norcros

Norcros plc Annual Report and Accounts 2020

Inspiring Living Spaces

We offer strong brands, contemporary designs, trusted quality, outstanding service, innovation, and a wide product range.

Our highly experienced and committed management team is focused on satisfying our customers' needs and, at the same time, enhancing value to our shareholders.

Our purpose

To inspire and enhance our customers' living spaces.

Our mission

To become a leading supplier of bathroom and kitchen products in selected geographies.

UK portfolio

TRITON MERLYN VADO Croydex abode JOHNSON·TILES norcros ADHESIVES

Highlights

Year to 31 March 2020 Highlights

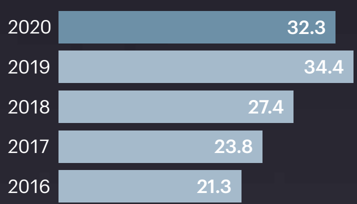
- Resilient performance despite challenging markets and COVID-19
- Eleventh consecutive year of revenue growth
- COVID-19 significantly impacted the business in seasonally important March; revenue reduced by £13.2m and underlying operating profit by £4.6m
- Underlying operating profit of £32.3m (2019: £34.4m), ahead of previous guidance in April 2020
- Operating profit of £17.8m (2019: £25.1m)
- Underlying ROCE above hurdle rate at 16.8% (2019: 18.2%)
- Strong cash generation maintained with net debt at £36.4m, Net Debt: EBITDA 0.9 times

COVID-19, liquidity and current trading

- Decisive action taken to safeguard our employees, reduce operating costs, minimise cash burn and maximise liquidity
- Covenant waivers at September 2020 and March 2021; replacement maximum net debt covenant of £95m until June 2021 aligned with our operating scenario
- Current trading is gathering momentum and ahead of our COVID-19 operating scenario
- Year to date revenue to the end of May was 40% of last year, with activity levels continuing to improve with month to date sales in June running at c75% of last year
- Net debt of £38.6m as at 7 June 2020
- Strong balance sheet and current operating plan means Group well positioned to withstand COVID-19 impact and to continue to win market share

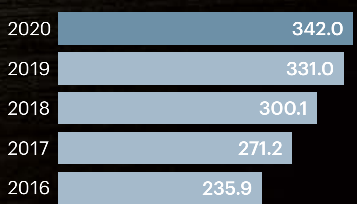
Underlying operating profit £m

£32.3m -6.1%



Total revenue £m

£342.0m +3.3%

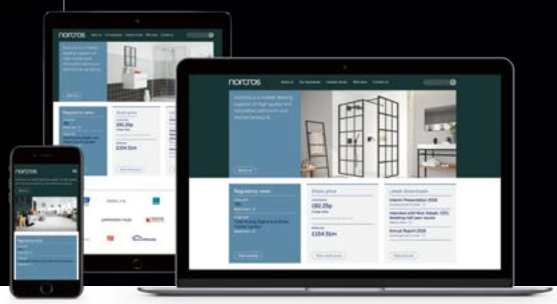


Pictured: Abode's best-selling Atlas family, a combination of sophisticated style and engineering excellence, available in a selection of finishes to complement or contrast all other kitchen elements.

Strategic report

Corporate governance

Financial statements



South African portfolio

TILEAFRICA JOHNSON·TILES tal House of Plumbing

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

A portfolio of market leading businesses with strong brands.

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.

Market leader in the manufacture and marketing of showers in the UK

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

A leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves

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

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

The leading manufacturer and supplier of ceramic tiles in the UK

Manufacturer of tile and stone adhesives, grouts and related products

Read more about our UK businesses on **pages 17 to 22**

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.

Chain of retail stores focused on ceramic and porcelain tiles, and associated products such as sanitaryware, showers and adhesives

Manufacturer of ceramic and porcelain tiles

The leading manufacturer of ceramic and building adhesives

Market leading supplier of specialist plumbing materials

Read more about our South African businesses on **pages 23 and 24**

Key messages

Resilient performance

- Trading ahead of prior year pre COVID-19 impact
- Flexibility and diversity of Group's operating model – key driver of outperformance
- Experienced management, leading market positions, strong brands and channel breadth
- Clear, consistent, focused strategy remains valid

UK

- Key March trading impacted by COVID-19
- Strong domestic revenue performance +0.8%

South Africa

- House of Plumbing acquisition integrated and driving year on year revenue growth
- Strong operating performance, despite more challenging economic environment

COVID-19

- Decisive action taken to adapt to COVID-19 operating model
- Full use of government support; cash preservation and cost reduction initiatives swiftly implemented
- Strong balance sheet, sufficient banking facilities and liquidity
- Bank covenants renegotiated providing operating headroom
- Well positioned to take advantage of post-COVID-19 opportunities

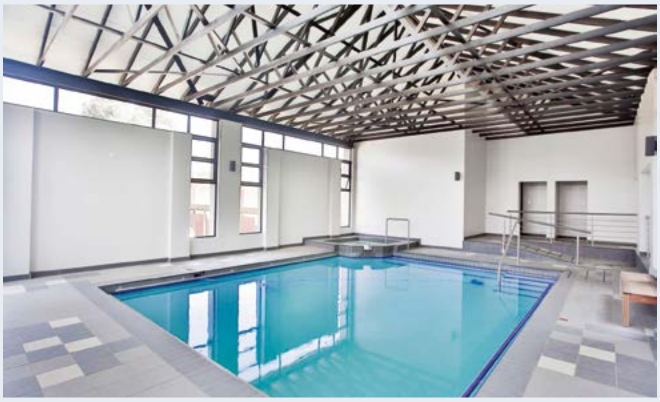
Outlook

- All key customers now trading
- Demand building ahead of operating scenario
- Structural market and industry drivers remain valid
- Group well positioned to gain market share

2023 Strategic vision remains valid

- £600m revenue target by 2023
- 50% revenues derived from overseas
- Sustainable ROCE of >15%

Our markets continue to provide excellent growth opportunities.



Key market drivers

UK and South Africa market demand is dependent on:

- New building activity
- Repair Maintenance & Investment (RMI) activity

Influenced by macroeconomic factors:

- Consumer Confidence
- Economic Growth
- Interest and Inflation Rates
- Government Expenditure

> "The Group's acquisition of the House of Plumbing business which completed on 1 April 2019 is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. During the year the business has been successfully integrated and has performed in line with our expectations, COVID-19 aside."

The Group offers a wide range of quality bathroom and kitchen products both for domestic and commercial applications across the UK, Ireland, South Africa, and a number of export markets.

The UK overall bathroom market is large and mature and is highly fragmented with no dominant or global player across all product categories. Many of the market product category sub-segments are also highly fragmented with no one company serving all segments and channels. Shower enclosures, bathroom furniture and the accessories sub-markets are particularly fragmented characterised by a significant number of SME players.

The South African overall bathroom market is large although more concentrated than in the UK, albeit selected market segments (e.g. plumbing) are regionally fragmented with limited national players. Both Norcros and the other market leader deploy integrated business models from production to retail to reach all segments and channels.

In both the UK and South Africa market demand is dependent on new building activity and RMI activity in both the public and private sectors. This is in turn influenced by macroeconomic factors, such as GDP, interest rate fluctuations, inflation rates, availability of credit, equity market conditions, unemployment rates, consumer confidence, changes in government policy and housing shortages.

Pictured

Top left: TAL was chosen to supply tiling installation materials for the recently constructed Celebration Retirement Estate in Gauteng, South Africa. The village offers residential units as well as a lifestyle centre, frail care facility and an indoor swimming pool.

Top right: Tile Africa Port Elizabeth, new store premises, showing the Vado and Evox range of brassware.

UK

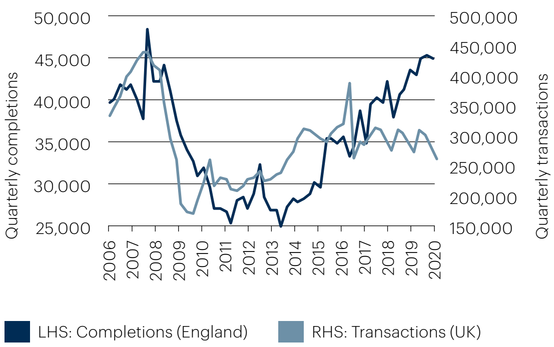
Large and fragmented market

Significant consolidation opportunity

- Large target market – c. £2.1bn @ MSP*
- Shortage of housing
- Fragmented by product and channel
- Norcros market leading positions
- No overall dominant or global player
- No one company serving all segments and channels
- Complementary kitchen market segments
- Post-COVID-19 – opportunity to grow market share

Quarterly Housing Completions and Transactions

Sources: GOV.UK & HMRC Q1 2020



GfK Consumer Confidence

Source: GfK – May 2020

SOUTH AFRICA

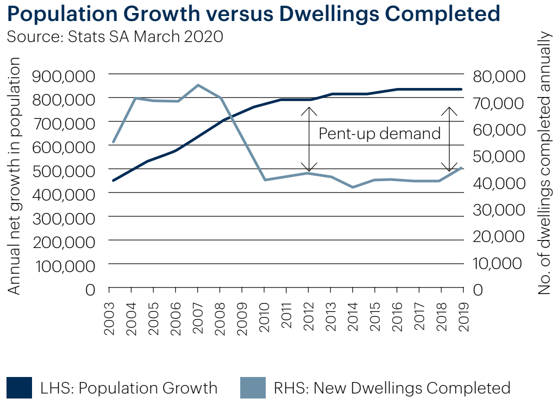
Medium-term potential

Market leading positions

- Sizeable target market – c. £1.2bn @ MSP*
- Supportive dynamics:
  - Shortage of housing
  - Construction levels remain half of 2007 peak
  - Long-term socio-economic demographics
- Integrated business models
- Complementary sub-markets alternative coverings

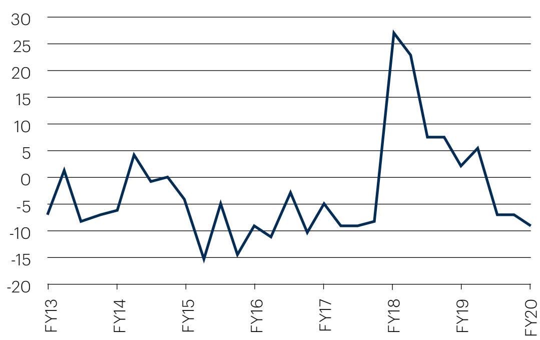
Population Growth versus Dwellings Completed

Source: Stats SA March 2020



FNB/BER Consumer Confidence

Source: FNB/BER – Q1 2020



* MSP = Manufacturer's Selling Price.

The impact of COVID-19 was significant, fast and unprecedented.

> The resilience of the Group's business model and strategy is proving to be highly effective as we continue to operate in the most unpredictable trading environment ever experienced."

Overview

Norcros has recorded another year of revenue growth despite the unprecedented and abrupt global impact of the COVID-19 (Coronavirus) pandemic and the continued uncertain economic and political backdrop in our two main markets. The resilience of the Group's business model and strategy is proving to be highly effective as we operate in the most unpredictable trading environment we have ever experienced.

Group revenue for the year was £342.0m (2019: £331.0m), 3.3% higher than the prior year on a reported basis, 5.0% higher on a constant currency basis and 2.3% lower on a like for like constant currency basis. We estimate that the impact of COVID-19 on our operations and customer demand in our key trading month of March reduced revenue by £13.2m.

Underlying operating profit was £32.3m (2019: £34.4m), reflecting the impact of COVID-19 which we estimate reduced underlying operating profit by £4.6m, in part offset by the first-year contribution from House of Plumbing acquired on 1 April 2019 and the beneficial impact of the implementation of IFRS 16.

It is pleasing that these results were ahead of our guidance provided in our trading update of 1 April 2020.

COVID-19

The impact of COVID-19 has been significant, fast and unprecedented. The safety and wellbeing of our staff has been paramount in our considerations along with our key principle of doing the right thing at the right time for all our key stakeholders. Our operating model and business continuity plans have proved to be highly effective during this period and our people have responded admirably to this challenge.

We have responded swiftly after "lockdowns" designed to slow the spread of the virus were announced in our major markets by mothballing all of our facilities, safeguarding our employees and operating our businesses with a skeleton staff working predominantly

Pictured

Top left: Vado's new Omika Mono Basin Mixer range features the collection's renowned textured, geometric pattern, wrapped around the single lever handle for a subtle style statement.

Top right: Vado's Omika Mini Shower Kit with Integrated Outlet, elegantly streamlined to remain in keeping with the collection's minimalist appeal. Unlike standard brackets with a separate outlet, this integrated design allows for both the handset and outlet to sit side by side as one unit for ease of installation and a sleeker, compact finish.

The Omika additions boast a market-leading 15 year guarantee.

from their homes. Whilst the majority of our customer base suspended their operations, it is pleasing that all our channels have now recommenced trading.

We have utilised all the relevant government support in the UK, Ireland and South Africa and moved immediately to implement a cost reduction and cash conservation plan across the Group. The Group's strong balance sheet coming into this crisis and the swift actions taken to reduce costs and preserve cash, provide confidence that we have sufficient liquidity to enable the Group to withstand an extended period of reduced trading activity.

Dividend

Based on the unprecedented COVID-19 pandemic situation and the lack of certainty in both the short-term trading outlook and the speed and timing of any longer-term recovery, the Board believes that preservation of cash needs to remain a priority at this time and is therefore not proposing a final dividend for the year (2019: 5.6p per share). The interim dividend of 3.1p (2019: 2.8p) per share, which was paid on 11 January 2020, makes a total dividend for the year of 3.1p (2019: 8.4p) per share. The Board recognises the importance of dividends to shareholders and intends to return, at the appropriate time, to the progressive dividend policy that was in place prior to the COVID-19 pandemic, and will take into account the expectation of future cash flow generation and the long-term earnings potential of the Group.

Pension scheme

The net deficit relating to our UK defined benefit pension scheme (as calculated under IAS 19R) has increased to £48.9m at 31 March 2020 from £31.6m at 31 March 2019, primarily as a result of the impact of COVID-19 on the financial markets and asset valuations.

We remain confident that our pension obligations continue to be appropriately funded and well managed, with the Company due to pay £3.3m this year into the scheme in accordance with the agreement made with the Trustee in June 2019 based on the triennial valuation dated 1 April 2018. The Company and the Trustee continue to work constructively together at this uncertain time.

COVID-19 related impairment review

COVID-19 has significantly affected economic activity and disrupted the business operations of the Group and of our customers and suppliers. In line with Financial Reporting Council guidance and as part of our year end processes we have undertaken an assessment of the potential impact of COVID-19 on divisional forecasts. Sensitivities have been applied which reflect the fact that economic activity levels may remain subdued for some time, a result of COVID-19 business disruption, ongoing social distancing measures and business failures. As a result of this assessment it has been necessary to recognise a £9.0m non-cash impairment charge against the assets of Johnson Tiles UK. The business is the UK's leading ceramic tile manufacturer and supplier and operates across a broad range of distribution channels. This non-cash impairment has no operational impact on the business and its ability to trade and service its customers.

Governance

As Chair, 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 on pages 46 to 49.

This has been my last year as Chair of Norcros having served on the Board for nine years with eight of those as Chair. It has been an immense pleasure and privilege to work with the Board and the management teams during this time. The Group has evolved significantly over this period through the pursuit of a coherent growth strategy encompassing both organic growth driven by new product development and a series of successful and astute acquisitions of market leading businesses which have complemented the Group's stable of brands. It has also been particularly pleasing to observe the development of our South African business into a well-run, significantly profitable and cash generative part of the Group.

Whilst leaving in a period of uncertainty, I am confident that the Group is in a strong position to emerge from the current situation and remains well positioned to deliver sustainable growth. I would like to thank everybody at Norcros for the dedication they have shown, with each and every one contributing to the "Norcros DNA" that is such an important hallmark of our business. I am confident that Mark Allen, in succeeding me as Chair, will find the Board and management team totally committed to driving the growth strategy as soon as circumstance allows.

Acquisition of House of Plumbing

The Group's acquisition of the House of Plumbing business which completed on 1 April 2019 is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. During the year the business has been successfully integrated and has performed in line with our expectations, COVID-19 aside.

People

As is normal in my annual summary I would like to once more thank the Group's employees who have helped to deliver upon the Group's strategic objectives. However, this year I would like to further thank and praise the staff for the way they have performed throughout this unprecedented period that has thrown up new challenges in performing the day to day job at a time of significant uncertainty in their personal lives with the health of family and co-workers of paramount importance.

Current trading

Current trading is gathering momentum and ahead of our COVID-19 operating scenario. Year to date revenues to the end of May were 40% of prior year with June month to date revenues running at c75% of the same period last year. Net debt at 7 June 2020 was £38.6m (31 March 2020 £36.4m).

Summary

Prior to the impact of COVID-19 the Group had reported ten consecutive years of revenue and underlying operating profit growth to 31 March 2019, a testament to the strength of our businesses, their market leading positions, strong brands, product offer, well-established distribution channels and highly experienced management teams. This was overlaid by a successful execution of an ambitious and focused growth strategy combined with a conservative approach to funding and a resultant lowly leveraged capital structure. The Group's conservative approach to funding its growth strategy has ensured that we entered this period of uncertainty in a strong financial position with sufficient liquidity to withstand a significant period of reduced demand.

During the year the Group has continued to win market share in its major markets despite conditions remaining challenging and up until the impact of COVID-19 in March, remained on track to record another year of revenue and underlying profit growth.

The current financial year will remain challenging as the Group continues to navigate the exit from lockdown as our markets recover. Notwithstanding, Norcros has a strong balance sheet and a highly experienced management team that together with the Group's leading market positions, strong brands, broad distribution channels and the swift action taken in response to COVID-19 gives the Board confidence that the Group will return to growth as soon as practicable.

Martin Towers.

Martin Towers
Board Chair
25 June 2020

Decisive action has been taken to protect the wellbeing of our staff.

"

We reacted swiftly to adapt our businesses to operate safely and as cost effectively as possible."

Overview

The unprecedented COVID-19 pandemic negatively impacted the revenue and underlying operating profit of the business in the year to 31 March 2020 due to the significant drop-off in customer demand in the last two weeks of our key final period. Revenue for the year to 31 March 2020 increased 3.3% to £342.0m (2019: £331.0m) on a reported basis. This reflected the first-time contribution of the acquired House of Plumbing business in South Africa alongside robust revenue growth in particular at Merlyn and Croydex, offset by an estimated £13.2m revenue reduction in March as our customers reacted to government "lockdowns" designed to slow the spread of the virus. Underlying operating profit decreased 6.1% to £32.3m on the prior year (2019: £34.4m). We estimate that COVID-19 held back underlying operating profit by an estimated £4.6m in the final period due to the lost revenue and the costs involved in mothballing our operations.

Year to March 2020

Group revenue for the year increased by 3.3% to £342.0m (2019: £331.0m) on a reported basis, 5.0% on a constant currency basis, and decreased 2.3% on a like for like constant currency basis. Group underlying operating profit was £32.3m, 6.1% lower than the £34.4m recorded in the prior year.

Pictured

Top left: Abode's newly launched Prothia hot water tap from the Pronteau range. The result of over 2 years of research and development and is the slimmest and most cost-effective hot water tap in the market. The Prothia design is based upon Abode's award winning Althia mixertap design, with the additional functionality of piping hot water delivered safely through the cool touch spout using the two-stage safety handle.

Top right: Abode's 4 in 1 Pronteau steaming hot water tap recently awarded WRAS (Water Regulatory Advisory Scheme) approval.

The impact of the COVID-19 pandemic on our seasonally important month of March was significant with demand, almost immediately, reducing to minimal levels, as our customers focused on the safety of their staff and on how they could best mitigate the impact of COVID-19 on their business. We estimate that the financial impact on the year to 31 March 2020, and specifically the month of March 2020, was a reduction in revenue of £13.2m and in underlying operating profit of £4.6m. Positively though, our cash collections remained strong and we finished the year with net debt of £36.4m and a leverage ratio of 0.9 times.

Revenue in the UK was £225.4m for the year (2019: £228.1m) down 1.2% on prior year principally reflecting the impact of COVID-19. We estimate the impact in relation to COVID-19 in the UK was to reduce revenue by £9.4m, a reversal of which would have resulted in a 2.9% increase on prior year. The year on year increase to the end of February, excluding the final COVID-19 impacted month of March, was 1%. This 1% underlying increase reflected a robust performance in Merlyn, Croydex and Vado mainly offset by the customer destocking and restructuring which impacted Triton's first half performance, the impact of which was gradually being recovered prior to March.

UK underlying operating profit for the year was lower than the prior year at £24.4m (2019: £26.5m) mainly due to the COVID-19 impact that we estimate reduced profit by £3.0m. The underlying operating margin was 10.8% (2019: 11.6%) as a consequence.

Revenue in South Africa grew by 19.3% in constant currency and by 13.3% on a Sterling reported basis to £116.6m (2019: £102.9m) reflecting the acquisition of the House of Plumbing business at the start of the year, and decreased 4.9% on a like for like constant currency basis (excluding House of Plumbing). We estimate the impact in relation to COVID-19 in South Africa was to reduce revenue by £3.8m, a reversal of which would have resulted in a 23.3% increase on prior year at constant currency, with a 1.4% decrease on a like for like constant currency basis.

Johnson Tiles South Africa, our tile manufacturing business, performed robustly and has grown market share following the successful investment in additional capacity and plant improvements in the first half of the year. Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings and TAL, our market leading adhesive business suffered from lower market activity as the South African economy slowed during the year, in addition to the impact of the COVID-19 lockdown measures in March.

The acquisition of the House of Plumbing business which completed on 1 April 2019 for an initial consideration of ZAR 172m (£9.1m) on a debt and cash free and normalised working capital basis, further reinforces the Group's strong positions in the commercial and specification segments of the South African market. The business operates from three branches in South Africa located in Johannesburg (which is also where the head office is based), Pretoria and Lephalale and is led by an experienced management team who have remained with the business. House of Plumbing reported revenue for the year 1% higher than the prior year (pre-acquisition) on a constant currency basis which is a strong performance against the backdrop of COVID-19 disruption and the overall market challenges in South Africa.

South African underlying operating profit for the year was in line with the prior year performance reflecting the first-time profit contribution of House of Plumbing (£1.8m) and the effect of IFRS 16 (£0.4m) offsetting the impact of COVID-19 (estimated to be £1.6m), weaker Rand (£0.4m) and other market challenges. Underlying operating margin was 6.8% (2019: 7.7%) reflecting the COVID-19 impact and the more competitive market for TAL with a number of new market entrants and the challenging market and economic conditions experienced in the retail and commercial sectors impacting TAF in particular.

The Group has a strong balance sheet with net debt of £36.4m (2019: £35.0m), and leverage of 0.9 times underlying EBITDA (2019: 0.8 times). This reflected a strong cash performance as the Group self-funded the £9.1m acquisition of House of Plumbing in the year.

COVID-19 and trading impact

In February and March 2020, COVID-19 spread and became a worldwide pandemic that affected not only the ability of businesses to source and supply goods and services but also global demand for products, as experienced in our main markets of the UK and SA, as unprecedented lockdowns were actioned by governments across the world.

The UK Government ordered a lockdown on 23 March that is still partly in place today. Many of the retailers we sell to promptly closed their stores and the vast majority of the UK's house building sites were closed, including all of those of the national developers we trade with. Virtually all of the commercial contract building sites were also closed with social housing refurbishment also coming to a complete standstill. Initial trading was minimal, with some limited internet-based trading and construction related sales. Year to date revenues to the end of May were 40% of prior year with June revenues running at c75% of the same period last year. The lockdown is now in the process of being eased and our operations have been reopening since May.

The South African Government issued a directive on 23 March 2020 requiring a 21-day national lockdown, effective midnight 26 March 2020 to midnight 16 April 2020 in order to contain the spread of COVID-19. This was extended to 1 May 2020 and has subsequently started to ease restrictions which has allowed us to reopen our manufacturing and retail operations. The country still remains on partial lockdown with movement and trade restricted to certain activities, with sales of our products and services currently unrestricted.

We are therefore currently in a "restart" phase in both of our main markets and we are working with our employees, customers and suppliers to ensure we can continue to operate safely and in accordance with the relevant guidelines. We also remain focused on cost alignment and cash preservation and are reopening our facilities and capacity as demand recovers.

Due to the sharp decline in revenue across our businesses in late March a number of immediate actions were implemented which are described below.

People and Operations

The safety and wellbeing of our staff has been paramount in our considerations along with our key principle of doing the right thing at the right time for all our key stakeholders. Comprehensive business continuity plans were enacted swiftly and mitigated the immediate impacts of COVID-19, including ensuring that those employees who could fulfil their jobs from home were able to do so.

In both the UK and South Africa we suspended our main manufacturing and assembly operations during March in a controlled way to safeguard our employees. During this time over 80% of the Group's workforce were furloughed (or the equivalent in SA and Ireland) and senior management teams across the Group volunteered temporary salary reductions. We are grateful for their continuing support and contribution at this time of great uncertainty.

Group Chief Executive's statement continued

COVID-19 and trading impact continued

Cash preservation and cost reduction

Once the severity of the pandemic in our major markets was apparent, we took immediate action across the business to preserve cashflow and reduce costs. We have taken advantage of the government furlough schemes, tax payment deferrals and rent deferrals totalling over £10m in the first quarter of this year. Additionally, we have withdrawn the final year-end dividend and have ceased all non-essential capital expenditure. At the same time, we have been focused on minimising the rate of cash burn by reducing costs and eliminating any discretionary expenditure. We have also frozen all pay throughout the Group with reviews deferred and secured voluntary reductions of 20% in the fees or salaries of the plc Board members, Group leadership and senior management teams for the first quarter to end June 2020. The result of these measures is that the current cash burn in our operating scenario is approximately £5m per month compared to the unmitigated initial estimate of broadly double this level.

Direct government support

We have accessed the Coronavirus Job Retention Scheme (CJRS) in the UK with circa £2m of support received in April and May in respect of approximately 70% of UK staff. Further claims are expected to be made as staff remain furloughed in the coming months as we continue to align our cost base commensurate with the level of demand. The South African Government support for the employed scheme and a similar scheme in Ireland have also been accessed and we will continue to utilise these support measures as appropriate.

We have deferred VAT and PAYE liabilities in the UK due for payment in April, May and June and will agree a revised payment date with HMRC at the end of June. We have also deferred the payment of UK business rates due in May and June.

ABODE

The new black

With black taps being one of the hottest trends in kitchen design, creating this must-have look is now simpler than ever. Responding to growing demand to this on-trend finish, Abode offers a black finish across several of its best-selling tap ranges, giving consumers even greater style choices, even when opting for the latest filtered and steaming hot water technology in their kitchen.

Stylish and simple, much of the popularity of matt black is due to its versatility, tying in with a range of materials and finishes and turning the sink area into a focal point of the kitchen.

We are keeping under review the Group's eligibility for the COVID-19 Corporate Finance Facility (CCFF) and Coronavirus Large Business Interruption Loans Scheme (CLBILS) but have held back from progressing any submissions in respect of either funding scheme as we have sufficient liquidity available based on our current operating scenario.

Funding and Liquidity

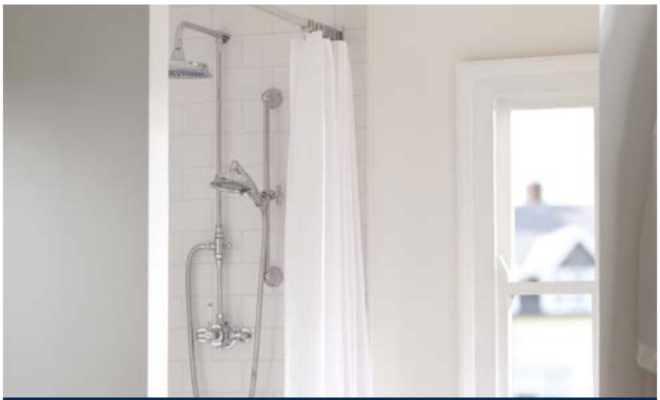
The Group is in a strong financial position and has access to a £120m committed RCF financing facility, maturing in November 2022, plus a £30m accordion facility and local facilities in SA. The Group has run a number of financial scenarios and is confident that it has sufficient liquidity to withstand an extended downturn in the coming year. Whilst the Group has significant liquidity headroom, it is possible that the economic recovery out of lockdown will be both slow and protracted and could in such circumstance lead to a significant reduction in profitability. In this scenario it is possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. As a result, we have had constructive discussions with the UK banking group who have agreed to covenant waivers at September 2020 and March 2021. We have agreed a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021. We believe this will provide the necessary headroom to allow us to continue to operate the business without damaging its market positions and to accommodate a slower than expected recovery. We are appreciative of the strong and prompt support received from our banking group at this time.

Strategy

In April 2018 we launched a refreshed strategy for growth and a 2023 vision for the Group, including an updated set of strategic targets. During the year we continued to make good progress against the strategic targets which were: to increase Group revenue to £600m by 2023; 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 more than 15% over the economic cycle.

Group revenue in the current year in constant currency increased by 5.0% to £342.0m. Our progress against the strategic targets benefited from the first-time contribution of House of Plumbing acquired on 1 April 2019 which added revenues of £23.7m in the year. This acquisition is a further step in the Group's strategy to expand its bathroom product portfolio and follows on from a number of successful acquisitions in the last few years. The most significant event in the final quarter of the year has been the impact of COVID-19, which initially impacted the Group's supply chain in January/February, followed by the sharp reduction in revenues in March as our customers responded as governments around the world imposed lockdowns designed to slow the spread of the virus. We estimate that this reduced revenues by £13.2m.

> "The Board is confident that, this and the benefit of the actions taken to date and to be implemented in response to the impact of the global COVID-19 pandemic will ensure Norcros successfully navigates through the current uncertainty and emerges from it in a strong competitive position."



CROYDEX

High-performance textile shower curtains used to create much needed PPE for the NHS

The challenge

As COVID-19 hit the UK, the demand for PPE, including scrubs for NHS workers, quickly outstripped supply. Wye Valley NHS Trust in Hereford has, like many NHS trusts, been struggling to provide enough surgical gowns and, with the requirement to change gowns frequently, the Trust needed to find more immediate solutions.

The solution

Croydex's high water and aerosol resistant shower curtains deliver the ideal characteristics. The Croydex GP00801 is a high-performance textile shower curtain, coated in Proseal, with excellent water and liquid repellency. It is made from 100% polyester, which is easy to clean and is machine washable, without affecting the protective performance.

The result

The Trust has employed an external company to mass produce the gowns, which will then be issued to NHS clinicians at The County Hospital, Hereford.

