested to do so by any major shareholder. In April 2018 the Board held a capital markets day, ensuring that the information provided at that event to major shareholders and analysts was also made available to all shareholders via the Company's website.

The Board regularly receives copies of analysts' and brokers' briefings. The Annual and Interim Reports, together with all announcements issued to the London Stock Exchange, are published on the Company's website at www.norcros.com.

The Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue.

For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The Company ensures that all valid proxy appointments received for general meetings are properly recorded and counted. For each resolution the Company ensures that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the Company:

- the date of the meeting;
- the text of the resolution;
- the number of votes validly cast;
- the proportion of the Company's issued share capital represented by those votes;
- the number of votes cast in favour of the resolution;
- the number of votes against the resolution; and
- the number of shares in respect of which the vote was withheld.

The Chairman seeks to arrange for the Chairmen of the Audit, Remuneration and Nominations Committees (or a deputy if any of them is unavoidably absent) to be available at the Annual General Meeting to answer any questions relating to the work of these Committees.

Accountability and audit

The respective responsibilities of the Directors and auditor in connection with the financial statements are explained in the Statement of Directors' Responsibilities on page 65 and the auditor's report on page 71. The Directors ensure the independence of the auditor by requesting annual confirmation of independence which includes the disclosure of all non-audit fees.

Risk management and internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness (covering all material controls including financial, operational, risk management and compliance). This is undertaken via an annual programme to review the internal control environment at each business unit. Each review is carried out by senior finance staff independent of that business unit. The results of these reviews are communicated to the Audit Committee.

The Board has carried out a robust assessment in order to identify and evaluate what it considers to be the principal risks faced by the Group and has also assessed the adequacy of the actions taken to manage these risks. This process has been in place for the period under review and up to the date of the approval of the Annual Report and Accounts. The principal risks are disclosed on pages 27 to 30.

The Group's insurance continues to be managed and co-ordinated centrally with the assistance of insurance brokers. This gives the Group full visibility of both claims history and the insurance industry's perception of the Group's overall risk via the respective insurance premiums. The Company examines the size and trend of these premiums and the extent to which it can mitigate the risk and reduce the overall risk burden in the business by considering the appropriate level of insurance deductible and the potential benefit of self-insurance in some areas.

Viability

In accordance with the Code, the Board has assessed the prospects of the Company, using a three-year assessment timescale, and concluded that there is a reasonable expectation that the Company will be able to meet its liabilities and continue in operation. The full viability statement is contained on page 27.

Operational structure, review and compliance

In addition to the Group Finance Director, the Group has Senior Financial Managers at its Head Office. The Board has considered whether the Company should have an internal audit department, having regard to the Group's risk management and internal control programme noted previously, together with the size and complexity of the Group. Near the conclusion of the 2017 financial year the Board decided to seek the creation of a Head of Internal Audit role and the employment of the appropriate resource. The Head of Internal Audit was appointed in July 2017 and he is in charge of the Internal Audit function for the Group. Further information on the work of internal audit is in the Audit Committee's report on pages 40 to 44.

The key elements of the controls framework within which the Group operates are:

- an organisational structure with clearly defined lines of responsibility, delegation of authority and reporting requirements;
- an embedded culture of openness of communication between operational management and the Company's Executive Management on matters relating to risk and control;
- defined expenditure authorisation levels; and
- a comprehensive system of financial reporting. An annual budget for each business unit is prepared in detail and approved by the Group Executive Management. The Board approves the overall Group's budget and plans. Monthly actual results are reported against budget and the prior year and the forecast for the year is revised where necessary. Any significant changes and adverse variances are questioned by the Board and remedial action is taken where appropriate. There is weekly cash and treasury reporting to the Group Finance Director and periodic reporting to the Board on the Group's tax and treasury position.

The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. It is tested and developed as appropriate by the Head of Internal Audit working in conjunction with the Audit Committee.

The control framework as outlined above gives reasonable assurance that the structure of controls in operation is appropriate to the Group's situation and that risk is kept to acceptable levels throughout the Group.

Takeover directive

Share capital structures are included in the Directors' Report on page 64.

Approved by the Board of Directors on 13 June 2018 and signed on its behalf by:

Martin Towers

Martin Towers
Chairman
13 June 2018

Corporate governance

The Committee concluded that the 31 March 2018 Annual Report and Accounts is fair, balanced and understandable.

Role of the Audit Committee

The main responsibilities of the Audit Committee are:

- reviewing the Company's financial reporting;
- monitoring the Company's risk management and internal control procedures;
- overseeing the appointment and work of the external auditor; and
- advising the board on whether the Annual Report and Accounts are fair, balanced and understandable.

Members

The Committee consists of all the Non-executive Directors including the Chairman. Biographies of the members of the Committee appear on pages 34 to 35.

The Chairman of the Audit Committee, David McKeith, is considered to have recent and relevant financial experience as he is a fellow of the Institute of Chartered Accountants in England and Wales and a former senior partner of PricewaterhouseCoopers LLP. He also acted as chairman of the audit committee for Sportech plc, where he was a non-executive director until he resigned from that position in August 2016.

The Board is satisfied that the Committee has the appropriate level of expertise to fulfil its Terms of Reference. Additionally, an appraisal of the Committee was undertaken as part of an evaluation of the entire Board in the year ended 31 March 2018 which concluded that the Committee is operating effectively.

Responsibilities

The Committee is a sub-committee of the Board whose main responsibilities include:

- reviewing the Company's Annual and Interim Reports and other regulatory announcements, including considering and challenging significant financial reporting issues and judgements;
- advising the Board on whether it considers that the Annual Report and Accounts present a fair, balanced and understandable assessment of the Company's financial position and performance, strategy and business model;
- monitoring the Company's risk management and internal control procedures;
- evaluating and advising the Board on the going concern assumption and viability statement;
- agreeing the scope of the annual audit programme and reviewing the outputs; and
- overseeing the appointment and work of the external auditor.

The Committee's Terms of Reference, which are in compliance with the UK Corporate Governance Code, were reviewed during the year and updated on 1 March 2018. A copy can be obtained from the Company's website, www.norcros.com.

Significant financial reporting matters in the 2018 Annual Report

The significant financial reporting matters that the Committee considered in the year are detailed below:

Accounting for customer rebates and other trade promotional spend

As part of its trading activities and in accordance with industry norms, a number of the Group's customers are offered rebates and promotional incentives in order to encourage trade and cement strong relationships. Rebates and promotional spend are recognised as a deduction from revenue over the period of the agreement with the customer. Accounting for such arrangements involves judgement as agreement periods typically run for a number of months or years and may involve assumptions around volumes of product purchased or sold into the future.

The Committee considered the approach taken by management and the detailed testing undertaken by the external auditor and concluded that the commercial substance of the arrangements was appropriately reflected in the financial statements and in accordance with accounting standards.

Defined benefit pension plan liabilities

The Group's UK defined benefit pension scheme is significant both in terms of its context in the overall Balance Sheet and the results of the Group, notwithstanding the fact that the net deficit has reduced from £62.7m in 2017 to £48.0m in 2018. The valuation of the present value of scheme liabilities involves significant judgement and expertise particularly in respect of the assumptions used.

In order to value the liabilities, management had engaged an independent firm of qualified actuaries. The Committee reviewed the outputs from this work and benchmarked the assumptions, particularly the net discount rate, with those applied by other companies with defined benefit pension schemes with similar characteristics and having the same measurement date. The Committee concurred with the assumptions put forward by management to value the liability.

Valuation of acquired Merlyn intangible assets

As part of its consideration of how the Group has accounted for the acquisition of Merlyn, the Committee reviewed management's assessment of Merlyn's intangible assets. The Committee has recent experience of reviewing intangible assets following the acquisitions of Vado in 2013, Croydex in 2015 and Abode in 2016. The Committee reviewed a paper produced by management and challenged the assumptions used, the nature of the assets identified and the proposed useful lives of each asset, and agreed to recognise intangible assets in respect of Merlyn's customer relationships and brand valued at £30.7m.

In conducting these reviews, the Committee considered the work and recommendations of the Company's finance function and received reports from the Company's external auditor on its findings.

Fair, balanced and understandable

The Committee formally reviews the Company's annual and interim financial statements and associated announcements, and considers significant accounting principles, policies and practices and their appropriateness, financial reporting issues and significant judgements made, including those summarised above.

The Committee also advises the Board on whether it considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the necessary information for shareholders to assess the Company's financial position and performance, strategy and business model.

The Committee concluded that these disclosures, and the processes and controls underlying their production, meet the latest legal and regulatory requirements for a listed company and that the 31 March 2018 Annual Report and Accounts is fair, balanced and understandable.

Audit Committee report continued

Meetings of the Committee

The Committee met formally three times during the year ended 31 March 2018. By invitation, the Group Chief Executive, Group Finance Director, Company Secretary and Group Financial Controller also attended each of these meetings together with the engagement partner and other members of the audit team from the external auditor. The Group employed a Group Head of Internal Audit and Risk in July 2017 who attended the two meetings during the year which followed his appointment to this newly created role.

The Committee may invite other individuals either from within the Company or external technical advisers to attend meetings to provide information or advice as it sees fit.

At each meeting the Committee had the opportunity to discuss matters with the external auditor without management being present. The Chairman of the Committee also has regular discussions with the external audit partner outside of the formal Committee process.

The Committee reviews any financial communications issued to the market at each meeting.

Principal activities of the Audit Committee during the year

A wide variety of issues were addressed in the year and they are summarised in the table below:

Area	Activities
Financial reporting	Review of the Company's trading updates and other financial communications
	Review of the prospectus and supplementary prospectus issued in connection with the acquisition of Merlyn
	Review of Merlyn's financial position and prospects procedures
	Review of the Company's interim results for the six months ended 30 September 2017
	Review of the proposed acquisition accounting in respect of Merlyn, including an assessment of the intangible assets acquired
	Consider the potential impairment of assets following the Johnson Tiles UK restructuring
	Review of the Company's Annual Report and Accounts for the year ended 31 March 2018, including consideration of:
	• significant financial reporting matters;
	• whether the Annual Report and Accounts are fair, balanced and understandable; and
	• the requirements of the viability statement
External audit	Review of the external auditor's proposed audit work plan for the year ended 31 March 2018, including its assessment of the principal financial reporting risks
	Review of the external auditor's terms of engagement and proposed fees
	Assessment of the external auditor's independence, objectivity, qualifications and expertise, including a review of its internal quality control checks
	Review of the findings from the external audit for the year ended 31 March 2018
Internal audit	Monitor the integration of the new Group Head of Internal Audit and Risk into the Group
	Review of the internal audit work programme for the year
	Assessment of the work carried out to test and review internal controls and IT security, together with the status of recommendations identified
Risk management	Review of the Group's principal risks and uncertainties including risk identification, management and monitoring procedures
	Evaluation of the Company's compliance, whistleblowing and fraud prevention procedures
Governance	Conduct an appraisal of the performance of the Committee
	Review of the Group's policy in respect of the employment of former employees of the external auditor
	Review of the Group's policy in respect of the engagement of the external auditor for non-audit services and non-audit services provided by the external auditor during the year
	Update of the Committee's Terms of Reference in line with current best practice

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to achieve business objectives. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

The strategy for reviewing internal controls is discussed with the external auditor and agreed with the Committee. Findings from the internal audit reviews together with any recommendations from the external auditor are considered by the Committee with any improvements and weaknesses highlighted being followed up as appropriate. The status of internal audit recommendations is also reviewed at each divisional board meeting to ensure that they are implemented on a timely basis.

The Committee undertakes a review, at least annually, of the effectiveness of the Company's system of internal controls and the Board will take into account the Committee's report, conclusions and recommendations in this regard. The Board confirms that it has reviewed the effectiveness of the internal control system, including financial, operational and compliance controls and risk management in accordance with the UK Corporate Governance Code, for the period from 1 April 2017 to the date of approval of these Annual Report and Accounts for the year ended 31 March 2018.

The significant risks facing the Company, together with the actions taken to mitigate them, are highlighted on pages 27 to 30 of the Strategic Report. Lower-level risks are discussed at monthly divisional management meetings and highlighted to the Board as appropriate.

The Company operates a robust monthly financial reporting and forecasting process and an annual budgeting cycle. This incorporates several levels of management review to provide assurance that the data is reconciled to the underlying records and each month's performance and the annual budget is ultimately approved by the Board.

Transaction-level financial reporting risks are identified and managed by each business within the Group completing an annual self-assessment questionnaire, the responses to which are considered during the internal control reviews. To bolster this, a management representation process is in place requiring each division to confirm that all known material facts have been appropriately communicated to the Executive Directors.

Internal audit framework

As highlighted in the Audit Committee Report for 2017, the Committee considered whether there was a need to have a dedicated Group-wide internal audit function and concluded that it was now appropriate to create such a function. A suitable candidate with the relevant experience and skills was identified and took up the position of Group Head of Internal Audit and Risk in July 2017. Prior to this date, internal control work continued to be performed by members of the Group finance function who are appropriately qualified to undertake this type of work.

Additionally, due to the particular risks faced by the Group's retail and satellite manufacturing operations in South Africa, the Group employs a dedicated internal auditor based in South Africa focused on those risks. The work undertaken principally involves performing a cycle of Tile Africa store audits to ensure standard operating procedures are being followed and conducting internal control reviews of the satellite manufacturing facilities in South Africa operated by the Group.

Internal audit activities during the year

Following the appointment of the Group Head of Internal Audit and Risk in July 2017, a key focus has been co-ordinating a programme of activities across all operating units to ensure compliance with the impending GDPR. In addition, as part of the due diligence activity in respect of the acquisition of the Merlyn business, Internal Audit completed a review of the technology status of the new business to identify issues to be addressed during the transition and integration of the business. Audits of two operational units were completed, assessing the effectiveness of key controls around financial reporting, IT security and sales ledger processing along with follow-ups of the previous year's financial and IT internal audits to confirm progress with agreed actions. In South Africa, the primary focus has been on the retail outlets with completion of a cycle of operational reviews in all the Tile Africa stores as well as a review of the processes in the Supply and Fit Division.

Other key activities have included the production of a comprehensive audit universe to facilitate the development of a risk-based audit plan going forward, delivery of fraud awareness training to all operating units focusing on operational and cyber related fraud risks, completion of an extensive penetration test of the Group IT landscape, reviews and consolidation of operating unit risk registers and a review of the Group's whistleblowing process.

Summaries of findings/actions and updates on all audit work and other key activities have been provided to the Audit Committee meetings.

Audit Committee report continued

Fraud and whistleblowing

The Committee receives regular papers on incidences of fraud and whistleblowing and reviews them at each meeting. At least annually, the Committee conducts an assessment of the adequacy of the Group's procedures in respect of compliance, whistleblowing and fraud.

External auditor

The Committee has primary responsibility for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor. The Committee keeps under review the scope and results of the audit and its effectiveness, as well as the independence and objectivity of the auditor.

The external auditor, PricewaterhouseCoopers LLP, was re-appointed in November 2011 following a competitive tender process. The timing of a competitive tender will continue to be assessed on an annual basis, considering the results of the annual effectiveness review. The Committee has, however, committed to conducting a tender process for the role of external auditor at least every ten years in line with current legislation, meaning that the next tender must take place in 2021 at the latest.

The Committee is aware of the need to safeguard the auditor's objectivity and independence and the issue is discussed by the Committee and periodically with the audit engagement partner from PricewaterhouseCoopers LLP. As required by Auditing Practices Board requirements, external auditor independence is maintained by the rotation of the engagement partner every five years. The current audit engagement partner, Hazel Macnamara, has been in place for two years.

Policies on the award of non-audit work to the external auditor and the employment of ex-employees of the external auditor are in place which are reviewed annually. Additionally, the approval of the Chairman of the Committee is required prior to awarding high value non-audit work to the external auditor, and the non-audit work planned and performed is monitored by the Committee at each meeting.

The external audit starts with the design of a work plan that addresses the key risks of the audit which were confirmed at the March 2018 meeting of the Committee. The Committee also agreed the terms of engagement and the fees payable for the engagement. At each meeting the Committee had the opportunity to discuss matters with the external auditor without management being present. The Chairman of the Committee also has regular discussions with the external audit partner outside the formal Committee process.

For the year ended 31 March 2018, the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with PricewaterhouseCoopers LLP as external auditor. In light of this the Committee has recommended to the Board that PricewaterhouseCoopers LLP be re-appointed for the forthcoming year and a resolution proposing this will be put to the 2018 Annual General Meeting.

Audit Committee priorities for the coming year

For the coming financial year, as part of its ongoing responsibilities, the Committee's main areas of focus are as follows:

- keep under review the Company's risk management and internal control procedures;
- continue to monitor the internal audit programme of work with particular focus on the Group's readiness for the implementation of the GDPR requirements;
- consider extending the scope of the Committee's activities to fully encompass risk assessment and management; and
- review the implementation of management's integration plan to fully align Merlyn's financial position and prospects procedures with those of the Group.

On behalf of the Audit Committee

David McKeith
Chairman of the Audit Committee
13 June 2018

The Committee continues to give careful consideration to succession plans for board members and senior management across the Group.

Role of the Nominations Committee

The main responsibilities of the Nominations Committee are:

- evaluating the balance of skills, knowledge, independence, diversity and experience of the Board;
- succession planning for the Board;
- determining the scope of the role of a new Director and the skills and time commitment required and making recommendations to the Board about filling Board vacancies; and
- appointing additional Directors.

The Nominations Committee and the Board seek to maintain an appropriate balance between the Executive and Non-executive Directors. The Nominations Committee is chaired by the Chairman and consists of all the Non-executive Directors. The Chairman will not chair the Committee when it deals with the appointment of a successor to the Chairmanship.

The Terms of Reference of the Committee are available for inspection upon written request to the Company and on its website at www.norcros.com.

During the year under review, the Nominations Committee has evaluated the balance of skills, knowledge, diversity and experience of the Board. If a new appointment to the Board is required, the Committee will use the appropriate selection process and will determine the scope of the role of a new Director and the skills and time commitment required and make recommendations to the Board about filling Board vacancies and appointing additional Directors. The Committee will utilise external search and selection consultants as appropriate and appointments will be made on the basis of merit and the most appropriate experience against objective criteria in the best interests of shareholders.

In selecting candidates due regard will be given to the balance of the Board, and to the benefits of different backgrounds and experience, and to diversity on the Board including gender.

In the year under review the Committee has, in addition to its routine responsibilities, given careful consideration to succession planning issues. The Company has in place appropriate plans for succession planning for Board members and senior management across the Group. One priority for the Committee in the current financial year is to work with the Group Chief Executive to establish a formal management development programme for senior management in the Group.

Martin Towers.

Martin Towers
Chairman of the Nominations Committee
13 June 2018

The Committee continues to place the interests of shareholders at the forefront of its decision-making with regards to remuneration policy implementation.

Role of the Remuneration Committee

The main responsibilities of the Remuneration Committee are to:

- determine the remuneration policy and keep it under review, including consulting with, and obtaining approval from, shareholders as appropriate;
- implement the approved remuneration policy as regards Executive Director remuneration, benefits and incentives, including the design of, targets for and payout of all incentive arrangements;
- ensure alignment of the remuneration structure for senior executives to the Executive Director remuneration policy, including approval of changes to packages; and
- preparation of the Annual Remuneration Report to be approved by the members of the Company at the Annual General Meeting.

Dear shareholders,

I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2018.

The Committee continues to place the interests of shareholders at the forefront of its decision making when implementing the remuneration policy approved by shareholders. The Group's remuneration policy was first presented to the AGM in 2014 and remained unchanged in 2015/16 and 2016/17. The policy was submitted to a new binding shareholder vote at the 2017 AGM, and it received overwhelming support.

Remuneration strategy

The Committee's overall approach to executive remuneration remains unchanged. We are focused on ensuring the Group's remuneration policy is closely aligned with shareholders' interests and enables us to attract, retain and motivate quality executive leadership, but without paying more than is necessary to achieve these aims. We do this with a simple remuneration structure

comprising base salary and benefits, an annual bonus and a single performance-based long-term incentive. Targets for the annual bonus and long-term incentive are set at levels that are stretching and provide a clear link between pay and the achievement of our strategic objectives.

Our policy delivers an on-target reward mix for the Group Chief Executive and Group Finance Director comprising 61% fixed pay (51% base salary, 8% pension and 2% benefits), 26% annual bonus and 13% long-term incentive. Under a scenario where all performance conditions are met in full, the Executive Directors' package consists of 38% fixed pay, 31% annual bonus and 31% long-term incentive.

To further ensure remuneration is aligned with shareholder interests, half of any bonus paid is deferred for three years, shares vesting from APSP awards need to be held for a further two years (i.e. until the fifth anniversary of grant), and the Executive Directors are additionally required to build and maintain a shareholding of at least 100% of salary. Finally, in the event of material misstatement in accounting records or gross misconduct, deferred bonus and APSP awards may be subject to malus or clawback.

The Group has for many years successfully operated an all-employee Save As You Earn (SAYE) share scheme in the UK, enabling the workforce to share in the success of the business.

Alignment with strategic objectives

Over the course of the year, the Company defined its new strategic vision and objectives for the five-year period to 2023. These are set out more fully on page 11. Alongside this process, the Committee undertook a comprehensive review of the remuneration policy to ensure that it would remain fit for purpose in effectively incentivising the delivery of the Group's new strategic goals and the creation of shareholder value over the longer-term. The Committee also took into account the wider market context and developments in best practice remuneration governance. After extensive consideration, the Committee concluded that the policy approved by shareholders at the 2017 AGM remains appropriate in this context; it is simple, clear and sufficiently flexible to enable the Committee to revise its approach to implementation in future years if the need arises to maintain close alignment of executive remuneration with our strategic goals and shareholders' interests.

Year in review

As highlighted in the Chairman's Statement and the Group Chief Executive's Statement on pages 6 and 8 respectively, Norcros continues to perform strongly with a ninth consecutive year of growth in both revenue and underlying operating profit. Highlights for the year ended 31 March 2018 include:

- revenue growth of 10.7% (8.6% on a constant currency basis) to £300.1m;
- underlying operating profit increased by 15.1% to £27.4m;
- underlying diluted earnings per share increased by 6.1% to 29.5p;
- the successful acquisition of Merlyn, reflecting further progress against the Group's growth targets; and
- underlying ROCE of 18.0%, which is ahead of the Group strategic target over the five year period from 2013–2018 of 12–15%.

This strong performance delivered underlying profit in line with the target set by the Committee for the year, resulting in bonus outcomes of 50% of the maximum opportunity for the year ended 31 March 2018. The Group exceeded its targets for aggregate underlying earnings per share (EPS) over the three-year period from 1 April 2015 to 31 March 2018. As a result, 100% of the APSP awards granted in 2015 will vest on 22 July 2018. The Committee considers this outcome to appropriately reflect the Group's very strong performance and progress against strategic objectives over the period.

2019 remuneration

In accordance with our remuneration policy, the Committee decided to award base salary increases of 3% to each of our Executive Directors, reflecting their continued contribution to the sustained strong performance of the Company. These increases are broadly in line with the increases for our senior employees in the wider UK-based workforce. There are no other changes to Executive Director remuneration for the year ending 31 March 2019.

For the reasons set out in this letter, the Committee believes that our remuneration strategy and its implementation remain appropriate. The Directors' Remuneration Report will be subject to an advisory vote at the 2018 AGM and I look forward to receiving your support for this.

On behalf of the Remuneration Committee, I would like to thank shareholders for your continued support.

J.C.Hallas

Jo Hallas
Chairman of the Remuneration Committee
13 June 2018

Remuneration disclosure

This Directors' Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report, we describe how the principles of good governance relating to Directors' remuneration, as set out in the UK Corporate Governance Code (the Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Group has complied with these governance rules and best practice provisions set out in the Code.