On a Sterling reported basis, Group revenue derived outside of the UK was 43.1% (2019: 41.7%), reflecting a full year of House of Plumbing's revenues in South Africa and in constant currency terms, from when the targets were set, 44.8%.

We continue to focus on the Group's underlying return on capital employed which this year was 16.8% on a reported basis and 16.4% on a pre-IFRS 16 basis (2019: 18.2%), exceeding our strategic target of 15% despite the impact of COVID-19. Adding back our estimate of the COVID-19 impact on underlying operating profit of £4.6m, the reported underlying return on capital employed would have been 19.2% (18.8% on a pre-IFRS 16 basis), ahead of last year's performance.

The Group's strategy remains valid and whilst the timing of its full delivery may, in light of the COVID-19 disruption need to be reassessed, we remain committed to it and are convinced that more opportunities to leverage our market positions and knowledge of the sector will emerge in the medium term. We are focused in the short term on navigating the Group through these turbulent and extraordinary times but looking forward, the combination of our successful record of targeting, acquiring, integrating and subsequently growing quality businesses within the Group, together with our leading customer service, best in class quality and innovative product development, gives the Board confidence that our strategic targets remain relevant in the context of creating value for our shareholders.

Summary and outlook

The Group was on course to deliver its eleventh consecutive year of revenue and underlying operating profit growth despite the slowdown experienced in the second half in South Africa. Unfortunately, the significant impact of COVID-19 in the final quarter changed the trading outlook materially, particularly for Norcros in March, its key trading month.

We reacted swiftly to adapt our businesses to operate safely and as cost effectively as possible in an extended period of reduced activity as governments around the world imposed lockdowns which reduced customer demand for our products significantly, almost overnight, as our customers temporarily closed their operations to safeguard their staff and mitigate the impact of COVID-19 on them. We are confident that the actions we have taken to reduce all non-essential expenditure, utilising in full all relevant government support, including the furloughing (or equivalent) of more than 80% of our total workforce around the world, have ensured that the Group has sufficient resources available to it to ensure we can withstand an extended period of reduced trading.

We promptly mothballed all of our manufacturing facilities both in the UK and South Africa where the lockdown was total and continued to service any customer demand using a skeleton workforce. As the lockdowns are now slowly being relaxed we are monitoring customer demand and are re-opening our facilities as demand builds. We will be cautious as to how we manage this, with employee safety paramount, ensuring that we align operational capacity with demand, with continued focus on cost and cash preservation until the outlook becomes more certain. Accordingly, we are currently considering a number of restructuring programmes across the Group which are likely to lead to a reduction in employee numbers of up to 10% of our worldwide headcount.

From a funding perspective, the drawing down of cash from our UK bank facilities has ensured an appropriate level of liquidity both in the lockdown period and as we emerge into the recovery stage. Subsequent to this we have renegotiated our banking covenants which will provide the necessary headroom and flexibility to continue to operate the business optimally and in pursuit of our strategic aims.

Norcros has a strong balance sheet and a resilient business model. The Board is confident that these attributes, in conjunction with the benefit of the management actions taken to date and to be implemented in response to the impact of the global COVID-19 pandemic, will ensure Norcros successfully navigates through the current uncertainty and emerges from it in a strong competitive position. Furthermore, the Board continues to believe that the Group's strategy remains valid, is underpinned by its leading market positions, strong brands and broad distribution channels, and will enable the Group to return to growth as soon as practicable.

Nick Kelsall
Group Chief Executive
25 June 2020

Maximising shareholder value through continuous investment.

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 product range.

Investment case and resilient business model

We have a clear investment case and a resilient business model; we are well positioned for future growth.

Strong track record

- Organic revenue growth enhanced by acquisitions
- UK profit growth, South Africa turnaround and exit Rest of World
- Strong return on capital
- Track record of progressive growth

Well positioned for future growth

- Portfolio of complementary market leading businesses with strong brands
- UK strategic focus on attractive trade, specification and independent segments
- Norcros business model winning share in fragmented markets
- Increased opportunities to take further market share in fragmented markets

How we do business

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.

Brand portfolio

We have a wide range of strong brands with market leading positions across our chosen markets.

Market share

We serve consumers, architects, designers, developers, retailers and wholesalers offering outstanding customer service, bespoke solutions and unrivalled technical support.

Synergies and scale

We benefit from economies of scale and shared synergies across our complementary businesses.

Innovation

Focus on investment in new product with 33% of 2020 revenue derived from products launched in the last 3 years.

What makes us different – our Norcros DNA

We base our business on understanding our customers' needs. Norcros is a substantial and growing international group with consistent, high quality standards and considerable resources.

- **Leading market positions and brands**
  Our brands and products hold market leading positions or have a significant share of the markets we operate in.

- **Channel management**
  As our businesses enjoy leading positions, we have the necessary management expertise to satisfy the needs of all our customers across our broad distribution base.

- **Innovation and new product development**
  We constantly invest in innovation and developing our product portfolio to better meet our customer requirements and refresh our offering.

- **Complementary products and broad product range**
  Our complementary and extensive product range provides a one-stop shop to our existing customer base and is important in attracting new customers.

- **Best in class sourcing and assembly**
  Our products are sourced and manufactured to the highest standards and are monitored at each stage of the supply chain.

- **Successful acquisition strategy**
  We target acquisitions in complementary product, market and industry segments exhibiting attractive returns on capital.

- **Experienced management team**
  Our management team has considerable years of experience of successfully operating in our markets and segments.

The value we create

The key areas of value creation across our stakeholder base are below:

Shareholders
- Eleven years of revenue growth to 31 March 2020
- Strong financial position with robust cash-generative business
- Return on capital employed maintained above strategic target
- Clear and focused strategy with strong pipeline of growth opportunities

Customers
- Over 7,500 business customers supplied during the year with innovative high-quality branded products
- Continued innovation and deployment of technology to service our customers
- Sustained investment in our leading brands to ensure longevity
- Customer-focused approach delivering outstanding customer service and unrivalled technical support

Employees
- Nearly 2,200 employees around the world
- Focus on training and development
- Experienced, devolved management teams and well-established local trading relationships
- Empowering culture to enable our people to meet their aspirations

Society
- Playing a key role in the communities we serve by supporting local businesses, schools and colleges, through education and training schemes
- Supporting the local communities with a range of charitable events

Environment
- Committed to monitoring and minimising our environmental impacts and encouraging our suppliers to do the same
- Committed to adapting our business to changing consumer demands for our products

A focused growth strategy delivering strong sustainable 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 successful acquisitions of Vado, Croydex, Abode and Merlyn all demonstrate the execution of our strategy, the addition of House of Plumbing to the portfolio will help drive further progress.

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 the size of the Group both 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

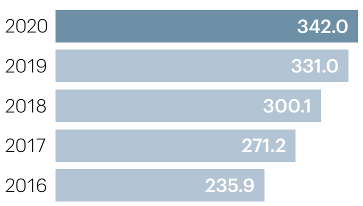
Achieve a sustainable underlying return on capital employed of above **15%** through the economic cycle

Measuring our progress.

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

Total revenue £m

£342.0m +3.3%

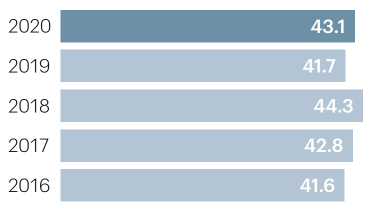


Definition Reported Group revenue for the year.

Performance Total revenue for the year increased by £11.0m (3.3%), 5.0% on a constant currency basis and 2.3% lower on a constant currency like for like basis. We estimate that the impact of COVID-19 on our operations and customer demand in our key trading month of March reduced revenue by £13.2m.

Group revenue outside the UK %

43.1% +1.4%

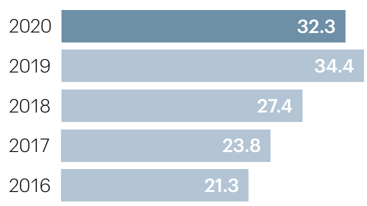


Definition Revenue from the Group's South African operating segment plus export revenue from the Group's UK operating segment.

Performance Group revenue outside the UK has increased in the year to 43.1%, reflecting a full year of House of Plumbing within the Group. In constant currency terms from when the targets were set we are more closely in line with this target at 44.8%.

Underlying operating profit £m

£32.3m -6.1%

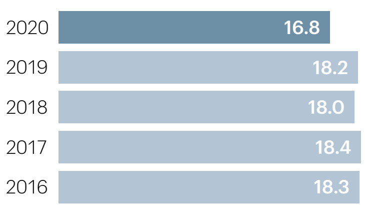


Definition Reported operating profit as adjusted for IAS 19R administrative expenses, acquisition related costs and exceptional operating items, as defined in note 8 to the financial statements. 2020 includes the impact of IFRS 16.

Performance Underlying operating profit decreased by £2.1m (-6.1%). This reflected the estimated impact of COVID-19 (reduction of £4.6m), in part offset by the first-year contribution from House of Plumbing and the beneficial impact of the implementation of IFRS 16.

Underlying return on capital employed %

16.8% -140bps

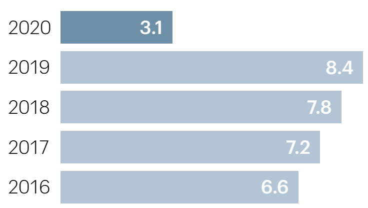


Definition Underlying operating profit expressed as a percentage of the average of opening and closing underlying capital employed (as defined in note 8 to the financial statements).

Performance Underlying ROCE remained above the strategic target of 15% over the economic cycle. Adding back our estimate of the COVID-19 impact on underlying operating profit of £4.6m, the reported underlying return on capital employed would have been 19.2% (18.8% on a pre-IFRS 16 basis), ahead of last year's performance.

Dividend per share p

3.1p -63.1%

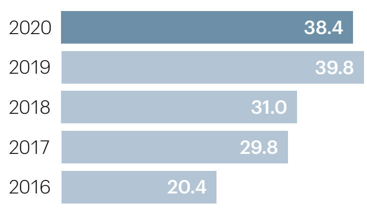


Definition The total of the interim dividend and the proposed final dividend for the financial year.

Performance Based on the unprecedented COVID-19 pandemic situation and the lack of certainty the Board is not proposing a final dividend for the year.

Underlying operating cash flow £m

£38.4m -3.5%



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 decreased to £38.4m, mainly due to the impact of COVID-19 on operating profit, partially offset by the IFRS 16 reclassification of lease costs to financing activities.

Norcros has recorded another year of growth.

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Revenue	**342.0**	331.0
Operating profit	**17.8**	25.1
IAS 19R administrative expenses	**1.5**	1.5
Acquisition related costs	**4.0**	3.8
Exceptional operating items	**9.0**	4.0
Underlying operating profit	**32.3**	34.4

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Revenue – UK	**225.4**	228.1
Revenue – South Africa	**116.6**	102.9
Revenue – Group	**342.0**	331.0
Underlying operating profit – UK	**24.4**	26.5
Underlying operating profit – South Africa	**7.9**	7.9
Underlying operating profit – Group	**32.3**	34.4
Underlying operating profit margin – UK	**10.8%**	11.6%
Underlying operating profit margin – South Africa	**6.8%**	7.7%
Underlying operating profit margin – Group	**9.4%**	10.4%

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating profit	**32.3**	34.4
Depreciation of right of use assets	**4.5**	—
Lease costs	**(5.0)**	—
Depreciation and underlying amortisation (owned assets)	**6.8**	6.9
Underlying EBITDA	**38.6**	41.3
Net working capital movement	**(4.8)**	(2.1)
Share-based payments	**0.1**	1.2
Operating profit impact of IFRS16	**0.5**	—
Depreciation of right of use assets	**4.5**	—
Cash settlement of share options	**(0.5)**	(0.6)
Underlying operating cash flow	**38.4**	39.8
Lease payments	**(5.0)**	—
Underlying operating cash flow (pre-IFRS 16)	**33.4**	39.8

	2020 IFRS 16 basis	2019 Pre-IFRS 16 basis
Basic underlying earnings per share	**28.4p**	32.1p
Diluted underlying earnings per share	**28.2p**	31.7p

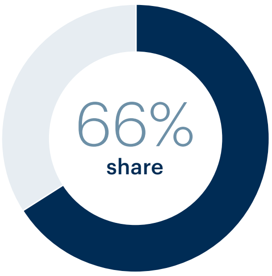
Resilient performance.

The business was on course to meet expectations until demand in our seasonally important month of March slowed markedly as our customers focused on how they could mitigate the risks of COVID-19.

Highlights 2020

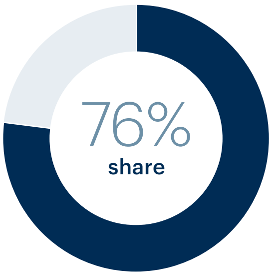
Share of Group revenue

£225.4m



Share of Group underlying operating profit

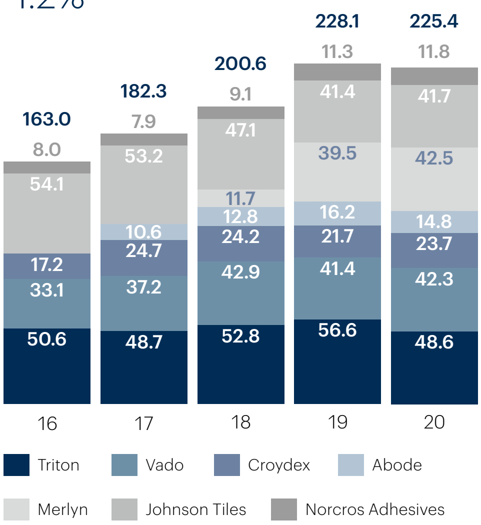
£24.4m



UK revenue £m

£225.4m

-1.2%



UK

In the UK, revenue was 1.2% lower than the prior year at £225.4m (2019: £228.1m) and underlying operating profit also lower by £2.1m to £24.4m (2019: £26.5m). These results were impacted by the COVID-19 related slowdown in customer demand and the closure of our UK operations in the important final two weeks of March estimated to have reduced revenue by £9.4m and underlying operating profit by £3.0m. We estimate UK revenue would have grown by 2.9% on prior year, adjusting for the impact of COVID-19, a resilient performance in an already challenging market.

UK revenue to the end of February, prior to the COVID-19 impacted March, was up 1% on prior year with domestic revenues 2.9% higher driven by strong performances in Merlyn, Croydex, Vado, Johnson Tiles and Norcros Adhesives, only marginally less than the first half like for like domestic revenue growth of 3.4%. This was a resilient domestic performance and reflected share gains in a number of important distribution channels.

Triton

Revenue at Triton, the UK's market leader in showers, was 14.1% lower in the year at £48.6m (2019: £56.6m). The COVID-19 impact on revenue in March was estimated as £4.3m. Revenue to the end of February, prior to the COVID-19 impact, was 9% lower than the prior year mainly due to the major customer destocking and restructuring programmes which significantly impacted revenues in the first half. Despite this, Triton maintained its electric shower market share and leadership position in the UK.

For the full year, UK revenue was 15.3% lower, with trade sales down 23.0% and retail down 10.9%.

Export revenue was 8.7% below last year reflecting a softer trading environment in Eire in the first half, Triton's main international market and the COVID-19 impact on revenue in March.

> "This was a resilient domestic performance and reflected share gains in a number of important distribution channels."

UK business review continued

UK continued

Triton continued

New products continue to be a key driver in maintaining Triton's long-term leading market position. During the year the most notable new product launch was that of the AS2000R silent running power shower, awarded the international Quiet Mark approval in recognition of its low noise and high performance and developed to meet growing consumer demand for powerful showering products that won't wake up family members during their morning routine.

During the past year Triton continued to see growth in the specification and contract market sector, investing in attending some of the country's leading trade exhibitions. Triton was a sponsor partner at the CIH Housing conference in June 2019, (Europe's largest housing event), and Future-Build at London's ExCeL and Homes exhibition in early March 2020. As part of its ongoing drive to be the supplier of choice, Triton has also continued to look at improvements to minimise its environmental impact with programmes focused on reducing water, electricity and gas usage and initiatives on packaging, paper and plastics reduction.

Triton also continued to improve and extend the technical training offered to the trade professional, increasing the number of free courses delivered at its Nuneaton headquarters whilst also working with colleges around the UK to support young people.

Triton has a robust and supportive supply chain, good levels of finished goods and raw materials and will respond quickly as the COVID-19 lockdown lifts.

Triton again delivered strong underlying operating profit margins along with excellent cash conversion in the period and we are confident that Triton's brand strength and product offering will continue to deliver excellent returns in the post-COVID-19 market.

Merlyn

Merlyn, the UK and Ireland's No. 1 supplier of shower enclosures and trays to the residential, commercial and hospitality sectors performed strongly and recorded revenue of £42.5m (2019: £39.5m), growth of 7.6% on the previous year despite the impact of COVID-19 that reduced revenue in March by an estimated £0.9m. The business provides a quality product offering and customer centric service with the brand well placed to benefit from the growing emphasis on bathrooms and the premiumisation trend within the home.

UK revenue grew by 8.4% with a particularly strong performance in the retail sector where revenue grew 15.6% driven by strong sales of the new Arysto 6 and 8 and MBox product ranges, supported by new product launches of the IQ / Easy, Merlyn Black and the Arysto 8 Infold and Inline ranges which were instrumental in achieving strong growth in the independent retailer and buying group segments. The ongoing investment in customer and staff training and targeted investment in the UK Sales team has supported this growth during the year.

The UK Trade sector contracted by 0.7%, reflecting destocking and restructuring programmes in a number of the National Merchants in the period.

Merlyn won a number of new major specification contracts in the year including London & Quadrant, Vistry Homes, Avant Homes and Stay City and retained a number of contracts which included Redrow among others.

TRITON

A quiet power shower

The challenge

For those in low-pressure areas, a power shower is a popular choice, but it can feel like a compromise due to the traditional, noisy motor. The last thing anybody wants to think about is whether the noise of the pump is going to wake up their family.

The solution

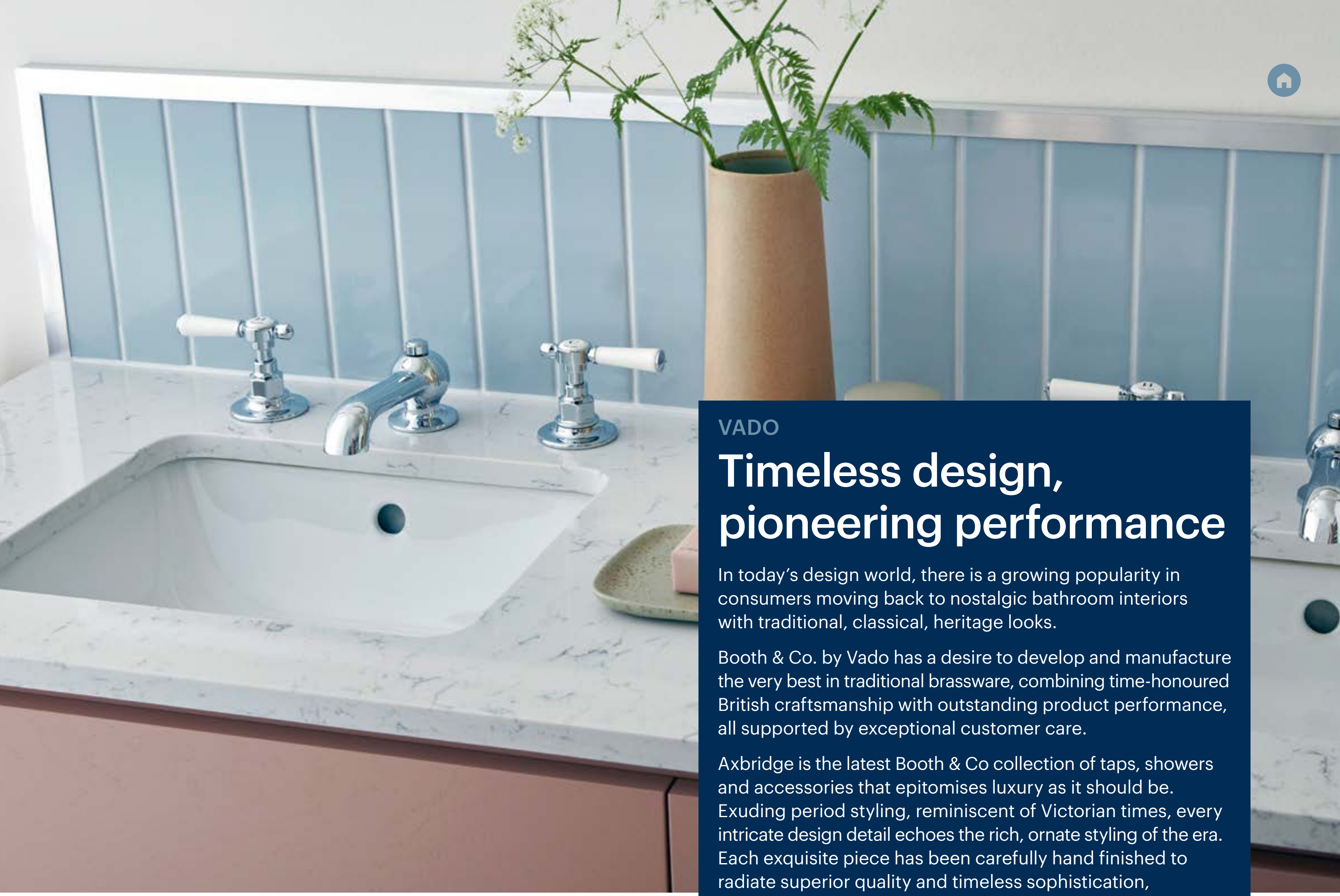
Responding to consumer appeals for a quiet power shower, Triton, the market leader in showers and water heating solutions, has re-engineered its popular AS2000 range to give the consumer just that.

It has been awarded the Quiet Mark approval as a result of its low noise and high performance and is designed specifically for low-pressure systems. Fully thermostatic for precise control, the range features a maximum temperature limit to prevent accidental exposure to hot water, and an easy to use start/stop button, with variable flow control and temperature dial.

The design has flexibility in mind, featuring multiple cable and water entry points, as well as the Triton swivel fit water inlet for top, rear or bottom entry pipes.

The result

The AS2000SR provides a tried and tested power shower range, the perfect kick-start to the morning routine or a way to wind down after a busy day.



VADO

Timeless design, pioneering performance

In today's design world, there is a growing popularity in consumers moving back to nostalgic bathroom interiors with traditional, classical, heritage looks.

Booth & Co. by Vado has a desire to develop and manufacture the very best in traditional brassware, combining time-honoured British craftsmanship with outstanding product performance, all supported by exceptional customer care.

Axbridge is the latest Booth & Co collection of taps, showers and accessories that epitomises luxury as it should be. Exuding period styling, reminiscent of Victorian times, every intricate design detail echoes the rich, ornate styling of the era. Each exquisite piece has been carefully hand finished to radiate superior quality and timeless sophistication, encapsulating modern day, period living.

Exports grew by 2.0% year on year with the Irish market continuing to recover following strong growth last year whilst the French market also recorded good growth.

New product development remains a core component of Merlyn's growth strategy and this has continued in the current year with new product vitality of 28% (2019: 23%) being achieved with a number of new product introductions including Arysto X, Arysto Colour, Revo, slip-resistant trays and a new bath screen, which were all launched at KBB in March 2020.

Merlyn has continued to invest in its workforce during the year, with additional sales resource recruited to target the specification and housebuilder segments, and in customer service and training. Merlyn also achieved ISO14001:2015, ISO9001: 2015 and ISO45001: 2018 in the period, further enhancing its quality credentials.

Merlyn recorded a strong performance with an underlying operating profit ahead of last year and strong cash conversion maintained despite the impact of COVID-19.

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £42.3m for the year (2019: £41.4m), 2.2% higher than the previous year despite the March impact of COVID-19, which we estimate reduced revenue by £1.1m, as a result of the sharp decline in demand in the last few weeks of the year.

UK revenue grew by 5.6% on prior year with growth mainly in the retail sector, up 11.8%, with strong performances in the existing client base being augmented with some new customer wins. We continue to see the benefits of the successful roll out of market leading point of sale material whilst the award of an OEM supply contract from the Fortis Buying Group further accelerated growth on prior year.

In the trade sector revenue was 1.7% higher with new contract wins at Everything Water, Countryside and CALA Homes. Investment in new product ranges generated additional revenue and margins in the year, particularly the successful launch of the 'Individual' range of coloured finishes. This range enabled us to win new specification contracts for new build projects, both in the year and rolling forward into the current year.

Export revenue declined by 10% on the prior year. Notwithstanding, revenues grew in Africa through the year, although lower sales of PEX plumbing products in the Middle East held back progress.

Vado launched three major products in the year that contributed to its new product vitality rate of 32.1% (2019: 35.7%). The launch of the 'Individual' range, which capitalises on the significant demand for bathroom products in coloured finishes significantly exceeded expectations. Vado launched "Booth & Co.", a new sub-brand aimed at the growing trend in "traditionally styled" brassware which won a number of new trade contracts as well as growing in retail. Vado also launched the "Axces" range which contains five new ranges aimed at the higher-volume mid-market sector, which has been well received in its target retail sector and is now opening up opportunities in social housing, student housing and care homes and on new construction projects. Further to these key successful launches, Vado continues to drive new product development with further product launches planned for the first half of the current year which will reinforce Vado's position at the forefront of market trends.

Vado successfully implemented a new Warehouse Management System in the year which significantly reduced picking errors and improved stock accuracy with the development of a new suite of KPIs to better monitor and track operational efficiencies in warehousing, assembly and packing.

Underlying operating profit was in line with the prior year and cash generation remained strong despite the impact of COVID-19.

UK continued

Croydex

Croydex, our market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories, recorded revenue of £23.7m (2019: £21.7m) for the period, which was 9.2% higher than the prior year despite the impact of COVID-19 in March which reduced revenue by an estimated £0.4m.

UK revenue was 10.9% higher than the prior year with both the Retail and Trade channels showing growth. The UK retail market remains challenging, particularly in DIY where the Kingfisher unification programme and Homebase transformation with continued lack of credit insurance support continued to impact. Despite this and the March COVID-19 impact, retail sales were up 10.1% on prior year driven by a number of new listings and active promotions, including new category wins with Argos and range growth with John Lewis, and The Range.

Revenue in the UK trade sector grew strongly again, 13.8% ahead of prior year. The UK trade sector, although challenging, provides opportunities in both specification and increased on-line activity with growth driven by additional listings with Screwfix, category rollouts into Toolstation, a new category win with Selco and additional online trade penetration through Plumbworld. The business continues to invest in its digital strategy to support sales growth both domestically and internationally.

Export sales were in line with the prior year with some continued growth in Europe, however this has been negated by a decline in revenue in the US where sales were impacted by the introduction of trade tariffs and some customer destocking, particularly at Home Depot and Amazon. We continue to supply toilet seat promotions to Germany via Toom and have commenced supply to OBI and Leroy Merlin in Italy via our distribution partner, utilising our unique IP that helps win new market share.

Further new product development has played a major role in driving new sales opportunities, particularly around patented innovations with product vitality at 33.4% (2019: 41.4%). The new Flexi-fix toilet seat range is performing well with interest now being shown on an international level and e-Commerce sales also benefiting. The "Rust-Free" storage solutions, "Flexi-Fix" accessories and "Hang & Lock" cabinet collections have supported several new international retail initiatives in both Europe and the US. This year's development activity focused on new cabinet hanging systems (surface and recessed mounting) targeted at the US market, new "StickNLock" shower rod technology and unique reversible grab bars to meet the ADA (American Disability Association) and housebuilding standards.

Croydex has very good relationships with its suppliers, many of them in China, which helped to minimise the disruption when COVID-19 first impacted during the Chinese New Year, with suppliers now back to full operational levels.

Underlying operating profit was ahead of the prior year and cash generation remained strong despite the impact of COVID-19.

> "Croydex recorded revenue of £23.7m (2019: £21.7m) for the period, which was 9.2% higher than the prior year despite the impact of COVID-19."

CROYDEX

Croydex soap dispensers help to reduce the spread of COVID-19

The challenge

With the threat of COVID-19 across the UK, the need for soap dispensers and hand sanitising stations hit an all-time high.

When Her Majesty's Government and the Silver Command Task Force for Network Rail wanted to protect their frontline staff with PPE, they were looking for several pieces of equipment, including hand sanitising stations.

The solution

Croydex was able to help through PPE specialist Select Equip, providing the Euro Uno Soap Dispenser, which can be fitted without tools using waterproof double-sided tape and silicone adhesive. The pump pre-measures the right amount of liquid and the push button can be pressed with an elbow, eliminating finger touch and reducing the spread of infection further.

The result

By enabling Select Equip to apply the product so quickly to different types of sanitising stations, not only have the staff been protected against further spread of the virus, but also significant cost savings, in both labour and time, have been achieved. Already approximately 2,000 units have been shipped to companies such as Network Rail, Balfour Beatty, Unipart and Transport for Wales, to protect their staff and the general public.

ABODE

4 in 1 steaming hot water taps granted WRAS approval

The challenge

Steaming hot water taps have become the most desirable and talked-about feature of any new kitchen, with safety considerations being the key factor in the growth of these products. Hundreds of people, often children, are scalded every year by water spilled from kettles.

The solution

Abode's Pronteau range is now one of the fastest growing product categories in the sector, offering affordability and special design features, such as the Pronteau "HotKey®" with childproof levers and locking mechanisms, to prevent any scalding accidents.

The result

Now the Water Regulatory Advisory Scheme (WRAS) has granted full approval to all Abode 4 in 1 steaming hot water taps, filters and boilers. The endorsement is a result of a lot of conscientious work by the Abode Technical team and comes on the back of a patent, with separate approvals for each element of the product, including the boiler unit, mixer taps and filter.

Abode

Abode, our leading designer and distributor of high quality hot water taps, bathroom brassware, kitchen taps and sinks, recorded revenue of £14.8m for the year, 8.6% lower than the prior year (2019: £16.2m). The COVID-19 revenue impact in March was estimated at £0.8m, resulting in a 3.7% estimated decline in revenue disregarding COVID-19.

Abode's strong year on year revenue growth since its acquisition in 2016 was impacted this year by the un-winding of some of the Brexit related stock build into key customers in the prior year and the sharp decline in March. Despite this the business continues to make good progress and the Pronteau range was significantly strengthened by the launch of a 'slimline' tap family at a lower price-point than comparable competitor products and further strengthened by a second generation boiler which provides greater simplicity of installation and maintenance augmented by an installation service offered in conjunction with Triton. These designs are aimed at the mass market and have potential to re-define the category with the combined proposition launched at the KBB exhibition in March 2020.