Directors' remuneration policy report

Directors' remuneration policy

This section of the report sets out the remuneration policy for Executive Directors and Non-executive Directors, which was approved by a binding shareholder vote at the 2017 AGM. The policy will remain effective for up to a three-year period ending on the date of the 2020 AGM. The Policy Report is unchanged from that published in last year's annual report, save for minor changes to aid clarity and transparency, such as updating the pay scenario charts to reflect 2019 remuneration, and page references.

Executive Director remuneration policy table

This policy has been designed to support the principal objective of enabling the Group to attract, motivate and retain the people it needs to maximise the value of the business.

Component and objective	Operation	Opportunity	Performance measures
Base salary To enable the Group to attract, motivate and retain the people it needs to maximise the value of the business	Generally reviewed each year, with increases effective 1 April with reference to salary levels at other FTSE companies of broadly similar size or sector to Norcros. The Committee also considers the salary increases applying across the rest of the UK business when determining increases for Executive Directors. Base salary increases are applied in line with the outcome of the annual review.	Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration. Salary increases for Executive Directors will normally not exceed those of the wider workforce over the period this policy will apply. Where increases are awarded in excess of the wider employee population, for example if there is a material change in the responsibility, size or complexity of the role, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	n/a
Pension To provide a level of retirement benefit that is competitive in the relevant market	Executive Directors receive pension contributions (either as a direct payment or a cash allowance). Base salary is the only element of remuneration that is pensionable.	Maximum of 15% of base salary.	n/a
Benefits Provision of benefits in line with the market	Executive Directors are provided with a company car (or a cash allowance in lieu thereof) and medical insurance. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects the needs and circumstances of the Group and individual Executive Director.	Benefits may vary by role, and the level is determined each year to be appropriate for the role and circumstances of each individual Executive Director. It is not anticipated that the cost of benefits (as set out in the Annual Report on Remuneration) would increase materially over the period for which this policy will apply. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation expenses or an expatriation allowance on recruitment, etc.) or in circumstances where factors outside the Company's control have changed materially (e.g. market increases in insurance costs).	n/a

Component and objective	Operation	Opportunity	Performance measures
Annual bonus and Deferred Bonus Plan (DBP) To focus Executive Directors on achieving demanding annual targets relating to Group performance and encourage retention	Performance targets are set at the start of the year and aligned with the annual budget agreed by the Board. At the end of the year, the Committee determines the extent to which these targets have been achieved. 50% of the total bonus payment is paid in cash, and 50% is converted into nil-cost options over Norcros shares under the 2011 Deferred Bonus Plan (DBP). These options are exercisable after three years, subject to continued employment and malus (in whole or in part) during the deferral period in the event of a material misstatement in accounting records or gross misconduct. A payment equivalent to the dividends that would have accrued on deferred bonus awards that vest will be made to participants on vesting.	Maximum opportunity: 100% of base salary. Target opportunity: 50% of base salary. For threshold performance, the bonus payout is up to 25% of maximum.	The bonus will be based primarily on the achievement of financial performance targets but may, from time to time, include non-financial performance measures (the weighting of which, if any, will be capped at 20% of the total opportunity). The primary bonus measure is Group underlying operating profit, although the Committee may, at its discretion and from time to time, supplement this with additional financial measures that reflect the strategic priorities for Norcros for the financial year. The Committee has discretion to adjust the formulaic bonus outcomes (including down to zero) within the limits of the scheme to ensure alignment of pay with performance. Further details including targets attached to the bonus for the year under review are given on page 57 of the Annual Report on Remuneration.
Approved Performance Share Plan (APSP) To incentivise Executive Directors to deliver long-term performance by aligning their performance with shareholders' interests	APSP awards comprise annual conditional awards of nil-cost options following the announcement of the Group's final results. Awards normally vest after three years, subject to the achievement of a performance condition and continued employment with the Group until the vesting date. To the extent an award vests, Executive Directors will be required to hold net vested shares for an additional holding period of two years. A payment equivalent to the dividends that would have accrued on APSP awards that vest will be made to participants on vesting. APSP awards are also subject to malus over the vesting period and clawback over the holding period (in both cases in whole or in part) in the event of a material misstatement in accounting records or gross misconduct.	Maximum opportunity: 100% of base salary. Threshold performance results in 25% vesting. Details of actual APSP awards in respect of each year will be disclosed in the Annual Report on Remuneration.	Vesting of APSP awards is dependent upon the Group's diluted underlying earnings per share (EPS) performance over a three-year period. At the start of each cycle, the Committee will determine the targets that will apply to an award. If the performance targets are not met at the end of the performance period, awards will lapse. The Committee has discretion to adjust the formulaic APSP outcomes within the limits of the scheme if certain relevant events take place (e.g. a capital restructuring, a material acquisition/divestment, etc.) with any such adjustment to result in the revised targets being no more or less challenging to achieve. The Committee will consult major shareholders on changes to the APSP, although it retains discretion to make non-significant changes to the performance measure without reverting to a full shareholder vote. Further details, including the targets attached to the APSP in respect of each year, are disclosed in the Annual Report on Remuneration.

Directors' remuneration policy report continued

Executive Director remuneration policy table continued

Component and objective	Operation	Opportunity	Performance measures
SAYE To encourage the ownership of Norcros plc shares	An HMRC-approved scheme where employees (including Executive Directors) may save up to the individual monthly limit set by HMRC from time to time over three years. Options are granted at a discount of up to 20%.	Savings capped at the individual monthly limit set by HMRC (or other such lower limit as the Committee may determine) from time to time.	n/a
Shareholding requirements To align Executive Director and shareholder interests and reinforce long-term decision making	Executive Directors are required to retain at least 50% of any DBP or APSP awards that vest (net of tax) until they have built up a personal holding of Norcros plc shares worth 100% of salary. Only shares that are held beneficially by an Executive Director or their spouse or partner, or nil-cost options granted under the DBP on or after 27 July 2017 count in the assessment of whether an Executive Director has met the required ownership level.	n/a	n/a

Notes to the policy table

Payments from previous awards

For the avoidance of doubt the Group will honour any commitment entered into, and Executive Directors will be eligible to receive payment from any award made, prior to the approval and implementation of the remuneration policy detailed in this report, i.e. before 27 July 2017. Details of these awards are, and will be, disclosed in the Annual Report on Remuneration.

Performance measure selection and approach to target setting

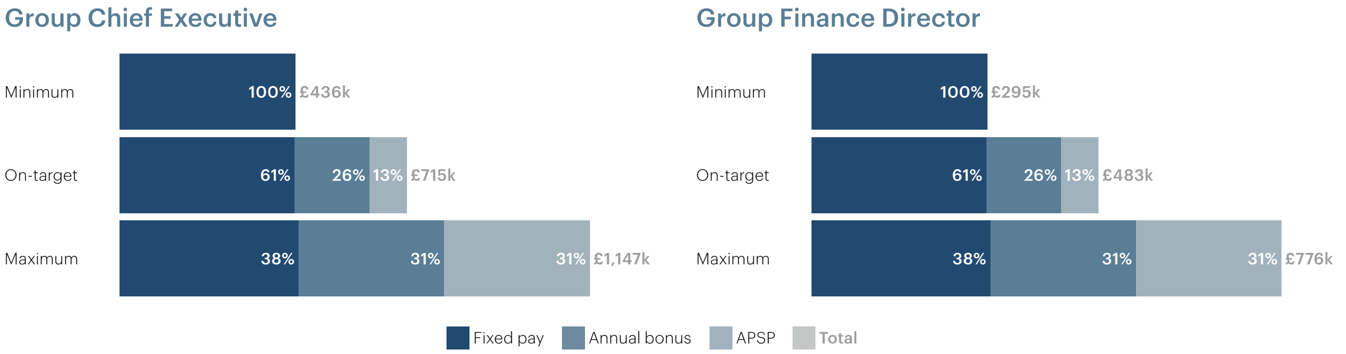
The use of Group underlying operating profit in the annual bonus directly reinforces our medium-term growth-orientated strategy (see page 11 for further details). For the APSP, the Committee considers that diluted underlying EPS is a transparent, objective and effective measure of performance which is in the long-term interests of all of our shareholders.

Targets applying to the bonus and APSP are reviewed annually, based on a number of internal and external reference points. Bonus targets are aligned with the annual budget agreed by the Board. Annual bonus targets are considered to be commercially sensitive but will be disclosed retrospectively in next year's Annual Report on Remuneration (see page 57 of the Annual Report on Remuneration). APSP targets reflect industry context, expectations of what will constitute appropriately challenging performance levels and factors specific to the Group. The Committee will determine the APSP targets at the time awards are made and these targets (along with other relevant details of the grant) will be disclosed in next year's Annual Report on Remuneration (see page 58 of the Annual Report on Remuneration).

Differences from remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles as described above. Annual salary reviews across the Group take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies.

Executives and senior managers are eligible to participate in annual bonus schemes. Opportunities and performance measures vary by organisational level, geographical region and an individual's role. Other members of the Group senior leadership team participate in the APSP on similar terms as the Executive Directors, although award sizes may vary by organisational level. All UK employees are eligible to participate in the Group's SAYE scheme on identical terms.



Performance scenario charts

The graphs above provide estimates of the potential future reward opportunity for Executive Directors, and the potential mix between the different elements of remuneration under three different performance scenarios: "Minimum", "On-target" and "Maximum". This information is for the current financial year, as explained below.

The potential opportunities illustrated above are based on the policy applied to the base salary at 1 April 2018. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for the year to 31 March 2019. It should be noted that any bonus deferred into the DBP and APSP awards do not normally vest until the third anniversary of the date of grant. This is intended to illustrate the relationship between executive pay and performance. The values of the DBP and APSP assume no increase in the underlying value of the shares, and actual pay delivered will further be influenced by changes in factors such as the Group's share price and the value of dividends paid.

Valuation assumptions

The "Minimum" scenario reflects base salary, pension and benefits (i.e. fixed remuneration), being the only elements of the Executive Directors' remuneration package not linked to performance.

The "On-target" scenario reflects fixed remuneration as above, plus target bonus payout (50% of salary) and APSP threshold vesting at 25% of the maximum award level.

The "Maximum" scenario reflects fixed remuneration, plus full payout under all incentives (100% of salary under each of the annual bonus and APSP).

Approach to Executive Director recruitment and remuneration

External appointment

In cases of hiring or appointing a new Executive Director from outside the Group, the Remuneration Committee may make use of all existing components of remuneration, as follows:

Component	Policy
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the current salary of the incumbent in the role. Where a new appointee has an initial base salary set below market, the Committee may make phased increases over a period of three years, subject to the individual's development and performance in the role.
Benefits	As set out in the policy table, benefits may include (but are not limited to) the provision of a company car or car allowance, medical insurance, and any necessary expatriation allowances or expenses relating to an executive's relocation.
Pension	New appointees will receive pension contributions into a defined contribution pension arrangement or an equivalent cash supplement, or a combination of both. The maximum employer contribution will be 15% of salary on the same terms as other Executive Directors.
SAYE	New appointees will be eligible to participate on identical terms to all other employees.
Annual bonus	The bonus structure described in the policy table will apply to new appointees. The maximum opportunity will be 100% of salary, pro-rated in the year of joining to reflect the proportion of that year employed. Performance measures may include strategic and operational objectives tailored to the individual in the financial year of joining. 50% of any bonus earned will be deferred into the DBP on the same terms as other Executive Directors.
APSP	New appointees will be granted annual awards under the APSP on the same terms as other Executive Directors, as described in the policy table. In exceptional circumstances, such as to facilitate the recruitment of an external hire, the Committee may, in its absolute discretion, make awards up to 150% of salary.

Directors' remuneration policy report continued

Approach to Executive Director recruitment and remuneration continued

External appointment continued

In determining the appropriate remuneration structure and level for the appointee, the Remuneration Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of our shareholders. It is not the intention of the Committee that a cash payment such as a "golden hello" would be offered. However, the Committee may make an award in respect of a new appointment to "buy out" incentive arrangements forfeited on leaving a previous employer, over and above the approach and award limits outlined in the table above. Any such award will be made under existing incentive structures, where appropriate, and will be subject to the normal performance conditions of those incentives. The Committee may also consider it appropriate to make "buy out" awards under a different structure, using the relevant Listing Rule, where necessary, to replicate the structure of forfeited awards. Any "buy out" award (however this is delivered) would have a fair value no higher than that of the awards forfeited, taking into account relevant factors including performance conditions, the likelihood of those conditions being met and the proportion of the vesting period remaining. Details of any such award will be disclosed in the first Annual Report on Remuneration following its grant.

Internal promotion to the Board

In cases of appointing a new Executive Director by way of internal promotion, the policy will be consistent with that for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to the Board, and it is agreed that a commitment is to continue, the Group will continue to honour these arrangements even if there are instances where they would not otherwise be consistent with the prevailing Executive Director remuneration policy at the time of promotion.

Service contracts and policy for payment for loss of office

Executive Directors have signed rolling contracts, terminable on twelve months' notice by either the Group or the Director. The Group entered into a contract with Nick Kelsall on 1 April 2011, and with Shaun Smith on 31 March 2016. Copies of these contracts are available to view at the Group's registered office.

The Committee's policy for Directors' termination payments is to provide only what would normally be due to Directors had they remained in employment in respect of the relevant notice period, and not to go beyond their normal contractual entitlements. Any incentive arrangements will be dealt with subject to the relevant rules, with any discretion exercised by the Committee on a case by case basis taking into account the circumstances of the termination. Termination payments will also take into account any statutory entitlement at the appropriate level, to be considered by the Committee on the same basis. The Committee will monitor and where appropriate enforce the Directors' duty to mitigate loss. When the Committee believes that it is essential to protect the Group's interests, additional arrangements may be entered into (for example post-termination protections above and beyond those in the contract of employment) on appropriate terms.

Under the service contracts for each Executive Director, the Company has the discretion to terminate the employment lawfully without any notice by paying to the Director a sum equal to, but no more than, the salary and other contractual benefits of the Director. The payment would be in respect of that part of the period of notice which the Director has not worked, less any appropriate tax and other statutory deductions. The Director would be entitled to any holiday pay which may otherwise have accrued in what would have been the notice period. The Company may pay any sums due under these pay in lieu of notice provisions as one lump sum or in instalments of what would have been the notice period. If the Company elects to pay in instalments, the Director is under an express contractual duty to mitigate his losses and to disclose any third-party income he has received or is due to receive. The Company reserves the right to reduce the amount of the instalments by the amount of such income. The Committee would expect to include similar pay in lieu of notice provisions in any future Executive Director's service contract. In the case of Nick Kelsall's service contract, these pay in lieu of notice provisions can also be activated by Mr Kelsall if he exercises his contractual right to terminate his employment upon a change of control of the Company or a transfer of his employment to an acquirer of the Company's business. The Committee would not envisage including a similar right to terminate in any future Executive Director's service contract, and there is no such provision in Shaun Smith's service contract.

Also under their service contracts, if the Director's employment is terminated for whatever reason, he agrees that he is not entitled to any damages or compensation to recompense him for the loss or diminution in value of any actual or prospective rights, benefits or expectations under or in relation to the APSP, the DBP, the SAYE plan or the annual discretionary bonus scheme. This is without prejudice to any of the rights, benefits or entitlements which may have accrued to the Director under such arrangements at the termination of employment.

The table below summarises how awards under the annual bonus, DBP and APSP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Reason for cessation	Calculation of vesting/payment	Timing of vesting
Annual bonus		
Voluntary resignation or summary dismissal	No bonus paid.	n/a
All other circumstances	Bonuses are paid only to the extent that the associated objectives, as set at the beginning of the plan year, are met. Any such bonus would normally be paid on a pro-rata basis, taking account of the period actually worked.	At the normal vesting date unless the Committee, in its absolute discretion, determines that awards should vest on cessation of employment.
DBP		
Summary dismissal	Awards lapse.	n/a
Injury, illness, disability, death, retirement with the agreement of the Group, redundancy or employing company leaving the Group	Unvested awards vest.	At the normal vesting date unless the Committee, in its absolute discretion, determines that awards should vest on cessation of employment.
Voluntary resignation or other reason not stated above	Unvested awards lapse unless the Committee, in its absolute discretion, determines that an award should vest.	If the Committee determines that an award should vest, then awards will vest on their normal vesting date, unless the Committee, in its absolute discretion, determines that awards should vest on cessation of employment.
Change of control	Unvested awards will be pro-rated for the portion of the vesting period elapsed on change of control, unless the Committee, in its absolute discretion, determines otherwise. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On change of control.
APSP		
Summary dismissal	Awards lapse.	n/a
Voluntary resignation, injury, retirement with the agreement of the Group, redundancy or other reason that the Committee determines in its absolute discretion	Unapproved option awards lapse unless the Committee, in its absolute discretion, determines that awards should vest, subject to being pro-rated for time and performance to the date of cessation of employment. Approved option awards lapse, except in the case of retirement with the agreement of the employer, when awards will vest, subject to pro-rating as stated above.	On cessation of employment unless the Committee, in its absolute discretion, determines otherwise.
Death	Unapproved option awards vest in full, but may be subject to the application of the performance conditions attached to them. Approved option awards are pro-rated for time and performance to that date.	Immediately.
Change of control	Awards vest, subject to being pro-rated for time and performance to the date of cessation of employment, unless the Committee determines otherwise. Awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.	On change of control.

Directors' remuneration policy report continued

External appointments
Executive Directors are permitted to take up non-executive positions on the boards of other companies, subject to the prior approval of the Board. The Executive Directors may retain any fees payable in relation to such appointment. Details of external appointments and the associated fees received are included in the Annual Report on Remuneration.

Consideration of employment conditions elsewhere in the Group
The Group seeks to promote and maintain good relations with employees and (where relevant) their representative bodies as part of its broader employee engagement strategy. The Committee is mindful of salary increases applying across the rest of the business in relevant markets when considering salaries for Executive Directors, but does not currently consult with employees specifically on executive remuneration policy and framework.

Consideration of shareholder views
The Committee considers shareholder views received during the year and at the Annual General Meeting each year, as well as guidance from shareholder representative bodies more broadly, in shaping remuneration policy. The vast majority of shareholders continue to express support for remuneration arrangements at Norcros. The Committee keeps the remuneration policy under regular review, to ensure it continues to reinforce the Group's long-term strategy and aligns Executive Directors with shareholders' interests. We will consult shareholders before making any significant changes to our remuneration policy.

Non-executive Director remuneration policy
Non-executive Directors (including the Chairman) have letters of appointment which specify an initial term of at least three years, although these contracts may be terminated at one month's notice by either the Company or Director. In line with the UK Corporate Governance Code guidelines, all Directors are subject to re-election annually at the AGM.

Details of terms and notice periods for Non-executive Directors are summarised below:

Non-executive Director	Date of appointment	Notice period
Martin Towers	28 July 2011	1 month
Jo Hallas	27 September 2012	1 month
David McKeith	24 July 2013	1 month

It is the policy of the Board of Directors that Non-executive Directors are not eligible to participate in any of the Group's bonus, long-term incentive or pension schemes. Details of the policy on fees paid to our Non-executive Directors are set out in the table below:

Component and objective	Operation	Opportunity	Performance measures
Fees To attract and retain Non-executive Directors of the highest calibre with broad commercial experience relevant to the Group	The fee paid to the Chairman is determined by the Committee excluding the Chairman. The fees paid to the other Non-executive Directors are determined by the Chairman and the Executive Directors. Fee levels are reviewed periodically, with any adjustments effective 1 April. Fees are reviewed by taking into account external advice on best practice and fee levels at other FTSE companies of broadly similar size and sector to Norcros. Time commitment and responsibility are also taken into account when reviewing fees. Additional fees are payable for acting as Chairman of the Audit and Remuneration Committees.	Aggregate fees are limited to £350,000 p.a. by the Group's Articles of Association. Fee increases will be applied taking into account the outcome of the review. The fees paid to Non-executive Directors in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration.	n/a

Approach to Non-executive Director recruitment remuneration
In recruiting a new Non-executive Director, the Remuneration Committee will use the policy as set out in the table above. A base fee in line with the prevailing fee schedule would be payable for serving as a Director of the Board, with additional fees payable for acting as Chairman of the Audit or Remuneration Committees.

Annual report on remuneration

The following section provides details of how our policy was implemented during the year ended 31 March 2018 and will be implemented in the year ending 31 March 2019.

Remuneration Committee membership in the year ended 31 March 2018

The Remuneration Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and the members of the Group's senior management, and for setting the remuneration packages for the Board Chairman and each Executive Director. The Committee's responsibilities are set out in its Terms of Reference, which can be found on the Company's website at www.norcros.com.

During the year under review, the following Directors were members of the Remuneration Committee:

- Jo Hallas (Chair);
- David McKeith; and
- Martin Towers.

All members of the Committee are independent. They serve on the Committee for a minimum three-year term and a maximum of nine years, provided the Director remains independent. As part of an effectiveness review for the entire Board, an evaluation of the Remuneration Committee was undertaken in the year to 31 March 2018. We are pleased to report this review concluded that the Committee continues to operate effectively.

In addition, the Group Chief Executive was invited to attend Committee meetings as appropriate to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers, other than in relation to his own remuneration. The Group Counsel and Company Secretary acts as secretary to the Committee. No individual was present while decisions were made regarding their own remuneration.

The Committee met six times during the year. Attendance by individual members at meetings is detailed on page 38.

Main activities of the Committee during the year ended 31 March 2018

The main activities carried out by the Committee during the year under review were:

- reviewing the remuneration policy in the context of the new strategic objectives;
- benchmarking Executive Director remuneration against latest market practice;
- reviewing and setting salary levels for Executive Directors and senior management;
- determining the annual bonus outcome for the year ended 31 March 2017;
- setting operating profit targets for the annual bonus for the year ended 31 March 2018;
- approving the APSP outcome for the 2014 APSP awards (which vested in 2017);
- calibrating EPS targets for, and granting of, 2017 APSP awards;
- reviewing and setting the fees payable to the Non-executive Chairman; and
- reviewing and aligning, where appropriate, the compensation and benefits provided to senior management.

Advisers

The Company uses Mercer Kepler as the independent remuneration adviser to the Remuneration Committee. Mercer Kepler is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. In the year to 31 March 2018, Mercer Kepler provided the following services:

	Services provided	Fees (excl. VAT) £
Mercer Kepler	Benchmarking remuneration, supporting the remuneration policy review, guidance on setting incentive targets, Remuneration Policy and Director remuneration reviews, Remuneration Report drafting support and general support to the Remuneration Committee throughout the year	£18,600

Mercer Kepler provides no other services to the Company or its Directors and the Committee is satisfied that the advice it receives continues to be independent. Mercer Kepler's parent company, Mercer, provides limited services to the Company relating to its all-employee pension scheme.

Annual report on remuneration continued

Summary of shareholder voting at the AGM

The following table shows the results of the binding vote on the remuneration policy and advisory vote on the 2017 Annual Report on Remuneration at the 2017 AGM:

	Remuneration Policy		Annual Report on Remuneration	
	Total number of votes	% of votes cast	Total number of votes[1]	% of votes cast
For (including discretionary)	36,094,786	99.08%	38,527,056	99.89%
Against	334,124	0.92%	42,507	0.11%
Total votes cast (excluding withheld votes)	36,428,910	100.00%	38,569,563	100.00%
Votes withheld	10,895		257,481	
Total votes (including withheld votes)	36,115,470		38,827,044	

The Committee welcomes the very strong support it continues to receive from shareholders for remuneration at Norcros.

Single figure for total remuneration for Executive Directors (audited information)

The following table provides a single figure for total remuneration of the Executive Directors for the year to 31 March 2018, together with comparative figures for the year to 31 March 2017. The values of each element of remuneration are based on the actual value delivered, where known. The value of the annual bonus includes the element of bonus deferred under the Deferred Bonus Plan.

	Nick Kelsall		Shaun Smith	
	2018 £	2017 £	**2018 £**	2017 £
Base salary	**355,505**	348,534	**238,772**	232,590
Taxable benefits[1]	**16,292**	16,616	**97,616**	13,355
Annual bonus[2]	**177,752**	238,466	**119,386**	159,138
Long-term incentives[3]	**333,960**	341,402	**—**	—
Pension benefit[4]	**48,904**	80,140	**35,816**	34,888
SAYE[5]	**1,996**	—	**—**	2,013
Total	**934,409**	1,025,158	**491,590**	441,984

1. Taxable benefits consist of car allowance (Nick Kelsall – 2018: £15,000, 2017: £15,000; and Shaun Smith – 2018: £12,000, 2017: £11,923) and private medical insurance. For 2018, Shaun Smith's taxable benefits also include the cost of relocation on joining Norcros of £84,324. This cost is part of the relocation allowance (capped at £100k gross of tax) agreed in connection with his appointment and disclosed in the 2017 report.

2. Annual bonus comprises both the cash annual bonus for performance during the year and, where applicable, the face value of the deferred bonus element on the date of deferral. Any deferred share element is deferred for three years. See "Annual bonus in respect of performance in the year ended 31 March 2018" below for further details.

3. For 2018, the APSP value reflects the estimated value of APSP awards granted in July 2015, of which 100% will vest to Nick Kelsall on 22 July 2018, and includes the value of dividends accrued on these awards over the vesting period (£34,329). The value of awards is estimated using the three-month average share price to 31 March 2018 of 188.53p, and will be trued up to reflect the vest-date value of awards in next year's Annual Report on Remuneration. For 2017, the APSP value has been trued up from that disclosed in last year's Remuneration Report to reflect the Group's share price of 172.5p on the date of vesting (23 July 2017) of awards granted in July 2014. The gain on exercise of share options for Nick Kelsall in the year was £404,237.

4. The pension benefit provided to Nick Kelsall and Shaun Smith in 2018 comprises cash in lieu (Nick Kelsall – £53,326; and Shaun Smith – £35,816) and amounts related to the defined benefit scheme (Nick Kelsall – £(4,422); and Shaun Smith – n/a). In 2017, pension benefits comprised cash in lieu (Nick Kelsall – £52,280; and Shaun Smith £34,888) and amounts related to the defined benefit scheme (Nick Kelsall – £27,860; and Shaun Smith – n/a). See "Total pension entitlements" on page 58 for further details.

5. Embedded gain on grant of Save As You Earn scheme grants made. See "2017 SAYE" on page 58 for further details.

Incentive outcomes for the year ended 31 March 2018 (audited information)

Annual bonus in respect of performance in the year ended 31 March 2018

The 2018 Annual Bonus Plan was based 100% on Group underlying operating profit performance for the year to 31 March 2018. The maximum annual bonus opportunity for the year was 100% of base salary for the Group Chief Executive and for the Group Finance Director. Based on the Company's performance in 2018, against targets set at the start of the year, the Committee decided to award an annual bonus of 50% of the maximum opportunity to the Executive Directors. Further details, including the profit targets set and actual performance, are provided below:

	Underlying profit target £m	Payout (% of max.)	2018 outturn £m	Bonus (% of max.)
Maximum	29.6	100%		
Target	27.4	50%	27.4	50%
Threshold	25.2	25%		

50% of each Executive Director's annual bonus award of 50% of base salary, i.e. 25% of salary, will be deferred into shares under the DBP. This DBP award will vest on the third anniversary of grant, subject to continued employment.

The table below sets out the actual bonuses to be paid in cash and deferred shares for each Executive Director for the year to 31 March 2018:

	Annual cash bonus		Deferred share bonus	
	% of salary	£	Value of deferred shares	Total
N Kelsall	50%	£88,876	£88,876	£177,752
S Smith	50%	£59,693	£59,693	£119,386

Deferred Bonus Plan (DBP)

The grant of options under the DBP in respect of the year to 31 March 2018 has not yet been made. As a result of this, the precise number of options to be granted in respect of the year to 31 March 2018 cannot yet be calculated, though the proposed monetary value of the bonus earned is known. Accordingly, Nick Kelsall will receive a number of nil-cost options calculated by dividing the proposed value of £88,876 by the share price at the date of grant. Shaun Smith will receive a number of nil-cost options calculated by dividing the proposed value of £59,693 by the share price at the date of grant.

2015 APSP awards vesting

Effective July 2015, an APSP award of 158,930 shares was granted to Nick Kelsall. Vesting of this award was based on Norcros' aggregate diluted underlying EPS over the three financial years to 31 March 2018. Based on performance over this period, the Committee has determined that 100% of this award will vest on 22 July 2018, being the end of the relevant three-year vesting period according to the APSP rules. Performance targets and actual performance against these, as determined by the Committee, are summarised in the table below:

	Aggregate underlying EPS	% vesting	Norcros' performance	Award vesting (% of APSP award)
Threshold	64.1p	25%		
Maximum	72.9p	100%	84.0p	100%

Annual report on remuneration continued

Scheme interests awarded in 2018 (audited information)

2017 DBP

During the year under review, the following DBP awards were made to the Executive Directors (relating to the annual bonus earned for performance over the year to 31 March 2017):

	Nick Kelsall	Shaun Smith
Basis of award	50% of earned bonus	50% of earned bonus
Grant date	16 November 2017	16 November 2017
Number of nil-cost options granted	68,920	45,993
Grant-date share price (p)	173.0p	173.0p
Grant-date face value (£)	119,232	79,568
Normal vesting date	16 November 2020	16 November 2020
Performance conditions	None	None

2017 APSP

During the year under review, the following APSP awards were granted to the Executive Directors:

	Nick Kelsall	Shaun Smith
Basis of award	100% of base salary	100% of base salary
Grant date	16 November 2017	16 November 2017
Number of nil-cost options granted	205,494	138,018
Grant-date share price (p)	173.0	173.0
Grant-date face value (£)	355,505	238,771
Normal vesting date	16 November 2020	16 November 2020
Performance period	1 April 2017–31 March 2020	1 April 2017–31 March 2020
Performance conditions	Three-year aggregate underlying EPS Threshold: 91.8p (25% of element vesting) Maximum: 104.7p (100% of element vesting) Straight-line vesting between these points	
Holding period	16 November 2020–16 November 2022	16 November 2020–16 November 2022

2017 SAYE

In the year-ended 31 March 2018, Nick Kelsall entered into a savings contract under the SAYE and was granted 11,278 options which had an embedded value at the date of grant of £2,301. Shaun Smith did not enter into a further savings contract under the SAYE during the year as he is contracted under previous SAYE grants at the HMRC limits.

Total pension entitlements (audited information)

As part of their remuneration arrangements, Nick Kelsall and Shaun Smith are entitled to receive pension contributions from the Company. Under these arrangements, they can elect for those contributions to be paid in the form of taxable pension allowance, or direct payments into a personal pension plan or the Group's UK defined contribution scheme. If a payment is made in the form of taxable pension allowance, the amount payable is not reduced to allow for employment taxes.

During the year Nick Kelsall elected to take a taxable pension allowance of £53,326 (2017: £52,280) with no amounts paid directly into a pension scheme (2017: £nil). Shaun Smith elected to take a taxable pension allowance of £35,816 (2017: £34,888) with no amount paid into a personal pension plan (2017: n/a). In line with the Regulations, the single figure table reflects the total of these amounts, as well as the capitalised increase in accrued pension (net of inflation) under the UK defined benefit scheme, of which Nick Kelsall is a deferred member. Shaun Smith is not a member of the UK defined benefit scheme. Details of Executive Directors' retirement benefits under the Group's UK defined benefit scheme and taxable pension allowances are summarised in the following table:

Director	Accrued pension £	Increase in accrued pension net of CPI £	Transfer value of net increase £	Additional value of pension on early retirement £	Pension value in the year from DB scheme £	Pension value in the year from cash allowance £	Total £
Nick Kelsall	22,580	1,393	8,367	—	(4,422)	53,326	48,904
Shaun Smith	—	—	—	—	—	35,816	35,816

Single figure for total remuneration for Non-executive Directors (audited information)

The table below sets out a single figure for the total remuneration received by each Non-executive Director for the year ended 31 March 2018 and the prior year:

	Total fee	
	2018 £	2017 £
Martin Towers	**100,980**	99,000
Jo Hallas	**42,662**	41,825
David McKeith	**42,662**	41,825

Payments to past Directors (audited information)

During the year under review, no payments were made to past Directors.

Exit payments made in the year (audited information)

No exit payments to Directors were made during the year under review.

External appointments in the year

Shaun Smith is a non-executive director of Air Partner plc. In respect of this role, Shaun Smith received from Air Partner plc fees of £35,000 during the year-end 31 March 2018, which he retained. No other external appointments were held by the Executive Directors during the year.

Percentage change in CEO remuneration

The table below shows the percentage change in the CEO's salary, benefits (excluding pension) and annual bonus between the 2017 and 2018 financial years compared with the percentage change in the average of each of those components of pay for all UK staff employed in continuing operations. A UK subset of employees was selected as a suitable comparator group for this analysis because the CEO is based in the UK (albeit with a global role and responsibilities) and pay changes across the Group vary widely depending on local market conditions (in particular fluctuations in the exchange rate between the South African Rand and British Pound). The comparison uses a per capita figure and accordingly this reflects an average across the Group's businesses. No account is therefore taken of the impact of operational factors such as new joiners and leavers and the mix of employees.

	CEO % change 2017–2018	Average of other employees % change 2017–2018
Salary	2.0%	6.0%
Benefits	(1.9)%	4.7%
Bonus	(25.5)%	(26.0)%

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends – there were no share buybacks in either year) and Norcros' expenditure on total employee pay for the year under review and the prior year, and the percentage change year on year.

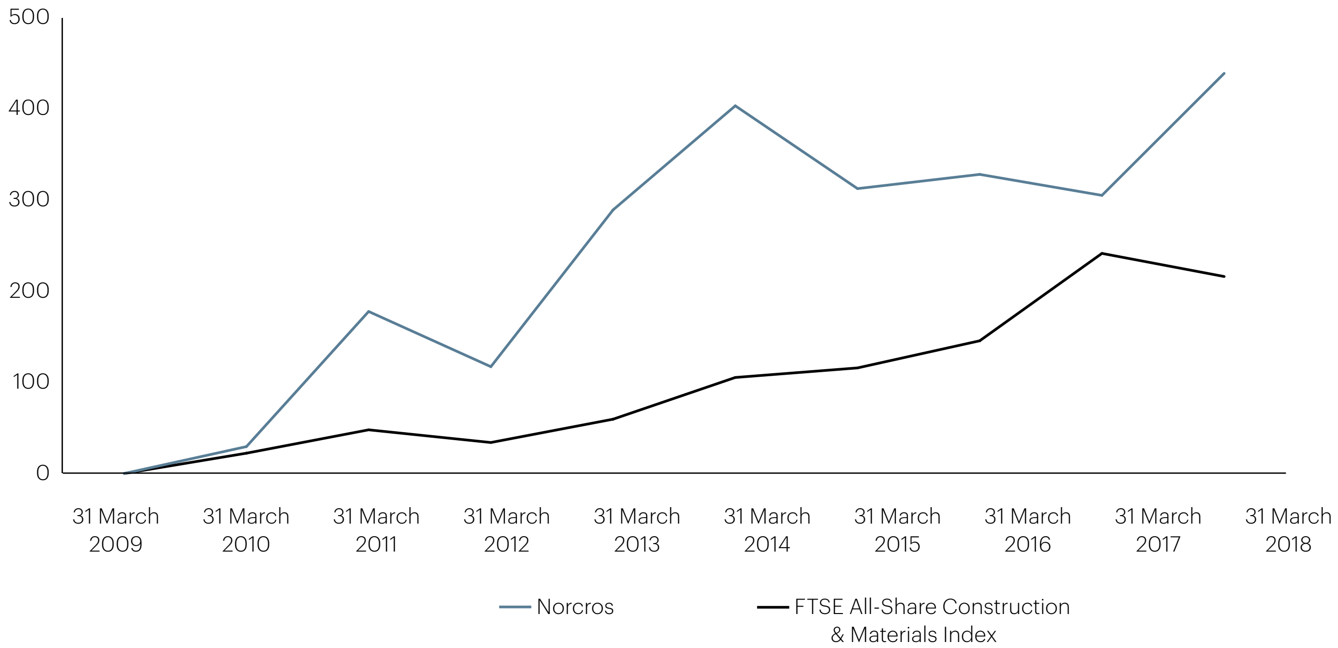
	2018 £000	2017 £000	% change
Dividends	**5,036**	4,151	21.3%
Total staff costs	**59,854**	59,555	0.5%

Annual report on remuneration continued

Performance graph and table

The following graph shows the nine-year TSR performance of the Company relative to the FTSE All-Share Construction & Materials Index. This comparator was chosen because the Company is a constituent member of this index.

Total shareholder return (Value of £100 invested on 31 March 2009)



The table below details the Chief Executive's single figure of remuneration over the same period:

	2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single figure of remuneration (£000)									
Incumbent	Joe Matthews	Joe Matthews	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	**Nick Kelsall**
Total remuneration	£488,000	£611,000	£380,780	£526,282	£917,530	£1,161,288	£928,764	£1,025,158	**£934,409**
Annual bonus (as a % of max. opportunity)	38%	81%	0%	50%	54%	69%	81%	68%	**50%**
APSP vesting (as a % of max. opportunity)	n/a	0%	n/a	n/a	100%	99%	100%	100%	**100%**

Implementation of Executive Director remuneration policy for the year to 31 March 2019

The Remuneration Committee conducted a thorough review of Executive Directors' remuneration, effective 1 April 2018. The results of this review are as follows:

Base salary

Base salaries were reviewed taking into account individual performance and competitive practice for similar roles in the Company's remuneration peer group, and remuneration awards within the Group. The Committee decided to increase Executive Director salaries in line with the rest of the UK businesses in the Group by 3%. For the year ending 31 March 2019, base salaries will be £366,170 for Nick Kelsall and £245,935 for Shaun Smith.

Pension

There is no change in the contribution percentage for Executive Directors for the year ending 31 March 2019, which remains at 15% of salary.

Benefits

There is no change in the car allowance for Executive Directors for the year ending 31 March 2019, which is £15,000 p.a. for Nick Kelsall and £12,000 p.a. for Shaun Smith.

Annual bonus

The annual bonus opportunity for Executive Directors will remain unchanged for the 2019 financial year with a maximum bonus entitlement of 100% of salary. The bonus outcome for Executive Directors will continue to be based entirely on Group underlying operating profit. Of any bonus earned 50% will be deferred into nil-cost options for a further three years under the DBP. Annual bonus targets are considered to be commercially sensitive but will be disclosed retrospectively in next year's Annual Report on Remuneration.

APSP

The structure of APSP awards to be made in the 2019 financial year will be unchanged from 2018. Awards with face values of 100% of salary will be granted to Nick Kelsall and Shaun Smith, with vesting subject to the achievement of three-year aggregate diluted underlying EPS targets. To the extent an award vests, vested shares will be subject to a further two-year holding period. The Committee will determine these targets at the time awards are made and these targets (along with other relevant details of this grant) will be disclosed in next year's Annual Report on Remuneration.

SAYE

Nick Kelsall and Shaun Smith will continue to be able to participate in any SAYE contract offered to all employees, on identical terms.

Implementation of Non-executive Director remuneration policy for the year to 31 March 2019

The Committee has reviewed the Board Chairman's fee and concluded that an increase of just under 4% (to £105,000 p.a.) was appropriate. The Board Chairman and the Executive Directors reviewed Non-executive Director fees at the same time and concluded that a similar percentage increase to the Executive Directors (i.e. 3%) would be appropriate. Accordingly, for the 2019 financial year, Non-executive Director fees will be as follows:

Executive Director	Fee at 1 April 2018	Fee from 1 April 2017	Percentage increase
Board Chairman	£105,000	£100,980	3.98%
Non-executive Director	£38,451	£37,332	3.00%
Additional fee for chairing Audit or Remuneration Committees	£5,489	£5,330	3.00%

Executive Director shareholdings (audited information)

The table below shows the shareholding of each Executive Director and their respective shareholding requirement as at 31 March 2018:

		Options held					
	Shares owned	Vested but not exercised	Unvested and subject to performance	Unvested but not subject to performance	Shareholding guideline % of salary	% Current holding	Requirement met?
N Kelsall	1,162,783	—	437,850	385,606	100%	617%	Yes
S Smith	26,275	—	294,078	57,893	100%	21%	No

Value of current shareholding based on shares owned outright valued using the average share price over three months ended 31 March 2018 of 188.53p.

Details of the options held are provided in the table overleaf.

Corporate governance

Annual report on remuneration continued

Directors' share scheme interests (audited information)

Share options

	Scheme	Date of grant	Vested date	Expiration date	Exercise price	Shares under option 1 April 2017	Granted in 2018	Vested in 2018	Exercised in 2018	Lapsed in 2017	Shares under option 31 March 2018
N Kelsall	**DBP**	23.07.14	23.07.17	23.07.24	—	41,174	—	41,174	41,174	—	—
		22.07.15	22.07.18	22.07.25	—	53,934	—	—	—	—	53,934
		05.08.16	05.08.19	05.08.26	—	92,544	—	—	—	—	92,544
		16.11.17	16.11.20	16.11.27	—	—	68,920	—	—	—	68,920
					Total	**187,652**	**68,920**	**41,174**	**41,174**	**—**	**215,398**
	APSP	23.07.14	23.07.17	23.07.24	—	186,111	—	186,111	186,111	—	—
		22.07.15	22.07.18	22.07.25	—	158,930	—	—	—	—	158,930
		27.07.16	27.07.19	27.07.26	—	232,356	—	—	—	—	232,356
		16.11.17	16.11.20	16.11.27	—	—	205,494	—	—	—	205,494
					Total	**577,397**	**205,494**	**186,111**	**186,111**	**—**	**596,780**
	SAYE	19.12.14	01.03.18	31.08.18	158p	11,392	—	11,392	11,392	—	—
		14.12.17	01.03.21	31.08.21	159p	—	11,278	—	—	—	11,278
					Total	**11,392**	**11,278**	**11,392**	**11,392**	**—**	**11,278**
S Smith	**DBP**	16.11.17	16.11.20	16.11.27	—	—	45,993	—	—	—	45,993
	APSP	27.07.16	27.07.19	27.07.26	—	156,060	—	—	—	—	156,060
		16.11.17	16.11.20	16.11.27	—	—	138,018	—	—	—	138,018
					Total	**156,060**	**138,018**	**—**	**—**	**—**	**294,078**
	SAYE	16.12.16	01.03.20	01.03.20	151p	11,900	—	—	—	—	11,900

		Three-year aggregate EPS targets		
Performance	% vesting	22.07.15 award	27.07.16 award	16.11.17 award
Threshold	25%	64.1p	84.3p	91.8p
Maximum	100%	72.9p	96.5p	104.7p

Shareholder dilution

The Group's share incentive plans operate in line with the Investment Association's Principles, which require that commitments under all-share schemes satisfied by newly issued shares must not exceed 10% of the issued share capital in any rolling ten-year period, of which up to 5% may be used to satisfy options under executive share schemes. The Group's position against the dilution limits at 31 March 2018 was 5.4% for the all-share schemes limit and 3.2% for executive schemes.

Statement of Directors' shareholding and share interests (audited information)

Director	31 March 2018 Ordinary shares	31 March 2017 Ordinary shares
Nick Kelsall	**1,162,783**	795,424
Shaun Smith	**26,275**	20,000
Martin Towers	**160,815**	134,454
Jo Hallas	**23,921**	20,000
David McKeith	**17,941**	15,000

This report was approved by the Board of Directors on 13 June 2018 and signed on its behalf by:

Jo Hallas
Chairman of the Remuneration Committee
13 June 2018

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2018.

Principal activities

The Company acts as a holding company for the Norcros Group. The Company's registered number is 3691883 and the Company is registered and domiciled in England.

The Group's principal activities are the development, manufacture and marketing of bathroom and kitchen products in the UK and South Africa.

Results and dividends

The information that fulfils the requirements of the Business Review, which is incorporated in the Directors' Report by reference, including the review of the Group's business and future prospects, is included in the Chairman's Statement, the Group Chief Executive's Statement and the Strategic Report on pages 6 to 33. Key performance indicators are shown on page 12.

The Directors recommend a final dividend for the year ended 31 March 2018 of 5.2p (2017: 4.8p). This follows the decision to pay an interim dividend earlier in the year of 2.6p (2017: 2.4p).

Directors' and officers' liability insurance and indemnities

The Company purchases liability insurance cover for Directors and officers of the Company which gives appropriate cover for any legal action brought against them. The Company also provides an indemnity for its Directors (to the extent permitted by the law) in respect of liabilities which could occur as a result of their office. This indemnity does not provide cover should a Director be proven to have acted fraudulently or dishonestly.

Purchase of own shares

In 2007 the Company formed the Norcros Employee Benefit Trust (the Trust). The purpose of the Trust is to meet part of the Company's liabilities under the Company's share schemes. The Trust purchased 220,000 shares during the year (2017: nil). At the Company's 2017 Annual General Meeting, the shareholders authorised the Company to make market purchases of up to 6,125,966 ordinary shares. At the forthcoming Annual General Meeting, shareholders will be asked to renew the authority to purchase its own shares for another year. Details are contained in the AGM Notice of Meeting on pages 111 to 114.

Employees

The necessity for, and importance of, good relations with all employees is well recognised and accepted throughout the Group.

However, because the Group's activities are organised on a de-centralised basis, with each operating business having a reasonable degree of autonomy over its operations, there is no uniform set of arrangements for employee involvement imposed throughout the Group. Nevertheless, all Group companies are strongly encouraged to devise and adopt whatever means of employee consultation best suits their circumstances.

The Group is fully committed to keeping its employees informed about their work unit and the wider business including the financial and economic factors that impact the performance of the Group. The Group encourages the involvement of employees in the company's performance through an employee "save as you earn" share scheme.

The Group recognises its responsibilities towards disabled persons and therefore all applications from such persons are fully and fairly considered bearing in mind the respective aptitudes and abilities of the applicant. In the event of existing employees becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of an able-bodied person.

Directors

Biographical details of the present Directors are set out on pages 34 to 35. The Directors who served during the year and to the date of this report are set out below:

Director	Role
Martin Towers	Chairman
Jo Hallas	Non-executive Director
David McKeith	Non-executive Director
Nick Kelsall	Group Chief Executive
Shaun Smith	Group Finance Director

The interests of the Directors in the shares of the Company at 31 March 2018 and 31 March 2017 are shown on page 62.

Substantial shareholding

As at 12 June 2018 the Company had received notification that the following were interested in voting rights representing 3% or more of the Company's issued share capital:

Name	% of total voting rights
Canaccord Genuity Group Inc	13.29
Miton Group	10.67
J O Hambro Capital Management Ltd	9.95
FIL Ltd	7.56
Artemis Fund Managers	7.46
SVM Asset Management	3.34
Invesco Ltd	3.15

Directors' report continued

Greenhouse gas emissions

The Board presents this report in order to meet the Company's obligation under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 to disclose the Group's worldwide emissions of the six Kyoto gases attributable to human activity measured in tonnes of carbon dioxide equivalent. As stated in the Corporate Responsibility and Sustainability section on pages 31 to 33, the Company is committed to reducing and minimising its impact on the environment.