Underlying operating profit and cash performance were both lower than the previous year, reflecting the second half challenges and the impact of COVID-19.

Johnson Tiles

Johnson Tiles, our UK market leading ceramic tile manufacturer and a market leader in the supply of both own manufactured and imported tiles, recorded revenue of £41.7m (2019: £41.4m), 0.7% higher than the prior year. This result was significantly impacted by COVID-19 in March, estimated to have reduced revenue by £1.4m, without which Johnson Tiles would have recorded a 4.1% increase in revenue on the prior year.

UK revenue was 4.6% ahead of the prior year reflecting share gains and a robust performance in a market that we believe has declined by circa 5%. UK retail revenue was 10.5% higher than the previous year with strong growth in Wickes driven by the full year effect of the highly successful Rigid Luxury Vinyl Tiles range, and the introduction of four new UK manufactured tile ranges in B&Q (Urban Concrete, Lofthouse, Perla and Haver) more than offset the decline from the One Kingfisher product unification programme.

UK trade sector revenue was in line with prior year with the result being impacted by COVID-19 in March due to the rapid closure of building sites severely impacting the purchases made by our distributors. This again reflected a strong performance in a market that continues to be affected by the significant slowdown in the social housing refurbishment market.

The Johnson Tiles customer focused service model coupled with market leading specification expertise has led to good progress in the house builder and specification market. This has resulted in gaining specifications to supply a number of major contracts including: London and Quadrant, Hilton Garden Inn in Hanley, UPS East Midlands Airport Hub, Quest Hotel in Liverpool, Balfron Tower in London, South Thames College, Riverside Housing (national deal), BUPA, LNPG (a national purchasing deal for private landlords), Kelaty House student accommodation in London and Clayton Hotel in Manchester. Additionally, the business continued to supply a number of national house builders including Barratt David Wilson, Persimmon Charles Church, Redrow, St Modwen Homes, Lovell Homes and Telford Homes.

Export revenue, which accounts for approximately 8% of overall revenue, was 30.4% below last year. This was partly due to weak trading conditions and the impact of COVID-19 on Leroy Merlin in France and partly our decision to exit the low margin markets in the Middle East. Encouraging progress is being made with Bauhaus in Germany with new product introductions delivering year on year growth and with Kesko in Scandinavia where new ranges were introduced for the first time.

We have set ourselves the objective of taking the market leading position of removing all single use plastics from our products. This has significant environmental and commercial benefits and is highly valued by our customer base as it makes our products plastic free, reducing our plastic usage from 100 tonnes per annum to zero and saving around 260 tonnes of CO_2 emissions every year.

UK business review continued

UK continued

Johnson Tiles continued

The business reacted swiftly to COVID-19 and closed its manufacturing operations whilst actively promoting the message that we are still open for business, fulfilling orders from stock and maintaining contact with both existing and potentially new customers. We will continue to monitor demand levels now that UK house building and DIY retailers continue to open up as the lockdown is lifted. The key decision about when to re-start manufacturing will be dependent on the sustainability of demand levels.

Cash generation remained strong in the year with profit impacted by the COVID-19 impact in March.

Norcros Adhesives

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was 4.4% higher at £11.8m (2019: £11.3m) despite the impact of COVID-19 that negatively impacted revenue by an estimated £0.5m in March. The revenue growth reflected higher domestic revenues offset by a weaker performance in the Middle East.

Revenue in the UK was up 14.4% on prior year. UK Retail revenue was 24.5% ahead of prior year reflecting the benefit of new product lines introduced into a number of key customers during the second half of the prior year, which also carried an improved margin. UK Trade revenue was 5.0% ahead of last year, reflecting improvement from the Resilient channel combined with growth in the established Fixer accounts. Revenue to distributors declined by 3.9% on last year reflecting a shift in market share, however we have continued to develop our specification activity which underpins this sector and pleasingly we have successfully renewed the Barratt Homes contract until 2021.

Our Middle East operation was impacted by restructuring during the period, and a new General Manager was appointed in November 2019. The disruption affected revenues and new business development, however we are now well placed to move the business back into growth. Despite this, the business supplied some major projects in the region including the prestigious Mall of Oman.

New product initiatives include several formulation improvements which are designed to optimise product performance whilst delivering improvements to gross margin. The business has also developed a new range of products for external application which we are in the process of launching. These new products support the growing tiling trend in garden areas following developments in porcelain tile manufacture that require a more complex adhesive system.

In terms of environmental performance, the business has successfully renewed both its ISO9001 and ISO14001 accreditations to the latest (2015) standards and maintained Gold Standard from the Supply Chain Sustainability School (which is partnered with the housebuilder Barratt).

Despite the overall revenue growth, the restructuring and resulting disruption in the Middle East meant the business made a small loss in the year in line with last year. The investments made in the business and the actions taken in the Middle East operation leave the business better positioned to return to profitability as markets recover post-COVID-19.

JOHNSON TILES

Longton Town Hall refurbishment

The challenge

Stoke on Trent City Council unveiled plans for a £1.9m transformation project to bring Longton Town Hall back into use to increase footfall and to improve the neighbouring market.

The solution

To make Times Square and The Strand more appealing and viable, the ground floor was converted into the Local Centre, with office space and a meeting room. A brand-new entrance using Johnson's new Hex25 tile range was designed, reflecting the famous iron railway bridge opposite and the pottery industry of Longton. The entrance hall to the grand sweeping staircase was also refurbished in a modern black, white and grey colour scheme using Johnson Tiles from the Kerastar range.

The result

The refurbishment raised the profile of the Town Hall as a high quality event space. The old ballroom has been converted into office space and is available to rent out.

Councillor Dan Jellyman, Cabinet member for regeneration, transport and heritage, said: "Johnson Tiles is going to make special tiles for the new entrance. There will also be a metal sign going across saying "Longton market". We hope the plans will boost footfall."

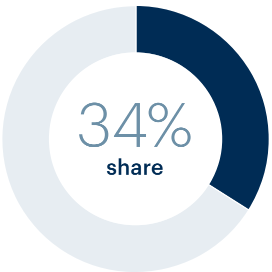
Market conditions have remained challenging.

Revenue for the year grew 19.3% on a constant currency basis including the first-time contribution from House of Plumbing acquired at the start of the year.

Highlights 2020

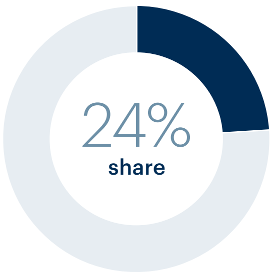
Share of Group revenue

£116.6m



Share of Group underlying operating profit

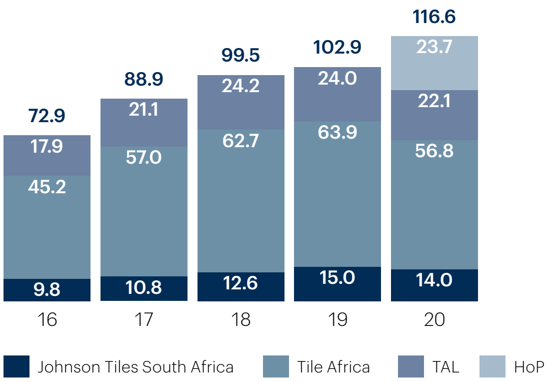
£7.9m



South Africa revenue £m

£116.6m

+13.3%



> “South African underlying operating profit for the year was in line with the prior year performance.”

South Africa

Revenue grew by 19.3% in constant currency and by 13.3% on a Sterling reported basis to £116.6m (2019: £102.9m) reflecting the acquisition of the House of Plumbing business at the start of the year, offset by the impact of COVID-19 in March estimated at £3.8m. Like for like constant currency revenue decreased by 4.9% with the business performance to the end of February, pre the COVID-19 impact, 4.4% behind prior year on a like for like constant currency basis reflecting the difficult economic environment and lower levels of activity.

Underlying operating profit was in line with prior year performance of £7.9m (2019: £7.9m) reflecting the first-time profit contribution of House of Plumbing and the £0.4m effect of IFRS 16 offsetting the impact of COVID-19, estimated at £1.6m, and other market challenges, which included a sharp contraction in the Tile Africa contracts business, a decrease in TAL exports and national power rationing (load shedding) in the second half. The Rand depreciated against Sterling in the year with the average exchange rate 5.7% weaker at ZAR 18.97 (2019: ZAR 17.95) which had an adverse £0.4m impact on underlying operating profit. The return on sales of 6.8% compared to 7.7% in the prior year.

Market conditions have remained challenging in the past year, with the construction sector having been in recession since late 2017. COVID-19 is likely to slow any economic recovery in 2020/21 and as such there is a key focus on efficiencies, productivity, cost reduction and cash preservation. A restructuring programme which has recently been announced is likely to result in a reduction in employees by circa 10%, the cost of which will be incurred in the current year.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business, recorded revenue of £14.0m (2019: £15.0m) a 6.7% decrease on a reported basis and 1.4% lower on a constant currency basis. The COVID-19 impact in March is estimated to have reduced revenue by £0.7m. In the year to February, prior to the COVID-19 impacted March, the business recorded 0.4% constant currency growth on the prior year following the investment in additional capacity and plant improvements in the first half of last year. Despite the weaker second half the overall performance for the year was resilient in the context of a challenging market environment, ongoing load shedding and competitor capacity increases which came online during the year.

Johnson Tiles South Africa continued to perform well in retail as well as the commercial housing project market having secured specifications in leading developments including De Zicht (432 units) in Cape Town and Amberfield 47 (590 units) in Pretoria. The business continues to develop a new product pipeline and expects that new product launches will help drive improved yields in the year ahead.

Underlying operating profits were in line with prior year.

South Africa business review continued

South Africa continued

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, had a challenging year with revenue of £56.8m (2019: £63.9m) an 11.1% decrease on a reported basis and 6.4% lower on a constant currency basis. The COVID-19 impact in March is estimated to have reduced revenue by £1.7m.

The commercial contracts part of the business has been particularly impacted in the year because of lower market activity levels rather than the loss of any key customers. Despite the lower overall market activity, Tile Africa nevertheless supplied a number of prestigious projects during the year including the Sasol Boulevard Mall (3,000m^2), Emperor's Gate Montana Housing Development (20,000m^2) and the "55" on Southdale Housing Development (3,500m^2).

TAL

Refurbishment and installation of bespoke terrazzo flooring system

The challenge

Greenstone Shopping Centre in South Africa has in excess of 83,000 sq m of retail space. The detailed food court floor, designed by architects Bentel Associates International entailed the transformation of the existing tiled floor into an eye-catching design of large butterflies, ladybirds and dragonflies.

The challenges of a bespoke installation of this kind are two-fold. One, it usually takes 28 days for a floor of this kind to cure, before the grinding and polishing can begin, while at the same time keeping the mall open for trade, and two, level variations between the receiving substrate and surrounding tile installation would require a multi-level approach.

The solution

TAL Stoneflow, a fast track terrazzo-look decorative flooring system was used, durable enough to accommodate the high volume of traffic in the popular mall.

The result

A terrazzo-look floor with integrated patterns of insects inset into the main, outer field, in line with the centre's "green" theme and the food court's stunning bug floor, fully encapsulating the "look with a feel of nature".

The retail business was also held back by range management decisions and our imported stock availability. However, our ability to offer a full basket of wall and floor coverings, including luxury vinyl and laminates, and bathroom products continues to drive ongoing and sustainable market share growth. Tile Africa relocated and upgraded the Port Elizabeth store during the period and currently operates 32 owned stores and 2 franchise stores. Our flagship Greenstone store is in the process of being upgraded to display a full range of alternative floor and wall coverings. We do not plan to open any new stores in the year ahead as we focus on driving improved performance through our existing base.

The revenue decline saw operating profit levels decline in the year which was partially offset by early cost management interventions. In anticipation of the economic recovery in SA being potentially slow and protracted, management is continuing to review the cost base and a number of further interventions are actively being considered.

TAL

TAL, our market leading adhesive business recorded revenue of £22.1m (2019: £24.0m) a 7.9% decrease on a reported basis and 3.1% on a constant currency basis with the decline attributable to lower export sales mainly due to the ongoing economic downturn in Zimbabwe, a decline in our domestic South African market and the COVID-19-related shutdown in March. The COVID-19 impact in March is estimated to have reduced revenue by £1.0m.

Despite this, TAL was the preferred partner in a number of major construction projects during the period, including the new Deloitte head office (3,500m^2), the 1,512-unit Polofields residential development and the Gateway building in Waterfall (2,500m^2). TAL is making good progress on the product development front, with a strong focus on providing integrated fixing solutions in the adjacent and growing non-tile, floor and wall covering product categories. In this regard, TAL provided a bespoke fast track terrazzo-look floor, durable enough to accommodate the high volume of traffic for the food court at Greenstone Mall, one of South Africa's biggest shopping malls in Edenvale, Gauteng.

Increased competition, mainly from new entrants, and raw material cost increases negatively impacted margins in the year which together with the revenue decline resulted in lower operating profits in the year, however cash generation was in line with prior year.

House of Plumbing

On 1 April 2019, Norcros South Africa completed the acquisition of House of Plumbing. House of Plumbing is a market leading supplier of specialist plumbing materials focused on the specification and commercial segments of the market. This acquisition complements the Group's strong positions and enhances our product offer to the important commercial and specification segments, where we have been successfully building our business.

During the year the House of Plumbing business has been successfully integrated and recorded revenue of £23.7m, 1% up on the prior year on a constant currency basis when it was not under Norcros ownership. The COVID-19 impact in March is estimated to have reduced revenue by £0.4m. Following the smooth completion of the integration process, the management team has been preparing an accelerated growth plan through an expansion of the geographic coverage of the business in South Africa. House of Plumbing currently operates out of three branches located in Johannesburg, Pretoria and Lephalale. House of Plumbing completed work on a number of landmark projects including The ABSA Towers in Johannesburg, Tlhabane Square Shopping Centre in Rustenburg, The Pretoria Head & Neck Hospital and The Southern Sun Ridgeway Hotel in Zambia.

Underlying operating profit and cash generation were slightly behind expectations mainly due to the impact of COVID-19.

Strong cashflow despite end of year COVID-19 impact.

- Group revenue increased by 3.3% to £342.0m (2019: £331.0m)
- Group underlying operating profit of £32.3m (2019: £34.4m)
- Group operating profit was £17.8m (2019: £25.1m)
- Group underlying profit before tax was £28.8m (2019: £32.6m)
- Group profit before tax was £15.0m (2019: £25.4m)
- Underlying operating cash flow of £38.4m was 99.5% of underlying EBITDA (2019: 96.4%)
- Net debt at £36.4m – Net Debt: underlying EBITDA 0.9x

Financial overview

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Revenue	**342.0**	331.0
Underlying operating profit	**32.3**	34.4
IAS 19R administrative expenses	(1.5)	(1.5)
Acquisition related costs	(4.0)	(3.8)
Exceptional operating items	(9.0)	(4.0)
Operating profit	**17.8**	25.1
Net finance (costs)/income	(2.8)	0.3
Profit before taxation	**15.0**	25.4
Taxation	(4.1)	(6.0)
Profit for the year	**10.9**	19.4

IFRS 16 Implementation

On 1 April 2019 Norcros implemented IFRS 16 Leases on a modified retrospective basis where the comparatives for 2019 have not been restated. The impact of the implementation of IFRS 16 is reviewed further in the section below.

Revenue

Group revenue at £342.0m (2019: £331.0m) increased by 3.3% on a reported basis, by 5.0% on a constant currency basis, and decreased 2.3% on a constant currency like for like[1] basis. The current year had 53 weeks, (2019: 52 weeks) however due to the significant impact of COVID-19 on revenue in March this has not been adjusted for the purposes of any comparative analysis.

Underlying operating profit

Underlying operating profit decreased by 6.1% to £32.3m (2019: £34.4m). Our UK businesses delivered underlying operating profit of £24.4m (2019: £26.5m), and our South African businesses generated an underlying operating profit of £7.9m (2019: £7.9m). Group underlying operating profit margin was 9.4% (2019: 10.4%).

IAS 19R administrative costs

These costs represent the costs incurred by the Trustee of administering the UK pension scheme and are reflected in the Income Statement under IAS 19R. Costs of £1.5m are in line with prior year (2019: £1.5m).

1 Like for like is defined as constant currency (2019 at 2020 monthly average rates) impact being £5.2m and excluding House of Plumbing revenue of £23.7m in 2020.

Group Finance Director's report continued

Acquisition related costs

A cost of £4.0m (2019: £3.8m) has been recognised in the year and is analysed as follows:

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Deferred remuneration	0.6	0.2
Intangible asset amortisation	3.7	3.5
Release of provision for contingent consideration	(1.1)	—
Advisory fees[1]	0.8	0.1
	4.0	3.8

1 Professional advisory fees incurred in connection with the Group's business combination activities.

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 which amounts in the current year to a cost of £0.6m in relation to the House of Plumbing acquisition (2019: £0.2m in relation to Abode).

The House of Plumbing acquisition on the 1 April 2019 increased the amortisation charge in the year by £0.2m.

On acquiring the House of Plumbing, £1.1m of contingent consideration was provided for in relation to expected future payments to former shareholders of House of Plumbing subject to the business achieving certain financial performance targets. As at 31 March 2020, under IFRS 9, the expected fair value of the provision is nil and therefore this amount has been released to the income statement.

The advisory fees in the current year relate to the costs incurred in relation to acquisition activity that did not conclude.

Exceptional operating items

A net exceptional operating charge of £9.0m (2019: £4.0m) has been recognised this year.

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
COVID-19 related impairment	9.0	—
Onerous property lease provision costs	—	3.0
GMP equalisation costs	—	1.0
	9.0	4.0

COVID-19 has significantly affected economic activity and disrupted the business operations of the Group. In response to this, and in line with guidance from the Financial Reporting Council, the Group has reviewed all cash generating units to determine whether any of the assets related to our operations are impaired. These reviews are performed by comparing the estimated future cash flows generated by the divisions with the carrying value of the assets generating those cash flows. The future cash flows are sensitised in relation to potential future COVID-19 impacts including depressed economic activity from further business disruption, social distancing measures and business failures. As a result of these reviews, tangible, intangible and right of use assets within the Johnson Tiles UK business have been impaired with a non-cash impairment charge of £9.0m recognised as an exceptional item in the income statement.

Exceptional costs of £3.0m were incurred in the previous year to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which will expire in June 2022. Exceptional past service costs of £1.0m were expensed in the prior year in relation to a UK High Court ruling that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions (GMP).

Net finance costs

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Interest payable on bank borrowings	(1.6)	(1.8)
Interest on lease liabilities	(1.9)	—
Amortisation of costs of raising debt finance	(0.2)	(0.2)
Finance costs	(3.7)	(2.0)
Movement on fair value of derivative financial instruments	1.7	3.6
Finance income	1.7	3.6
IAS 19R finance cost	(0.8)	(1.3)
Net finance (costs)/income	(2.8)	0.3

Net finance costs for the year of £2.8m compare to a £0.3m income in 2019. This decrease is partially due to the movement in the fair value of foreign exchange contracts reflecting a lower level of income in the year of £1.7m (2019: £3.6m income). Additionally, the current year finance costs include a £1.9m IFRS 16 lease liability interest charge in relation to the IFRS 16 lease liabilities recognised on 1 April 2019. Bank interest payable of £1.6m (2019: £1.8m) was lower than the previous year due to a lower level of debt across the year.

The Group has recognised a £0.8m interest cost in respect of the defined benefit pension scheme liability (2019: £1.3m) which reduced by £0.5m principally reflecting the lower deficit at the start of the year.

Underlying profit before tax

Underlying profit before tax was £28.8m (2019: £32.6m), mainly reflecting the decreased underlying operating profit of £2.1m noted above. Underlying profit before tax is reconciled as shown below:

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Profit before taxation from continuing operations	15.0	25.4
Adjusted for:		
– IAS 19R administrative expenses	1.5	1.5
– acquisition related costs	4.0	3.8
– exceptional operating items	9.0	4.0
– amortisation of costs of raising finance	0.2	0.2
– net movement on fair value of derivative financial instruments	(1.7)	(3.6)
– IAS 19R finance cost	0.8	1.3
Underlying profit before taxation	28.8	32.6

Taxation

The tax charge for the year of £4.1m (2019: £6.0m) represents an effective tax rate for the year of 27.3% (2019: 23.6%). This increase in effective tax rate is mainly due to the impact of the Johnson Tiles UK impairment where the majority of the assets impaired do not have a tax base.

The standard rates of corporation tax in the UK, South Africa and Ireland were 19% (2019: 19%), 28% (2019: 28%) and 12.5% (2019: 12.5%) respectively.

Dividends

The Group responded swiftly to the impact of COVID-19 and the need to preserve cash. The Board has therefore taken the decision not to recommend the payment of a final dividend (2019: 5.6p). The interim dividend of 3.1p (2019: 2.8p), makes a total dividend of 3.1p (2019: 8.4p) in respect of the year ended 31 March 2020. The Board recognises the importance of dividends to shareholders and intends to return, at the appropriate time, to the progressive dividend policy that was in place prior to the COVID-19 pandemic, and in setting the dividend level will take into account the expectation of future cash flow generation and the long-term earnings potential of the Group.

Balance Sheet

The Group's balance sheet is summarised below.

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Property, plant and equipment	29.0	42.3
Right of use assets	20.6	—
Goodwill and intangible assets	96.5	94.9
Deferred tax	4.7	0.8
Net current assets excluding cash and borrowings	67.5	61.0
Pension scheme liability	(48.9)	(31.6)
Lease liabilities	(25.1)	—
Other non-current assets and liabilities	(3.5)	(6.7)
Cash and borrowings	(36.4)	(35.0)
Net assets	**104.4**	125.7

Total net assets decreased by £21.3m to £104.4m (2019: £125.7m).

Property, plant and equipment reduced by £13.3m, and included additions of £4.0m (2019: £5.8m) and acquisition additions of £0.1m (2019: nil) related to the House of Plumbing acquisition. A net impairment charge of £7.6m was recognised in relation to the Johnson Tiles impairment. The depreciation charge was £6.6m (2019: £6.6m) and exchange differences were £3.2m (2019: £1.9m). The disposals in the year had no impact on net book value which was the same in the prior year.

The deferred tax asset increased by £3.9m to £4.7m (2019: £0.8m). The increase mainly relates to a £3.5m increase in the pension deferred tax asset reflecting the current year actuarial losses in the pension scheme.

Pension schemes

On an IAS 19R accounting basis, the gross defined benefit pension scheme valuation of the UK scheme showed a deficit of £48.9m compared to a deficit of £31.6m last year. Whilst the present value of scheme liabilities fell by £17.2m mainly due to a fall in long-term inflation expectations, the value of scheme assets fell by £34.5m primarily due to the negative impact of COVID-19 on the financial markets.

The triennial actuarial valuation for the Group's UK defined benefit pension scheme as at 1 April 2018 reported an actuarial deficit of £49.3m (2015: £73.5m) representing an 89% funding level (2015: 84%). The deficit recovery plan was agreed with the scheme Trustee, with a cash contribution of £3.3m per annum plus CPI, payable for the 6.5 years to 30 September 2025.

In line with the above agreement the Group made deficit recovery contributions of £3.3m (2019: £2.6m) into its UK defined benefit pension scheme during the year.

The Group's contributions to its defined contribution pension schemes were £3.5m (2019: £3.3m).

Cash flow and net debt

Underlying operating cash flow was £1.4m lower than in the prior year at £38.4m (2019: £39.8m).

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating profit	**32.3**	34.4
Depreciation and amortisation	6.8	6.9
Net working capital movement	(4.8)	(2.1)
Share-based payments	0.1	1.2
Depreciation of right of use assets	4.5	—
Cash settlement of share options	(0.5)	(0.6)
Underlying operating cash flow	**38.4**	39.8
Lease payments	**(5.0)**	—
Underlying operating cash flow (pre-IFRS 16)	**33.4**	39.8

Underlying operating cashflow benefited in the year from £5.0m of lease costs, being reclassified to interest costs and lease payments. The £5.0m of lease costs were replaced by £4.5m of depreciation in underlying operating profit. This was more than offset by a £2.1m reduction in underlying operating profit and an increased net working capital outflow of £2.7m. Underlying operating cash conversion in the year was 99.5% of underlying EBITDA (2019: 96.4%).

	2020 £m IFRS 16 basis	2019 £m Pre-IFRS 16 basis
Underlying operating cash flow	**38.4**	39.8
Cash flows from exceptional items and acquisition related costs	(0.3)	(1.9)
Pension fund deficit recovery contributions	(3.3)	(2.6)
Cash flow generated from operations	**34.8**	35.3
Net interest paid	(3.5)	(1.8)
Taxation	(5.3)	(4.6)
Net cash generated from operating activities	**26.0**	28.9
Capital expenditure	(4.8)	(5.6)
Proceeds on disposal of property, plant and equipment	—	0.1
Acquisitions	(9.2)	(2.1)
Dividends	(7.0)	(6.4)
Share transactions	(0.8)	(0.9)
Principal element of lease payments	(3.8)	—
Other items	(1.8)	(1.9)
Movement in net debt	(1.4)	12.1
Opening net debt	(35.0)	(47.1)
Closing net debt	**(36.4)**	(35.0)

Cash generated from operating activities was £2.9m lower than the previous year at £26.0m, largely due to the £1.4m decrease in underlying operating cash flows and the £1.9m lease liability interest costs in relation to IFRS 16 included in net interest paid.

Cash flow and net debt continued

Cash flows from exceptional items and acquisition related costs in the current year primarily relate to costs of restructuring at Triton and Johnson Tiles, whilst in the prior year they mainly relate to the Johnson Tiles restructuring costs.

Capital expenditure at £4.8m (2019: £5.6m) includes £0.6m of manufacturing equipment at Johnson Tiles and £0.5m in relation to Tile Africa store upgrades.

Acquisition expenditure of £9.2m relates to the £8.8m net outflow in relation to the House of Plumbing acquisition and £0.4m being the final deferred consideration payment in relation to the Abode acquisition in 2016. In the prior year the £2.1m mainly relates to the payment of deferred consideration in relation to Croydex and Abode acquisitions.

Net debt increased by £1.4m in the year to £36.4m (2019: £35.0m).

NORCROS ADHESIVES

Consistent investment in manufacturing

The problem

With the introduction of the new 4 in 1 range, a rapid setting, antibacterial grout for walls and floors, Norcros Adhesives has seen a significant growth in demand for this product. The product has versatility with 15 different colours and the new efflorescence-free formulation helps to reduce the migration of salt to the surface of the grout.

The solution

Norcros Adhesives has seen a programme of consistent investment in its manufacturing capacity with efficiency and environmental benefits. The latest being the installation of new "Form, Fill & Seal" equipment, to enhance both capacity and speed, as well as the new "blown air" infeed, which transports the powdered materials throughout the production line. It has also seen the introduction of a new ERP and warehouse system, in addition to the new packaging equipment.

The result

The latest investment has resulted in new efficiencies and improvements in the production process. The new equipment is three times faster and brings with it a number of benefits, i.e. there is no requirement to produce labels for each pouch, saving both paper and operative time, and the machines enable the use of a new high quality bag, which exceeds the standard industry drop-test requirements keeping customers' displays clean and free of grout dust.

Funding and Liquidity

The Group increased the amount of its committed banking facilities to £120m (plus a £30m accordion) at the time of the Merlyn acquisition in November 2017. The maturity date was originally November 2021 with an option to extend for a further year and the Group exercised this option in the prior year and has extended the maturity date of the facility to November 2022. We also have an unsecured overdraft facility in South Africa.

As a result of the COVID-19 pandemic, the Group implemented a number of immediate actions that are described in detail in the Group Chief Executive's statement. In relation to funding and liquidity, whilst the Group has significant liquidity headroom, it is possible that the recovery out of the COVID-19 lockdowns could be both slow and protracted and could in such circumstance lead to a significant reduction in profitability. In this scenario it is possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. Accordingly, we have had constructive discussions with the UK banking group and agreed a number of covenant waivers at September 2020 and March 2021. We have agreed a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021. We believe this will provide the necessary headroom to allow us to continue to operate the business without damaging its market positions and to accommodate a slower than expected recovery.

We are appreciative of the strong and prompt support received from our banking group.

IFRS 16 Implementation Impact

The adoption of IFRS 16 in the current year to 31 March 2020 has resulted in an asset (right of use asset) of £24.7m and financial liability to pay lease rentals of £27.7m being recognised on the balance sheet as at 1 April 2019. Instead of recognising a rental expense of £5.0m in the period a depreciation charge of £4.5m has been recognised on the right of use asset and a £1.9m interest charge on the lease liability. This has increased operating profit by £0.5m and decreased profit before tax by £1.4m. The overall impact of the implementation of IFRS 16 on the income statement over the life of the lease is neutral but will result in a higher charge in the earlier years following implementation and a lower charge in later years. Implementation of IFRS 16 has also impacted the underlying return on capital employed which is 16.4% pre-IFRS 16 impact and 16.8% on a reported basis.

The cash flows associated with the lease payments which were previously classified as operating cashflows are now classified as interest costs and financing cashflows and have increased net cash generated from operations by £5.7m, net cash used in financing activities by £3.8m and interest costs by £1.9m. Underlying operating cashflow has increased by £5.0m with £0.7m of the increased financing activities cashflow attributable to an onerous lease payment, hence deemed as non-underlying, and excluded from underlying operating cashflow. There is no impact on Norcros's existing banking covenants as a result of the implementation.

Shaun Smith

Shaun Smith
Group Finance Director
25 June 2020

MERLYN

Charlegrove Properties – Landmark Pinnacle

The challenge

Charlegrove Properties, a leading developer in delivering London's most commercially successful, high-end residential projects, selected Merlyn to deliver a tailored solution for its new development, Landmark Pinnacle, for all apartment types.

Standing at the head of Canary Wharf's South Dock, it is one of London's tallest residential towers. This premium location offers breath-taking panoramic city views, but this exclusive location also required Merlyn to tailor delivery logistics with tight delivery schedules and to provide onsite installation support due to the specialist nature of the build.

The solution

Merlyn supplied an order of wet room panels, shower enclosures and bath screens with a mixture of finishes, to create a luxurious feel for the new units.

Merlyn delivered a competitive, realistic pricing structure with a robust delivery and installation plan. By appointing a specialist supply partner, Neville Lumb Barking, to handle the site logistics, this highly specified mix enabled Merlyn to meet the design, layout and budget criteria set by the client. This was matched by exemplary after-sales service.