Global GHG emissions data Year ended 31 March	Tonnes of CO_2e 2018	Tonnes of CO_2e 2017
Emissions from:		
Combustion of fuel and operation of facilities (Scope 1)	57,028	64,229
Electricity, heat, steam and cooling purchased for own use (Scope 2)	29,264	30,517
Total	86,292	94,746
Company's chosen intensity measurement[1]	287.5	349.4

1. Emissions per £m of revenue.

We have reported on all of the emission sources, being Scope 1 and Scope 2 emissions. These are emissions from activities for which the Group is responsible, plus emissions resulting from the purchase of electricity, heat, steam or cooling by a business in the Group for its own use. These sources use the same reporting boundary as for our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated financial statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under the CRC Energy Efficiency scheme, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014. Where no more suitable data sources are available, we have used, where practicable, estimates based on the appropriate information that is available to the Group.

Political donations

There were no political donations (2017: £nil).

Research and development

The Group's expenditure on research and development is disclosed in note 3 to the financial statements and is focused on the development of new products.

Corporate governance

Details of the Group's corporate governance are contained on pages 36 to 39. This Corporate Governance Report forms part of the Directors' Report and is incorporated into it by cross reference.

Going concern

Having taken into account the principal risks and uncertainties facing the Group detailed on pages 27 to 30 in the Strategic Report, the Board considers it appropriate to prepare the financial statements on the going concern basis, as explained in note 1 to the financial statements.

Financial risk management

The Group's operations expose it to a variety of financial risks. Details of the risks faced by the Group are provided in note 19 to the financial statements.

Takeover directive

The Company has only one class of shares, being ordinary shares, which have equal voting rights. The holdings of individual Directors are disclosed on page 62.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of a change of control of the Company, except for the banking facilities dated 2 November 2017 in respect of the £120.0m unsecured revolving credit facility and the £30.0m accordion facility which contain mandatory prepayment provisions on a change of control.

There are no provisions within Directors' employment contracts which allow for specific termination payments upon a change of control.

Statement of disclosure of information to auditor

In the case of each of the persons who are Directors, the following applies:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditor

A resolution to re-appoint PricewaterhouseCoopers LLP as auditor to the Company will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting of the Company will take place at 11.00 am on 26 July 2018 at Mere Golf Resort & Spa, Chester Road, Mere, Knutsford, Cheshire WA16 6LJ. The notice convening that meeting, together with the resolutions to be proposed, appears on pages 111 to 114 of this document. The Directors recommend that all shareholders vote in favour of all of the resolutions to be proposed, as the Directors intend to do so in respect of their own shares, and consider that they are in the best interests of the Company and the shareholders as a whole.

By order of the board

Richard Collins
Company Secretary
13 June 2018

Statement of Directors' responsibilities

In respect of the Annual Report, the Directors' Remuneration Report and the financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101, 'Reduced disclosure framework', and applicable law). 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider 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 Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report, confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101, 'Reduced disclosure framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditor is aware of that information.

Nick Kelsall
Group Chief Executive
13 June 2018

Shaun Smith
Group Finance Director

Independent auditors' report

to the members of Norcros plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Norcros 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 as at 31 March 2018 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the consolidated and parent company balance sheets as at 31 March 2018; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

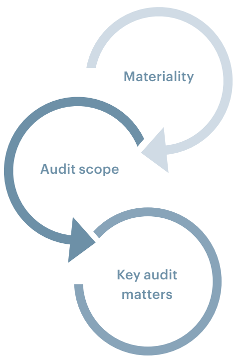
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview



- Overall group materiality: £1,360,000 (2017: £1,130,000), based on 5% of underlying profit before tax.
- Overall parent company materiality: £250,000 (2017: £200,000), based on the lower of component and statutory materiality (statutory materiality based on 1% of total assets).
- The group consists of ten operating divisions, alongside its head office functions. Our audit focused on the most significant of these in terms of materiality to the group financial statements. The components within the scope of our work accounted for 93% of group revenue and 97% of group underlying profit before tax.
- Accounting for customer rebates and other trade promotional spend (Group).
- Defined benefit pension plan liabilities (Group).
- Valuation of acquired intangibles (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Report on the audit of the financial statements continued

Our audit approach continued

The scope of our audit continued

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and parent company financial statements, including, but not limited to the Companies Act 2006, the Listing Rules, and tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, and review of significant component auditors in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Defined benefit pension plan liabilities Refer to note 1 (Accounting policies), page 78 (Critical accounting estimates and judgements) and note 22. The Group has a defined benefit pension plan net liability of £48.0m (2017: £62.7m), which is significant in the context of both the overall balance sheet and the results of the group. A major constituent of this net liability is the value attributed to the gross liabilities of the pension scheme. The valuation of these gross liabilities requires significant judgement and expertise primarily in respect of the key assumptions used. These assumptions include both financial assumptions e.g. the discount rate and inflation, but also key demographic assumptions e.g. mortality rates. Modest changes in a number of these key assumptions can have a material impact on the calculation of the liability. We therefore focused our work on this area.	We obtained the external actuary's report used in valuing the scheme's liabilities and determined, using our experience of the valuation of similar schemes, and our own pension specialists, that the methodologies adopted by the actuary in forming the valuation were consistent with industry practice and our expectations. We also agreed the key financial assumptions used within the valuation of the scheme's liabilities, including the discount and inflation rates, to our internally developed benchmarks. We compared the assumptions around salaries increase to historic salary increases and considered the appropriateness of the mortality assumptions. The assumptions used within the valuation of the scheme's liabilities were in line with our benchmarks and were considered appropriate. Disclosures We read the disclosures within the financial statements in respect of the defined benefit scheme and, based on our work, determined that they are consistent with accounting standards.

Independent auditors' report continued

to the members of Norcros plc

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Accounting for customer rebates and other trade promotional spend Refer to note 1 (Accounting policies) and page 78 (Critical accounting estimates and judgements). As is normal industry practice, the Group has a number of trading agreements in place with its largest customers to encourage them to purchase and promote the Group's products. These consist of various types of rebates and other trade spend commitments, which may then be subject to variation from time to time. Rebates on sales are recognised as a deduction from revenue and are earned over the period of the contractual agreements with individual customers. The total amount recognised in a year is therefore based on the expected amount payable up to the balance sheet date under each customer agreement. Promotional spend is a further deduction from revenue. The funding paid is recognised in the period to which it relates in accordance with the agreement with the customer. We focused on such arrangements because of the significance of the amounts to the Group's gross profit, the significant number of transactions and agreements in place, and the industrywide focus on this area of accounting. The amount to be recognised in the income statement for such arrangements requires the directors to apply judgement based on the agreements in place with each of the Group's customers, together with estimates of amounts the Group owes where transactions span the financial year end. The relative level of judgement in each of the categories of arrangements noted above is considered below: Volume based rebates Volume based rebates are driven by customers achieving sales volume targets agreed with the Group for specific products over a pre-determined period. There is, therefore, judgement involved in estimating the volume of sales, particularly where rebate agreements span a financial year end, which is the case in a large number of instances. In such instances the key judgement that we focused on was the estimate of the rebate expense accrued at year end. Other trade promotional spend This expense varies with regards to the nature and timing of the activity to which it relates, and is recognised in accordance with the terms agreed with customers. It derives from a number of varying agreements and its recognition requires the Group to determine the extent to which the promotional activity has taken place and, hence, the amount payable by the Group. Our focus was on assessing the accuracy of the expense charged, whether the amount recognised was recorded in the appropriate period and the completeness of the expense.	Our audit work in respect of accounting for customer rebates and other trade promotional spend comprised a combination of substantive testing, controls testing, and an assessment of the Group's disclosures in this area. Each element of our work is considered in more detail below. Substantive testing We tested a sample of the underlying agreements to provide the core evidence to support the amount and timing of recognition of both customer rebates and other trade promotional spend. This work involved evaluating whether the amount and timing of recognition was consistent with the contractual arrangements. Where such agreements spanned the year end, or where the agreements were on a calendar year basis and the 2018 calendar year agreements had not yet been agreed, we critically assessed the judgements taken by the directors in estimating year end accruals for amounts owing to customers. This work included the use of look back tests to assess the accuracy of the accruals in previous years, alongside the use of "reasonableness checks" around the key assumptions of rebate terms and, in the case of volume rebates, the level of sales likely to occur in the rebate period, with reference to historic events. This testing did not identify any evidence of bias in the directors' judgements. We also analysed rebate expense and promotional expense recognised each month and compared them to gross sales to identify whether there were any unusual trends in the amounts or timing of rebate expense and promotional expense recognised in each period. Alongside this we held discussions with members of management within the sales teams to further understand the substance of these agreements and trends in the year. No unusual trends were identified. Additionally, testing was performed in respect of post-year end credit notes issued and debit notes received, where applicable, to determine whether specific promotions were appropriately provided for as at the balance sheet date at the appropriate amount. Controls testing Where appropriate, our substantive work was supplemented by controls work which encompassed understanding, evaluating and testing key controls in respect of the approval of customer rebates and other trade promotional spend. We determined that we were able to obtain evidence from the operation of these controls for the purpose of our audit of whether customer rebates and other trade promotional spend had been recorded appropriately. Disclosures We read the disclosures within the financial statements in respect of customer rebates and other trade promotional spend and, based on our work, determined that they are consistent with accounting standards and the recent guidance on the reporting of complex supplier arrangements issued by the Financial Reporting Council.

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Valuation of acquired intangibles Refer to note 1 Accounting policies, page 78 (Critical accounting estimates and judgements) and notes 11, 12 and 28. During the year, a fair value assessment was carried out after the Group acquired Merlyn Industries Limited ('Merlyn') based in the UK and Ireland. The accounting for the business combination resulted in the recognition of £25.5m of goodwill and £30.7m of intangible assets relating to customer contracts and tradenames, which are separable from goodwill. In addition to this, a £4.3m deferred tax liability has been recognised in relation to the intangible assets. The identification of intangible assets that meet the criteria for recognition and presentation in the financial statements requires significant judgement. Management's valuation method for those intangibles identified is subject to a number of key judgements surrounding cash flow forecasts, discount rates and attrition rates. We have therefore focused our work in this area.	We obtained management's valuation model and assessed the appropriateness of the methodology, utilising our valuation specialists, and assumptions adopted in determining the valuation to be assigned to each of the intangibles identified. In doing so, we evaluated the appropriateness of the cash flow assumptions with reference to the current performance of the business and compared key assumptions, including attrition rates and growth rates, with current and historic trends and data. We also used our valuation specialists to consider the appropriateness of the discount rate applied. Based on our work performed, we consider the assumptions and methodology adopted to be reasonable. Disclosures We read the disclosures within the financial statements in respect of the acquired intangibles and found them to be appropriately made in line with the requirements of International Financial Reporting Standards.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group consists of 16 statutory entities (excluding dormant entities) and a number of divisions. These are predominantly based within the UK and Ireland and South Africa, which also form the reporting segments of Norcros plc. In the UK and Ireland Norcros operate under seven brands, each a separate division of Norcros Group Holdings Limited. These are Vado, Johnson Tiles, Norcros Adhesives, Triton, Croydex, Merlyn and Abode. South Africa is similarly made up of three entities, Johnson Tiles South Africa, TAL and Tile Africa which are each a separate brand. Each division or entity has its own finance function, who report directly to head office, with the head office function incurring certain central costs on behalf of the Group.

Consistent with the Group's operations, we scoped our audit at a divisional level. The work at the operating divisions in the UK was performed by the UK engagement team whilst the work at the South African operating divisions and at the Merlyn division, whose finance team is based in Ireland, were performed by PwC teams based in South Africa and Ireland respectively. The UK team instructed the South African and Irish teams to perform a full scope audit of the South African and Merlyn operations, both in UK and Ireland, and to focus their work on customer rebates/other trade promotional spend. The UK engagement team attended planning calls with both the South African and Irish teams where the scope of their work was discussed, including their planned work in respect of customer rebates/other trade promotional spend. Further the UK engagement team visited both South Africa and Ireland to review the working papers of the overseas teams.

The parent company is accounted for by the head office finance team. The audit work in respect of the parent company is completed by the UK engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£1,360,000 (2017: £1,130,000).	£250,000 (2017: £200,000).
How we determined it	5% of underlying profit before tax.	Based on the lower of component and statutory materiality (statutory materiality based on 1% of total assets).
Rationale for benchmark applied	We believe that profit before tax, adjusted for those items set out in note 8 to the Group financial statements ("underlying profit before tax") provides us with a consistent year on year basis for determining materiality based on the underlying trading performance of the Group, but eliminating non-recurring and non-cash items.	We believe that calculating statutory materiality based on 1% of total assets is appropriate as total assets is a typical primary measure for users of the financial statements of holding companies, and is a generally accepted auditing benchmark.

Independent auditors' report continued

to the members of Norcros plc

Report on the audit of the financial statements continued

Our audit approach continued

Materiality continued

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £250,000 and £900,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £60,000 (Group audit) (2017: £55,000) and £60,000 (Parent company audit) (2017: £55,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 27 of the Annual Report that they have 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 27 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. (Listing Rules)

Report on the audit of the financial statements continued

Reporting on other information continued

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 65, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on pages 40 to 44 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006 (CA06).

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 65, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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's and the 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.

Auditors' 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 auditors' 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.

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

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; 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.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members during 1999 to audit the financial statements for the period ended 31 March 2000 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 March 2000 to 31 March 2018.

H. Macnamara

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
13 June 2018

Financial statements

Consolidated income statement

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Continuing operations			
Revenue	2	300.1	271.2
Underlying operating profit		27.4	23.8
IAS 19R administrative expenses	22	(1.4)	(2.0)
Acquisition related costs	5	(4.3)	(2.7)
Exceptional operating items	5	(2.1)	(2.3)
Operating profit		19.6	16.8
Finance costs	6	(4.5)	(3.3)
IAS 19R finance cost	22	(1.6)	(2.0)
Profit before taxation		13.5	11.5
Taxation	7	(3.6)	(3.0)
Profit for the year from continuing operations		9.9	8.5
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:			
From profit for the year	9	14.5p	13.9p
Diluted earnings per share:			
From profit for the year	9	14.1p	13.4p
Weighted average number of shares for basic earnings per share (millions)	9	68.0	61.1
Alternative performance measures			
Underlying profit before taxation (£m)	8	26.3	22.9
Underlying earnings (£m)	8	20.6	17.6
Basic underlying earnings per share	9	30.3p	28.8p
Diluted underlying earnings per share	9	29.5p	27.8p

Consolidated statement of comprehensive income

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Profit for the year		9.9	8.5
Other comprehensive income and expense:			
Items that will not subsequently be reclassified to the Income Statement			
Actuarial gains/(losses) on retirement benefit obligations	22	12.6	(5.2)
Items that may be subsequently reclassified to the Income Statement			
Foreign currency translation adjustments		0.4	8.5
Other comprehensive income for the year		13.0	3.3
Total comprehensive income for the year		22.9	11.8

Items in the statement are disclosed net of tax.

Consolidated balance sheet

At 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Goodwill	11	**56.6**	31.1
Intangible assets	12	**42.3**	13.7
Property, plant and equipment	13	**45.0**	43.0
Deferred tax assets	20	**4.0**	11.0
		147.9	98.8
Current assets			
Inventories	14	**74.9**	70.3
Trade and other receivables	15	**64.4**	56.8
Derivative financial instruments	19	**—**	0.7
Cash and cash equivalents	16	**25.8**	37.5
		165.1	165.3
Current liabilities			
Trade and other payables	17	**(77.0)**	(72.0)
Derivative financial instruments	19	**(3.3)**	(0.8)
Current tax liabilities		**(1.0)**	(2.0)
Financial liabilities – borrowings	18	**(8.5)**	(30.9)
		(89.8)	(105.7)
Net current assets		**75.3**	59.6
Total assets less current liabilities		**223.2**	158.4
Non-current liabilities			
Financial liabilities – borrowings	18	**(64.4)**	(29.8)
Pension scheme liability	22	**(48.0)**	(62.7)
Other non-current liabilities	24	**(1.3)**	(3.6)
Provisions	21	**(4.9)**	(5.7)
		(118.6)	(101.8)
Net assets		**104.6**	56.6
Financed by:			
Share capital	23	**8.0**	6.1
Share premium		**29.7**	1.1
Retained earnings and other reserves		**66.9**	49.4
Total equity		**104.6**	56.6

The financial statements of Norcros plc, registered number 3691883, on pages 72 to 103, were authorised for issue on 13 June 2018 and signed on behalf of the Board by:

Nick Kelsall
Group Chief Executive

Shaun Smith
Group Finance Director

Consolidated cash flow statement

Year ended 31 March 2018

	Notes	2018 £m	2017 £m
Cash generated from operations	25	**23.5**	25.5
Income taxes paid		**(4.9)**	(1.9)
Interest paid		**(1.1)**	(0.9)
Net cash generated from operating activities		**17.5**	22.7
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		**(7.7)**	(8.0)
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired		**(59.1)**	(2.7)
Net cash used in investing activities		**(66.8)**	(10.7)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**32.1**	—
Costs of equity issue		**(1.6)**	—
Purchase of treasury shares		**(0.4)**	—
Costs of raising debt finance		**(0.6)**	—
Drawdown/(repayment) of borrowings		**35.0**	(6.0)
Dividends paid to the Company's shareholders	26	**(5.0)**	(4.2)
Net cash generated from/(used in) financing activities		**59.5**	(10.2)
Net increase in cash at bank and in hand and bank overdrafts		**10.2**	1.8
Cash at bank and in hand and bank overdrafts at the beginning of the year		**6.6**	3.1
Exchange movements on cash and bank overdrafts		**0.5**	1.7
Cash at bank and in hand and bank overdrafts at the end of the year		**17.3**	6.6

Consolidated statement of changes in equity

Year ended 31 March 2018

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	6.1	1.1	—	(15.2)	55.6	47.6
Comprehensive income:						
Profit for the year	—	—	—	—	8.5	8.5
Other comprehensive income/(expense):						
Actuarial loss on retirement benefit obligations	—	—	—	—	(5.2)	(5.2)
Foreign currency translation adjustments	—	—	—	8.5	—	8.5
Total other comprehensive income/(expense)	—	—	—	8.5	(5.2)	3.3
Transactions with owners:						
Shares issued	—	—	—	—	—	—
Dividends paid	—	—	—	—	(4.2)	(4.2)
Value of employee services	—	—	—	—	1.4	1.4
At 31 March 2017	6.1	1.1	—	(6.7)	56.1	56.6
Comprehensive income:						
Profit for the year	—	—	—	—	9.9	9.9
Other comprehensive income:						
Actuarial gain on retirement benefit obligations	—	—	—	—	12.6	12.6
Foreign currency translation adjustments	—	—	—	0.4	—	0.4
Total other comprehensive income	—	—	—	0.4	12.6	13.0
Transactions with owners:						
Shares issued	1.9	28.6	—	—	—	30.5
Dividends paid	—	—	—	—	(5.0)	(5.0)
Purchase of treasury shares	—	—	(0.4)	—	—	(0.4)
Cash-settled share options	—	—	—	—	(0.9)	(0.9)
Equity-settled share options	—	—	0.4	—	(0.4)	—
Value of employee services	—	—	—	—	0.9	0.9
At 31 March 2018	**8.0**	**29.7**	**—**	**(6.3)**	**73.2**	**104.6**

Notes to the Group accounts

Year ended 31 March 2018

1. Group accounting policies

General information

Norcros plc (the Company), and its subsidiaries (together the Group), designs, manufactures and distributes a range of high quality and innovative bathroom and kitchen products mainly in the UK and South Africa.

The Company is incorporated in the UK as a public company limited by shares and registered in England and Wales. The shares of the Company are listed on the London Stock Exchange market of listed securities. The address of its registered office is Ladyfield House, Station Road, Wilmslow SK9 1BU, UK. The Company is domiciled in the UK.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments which are stated at their fair value. The consolidated financial statements have been prepared in accordance with IFRS as endorsed by the European Union issued by the International Accounting Standards Board (IASB), with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are effective as of the Balance Sheet date and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are detailed in the section on critical estimates on page 78. Although these estimates are based on management's best knowledge of amounts, events or actions, actual results may differ from expectations.

Accounting reference date

UK company law permits a company to draw up financial statements to a date seven days either side of its accounting reference date. For operational reasons the Company adopts an accounting period of 52 weeks, and as a result of this, the exact year-end date was 1 April 2018 although the Company's accounting reference date is 31 March 2018. All references to the financial year therefore relate to the 52 weeks commencing on 3 April 2017. In the previous year the accounting period was 52 weeks long, beginning on 4 April 2016 and ending on 2 April 2017.

Going concern

At the time of approving the consolidated financial statements, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence, and consequently they consider that it is appropriate to adopt the going concern basis of preparation.

New standards and amendments to standards or interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2017.

The Group has adopted the following new standards, amendments and interpretations now applicable. None of these standards and interpretations have had any material effect on the Group's results or net assets.

Standard or interpretation	Content	Applicable for financial years beginning on or after
Amendment to IAS 7	Statement of cash flows	1 April 2017
Amendment to IAS 12	Income taxes	1 April 2017

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group:

Standard or interpretation	Content	Applicable for financial years beginning on or after
IFRS 9	Financial instruments: classification and measurement	1 April 2018
IFRS 15	Revenue from contracts with customers	1 April 2018
Amendment to IFRS 2	Share-based payments	1 April 2018
Amendment to IAS 40	Investment properties	1 April 2018
Annual improvements 2014–2016	Various	1 April 2018
IFRS 16	Leases	1 April 2019

Other than for IFRS 16, none of these standards or interpretations are expected to have a material impact on the Group. IFRS 16 is effective for annual periods beginning 1 January 2019, subject to EU endorsement, and will replace IAS 17, 'Leases'. This standard requires lessees to recognise assets and liabilities for all leases, unless the lease term is twelve months or less, or the underlying asset is low value. As at 31 March 2018, the Group holds a significant number of operating leases which currently, under IAS 17, are expensed on a straight line basis over the lease term. Depending on the choice of methodology permitted under IFRS 16, the Group may be obliged to reflect the impact of IFRS 16 in the comparative figures for 2019 in its accounts for the year ending 31 March 2020. The Group will conclude on its choice of methodology during the current year. An initial assessment has been performed and it is anticipated that transition to IFRS 16 will have a material impact on the value of lease assets and liabilities recognised in the Consolidated Balance Sheet. The Group will continue to monitor the impact until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

Notes to the Group accounts continued

Year ended 31 March 2018

1. Group accounting policies continued

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out as follows. These policies have been consistently applied to all periods presented.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of in the year are included in the consolidated financial statements from the date on which the Group has the ability to exercise control, and are no longer consolidated from the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring them into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition and, where necessary, the accounting policies of acquired subsidiaries are adjusted to bring them in line with those of the Group. Any excess of the consideration (excluding payments contingent on future employment) over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired (discount on acquisition) is credited to the Income Statement in the period of acquisition. Payments that are contingent on future employment are charged to the Consolidated Income Statement. All acquisition costs are expensed as incurred.

Key sources of estimation uncertainty and critical judgements in applying the Group's accounting policies

The Group's accounting policies have been set by management and approved by the Audit Committee. The application of these accounting policies to specific scenarios requires estimates and judgements to be made concerning the future. Under IFRS, estimates or judgements are considered critical where they involve a significant risk that may cause a material adjustment to the carrying amounts of assets and liabilities from period to period. This may be because the estimate or judgement involves matters which are highly uncertain, or because different estimation methods or assumptions could reasonably have been used. Once identified, critical estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

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 discussed below:

- retirement benefit obligations – accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The future inflation assumptions applied in the calculation of scheme liabilities, which are set out in note 22, represent a key source of estimation uncertainty for the Group.

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with above) and have been identified as being particularly complex or involve subjective assessments:

- acquired intangible fixed assets – intangible assets can only be recognised as part of a business combination where the intangible asset is separable from goodwill, can be reliably measured and is expected to generate future economic benefits. judgement is required to assess whether these criteria are met and also to subsequently determine the appropriate assumptions which are used to place a value on the intangible asset. Had different assumptions been applied the valuation of acquired intangible assets could have differed from the amount ultimately recognised. Judgement is also needed to determine the useful economic lives of intangible assets and if a different period had been determined this could have resulted in amortisation charges differing from those actually recognised;
- retirement benefit obligations – accounting for retirement benefit schemes under IAS 19 (revised) requires an assessment of the future benefits payable in accordance with actuarial assumptions. The choice of discount rate applied in the calculation of scheme liabilities is a key judgement in applying the Group's accounting policy. Details of the accounting policies applied in respect of retirement benefit schemes are set out in note 22; and
- customer rebate, incentive and promotional support accruals – a number of the Group's customers are offered rebates, incentives and promotional support in order to encourage trade and cement strong relationships. Accounting for such arrangements involves judgement as agreement periods typically run for a number of months or years, and may involve assumptions around volumes of product purchased or sold into the future. However, where applicable, accrual calculations are underpinned by signed contracts and there has historically been a strong correlation between the amounts accrued in respect of a particular period and the amounts subsequently paid.

1. Group accounting policies continued

Summary of significant accounting policies continued

Revenue recognition

Revenue comprises the consideration received or receivable for the sale of goods and services provided alongside the supply of goods in the ordinary course of the Group's activities and is shown net of value added and other sales-based taxes, customer rebates, incentives, discounts and promotional support.

Revenue is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, which is usually on dispatch or upon sale to a customer in the case of the Group's retail operations.

Revenue received in respect of extended warranties is recognised over the period of the warranty.

Customer rebates, incentives, discounts and promotional support

Accrual is made at each Balance Sheet date to reflect management's best estimate of amounts to be paid in respect of arrangements in place with customers regarding rebates, incentives, discounts and promotional support. The cost of rebates, incentives, discounts and promotional support which have been paid or are accrued at the Balance Sheet date is shown as a deduction from revenue.

Segmental reporting

The Group operates in two main geographical areas: the UK and South Africa. All inter-segment transactions are made on an arm's length basis. The chief operating decision maker (being the Board) assesses performance and allocates resources based on geography and accordingly segments have been determined on this basis. Corporate costs are allocated to segments on the basis of external turnover.

Goodwill

Goodwill is recognised as an asset and reviewed for impairment at least annually or whenever there is an indicator of impairment. Goodwill is carried at cost less amortisation charged prior to the Group's transition to IFRS on 1 April 2004 less accumulated impairment losses. Any impairment is recognised in the period in which it is identified.

Intangible assets

Acquired intangible assets comprise customer relationships, brands, trade names and patents recognised as separately identifiable assets on acquisition as well as product certification costs and development costs which meet the criteria for capitalisation (as explained below in the accounting policy for research and development costs). They are valued at cost less accumulated amortisation, with amortisation being charged on a straight-line basis.

The estimated useful lives of Group assets are as follows:

Customer relationships	10–15 years
Brands, trade name and patents	8–15 years
Development costs	5 years
Product certification costs	5 years

Impairment of long-life assets

Property, plant and equipment assets are reviewed on an annual basis to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated as either the higher of the asset's net selling price or value in use; the resultant impairment (the amount by which the carrying amount of the asset exceeds its recoverable amount) is recognised as a charge in the Income Statement.

The value in use is calculated as the present value of the estimated future cash flows expected to result from the use of assets and their eventual disposal proceeds. In order to calculate the present value of estimated future cash flows the Group uses an appropriate discount rate adjusted for any associated risk. Estimated future cash flows used in the impairment calculation represent management's best view of likely future market conditions and current decisions on the use of each asset or asset group.

Property, plant and equipment

Property, plant and equipment is initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates) and any directly attributable costs. Property, plant and equipment is stated at cost less accumulated depreciation and any provision for impairment in value. Impairment charges are recognised in the Income Statement when the carrying amount of an asset is greater than the estimated recoverable amount, calculated with reference to future discounted cash flows that the assets are expected to generate when considered as part of an income-generating unit. Land is not depreciated. Depreciation on other assets is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition by the Group.

The estimated useful lives of Group assets are as follows:

Buildings	25–50 years
Plant and equipment	3–15 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each Balance Sheet date.

Investment property

Investment property comprises mainly land and relates to property which is either sub-let to a third party or is not being utilised in the Group's core operations. Investment property is held at cost less depreciation on buildings (land is not depreciated). Investment property is depreciated over 50 years.

Notes to the Group accounts continued

Year ended 31 March 2018

1. Group accounting policies continued

Summary of significant accounting policies continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, and, where applicable, labour and overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provisions are made for slow-moving and obsolete items.

Taxation

Current tax, which comprises UK and overseas corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the Balance Sheet and the corresponding tax bases used in the computation of taxable profits and is accounted for using the Balance Sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised and is charged in the Income Statement, except where it relates to items charged or credited to equity via the Statement of Comprehensive Income, when the deferred tax is also dealt with in equity and is shown in the Statement of Comprehensive Income.

Operating leases

Annual rentals are charged/credited directly to the Consolidated Income Statement on a straight-line basis over the lease term.

Provisions

Warranty provisions – provision is made for the estimated liability on products under warranty. Liability is recognised upon the sale of a product and is estimated using historical data.

Restructuring provisions – provision is made for costs of restructuring activities to be carried out by the Group when the Group is demonstrably committed to incurring the cost in a future period and the cost can be reliably measured.

Property provisions – where the Group has vacated a property but is committed to a leasing arrangement, an onerous lease provision is recorded. This is calculated as the cost that management expects to incur over the period of the lease, which is net of any expected future sub-lease income.

Provisions are measured at the best estimate of the amount to be spent and discounted where material.

Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Consolidated Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise, net of the related deferred tax.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

1. Group accounting policies continued

Summary of significant accounting policies continued

Employee benefits continued

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

(d) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Exceptional items

Exceptional items are disclosed separately in accordance with the requirements of IAS 1, 'Presentation of financial statements'. They include profits and losses on disposal of non-current assets outside the normal course of business, restructuring costs and large or significant one-off items which in management's judgement need to be disclosed to enable the user to obtain a proper understanding of the Group's financial performance.

IAS 19R administrative expenses

As a result of the implementation of IAS 19R, the administrative expenses incurred by the Trustee in connection with managing the Group's pension schemes are recognised in the Consolidated Income Statement.

Acquisition related costs

Acquisition related costs include deferred remuneration, amortisation of acquired intangibles, the costs of professional advisory fees and maintaining an internal acquisitions department directly related to business combination activity.

Financial assets and liabilities

Borrowings – the Group measures all borrowings initially at fair value. This is taken to be the fair value of the consideration received. Transaction costs (any such costs that are incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are, in effect, amortised through the Income Statement over the duration of the borrowing.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the Balance Sheet date.

Treasury derivatives – where deemed necessary, the Group uses interest rate swaps to manage exposure to interest rate fluctuations. The Group's exposure to foreign exchange rate fluctuations is managed through the use of forward exchange contracts and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of these derivative instruments are recognised immediately within finance costs/income in the Income Statement.

Cash and cash equivalents – cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Cash and cash equivalents are offset against overdrafts and borrowings only when there is a legally enforceable right to do so and there is a clear intention to undertake settlement of such overdrafts or borrowings held with the same counterparty within a short timeframe after the year end.

Trade receivables – trade receivables are recognised initially at fair value and subsequently reviewed for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Evidence including significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payment are considered indicators that the trade receivables are impaired. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the Income Statement within administration costs. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administration costs in the Income Statement.

Trade payables – trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Fair value estimation

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the Balance Sheet date. The Group determines the fair value of its remaining financial instruments through the use of estimated discounted cash flows. The fair value of interest rate and cross currency swaps is calculated as the net present value of the estimated future cash flows.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate to their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Group accounts continued

Year ended 31 March 2018

1. Group accounting policies continued

Summary of significant accounting policies continued

Research and development

Expenditure on research is charged against profits for the year in which it is incurred. Development costs are capitalised once the technical feasibility of a project has been established and a business plan, which demonstrates how the project will generate future economic benefits, has been approved. Development costs are amortised on a straight-line basis over their expected useful lives from the point at which the asset is capable of operating in the manner intended by management.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, or when paid if earlier.

Foreign currency transactions

Functional currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in Sterling, which is the functional and presentational currency of the parent entity.

Transactions and balances

Monetary assets and liabilities expressed in currencies other than the functional currency are translated at rates applicable at the year end and trading results of overseas subsidiaries at average rates for the year. Exchange gains and losses of a trading nature are dealt with in arriving at operating profit.

Translation of overseas net assets

Exchange gains and losses arising on the retranslation of overseas net assets and results are taken directly to reserves.

Share capital

Issued share capital is recorded in the Balance Sheet at nominal value with any premium at the date of issue being credited to the share premium account.

Treasury shares

The cost of the purchase of own shares is taken directly to reserves and is included in the treasury reserve.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each Balance Sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

2. Segmental reporting

The Group operates in two main geographical areas: the UK and South Africa. All inter-segment transactions are made on an arm's length basis. The chief operating decision maker (being the Board) assesses performance and allocates resources based on geography and accordingly segments have been determined on this basis. Corporate costs are allocated to segments on the basis of external turnover.

Continuing operations — year ended 31 March 2018

	UK £m	South Africa £m	Group £m
Revenue	200.6	99.5	300.1
Underlying operating profit	18.6	8.8	27.4
IAS 19R administrative expenses	(1.4)	—	(1.4)
Acquisition related costs	(4.3)	—	(4.3)
Exceptional operating items	(2.1)	—	(2.1)
Operating profit	10.8	8.8	19.6
Finance costs (net)			(6.1)
Profit before taxation			13.5
Taxation			(3.6)
Profit for the year from continuing operations			9.9
Net debt			(47.1)
Segmental assets	239.4	73.6	313.0
Segmental liabilities	(189.0)	(19.4)	(208.4)
Additions to property, plant and equipment	4.9	2.6	7.5
Depreciation	4.2	2.2	6.4

2. Segmental reporting continued

Continuing operations — year ended 31 March 2017

	UK £m	South Africa £m	Group £m
Revenue	182.3	88.9	271.2
Underlying operating profit	17.4	6.4	23.8
IAS 19R administrative expenses	(2.0)	—	(2.0)
Acquisition related costs	(2.7)	—	(2.7)
Exceptional operating items	(2.3)	—	(2.3)
Operating profit	10.4	6.4	16.8
Finance costs (net)			(5.3)
Profit before taxation			11.5
Taxation			(3.0)
Profit for the year from continuing operations			8.5
Net debt			(23.2)
Segmental assets	197.2	66.9	264.1
Segmental liabilities	(188.2)	(19.3)	(207.5)
Additions to property, plant and equipment	4.6	3.3	7.9
Depreciation	4.3	2.1	6.4

The split of revenue by geographical destination of the customer is below:

	2018 £m	2017 £m
UK	**171.8**	160.6
Africa	**102.2**	90.8
Rest of World	**26.1**	19.8
	300.1	271.2

No one customer had revenue over 10% of total Group revenue.

In the previous year revenue of £31.9m was derived from a single customer which was attributable to the UK segment.

3. Operating profit

Operating profit is derived after deducting cost of sales of £190.4m (2017: £171.7m), distribution costs of £17.4m (2017: £16.8m), administrative expenses of £72.7m (2017: £65.9m).

The following items have been included in arriving at operating profit:

	2018 £m	2017 £m
Staff costs (see note 4)	**59.9**	59.6
Depreciation of property, plant and equipment (all owned assets)	**6.4**	6.4
Amortisation of intangible assets	**2.2**	1.2
Other operating lease rentals payable – continuing operations:		
– plant and machinery	**2.0**	2.2
– other	**4.1**	3.4
Research and development expenditure	**3.9**	4.1

All items relate to continuing operations.

Notes to the Group accounts continued

Year ended 31 March 2018

3. Operating profit continued

Auditor's remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	2018 £m	2017 £m
Audit of the Parent Company and consolidated financial statements	0.1	0.1
Audit of the Company's subsidiaries	0.2	0.2
Tax advice	—	0.1
Other services – due diligence services	0.3	0.1
	0.6	0.5

4. Employees

	2018 £m	2017 £m
Staff costs from continuing operations:		
– wages and salaries	52.3	51.8
– social security costs	3.2	3.3
– share-based payments (see note 10)	0.9	1.4
Pension costs:		
– defined contribution (see note 22)	3.5	3.1
Total staff costs	59.9	59.6

Included in wages and salaries was £2.1m (2017: £2.3m) of redundancy costs which were classified as exceptional items in the Income Statement. Further details are provided in note 5.

	2018 Number	2017 Number
Average monthly numbers employed in continuing operations:		
– UK	1,079	1,056
– overseas	1,011	1,031
	2,090	2,087

Directors' emoluments

	2018 £m	2017 £m
Salaries and short-term employee benefits	1.0	1.0
Share-based payments	0.4	0.5
Post-employment benefits	0.1	0.1
	1.5	1.6

Highest paid Director

	2018 £m	2017 £m
Salary and short-term employee benefits	0.5	0.5
Share-based payments	0.3	0.4
Post-employment benefits	0.1	0.1
	0.9	1.0

Further information about the Directors' remuneration may be found in the Annual Report on Remuneration on pages 55 to 62.

Key management compensation

	2018 £m	2017 £m
Salaries and short-term employee benefits	2.6	2.5
Share-based payments	0.7	0.9
Post-employment benefits	0.2	0.2
	3.5	3.6

Key management is defined as the Directors and officers of Norcros plc, together with the Managing Directors of the Group's divisions.

5. Acquisition related costs and exceptional operating items

An analysis of acquisition related costs and exceptional operating items is shown below:

Acquisition related costs	2018 £m	2017 £m
Deferred remuneration[1]	(0.3)	0.4
Intangible asset amortisation[2]	2.2	1.2
Advisory fees and staff costs[3]	2.4	1.1
	4.3	2.7

1. In accordance with IFRS 3R, a proportion of the deferred consideration payable to the former shareholders of certain acquired businesses is required to be treated as remuneration, and, accordingly, is expensed to the Income Statement as incurred. There is a net credit of £0.3m in the year due to the release of overprovisions in earlier years.
2. Non-cash amortisation charges in respect of intangible assets recognised following certain recent acquisitions (see note 12).
3. Costs of professional advisory fees and maintaining an in-house acquisitions department incurred in connection with the Group's business combination activities.

Exceptional operating items	2018 £m	2017 £m
Restructuring costs[1]	2.1	2.3

1. As recently announced, the Group commenced a further restructuring of its UK tiles business in March 2018 at a cost of £2.1m in order to reduce its cost base. In the previous year a charge of £2.3m was recognised which was also in relation to its UK tiles business.

6. Finance costs

	2018 £m	2017 £m
Interest payable on bank borrowings	1.1	0.9
Amortisation of costs of raising debt finance[1]	0.3	0.2
Movement on fair value of derivative financial instruments	3.1	2.2
Finance costs	4.5	3.3

1. Included within the charge for the year is £0.1m for the write-off of the unamortised costs relating to the old banking facility which was replaced in November 2017. Details of the new facility are provided in note 18.

7. Taxation

Taxation comprises:

	2018 £m	2017 £m
Current		
UK taxation	1.0	2.0
Overseas taxation	2.5	1.6
Total current taxation	3.5	3.6
Deferred		
Origination and reversal of temporary differences	0.1	(0.6)
Total tax charge	3.6	3.0

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2018 £m	2017 £m
Profit before tax	13.5	11.5
Tax calculated at domestic tax rates applicable to profits in the respective countries	3.3	2.9
Tax effects of:		
– overprovision in prior years	—	(0.1)
– expenses not deductible for tax purposes	0.5	0.4
– effect of different tax rates and change in rate of deferred tax	(0.3)	(0.3)
– origination and reversal of timing differences	0.1	0.1
Total tax charge	3.6	3.0

The weighted average applicable tax rate was 24% (2017: 25%). The decrease is mainly due to the reduction in the standard rate of corporation tax in the UK to 19% (2017: 20%). The standard rates for corporation tax in South Africa and Ireland are 28% (2017: 28%) and 14.5%, respectively.

Notes to the Group accounts continued

Year ended 31 March 2018

8. Alternative performance measures

The Group makes use of a number of alternative performance measures to assess business performance and provide additional useful information to shareholders. Such alternative performance measures should not be viewed as a replacement of, or superior to, those defined by Generally Accepted Accounting Principles (GAAP). Definitions of alternative performance measures used by the Group and, where relevant, reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures are provided below.

The alternative performance measures used by the Group are:

Measure	Definition
Underlying operating profit	Operating profit before IAS 19R administrative expenses, acquisition related costs and exceptional operating items
Underlying profit before taxation	Profit before taxation before IAS 19R administrative expenses, acquisition related costs, exceptional operating items, amortisation of costs of raising finance, net movement on fair value of derivative financial instruments, discounting of property lease provisions and finance costs relating to pension schemes
Underlying taxation	Taxation before tax associated with those items listed as being excluded from underlying profit before taxation
Underlying earnings	Underlying profit before tax less underlying taxation
Underlying capital employed	Capital employed adjusted for business combinations where relevant and the average impact of exchange rate movements
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying return on capital employed (ROCE)	Underlying operating profit expressed as a percentage of the average of opening and closing underlying capital employed
Basic underlying earnings per share	Underlying earnings divided by the weighted average number of shares for basic earnings per share
Diluted underlying earnings per share	Underlying earnings divided by the weighted average number of shares for diluted earnings per share
EBITDA	EBITDA is a measure commonly used by investors and financiers to assess business performance and is derived from operating profit before depreciation and amortisation
Underlying EBITDA	Underlying EBITDA reflects EBITDA as adjusted for IAS 19R administrative expenses, acquisition related costs and exceptional operating items
Underlying operating cash flow	Cash generated from continuing operations before cash outflows from exceptional items and acquisition related costs and pension fund deficit recovery contributions
Pro-forma EBITDA	An annualised EBITDA figure used for the purpose of calculating banking covenant ratios
Pro-forma leverage	Net debt expressed as a ratio of pro-forma EBITDA

Underlying profit and underlying earnings per share measures provide shareholders with additional useful information on the underlying performance of the Group. This is because these measures are those principally used by the Directors to assess the performance of the Group and are used as the basis for calculating the level of the annual bonus and long-term incentives earned by the Directors. Underlying ROCE is one of the Group's strategic key performance indicators and is therefore provided so that shareholders can assess the Group's performance in relation to its strategic targets. Underlying EBITDA and underlying operating cash flow are also used internally by the Directors in order to assess the Group's cash generation. The term 'underlying' is not recognised under IFRS and consequently the Group's definition of underlying may differ from that used by other companies.

Reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures

Consolidated Income Statement

(a) Underlying profit before taxation and underlying earnings

	2018 £m	2017 £m
Profit before taxation from continuing operations	13.5	11.5
Adjusted for:		
– IAS 19R administrative expenses	1.4	2.0
– acquisition related costs (see note 5)	4.3	2.7
– exceptional operating items (see note 5)	2.1	2.3
– amortisation of costs of raising finance	0.3	0.2
– net movement on fair value of derivative financial instruments	3.1	2.2
– IAS 19R finance cost	1.6	2.0
Underlying profit before taxation	**26.3**	22.9
Taxation attributable to underlying profit before taxation	(5.7)	(5.3)
Underlying earnings	**20.6**	17.6

8. Alternative performance measures continued

Reconciliations from GAAP-defined reporting measures to the Group's alternative performance measures continued

Consolidated Income Statement continued

(b) Underlying EBITDA

	2018 £m	2017 £m
Operating profit from continuing operations	19.6	16.8
Adjusted for:		
– depreciation	6.4	6.4
– IAS 19R administrative expenses	1.4	2.0
– acquisition related costs (see note 5)	4.3	2.7
– exceptional operating items (see note 5)	2.1	2.3
Underlying EBITDA	33.8	30.2

Consolidated Cash Flow Statement

(a) Underlying operating cash flow

	2018 £m	2017 £m
Cash generated from operations (see note 25)	23.5	25.5
Adjusted for:		
– cash flows from exceptional items and acquisition related costs (see note 25)	5.0	1.8
– pension fund deficit recovery contributions (see note 25)	2.5	2.5
Underlying operating cash flow	31.0	29.8

Consolidated Balance Sheet

(a) Underlying capital employed

	2018 £m	2017 £m
Net assets	104.6	56.6
Adjusted for:		
– pension scheme liability (net of associated tax)	39.9	52.0
– cash and cash equivalents	(25.8)	(37.5)
– financial liabilities – borrowings	72.9	60.7
Capital employed	191.6	131.8
Foreign exchange adjustment	(1.7)	(3.5)
Adjustment for acquisitions	(16.9)	—
Underlying capital employed	173.0	128.3

9. Earnings per share

Basic and diluted earnings per share

Basic EPS is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the Norcros Employee Benefit Trust.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. At 31 March 2018 the potential dilutive ordinary shares amounted to 1,778,436 (2017: 2,042,900) as calculated in accordance with IAS 33.

The calculation of EPS is based on the following profits and numbers of shares:

	2018 £m	2017 £m
Profit for the year	9.9	8.5

	2018 Number	2017 Number
Weighted average number of shares for basic earnings per share	68,043,628	61,098,476
Share options and warrants	1,778,436	2,042,900
Weighted average number of shares for diluted earnings per share	69,822,064	63,141,376

Notes to the Group accounts continued

Year ended 31 March 2018

9. Earnings per share continued

Basic and diluted earnings per share continued

	2018	2017
Basic earnings per share:		
From profit for the year	14.5p	13.9p
Diluted earnings per share:		
From profit for the year	14.1p	13.4p

Basic and diluted underlying earnings per share

Basic and diluted underlying earnings per share has also been provided which reflects underlying earnings from continuing operations divided by the weighted average number of shares set out above.

	2018 £m	2017 £m
Underlying earnings (see note 8)	20.6	17.6

	2018	2017
Basic underlying earnings per share	30.3p	28.8p
Diluted underlying earnings per share	29.5p	27.8p

10. Share-based payments

	Exercise price per share	Weighted average share price at date of exercise	1 April 2017	Granted	Exercised	Lapsed	31 March 2018	Date from which exercisable	Expiry date
Approved Performance Share Plan 2011 (APSP)	Nil	172p	11,131	—	(11,131)	—	—	01.09.14	01.09.21
Approved Performance Share Plan 2012 (APSP)	Nil	172p	13,487	—	(13,487)	—	—	28.07.15	28.07.22
Approved Performance Share Plan 2013 (APSP)	Nil	—	2,909	—	—	—	2,909	27.09.16	27.09.23
Approved Performance Share Plan 2014 (APSP)	Nil	175p	707,204	—	(699,348)	(1,182)	6,674	23.07.17	23.07.24
Approved Performance Share Plan 2015 (APSP)	Nil	—	645,959	—	—	(11,818)	634,141	22.07.18	22.07.25
Approved Performance Share Plan 2016 (APSP)	Nil	—	1,193,500	—	—	(32,277)	1,161,223	27.07.19	27.07.26
Approved Performance Share Plan 2017 (APSP)	Nil	—	—	1,083,055	—	—	1,083,055	16.11.20	16.11.27
Deferred Bonus Plan 2014 (DBP)	Nil	175p	69,679	—	(69,679)	—	—	23.07.17	23.07.27
Deferred Bonus Plan 2015 (DBP)	Nil	—	90,159	—	—	—	90,159	22.07.18	22.07.28
Deferred Bonus Plan 2016 (DBP)	Nil	—	92,544	—	—	—	92,544	27.07.19	27.07.29
Deferred Bonus Plan 2017 (DBP)	Nil	—	—	114,913	—	—	114,913	16.11.20	16.11.30
Save As You Earn Scheme (6) (SAYE)	191p	—	77,155	—	—	(77,155)	—	01.03.17	31.08.17
Save As You Earn Scheme (7) (SAYE)	158p	194p	278,285	—	(248,099)	(15,377)	14,809	01.03.18	31.08.18
Save As You Earn Scheme (8) (SAYE)	180p	—	103,600	—	—	(23,300)	80,300	01.03.19	31.08.19
Save As You Earn Scheme (9) (SAYE)	151p	—	297,238	—	—	(13,661)	283,577	01.03.20	31.08.20
Save As You Earn Scheme (10) (SAYE)	160p	—	—	345,599	—	(2,255)	343,344	01.03.21	31.08.21

Details of the terms of the APSP, DBP and SAYE schemes are disclosed in the Directors' Remuneration Report.