The result

Merlyn's specification solution allowed the project to be completed on schedule, building a strong relationship with the developer and future business opportunities.

	Average rate vs £	
	2020	2019
South African Rand	18.97	17.95
Euro	1.15	1.14
US Dollar	1.27	1.31

	Closing rate vs £	
	2020	2019
South African Rand	23.07	18.79
Euro	1.14	1.16
US Dollar	1.23	1.30

	2020	2019	Change
Revenue (£m)	342.0	331.0	3.3%
Underlying operating profit (£m)	32.3	34.4	-6.1%
Underlying profit before tax (£m)	28.8	32.6	-11.7%
Underlying diluted earnings per share (pence)	28.2	31.7	-11.0%
Underlying return on capital employed (%)	16.8	18.2	-140bps
Underlying operating cash flow (£m)	38.4	39.8	-3.5%
Net debt (£m)	(36.4)	(35.0)	-£1.4m

Supporting business objectives through risk identification, monitoring and mitigation.

There is a range of potential risks and uncertainties which could have a material impact on the Group's performance. The objective of our risk management programme, summarised in our risk management framework, is to support the business in meeting its strategic and operational objectives through the identification, monitoring and mitigation of risk.

Risk management framework

How we manage risk

Our risk management activities form part of a flexible and robust governance framework, owned by the Board and overseen by the Audit and Risk Committee. It consists of the following key elements:

(1) Defined risk responsibilities:

Board – Overall responsibility for risk management. Defines the Group's risk appetite and culture

Audit and Risk Committee – Oversight and independent assurance of the framework

Management – Day to day operational management of risk following Group policies and reporting

(2) Defined risk policies and reporting:

- Formal Group risk management policy
- Standardised, regular risk reporting
- Divisional support from Group Head of Internal Audit and Risk

(3) Defined risk processes

Integrated top-down and bottom-up risk management

Group
STRATEGIC RISK MANAGEMENT
Identification, review and management of Group risks

Group and business units
RISK MONITORING
Review of risk registers

Business units
OPERATIONAL RISK MANAGEMENT
Update and maintain risk registers

Group Internal Audit and Risk
PROVIDE INDEPENDENT ASSURANCE
Facilitate risk reviews
Reporting on principal risks and uncertainties

Group Audit and Risk Committee
RISK OVERSIGHT
Review management of top risks

What we monitor

Risk landscape

Current risks:
Risks that could affect our business, customers, supply chain, employees, stakeholders and impact the achievement of strategic goals

Emerging risks:
"New" risks with a future impact, identified through the internal risk assessment process

Risk categories

- Strategic
- Commercial
- Operational
- Financial
- People
- Regulatory/legal
- Fraud

What we assess

Risk ownership: Each risk has a named owner

Risk scoring: Each risk is assessed in terms of its financial and reputational impact, and its likelihood, using a standard scoring scale

Inherent (gross) risk: Assessment before mitigating controls or actions are applied

Residual (net) risk: Assessment after mitigating controls or actions are applied

Target risk: Acceptable level of risk (risk appetite)

Actions: Required actions to address risks that exceed target risk appetite, including defined timeline

Principal risks

Our risk management framework identifies the principal risks and uncertainties that we consider may threaten the Group's business model, future performance, solvency or liquidity. These are explained in further detail in the table below, including how they are being managed. The Board has carried out a robust assessment of the principal risks and taken them into consideration when assessing the long-term viability of the Company on page 36. The list does not comprise all the risks that the Group may face, and they are not listed in any order of priority. Our current view is that many of our existing principal risks will become more uncertain due to the COVID-19 pandemic, which has affected not only our business, but society globally. We continue to monitor all risks closely as part of our risk management process.

Strategic risks

Coronavirus (COVID-19) Pandemic

Risk movement

New risk

Description

The virus that causes the COVID-19 disease was first identified in China in December 2019, the virus spread quickly and caused a global pandemic in the first quarter of 2020. Strict travel restrictions and social lockdowns were the primary measures implemented by governments around the world to contain the spread of the virus. These initially affected our supply chain in China, then, as the virus spread, our manufacturing and retail operations in the UK, Ireland and South Africa were impacted as our customers closed their operations and were advised to stay at home. As the world starts to recover, the post-COVID operating and economic environment is expected to remain extremely challenging with ongoing travel restrictions and social distancing measures, smaller economies and reduced demand for products all expected to have an impact.

Impact

The long-term financial impact of COVID-19 remains uncertain, but it has the potential to be significant and long lasting with many predicting that global economies will not fully recover for several years. The short-term impact is described in more detail in the strategic report. Strict travel and social distancing restrictions have had a significant impact on our suppliers, our operations and on customer demand across all sectors.

Initially, our China-based supply chain was affected by extended factory closures over the Chinese New Year, due to the travel and social restrictions imposed in China. As the virus spread around the world, some of our suppliers in Europe, particularly in Northern Italy, were similarly impacted by strict lockdown measures closing their facilities.

Our operations in the UK, Ireland and South Africa have all been significantly affected and were temporarily closed, or operating at reduced levels, during the lockdown periods in their respective countries. The primary reasons for the closures were the government-imposed restrictions on non-essential travel and the lack of market demand as our key customers' operations were closed or operating at limited capacity.

The strict travel and lockdown restrictions have now been partially relaxed or lifted in many countries, however, global economies, while expected to recover, are not expected to recover to previous levels for some time and the financial impact of COVID-19 is expected to be felt throughout the remainder of 2020 and beyond.

COVID-19 may affect other principal risks noted, for example by accelerating or exacerbating their effects.

Mitigation

Existing business continuity plans assisted us in mitigating the early impacts of COVID-19, including securing existing supply chains and alternative sources for parts and components. Our stock management systems also provided some protection against supply chain disruption through the utilisation of buffer stocks.

As manufacturing operations became affected, we moved quickly to safeguard our employees', their safety being paramount, and to limit the financial impact on the business through the temporary suspension of operations, bringing forward planned factory maintenance shutdowns where we could, furloughing employees, reducing discretionary expenditure and utilising government financial assistance where available. We ensured that those employees who could continue to do their jobs from home were technologically enabled to do so. Actions were taken to ensure that systems remained protected from cyber-attacks.

We have modelled a number of financial scenarios and have looked to ensure that sufficient cash reserves are in place to meet our obligations in these scenarios through the partial drawdown of available credit facilities to supplement our existing cash reserves.

We continue to closely monitor global developments as we enter a "restart" phase in both of our main markets, where we are working with our employees, customers and suppliers to ensure we can continue to operate safely and in accordance with the relevant guidelines. We also remain focused on cost alignment and cash preservation and will only reopen our facilities and capacity as demand recovers.

Principal risks and uncertainties continued

Strategic risks continued

Uncertainty surrounding Brexit

Risk movement

Stable

Description

The UK officially left the European Union (EU) on 31 January 2020. There are transitional arrangements in place until the end of 2020 while the UK and the EU continue to negotiate the final terms of the UK's relationship with the EU following its exit, which means there is continuing uncertainty around how Brexit will potentially impact the Group's operations and what the ramifications will be in the markets in which the Group carries on its business. The timing of the UK's final exit may be uncertain given the ongoing impact of the COVID-19 pandemic and the prospect of a 'no-deal' outcome at the end of the current transitional arrangements remains a possibility.

Impact

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.

Mitigation

The Group continues to regularly monitor economic indicators in the markets in which it trades and is experienced in implementing appropriate mitigating actions. Group-wide business-specific 'no-deal' Brexit risk assessments have been conducted to confirm appropriate mitigants are in place. These assessments will be kept updated as Brexit negotiations progress.

The Group has strong relationships with a number of technical specialists and regularly liaises with them to ensure the Group is well placed to react to legislative or other changes which occur as a result of Brexit.

Acquisition risk

Risk movement

Increasing

Description

Part of the Group's strategy is to grow through selective acquisitions.

Impact

Performance of acquired businesses may not reach expectations impacting Group profitability and cash flow.

The impact of COVID-19 may affect the cost or timing of potential acquisitions and the availability of equity or bank funding; however, it may also provide additional opportunities that would not otherwise have existed. We believe our conservative funding structure prior to the impact of COVID-19 means that we are well positioned to benefit from such opportunities.

Mitigation

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 acquisitions completing to ensure newly acquired businesses are integrated efficiently and swiftly after acquisition. Group Internal Audit and Risk conducts post-integration audits to ensure operations are fully integrated. Past acquisitions provide demonstrable evidence of the Group's ability to successfully integrate new businesses.

People risks

Staff retention and recruitment

Risk movement

Stable

Description

The Group employs 2,154 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.

Impact

Future growth plans may be restricted or delayed by difficulties experienced in recruiting and retaining appropriate staff.

The potential impact from having to furlough a large proportion of employees during the COVID-19 pandemic is unclear.

Mitigation

Group policy is to remunerate personnel in line with market rates and practices. In addition to competitive salaries – bonus schemes, share options and other benefits are offered.

Executive and key management are incentivised through 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 personnel appropriate training and development opportunities and has a demonstrable track record of internal promotion.

Post-COVID-19, general unemployment is likely to increase globally. As a stable business we expect to be able to attract and retain the quality and quantity of employees that we need to run efficiently and to deliver on our longer-term strategic targets.

Commercial risks

Market conditions

Risk movement

Increasing

Description

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 our key markets.

COVID-19 could have an unprecedented negative effect on the growth of the global economy at least in the medium term. Demand in our key markets could be affected for an unknown period.

Impact

Following the unexpected and rapid deterioration in market conditions arising from COVID-19, demand for our products could remain subdued in the short to mid-term, impacting profitability and cash generation.

Mitigation

There are a number of mitigating factors in place that we expect to limit the impact on the Group, including the breadth of products offered, the geographical spread of our businesses, a flexible cost base and supply chain and the replacement cycle of a number of our key products.

We maintain appropriate headroom against our borrowing facilities and covenants, maintain strong working capital and capital expenditure controls and we have disciplined planning, budgeting and forecasting processes.

Although the current situation is extraordinary, in previous cyclical downturns management has proved effective in proactively responding to such circumstances, and it continues to have similar measures available to minimise the effects on profitability and cash generation, including those provided by government.

Loss of key customers

Risk movement

Stable

Description

Whilst the Group has a diverse range of customers there are nevertheless certain key customers who account for higher levels of revenue.

COVID-19 has increased the risk that key customers could go out of business, or that they change their business models. They may move to an online, or other alternative model, and we may miss this opportunity if we fail to adapt to such changes.

Impact

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, or our failure to provide goods or services in the way a customer requires us to do so.

Mitigation

The importance of relationships with key customers is recognised and managed by senior management 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.

Each of our businesses continues to develop and evolve its digital and online offering in response to the changing trading environment.

Competition

Risk movement

Stable

Description

The Group operates within a highly competitive environment in all its markets.

Impact

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.

Mitigation

To help identify such risks, the competitive environment, the specific business marketplace and actions of particular competitors are reviewed and 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.

Principal risks and uncertainties continued

Operational risks

Reliance on production and assembly facilities

Risk movement

Stable

Description
The Group has a number of facilities for the manufacture and assembly of its products.

Impact
If any of these facilities (including technology used to operate them) were to fail, the effect on the Group could be significant.

Mitigation
The Group has a well-established ongoing preventative maintenance programme as well as a comprehensive and flexible "annual shutdown" programme throughout its manufacturing and assembly operations.

Furthermore, the Group has experienced globally co-ordinated product sourcing functions which help to mitigate the risk of failure.

Finished inventory holdings across the operations provide limited "buffer" stocks in the event of operational failure. Disaster recovery plans are in place and business continuity plans have been developed and were tested during the COVID-19 pandemic. Additionally, a business interruption insurance policy is in place to mitigate losses caused by a serious insurable event affecting manufacturing capability.

Loss of key supplier

Risk movement

Increasing

Description
The Group's extended supply chain, with its dependency on interconnected third parties for manufacturing, has several potential points of failure. Raw materials, components and energy represent a significant proportion of the Group's input costs. The potential lack of availability of, or poor-quality standards in, these key elements represents a significant risk.

Reliance on a single supplier within the supply chain, or on several suppliers in close geographical proximity, could lead to a failure to acquire the required quantity or quality of essential resources.

Impact
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. The risk of energy supply interruption is elevated in South Africa as its utility infrastructure is less well developed than in the UK.

Mitigation
The Group manages supply chain risks through long-term relationships with key suppliers, audits of key suppliers, 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 also looks to mitigate risks on energy supply where these arise. The Group also regularly reviews the geographical concentration of its supplier base and mitigates risks arising where it is commercially and economically practical to do so.

Cyber risk and data loss

Risk movement

Increasing

Description
The Group relies on several processes and automated systems to manage data and conduct its business. The prevalence and sophistication of cyber-crime, along with stringent data protection compliance requirements, present risks to all organisations.

The business continues to increase its use of flexible working, enabling more employees to work remotely. This evolution of working methods presents increased cyber security risks due to remote system access from potentially less secure home environments and unfamiliar working practices.

Impact
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, operating disruption or reputational damage.

Mitigation
The Group uses modern systems that are maintained and updated. The latest network and security protocols are deployed, updated and tested, and dedicated IT managers monitor services and networks in line with policies and procedures. Each business operates remote backups of data. The Group undertakes annual penetration testing conducted by certified third parties.

General Data Protection Regulation compliance reviews are undertaken to confirm the effectiveness of relevant processes and controls. Data protection representatives have been nominated at each business to provide advice.

Staff are regularly briefed on the latest cyber risks and controls. Cyber insurance is in place to mitigate the impact of losses.

New equipment and security tools and methods, such as virtual private networks and dual factor authentication, have been employed to mitigate remote working risks. Employees working remotely have received additional cyber security awareness training and advice.

Financial risks

Exchange rate risk

Risk movement

Increasing

Description

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, Euro and Renminbi).

Impact

Should Sterling or the South African Rand weaken against these currencies this could result in an increase in future input costs. In addition, COVID-19 has materially impacted customer demand patterns and increased the uncertainty over the quantity and the timing of goods and components we need to purchase to fulfil orders. This could lead to a significant over/under purchasing of currencies.

Mitigation

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.

Funding and Liquidity Risk

Risk movement

Increasing

Description

The Group's ability to grow and adapt its business is dependent, in part, on its ability to source funding at a reasonable cost. Whilst the Group has committed bank funding until November 2022, it is possible that the Group may find it difficult to obtain financing on commercially acceptable terms in the longer term.

Additionally, in the shorter term whilst the Group has significant liquidity headroom, it is possible that the impact of the COVID-19 pandemic will lead to significantly reduced trading resulting in pressure on liquidity and an increased possibility of breaching our financial covenants in our RCF facility.

Impact

The inability to source reasonably priced adequate longer-term funding could impact our growth strategy whilst in the short term a breach of one or more of the banking covenants could result in the Group's debt becoming immediately repayable.

Mitigation

We reforecast our liquidity and funding requirements and covenant performance monthly. Senior executives and divisional management teams review, monitor and track short-term liquidity weekly and covenant performance monthly.

We have developed and continue to maintain close relationships with our funding banks. We have had constructive discussions with the banking group who have agreed to covenant waivers at September 2020 and March 2021. We have agreed a replacement Maximum Net Debt covenant of £95m to be tested quarterly until the performance of the business returns to more normal levels. We believe this will provide the necessary headroom to allow us to continue to operate the business without damaging its market positions and to accommodate a possible slower recovery from COVID-19.

Pension scheme risk

Risk movement

Increasing

Description

The Group's pension position is subject to a number of risks including changes in interest rates, asset values, inflation and mortality (see note 24 for more detail).

Impact

These risks could increase the assessed pension scheme liability adversely or affect the funding of the defined benefits under the scheme and consequently the Group's funding obligations.

Mitigation

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.

All asset investments are managed by professional fund managers and a diverse asset portfolio is maintained to spread risk and return.

Executive Management regularly monitors the funding position of the scheme and is represented on the Trustee Board to monitor and assess investment performance and other risks to the Group.

The Group considers each valuation (IAS 19R and technical provisions basis) and reassesses its position regarding its pension commitments in conjunction with external actuarial advice.

The Group's financial results show a net deficit in this scheme, as at 31 March 2020, of £48.9m (2019: £31.6m) assessed in accordance with the accounting standard IAS 19R. The increasing deficit is primarily a result of the impact of COVID-19 on the financial markets and asset valuations.

We reached agreement with the pension scheme Trustee on the 2018 actuarial valuation and on a recovery plan. The actuarial deficit at 1 April 2018 was £49.3m (2015: £73.5m) and contributions of £3.25m per annum plus CPI will be payable for the 6.5 years to 30 September 2025.

Pension scheme valuations are undertaken on a triennial basis and the next one is due to take place in 2021. The current deficit recovery contributions could be adjusted following that valuation.

Viability statement

In accordance with provision 31 of the 2018 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 2023. 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, although COVID-19 limits this, and it is also the period over which long-term incentives are set for Executive Directors and senior management.

Due to the impact of COVID-19 and the financial scenario planning that was developed it was evident that in certain stress scenarios it was possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. We therefore approached our banking group to seek appropriate amendments to certain covenants. As a result, the banking group has agreed to waive the leverage covenant at September 2020 and March 2021 and also the interest cover covenant at March 2021. In return, we have agreed a replacement maximum Group net debt covenant, of £95m, to be tested quarterly until June 2021 when the performance of the business is projected to return to more normal levels of activity.

The assessment of viability has been made with reference to two financial scenarios covering the next three years which are specifically designed with a short term focus on cashflow and liquidity as the Business responds to the COVID-19 lockdown and the resulting level of uncertainty in the trading environment. The scenarios include conservative projections for the following years sensitising our performance to possible recessionary impacts in the economies we operate in. The first year in the forecast, year to 31 March 2021, was developed on a bottom-up basis using key assumptions, the most important of which include estimates of revenues, operating costs and future capital expenditure. Sensitivities were applied to the model which were informed by internal and external data sources, including a review of the Group's current trading levels and a review of regional macroeconomic forecasts. Further downside sensitivities were applied in relation to potential future COVID-19 impacts including depressed economic activity from causes such as further business disruption, social distancing and customer failures.

This data was aggregated to model two downside scenarios to reflect the potential impact of COVID-19 on the Group as summarised below:

- **Scenario 1:** significant reduction in revenue, 62% of that reported in the year to 31 March 2020. It should also be noted that we estimate that COVID-19 reduced revenues in year to 31 March 2020 by c£13.2m.
- **Scenario 2:** significant reduction in revenue, 57% of that reported in the year to 31 March 2020 with the second half revenue significantly weaker whereby lockdown is initially eased more quickly which results in a COVID-19 "double dip" reduction in half two revenues.

In both scenarios, the year to 31 March 2022 was forecast as a prudent view of how our markets may recover post the COVID-19 impacted year to 31 March 2021 with revenue forecast at circa 90% of the already COVID-19 impacted year to 31 March 2020. The year to 31 March 2023 was prudently modelled at 1% growth on the prior year. Both scenarios include a number of cash conservation and cost reduction actions.

In each of the scenarios modelled the Group maintains the necessary liquidity levels and complies with the amended facility covenants despite each of the scenarios modelling the impact of significant declines in revenues, earnings, cash outflows and increasing leverage. The Directors have prepared and reviewed the two Scenarios that show material reductions in demand in the main markets we operate in and consider these to be reasonable worst cases based on the information that is currently available. The current situation is unprecedented with the future difficult to predict and may result in different outcomes to those modelled. The Directors have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023.

VADO

Introducing Individual by Vado

Celebrating innovation and original design, Vado revitalised Individual, a distinctive range of taps, showers and accessories, available in six contemporary finishes, tailored to create a look that will stand the test of time.

Brushed black, brushed gold, brushed nickel and bright gold finishes are available for retail markets, whilst brushed bronze and bright nickel are available exclusively for specifications and contract markets.

Each finish features new Aqua Armour technology; a state-of-the-art coating, designed by VADO, to provide a durable, long-lasting finish. Aqua Armour defends against high temperatures, corrosive substances and general wear and tear, offering premium protection from everyday use. Individual's leading 15 year guarantee ensures the consumer can complete their look with confidence.

MERLYN

Merlyn IQ – The easiest shower door you will ever fit

The new innovative Merlyn IQ range takes the hassle out of fitting. The unique patent pending easy-fit mechanism makes fitting Merlyn IQ simple and easy to install. Unlike standard shower doors, Merlyn IQ is a one person install, uses no screws on the frame assembly and is built on the tray, so is perfect for fitting in smaller bathrooms and en-suites. The slot and lock fittings dramatically eliminate the need for any screws and drilling on the frame assembly. The easy-fit rollers and clever installation tools, all make Merlyn IQ the easiest door you will ever fit.

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

Employee Engagement

The Board ensures effective engagement with, and encourages participation from, all employees. There are many aspects to employee engagement including induction processes, communications, feedback, surveys and appraisals. 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 involvement best suits their circumstances. Amongst other things, employee communications focus on achieving a common awareness of the financial and economic factors affecting the performance of the business. Our approach to employee engagement provides flexibility and enables divisional management to tailor its many activities to the needs of its particular business. The Board stays in touch with all our employees via regular meetings with divisional management and site visits to our operations and receives reports on employee matters. Employees are encouraged to be involved in the Company's performance through employee shares schemes, and other means of incentivisation and reward. In order to monitor employee engagement, the principal businesses within the Group conduct regular employee surveys as part of the business's engagement programme, and other businesses have survey processes planned. Progress with a group-wide roll out of surveys has been delayed by virtue of the COVID-19 crisis, where the emphasis as regards employees necessarily switched to employee welfare and engagement on the impact of COVID-19 on the business and support to all employees affected directly or indirectly by it. Throughout this difficult time all our businesses have maintained good engagement with their employees.

Training and Development

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.

We are committed across all Norcros businesses to education and career development.

TRITON

Training on tap

Technology is constantly changing, not least in the plumbing industry, with new trends such as the digital shower revolution seeing more and more installers returning to the classroom to get up to speed.

In 2019, Triton Showers trained more than 100 installers at its specialist facility in Warwickshire and visited a further 500 at colleges across the UK. Triton provides two-day courses covering electric, mixer and power showers.

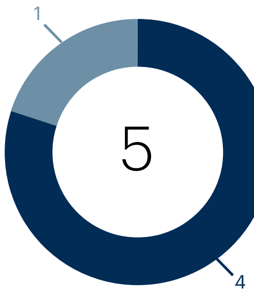
Paul Rowley, Approvals & Training Manager, said: "In order to ensure all installers are able to access valuable resources, we want to be able to share information in a number of different ways. This includes producing video content and advice led pieces in the trade press and communicating in person.

"We have found that the most effective way to build knowledge is to meet face to face with trade professionals. This is why we place such importance on attending key exhibitions like Installer 2019. It gives us the chance to meet new people so we can boost awareness of our products and key technology. During such events, we can gain a better understanding of where plumbers need more support.

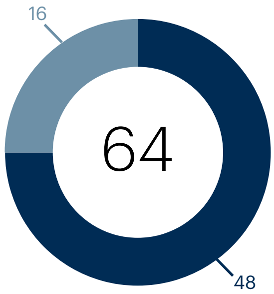
"Our training doesn't stop with qualified professionals though; helping apprentices to learn the plumbing essentials is also a key focus. We work closely with colleges across the UK to help educate the next generation, giving them hands-on practical experience."

GENDER OF DIRECTORS AND EMPLOYEES[1]

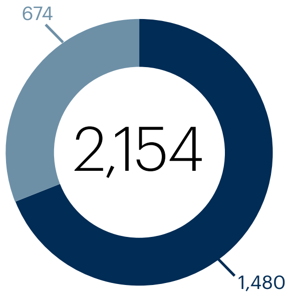
Company Directors



Other senior managers[2]



Total employees



Male Female

1 As at 31 March 2020.

2 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.

Diversity and Inclusiveness

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 Nomination 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 25% of employees are female.

> “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 Nomination Committee ensures the best person for the role is appointed and in doing so gives due consideration to gender and diversity.”

In June 2020 the Group published its 2019 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. Some progress has been made in reducing the gender pay gap, with the difference between males and females for this measure reducing by 2.0% compared to the previous year.

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. The Group publishes its supplier payment data for the UK in accordance with supplier payment reporting regulations.

Human rights

Our corporate values focus on respect, integrity and fairness. We are committed to respecting the dignity of the individual and to support the United Nations Declaration of Human Rights and other core conventions. As a result the Directors do not consider human rights issues 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 businesses are cognisant of their responsibilities under the Broad-Based Black Economic Empowerment legislation. In addition, the Group has its Modern Slavery Act statement and a policy in support of this.

Corporate responsibility and sustainability continued

TRITON

Triton makes stream of changes to improve sustainability

Following a successful period of activities to reduce its impact on the environment, Triton Showers has committed to a number of new, bold goals.

The ambitious targets include a further reduction in gas and electricity use by 5%, as well as a 20% reduction in packaging.

A concerted effort to reduce water usage by 7% has led to the introduction of two new water meters to help identify where the majority of water is being consumed. With production and the lab facility being singled out as key users, plans are now afoot to conserve the resource as much as possible.

Further developments to maintain its zero waste to landfill status has led to the purchase of a brand-new shrink wrap machine in 2019 which provides a 3,180kg reduction in material used, thanks to the equipment being able to stretch the existing shrink film two and half times more than the original.

Staying with packaging, Triton has pledged to minimise its usage by 20%. As a result, new tote boxes have been introduced to eliminate the repacking of items internally.

Not resting on its laurels, Triton has challenged suppliers to remove unnecessary extras, such as tissue paper, bubble wrap and strapping used on the outer boxes. As a result, two out of three suppliers have invested in re-useable plastic containers, which has meant that Triton has seen significant reductions in the amount of cardboard being received from UK suppliers.

> “Norcros is committed to minimising its impact on the environment by continually improving its efficiency in terms of energy, water and material consumption.”

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.

Norcros is committed to minimising this impact by continually improving its efficiency in terms of energy, water and material consumption. One particular area of focus across the Group has been taking steps to reduce plastics, particularly packaging. 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 75. Whilst there has been a modest decrease in overall emissions compared to last year, this has to be considered in the context of the impact of COVID-19, which reduced the Group’s energy consumption markedly in the final months of the year. In the context of the overall growth in the activities of the Group, relative to revenue, emissions have fallen by 4.5% 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’s 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 promote an open culture of legal and ethical compliance, the Group has in place global “whistleblowing” procedures across all its locations, so that any concerns can be raised. During the year, the Audit and Risk Committee reviewed these arrangements and is satisfied that all Group employees may, in confidence, raise concerns about possible improprieties.

TILE AFRICA

Going beyond toilets for Eastern Cape school

As part of its commitment to support the government's SAFE initiative, Tile Africa, a division of Norcros South Africa, over the last two years, has been working to upgrade school bathroom facilities for students at needy schools.

Most recently Tile Africa assisted Nokwazi Junior Secondary School with new toilets for its learners. This is the first of five schools that the company has pledged to assist with providing bathroom facilities.

The Nokwazi School had no pre-existing bathrooms for its approximately 350 students. Located in rural Ladyfrere, Eastern Cape, the project presented some unique challenges, foremost being the fact there was no running water at the school. A two-fold approach was applied to solve this.

Once construction was complete, Enviro-loo were contracted to deliver a sustainable waste management solution, the urinals and toilets operated on dry sanitation systems using sun and wind to transform human waste into a safe, stabilised material without the use of water, electricity or chemicals. For the basins, Tile Africa drilled a borehole in order to provide running water for the children. House of Plumbing, also a division of Norcros South Africa, supplied resin-based basins for the project, which are extremely strong and will not crack or chip, as traditional porcelainware can.

Norcros SA noticed that there was no formal kitchen space for school meals, so the team decided to go the extra mile and convert a storage container into a kitchen, with running water piped into the sinks from the new borehole. It trained community members in Ladyfrere on how to tile, in order to uplift their skills, and to enable future maintenance and repairs of the facilities. A supply of spare tiles and adhesives were left at the school for this purpose. Finally, a cleaner was also hired for the first three months and the division plans to return to the school by the end of the year to provide toiletries for the students.

▲ A waterless dry sanitation system was installed for the toilets and urinals at Nokwazi school.

> "Tile Africa remains available to all the schools they have assisted for additional support and follow-up maintenance where possible."

Corporate responsibility and sustainability continued

JOHNSON TILES

Johnson Tiles contributes to the Donna Louise Hospice

The Donna Louise Hospice for children and young people provides a lifeline to hundreds of families across Staffordshire and South Cheshire who are facing every parent's worst nightmare, the heartbreaking knowledge that they will almost certainly outlive their child.

April saw the completion of a striking vibrant blue butterfly sculpture in Trentham Gardens, Stoke on Trent, crafted by Johnson Tiles and Wade Ceramics.

Each butterfly is unique and has been crafted by Johnson Tiles, also the maker of the poppies for the internationally acclaimed Tower of London art installation. The butterflies were then glazed and finished by Wade Ceramics in Stoke on Trent. The project, which featured a total of 5,000 ceramic butterflies, was opened in May 2019 with the help of more than 30 businesses, which pledged their support.

"Our commitment to the society in which we operate is deep. Every Group business has programmes of social engagement, including many charitable activities."

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's activities on a monthly basis. Some particularly noteworthy examples of our commitment to the society in which we operate are given in the case studies accompanying this CSR report.

VADO

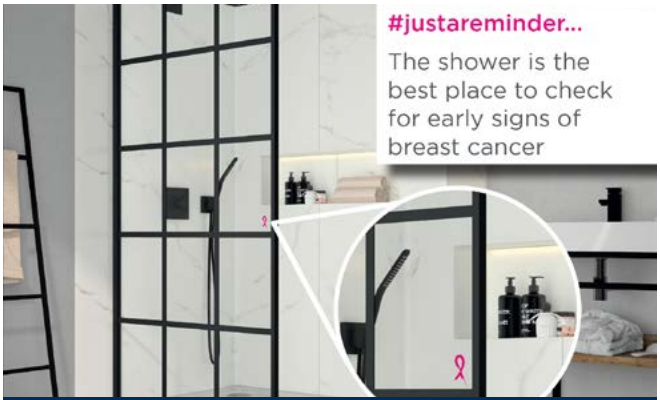
Vado Velo raises £75,000 for charity

The inaugural Vado Velo has raised a staggering £75,000 for charity after members of the KBB industry embarked on a gruelling 240-mile cycle ride through Northern France.

Raising money for the African Children's Fund (ACF), 38 cyclists were challenged to a three-day voyage from Calais to Reims, via Arras and St Quentin. All participants were tasked with raising up to £2,250 each, with all funds to be donated to the ACF's Kenyan Schools Programme to aid six schools located around Thika, a small town near Nairobi, Kenya.