10. Share-based payments continued

In accordance with IFRS 2, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period on the Group's estimate of shares that will eventually vest. A charge of £0.9m was recognised in respect of share options in the year (2017: £1.4m). The Group uses a Black-Scholes pricing model to determine the annual charge for its share-based payments. The assumptions used in this model for each share-based payment are as follows:

	SAYE (6)	SAYE (7)	SAYE (8)	SAYE (9)	SAYE (10)
Date of grant	20.12.13	19.12.14	15.12.15	19.12.16	19.12.17
Initial exercise price	191p	158p	180p	151p	160p
Number of shares granted initially	153,704	315,269	154,800	297,238	345,599
Expected volatility	42.7%	42.8%	36.2%	36.1%	35.1%
Expected option life	3 years	3 years	3 years	3 years	3 years
Risk free rate	1.5%	2.4%	1.7%	0.3%	0.9%
Expected dividend yield	2.3%	2.6%	2.6%	4.0%	4.0%

	APSP 2011	APSP 2012	APSP 2013	APSP 2014	APSP 2015
Date of grant	01.09.11	28.07.12	27.09.13	23.07.14	22.07.15
Initial exercise price	Nil	Nil	Nil	Nil	Nil
Number of shares granted initially	704,503	1,252,056	304,040	864,301	770,152
Expected volatility	65.7%	44.2%	42.7%	42.8%	36.2%
Expected option life	3 years	3 years	3 years	3 years	3 years
Risk free rate	2.0%	2.1%	1.5%	2.4%	1.9%
Expected dividend yield	3.0%	3.0%	2.3%	2.6%	2.6%

	APSP 2016	APSP 2017	DBP 2014	DBP 2015	DBP 2016	DBP 2017
Date of grant	27.07.16	16.11.17	23.07.14	22.07.15	27.07.16	16.11.17
Initial exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Number of shares granted initially	1,193,500	1,083,055	69,679	90,159	92,544	114,913
Expected volatility	36.1%	35.1%	45.6%	43.3%	38.0%	35.6%
Expected option life	3 years	3 years	3 years	3 years	3 years	3 years
Risk free rate	0.3%	0.9%	1.7%	3.2%	1.8%	1.5%
Expected dividend yield	4.0%	4.0%	3.0%	2.3%	3.2%	3.4%

The share price at 31 March 2018 was 190p. The average price during the year was 177p. Expected volatility is based on historical volatility over the last three years' data of the Company.

11. Goodwill

	2018 £m	2017 £m
At the beginning of the year	**31.1**	30.4
Additions	**25.5**	—
Exchange differences	**—**	0.7
	56.6	31.1

The additions in the year relate to the acquisition of Merlyn. Further details are provided in note 28.

Goodwill is allocated to the Group's cash-generating units (CGUs). A summary of the goodwill allocation is presented below:

	2018 £m	2017 £m
Croydex	**7.8**	7.8
Abode	**0.8**	0.8
Triton Showers	**19.1**	19.1
Merlyn (see note 28)	**25.5**	—
Tile Africa	**3.4**	3.4
	56.6	31.1

The recoverable amount of a CGU is determined by a value-in-use calculation. These calculations use cash flow projections derived from data and metrics used on an ongoing basis, with the key assumptions being those regarding discount rates, growth rates, future gross margin improvements and cash flows.

Notes to the Group accounts continued

Year ended 31 March 2018

11. Goodwill continued

The key assumptions for the value-in-use calculations are:

- cash flows before income taxes are based on approved budgets and detailed forecasts for the first five years;
- long-term growth rates of 2.2% (2017: 2.1%) for Croydex, Abode, Merlyn and Triton Showers and 7.6% (2017: 7.6%) for Tile Africa applied to the period beyond which detailed budgets and forecasts do not exist, based on macroeconomic projections for the geographies in which the entities operate; and
- pre-tax discount rates of 7.8% (2017: 7.8%) in the UK and 16.2% (2017: 16.6%) in South Africa based upon the risk free rate for government bonds adjusted for a risk premium to reflect the increased risk of investing in equities and investing in the Group's specific sectors and regions.

Management has applied sensitivities to the key assumptions and believes that there are no reasonably possible scenarios which would result in an impairment of goodwill.

12. Intangible assets

	Customer relationships £m	Brands, trade names and patents £m	Development costs £m	Product certification costs £m	Total £m
Cost					
At 1 April 2016	8.2	7.7	0.5	—	16.4
Additions	—	—	—	0.1	0.1
At 31 March 2017	8.2	7.7	0.5	0.1	16.5
Acquisitions	28.3	2.4	—	—	30.7
Additions	—	—	—	0.1	0.1
At 31 March 2018	**36.5**	**10.1**	**0.5**	**0.2**	**47.3**
Accumulated amortisation					
At 1 April 2016	0.5	1.1	—	—	1.6
Charge for the year	0.7	0.5	—	—	1.2
At 31 March 2017	1.2	1.6	—	—	2.8
Charge for the year	1.4	0.6	0.1	0.1	2.2
At 31 March 2018	**2.6**	**2.2**	**0.1**	**0.1**	**5.0**
Net book amount at 31 March 2017	7.0	6.1	0.5	0.1	13.7
Net book amount at 31 March 2018	**33.9**	**7.9**	**0.4**	**0.1**	**42.3**

The acquisitions in the year relate to Merlyn. Further details are provided in note 28. The amortisation charge for the year is included in the acquisition related costs in the consolidated income statement.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2016	32.1	79.4	111.5
Exchange differences	1.9	5.5	7.4
Additions	0.9	7.0	7.9
Disposals	—	(3.9)	(3.9)
At 31 March 2017	34.9	88.0	122.9
Exchange differences	0.1	0.1	0.2
Acquisitions	0.4	0.4	0.8
Additions	0.7	6.8	7.5
Disposals	(0.1)	(4.2)	(4.3)
At 31 March 2018	**36.0**	**91.1**	**127.1**
Accumulated depreciation			
At 1 April 2016	13.5	59.8	73.3
Exchange differences	0.4	3.7	4.1
Charge for the year	1.2	5.2	6.4
Disposals	—	(3.9)	(3.9)
At 31 March 2017	15.1	64.8	79.9
Exchange differences	—	0.1	0.1
Charge for the year	1.1	5.3	6.4
Disposals	(0.1)	(4.2)	(4.3)
At 31 March 2018	**16.1**	**66.0**	**82.1**
Net book amount at 31 March 2017	19.8	23.2	43.0
Net book amount at 31 March 2018	**19.9**	**25.1**	**45.0**

Plant and equipment includes motor vehicles, computer equipment, and plant and machinery. There were no assets held under finance leases in either year.

14. Inventories

	2018 £m	2017 £m
Raw materials and consumables	**12.0**	11.3
Work in progress	**0.8**	0.9
Finished goods	**62.1**	58.1
	74.9	70.3

Provisions held against inventories totalled £4.1m (2017: £4.5m).

The cost of inventories recognised as an expense within cost of sales in the Income Statement amounted to £167.8m (2017: £150.6m).

During the year the Group charged £0.8m (2017: £1.4m) of inventory write-downs to the Income Statement within cost of sales.

15. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**59.5**	54.1
Less: provision for impairment of trade receivables	**(1.0)**	(0.6)
Trade receivables – net	**58.5**	53.5
Other receivables	**2.7**	0.7
Prepayments and accrued income	**3.2**	2.6
	64.4	56.8

The fair value of trade receivables does not differ materially from the book value.

Taking into account the Group's credit insurance, management believes that no further material provision is required for impairment of receivables. Trade receivable credit exposure is controlled by credit limits that are set and reviewed by operational management on a regular basis.

Notes to the Group accounts continued

Year ended 31 March 2018

15. Trade and other receivables continued

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018 £m	2017 £m
Sterling	50.0	45.8
South African Rand	11.8	11.0
Euro	1.7	—
UAE Dirham	0.9	—
	64.4	56.8

Movements on the provision for impairment of trade receivables were as follows:

	2018 £m	2017 £m
At the beginning of the year	0.6	0.4
Provision for receivables impairment	0.3	0.6
Receivables written off during the year as uncollectable	(0.1)	(0.5)
Exchange differences	—	0.1
Acquisitions	0.2	—
At the end of the year	1.0	0.6

As at 31 March 2018, trade receivables of £49.3m (2017: £46.5m) were fully performing.

The creation and release of the provision for impaired receivables has been included in administration costs in the Consolidated Income Statement.

Amounts charged to this provision are generally written off when there is no expectation of recovering additional cash.

As of 31 March 2018, trade receivables of £1.0m (2017: £0.6m) were impaired and provided for. The individually impaired receivables were impaired at 100% of their gross value (2017: 100%). The ageing of these receivables is as follows:

	2018 £m	2017 £m
Less than three months	0.4	0.1
Greater than three months	0.6	0.5
	1.0	0.6

At 31 March 2018 trade receivables of £9.2m (2017: £7.0m) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	2018 £m	2017 £m
Up to one month	7.4	5.6
One to two months	0.8	0.3
Two to three months	0.4	—
Greater than three months	0.6	1.1
	9.2	7.0

As noted above, the Group maintains a credit insurance policy which significantly limits its exposure to credit risk. The Group does not hold any collateral as security.

The other categories within trade and other receivables do not contain impaired assets.

16. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	25.8	37.5

16. Cash and cash equivalents continued

Cash and cash equivalents includes the following for the purposes of the Consolidated Cash Flow Statement:

	2018 £m	2017 £m
Cash at bank and in hand	25.8	37.5
Less: bank overdrafts (see note 18)	(8.5)	(30.9)
	17.3	6.6

Credit risk on cash and cash equivalents is limited as the counterparties are banks with strong credit ratings assigned by international credit rating agencies.

17. Trade and other payables

	2018 £m	2017 £m
Trade payables	41.1	42.6
Other tax and social security payables	4.2	3.4
Deferred consideration	2.0	—
Other payables	0.2	0.5
Accruals and deferred income	29.5	25.5
	77.0	72.0

The fair value of trade payables does not differ materially from the book value.

Deferred consideration reflects the current best estimate of amounts payable to the former shareholders of Croydex and Abode.

18. Financial liabilities – borrowings

	2018 £m	2017 £m
Non-current		
Bank borrowings (unsecured):		
– bank loans	65.0	30.0
– less: costs of raising finance	(0.6)	(0.2)
Total non-current	64.4	29.8
Current		
Bank borrowings (unsecured):		
– bank overdrafts	8.5	30.9
Total borrowings	72.9	60.7

The fair value of bank loans equals their carrying amount, as they bear interest at floating rates.

The repayment terms of borrowings are as follows:

	2018 £m	2017 £m
Not later than one year	8.5	30.9
After more than one year:		
– between one and two years	—	—
– between two and five years	65.0	30.0
– costs of raising finance	(0.6)	(0.2)
	64.4	29.8
Total borrowings	72.9	60.7

Capital risk management

In July 2014 the Group agreed an unsecured £70m revolving credit facility (with a £30m accordion facility) with Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc. In November 2017 the Company entered into an amendment and restatement agreement to increase this facility to an unsecured £120m revolving credit facility (with a £30m accordion facility). The amended facility has a four-year tenure with an optional fifth year (subject to bank approval).

This facility provides the Group with a sound financial structure for the medium term with £49.6m of headroom being available at 31 March 2018 (2017: £33.0m), after taking into account net debt and ancillary facilities in use of £3.3m (2017: £3.3m). The Group has been in compliance with all banking covenants during the year.

Notes to the Group accounts continued

Year ended 31 March 2018

18. Financial liabilities – borrowings continued

Interest rate profile

The effective interest rates at the Balance Sheet dates were as follows:

	2018 %	2017 %
Bank loans	2.7	1.5
Overdraft	2.7	1.5

At 31 March 2018 the bank loans carried interest based on LIBOR plus a margin of 2.2% (2017: 1.2%). Overdrafts carry interest at base rate plus a margin of 2.2% (2017: 1.2%).

Net debt

The Group's net debt is calculated as follows:

	2018 £m	2017 £m
Cash and cash equivalents	(25.8)	(37.5)
Total borrowings	72.9	60.7
	47.1	23.2

Currency profile of net debt

The carrying value of the Group's net debt is denominated in the following currencies:

	2018 £m	2017 £m
Sterling	66.7	37.9
Euro	(2.1)	(0.3)
US Dollar	(2.6)	(4.7)
South African Rand	(14.9)	(9.7)
	47.1	23.2

19. Financial instruments

During the year the Group held financial instruments for two purposes:

- financial instruments relating to the operations, financing and risks of the Group's operations; and
- financial instruments relating to the financing and risks of the Group's bank debt.

Financial risk management

The Group's operations expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and energy price risk); credit risk; and liquidity risk. The Group actively seeks to limit the adverse effects of these risks on the financial performance of the Group.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily the US Dollar, the Euro and the South African Rand. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Through its centralised treasury function the Group seeks to hedge its UK-based transactional foreign exchange risk on a rolling annual basis through the use of forward exchange contracts and similar hedging instruments. The Group's principal UK-based foreign currency exposures are largely hedged until at least December 2018 based on current forecasts. In the overseas businesses the policy is to hedge the local transactional risk to the extent this is permitted and not cost prohibitive.

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translational risk. The Group seeks to mitigate this exposure through borrowings denominated in the relevant foreign currencies to the extent that this is considered to be commercially beneficial.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. The Group has the ability to secure a substantial proportion of its bank loans at fixed rates via interest rate swaps. However, due to the current level of debt and historically low UK LIBOR rates, the Group has decided not to take out any such swaps at the present time. This position is regularly reassessed.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers. Each Group business is responsible for managing and analysing the credit risk of potential customers prior to offering credit terms and uses independent ratings agencies, past trading experience and other factors in order to assess the credit quality of the customer. Additionally, the Group maintains a credit insurance policy for all its operations which covers a substantial portion of the Group's trade debtors. For banks and financial institutions only independently rated parties with a strong rating are accepted.

19. Financial instruments continued

Liquidity risk

The Group's banking facilities are designed to ensure there are sufficient funds available for current operations and the Group's further development plans. Cash flow forecasting is performed by the Group's businesses on a rolling basis and is monitored centrally to ensure that sufficient cash is available to meet operational needs while maintaining an appropriate level of headroom on undrawn committed borrowing facilities.

Financial instruments

The Group's financial instruments comprise borrowings, cash, trade receivables and payables and forward exchange contracts. Based on the hierarchy defined in IFRS 7, the Group's financial instruments are classified as level 2 instruments. Consequently, fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Derivative financial instruments carried at fair value through profit and loss

	2018 Assets £m	2018 Liabilities £m	2017 Assets £m	2017 Liabilities £m
Forward foreign exchange contracts:				
– current	—	(3.3)	0.7	(0.8)

Forward foreign exchange contracts

The notional principal amounts of outstanding forward foreign exchange contracts at 31 March 2018 were €18.8m and US$65.3m (2017: €22.9m and US$48.0m).

The related forecast transactions denominated in foreign currency are expected to occur at various dates during the next twelve months. Gains and losses recognised on forward exchange contracts to date have been taken to the Consolidated Income Statement.

Sensitivity analysis

IFRS 7 requires the disclosure of a sensitivity analysis that details the effects on the Group's profit and loss and equity of reasonably possible fluctuations in market rates. To demonstrate these, hypothetical variations of 1% increase or decrease in market interest rates and 5% strengthening or weakening in major currencies have been chosen.

(a) 1% increase or decrease on market interest rates for most of the coming year

As the Group has net debt of £47.7m (excluding unamortised finance costs) the effect of a 1% change in market interest rates would be a change in the net finance costs of approximately £0.5m per annum.

(b) 5% strengthening or weakening in major currencies

A number of the Group's assets are held overseas and as such variations in foreign currencies will affect the carrying value of these assets. A 5% strengthening of Sterling across all currencies would lead to a £2.6m devaluation in net assets. Likewise a 5% weakening in Sterling would lead to a £2.9m increase in net assets.

The Group's profits and losses are exposed to both translational and transactional risk of fluctuations in foreign currency risk. The Group seeks to mitigate the majority of its transactional risk using forward foreign exchange contracts. Taking into account both the translational impact and the level of forward exchange contracts in place relative to forecast foreign currency requirements, a 5% strengthening in both Sterling and South African Rand against all other currencies would result in an increase in reported profits of £0.4m. Likewise a 5% weakening in both these currencies would lead to a reduction in reported profits of £0.4m.

20. Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The main rate of UK corporation tax reduced to 19% from 1 April 2017 and will decrease further to 17% from 1 April 2020, with the latter amendment being substantively enacted on 6 September 2016. The deferred tax asset at 31 March 2017 reflects these rate changes.

Deferred tax is calculated in full on temporary differences under the liability method. The movement on the deferred tax account is as shown below:

	2018 £m	2017 £m
Deferred tax asset at the beginning of the year	11.0	10.0
(Charged)/credited to the Consolidated Income Statement	(0.1)	0.6
(Charged)/credited to the Consolidated Statement of Comprehensive Income	(2.6)	0.3
Exchange differences	—	0.1
Acquisitions	(4.3)	—
Deferred tax asset at the end of the year	**4.0**	11.0

Notes to the Group accounts continued

Year ended 31 March 2018

20. Deferred tax continued

The analysis of deferred tax assets and liabilities is as follows:

	2018 £m	2017 £m
Accelerated capital allowances	0.2	1.2
Tax losses	0.1	—
Other timing differences (net)	(4.4)	(0.9)
Deferred tax asset relating to pension deficit	8.1	10.7
Deferred tax assets (net)	**4.0**	11.0

	2018 £m	2017 £m
Deferred tax assets:		
To be recovered after more than twelve months	8.5	11.5
To be recovered within twelve months	0.1	0.4
	8.6	11.9
Deferred tax liabilities:		
To be recovered after more than twelve months	(5.2)	(0.9)
To be recovered within twelve months	0.6	—
	(4.6)	(0.9)
Deferred tax assets (net)	**4.0**	11.0

The full potential asset for deferred tax is as follows:

	2018 £m	2017 £m
Accelerated capital allowances	0.2	1.2
Tax losses	6.8	6.7
Other timing differences	(4.4)	(0.9)
Deferred tax asset relating to pension deficit	8.1	10.7
	10.7	17.7

No deferred tax asset has been recognised in respect of £6.7m (2017: £6.7m) of tax losses as the Company does not believe that utilisation of these losses is probable.

21. Provisions

	Warranty provision £m	Restructuring provision £m	UK property provision £m	Total £m
At 1 April 2016	1.4	—	1.9	3.3
Charged to the Income Statement	1.6	2.3	—	3.9
Utilisation	(1.1)	(0.2)	(0.2)	(1.5)
At 31 March 2017	1.9	2.1	1.7	5.7
Charged to the Income Statement	0.9	2.1	—	3.0
Utilisation	(1.5)	(2.2)	(0.1)	(3.8)
At 31 March 2018	**1.3**	**2.0**	**1.6**	**4.9**

The warranty provision has been recognised for expected claims on products which remain under warranty. It is expected that this expenditure will be incurred within five years of the Balance Sheet date.

The restructuring provision recognised during the year was in connection with the restructuring of the Group's UK tiles business. Further details are provided in note 5. It is expected that this expenditure will be incurred within one year of the Balance Sheet date.

The UK property provision relates to the expected liability arising from lease shortfall on the remaining surplus Group property. It is anticipated that the cash outflows will be incurred within five years of the Balance Sheet date.

22. Retirement benefit obligations

(a) Pension costs

Norcros Security Plan

The Norcros Security Plan (the Plan), the principal UK pension scheme of the Group's UK subsidiaries, is funded by a separate trust fund which operates under UK trust law and is a separate legal entity from the Company. The Plan is governed by a Trustee company, which has a board currently composed of four employer representatives and three member representatives. The Trustee is required by law to act in the best interests of the Plan members and is responsible for setting policies together with the Company.

It is predominantly a defined benefit scheme, with a modest element of defined contribution benefits. Norcros plc itself has no employees other than the Directors and so has no liabilities in respect of these pension schemes. The scheme closed to new members and future accrual with effect from 1 April 2013, though active members retain a salary link. This means that employed members of the Plan who were building up benefits at the date of closure to accrual will receive a pension based on their service to 1 April 2013 but using their final pensionable salary at the point they leave employment or retire from the Plan. As a result of the closure a new defined contribution pension scheme was implemented to replace the Plan from the same date.

The weighted average duration of the defined benefit obligation is approximately 15 years (2017: 16 years) and can be attributed to the scheme members as follows:

	2018	2017
Employee members	8%	8%
Deferred members	31%	31%
Pensioner members	61%	61%
Total	100%	100%

The Plan assets do not include any investments in the Company or any property or other assets utilised by the Company.

The Plan is funded by the Company based on a separate actuarial valuation for funding purposes for which the assumptions may differ from those opposite. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the Trustee and the Company. The most recent triennial actuarial valuation for the Group's UK defined benefit pension was in March 2015 and showed a deficit of £73.5m (2012: £61.9m) representing an 84% funding level (2012: 85%). The increased deficit is driven predominantly by historically low gilt yields. Following the completion of the March 2015 triennial actuarial valuation a revised deficit recovery plan covering the subsequent ten years was agreed with the Scheme Trustee, with a cash contribution of £2.5m per annum starting in April 2016, and increasing with CPI. The balance of the deficit is expected to be met by asset outperformance as set out in the Plan's Statement of Funding Principles. As a result of this agreement employer deficit recovery contributions in the year to 31 March 2019 are expected to be £2.6m.

The next triennial actuarial valuation for the Plan as at 31 March 2018 is currently in progress. Following completion of this valuation a revised deficit recovery plan will be agreed.

Risks

The Plan exposes the Company to a number of actuarial risks which may result in a material change in the net scheme deficit and potentially result in an increase in cash contributions in later years and higher charges being recognised in future Income Statements. Given the long-term time horizon of the scheme's cash flows this may result in volatility in the valuation of the net scheme deficit from year to year. The main risks are set out below:

- Mortality risk – the assumptions used by the Group allow for improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the Plan and consequently an increase in scheme liabilities. The Group regularly reviews the mortality assumptions to minimise the risk of using an inappropriate assumption.
- Interest rate risk – a reduction in corporate bond yields would result in a lower discount rate being used to value the scheme liabilities and consequently result in an increase in scheme liabilities. Additionally, an increase in inflation would increase the scheme liabilities as the majority of the pension payments increase in line with inflation, although there are a number of caps in place to ensure that the impact of high inflation is minimised. To mitigate some of the investment volatility a proportion of the scheme assets are held in liability-driven investments which involve hedging some of the Plan's exposure to changes in interest rates and inflation by investing in assets that match the sensitivity of its liabilities. This means that if interest rates or inflation expectations change, assets and liabilities rise or fall together, and the funding level of the Plan should be less volatile.
- Investment risk and currency risk – a reduction in the value of investments caused by fluctuating exchange rates and a variety of other market factors would result in a lower valuation of scheme assets. The scheme invests in a diversified range of asset classes to mitigate the risk of falls in any one area of the investments and implements partial currency hedging on the overseas assets to mitigate currency risk.