Departing Calais on 6 September 2019, cyclists travelled approximately 80 miles per day for three days, experiencing steep inclines, multiple punctures and various tyre replacements. To compensate for such arduous challenges, cyclists were treated to breath-taking landscapes, cultural landmarks and well-deserved hospitality, courtesy of CCD Global Events.

Aiming initially to raise £55,000 for the ACF, the Vado Velo smashed its target sum, leaving the event organisers from the Vado sales team delighted at the event's debut success.



MERLYN

#justareminder campaign with The Pink Ribbon Foundation

Merlyn, the UK's leading shower enclosure company, is delighted to be working with renowned breast cancer charity The Pink Ribbon Foundation in a partnership set to raise funds and awareness that will ultimately save lives.

Keen to harness the positive power that a daily shower can have in our lives, Merlyn is initiating the campaign called "#justareminder…", a simple, stickered prompt of the instantly recognisable Pink Ribbon symbol displayed on enclosures, accompanied by point of sale material and information in Merlyn's bid to get the message across.

Merlyn are also supporting The Pink Ribbon Foundation financially by organising and taking part in a series of fundraising events.

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 43 of Norcros plc was approved by the Board and signed on its behalf by:

Nick Kelsall
Group Chief Executive
25 June 2020

Statement by the Directors in relation to their statutory duty in accordance with S172(1) Companies Act 2006

The Board of Directors of Norcros plc consider that they, both individually and collectively, have acted in a way that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in section 172(1)(a-f) of the Companies Act 2006) in the decisions they have taken during the year ended 31 March 2020.

In making this statement the Directors have had regard to the longer-term consideration of stakeholders and the environment and have taken into account the following:

a) the likely consequences of any decisions in the long term;

b) the interests of the Company's employees;

c) the need to foster the Company's business relationships with suppliers, customers and others;

d) the impact of the Company's operations on the community and the environment;

e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

f) the need to act fairly as between members of the Company.

The Directors fulfil their duties by ensuring that there is a strong governance structure and process running through all aspects of the Group's operations. The strategy for the Group has been carefully considered by the Board in conjunction with the Group's executive management teams. Full consideration was given to the Group's capital structure and capital allocation policy and its resilience to existing and emerging risks (see pages 30 to 35). The Group's culture has been a particular focus of the Board (see pages 6 and 7) and is embodied in how we endeavour to go about our business. The Group's strategy and business model are underpinned by the commitment and efforts of all our employees, and all members of the Board undertake regular site visits. Employee engagement measures are in place as appropriate throughout the Group. This area of focus is led by Alison Littley as the designated Non-Executive Director for workforce engagement (see page 38). The Group engages with its key stakeholders in a variety of ways, explained in more detail in the Corporate Social Responsibility section of the Strategic Report (see pages 38 to 43) and the Corporate Governance report on pages 46 to 49. The Group's focus on sustainability and ESG issues is particularly relevant to our stakeholders and these are summarised on page 40. The Board is kept informed of all relevant issues by means of written and verbal reports, and by their own direct interactions with the businesses of the Group.

A strong leadership team committed to driving our strategy for growth.




Martin Towers Chair of the Board	**Nick Kelsall** Group Chief Executive	**Shaun Smith** Group Finance Director	**David McKeith** Non-executive Director
Committee membership			
N R			A N R
Date of appointment			
Joined the Board in July 2011 and was appointed Chair in November 2012	Chief Executive on 1 April 2011 having previously served as Group Finance Director since October 1996	Appointed Group Finance Director in April 2016	Appointed to the Board in July 2013
Length of tenure			
Eight years	Nine years	Four years	Six years
Skills and experience			
Martin is also the non-executive chairman of Tyman plc and Restore plc, and was the senior independent director of RPC Group plc but stepped down from the board in 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 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 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 became a non-executive director of Air Partner plc in 2016 and stepped down from this role in 2019.	David is Senior Independent Director and Chair of the Audit and Risk Committee. David was the senior partner of the Manchester and Liverpool offices of PricewaterhouseCoopers LLP and served on its UK supervisory board. David was until 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.

Alison Littley
Non-executive Director

A N R

Appointed to the Board in May 2019

One year

Alison was appointed a Non-executive Director in May 2019 and appointed Chair of the Remuneration Committee in July 2019. Alison has substantial experience in multinational manufacturing and supply chain operations, and a strong international leadership background gained through a variety of senior management positions in Diageo plc and Mars Inc and an agency to HM Treasury where she was chief executive officer. She is currently a non-executive director at Headlam Group plc, Geoffrey Osborne Group and Xaar plc. Alison was formerly a non-executive director of James Hardie Industries Plc and will step down from her role as non-executive director of Weightmans LLP in June 2020.

Mark Allen
Non-executive Director

A N R

Appointed to the Board in May 2020

One month

Mark was appointed a Non-executive Director in May 2020 and will be appointed Chair of the Board at the conclusion of the Company's 2020 AGM. He spent the majority of his executive career at Dairy Crest plc, where he was CEO from 2006 until 2019. He is currently a non-executive director of Warburtons Limited, and from 2011 to 2019 was a non-executive director of Howden Joinery Group plc. Previously he was also the Chair of Dairy UK Ltd, the trade body of the dairy industry.

Richard Collins
Company Secretary

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

Seven 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.

A Audit and Risk Committee

N Nomination Committee

R Remuneration Committee

Chair of Committee

Re-election of all Directors

It is proposed that each Director (other than Martin Towers) will seek election or re-election at the 2020 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.

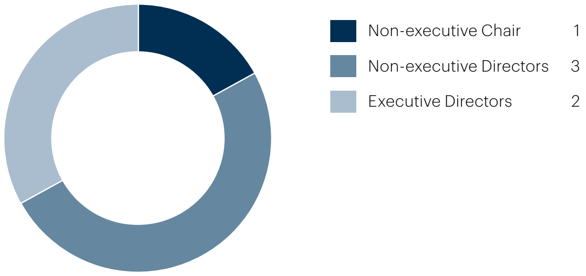
Corporate governance

Committed to ensuring high standards of corporate governance.

Chair's introduction to governance

For the year under review the Company has complied with the 2018 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 2018 (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 2020, unless otherwise stated.

Board balance and independence

The Board normally comprises the Non-executive Chair, two Non-executive Directors and two Executive Directors, and all Directors are equally responsible for the proper stewardship and leadership of the Company. For a short period during the year, between 1 May and 23 July 2019, there were three Non-executive Directors as there was a handover period between Jo Hallas and Alison Littley as Chair of the Remuneration Committee. In preparation for the retirement of Martin Towers, Mark Allen was appointed as a Non-executive Director with effect from 1 May 2020 and he is Board Chair-designate, ensuring an adequate handover period as Board Chair, which role he will assume at the conclusion of the Company's 2020 AGM. The Directors holding office at the date of this report and their biographical details are given on pages 44 and 45.

Taking into account the provisions of the Code, the Chair and all the 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 Board Chair 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 Chair and Non-executive Directors are disclosed to the Board on a regular basis throughout the year.

Governance structure

The Board
Martin Towers (C)
Mark Allen, Board Chair-designate

Audit and Risk Committee
David McKeith (C)
Alison Littley (appointed 1 May 2019)
Jo Hallas (stepped down from the Board and the Committee on 23 July 2019)
Mark Allen (appointed 1 May 2020)

Remuneration Committee
Alison Littley (C) (appointed 1 May 2019 and replaced Jo Hallas as Committee Chair from 23 July 2019)
Jo Hallas (stepped down from the Board and the Committee on 23 July 2019)
Martin Towers
David McKeith
Mark Allen (appointed 1 May 2020)

Nomination Committee
Martin Towers (C)
David McKeith
Alison Littley (appointed 1 May 2019)
Jo Hallas (stepped down from the Board and the Committee on 23 July 2019)
Mark Allen (appointed 1 May 2020)

The Board is satisfied that the Chair's other significant commitments do not prevent him from devoting sufficient time to the Company.

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 Board Chair, 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 Board Chair, 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 Chair who will then circulate it to the other members of the Board and the Company Secretary.

Chairman and Group Chief Executive

The positions of Chair and Group Chief Executive are held by separate individuals and the Board has clearly defined their responsibilities. The Chair 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 Chair. The Executive and Non-executive Directors are evaluated individually by the Chair. The Board, led by the Senior Independent Non-executive Director, appraises the Chair, 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 Chair 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 Nomination Committee, Audit and Risk 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 Nomination Committee is on page 55, the report of the Audit and Risk Committee is on pages 50 to 54 and the report of the Remuneration Committee is on pages 56 to 74.

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 are encouraged to take on one non-executive directorship in another non-competing company or organisation. The Group Chief Executive has no non-executive directorships. The Group Finance Director was a non-executive director of Air Partner plc having stepped down from this role on 26 June 2019.

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 Board Chair is informed before any such offer is accepted and the Chair 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 Chair will ensure that major shareholders have the opportunity to meet a new Non-executive Director. The Chair 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 44 and 45, 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 77.

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 9 meetings	Audit and Risk Committee 3 meetings	Remuneration Committee 5 meetings	Nomination Committee 5 meetings
Martin Towers, Chair	9/9	—	5/5	5/5
David McKeith	9/9	3/3	5/5	5/5
Alison Littley[1]	7/9	3/3	5/5	5/5
Jo Hallas[2]	3/9	1/3	2/5	1/5
Nick Kelsall	9/9	—	—	—
Shaun Smith	9/9	—	—	—

1 Alison Littley was appointed to the Board on 1 May 2019.

2 Jo Hallas stepped down from the Board on 23 July 2019.

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 received 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 Board Chair 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.

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 Board Chair seeks to arrange for the Chairs of the Audit and Risk, Remuneration and Nomination 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 77 and the Auditor's Report on pages 78 to 83. 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 the Group Head of Internal Audit and Risk, who is independent of that business unit. The results of these reviews are communicated to the Audit and Risk 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 30 to 35.

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 36.

Operational structure, review and compliance

In addition to the Group Finance Director, the Group has Senior Financial Managers at its Head Office. The current Group Head of Internal Audit and Risk was appointed in March 2020 and he is responsible for the Internal Audit and Risk function for the Group. Further information on the work of this function is in the Audit and Risk Committee's report on pages 50 to 54.

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 reviewed 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 Group Head of Internal Audit and Risk working in conjunction with the Audit and Risk 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 pages 75 and 76.

Approved by the Board of Directors on 25 June 2020 and signed on its behalf by:

Martin Towers.

Martin Towers
Board Chair
25 June 2020

Monitoring the Company's reporting and risk management.

During the year, the Committee focused on oversight and monitoring of key risks and risk management policies and procedures.

Role of the Audit and Risk Committee

The main responsibilities of the Audit and Risk 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;
- overseeing the work of internal audit; and
- advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable.

Members

During the year to 31 March 2020, the Committee has consisted only of Non-executive Directors. Jo Hallas left the Committee when she stepped down from the Board, at the AGM on 23 July 2019. Alison Littley was appointed to the Board on 1 May 2019 and she joined the Committee on that date. Mark Allen joined the Committee on his appointment to the Board on 1 May 2020 and he will step down from the Committee when he becomes Board Chair at the conclusion of the Company's 2020 AGM. Biographies of the members of the Committee appear on pages 44 and 45.

The Chair of the 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. The Committee reviewed its own terms of reference, performance and constitution during the year.

Responsibilities

The Committee's terms of reference, which are in compliance with the UK Corporate Governance Code, provide full details of its role and responsibilities and a copy can be obtained from the Company's website, www.norcros.com.

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 internal audit programme and reviewing the outputs; and
- overseeing the appointment and work of the external auditor.

Significant financial reporting matters in the 2020 Annual Report

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

Reporting of COVID-19

The Group has reported the impacts of COVID-19 on the business and has provided an update on the short-term actions taken to date. This has included detailed commentary on the impacts and actions on employees, operations, financing and commercial trading. It has also estimated the impacts of COVID-19 on the financial results in the year to 31 March 2020.

The Committee reviewed and considered the approach and judgements taken by management in reporting the impacts of COVID-19 with reference to regulatory guidance available at the time. The Committee is of the view that the commentary provided by management is fair, balanced and understandable and provides shareholders and stakeholders with clear information on the COVID-19 impacts on current trading and the Group's financial liquidity.

Going Concern and Viability Statement

The Group has prepared a going concern and viability statement reflecting the impact of the COVID-19 pandemic on liquidity and solvency through the modelling of different potential scenarios on the Group's forecasts. Further details on the scenarios modelled are included on page 36 and on pages 89 and 90.

The Committee, alongside the Board, has reviewed and considered the detailed forecast scenarios and agrees with management's conclusions.

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. The net deficit relating to the Group's UK defined benefit pension scheme (as calculated under IAS 19R) has increased to £48.9m at 31 March 2020 from £31.6m at 31 March 2019, primarily a result of the impact of COVID-19 on the financial markets and asset valuations. 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.

The Committee considered the approach and judgement taken by management in determining the value of the provision and concurred with management's view.

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 2020 Annual Report and Accounts are fair, balanced and understandable.

Meetings of the Committee

The Committee met formally three times during the year ended 31 March 2020. By invitation, the Board Chair, Group Chief Executive, Group Finance Director, Company Secretary, Group Head of Internal Audit and Risk 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 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 and internal auditor without management being present. The Chair of the Committee also has regular discussions with the external audit partner outside of the formal Committee process, and he met with the Group Head of Internal Audit and Risk without management being present.

At each of its meetings the Committee reviews any financial communications issued to the market.

Audit and Risk Committee report continued

Principal activities of the Audit and Risk 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 impact assessment of IFRS 16 and related disclosure requirements
	Review of the Company's interim results for the six months ended 30 September 2019
	Review of the Company's Annual Report and Accounts for the year ended 31 March 2020, 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
	Review of changes to corporate reporting requirements
	Review of accounting for customer rebates and other trade promotional spend
	Review of acquisition accounting for House of Plumbing
	Review of the impairment of assets at Johnson Tiles UK due to the impacts of the COVID-19 pandemic on future cash flows
	Review of onerous lease provision
	Review of the Group Accounting Manual
External audit	Review of the external auditor's proposed audit work plan for the year ended 31 March 2020, 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 2020
	Participation in the tender process for the external audit and approval of new external auditor
Internal audit	Review of the internal audit work programme for 2019/20
	Approval of the annual internal audit programme for 2020/21
	Assessment of the work carried out to test and review internal controls and IT security, together with the status of recommendations identified
	Approval of appointment of Group Head of Internal Audit and Risk
Compliance	Review of the whistleblowing incident log
	Review of the fraud issues log
	Review of the General Data Protection Regulation incidents log
Risk management	Review of the Group's principal risks and uncertainties including risk identification, management and monitoring procedures
	Review of the Group's risk assessment and ongoing preparedness for the UK leaving the EU
	Review of the actions taken by the Group to manage risks arising from coronavirus (COVID-19)
Governance	Conducted 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 and constitution in line with current best practice

Internal audit framework

The Group has a dedicated Group-wide Internal Audit and Risk function that is led by an experienced Group Head of Internal Audit and Risk. This role is supported by a dedicated internal auditor based in South Africa focused on the particular risks faced by the Group's retail and manufacturing operations in South Africa.

The Group operates a rolling twelve-month audit plan prepared by the Group Head of Internal Audit and Risk, which is based on risk assessments carried out by the Group, including senior management input, and is reviewed and approved by the Committee. At each meeting, the Committee considers the results of the audits undertaken during the preceding period and the adequacy of management's response to matters raised. Additionally, the related mitigations against issues and actions raised from these audits are systematically followed up in subsequent Committee meetings until they are adequately resolved.

The Group control and risk self-assessment questionnaire, completed annually by each business unit, is reviewed by the Group Head of Internal Audit and the Group Financial Controller. This includes a management representation requiring each division to confirm that they have applied and followed all required policies and procedures in the year. Key control issues that arise from this review are raised with the Committee, with the results of this assessment also feeding into the audit plan and individual audit engagements.

Group Internal Audit and Risk activities during the year

The Group Internal Audit and Risk team provided assurance across a wide range of risks during the year in line with the audit charter. The annual audit plan included business reviews of operational units, assessing the effectiveness of key internal controls in place over selected systems. In South Africa, the primary focus was on the controls in place at retail outlets with completion of a cycle of operational reviews across a range of stores. The plan also covered follow-ups of the previous year's audits to confirm management's progress with agreed actions.

Other key activities included: ad hoc fraud reviews, due diligence work on potential acquisitions, ongoing review of and input to business continuity plans, review of management self-assessments covering financial and information security controls and other key risks, participation in payroll and ERP system implementations, GDPR controls validation and anti-bribery and corruption controls validation.

Summaries of all findings and actions, and updates on all audit work and other key activities are provided at each Audit and Risk Committee meeting.

In relation to the impact of COVID-19 on our control frameworks, the Committee reviewed work carried out by the Group Head of Internal Audit and the Group Financial Controller concerned with ensuring our divisions have implemented additional or amended controls in light of the changed working environment during the COVID-19 lockdowns.

Risk management framework

Our risk management framework is highlighted on page 30 of our Strategic Report. The Audit and Risk Committee's role in the risk management framework can be summarised as:

1. Review of current and future risk through the discussion of risk and mitigating actions with divisional management in annual strategic reviews.
2. Annual review of the risk management reporting process and associated outputs to ensure it is robust and effective and includes strategic and operational risks that could threaten the business model and future strategy.
3. Review of the Annual Report to ensure that it is a fair reflection of risk assessments undertaken.

Internal control and risk management review

The Board has overall responsibility for the Group's system of internal control and risk management 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 Committee undertakes a review, at least annually, of the effectiveness of the Company's system of internal controls and risk management 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 2019 to the date of approval of these Annual Report and Accounts for the year ended 31 March 2020.

Fraud and whistleblowing

The Group maintains a whistleblowing policy and engages two independent confidential whistleblowing service providers, one covering South Africa specifically and the other covering all other locations. Reports on the use of these services, any significant concerns that have been raised, details of investigations carried out and any actions arising as a result are reported to the Committee at each meeting.

The Committee also receives papers on incidents of fraud or attempted fraud 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 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 four years and due to the impending change of auditor, 2020 will be her final audit.

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 Chair 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 2020 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 Chair of the Committee also has regular discussions with the external audit partner outside the formal Committee process.

For the year ended 31 March 2020, the Committee was satisfied with the independence, objectivity and effectiveness of the relationship with PricewaterhouseCoopers LLP as external auditor.

External audit tender and appointment of auditor

The external auditor, PricewaterhouseCoopers LLP, was last re-appointed in November 2011 following a competitive tender process. The Committee had previously committed to conducting a tender process for the role of external auditor at least every ten years in line with current legislation. In September 2019, the Board asked the Audit and Risk Committee to conduct a competitive audit tender during this financial year in line with FRC best practice guidance. An audit tender panel was formed comprising of the Audit and Risk Committee members, the Group Chief Executive, the Group Finance Director and the Group Financial Controller. A number of audit firms were initially reviewed before three were invited to tender for the audit. The tender process involved a number of site visits and senior management interviews culminating in a proposal and presentation. In line with FRC guidance two possible audit firm options for the engagement were recommended to the Board, together with a justified preference for one of them. This recommendation was agreed by the Board in December 2019 and the preferred firm, BDO LLP, accepted the engagement.

In light of the outcome of the tendering process, the Committee has recommended to the Board that BDO LLP be appointed as external auditor for the current financial year and a resolution proposing this will be put to the 2020 Annual General Meeting. PricewaterhouseCoopers LLP has agreed to step down as auditor with effect from the conclusion of that AGM. As required by law PricewaterhouseCoopers LLP has provided a statement to the Company concerning their ceasing to act as its auditor. This statement confirms that there are no matters to bring to the attention of shareholders or creditors.

As part of the onboarding process, BDO LLP have formally shadowed the March 2020 audit in agreement with PricewaterhouseCoopers LLP. This has involved attendance at key meetings during the audit and file review.

On behalf of the Audit and Risk Committee

David McKeith
Chair of the Audit and Risk Committee
25 June 2020

Evaluating the Board and appointing new Directors.

Role of the Nomination Committee

The main responsibilities of the Nomination 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 Nomination Committee and the Board seek to maintain an appropriate balance between the Executive and Non-executive Directors. The Nomination Committee is chaired by the Chair of the Board and consists of all the Non-executive Directors. The Board Chair will not chair the Committee when it deals with the appointment of a successor to that role.

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 Nomination 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.

During the year the Committee led a process to appoint a Board Chair as a replacement for Martin Towers, who will step down from the Board at the 2020 AGM. As it concerned his role, the Board Chair took a back seat in the process, which was led by David McKeith, the Senior Independent Director. The Committee engaged the services of an external search consultancy, Russell Reynolds, with which the Company has no other connections, and following an open and rigorous search and selection process, Mark Allen was appointed to the Board and Chair (designate) with effect from 1 May 2020.

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. The Committee has also implemented a leadership development programme for senior management in the Group, led by the Group Chief Executive.

Martin Towers.

Martin Towers
Chair of the Nomination Committee
25 June 2020

Ensuring alignment of the remuneration structure.

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 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;
- keep under review the Executive Director remuneration policy (and the approach to implementation) in the context of pay policies and practices across the wider workforce, and the Group's culture; and
- prepare 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 2020.

At the time of writing this Annual Statement, I am mindful that the COVID-19 pandemic continues to impact our employees and their families, as well as our business performance. Whilst these exceptional events have also had an impact on the Committee's decision making in relation to remuneration for the years ended 31 March 2020 and ending 31 March 2021 (further details of which are set out later in this report), we have also been mindful of the need to continue with our regular duties. One of these duties during the year in review has been the requirement to review the remuneration policy. The three-year term of the current policy is due to expire in 2020, as a result of which we are required to seek approval for a new policy at the 2020 AGM. Details of the proposed revisions are set out below and, if approved by shareholders, this policy shall take effect from the date of the 2020 AGM for a period of up to three years.

Remuneration Policy

The Committee continues to place the interests of shareholders at the forefront of its decision making when implementing the Directors' Remuneration Policy ("Policy"), which was approved by 99.1% of shareholders voting at the 2017 AGM.

In early 2020, the Committee reviewed the Policy and considered any necessary changes to help ensure it remains fit for purpose, whilst appropriately reflecting evolving market practice and remuneration governance best practice since the 2017 Policy was approved, including the provisions of the 2018 UK Corporate Governance Code.

The Committee concluded from its review that the 2017 Policy continues to be appropriate for Norcros. Our approach to implementing this Policy has also received strong levels of shareholder support in recent years (93.4%, 99.9% and 99.5% at the AGMs in 2017, 2018 and 2019 respectively). It is therefore proposed that the Policy be re-submitted essentially unchanged, save for the following revisions:

1) Pension contributions for executive directors

It is proposed to align the pension contribution (or cash allowance in lieu) for new executive director appointments (2017 Policy: 15% of salary) with that available to the wider workforce in the relevant market. This change reflects recent developments in the remuneration governance landscape and the preference of a number of institutional investors for executive director pension contribution levels to be brought into line with those offered to the broader employee population over time.

The Committee also reflected on the evolving views of investors regarding pension contribution levels for incumbent executive directors (15% of salary at Norcros). The Committee is proposing to continue to honour these terms, which were agreed in the context of market practice at the relevant time (on appointment for Shaun Smith, and following a review of fixed pay levels in 2014 in the case of Nick Kelsall, whose pension contribution at that time was lowered from that which reflected his membership previously of the Group's UK defined benefit scheme). The Committee will keep this issue under careful review during the life of the proposed Policy.

2) Introducing a post-employment shareholding policy
The Committee supports the principle of long-term share ownership that is promoted by the UK Corporate Governance Code. The proposed Policy introduces a post-employment shareholding requirement that will see executive directors continue to maintain a personal shareholding in Norcros at a level of at least the lower of their actual shareholding and the in employment shareholding requirement (currently 100% of salary) for one year, and a minimum of 50% of that level for a further year. The Committee concluded that phasing the shareholding requirement over the two years post-exit was appropriate in the context of the combined impact of this new policy and the application of our existing policies in respect of deferred bonus and vested-but-held APSP awards (the release of which ordinarily is not accelerated on leaving). We will keep this policy under review going forward, in the context of evolving market practice and investor sentiment.

3) Rebalancing the performance measures in the annual bonus
The Committee is proposing to introduce greater flexibility in the Policy around its ability to select suitable performance measures for the annual bonus. It is proposed that a minimum of 80% of the bonus opportunity will be linked to financial performance (the current Policy specifies that the primary measure is underlying operating profit); with any non-financial measures weighted no higher than 20%. The Committee will retain discretion to select the most appropriate measures and weightings each year, subject to the parameters above, to ensure continued alignment with strategic priorities and business needs as these evolve over the life of the Policy.

At present, the Committee is keeping under consideration the structure of the annual bonus for the 2020/21 financial year in the context of the ongoing business impact of COVID-19. The targets attaching to the 2020/21 annual bonus will be reported retrospectively in next year's report, to the extent these are considered not to be commercially sensitive at that time.

4) Minor amendments to our policy for APSP awards
The Committee is proposing to revise the Policy wording on APSP performance measures, to provide greater flexibility around measure selection for future award cycles (the current Policy specifies that vesting of APSP awards is dependent on EPS performance). This change is intended to ensure that the APSP awards made during the life of the Policy can be structured to remain closely aligned with Norcros plc's strategic priorities for the relevant three-year period. However, it is currently envisaged that awards to be made in 2020 will continue to be based 100% on cumulative EPS. Going forward, the Committee will endeavour to disclose the targets attaching to APSP awards prospectively in the relevant remuneration report, to the extent these have been agreed prior to the publication of the report and are considered not to be commercially sensitive at that time.

The Committee is also proposing to clarify in the policy for payment for loss of office that, to the extent these do not lapse on cessation of employment, unvested APSP awards will normally continue to be eligible to vest on the normal vesting date, subject to being pro-rated for time to the date of cessation of employment and performance over the complete performance period.

The Committee, in its absolute discretion, may determine that awards vest on cessation of employment, subject to pro-rating for time and performance to that date. The updated policy also clarifies the treatment of vested awards subject to a holding period for different leaver reasons.

In addition, as part of its review of the Policy, the list of events which may trigger malus and/or clawback of annual bonus and/or APSP awards will be extended to include calculation error and corporate failure, reflecting evolving market practice for these policies. The wording of the Policy will also be amended to clarify that the cash element of any annual bonus payout will be subject to clawback for three years after the end of the performance year. As currently, the deferred element will continue to be subject to malus over the deferral period.

Updated share plans

As the Company's two executive share plans, the APSP and the Deferred Bonus Plan, were approved by shareholders in 2011, it is now appropriate to submit updated versions of these plans for shareholder approval, and resolutions to this effect will be proposed at our 2020 AGM. The changes to the rules of each plan are relatively minor, they have been amended for the reasons stated above and to ensure that they are aligned to legal and best practice developments since they were originally adopted. A detailed explanation of these changes is included in the Notice of AGM on pages 125 to 139.

Current 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 stakeholders' interests and our culture, whilst enabling us to attract, retain and motivate quality executive leadership, 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 62% fixed pay (52% base salary, 8% pension and 2% benefits), 25% 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, the net of tax 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, deferred bonus and APSP awards may be subject to malus or clawback in certain circumstances.

In addition, the Group continues (as it has done for many years) to successfully operate an all-employee Save As You Earn (SAYE) share scheme in the UK and Ireland thereby enabling even more of our workforce to share in the success of the business.

Remuneration Committee annual statement 2020 continued

Alignment with strategic objectives

In 2018, the Company defined its new strategic vision and objectives for the five-year period to 2023. These are set out more fully on page 14. 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. The Committee concluded then, and it remains their view now, that the Policy to be approved by shareholders at the 2020 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.

Year in review

For the year in review, the Committee believes the remuneration policy operated as intended as regards Company performance and quantum (details below). There was appropriate engagement with shareholders in advance of the 2019 AGM, and 99.52% of shareholders voting supported the Remuneration Report at that AGM.

The Committee believes that engagement with the Group's workforce on remuneration and other matters is important and this is being done by both direct personal engagement between Committee members and management and staff of all of our businesses, as well as receipt of reports from management on HR matters. Employee engagement will continue to be an area of focus for the Committee in the coming year. There are more details on this topic on page 38.

As highlighted in the Chairman's Statement and the Group Chief Executive's Statement on pages 6 and 7 and 8 to 11 respectively, Norcros continues to perform strongly, despite the impact of COVID-19 towards the end of the year in review. Key outcomes for the year ended 31 March 2020 include:

- Group revenue for the year of £342.0m (2019: £331.0m) was 3.3% higher than the prior year on a reported basis, 5.0% higher on a constant currency basis and 2.3% lower on a like for like constant currency basis. The estimated impact of COVID-19 on revenue was a reduction of £13.2m.
- Underlying operating profit of £32.3m (2019: £34.4m). Estimated COVID-19 impact on underlying operating profit was a reduction of £4.6m.
- Underlying ROCE above hurdle rate at 16.8% (2019: 18.2%).

Despite this strong performance, underlying operating profit was slightly below the threshold level set by the Committee for the year ended 31 March 2020, resulting in no annual bonus payout. The Group's aggregate underlying earnings per share (EPS) over the three-year period from 1 April 2017 to 31 March 2020 was slightly above the threshold, warranting vesting on 16 November 2020 of 25.6% of the APSP awards granted in 2017. The Committee considers this outcome to appropriately reflect the Group's strong performance and progress against strategic objectives over the period. Accordingly, there were no exercises of discretion with regard to remuneration outcomes for the Executive Directors.

2021 remuneration

The COVID-19 outbreak has brought the UK economy to a temporary standstill and as a result the Board has agreed to the following measures in connection with their remuneration:

- no increases in fees or salaries for the year ending 31 March 2021;
- a temporary reduction of 20% in fees or basic salary for the first quarter of 2021;
- decision on 2021 annual bonus arrangements deferred; and
- decision on APSP grants deferred.

When the Committee makes decisions on the 2021 bonus and the APSP these will be communicated to shareholders in the usual way.

Alison Littley
Chair of the Remuneration Committee
25 June 2020

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

This section of the report sets out the remuneration policy for Executive Directors and Non-executive Directors, which will be put to a binding shareholder vote at the 2020 AGM. If this resolution is carried, the Policy will come into effect on that date and will remain effective for up to a three-year period ending on the date of the 2023 AGM. The Policy set out in this report is unchanged from that approved by shareholders in 2017, other than the minor updates that are set out below in *italicised text* and explained in further detail in the Annual Statement.