Defined contribution pension schemes

Contributions made to these schemes amounted to £3.5m (2017: £3.1m), which includes £0.2m (2017: £0.3m) for the provision of life insurance cover.

Notes to the Group accounts continued

Year ended 31 March 2018

22. Retirement benefit obligations continued

(b) IAS 19R, 'Employee benefits'

Norcros Security Plan

The valuation used for IAS 19R disclosures has been based on the most recent actuarial valuation at 31 March 2015 and updated by KPMG, a firm of qualified actuaries, to take account of the requirements of IAS 19R in order to assess the liabilities of the scheme at 31 March 2018. Scheme assets are stated at their market value at 31 March 2018.

(i) The principal assumptions used to calculate the scheme liabilities of the Norcros Security Plan under IAS 19R are:

	2018 Projected unit	2017 Projected unit
Discount rate	2.65%	2.60%
Inflation rate (RPI)	3.10%	3.15%
Inflation rate (CPI)	2.10%	2.15%
Increases to deferred benefits during deferment (non-GMP liabilities)	2.98%	3.01%
Increases to pensions in payment (other than pre-1988 GMP liabilities)	2.98%	3.01%
Salary increases	2.35%	2.40%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are summarised below:

	2018	2017
Life expectancy at age 65:		
Current pensioners – males	20.9	21.1
Current pensioners – females	23.2	23.3
Future pensioners – males (currently aged 40)	22.3	22.5
Future pensioners – females (currently aged 40)	24.8	24.8

Members are assumed to take a 25% (2017: 25%) cash commutation sum on retirement.

(ii) The amounts recognised in the Income Statement are as follows:

	2018 £m	2017 £m
Included in operating profit:		
IAS 19R pension administration expenses	1.4	2.0
IAS 19R finance cost	1.6	2.0
Total amounts recognised in the Income Statement	3.0	4.0

(iii) The amounts recognised in the Balance Sheet are determined as follows:

	Value at 31 March 2018 £m	Value at 31 March 2017 £m
Equities	84.6	89.1
Absolute return funds	108.6	109.6
Bonds	158.2	157.3
Property	20.3	19.6
Liability-driven investments	25.3	25.3
Cash and gilts	2.6	3.5
Total fair value of scheme assets	399.6	404.4
Present value of scheme liabilities	(447.6)	(467.1)
Pension deficit	(48.0)	(62.7)

22. Retirement benefit obligations continued

(b) IAS 19R, 'Employee benefits' continued

Norcros Security Plan continued

(iii) The amounts recognised in the Balance Sheet are determined as follows: continued

The fair value of the scheme assets analysed by asset category and subdivided between those assets that have a quoted market price in an active market and those that do not (such as investment funds) are as follows:

	Value at 31 March 2018			Value at 31 March 2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	—	84.6	84.6	—	89.1	89.1
Absolute return funds	37.2	71.4	108.6	39.8	69.8	109.6
Bonds	—	158.2	158.2	—	157.3	157.3
Property	—	20.3	20.3	—	19.6	19.6
Liability-driven investments	—	25.3	25.3	—	25.3	25.3
Cash and gilts	2.6	—	2.6	3.5	—	3.5
Total fair value of scheme assets	39.8	359.8	399.6	43.3	361.1	404.4

The majority of the Plan's assets are invested in pooled investment vehicles, where the fair value has been determined by the individual fund managers by applying fair value principles to the underlying investments.

(iv) The movement in the scheme deficit in the year is as follows:

	2018 £m	2017 £m
Deficit at the beginning of the year	(62.7)	(55.7)
Employer contributions – deficit recovery	2.5	2.5
IAS 19R pension administration expenses	(1.4)	(2.0)
IAS 19R finance cost	(1.6)	(2.0)
Actuarial gains/(losses)	15.2	(5.5)
Deficit at the end of the year	(48.0)	(62.7)

(v) The reconciliation of scheme assets is as follows:

	2018 £m	2017 £m
Opening fair value of scheme assets	404.4	365.9
Employer contributions – deficit recovery	2.5	2.5
Interest income	10.2	12.6
Benefits paid	(24.0)	(24.2)
Actuarial gains on scheme assets	7.9	49.6
IAS 19R pension administration expenses	(1.4)	(2.0)
Closing fair value of scheme assets	399.6	404.4

(vi) The reconciliation of scheme liabilities is as follows:

	2018 £m	2017 £m
Opening scheme liabilities	(467.1)	(421.6)
Interest cost	(11.8)	(14.6)
Actuarial gains/(losses) arising from changes in financial assumptions	4.8	(74.6)
Actuarial gains arising from changes in demographic assumptions	2.5	9.5
Experience gains on liabilities	—	10.0
Benefits paid	24.0	24.2
Closing fair value of scheme liabilities	(447.6)	(467.1)

(vii) Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2018 £m	2017 £m
Actuarial losses	15.2	(5.5)
Deferred tax	(2.6)	0.3
	12.6	(5.2)

Notes to the Group accounts continued

Year ended 31 March 2018

22. Retirement benefit obligations continued

(b) IAS 19R, 'Employee benefits' continued

Norcros Security Plan continued

(viii) Sensitivities

The sensitivities regarding the principal assumptions used to measure the Plan's liabilities are as follows:

Assumption	Impact on scheme deficit 2018 £m	2017 £m
Discount rate – 0.1% decrease	6.0	6.7
Inflation rate (RPI and CPI)[1] – 0.1% increase	3.8	4.3
Increase in life expectancy by one year	15.1	15.8

1. This includes the impact on salary increase and deferred and in payment pension increase assumptions.

The above sensitivities are applied to adjust the defined benefit obligation at the end of the year. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation as to the sensitivity of the assumptions shown.

No changes have been made to the method and assumptions used in this analysis from those used in the previous year.

23. Called up share capital

	2018 £m	2017 £m
Issued and fully paid		
80,181,418 (2017: 61,259,666) ordinary shares of 10p each	8.0	6.1

During the year, the Company issued 296,561 10p ordinary shares in order to satisfy vesting of options under the Company's Approved Performance Share Plan, Deferred Bonus Plan and SAYE schemes. The Company also issued 18,254,161 10p ordinary shares at 172p per share through a firm placing, placing and open offer, the proceeds from which were used to part-fund the acquisition of Merlyn Industries Ltd. Costs of £1.6m related to the firm placing, placing and open offer have been reflected in the share premium account.

Warrant instruments

In 2009 the Company executed a warrant instrument in favour of its principal banks of the day over 5% of its fully diluted ordinary share capital excluding any shares issued as part of a capital raising. The remaining warrants were exercised during the year at 89.7p per share leading to the issue of 371,030 10p ordinary shares. Consequently, no further warrant instruments remain in force at 31 March 2018.

24. Other non-current liabilities

	2018 £m	2017 £m
Deferred consideration	0.3	2.6
Other non-current liabilities	1.0	1.0
	1.3	3.6

Deferred consideration reflects the current best estimate of amounts payable to the former shareholders of Abode. Other non-current liabilities principally includes accrued lease obligations in respect of the Group's retail business in South Africa.

25. Consolidated Cash Flow Statement

(a) Cash generated from operations

The analysis of cash generated from operations is given below:

Continuing operations

	2018 £m	2017 £m
Profit before taxation	13.5	11.5
Adjustments for:		
– IAS 19R administrative expenses included in the Income Statement	1.4	2.0
– acquisition related costs included in the Income Statement	4.3	2.7
– exceptional items included in the Income Statement	2.1	2.3
– finance costs included in the Income Statement	4.5	3.3
– IAS 19R finance cost included in the Income Statement	1.6	2.0
– cash flows from exceptional items and acquisition related costs	(5.0)	(1.8)
– cash settlement of share options	(0.9)	—
– depreciation	6.4	6.4
– pension fund deficit recovery contributions	(2.5)	(2.5)
– share-based payments	0.9	1.4
Operating cash flows before movement in working capital	26.3	27.3
Changes in working capital:		
– increase in inventories	(0.5)	(5.1)
– decrease/(increase) in trade and other receivables	4.8	(3.7)
– (decrease)/increase in trade and other payables	(7.1)	7.0
Cash generated from operations	23.5	25.5

(b) Outflow related to exceptional items and acquisition related costs

This includes expenditure charged to exceptional provisions relating to onerous lease costs, acquisition related costs (excluding deferred remuneration) and other business rationalisation and restructuring costs.

(c) Analysis of net debt

	Net cash and current borrowings £m	Non-current borrowings £m	Net debt £m
At 1 April 2016	3.1	(35.6)	(32.5)
Cash flow	1.8	6.0	7.8
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	1.7	—	1.7
At 31 March 2017	6.6	(29.8)	(23.2)
Cash flow	10.2	(34.4)	(24.2)
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	0.5	—	0.5
At 31 March 2018	**17.3**	**(64.4)**	**(47.1)**

Other non-cash movements principally relate to the movement in the costs of raising debt finance in the year.

26. Dividends

A final dividend in respect of the year ended 31 March 2017 of £2.9m (4.8p per 10p ordinary share) was paid on 3 August 2017 and an interim dividend of £2.1m (2.6p per 10p ordinary share) was paid on 12 January 2018. A final dividend in respect of the year ended 31 March 2018 of £4.2m (5.2p per 10p ordinary share) is to be proposed at the Annual General Meeting on 25 July 2018. These financial statements do not reflect this final dividend.

Notes to the Group accounts continued

Year ended 31 March 2018

27. Capital and other financial commitments

(a) Capital commitments

	2018 £m	2017 £m
Contracts placed for future capital expenditure not provided in the financial statements	**1.6**	1.5

(b) Operating lease commitments

	2018 £m	2017 £m
Total commitments under operating leases:		
– not later than one year	**6.2**	5.3
– later than one year and not later than five years	**14.7**	13.6
– later than five years	**8.0**	8.2
	28.9	27.1

Total future sub-lease payments receivable relating to the above operating leases amounted to £0.4m (2017: £1.0m).

The above operating lease commitments are analysed as:

	2018 £m	2017 £m
Equipment:		
– not later than one year	**1.7**	1.7
– later than one year and not later than five years	**2.4**	2.8
Land and buildings:		
– not later than one year	**4.5**	3.6
– later than one year and not later than five years	**12.3**	10.8
– later than five years	**8.0**	8.2
	28.9	27.1

28. Business combinations

Acquisition of Merlyn Industries Limited

On 23 November 2017, the Group acquired 100% of the ordinary share capital of Merlyn Industries Limited (Merlyn), a market leading, innovative designer and distributor of mid to high end branded shower enclosures. The acquisition of Merlyn is a compelling fit and is consistent with the Group's strategy of expanding its bathroom product portfolio. Merlyn is incorporated in the Republic of Ireland and is based in Kilkenny, Ireland, and West Bromwich, UK.

The consideration for Merlyn was £68.8m which was entirely paid in cash on completion. No deferred consideration or other long-term incentive arrangements have been put in place as a result of the transaction.

The following table summarises the provisional fair value of the assets acquired, and the liabilities assumed:

	£m
Recognised amounts of identifiable assets and liabilities	
Intangible assets	30.7
Property, plant and equipment	0.8
Inventories	4.1
Trade and other receivables	10.3
Cash and cash equivalents	10.8
Derivative financial instruments	(0.2)
Trade and other payables	(8.7)
Current tax liabilities	(0.2)
Deferred tax liability	(4.3)
Total identifiable net assets	43.3
Goodwill	25.5
Total	68.8

The provisional fair value adjustments principally reflect the assessment of the value of acquired intangible assets of £30.7m and a deferred tax liability of £4.3m, mainly arising from the recognition of acquired intangible assets.

28. Business combinations continued

Acquisition of Merlyn Industries Limited continued

In most business combinations there is an element of cost which cannot be allocated against the individual assets and liabilities acquired. This residual amount is recognised as goodwill and is supported by a number of factors which do not meet the criteria required for them to be treated as intangible assets. In this case the most significant elements relate to Merlyn's world class customer service, its knowledgeable workforce and multi-channel sales strategy. It is not expected at this stage that any of the goodwill will be deductible for tax purposes.

The fair value of trade and other receivables is £10.3m, which includes trade receivables with a fair value of £8.7m. The gross contractual amount for trade receivables due is £8.9m, of which £0.2m is expected to be uncollectable.

Costs relating to the transaction of £2.0m have been expensed to the Consolidated Income Statement and included within acquisition related costs.

The revenue included in the Consolidated Statement of Comprehensive Income since 23 November 2017 attributable to Merlyn was £11.7m. Over the same period, Merlyn contributed profit after tax of £1.4m. Had Merlyn been consolidated from the beginning of the period, the Consolidated Statement of Comprehensive Income would have shown pro-forma revenue of £323.1m and pro-forma profit after tax of £11.5m.

The net cash outflow from the transaction reported within investing activities was as follows:

	£m
Cash consideration	68.8
Settlement of debt-like items	1.1
Cash acquired	(10.8)
Net cash outflow reported in the Consolidated Cash Flow Statement	59.1

In addition to the above, a cash outflow of £2.0m relating to costs incurred in respect of the transaction has been included within cash generated from continuing operations, such that the total net cash outflow from the acquisition in the year was £61.1m.

29. Related party transactions

Within the definition of IAS 24, 'Related party disclosures', key management and Directors are classed as related parties. Details of the remuneration provided to key management and Directors are disclosed in note 4 and the Annual Report on Remuneration on pages 55 to 62.

Parent Company balance sheet

At 31 March 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investments	3	177.3	177.3
Deferred tax assets	4	0.5	0.5
		177.8	177.8
Current assets			
Trade and other receivables	5	39.4	—
Current liabilities			
Trade and other payables	6	(0.8)	(18.9)
Net current assets/(liabilities)		38.6	(18.9)
Total assets less current assets/(liabilities)		216.4	158.9
Non-current liabilities			
Financial liabilities – borrowings	7	(64.4)	(29.8)
Net assets		152.0	129.1
Financed by:			
Share capital	8	8.0	6.1
Share premium account		29.7	1.1
Retained earnings before loss for the financial year		116.8	124.5
Loss for the financial year		(2.5)	(2.6)
Total shareholders' funds		152.0	129.1

The financial statements of Norcros plc, registered number 3691883, on pages 104 to 110, were authorised for issue on 13 June 2018 and signed on behalf of the Board by:

Nick Kelsall
Group Chief Executive

Shaun Smith
Group Finance Director

Parent Company statement of changes in equity

Year ended 31 March 2018

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	6.1	1.1	—	127.3	134.5
Comprehensive expense:					
Loss for the year	—	—	—	(2.6)	(2.6)
Total comprehensive expense for the year	—	—	—	(2.6)	(2.6)
Transactions with owners:					
Dividends paid	—	—	—	(4.2)	(4.2)
Value of employee services	—	—	—	1.4	1.4
At 31 March 2017	6.1	1.1	—	121.9	129.1
Comprehensive expense:					
Loss for the year	—	—	—	(2.5)	(2.5)
Total comprehensive expense for the year	—	—	—	(2.5)	(2.5)
Transactions with owners:					
Shares issued	1.9	28.6	—	—	30.5
Dividends paid	—	—	—	(5.0)	(5.0)
Purchase of treasury shares	—	—	(0.4)	—	(0.4)
Cash-settled share options	—	—	—	(0.6)	(0.6)
Equity-settled share options	—	—	0.4	(0.4)	—
Value of employee services	—	—	—	0.9	0.9
At 31 March 2018	**8.0**	**29.7**	**—**	**114.3**	**152.0**

Notes to the Parent Company accounts

Year ended 31 March 2018

1. Statement of accounting policies

General information

Norcros plc (the Company) is the ultimate holding company of the Norcros Group, which designs, manufactures and distributes a range of high quality and innovative bathroom and kitchen products mainly in the UK and South Africa.

The Company is incorporated in the UK as a public company limited by shares and registered in England and Wales. The shares of the Company are listed on the London Stock Exchange market of listed securities. The address of its registered office is Ladyfield House, Station Road, Wilmslow SK9 1BU, UK.

Accounting reference date

UK company law permits a company to draw up financial statements to a date seven days either side of its accounting reference date. For operational reasons the Company adopts an accounting period of 52 weeks, and as a result of this, the exact year-end date was 1 April 2018 although the Company's accounting reference date is 31 March 2018. All references to the financial year therefore relate to the 52 weeks commencing on 3 April 2017. In the previous year the accounting period was 52 weeks long, beginning on 4 April 2016 and ending on 2 April 2017.

New standards and amendments to standards or interpretations

The new standards, amendments to standards or interpretations which are mandatory for the first time for the financial year beginning 1 April 2017 are set out in the Group financial statements on page 77. None of these standards and interpretations has had any material effect on the Company's results or net assets.

The standards, amendments and interpretations which are not yet effective and have not been adopted early by the Company are set out in the Group financial statements on page 77. None of these standards or interpretations is expected to have a material impact on the Company.

Basis of preparation

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced disclosure framework' (FRS 101), on the going concern basis and under the historical convention modified for fair values, and in accordance with the Companies Act 2006 and with applicable accounting standards. Effective 1 April 2016 the Company transitioned from previously applicable UK Generally Accepted Accounting Principles to FRS 101.

These financial statements and accompanying notes have been prepared in accordance with the reduced disclosure framework for all periods presented. A separate profit and loss account dealing with the results of the Company has not been presented as permitted by Section 408(3) of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- the following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 111 (cash flow statement information); and
  - 134–136 (capital management disclosures);
- IFRS 7, 'Financial instruments: disclosures';
- IAS 7, 'Statement of cash flows';
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' – impact of future accounting standards;
- IAS 24 (paragraph 17), 'Related party disclosures' – key management compensation; and
- IAS 24, 'Related party disclosures' – the requirement to disclose related party transactions between two or more members of a group.

As the Group financial statements include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2, 'Share-based payments', in respect of Group equity-settled share-based payments; and
- certain disclosures required by IFRS 13, 'Fair value measurement', and disclosures required by IFRS 7, 'Financial instrument: disclosures'.

Critical estimates and judgements

The Directors believe that there is one critical accounting estimate as set out below:

- deferred tax – deferred tax assets are recognised on certain timing differences only to the extent that it is probable they will be available for use against future profits and that there will be sufficient future taxable profit available against which the temporary difference can be utilised. In arriving at a judgement in relation to the recognition of deferred tax assets, management considers the regulations applicable to taxation and whether there are likely to be sufficient future taxable profits. Future taxable profits may be higher or lower than estimates made when determining whether it is appropriate to record a tax asset and the amount to be recorded. Furthermore changes to the legislative framework or application of tax law may result in a management reassessment of the level of recognition of deferred tax assets.

1. Statement of accounting policies continued

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Investments in subsidiaries

Investments held as fixed assets are stated at cost, less any provision for impairment. The Directors believe the carrying value of investments is supported by their underlying assets and cash flow projections derived from detailed budgets and forecasts. Dividends received from investments are included within turnover and recognised on receipt of the dividend.

Foreign currency transactions

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates applicable at the year end. Exchange gains and losses are dealt with in arriving at operating profit.

Taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the Balance Sheet date that give rise to an obligation to pay more taxation in the future or a right to pay less taxation in the future. An asset is recognised only when the transfer of economic benefits is more likely than not to occur.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or when paid if earlier.

Financial assets and liabilities

Borrowings – the Company measures all borrowings initially at fair value. This is taken to be the fair value of the consideration received. Transaction costs (any such costs that are incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are, in effect, amortised through the Income Statement over the duration of the borrowing.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the Balance Sheet date.

Share-based payments

The Company operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each Balance Sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity.

2. Other information

Auditor's remuneration of £3,000 (2017: £3,000) and staff costs are borne by the Company's subsidiary, without recharge.

The Company has two employees (2017: two). Staff costs were as follows:

	2018 £m	2017 £m
Wages and salaries	0.8	0.8
Social security costs	0.1	0.1
Share-based payments	0.4	0.5
Post-employment benefits	0.1	0.1
Total staff costs	1.4	1.5

Further information about the Directors' remuneration may be found in the Annual Report on Remuneration on pages 55 to 62.

3. Investments

	Shares in subsidiaries £m
At 1 April 2017 and 31 March 2018	177.3

Details of the subsidiaries owned by the Company, held both directly and indirectly, are shown in note 11.

Notes to the Parent Company accounts continued

Year ended 31 March 2018

4. Deferred tax assets

Deferred tax is calculated in full on temporary differences under the liability method. The movement on the deferred tax account is as shown below:

	2018 £m	2017 £m
Deferred tax asset at the beginning of the year	0.5	0.3
Credited to the Income Statement	—	0.2
Deferred tax asset at the end of the year	0.5	0.5

The analysis of the deferred tax asset is as follows:

	2018 £m	2017 £m
Other timing differences	0.5	0.5

	2018 £m	2017 £m
To be recovered after more than twelve months	0.3	0.3
To be recovered within twelve months	0.2	0.2
	0.5	0.5

The full potential asset for deferred tax is as follows:

	2018 £m	2017 £m
Other timing differences	0.5	0.5
Tax losses	4.5	4.5
	5.0	5.0

No deferred tax has been recognised in the financial statements in respect of the tax losses as the Company does not believe that utilisation of these losses is probable.

5. Trade and other receivables

	2018 £m	2017 £m
Amounts owed by Group undertakings	39.4	—

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

6. Trade and other payables

	2018 £m	2017 £m
Amounts owed to Group undertakings	—	17.9
Accruals	0.8	1.0
	0.8	18.9

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

7. Financial liabilities – borrowings

	2018 £m	2017 £m
Loans and bank overdrafts	65.0	30.0
Costs of raising finance	(0.6)	(0.2)
	64.4	29.8
Repayable after more than one year:		
– between one and two years	—	—
– between two and five years	65.0	30.0
– costs of raising finance	(0.6)	(0.2)
	64.4	29.8

In July 2014 the Group agreed an unsecured £70m revolving credit facility (with a £30m accordion facility) with Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc. In November 2017 the Company entered into an amendment and restatement agreement to increase this facility to an unsecured £120m revolving credit facility (with a £30m accordion facility). The amended facility has a four-year tenure with an optional fifth year (subject to bank approval).

8. Called up share capital

	2018 £m	2017 £m
Issued and fully paid		
80,181,418 (2017: 61,259,666) ordinary shares of 10p each	8.0	6.1

During the year, the Company issued 296,561 10p ordinary shares in order to satisfy vesting of options under the Company's Approved Performance Share Plan, Deferred Bonus Plan and SAYE schemes. The Company also issued 18,254,161 10p ordinary shares at 172p per share through a firm placing, placing and open offer, the proceeds from which were used to part-fund the acquisition of Merlyn Industries Ltd.

Warrant instruments

In 2009 the Company executed a warrant instrument in favour of its principal banks of the day over 5% of its fully diluted ordinary share capital excluding any shares issued as part of a capital raising. The remaining warrants were exercised during the year at 89.7p per share leading to the issue of 371,030 10p ordinary shares. Consequently, no further warrant instruments remain in force at 31 March 2018.

9. Dividends

A final dividend in respect of the year ended 31 March 2017 of £2.9m (4.8p per 10p ordinary share) was paid on 3 August 2017 and an interim dividend of £2.1m (2.6p per 10p ordinary share) was paid on 12 January 2018. A final dividend in respect of the year ended 31 March 2018 of £4.2m (5.2p per 10p ordinary share) is to be proposed at the Annual General Meeting on 25 July 2018. These financial statements do not reflect this final dividend.

10. Contingent liabilities

The Company is party to an omnibus set-off agreement between Lloyds Bank plc and the Group's UK subsidiaries.

Notes to the Parent Company accounts continued

Year ended 31 March 2018

11. Subsidiaries

The subsidiaries included in the financial statements are disclosed below. All companies are 100% owned by the Group.

Held directly by Norcros plc

Company	Country of incorporation or registration	Registered address
Norcros Group (Holdings) Limited	England	Ladyfield House, Station Road, Wilmslow SK9 1BU, United Kingdom

Held indirectly by Norcros plc

Company	Country of incorporation or registration	Registered address
Abode Home Products Ltd	England	Ladyfield House, Station Road, Wilmslow SK9 1BU, United Kingdom
Bathshoponline Ltd	England	As above
Carlton Holdings Ltd	England	As above
Crittall Construction Ltd	England	As above
Croydex Group Ltd	England	As above
Croydex Ltd	England	As above
Eurobath International Ltd	England	As above
H & R Johnson (Overseas) Ltd	England	As above
H & R Johnson Tiles Ltd	England	As above
Lincolnshire Properties (Norfolk Street) Ltd	England	As above
Merlyn Industries UK Ltd	England	As above
Metlex Industries Ltd	England	As above
Norcros (Trustees) Ltd	England	As above
Norcros Adhesives Ltd	England	As above
Norcros Developments Ltd	England	As above
Norcros Estates Ltd	England	As above
Norcros Group Trusteeships Ltd	England	As above
Norcros Industry (International) Ltd	England	As above
Norcros Securities Ltd	England	As above
Norcros Services Ltd	England	As above
Plumbex UK Ltd	England	As above
Samuel Booth and Company Ltd	England	As above
Stonechester (Stoke) Ltd	England	As above
Taps Direct Ltd	England	As above
Triton Industry Ltd	England	As above
Triton plc	England	As above
UBM Pension Trust Ltd	England	As above
Vado UK Ltd	England	As above
Cronors Insurance Ltd	Guernsey	Maison Trinity, St. Peter Port GY1 4AT, Guernsey
Merlyn Industries Ltd	Ireland	Merlyn House, Purcellsinch Industrial Estate, Dublin Road, Kilkenny, Ireland
Christa 271 (Pty) Ltd	Namibia	3rd Floor, 344 Independence Avenue, Windhoek, Namibia
Tile Africa Windhoek Property (Pty) Ltd	Namibia	15 van Zyl Street, Suiderhof, Windhoek, Namibia
Ceracon (Pty) Ltd	South Africa	4 Porcelain Road, Olifantsfontein 1665, South Africa
General Adhesives (Pty) Ltd	South Africa	As above
Johnson Tiles Pty Ltd	South Africa	As above
Lesatsi Trading (Pty) Ltd	South Africa	As above
Norcros SA (Pty) Ltd	South Africa	As above
TAL (Pty) Ltd	South Africa	As above
Talcor Properties (Pty) Ltd	South Africa	As above
Tile Adhesives (Pty) Ltd	South Africa	As above
Tile Africa Group (Pty) Ltd	South Africa	As above
Triton SA (Pty) Ltd	South Africa	As above
Norcros Middle East Building Materials Trading LLC	UAE	Warehouse No. 5, St. No. 4, Umm Ramool, Marrakesh Road, P.O. Box 393937, Dubai, UAE

Notice of Annual General Meeting

Notice is given that the 2018 Annual General Meeting of the Company will be held at 11.00 am on 25 July 2018 at The Mere Golf Resort & Spa, Chester Road, Mere, Knutsford, Cheshire WA16 6LJ for the purpose of considering and, if thought fit, passing the resolutions set out below. Resolutions 1 to 11 (inclusive) below will be proposed as ordinary resolutions and resolutions 12 to 15 (inclusive) below will be proposed as special resolutions.

1. To receive the audited accounts and the auditor's and Directors' reports for the year ended 31 March 2018.
2. To approve the Directors' Remuneration Report for the year ended 31 March 2018.
3. To declare a final dividend of 5.2p per ordinary share for the year ended 31 March 2018.
4. To re-elect Jo Hallas as a Director.
5. To re-elect Martin Towers as a Director.
6. To re-elect David McKeith as a Director.
7. To re-elect Nick Kelsall as a Director.
8. To re-elect Shaun Smith as a Director.
9. To re-appoint PricewaterhouseCoopers LLP as auditor to hold office from the conclusion of this Annual General Meeting until the conclusion of the next general meeting at which accounts are laid before the Company.
10. To authorise the Audit Committee of the Board of Directors to agree the remuneration of the auditor.
11. That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares (Allotment Rights), but so that:
    (a) the maximum amount of shares that may be allotted or made the subject of Allotment Rights under this authority are shares with an aggregate nominal value of £5,346,352 of which:
        (i) one half may be allotted or made the subject of Allotment Rights in any circumstances; and
        (ii) the other half may be allotted or made the subject of Allotment Rights pursuant to any rights issue (as referred to in the Financial Conduct Authority's Listing Rules) or pursuant to any arrangements made for the placing or underwriting or other allocation of any shares or other securities included in, but not taken up under, such rights issue;
    (b) this authority shall expire 15 months after the passing of this resolution or, if earlier, on the conclusion of the Company's next Annual General Meeting;
    (c) the Company may make any offer or agreement before such expiry which would or might require shares to be allotted or Allotment Rights to be granted after such expiry and the Directors may allot shares or grant Allotment Rights under any such offer or agreement as if the authority had not expired; and
    (d) all authorities vested in the Directors on the date of the notice of this Annual General Meeting to allot shares or to grant Allotment Rights that remain unexercised at the commencement of this meeting are revoked.
12. That, subject to the passing of resolution 11 in the notice of this Annual General Meeting (the Notice), the Directors be and are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560 of that Act) for cash, pursuant to the authority conferred on them by resolution 11 in the Notice or by way of a sale of treasury shares as if Section 561 of that Act did not apply to any such allotment, provided that this power is limited to:
    (a) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the Financial Conduct Authority's Listing Rules) or any other pre-emptive offer that is open for acceptance for a period determined by the Directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
    (b) the allotment of equity securities (other than pursuant to paragraph (a) above) with an aggregate nominal value of £400,976,

    and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the Directors by resolution 11 in the Notice, save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities under any such offer or agreement as if the power had not expired.

13. That, subject to the passing of resolution 11 in the notice of this Annual General Meeting (the Notice) and, in addition to the power contained in resolution 12 set out in the Notice, the Directors be and are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560 of that Act) for cash, pursuant to the authority conferred on them by resolution 11 in the Notice or by way of sale of treasury shares as if Section 561 of that Act did not apply to any such allotment, provided that this power is:

    (a) limited to the allotment of equity securities up to an aggregate nominal value of £400,976; and

    (b) used only for the purposes of financing (or refinancing, if the power is to be exercised within six months after the date of the original transaction) a transaction which the Directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of the Notice of this meeting,

    and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the Directors by resolution 11 in the Notice save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities under any such offer or agreement as if the power had not expired.

14. The Company is generally and unconditionally authorised pursuant to Section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693 of that Act) of ordinary shares of £0.10 in its capital provided that:

    (a) the maximum aggregate number of such shares that may be acquired under this authority is 8,019,528;

    (b) the minimum price (exclusive of expenses) that may be paid for such a share is its nominal value;

    (c) the maximum price (exclusive of expenses) that may be paid for such a share is the maximum price permitted under the Financial Conduct Authority's Listing Rules or, in the case of a tender offer (as referred to in those Rules), 5% above the average of the middle market quotations for an ordinary share (as derived from the Daily Official List of London Stock Exchange plc) for the five business days immediately preceding the date on which the terms of the tender offer are announced;

    (d) this authority shall expire 15 months after the passing of this resolution or, if earlier, on the conclusion of the Company's next Annual General Meeting; and

    (e) before such expiry, the Company may enter into a contract to purchase shares that would or might require a purchase to be completed after such expiry and the Company may purchase shares pursuant to any such contract as if the authority had not expired.

15. That any general meeting of the Company that is not an Annual General Meeting may be convened by not less than 14 clear days' notice.

By order of the Board

Richard H. Collins
Company Secretary

13 June 2018

Registered in England and Wales company number 3691883

Registered office:
Ladyfield House
Station Road
Wilmslow
Cheshire SK9 1BU

Notes

1. A member who is entitled to attend and vote at the meeting is entitled to appoint another person, or two or more persons, in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting.
2. The right of a member of the Company to vote at the meeting will be determined by reference to the register of members. A member must be registered on that register as the holder of ordinary shares of 10p each (ordinary shares) by close of business on 23 July 2018 in order to be entitled to attend and vote at the meeting as a member in respect of those shares.
3. A member wishing to attend and vote at the meeting in person should arrive prior to the time fixed for its commencement. A member that is a corporation can only attend and vote at the meeting in person through one or more representatives appointed in accordance with Section 323 of the Companies Act 2006, as amended. Any such representative should bring to the meeting written evidence of his appointment, such as a certified copy of a board resolution of, or a letter from, the corporation concerned confirming the appointment. Any member wishing to vote at the meeting without attending in person or (in the case of a corporation) through its duly appointed representative must appoint a proxy to do so. Forms for the appointment of a proxy that can be used for this purpose have been provided to members with this Notice of Annual General Meeting. To be valid, a proxy appointment form must be completed in accordance with the instructions that accompany it and then be delivered (together with any power of attorney or other authority under which it is signed, or a certified copy of such item) to Link Asset Services, PXS at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received by 11.00 am on 23 July 2018. Alternatively, a member may appoint a proxy online by following the instructions for the electronic appointment of a proxy at www.signalshares.com. If you have not previously registered to use this facility you will require your investor code which can be located on the enclosed proxy form. In order to be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by the same time. Members who hold their shares in uncertificated form may also use the CREST voting service to appoint a proxy electronically, as explained below. Appointing a proxy will not prevent a member from attending and voting in person at the meeting should he so wish.
4. Any person to whom this Notice is sent who is currently nominated by a member of the Company to enjoy information rights under Section 146 of the Companies Act 2006, as amended (a nominated person), may have a right under an agreement between him and that member to be appointed, or to have someone else appointed, as a proxy for the meeting. If a nominated person has no such right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member concerned as to the exercise of voting rights. The statement in note 1 above of the rights of a member in relation to the appointment of proxies does not apply to a nominated person. Such rights can only be exercised by the member concerned.
5. Voting on all resolutions will be conducted by way of a poll, rather than a show of hands. This is a more transparent method of voting as members' votes are counted according to the number of ordinary shares held. As soon as practicable following the meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against, together with the number of votes actively withheld in respect of, each of the resolutions will be announced via a Regulatory Information Service and will also be placed on the Company's website: www.norcros.com.
6. As at 12 June 2018 (being the latest practicable date prior to the printing of the Annual Report and Accounts 2018), (i) the Company's issued share capital consisted of 80,195,289 ordinary shares carrying one vote each and (ii) the total voting rights in the Company were 80,195,289.
7. Each member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting which, in accordance with Section 319A of the Companies Act 2006, as amended, and subject to some exceptions, the Company must cause to be answered. Information relating to the meeting which the Company is required by the Companies Act 2006, as amended, to publish on a website in advance of the meeting may be viewed at www.norcros.com. A member may not use any electronic address provided by the Company in the Annual Report and Accounts 2018 or with any proxy appointment form or in any website for communicating with the Company for any purpose in relation to the meeting other than as expressly stated in it.
8. It is possible that, pursuant to members' requests made in accordance with Section 527 of the Companies Act 2006, as amended, the Company will be required to publish on a website a statement in accordance with Section 528 of that Act setting out any matter that the members concerned propose to raise at the meeting relating to the audit of the Company's latest audited accounts. The Company cannot require the member concerned to pay its expenses in complying with those sections. The Company must forward any such statement to its auditor by the time it makes the statement available on the website. The business that may be dealt with at the meeting includes any such statement.

Notes continued

9. CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in the CREST voting service section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a CREST proxy appointment instruction) must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited (Euroclear) and must contain all the relevant information required by the CREST Manual. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Link Asset Services (ID RA10), as the Company's issuer's agent, by 11.00 am on 23 July 2018. After this time, any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) Link Asset Services is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should take into account the provisions of the CREST Manual concerning timings as well as its section on "Practical limitations of the system". In certain circumstances, the Company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.

10. The Company takes all reasonable precautions to ensure that no viruses are present in any electronic communication which it sends but does not accept responsibility for any loss or damage arising from the opening or use of any email or attachment sent by the Company. The Company recommends that members subject all emails and attachments to virus checking procedures prior to opening or use. Any electronic communication received by the Company or Link Asset Services (including the lodgement of an electronic proxy form) which is found to contain any virus will not be accepted.

11. Copies of Directors' service contracts and letters of appointment will be available for inspection at the registered office of the Company during normal business hours each business day and at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

12. Information regarding this meeting, including information required by Section 311A of the Companies Act 2006, is available at www.norcros.com.

Explanatory notes

The Annual General Meeting of the Company will take place at 11.00 am on 25 July 2018 at The Mere Golf Resort & Spa, Chester Road, Mere, Knutsford, Cheshire WA16 6LJ. The notice convening that meeting, together with the resolutions to be proposed, appears on pages 111 to 114 of the Report and Accounts 2018. The Directors recommend all shareholders to vote in favour of all of the resolutions to be proposed, as the Directors intend to do so in respect of their own shares (save in respect of those matters in which they are interested), and consider that they are in the best interests of the Company and the shareholders as a whole.

Explanatory notes in relation to the resolutions appear below:

Resolution 1

Report and accounts

For each financial year, the Directors are required to present the audited accounts, the auditor's report and the Directors' Report to shareholders at a general meeting.

Resolution 2

Approval of the Directors' Remuneration Report

In accordance with the Companies Act 2006, shareholders are invited to approve the Directors' Remuneration Report for the financial year ended 31 March 2018. The vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on it being passed.

The Directors' Remuneration Report for the year ended 31 March 2018 is set out in full on pages 46 to 62 of the Company's Annual Report and Accounts 2018. Any shareholder who would like a copy of the Annual Report and Accounts 2018 can obtain one by contacting our registrar on 0871 6640300. (Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls from outside the United Kingdom will be charged at the applicable international rate. Phone lines are open 9.00 am–5.30 pm, Monday to Friday excluding public holidays in England and Wales). Alternatively, the Annual Report and Accounts 2018 can be viewed on our website at www.norcros.com.

Included in the text of the Remuneration Report is the Directors' remuneration policy statement. This policy was approved by shareholders at the Company's 2017 AGM and there have been no changes to the policy since that date.

Resolution 3

Dividend

The payment of the final dividend requires the approval of shareholders in general meeting. If the meeting approves resolution 3, the final dividend of 5.2p per ordinary share will be paid on 2 August 2018 to ordinary shareholders who are on the register of members on 22 June 2018 in respect of each ordinary share.

Resolution 4

Re-election of Jo Hallas

It is proposed that Jo Hallas be re-elected as a Director.

Brief biographical details of Jo can be found on page 35 of the Company's Annual Report and Accounts 2018. The Chairman confirms that, following performance evaluation, Jo's performance continues to be effective, she demonstrates commitment to the role and she possesses the necessary experience and knowledge. The Board therefore unanimously recommends that Jo be re-elected as a Director.

Resolution 5

Re-election of Martin Towers

It is proposed that Martin Towers be re-elected as a Director.

Brief biographical details of Martin can be found on page 34 of the Company's Annual Report and Accounts 2018. The Board confirms that, following performance evaluation, Martin's performance continues to be effective, he demonstrates commitment to the role and he possesses the necessary experience and knowledge. The Board unanimously recommends that Martin be re-elected as a Director.

Resolution 6

Re-election of David McKeith

It is proposed that David McKeith be re-elected as a Director.

Brief biographical details of David can be found on page 35 of the Company's Annual Report and Accounts 2018. The Chairman confirms that, following performance evaluation, David's performance continues to be effective, he demonstrates commitment to the role and he possesses the necessary experience and knowledge. David is also Chairman of the Audit Committee, and the Chairman confirms that David has relevant and recent financial experience. The Board unanimously recommends that David be re-elected as a Director.

Resolution 7

Re-election of Nick Kelsall

It is proposed that Nick Kelsall be re-elected as a Director.

Brief biographical details of Nick can be found on page 34 of the Company's Annual Report and Accounts 2018. The Chairman confirms that, following performance evaluation, Nick's performance continues to be effective, he demonstrates commitment to the role and he possesses the necessary experience and knowledge. The Board unanimously recommends that Nick be re-elected as a Director.

Resolution 8
Re-election of Shaun Smith

It is proposed that Shaun Smith be re-elected as a Director.

Brief biographical details of Shaun can be found on page 34 of the Company's Annual Report and Accounts 2018. The Chairman confirms that, following performance evaluation, Shaun's performance continues to be effective, he demonstrates commitment to the role and he possesses the necessary experience and knowledge. The Board unanimously recommends that Shaun be re-elected as a Director.

Resolution 9
Re-appointment of auditor

The Company is required to appoint an auditor at each general meeting before which accounts are laid, to hold office until the end of the next such meeting. PricewaterhouseCoopers LLP has indicated that it is willing to continue as the Company's auditor for another year. You are therefore asked to re-appoint PricewaterhouseCoopers LLP. The Audit Committee has reviewed PricewaterhouseCoopers LLP's performance as auditor of the Company and has recommended re-appointment. The Audit Committee has also confirmed to the Board that its recommendation is free from third party influence and that no restrictive contractual provisions have been imposed on the Company limiting the choice of auditor. Accordingly, the Directors recommend the re-appointment of PricewaterhouseCoopers LLP.

Resolution 10
Remuneration of auditor

The resolution follows best practice in giving authority to the Audit Committee to determine the remuneration of the Company's auditor.

Resolution 11
Authority to allot shares

Most listed companies renew their directors' authority to issue shares at each annual general meeting. Such an authority was granted at last year's Annual General Meeting and is due to expire on 27 October 2018 or, if earlier, at the conclusion of the next Annual General Meeting of the Company. In accordance with best practice, this resolution seeks to renew the Directors' authority to allot shares.

Resolution 11, if passed, will renew the Directors' authority to allot shares in the capital of the Company up to a maximum aggregate nominal value of £5,346,352 (representing 53,463,520 ordinary shares). This represents The Investment Association's guideline limit of approximately two thirds of the Company's issued ordinary share capital as at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018). Of this amount, ordinary shares to an aggregate nominal value of £2,673,176 (representing 26,731,760 ordinary shares which is approximately one third of the Company's issued ordinary share capital as at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018)) can only be allotted pursuant to a rights issue.

As at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018), the Company did not hold any shares in the Company in treasury. The renewed authority will remain in force until 15 months after the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting in 2019.

The Directors have no present intention of exercising this authority. The purpose of giving the Directors this authority is to maintain the Company's flexibility to take advantage of any appropriate opportunities that may arise.

Resolutions 12 and 13
Disapplication of pre-emption rights for "customary" 5% and disapplication of pre-emption rights in relation to acquisitions and specified capital investments

The Directors are currently empowered, subject to certain limitations, to issue securities of the Company for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That authority will expire on 27 October 2018 or, if earlier at the conclusion of the next Annual General Meeting of the Company and, in accordance with best practice, resolutions 12 and 13 (which will be proposed as special resolutions) seek to renew the Directors' authority to disapply pre-emption rights as referenced below.

Other than in connection with a rights or other similar issue or where, for example, difficulties arise in offering shares to certain overseas shareholders and in relation to fractional entitlements, the authority contained in resolution 12 will be limited to an aggregate nominal value of £400,976. This aggregate nominal amount equates to approximately 5% of the issued ordinary share capital of the Company as at 12 June 2018 (being the latest practicable date prior to the publication of this notice of Annual General Meeting). Resolution 12 follows guidance from the Pre-Emption Group's revised Statement of Principles, published on 12 March 2015, and adopts the Pre-Emption Group's template wording that was published on 5 May 2016.

In line with the revised Statement of Principles, the Directors are also seeking a power, pursuant to resolution 13, to issue up to an additional 5% of its issued ordinary share capital for cash without pre-emption rights applying. In accordance with the revised Statement of Principles, and the Pre-Emption Group's template wording issued on 5 May 2016, the Company will only allot shares with a nominal value of up to £400,976 (representing 5% of issued ordinary share capital) pursuant to resolution 13 where that allotment is in connection with an acquisition or specified capital investment (within the meaning given in the Statement of Principles) which is announced contemporaneously with the allotment, or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

This renewed authority will remain in force until 15 months after the passing of resolution 13 or, if earlier, at the conclusion of the next Annual General Meeting in 2019.

In accordance with the Statement of Principles (which is supported by The Investment Association and the Pensions and Lifetime Savings Association), the Board confirms its intention that no more than 7.5% of the issued share capital will be issued for cash on a non-pre-emptive basis pursuant to resolutions 12 and 13 during any rolling three-year period.

Resolution 14
Authority to purchase own shares

This resolution, which will be proposed as a special resolution, is a resolution which the Company proposes to seek on an annual basis, in line with other listed companies in the UK, to give the Company authority to buy back its own ordinary shares in the market as permitted by the Companies Act 2006. The authority limits the number of shares that could be purchased to an aggregate maximum of 8,019,528 ordinary shares which have an aggregate nominal value of £801,952.80 (representing approximately 10% of the aggregate nominal value of the issued ordinary share capital of the Company as at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018)) and sets minimum and maximum prices. The renewed authority will remain in force until 15 months after the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting in 2019.

The Directors have no present intention of exercising the authority to purchase the Company's ordinary shares, but will keep the matter under review, taking into account other investment opportunities. The authority will be exercised only if the Directors believe that to do so would result in an increase in earnings per share and would promote the success of the Company and be in the best interests of its shareholders generally. To the extent that any shares so purchased are held in treasury (see below), earnings per share will be enhanced until such time, if any, as such shares are resold or transferred out of treasury.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange. If any shares are purchased, they will be either cancelled or held in treasury. Any such decision will be made by the Directors at the time of purchase on the basis of the shareholders' best interests. Shares held in treasury can be cancelled, sold for cash or, in appropriate circumstances, used to meet obligations under employee share schemes. Any shares held in treasury would not be eligible to vote nor would any dividend be paid on any such shares. If any ordinary shares purchased pursuant to this authority are not held by the Company as treasury shares, then such shares would be immediately cancelled, in which event the number of ordinary shares in issue would be reduced.

The Directors believe that it is desirable for the Company to have this choice. Holding the repurchased shares as treasury shares gives the Company the ability to re-issue them quickly and cost effectively and provides the Company with additional flexibility in the management of its capital base.

As at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018), there were options over approximately 4.9 million ordinary shares in the capital of the Company, which represent, in aggregate, approximately 6.11% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent approximately 6.79% of the Company's issued ordinary share capital. As at 12 June 2018 (being the latest practicable date prior to the publication of the Annual Report and Accounts 2018), the Company did not hold any shares in treasury.

Resolution 15
Notice of general meeting

This special resolution is required in order to preserve the ability of the Company to convene general meetings (other than Annual General Meetings) of the Company on not less than 14 clear days' notice, rather than on not less than the 21 days' notice which would otherwise be required. In order to preserve this ability, the Company's shareholders must have approved the calling of such meetings on not less than 14 clear days' notice. Resolution 15 seeks such approval.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole.

The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic proxy submission under the Companies (Shareholders' Rights) Regulations 2009 before it can call a general meeting on such notice.

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