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.

Assessment of Policy against the 2018 UK Corporate Governance Code (Code)

The Committee believes that the proposed Policy complies with the six pillars set out in paragraph 40 of the Code.

Clarity: The Committee believes that the disclosure of the remuneration arrangements is transparent with clear rationale provided on its maintenance and any changes to policy. The Committee remains committed to consulting with shareholders on the policy and its implementation.

Simplicity: The policy and the Committee’s approach to implementation is simple and well understood. The performance measures used in the incentive plans are well aligned to the Group’s strategy.

Risk: The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk taking by setting targets to be stretching and achievable, with discretion to adjust formulaic bonus and APSP outcomes.

Predictability and proportionality: The link of the performance measures to strategy and the setting of targets balances predictability and proportionality by ensuring outcomes do not reward poor performance.

Culture: The policy is consistent with the Group’s culture as well as strategy, therefore driving behaviours that promote the long-term success of the Company for the benefit of all stakeholders.

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.	The current Executive Directors, Nick Kelsall and Shaun Smith, receive a company contribution of a maximum of 15% of base salary. Executive Director appointments from 1 April 2020 will receive a company contribution in line with that available for the wider workforce in the relevant market.	n/a

Directors' remuneration policy report continued

Executive Director remuneration policy table continued

Component and objective	Operation	Opportunity	Performance measures
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
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 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, gross misconduct, *calculation error or corporate failure.* *Cash bonuses may be subject to clawback over the deferral period in similar circumstances as identified above.* 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). *Details of the measures on which the bonus will be based shall be disclosed in the relevant Annual Report on Remuneration.* 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 69 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.	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 financial performance over a three-year period. Details of the measures attaching to each award cycle will be disclosed in the relevant Annual Report on Remuneration.* At the start of each cycle, the Committee will determine the targets that will apply to an award.

Component and objective	Operation	Opportunity	Performance measures
Approved Performance Share Plan (APSP) (continued)	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, gross misconduct, *calculation error or corporate failure.*		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.
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, *including for a period following cessation of employment*	*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 a defined multiple of their salaries (of at least 100% of salary).* *Details of the in-post shareholding requirements that apply to the Executive Directors are set out in the Annual Report on Remuneration.* *From 1 April 2020, Executive Directors will additionally be required normally to maintain a holding in Norcros plc shares for a period of two years after they cease to be a Director of the Group. For the first year this shareholding guideline will be equal to the lower of a Directors' actual shareholding at the time of their departure and the shareholding requirement in effect at the date of their departure, and for the second year 50% of that figure.* *The specific application of this shareholding guideline will be at the Committee's discretion.* 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

Directors' remuneration policy report continued

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. Details of these awards are, and will be, disclosed in the Annual Report on Remuneration.

Performance measure selection and approach to target setting

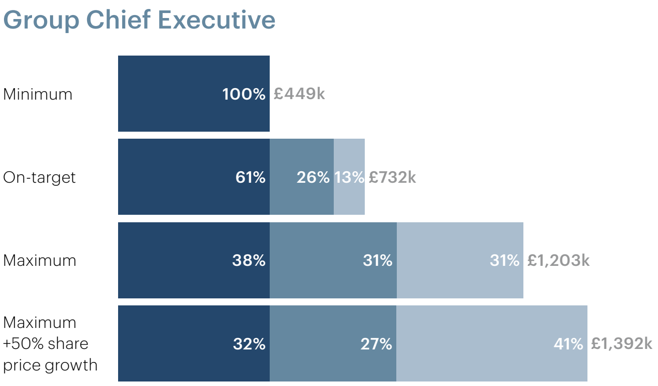
The measures used in the annual bonus will be selected by the Committee to directly reinforce our medium-term growth-orientated strategy (see page 14 for further details of the strategy; details of the measures selected for use in the bonus for the year in review and for the coming year are set out in the Annual Report on Remuneration). For the APSP, the Committee shall select measures that are transparent, objective and effective measures of performance that are in the long-term interests of all of our shareholders (further details of the APSP measures are set out in the Annual Report on Remuneration.

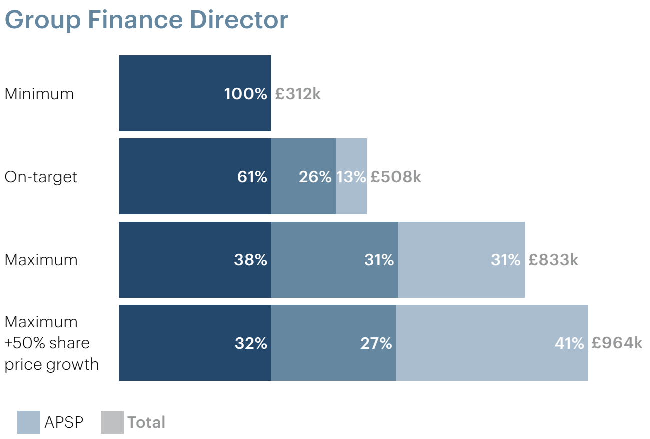
Targets applying to the annual bonus and APSP are reviewed annually, based on a number of internal and external reference points. Annual bonus targets are aligned with the annual budget agreed by the Board. Annual bonus targets are considered to be commercially sensitive but will be disclosed retrospectively in next year's Annual Report on Remuneration (see page 69 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.

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 and Republic of Ireland 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 four different performance scenarios: "Minimum", "On-target" and "Maximum" and "Maximum + 50% share price growth". 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 2020. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for the year to 31 March 2021. 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 (except the APSP value under the "Maximum + 50% share price growth" scenario), 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).

The "Maximum + 50% share price growth" scenario reflects fixed remuneration, plus full payout under all incentives (100% of salary under each of the annual bonus and APSP). The value of the APSP additionally reflects 50% share price growth over the vesting period.

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. Executive Director appointments from 1 April 2020 will receive a Company contribution in line with that available for the wider workforce in the relevant market.
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.

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 in the table above (i.e. excluding the flexibility to make "buy out" awards). 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 their losses and to disclose any third party income they have received or is due to receive.

Service contracts and policy for payment for loss of office continued

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, they agree that they are not entitled to any damages or compensation to recompense them 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 payment/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 payment date unless the Committee, in its absolute discretion, determines that awards should be paid out 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 otherwise. Awards that do not lapse will continue to be eligible to vest on the normal vesting date, subject to being pro-rated for time to the date of cessation of employment and performance over the complete performance period. The Committee may, in its absolute discretion, determine that awards shall vest on cessation in exceptional circumstances, 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. *Any awards in a holding period will normally remain subject to the holding requirement until the period ends.*	On cessation of employment unless the Committee, in its absolute discretion, determines otherwise.

Reason for cessation	Calculation of vesting/payment	Timing of payment/vesting
APSP (continued)		
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	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. *Any awards in a holding period will normally be released.* 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.

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. In developing the proposed Policy set out in this report, we consulted with shareholders representing a total of c.67% of our issued share capital, as well as shareholder representative bodies. We are pleased to report that virtually all investors who provided feedback indicated support for the proposed approach. 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 continue to 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
Mark Allen	01 May 2020	1 month
David McKeith	24 July 2013	1 month
Alison Littley	1 May 2019	1 month

Directors' remuneration policy report continued

Non-executive Director remuneration policy continued

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.	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 Chair of the Audit and Risk or Remuneration Committees.

Annual report on remuneration

The following section provides details of how our policy was implemented during the year ended 31 March 2020 and will be implemented in the year ending 31 March 2021.

Remuneration Committee membership in the year ended 31 March 2020

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 Chair 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:

- Alison Littley (from appointment on 1 May 2019, Chair since 23 July 2019);
- David McKeith;
- Martin Towers; and
- Jo Hallas (Chair until stepping off the Board on 23 July 2019).

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 2020. 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 five times during the year. Attendance by individual members at meetings is detailed on page 48.

Main activities of the Committee during the year ended 31 March 2020

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

- reviewing the remuneration policy;
- reviewing and setting salary levels for Executive Directors and senior management;
- determining the annual bonus outcome for the year ended 31 March 2019;
- setting operating profit targets for the annual bonus for the year ended 31 March 2020;
- approving the APSP outcome for the 2016 APSP awards (which vested in 2019);
- calibrating EPS targets for, and granting of, 2019 APSP awards;
- reviewing developments in remuneration governance;
- reviewing and setting the fees payable to the Non-executive Board Chair;
- reviewing the pay policies and practices for the wider workforce; 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 2020, Mercer Kepler provided the following services:

	Services provided	Fees (excl. VAT) £
Mercer Kepler	Guidance on developments in remuneration governance and implications for Norcros, support on setting incentive targets, reviewing the Directors' Remuneration Policy, Remuneration Report drafting support and general support to the Remuneration Committee throughout the year.	£21,670

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 at the 2017 AGM and advisory vote on the 2019 Annual Report on Remuneration at the 2019 AGM:

	Remuneration Policy (2017 AGM)		Annual Report on Remuneration (2019 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	36,142,751	99.08%	52,068,089	99.52%
Against	334,124	0.92%	249,557	0.48%
Total votes cast (excluding withheld votes)	36,476,875	100.00%	52,317,646	100.00%
Votes withheld	10,895		5,000	
Total votes (including withheld votes)	36,487,770		52,322,646	

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 2020, together with comparative figures for the year to 31 March 2019. 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	
	2020 £	2019 £	2020 £	2019 £
Base salary	**377,155**	366,170	**253,313**	245,935
Taxable benefits[1]	**16,070**	16,070	**13,070**	13,070
Annual bonus[2]	**—**	223,730	**—**	150,266
Long-term incentives[3]	**137,214**	309,699	**92,158**	201,325
Pension benefit[4]	**61,075**	55,191	**37,997**	36,890
SAYE[5]	**—**	—	**3,166**	—
Total	**591,514**	970,860	**399,704**	647,486

1 Taxable benefits consist of car allowance (Nick Kelsall – 2020: £15,000, 2019: £15,000; and Shaun Smith – 2020: £12,000, 2019: £12,000) and private medical insurance.

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 2020" below for further details.

3 For 2020, the APSP value reflects the estimated value of APSP awards granted in November 2017, of which 25.6% will vest to Nick Kelsall and Shaun Smith on 16 November 2020, and includes the value of dividends accrued on these awards over the period from their grant to their vesting (£10,153 and £6,819 respectively). The value of awards is estimated using the three-month average share price to 31 March 2020 of 241.5p, and will be trued up to reflect the vest-date value of awards in next year's Annual Report on Remuneration. For 2019, the APSP value has been trued up from that disclosed in last year's Remuneration Report to reflect the Group's share price of 208.0p on the date of vesting (26 July 2019, being the last trading day before vesting on 27 July 2019) of awards granted in July 2016. The gain on exercise of share options for Nick Kelsall in the year was £470,872 and for Shaun Smith was £186,972.

4 The pension benefit provided to Nick Kelsall and Shaun Smith in 2020 comprises cash in lieu (Nick Kelsall – £56,573; and Shaun Smith – £37,997) and amounts related to the defined benefit scheme (Nick Kelsall – £4,502; and Shaun Smith – n/a). In 2019, pension benefits comprised cash in lieu (Nick Kelsall – £54,925); and Shaun Smith – £36,890) and amounts related to the defined benefit scheme (Nick Kelsall – £266; and Shaun Smith – n/a). See "Total pension entitlements" on page 70 for further details.

5 Embedded gain on grant of Save as You Earn scheme grants made. See "2019 SAYE" on page 69 for further details.

Incentive outcomes for the year ended 31 March 2020 (audited information)

Annual bonus in respect of performance in the year ended 31 March 2020

The 2020 Annual Bonus Plan was based 100% on Group underlying operating profit performance for the year to 31 March 2020. 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 2020, against targets set at the start of the year, the Committee decided no annual bonus was payable to the Executive Directors. Further details, including the profit targets set and actual performance, are provided below:

	Underlying profit target £m	Payout (% of max.)	2020 outturn £m	Bonus (% of max.)
Maximum	40.9	100%		
Target	37.9	50%	31.8*	0.0%
Threshold	34.9	25%		

* Target was set on a pre-IFRS 16 basis, therefore the 2020 outturn has been assessed on a similar basis, i.e. underlying operating profit of £31.8m pre-IFRS 16 (reported £32.3m).

2017 APSP awards vesting

Effective November 2017, APSP awards of 205,494 shares were granted to Nick Kelsall and of 138,018 shares to Shaun Smith. Vesting of these awards was based on Norcros' aggregate diluted underlying EPS over the three financial years to 31 March 2020. Based on performance over this period, the Committee has determined that these awards will each vest as to 25.6% of maximum on 16 November 2020, 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	91.8p	25%		
Maximum	104.7p	100%	91.9p[1]	25.6%

1 Reflects an adjustment of 0.6p in the 2018/19 and 2019/20 underlying diluted EPS due to the impact of a change in accounting policy compared with that used in the EPS target.

Scheme interests awarded in 2020 (audited information)

2019 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 2019):

	Nick Kelsall	Shaun Smith
Basis of award	50% of earned bonus	50% of earned bonus
Grant date	23 July 2019	23 July 2019
Number of nil-cost options granted	52,273	35,108
Grant-date share price (p)	214.0p	214.0p
Grant-date face value (£)	111,864	75,131
Normal vesting date	23 July 2022	23 July 2022
Performance conditions	None	None

2019 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	23 July 2019	23 July 2019
Number of nil-cost options granted	176,240	118,370
Grant-date share price (p)	214.0	214.0
Grant-date face value (£)	377,153	253,311
Normal vesting date	23 July 2022	23 July 2022
Performance period	1 April 2019–31 March 2022	1 April 2019–31 March 2022
Performance conditions	Three-year aggregate underlying EPS Threshold: 105.0p (25% of element vesting) Maximum: 119.1p (100% of element vesting) Straight-line vesting between these points	
Holding period	23 July 2022–23 July 2024	23 July 2022–23 July 2024

2019 SAYE

In the year ended 31 March 2020, Nick Kelsall 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. Shaun Smith entered into a savings contract under the SAYE and was granted 8,674 options under a SAYE savings contract which had an embedded value at the date of grant of £3,166.

Annual report on remuneration continued

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 £56,573 (2019: £54,925) with no amounts paid directly into a pension scheme (2019: £nil). Shaun Smith elected to take a taxable pension allowance of £37,997 (2019: £36,890) with no amount paid into a personal pension plan (2019: £nil). 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	23,727	225	14,329	—	4,502	56,573	61,075
Shaun Smith	—	—	—	—	—	37,997	37,997

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 2020 and the prior year:

	Total fee 2020 £	Total fee 2019 £
Martin Towers	**110,000**	105,000
Alison Littley	**46,000**	43,940
David McKeith	**46,000**	43,940
Jo Hallas[1]	**14,508**	43,940

1 Jo Hallas stepped down from the Board on 23 July 2019.

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 resigned as a non-executive director of Air Partner plc on 26 June 2019. In respect of this role, Shaun Smith received from Air Partner plc fees of £9,276 during the year ended 31 March 2020, 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 2019 and 2020 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 2019–2020	Average of other employees % change 2019–2020
Salary	3.0%	1.9%
Benefits	0.0%	1.9%
Bonus	-100%	-63.5%

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.

	2020 £m	2019 £m	% change
Dividends (i.e. total payments made in year)	**7.0**	6.4	9.4%
Dividend per share (i.e. total dividend per share in pence in respect of year)	**3.1p**	8.4p	-63.1%
Total staff costs	**60.7**	60.4	0.5%

CEO pay ratio

The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations") require certain companies to disclose the ratio of the Chief Executive's pay, using the amount set out in the single total figure table (shown in this report on page 68), to that of the total remuneration of full-time equivalent UK employees at the 25th, median and 75th percentile. The year in review is the first year to which these disclosure provisions apply to the Company, and the required information is set out below:

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	1:29.3	1:28.8	1:16.4

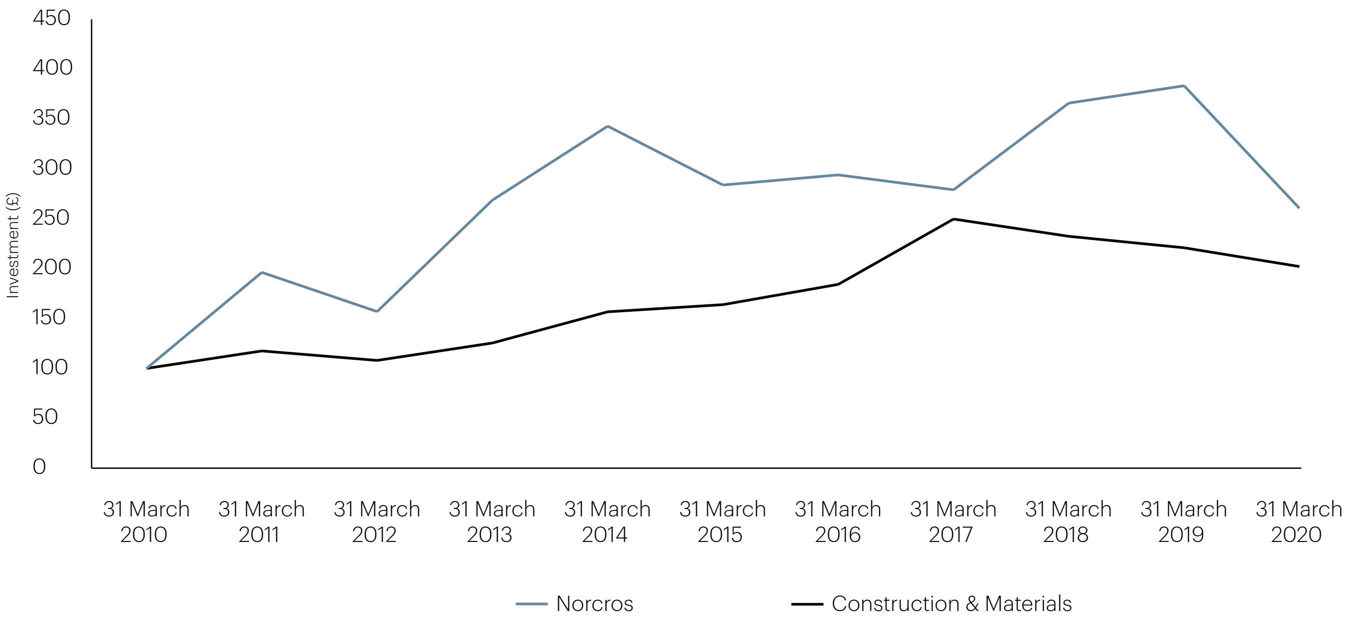
	CEO pay (£)	P25 pay (£)	P50 pay (£)	P75 pay (£)
Total remuneration	591,514	20,173	20,543	36,009
Base salary	377,155	19,329	19,752	35,000

The 25th percentile, median and 75th percentile figures used to determine the above ratios were selected by reference to the hourly pay figures for the Group's UK workforce, taken from its Gender Pay Gap statistics for 2019 and from these identifying the three employees who are at each percentile point. We then calculated the full-time equivalent annualised remuneration (comprising salary, benefits, pension, annual bonus and long-term incentives) for those employees for the year ended 31 March 2020. This methodology is defined in the Regulations as Option B.

Performance graph and table

The following graph shows the ten-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 2010)



Corporate governance

Annual report on remuneration continued

Performance graph and table continued

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single figure of remuneration (£000)										
Incumbent	Joe Matthews	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall	Nick Kelsall
Total remuneration	£611,000	£380,780	£526,282	£917,530	£1,161,288	£928,764	£1,025,158	£971,710	£970,860	£591,514
Annual bonus (as a % of max. opportunity)	81%	0%	50%	54%	69%	81%	68%	50%	61%	0%
APSP vesting (as a % of max. opportunity)	0%	n/a	n/a	100%	99%	100%	100%	100%	58%	26%

Implementation of Executive Director remuneration policy for the year to 31 March 2021

The Remuneration Committee conducted a thorough review of Executive Directors' remuneration, effective 1 April 2020. 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. As explained in the Annual Statement on remuneration on page 58, the Committee decided that in the exceptional circumstances of the COVID-19 crisis there would be no increase in Executive Director salaries, which is in line with the approach taken in the rest of the UK businesses in the Group. Therefore, for the year ending 31 March 2021, base salaries will be £377,155 for Nick Kelsall and £253,313 for Shaun Smith. These base salaries are also subject to a temporary voluntary reduction in salary agreed with each of the Executive Directors, taken in response to the effects of the COVID-19 crisis. Further details will be reported in next year's Annual Report on Remuneration.

Pension

There is no change in the contribution percentage for Executive Directors for the year ending 31 March 2021, which remains at 15% of salary.

Benefits

There is no change in the car allowance for Executive Directors for the year ending 31 March 2021, which is £15,000 p.a. for Nick Kelsall and £12,000 p.a. for Shaun Smith.

Annual bonus

The structure of the Executive Directors' annual bonus for the 2021 financial year is expected to be unchanged from that in the 2020 financial year. However, at the time of drafting this report, the Committee was considering the impact of the ongoing COVID-19 pandemic, and will take this into account in the final decision on the structure of the annual bonus for the 2021 financial year. Any revisions to the scheme structure will be consistent with the shareholder-approved Directors' Remuneration Policy. Annual bonus targets will be disclosed in next year's Annual Report on Remuneration, subject to these no longer being considered by the Board to be commercially sensitive.

APSP

Due to the impact of the COVID-19 pandemic, the Committee has decided to delay its decision making around APSP awards to be made in the 2021 financial year until such time as the Committee believes that it can agree appropriate performance ranges. Any award will be consistent with the new Directors' Remuneration Policy, with vesting currently intended to be based on the achievement of three-year aggregate diluted underlying EPS targets. The targets – which would normally be disclosed prospectively in this report – will be disclosed in the Company's announcement of the granting of these awards.

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 2021

The Committee has reviewed the Board Chair's fee and concluded that in the exceptional circumstances of the COVID-19 crisis there would be no increase in the fee. The Board Chair and the Executive Directors reviewed Non-executive Director fees at the same time and likewise concluded that in these exceptional circumstances there would be no increase in Non-executive Director fees or the additional fee for chairing a committee or having other specific responsibilities. Accordingly, for the 2021 financial year, Non-executive Director fees will be as follows:

Non-executive Director	Fee at 1 April 2020	Fee from 1 April 2019	Percentage increase
Board Chair	£110,000	£110,000	0%
Non-executive Director	£40,000	£40,000	0%
Additional fee for chairing Audit and Risk or Remuneration Committees	£6,000	£6,000	0%

A temporary reduction in fees was also volunteered by the Board Chair and each Non-executive Director, reflecting the voluntary temporary reduction in base salary volunteered by the Executive Directors. Further details will be reported in next year's Annual Report on Remuneration.

Executive Director shareholdings (audited information)

The table below shows the shareholding of each Executive Director and their respective shareholding requirement as at 31 March 2020:

		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	% potential holding	Requirement met?
Nick Kelsall	1,600,000	—	346,551	226,414	100%	1025%	1170%	Yes
Shaun Smith	143,165	11,900	232,758	152,872	100%	137%	294%	Yes

Current shareholding is based on shares owned outright and valued using the average share price over three months ended 31 March 2020 of 241.5p. The potential shareholding includes shares owned outright and shares vested but not exercised and shares not under performance conditions, valued using the average share price over three months ended 31 March 2020 of 241.5p.

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

Directors' share scheme interests (audited information)

Share options

	Scheme	Date of grant	Vested date	Expiration date	Exercise price	Shares under option 1 April 2019	Granted in 2020	Vested in 2020	Exercised in 2020	Lapsed in 2020	Shares under option 31 March 2020
Nick Kelsall	**DBP**	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
		25.07.18	25.07.21	25.07.28	—	41,337	—	—	—	—	41,337
		23.07.19	23.07.22	23.07.29	—	—	52,273	—	—	—	52,273
					Total	**202,801**	**52,273**	**—**	**92,544**	**—**	**162,530**
	APSP	27.07.16	27.07.19	27.07.26	—	232,356	—	—	133,837	98,519	—
		16.11.17	16.11.20	16.11.27	—	205,494	—	—	—	—	205,494
		25.07.18	25.07.21	25.07.28	—	170,311	—	—	—	—	170,311
		23.07.19	23.07.22	23.07.29	—	—	176,240	—	—	—	176,240
					Total	**608,161**	**176,240**	**—**	**133,837**	**98,519**	**552,045**
	SAYE	14.12.17	01.03.21	31.08.21	159p	11,278	—	—	—	—	11,278
					Total	**11,278**	**—**	**—**	**—**	**—**	**11,278**
Shaun Smith	**DBP**	16.11.17	16.11.20	16.11.27	—	45,993	—	—	—	—	45,993
		25.07.18	25.07.21	25.07.28	—	27,764	—	—	—	—	27,764
		23.07.19	23.07.22	23.07.29	—	—	35,108	—	—	—	35,108
					Total	**73,757**	**35,108**	**—**	**—**	**—**	**108,865**
	APSP	27.07.16	27.07.19	27.07.26	—	156,060	—	—	89,891	66,169	—
		16.11.17	16.11.20	16.11.27	—	138,018	—	—	—	—	138,018
		25.07.18	25.07.21	25.07.28	—	114,388	—	—	—	—	114,388
		23.07.19	23.07.22	23.07.29	—	—	118,370	—	—	—	118,370
					Total	**408,466**	**118,370**	**—**	**89,891**	**66,169**	**370,776**
	SAYE	16.12.16	01.03.20	31.08.20	151p	11,900	—	11,900	—	—	—
		13.12.19	01.03.23	31.08.23	208p	—	8,674	—	—	—	8,674
					Total	**11,900**	**8,674**	**11,900**	**—**	**—**	**8,674**

		Three-year aggregate EPS targets			
Performance	% vesting	27.07.16 award	16.11.17 award	25.07.18 award	23.07.19 award
Threshold	25%	84.3p	91.8p	96.1p	105.0p
Maximum	100%	96.5p	104.7p	109.7p	119.1p

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 2020 was 6.2% for the all-share schemes limit and 3.4% for executive schemes.

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

Director	31 March 2020 Ordinary shares	31 March 2019 Ordinary shares
Nick Kelsall	1,600,000	1,275,600
Shaun Smith	143,165	27,275
Martin Towers	190,815	160,815
Mark Allen	50,000	—
David McKeith	17,941	17,941
Alison Littley	—	—
Jo Hallas[1]	23,921	23,921

1 At date of stepping down from the Board (23 July 2019).

This report was approved by the Board of Directors on 25 June 2020 and signed on its behalf by:

Alison Littley
Chair of the Remuneration Committee
25 June 2020

Directors' report

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2020.

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 1 to 43. Key performance indicators are shown on page 15.

The Directors do not recommend a final dividend for the year ended 31 March 2020 (2019: 5.6p). This decision is explained in the Chair's Statement on pages 6 and 7 and the Group Finance Director's Report on pages 25 to 29. The Company paid an interim dividend earlier in the year of 3.1p (2019: 2.8p).

Directors' and officers' liability insurance and indemnities

The Company purchases liability insurance cover for its directors and officers 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 acquired 485,712 shares during the year (2019: 480,000). At the Company's 2019 Annual General Meeting, the shareholders authorised the Company to make market purchases of up to 8,037,011 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 125 to 139.

Employees

Details of the Group's engagement with, and policies towards, its employees are contained on pages 38 to 40 and form part of the Directors' Report and are incorporated into it by cross reference.

Directors

Biographical details of the present Directors are set out on pages 44 and 45. The Directors who served during the year and to the date of this report are set out below:

Director	Role
Martin Towers	Chair
David McKeith	Non-executive Director
Alison Littley	Non-executive Director
Mark Allen	Non-executive Director (appointed 1 May 2020 and to replace Martin Towers from 30 July 2020)
Nick Kelsall	Group Chief Executive
Shaun Smith	Group Finance Director

The interests of the Directors in the shares of the Company at 31 March 2020 and 31 March 2019 are shown on page 74.

Substantial shareholding

As at 23 June 2020 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	13.24
J O Hambro Capital Management Ltd	10.05
Miton Group	9.79
FIL Ltd	7.54
Artemis Fund Managers	7.44
SVM Asset Management	4.98
Invesco Ltd	3.14

Energy and greenhouse gas emissions reporting

The Board presents this report in order to meet the Company's obligation under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose the Group's worldwide emissions of the "greenhouse gases" (GHG) attributable to human activity measured in tonnes of carbon dioxide equivalent. As stated in the Corporate Responsibility and Sustainability section on pages 38 and 43, the Company is committed to reducing and minimising its impact on the environment. Examples of actions taken to increase energy efficiency are given there.

Energy and GHG emissions data Year ended 31 March	Tonnes of CO_2e 2020	Tonnes of CO_2e 2019
Emissions from:		
Combustion of fuel and operation of facilities (Scope 1)	63,143	61,947
Electricity, heat, steam and cooling purchased for own use (Scope 2)	30,284	32,766
Total[1]	93,427	94,713
Company's chosen intensity measurement[2]	273.2	286.1

1 34.6% of the total figure reported for 2020 relates to emissions in the UK and offshore area.

2 Emissions per £m of revenue.

Corporate governance

Energy and greenhouse gas emissions reporting continued

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.

The Group recognises that its Scope 1 and 2 GHG emissions only reflect a proportion of our total carbon footprint across the value chain. A more holistic approach to reducing our indirect impacts will be required to deliver the scale of reductions demanded by the climate science, and we keep the embodied carbon impacts of the materials we use and of our logistics supply chain under review.

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 (2019: £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 46 to 49. 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 30 to 35 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 21 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 74.

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

PricewaterhouseCoopers LLP will step down as auditor of the Company after the audit of this Annual Report and the audited consolidated financial statements for the year ended 31 March 2020 is completed. The auditor has written to the Directors confirming that there are no matters that the auditor wishes to bring to the attention of shareholders or creditors of the Company. A resolution to appoint BDO 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 30 July 2020 at Ladyfield House, Station Road, Wilmslow, Cheshire SK9 1BU. The notice convening that meeting, together with the resolutions to be proposed, appears on pages 125 to 139 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
25 June 2020

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.

N Kelsall

Nick Kelsall
Group Chief Executive
25 June 2020

Shaun Smith

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 2020 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 International Financial Reporting Standards (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 2020 (the "Annual Report"), which comprise: the Consolidated and Parent Company balance sheets as at 31 March 2020; 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 and Risk 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 2019 to 31 March 2020.

Our audit approach

Overview

- Overall group materiality: £1,440,000 (2019: £1,710,000), based on 5% of underlying profit before tax.
- Overall parent company materiality: £350,000 (2019: £350,000), based on the lower of component and statutory materiality (statutory materiality based on 1% of total assets).
- The group consists of Eleven 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 95% of group revenue and 89% of group underlying profit before tax.
- Defined benefit pension plan liabilities (group)
- Impact of COVID-19 (group and company)

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, tax legislation, employment law and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to defined benefit pension plan liabilities (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management or including specific keywords.

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. Also, 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.

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 (Group) Refer to note 1 (Accounting policies), page 90 (Critical accounting estimates and judgements) and note 24. The group has a defined benefit pension plan net liability of £48.9m (2019: £31.6m), 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, 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. 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
Impact of COVID-19 (Group and Company) The ongoing and evolving COVID-19 pandemic, and the related government response to this crisis, is having a significant impact on the economies of those countries in which the Group operates. There is a high level of uncertainty as to the duration of the pandemic and what its lasting impact will be on those economies. The Directors have considered the potential impact to the Group of the ongoing COVID-19 pandemic, including the assessment of going concern and viability assessment. The Directors adjusted the cash flow forecasts for the period to the end of March 2023 to reflect a number of severe but plausible downside scenarios resulting from the direct and indirect consequences of COVID-19, including, for example, a prolonged reduction in revenue. This included an assessment of mitigating actions, such as restricting non-essential capital expenditure and employee related cost savings. Management has concluded that the Group and Company expect to trade solvently under these scenarios for at least 12 months from the date of this report and cash flow forecasts support management viability conclusions. The Directors have therefore prepared the Group and Company financial statements on a going concern basis, and believe this assumption remains appropriate.	In assessing management's considerations of the potential impact of COVID-19, we have undertaken the following procedures: • We obtained management's assessment that supports the Board's conclusions with respect to the disclosures provided around going concern and viability; • We discussed with management the impact assessments applied in the going concern review so we could understand the rationale for those assumptions; • We challenged the rationale for those assumptions, using our knowledge of the business, the sector and wider commentary available from key customers; • We reviewed weekly trading results after the 2020 year end date and compared this to management's revised forecast, and considered the impact of these actual results on the future forecast period; • We understood and tested the mitigating actions taken by management; • We reviewed management sensitivity scenarios which also included further potential mitigating actions available to confirm they are within management control. We challenged management to run a further downside scenario in order to assess the possible impact; and • We assess the availability of liquid resources under different scenarios modelled by management, and the associated covenant test applied. Our conclusion is in the going concern section noted below.

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, 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 four entities, Johnson Tiles South Africa, TAL, House of Plumbing 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. Further the UK engagement team reviewed the working papers of the overseas teams and attended meetings with the overseas teams and the respective finance teams following completion of the divisional work.

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.

Report on the audit of the financial statements continued

Our audit approach continued

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	£1,440,000 (2019: £1,710,000).	£350,000 (2019: £350,000).
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.

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 £200,000 and £1,148,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £74,000 (Group audit) (2019: £85,000) and £74,000 (Parent company audit) (2019: £85,000) 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).

Independent auditors’ report continued

to the members of Norcros plc

Report on the audit of the financial statements continued

Reporting on other information continued

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 2020 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 30 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 36 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).

Other Code Provisions

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

- The statement given by the directors, on page 77, 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 page 52 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk 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 77, 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.

Report on the audit of the financial statements continued

Responsibilities for the financial statements and the audit continued

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 and risk committee, we were appointed by the members on 1 March 1999 to audit the financial statements for the year ended 31 March 2000 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 31 March 2000 to 31 March 2020.

H. Macnamara

Hazel Macnamara (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
25 June 2020

Financial statements

Consolidated income statement

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Continuing operations			
Revenue	2	**342.0**	331.0
Underlying operating profit		**32.3**	34.4
IAS 19R administrative expenses	24	**(1.5)**	(1.5)
Acquisition related costs	5	**(4.0)**	(3.8)
Exceptional operating items	5	**(9.0)**	(4.0)
Operating profit		**17.8**	25.1
Finance costs	6	**(3.7)**	(2.0)
Finance income	6	**1.7**	3.6
IAS 19R finance cost	24	**(0.8)**	(1.3)
Profit before taxation		**15.0**	25.4
Taxation	7	**(4.1)**	(6.0)
Profit for the year from continuing operations		**10.9**	19.4
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:			
From profit for the year	9	**13.6p**	24.2p
Diluted earnings per share:			
From profit for the year	9	**13.5p**	23.9p
Weighted average number of shares for basic earnings per share (millions)	9	**80.3**	80.2
Alternative performance measures			
Underlying profit before taxation (£m)	8	**28.8**	32.6
Underlying earnings (£m)	8	**22.8**	25.7
Basic underlying earnings per share	9	**28.4p**	32.1p
Diluted underlying earnings per share	9	**28.2p**	31.7p

Consolidated statement of comprehensive income

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		**10.9**	19.4
Other comprehensive income and expense:			
Items that will not subsequently be reclassified to the Income Statement			
Actuarial (losses)/gains on retirement benefit obligations	24	**(14.8)**	14.6
Items that may be subsequently reclassified to the Income Statement			
Foreign currency translation adjustments		**(9.2)**	(6.2)
Other comprehensive (loss)/income for the year		**(24.0)**	8.4
Total comprehensive (loss)/income for the year		**(13.1)**	27.8

Items in the statement are disclosed net of tax.

Consolidated balance sheet

At 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Goodwill	11	**60.1**	56.3
Intangible assets	12	**36.4**	38.6
Property, plant and equipment	13	**29.0**	42.3
Right of use assets	14	**20.6**	—
Deferred tax assets	22	**4.7**	0.8
		150.8	138.0
Current assets			
Inventories	15	**78.9**	79.5
Trade and other receivables	16	**60.5**	62.5
Derivative financial instruments	21	**2.0**	0.3
Cash and cash equivalents	17	**47.3**	27.2
		188.7	169.5
Current liabilities			
Trade and other payables	18	**(72.9)**	(79.6)
Lease liabilities	19	**(5.2)**	—
Current tax liabilities		**(1.0)**	(1.7)
Financial liabilities – borrowings	20	**(0.1)**	(3.8)
		(79.2)	(85.1)
Net current assets		**109.5**	84.4
Total assets less current liabilities		**260.3**	222.4
Non-current liabilities			
Financial liabilities – borrowings	20	**(83.6)**	(58.4)
Pension scheme liability	24	**(48.9)**	(31.6)
Lease liabilities	19	**(19.9)**	—
Other non-current liabilities	26	**(0.3)**	(0.9)
Provisions	23	**(3.2)**	(5.8)
		(155.9)	(96.7)
Net assets		**104.4**	125.7
Financed by:			
Share capital	25	**8.1**	8.0
Share premium		**29.9**	29.9
Retained earnings and other reserves		**66.4**	87.8
Total equity		**104.4**	125.7

The financial statements of Norcros plc, registered number 3691883, on pages 84 to 118, were authorised for issue on 25 June 2020 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 2020

	Notes	2020 £m	2019 £m
Cash generated from operations	27	**34.8**	35.3
Income taxes paid		(5.3)	(4.6)
Interest paid		(3.5)	(1.8)
Net cash generated from operating activities		**26.0**	28.9
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(4.8)	(5.6)
Proceeds on disposal of property, plant and equipment		—	0.1
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired		(9.2)	(2.1)
Net cash used in investing activities		**(14.0)**	(7.6)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		0.1	0.2
Principal element of lease payments		(3.8)	—
Purchase of treasury shares		(0.9)	(1.1)
Costs of raising debt finance		—	(0.2)
Drawdown/(repayment) of borrowings		25.0	(6.0)
Dividends paid to the Company's shareholders	28	(7.0)	(6.4)
Net cash generated from/(used in) financing activities		**13.4**	(13.5)
Net increase in cash at bank and in hand and bank overdrafts		**25.4**	7.8
Cash at bank and in hand and bank overdrafts at the beginning of the year		23.4	17.3
Exchange movements on cash and bank overdrafts		(1.6)	(1.7)
Cash at bank and in hand and bank overdrafts at the end of the year		**47.2**	23.4

Consolidated statement of changes in equity

Year ended 31 March 2020

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2018	8.0	29.7	—	(6.3)	73.2	104.6
Comprehensive income:						
Profit for the year	—	—	—	—	19.4	19.4
Other comprehensive income/(expense):						
Actuarial gain on retirement benefit obligations	—	—	—	—	14.6	14.6
Foreign currency translation adjustments	—	—	—	(6.2)	—	(6.2)
Total other comprehensive income for the year	—	—	—	(6.2)	14.6	8.4
Transactions with owners:						
Shares issued	—	0.2	—	—	—	0.2
Dividends paid	—	—	—	—	(6.4)	(6.4)
Purchase of treasury shares	—	—	(1.1)	—	—	(1.1)
Settlement of share option schemes	—	—	0.8	—	(1.4)	(0.6)
Value of employee services	—	—	—	—	1.2	1.2
At 31 March 2019	8.0	29.9	(0.3)	(12.5)	100.6	125.7
Comprehensive income:						
Profit for the year	—	—	—	—	10.9	10.9
Other comprehensive (expense):						
Actuarial loss on retirement benefit obligations	—	—	—	—	(14.8)	(14.8)
Foreign currency translation adjustments	—	—	—	—	(9.2)	(9.2)
Total other comprehensive expense for the year	—	—	—	—	(24.0)	(24.0)
Transactions with owners:						
Shares issued	0.1	—	—	—	—	0.1
Dividends paid	—	—	—	—	(7.0)	(7.0)
Purchase of treasury shares	—	—	(0.9)	—	—	(0.9)
Settlement of share option schemes	—	—	0.8	—	(1.3)	(0.5)
Value of employee services	—	—	—	—	0.1	0.1
At 31 March 2020	**8.1**	**29.9**	**(0.4)**	**(12.5)**	**79.3**	**104.4**

Notes to the Group accounts

Year ended 31 March 2020

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 IFRS Interpretations Committee (IFRS IC) 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 90. 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 has in the current financial year adopted an accounting period of 53 weeks, and as a result of this, the exact year-end date was 5 April 2020. All references to the financial year therefore relate to the 53 weeks commencing on 1 April 2019. In the previous year the accounting period was 52 weeks long, beginning on 2 April 2018 and ending on 31 March 2019.

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the Group's business activities and the principal risks and uncertainties in the context of the current operating environment. This includes the possible impacts of the global COVID-19 pandemic on the Group and an assessment of their effects on the Group's forecast liquidity and banking covenants.

Due to the impact of COVID-19 and the financial scenario planning that was developed it was evident that in certain stress scenarios it was possible that the financial covenants, Net Debt: EBITDA and interest cover, in our RCF facility could be breached. We therefore approached our banking group to seek appropriate amendments to certain covenants. As a result, the banking group has agreed to waive the leverage covenant at September 2020 and March 2021 and also the interest cover covenant at March 2021. In return, we have agreed a replacement maximum Group net debt covenant, of £95m, to be tested quarterly until June 2021 when the performance of the business is projected to return to more normal levels of activity.

A going concern assessment was developed on a bottom-up basis using key assumptions, the most important of which include estimates of revenues, operating costs and future capital expenditure. Sensitivities were applied to the model which were informed by internal and external data sources, including a review of the Group's current trading levels and a review of regional macroeconomic forecasts. Further downside sensitivities were applied in relation to potential future COVID-19 impacts including depressed economic activity from causes such as further business disruption, social distancing and customer failures.

This data was aggregated to model three scenarios to reflect the potential impact of COVID-19 on the Group, (and its ability to continue as a going concern) as summarised below:

- **Scenario 1:** significant reduction in revenue, 62% of that reported in the year to 31 March 2020.
- **Scenario 2:** significant reduction in revenue, 57% of that reported in the year to 31 March 2020 with the second half revenue significantly weaker whereby lockdown is initially eased more quickly which results in a COVID-19 "double dip" reduction in half two revenues.
- **Scenario 3:** significant reduction in revenue, 45% of that reported in the year to 31 March 2020 whereby lockdown is initially eased more quickly which results in a COVID-19 "double dip" and a more severe reduction in half two revenues than Scenario 2. In this Scenario 3 second half revenue would be 40% of revenue reported in the COVID-19 impacted second half of the year to 31 March 2020.

In all three scenarios, the Group continues to exhibit sufficient and prudent levels of liquidity headroom against the amended RCF financial covenants during the 12-month period under assessment particularly when considered against the actions the group has already taken or has at its disposal including a number of cash conservation and cost reduction actions such as:

- government furlough schemes, tax payment deferrals and rent deferrals;
- no FY20 final dividend paid;
- cessation of all non-essential capital expenditure; and
- a freeze on all pay increases throughout the Group and reduction in salaries of the plc Board members, Group leadership and senior management teams for the first quarter to the end of June 2020.

The Directors note that in the event of a very severe downturn as described in Scenario 3 above then covenants at September 2021 (which is beyond the 12 month going concern period) could be breached unless further management action were taken. While the Directors believe that this scenario is highly unlikely they note that they have time to respond in such a scenario, and would take additional actions such as further reductions in capital expenditure and operating costs, and other cash conservation measures which are within their control.

Notes to the Group accounts continued

Year ended 31 March 2020

1. Group accounting policies continued

Going concern continued

As a result of this detailed assessment, including the various scenarios and mitigating actions available to the Group, and with reference to its balance sheet and existing committed facilities, whilst acknowledging the inherent uncertainty of the current economic outlook, the Board has concluded that the Company is able to meet its obligations when they fall due for a period of at least 12 months from the date of this report. For this reason, the Company continues to adopt the going concern basis for preparing the Group financial statements. In forming this view, the Board has also concluded that no material uncertainty exists in its use of 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 2019.

The Group has adopted the following new standards, amendments and interpretations now applicable.

Standard or interpretation	Content	Applicable for financial years beginning on or after
Amendment to IAS 28	Investments in associates and joint ventures	1 April 2019
IFRS 16	Leases	1 April 2019

As at 1 April 2019, the Group adopted IFRS 16 Leases, the impact of which is presented in note 31. Norcros has adopted IFRS 16 using the modified retrospective approach and the right of use asset on transition equals the lease liability. The effect of initially adopting IFRS 16 has been recognised as an increase to assets and liabilities at 1 April 2019 with no restatement of comparative information.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards have been published and are mandatory for accounting periods beginning after 1 March 2020 but have not been early adopted by the group and could have an impact on the group financial statements:

- Amendments to IFRS 3, ‘Business combinations’, definition of a business; and
- Amendments to IAS1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’ definition of material.

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 except in relation to the amendment to IAS 28 and IFRS 16.

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 and Risk 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 24, represent a key source of estimation uncertainty for the Group; and
- UK property provision – the valuation of the UK property provision relating to the one remaining onerous legacy property lease requires an assessment of the likely income from rental, costs from a void period, and final dilapidations, which will be incurred over the remainder of the lease tenure. The resulting valuation set out in note 23 represents a key source of estimation uncertainty for the Group.

1. Group accounting policies continued

Summary of significant accounting policies continued

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 24; 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.

Revenue recognition

The Group derives revenue predominantly from the sale of goods to customers. Revenue from the sale of goods is recognised when control of the goods has been transferred to the buyer. Control transfers when the customer has the ability to direct the use of and substantially obtain all of the benefits of the goods. This is generally on receipt of goods by the customer.

The Group also derives revenue from services provided alongside the supply of goods, which is recognised over time and is calculated using the "input method" by reference to regular surveys of the work performed.

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

Revenue is measured at the fair value of the consideration received or receivable. Revenue represents the amounts receivable for goods supplied or services provided, stated net of discounts, returns, rebates and value-added taxes. Accumulated experience is used to estimate and provide for rebates, discounts and expected returns using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. An accrual is made at each Balance Sheet date as a deduction from revenue to reflect management's best estimate of amounts to be paid in respect of arrangements in place with customers regarding rebates, discounts and expected returns.

Incremental costs of fulfilling a contract, such as testing costs, are capitalised in "Trade and other receivables" if the cost has been incurred and are amortised over the life of the contract if the period over which the Group obtains benefit from is over twelve months. Contract related support costs are accrued in "Trade and other payables" if the trigger for payment has been met. Both types of cost are recorded in the Income Statement against underlying operating profit.

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

Notes to the Group accounts continued

Year ended 31 March 2020

1. Group accounting policies continued

Summary of significant accounting policies continued

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.

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.

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 including final dilapidation costs 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.

1. Group accounting policies continued

Summary of significant accounting policies continued

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.

(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

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 and professional advisory fees.

Notes to the Group accounts continued

Year ended 31 March 2020

1. Group accounting policies continued

Summary of significant accounting policies continued

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. The Group has not adopted hedge accounting.

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. Unrealised changes in the fair value of these derivative instruments are recognised within finance costs/income in the Income Statement. The cumulative gains and losses realised on settlement of these derivative instruments are recognised in cost of sales or administrative expenses in the Income Statement. Any previously recognised gains and losses in respect of unrealised changes in the fair value of these derivative instruments are reclassified from finance costs/ income to administrative expenses or cost of sales when realised.

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 amounts due from customers for goods sold in the ordinary course of business. If collection is expected in one year or less they are classified as current assets; otherwise they are presented as non-current assets. Trade receivables are recognised initially at the amount of consideration that is unconditional.

The Group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method, less appropriate allowances for estimated credit losses (provision for impairment). The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the length of time overdue. An estimate is made of the expected credit loss based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. The maximum exposure at the end of the reporting period is the carrying amount of these receivables.

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.

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.

1. Group accounting policies continued

Summary of significant accounting policies continued

Foreign currency transactions continued

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.

Share-based payments are settled through the Norcros Group Employee Benefit Trust that holds shares in Norcros Group plc that have either been purchased on the market or issued by the Company and satisfies awards made under various employee incentive schemes. The shareholding of the Group Employee Benefit Trust is consolidated within the consolidated accounts of the Group.

Leases

Recognition

At the date of commencement, the Group assesses whether a contract is or contains a lease by judging whether the contract is in relation to a specified asset and to what extent the Group obtains substantially all the economic benefits from, and has the right to direct the use of that asset. As permitted in the standard, on adoption the Group has not applied the requirements to leases outside the scope of IAS17 and IFRIC4.

The Group recognises a right of use (ROU) asset and a lease liability at the commencement of the lease.

Short-term and low-value assets

The Group has elected not to recognise ROU assets and lease liabilities for leases where the total lease term is less than or equal to 12 months, or for leases of assets with a value less than £5,000. The payments for such leases are recognised in the income statement on a straight-line basis over the lease term.

Non-lease components

Fees for components such as property taxes, maintenance, repairs and other services, which are either variable or transfer benefits separate to the Group's right to use the asset, are separated from lease components based on their relative stand-alone selling price. These components are expensed in the income statement as incurred.

Lease liabilities

Lease liabilities are initially measured at the present value of future lease payments at the commencement date. Lease payments are discounted using the interest rate implicit in the lease, or where this cannot be readily determined, the lessee's incremental borrowing rate. Lease payments include the following payments due within the non-cancellable term of the lease, as well as the term of any extension options where these are considered reasonably certain to be exercised:

- fixed payments;
- variable payments that depend on an index or rate; and
- the exercise price of purchase or termination options if it is considered reasonably certain these will be exercised.

Subsequent to the commencement date, the lease liability is measured at the initial value, plus an interest charge determined using the incremental borrowing rate, less lease payments already made such as deposits. The interest expense is recorded in finance costs in the income statement. The liability is re-measured when future lease payments change, when the exercise of extension or termination options becomes reasonably certain, or when the lease is modified.

Right of use assets

The ROU asset is initially measured at cost, being the value of the lease liability, plus the value of any lease payments made at or before the commencement date, initial direct costs and the cost of any restoration obligations, less any incentives received. The ROU asset is subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is adjusted for any remeasurement of the lease liability. The ROU asset is subject to testing for impairment where there are any impairment indicators.

Policy prior to 1 April 2019

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the Group accounts continued

Year ended 31 March 2020

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. Finance income and costs are not split between the segments.

Continuing operations – year ended 31 March 2020

	UK £m	South Africa £m	Group £m
Revenue	225.4	116.6	342.0
Underlying operating profit	24.4	7.9	32.3
IAS 19R administrative expenses	(1.5)	—	(1.5)
Acquisition related costs	(4.5)	0.5	(4.0)
Exceptional operating items	(9.0)	—	(9.0)
Operating profit	9.4	8.4	17.8
Finance costs (net)			(2.8)
Profit before taxation			15.0
Taxation			(4.1)
Profit for the year from continuing operations			10.9
Net debt			(36.4)
Segmental assets	270.8	68.7	339.5
Segmental liabilities	(209.4)	(25.7)	(235.1)
Additions to property, plant and equipment	2.7	1.3	4.0
Depreciation and amortisation	10.2	4.8	15.0

Continuing operations – year ended 31 March 2019

	UK £m	South Africa £m	Group £m
Revenue	228.1	102.9	331.0
Underlying operating profit	26.5	7.9	34.4
IAS 19R administrative expenses	(1.5)	—	(1.5)
Acquisition related costs	(3.8)	—	(3.8)
Exceptional operating items	(4.0)	—	(4.0)
Operating profit	17.2	7.9	25.1
Finance income (net)			0.3
Profit before taxation			25.4
Taxation			(6.0)
Profit for the year from continuing operations			19.4
Net debt			(35.0)
Segmental assets	236.9	70.6	307.5
Segmental liabilities	(166.0)	(15.8)	(181.8)
Additions to property, plant and equipment	2.9	2.9	5.8
Depreciation and amortisation	8.2	2.2	10.4

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

	2020 £m	2019 £m
UK	197.7	198.2
Africa	118.9	104.9
Rest of World	25.4	27.9
	342.0	331.0

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

Reported revenue within the South African segment contains £3.7m (2019: £3.9m) of revenue from services performed which have been recognised over time and within the UK segment contains £0.4m (2019: £0.4m) of extended warranty revenue that has been recognised over time.

3. Operating profit

Operating profit is derived after deducting cost of sales of £217.5m (2019: £206.8m), distribution costs of £22.9m (2019: £20.1m) and administrative expenses, inclusive of exceptional and acquisition related costs, of £83.8m (2019: £79.0m).

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

	2020 £m	2019 £m
Staff costs (see note 4)	60.7	60.4
Depreciation of property, plant and equipment (all owned assets)	6.6	6.6
Amortisation of intangible assets	3.9	3.8
Depreciation of right of use assets	4.5	—
Other operating lease rentals payable – continuing operations:		
– plant and machinery	1.2	1.8
– other	0.6	3.9
Research and development expenditure	4.1	3.9

All items relate to continuing operations.

Auditor's remuneration

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

	2020 £m	2019 £m
Audit of the Parent Company and consolidated financial statements	0.1	0.1
Audit of the Company's subsidiaries	0.3	0.2
	0.4	0.3

4. Employees

	2020 £m	2019 £m
Staff costs including directors' remuneration from continuing operations:		
– wages and salaries	53.8	52.5
– social security costs	3.3	3.4
– share-based payments (see note 10)	0.1	1.2
Pension costs:		
– defined contribution (see note 24)	3.5	3.3
Total staff costs	60.7	60.4

	2020 Number	2019 Number
Average monthly numbers employed in continuing operations:		
– UK	1,054	1,044
– overseas	1,100	1,031
	2,154	2,075

Full details of Directors' remuneration may be found in the Remuneration Report on pages 67 to 74.

Notes to the Group accounts continued

Year ended 31 March 2020

5. Acquisition related costs and exceptional operating items

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

Acquisition related costs	2020 £m	2019 £m
Deferred remuneration[1]	0.6	0.2
Intangible asset amortisation[2]	3.7	3.5
Release of deferred consideration[3]	(1.1)	—
Advisory fees[4]	0.8	0.1
	4.0	3.8

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 over the period of the related agreement.

2 Non-cash amortisation charges in respect of acquired intangible assets.

3 Contingent consideration in relation to the acquisition of House of Plumbing was fair valued under IFRS 9 on 31 March 2020 with subsequent release of the provision.

4 Professional advisory fees incurred in connection with the Group's business combination activities.

Exceptional operating items	2020 £m	2019 £m
COVID-19 related impairment[1]	9.0	—
Onerous property lease provision costs[2]	—	3.0
GMP equalisation costs[3]	—	1.0
	9.0	4.0

1 As at 31 March 2020 a one-off, non-cash impairment charge of £9.0m was recognised in relation to the impact of COVID-19 on the assets of Johnson Tiles UK.

2 Exceptional costs of £3.0m were incurred to increase the provision in relation to an onerous and surplus legacy property lease following the reappraisal of the likely future cash flows. The property is the only remaining legacy lease the company has which expires in June 2022.

3 Exceptional past service costs of £1.0m were estimated in relation to the UK High Court ruling on 26 October 2018 that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions. The past service cost increased the pension liability.

6. Finance income and costs

	2020 £m	2019 £m
Interest payable on bank borrowings	(1.6)	(1.8)
Interest on lease liabilities	(1.9)	—
Amortisation of costs of raising debt finance	(0.2)	(0.2)
Finance costs	(3.7)	(2.0)
Movement on fair value of derivative financial instruments	1.7	3.6
Finance income	1.7	3.6
Net finance (costs)/income	(2.0)	1.6

7. Taxation

Taxation comprises:

	2020 £m	2019 £m
Current		
UK taxation	1.7	2.0
Overseas taxation	2.9	3.5
Prior year adjustment	—	0.2
Total current taxation	4.6	5.7
Deferred		
Origination and reversal of temporary differences	(0.5)	0.3
Total tax charge	4.1	6.0

7. Taxation continued

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:

	2020 £m	2019 £m
Profit before tax	**15.0**	25.4
Tax calculated at domestic tax rates applicable to profits in the respective countries	3.1	5.2
Tax effects of:		
– adjustments in respect of prior years	—	0.2
– expenses not deductible for tax purposes	0.7	0.3
– origination and reversal of timing differences	0.3	0.3
Total tax charge	**4.1**	6.0

The weighted average applicable tax rate was 20.7% (2019: 20.5%), the increase relates to the increased proportional profits in South Africa. The standard rate of corporation tax in the UK is 19% (2019: 19%), in South Africa is 28% (2019: 28%) and in Ireland is 12.5% (2019: 12.5%).

Taxation on items taken directly to equity was a credit of £3.5m relating to deferred tax on pensions (see note 22).

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 on underlying profit before tax.
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.
Underlying EBITDA	Underlying EBITDA is derived from underlying operating profit before depreciation and amortisation excluding the impact of IFRS16 in line with our banking covenants.
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.
Net debt	Net debt is the net of cash, capitalised costs of raising finance and total borrowings. IFRS 16 lease commitments are not included in line with our banking covenants.
Pro-forma underlying EBITDA	An annualised underlying EBITDA figure used for the purpose of calculating banking covenant ratios.
Pro-forma leverage	Net debt expressed as a ratio of pro-forma underlying EBITDA.

Notes to the Group accounts continued

Year ended 31 March 2020

8. Alternative performance measures continued

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

Consolidated Income Statement

(a) Underlying profit before taxation and underlying earnings

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit before taxation from continuing operations	15.0	16.4	25.4
Adjusted for:			
– IAS 19R administrative expenses	1.5	1.5	1.5
– acquisition related costs (see note 5)	4.0	4.0	3.8
– exceptional operating items (see note 5)	9.0	9.0	4.0
– amortisation of costs of raising finance	0.2	0.2	0.2
– net movement on fair value of derivative financial instruments	(1.7)	(1.7)	(3.6)
– IAS 19R finance cost	0.8	0.8	1.3
Underlying profit before taxation	28.8	30.2	32.6
Taxation attributable to underlying profit before taxation	(6.0)	(6.3)	(6.9)
Underlying earnings	22.8	23.9	25.7

(b) Underlying EBITDA

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Operating profit from continuing operations	17.8	17.3	25.1
Adjusted for:			
– depreciation and amortisation (owned assets)	6.8	6.8	6.9
– depreciation of leased assets	4.5	—	—
– lease costs	(5.0)	—	—
– IAS 19R administrative expenses	1.5	1.5	1.5
– acquisition related costs	4.0	4.0	3.8
– exceptional operating items (see note 5)	9.0	9.0	4.0
Underlying EBITDA	38.6	38.6	41.3

Consolidated Cash Flow Statement

(a) Underlying operating cash flow

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Cash generated from operations (see note 27)	34.8	29.1	35.3
Adjusted for:			
– cash flows from exceptional items and acquisition related costs (see note 27)	0.3	1.0	1.9
– pension fund deficit recovery contributions (see note 27)	3.3	3.3	2.6
Underlying operating cash flow	38.4	33.4	39.8

8. Alternative performance measures continued

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

Consolidated Balance Sheet

(a) Underlying capital employed and underlying return on capital employed

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Net assets	104.4	104.4	125.7
Adjusted for:			
– pension scheme liability (net of associated tax)	39.7	39.7	26.3
– cash and cash equivalents	(47.3)	(47.3)	(27.2)
– financial liabilities – borrowings	83.7	83.7	62.2
Capital employed	180.5	180.5	187.0
Foreign exchange adjustment	9.6	9.6	1.8
IFRS 16 net asset adjustment	—	3.1	—
Adjustment for acquisitions	7.2	7.2	—
Underlying capital employed	197.3	200.4	188.8
Average underlying capital employed	192.1	193.8	188.7
Underlying return on capital employed	16.8%	16.4%	18.2%

9. 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 2020 the potential dilutive ordinary shares amounted to 668,944 (2019: 985,038) as calculated in accordance with IAS 33.

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

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit for the year	10.9	12.0	19.4

	2020 Number	2020 Number	2019 Number
Weighted average number of shares for basic earnings per share	80,300,209	80,300,209	80,154,891
Share options	668,944	668,944	985,038
Weighted average number of shares for diluted earnings per share	80,969,153	80,969,153	81,139,929

	2020 IFRS 16 basis	2020 Pre-IFRS 16	2019 Pre-IFRS 16
Basic earnings per share:			
From profit for the year	13.6p	14.9p	24.2p
Diluted earnings per share:			
From profit for the year	13.5p	14.8p	23.9p

Notes to the Group accounts continued

Year ended 31 March 2020

9. Earnings per share continued

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.

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Underlying earnings (see note 8)	22.8	23.9	25.7

	2020 IFRS 16 basis	2020 Pre-IFRS 16	2019 Pre-IFRS 16
Basic underlying earnings per share	28.4p	29.8p	32.1p
Diluted underlying earnings per share	28.2p	29.5p	31.7p

10. Share-based payments

	Exercise price per share	Weighted average share price at date of exercise	1 April 2019	Granted	Exercised	Lapsed	31 March 2020	Date from which exercisable	Expiry date
Approved Performance Share Plan 2015 (APSP)	Nil	197p	11,711	—	(11,711)	—	—	22.07.18	22.07.25
Approved Performance Share Plan 2016 (APSP)	Nil	208p	1,090,772	—	(620,862)	(464,447)	5,463	27.07.19	27.07.26
Approved Performance Share Plan 2017 (APSP)	Nil	—	1,004,627	—	—	(31,102)	973,525	16.11.20	16.11.27
Approved Performance Share Plan 2018 (APSP)	Nil	—	856,994	—	—	(63,107)	793,887	25.07.21	25.07.28
Approved Performance Share Plan 2019 (APSP)	Nil	—	—	861,447	—	(42,363)	819,084	23.07.22	23.07.29
Deferred Bonus Plan 2016 (DBP)	Nil	208p	92,544	—	(92,544)	—	—	05.08.19	05.08.26
Deferred Bonus Plan 2017 (DBP)	Nil	—	114,913	—	—	—	114,913	16.11.20	16.11.27
Deferred Bonus Plan 2018 (DBP)	Nil	—	69,101	—	—	—	69,101	25.07.21	25.07.28
Deferred Bonus Plan 2019 (DBP)	Nil	—	—	87,381	—	—	87,381	23.07.22	23.07.29
Save As You Earn Scheme (8) (SAYE)	180p	215p	3,800	—	(1,800)	(2,000)	—	01.03.19	31.08.19
Save As You Earn Scheme (9) (SAYE)	151p	215p	228,718	—	(91,683)	(22,557)	114,478	01.03.20	31.08.20
Save As You Earn Scheme (10) (SAYE)	160p	215p	320,121	—	(2,380)	(46,427)	271,314	01.03.21	31.08.21
Save As You Earn Scheme (11) (SAYE)	201p	215p	117,531	—	(548)	(6,263)	110,720	01.03.22	31.08.22
Save As You Earn Scheme (12) (SAYE)	208p	—	—	306,649	—	(3,988)	302,661	01.03.23	31.08.23

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

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 £0.1m was recognised in respect of share options in the year (2019: £1.2m) including £nil (2019: £0.5m) in respect of the Directors share options. The highest paid Director's share options accounted for £nil (2019: £0.3m) of the charge. 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 (8)	SAYE (9)	SAYE (10)	SAYE (11)	SAYE (12)
Date of grant	17.12.15	16.12.16	14.12.17	14.12.18	13.12.19
Initial exercise price	180p	151p	160p	201p	208p
Number of shares granted initially	154,800	297,238	345,599	120,220	306,649
Expected volatility	36.2%	36.1%	35.1%	30.0%	31.0%
Expected option life	3 years	3 years	3 years	3 years	3 years
Risk free rate	1.7%	0.3%	0.9%	0.9%	0.3%
Expected dividend yield	2.6%	4.0%	4.0%	4.1%	4.0%

10. Share-based payments continued

	APSP 2015	APSP 2016	APSP 2017	APSP 2018	APSP 2019
Date of grant	22.07.15	27.07.16	16.11.17	25.07.18	23.07.19
Initial exercise price	Nil	Nil	Nil	Nil	Nil
Number of shares granted initially	770,152	1,193,500	1,083,055	861,023	861,447
Expected volatility	36.2%	36.1%	35.1%	30.0%	31.0%
Expected option life	3 years	3 years	3 years	3 years	3 years
Risk free rate	1.9%	0.3%	0.9%	0.9%	0.9%
Expected dividend yield	2.6%	4.0%	4.0%	4.1%	4.0%

	DBP 2016	DBP 2017	DBP 2018	DBP 2019
Date of grant	05.08.16	16.11.17	25.07.18	23.07.19
Initial exercise price	Nil	Nil	Nil	Nil
Number of shares granted initially	92,544	114,913	69,101	87,381
Expected volatility	38.0%	35.6%	30.0%	31.0%
Expected option life	3 years	3 years	3 years	3 years
Risk free rate	1.8%	1.5%	0.9%	0.9%
Expected dividend yield	3.2%	3.4%	4.1%	4.0%

The share price at 31 March 2020 was 126p. The average price during the year was 223p. Expected volatility is based on historical volatility over the last three years' data of the Company.

11. Goodwill

	2020 £m	2019 £m
At 1 April	**56.3**	56.6
Additions	**5.1**	—
Exchange differences	**(1.3)**	(0.3)
At 31 March	**60.1**	56.3

The additions in the year relate to the acquisition of House of Plumbing on 1 April 2019.

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

	2020 £m	2019 £m
Croydex	**7.8**	7.8
Abode	**0.8**	0.8
Triton Showers	**19.1**	19.1
Merlyn	**25.5**	25.5
Tile Africa	**2.5**	3.1
House of Plumbing	**4.4**	—
	60.1	56.3

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.

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 2.0% (2019: 2.2%) for Croydex, Abode, Merlyn and Triton Showers and 7.6% (2019: 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 11.0% (2019: 7.8%) in the UK and 16.1% (2019: 16.2%) 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.

Notes to the Group accounts continued

Year ended 31 March 2020

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 2018	36.5	10.1	0.5	0.2	47.3
Additions	—	—	0.1	—	0.1
At 31 March 2019	36.5	10.1	0.6	0.2	47.4
Acquisitions	2.0	—	—	—	2.0
Additions	0.2	—	—	—	0.2
Exchange differences	(0.4)	—	—	—	(0.4)
At 31 March 2020	**38.3**	**10.1**	**0.6**	**0.2**	**49.2**
Accumulated amortisation					
At 1 April 2018	2.6	2.2	0.1	0.1	5.0
Charge for the year	2.8	0.8	0.2	—	3.8
At 31 March 2019	5.4	3.0	0.3	0.1	8.8
Charge for the year	3.0	0.8	0.1	—	3.9
Impairment	—	—	0.1	—	0.1
At 31 March 2020	**8.4**	**3.8**	**0.5**	**0.1**	**12.8**
Net book amount at 31 March 2019	31.1	7.1	0.3	0.1	38.6
Net book amount at 31 March 2020	**29.9**	**6.3**	**0.1**	**0.1**	**36.4**

The amortisation charge for intangibles generated on acquisition is £3.7m (2019: £3.5m) for the year and is included in the acquisition related costs in the Consolidated Income Statement. The £0.2m (2019: £0.3m) amortisation charge for internally generated or acquired intangibles is included in the Consolidated Income Statement.

Impairment in the year related to the impairment of intangible development costs as part of the Johnson Tiles UK impairment.

13. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 2018	36.0	91.1	127.1
Exchange differences	(1.2)	(3.1)	(4.3)
Additions	0.3	5.5	5.8
Disposals	—	(1.1)	(1.1)
At 31 March 2019	35.1	92.4	127.5
Exchange differences	(0.8)	(2.8)	(3.6)
Acquisitions	0.1	—	0.1
Additions	0.4	3.6	4.0
Disposals	—	(2.1)	(2.1)
At 31 March 2020	**34.8**	**91.1**	**125.9**
Accumulated depreciation			
At 1 April 2018	16.1	66.0	82.1
Exchange differences	(0.3)	(2.1)	(2.4)
Charge for the year	1.1	5.5	6.6
Disposals	—	(1.1)	(1.1)
At 31 March 2019	16.9	68.3	85.2
Exchange differences	—	(0.4)	(0.4)
Charge for the year	1.1	5.5	6.6
Impairment	3.7	3.9	7.6
Disposals	—	(2.1)	(2.1)
At 31 March 2020	**21.7**	**75.2**	**96.9**
Net book amount at 31 March 2019	18.2	24.1	42.3
Net book amount at 31 March 2020	**13.1**	**15.9**	**29.0**

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

13. Property, plant and equipment continued

As at 31 March 2020, due to the impacts of COVID-19 on economic activity and in line with guidance from the Financial Reporting Council, the Group reviewed all cash-generating units to determine whether any of the assets related to our operations are impaired. These reviews are performed by comparing the estimated future cash flows generated by the divisions with the carrying value of the assets generating those cash flows. The future cash flows are sensitised in relation to potential future COVID-19 impacts including depressed economic activity from further business disruption, social distancing measures and business failures.

As a result of these reviews, tangible, intangible and right of use assets within the Johnson Tiles UK business have been impaired with a non-cash impairment charge of £9.0m recognised as an exceptional item in the income statement.

The cash flow model used to derive this impairment used the most recent forecast for the year to 31 March 2021 which was sensitised for COVID-19 impacts. Beyond this, the model assumed recovery to a pre-COVID-19 level of revenue in the year to March 2022 followed by annual growth of 2.5% to 31 March 2024 and then 2% into perpetuity. Resulting cashflows were discounted with a pre-tax discount rate of 10.2%. To the extent some of the assumptions are different to those used in these calculations, a further impairment may be possible. A 1% increased discount would increase the impairment by £2.7m and a 1% decreased terminal growth rate would increase the impairment by £2.2m.

The resulting impairment has been applied to the intangible, tangible property, plant and equipment, and right of use assets in line with IAS 36 in the below table:

	Intangible assets Development Costs £m	Right of use asset Plant and Equipment £m	Tangible assets Land and buildings £m	Tangible assets Plant and equipment £m	Total £m
Impairment allocation	(0.1)	(1.3)	(3.7)	(3.9)	(9.0)

14. Right of use asset

Right of use asset recognised on the adoption of IFRS 16. See note 31 for further details.

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 April 19	21.9	2.8	24.7
Exchange differences	(2.9)	(0.1)	(3.0)
Acquisitions	0.7	0.1	0.8
Additions	2.0	2.0	4.0
Disposals	—	(0.2)	(0.2)
At 31 March 2020	**21.7**	**4.6**	**26.3**
Accumulated depreciation			
At 1 April 2019	—	—	—
Exchange differences	—	—	—
Charge for the year	3.3	1.2	4.5
Impairment	—	1.3	1.3
Disposals	—	(0.1)	(0.1)
At 31 March 2020	**3.3**	**2.4**	**5.7**
Net book amount at 31 March 2019	—	—	—
Net book amount at 31 March 2020	**18.4**	**2.2**	**20.6**

Impairment in the year related to the impairment of leased right of use assets which was part of the Johnson Tiles UK impairment.

Notes to the Group accounts continued

Year ended 31 March 2020

15. Inventories

	2020 £m	2019 £m
Raw materials and consumables	**10.1**	13.1
Work in progress	**0.8**	1.0
Finished goods	**68.0**	65.4
	78.9	79.5

Provisions held against inventories totalled £4.7m (2019: £4.4m).

The cost of inventories recognised as an expense within cost of sales in the Income Statement amounted to £182.2m (2019: £181.1m).

During the year the Group charged £0.9m (2019: £0.7m) of inventory write-downs to the Income Statement within cost of sales.

16. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**57.0**	58.4
Less: impairment loss allowance	**(0.9)**	(0.6)
Trade receivables – net	**56.1**	57.8
Other receivables	**1.9**	2.0
Prepayments and accrued income	**2.5**	2.7
	60.5	62.5

All trade and other receivables are current. The net carrying amounts of trade and other receivables are considered to be a reasonable approximation of their fair values.

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

	2020 £m	2019 £m
Sterling	**47.5**	46.5
South African Rand	**10.4**	12.9
Euro	**1.1**	1.3
UAE Dirham	**1.5**	1.8
	60.5	62.5

Impairment of trade receivables

31 March 2020	Not yet due £m	0–1 month overdue £m	1–2 months overdue £m	2–3 months overdue £m	>3 months overdue £m	Total £m
Expected credit loss rate	**0.0%**	**0.0%**	**5.0%**	**15.0%**	**20.0%**	**1.5%**
Gross trade receivables	**43.3**	**7.9**	**2.0**	**0.4**	**3.4**	**57.0**
Loss allowance	**—**	**—**	**0.1**	**0.1**	**0.7**	**0.9**

31 March 2019	Not yet due £m	0–1 month overdue £m	1–2 months overdue £m	2–3 months overdue £m	>3 months overdue £m	Total £m
Expected credit loss rate	0.1%	2.0%	5.0%	15.0%	25.0%	1.0%
Gross trade receivables	50.8	5.0	0.8	0.5	1.3	58.4
Loss allowance	0.1	0.1	—	0.1	0.3	0.6

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

	2020 £m	2019 £m
At the beginning of the year	**0.6**	1.0
Provision for receivables impairment	**0.5**	0.1
Receivables written off during the year as uncollectable	**(0.2)**	(0.4)
Exchange differences	**—**	(0.1)
At the end of the year	**0.9**	0.6

17. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**47.3**	27.2

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

	2020 £m	2019 £m
Cash at bank and in hand	**47.3**	27.2
Less: bank overdrafts (see note 20)	**(0.1)**	(3.8)
	47.2	23.4

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

18. Trade and other payables

	2020 £m	2019 £m
Trade payables	**41.2**	44.6
Other tax and social security payables	**4.2**	4.6
Contingent and deferred consideration	**0.5**	0.4
Other payables	**1.8**	0.5
Accruals and deferred income	**25.2**	29.5
	72.9	79.6

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

19. Lease liabilities

Lease liabilities recognised on the adoption of IFRS 16. See note 31 for further details.

	Land and buildings £m	Plant and equipment £m	Total £m
Fair value			
At 1 April 2019	24.9	2.8	27.7
Exchange differences	(3.4)	(0.1)	(3.5)
Acquisitions	0.7	0.1	0.8
Additions	2.0	2.0	4.0
Disposals	—	(0.1)	(0.1)
Interest charge	1.8	0.1	1.9
Gross lease payments	(4.3)	(1.4)	(5.7)
At 31 March 2020	**21.7**	**3.4**	**25.1**

Lease liabilities are split into £5.2m liable in less than one year and £19.9m liable after one year.

20. Financial liabilities – borrowings

	2020 £m	2019 £m
Non-current		
Bank borrowings (unsecured):		
– bank loans	**84.0**	59.0
– less: costs of raising finance	**(0.4)**	(0.6)
Total non-current	**83.6**	58.4
Current		
Bank borrowings (unsecured):		
– bank overdrafts	**0.1**	3.8
Total borrowings	**83.7**	62.2

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

Financial statements

Notes to the Group accounts continued

Year ended 31 March 2020

20. Financial liabilities – borrowings continued

The repayment terms of borrowings are as follows:

	2020 £m	2019 £m
Not later than one year	0.1	3.8
After more than one year:		
– between one and two years	—	—
– between two and five years	84.0	59.0
– costs of raising finance	(0.4)	(0.6)
	83.6	58.4
Total borrowings	83.7	62.2

Capital risk management

The Group increased the amount of its committed banking facilities to £120m (plus a £30m accordion) at the time of the Merlyn acquisition in November 2017. The maturity date was originally November 2021 with an option to extend for a further year. The Group exercised this option during the year ended 31 March 2019 and has extended the maturity date of the facility to November 2022.

This facility provides the Group with a sound financial structure for the medium term and, by reference to the £120m facility available at year-end, with £76.6m of headroom being available at 31 March 2020 (2019: £81.6m), after taking into account net debt and ancillary facilities in use of £6.6m (2019: £2.8m) and overseas cash. The Group has been in compliance with all banking covenants during the year. Post year-end we have agreed covenant waivers at September 2020 and March 2021 with a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021.

Interest rate profile

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

	2020 %	2019 %
Bank loans	2.4	2.6
Overdraft	2.4	2.6

At 31 March 2020 the bank loans carried interest based on LIBOR plus a margin of 1.7% (2019: 1.9%). Overdrafts carry interest at base rate plus a margin of 1.7% (2019: 1.9%).

Net debt

The Group's net debt is calculated as follows:

	2020 £m	2019 £m
Cash and cash equivalents	(47.3)	(27.2)
Total borrowings	83.7	62.2
	36.4	35.0

Currency profile of net debt

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

	2020 £m	2019 £m
Sterling	39.6	58.1
Euro	(0.1)	(1.6)
US Dollar	(0.1)	(4.3)
South African Rand	(2.9)	(17.2)
Chinese Renminbi	(0.1)	—
	36.4	35.0

During the year cash generated in South Africa was utilised to acquire House of Plumbing and repay outstanding Group intercompany loans.

21. Financial instruments

During the year the Group held financial instruments relating to the risks of the Group's operations.

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, the Renminbi 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 December 2020 based on current forecasts. This is lower than normally would be expected due to the uncertainty arising from COVID-19 and its impact on both demand and related purchases. 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 not adopted hedge accounting.

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 on an ongoing basis 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.

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.

The table below analyses the present value of the Groups financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Not later than a year £m	Later than one year but not later than two years £m	Later than two years but not later than five years £m	Later than five years £m	Total £m
Borrowings[1]	5.5	1.5	61.6	—	68.6
Trade and other payables	79.6	—	—	—	79.6
At 31 March 2019	85.1	1.5	61.6	—	148.2
Borrowings[1]	2.1	2.0	85.4	—	89.5
Trade and other payables	72.9	—	—	—	72.9
At 31 March 2020	**75.0**	**2.0**	**85.4**	**—**	**162.4**

1 Borrowings includes interest costs calculated using the applicable interest rate at year end.

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).

Notes to the Group accounts continued

Year ended 31 March 2020

21. Financial instruments continued

Derivative financial instruments carried at fair value through profit and loss

	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Forward foreign exchange contracts:				
– current	**2.0**	**—**	0.3	—

Forward foreign exchange contracts

The notional principal amounts of outstanding forward foreign exchange contracts at 31 March 2020 were €8.3m, US$27.7m and CNH52.0m (2019: €16m, US$55.8m and CNH87m).

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 £36.8m (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 £0.4m 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 or weakening of Sterling across all currencies would lead to a circa £2.1m devaluation or increase in net assets respectively.

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 and product pricing. Taking into account the unmitigated translational impact, a 5% strengthening or weakening in Sterling against all other currencies would result in an increase or decrease in reported profits of circa £0.3m respectively.

22. 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 was due to decrease further to 17% from 1 April 2020 but this amendment was retracted in Budget 2020. The deferred tax asset at 31 March 2020 has been restated to reflect 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.

The analysis of deferred tax assets and liabilities is as follows:

	Accelerated tax deprecation £m	Retirement benefit obligations £m	Other £m	Total £m
At 31 March 2018	0.2	8.1	(4.3)	4.0
(Charged)/credited to the Consolidated Income Statement	(0.5)	0.2	—	(0.3)
Charged to the Consolidated Statement of Comprehensive Income	—	(3.0)	—	(3.0)
Exchange differences	0.1	—	—	0.1
At 31 March 2019	(0.2)	5.3	(4.3)	0.8
(Charged)/credited to the Consolidated Income Statement	0.6	0.4	(0.5)	0.5
Credited to the Consolidated Statement of Comprehensive Income	—	3.5	—	3.5
Acquisitions	—	—	(0.4)	(0.4)
Exchange differences	—	—	0.3	0.3
At 31 March 2020	**0.4**	**9.2**	**(4.9)**	**4.7**

22. Deferred tax continued

	2020 £m	2019 £m
Deferred tax assets:		
– to be recovered after more than twelve months	9.6	5.6
– to be recovered within twelve months	0.1	0.2
	9.7	5.8
Deferred tax liabilities:		
– to be charged after more than twelve months	(4.3)	(4.4)
– to be charged within twelve months	(0.7)	(0.6)
	(5.0)	(5.0)
Deferred tax assets (net)	4.7	0.8

Other deferred tax liabilities mainly relate to deferred tax recognised against intangible amortisation and share-based payment expenses.

At the Balance Sheet date the Group has recognised £nil (2019: £nil) in respect of tax losses. No deferred tax asset has been recognised in respect of £6.7m (2019: £6.7m) of tax losses as the Company does not believe that utilisation of these losses is probable.

23. Provisions

	Warranty provision £m	Restructuring provision £m	UK property provision £m	Total £m
At 1 April 2018	1.3	2.0	1.6	4.9
Charged to the Income Statement	1.2	—	3.0	4.2
Utilisation	(1.3)	(1.4)	(0.6)	(3.3)
At 31 March 2019	1.2	0.6	4.0	5.8
Charged to the Income Statement	(0.2)	—	—	(0.2)
Reclassified (IFRS 16)	—	—	(2.2)	(2.2)
Other movement	—	—	0.3	0.3
Utilisation	—	(0.5)	—	(0.5)
At 31 March 2020	**1.0**	**0.1**	**2.1**	**3.2**

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 UK property provision relates to the one remaining onerous legacy property lease that is due to expire in June 2022. Under IFRS 16 the onerous lease payments have been reclassified to Lease Liabilities with the remaining provision related to dilapidation and other costs expected prior to vacating the property.

24. 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 (2019: 16 years) and can be attributed to the scheme members as follows:

	2020	2019
Employee members	7%	7%
Deferred members	31%	32%
Pensioner members	62%	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.

24. Retirement benefit obligations continued

(a) Pension costs continued

Norcros Security Plan continued

The Plan is funded by the Company based on a separate actuarial valuation for funding purposes for which the assumptions may differ from those below. 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 triennial actuarial valuation for the Group's UK defined benefit pension scheme as at 1 April 2018 reported an actuarial deficit of £49.3m (2015: £73.5m) representing an 89% funding level (2015: 84%). The deficit recovery plan was agreed with the scheme Trustee, with a cash contribution of £3.25m per annum plus CPI, payable for the 6.5 years to 30 September 2025.

In line with the above agreement the Group made deficit recovery contributions of £3.3m (2019: £2.6m) into its UK defined benefit pension scheme during the year to 31 March 2020.

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 (2019: £3.3m).

(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 2018 and updated by Isio (formerly 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 2020. Scheme assets are stated at their market value at 31 March 2020.

(i) The principal assumptions used to calculate the scheme liabilities of the Norcros Security Plan under IAS 19R are:

	2020 Projected unit	2019 Projected unit
Discount rate	2.21%	2.50%
Inflation rate (RPI)	2.55%	3.25%
Inflation rate (CPI)	1.60%	2.25%
Increases to deferred benefits during deferment (non-GMP liabilities)	2.54%	3.11%
Increases to pensions in payment (other than pre-1988 GMP liabilities)	2.54%	3.11%
Salary increases	1.85%	2.50%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements and are summarised below:

	2020	2019
Life expectancy at age 65:		
Current pensioners – males	20.6	20.5
Current pensioners – females	23.0	22.8
Future pensioners – males (currently aged 40)	22.0	21.9
Future pensioners – females (currently aged 40)	24.5	24.3

Members are assumed to take a 25% (2019: 25%) cash commutation sum on retirement.

24. Retirement benefit obligations continued

(b) IAS 19R, 'Employee benefits' continued

Norcros Security Plan continued

(ii) The amounts recognised in the Income Statement are as follows:

	2020 £m	2019 £m
Included in operating profit:		
IAS 19R pension administration expenses	1.5	1.5
Past service costs	—	1.0
IAS 19R finance cost	0.8	1.3
Total amounts recognised in the Income Statement	2.3	3.8

(iii) The amounts recognised in the Balance Sheet are determined as follows:

	Value at 31 March 2020 £m	Value at 31 March 2019 £m
Equities	59.7	83.4
Absolute return funds	41.6	86.0
Bonds	131.0	111.5
High yield	68.4	64.6
Property	16.9	20.1
Liability-driven investments	36.2	27.5
Cash and gilts	8.1	3.3
Total fair value of scheme assets	361.9	396.4
Present value of scheme liabilities	(410.8)	(428.0)
Pension deficit	(48.9)	(31.6)

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 2020			Value at 31 March 2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	—	59.7	59.7	—	83.4	83.4
Absolute return funds	16.1	25.5	41.6	31.5	54.5	86.0
Bonds	—	131.0	131.0	—	111.5	111.5
High yield	—	68.4	68.4	—	64.6	64.6
Property	—	16.9	16.9	—	20.1	20.1
Liability-driven investments	—	36.2	36.2	—	27.5	27.5
Cash and gilts	8.1	—	8.1	3.3	—	3.3
Total fair value of scheme assets	24.2	337.7	361.9	34.8	361.6	396.4

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. The Legal and General property fund was fair valued as at 31 March 2020 at £16.9m, however this valuation came with an associated material valuation uncertainty clause that had been introduced by the fund's independent valuers due to the impact of the COVID-19 virus outbreak on global financial markets.

(iv) The movement in the scheme deficit in the year is as follows:

	2020 £m	2019 £m
Deficit at the beginning of the year	(31.6)	(48.0)
Employer contributions – deficit recovery	3.3	2.6
IAS 19R pension administration expenses	(1.5)	(1.5)
IAS 19R finance cost	(0.8)	(1.3)
Past service costs	—	(1.0)
Actuarial (losses)/gains	(18.3)	17.6
Deficit at the end of the year	(48.9)	(31.6)

Exceptional past service costs of £1.0m were expensed in the prior year in relation to a UK High Court ruling that trustees of UK defined benefit pension schemes must equalise guaranteed minimum pensions (GMP).

Notes to the Group accounts continued

Year ended 31 March 2020

24. Retirement benefit obligations continued

(b) IAS 19R, 'Employee benefits' continued

Norcros Security Plan continued

(v) The reconciliation of scheme assets is as follows:

	2020 £m	2019 £m
Opening fair value of scheme assets	396.4	399.6
Employer contributions – deficit recovery	3.3	2.6
Interest income	9.6	10.3
Benefits paid	(23.9)	(24.8)
Actuarial (losses)/gains on scheme assets	(22.0)	10.2
IAS 19R pension administration expenses	(1.5)	(1.5)
Closing fair value of scheme assets	361.9	396.4

(vi) The reconciliation of scheme liabilities is as follows:

	2020 £m	2019 £m
Opening scheme liabilities	(428.0)	(447.6)
Interest cost	(10.4)	(11.6)
Actuarial gains/(losses) arising from changes in financial assumptions	9.0	(10.1)
Actuarial (losses)/gains arising from changes in demographic assumptions	(5.3)	5.4
Experience gains on liabilities	—	12.1
Past service costs	—	(1.0)
Benefits paid	23.9	24.8
Closing fair value of scheme liabilities	(410.8)	(428.0)

(vii) Amounts recognised in the Consolidated Statement of Comprehensive Income are as follows:

	2020 £m	2019 £m
Actuarial (losses)/gains	(18.3)	17.6
Deferred tax	3.5	(3.0)
	(14.8)	14.6

(viii) Sensitivities

The sensitivities regarding the principal assumptions used to measure the Plan's liabilities are as follows:

	Impact on scheme deficit	
Assumption	2020 £m	2019 £m
Discount rate – 0.1% decrease	4.9	5.2
Inflation rate (RPI and CPI)[1] – 0.1% increase	3.6	3.4
Increase in life expectancy by one year	13.8	14.9

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.

25. Called up share capital

	2020 £m	2019 £m
Issued and fully paid		
2020: 80,557,270 (2019: 80,368,315) ordinary shares of 10p each	8.1	8.0

During the year, the Company issued 188,955 10p ordinary shares in order to satisfy vesting of options under the Company's Approved Performance Share Plan, Deferred Bonus Plan and SAYE schemes.

26. Other non-current liabilities

	2020 £m	2019 £m
Other non-current liabilities	0.3	0.9
	0.3	0.9

Other non-current liabilities relate to post-retirement healthcare liabilities in our South African business. In the prior year £0.6m of the liability related to accrued lease obligations that on conversion to IFRS 16 have moved to lease liabilities.

27. Consolidated Cash Flow Statement

(a) Cash generated from operations

The analysis of cash generated from operations is given below:

Continuing operations

	2020 £m IFRS 16 basis	2020 £m Pre-IFRS 16	2019 £m Pre-IFRS 16
Profit before taxation	15.0	16.4	25.4
Adjustments for:			
– IAS 19R administrative expenses included in the Income Statement	1.5	1.5	1.5
– acquisition related costs included in the Income Statement	4.0	4.0	3.8
– exceptional items included in the Income Statement	9.0	9.0	4.0
– finance costs/(income) included in the Income Statement	2.0	0.1	(1.6)
– IAS 19R finance cost included in the Income Statement	0.8	0.8	1.3
– cash flows from exceptional items	(0.3)	(1.0)	(1.9)
– settlement of share options	(0.5)	(0.5)	(0.6)
– depreciation of property, plant and equipment	6.6	6.6	6.6
– underlying amortisation	0.2	0.2	0.3
– depreciation of right of use asset	4.5	—	—
– pension fund deficit recovery contributions	(3.3)	(3.3)	(2.6)
– share-based payments	0.1	0.1	1.2
Operating cash flows before movement in working capital	39.6	33.9	37.4
Changes in working capital:			
– increase in inventories	(2.4)	(2.4)	(7.6)
– decrease in trade and other receivables	3.6	3.6	0.1
– (decrease)/increase in trade and other payables	(6.0)	(6.0)	5.4
Cash generated from operations	34.8	29.1	35.3

(b) Outflow related to exceptional items

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 2018	17.3	(64.4)	(47.1)
Cash flow	7.8	6.2	14.0
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	(1.7)	—	(1.7)
At 31 March 2019	23.4	(58.4)	(35.0)
Cash flow	25.4	(25.0)	0.4
Other non-cash movements	—	(0.2)	(0.2)
Exchange movement	(1.6)	—	(1.6)
At 31 March 2020	47.2	(83.6)	(36.4)

Other non-cash movements relate to the movement in the costs of raising debt finance in the year.

Notes to the Group accounts continued

Year ended 31 March 2020

28. Dividends

A final dividend in respect of the year ended 31 March 2019 of £4.5m (5.6p per 10p ordinary share) was paid on 2 August 2019 and an interim dividend of £2.5m (3.1p per 10p ordinary share) was paid on 10 January 2020. No final dividend in respect of the year ended 31 March 2020 is to be proposed at the Annual General Meeting on 30 July 2020.

29. Capital and other financial commitments

(a) Capital commitments

	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements	**0.1**	1.0

30. Related party transactions

The Group considers its Directors to be the key management personnel. Compensation for Directors who have the sole responsibility for planning, directing and controlling the Group are set out in the Remuneration Report on pages 67 to 74.

31. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements. The Group has adopted IFRS 16 from 1 April 2019, but has not restated comparatives for the previous year, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new standard are recognised in the opening balance sheet as at 1 April 2019.

Impact on the balance sheet

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	1 April 2019 £m
Non-current assets	
Right of use asset	24.7
Current liabilities	
Lease financial liability	(3.8)
Other non-current liabilities	0.6
Other creditors	0.2
Non-current liabilities	
Provision (UK property provision in respect of onerous legacy property lease)	2.2
Lease financial liability	(23.9)

There was no net impact on retained earnings at 1 April 2019.

Lease liabilities

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The Group's weighted average (by lease liability) incremental borrowing rate applied to lease liabilities as at 1 April 2019 was 7.4%.

The lease liabilities at 31 March 2020 were as follows:

	31 March 2020 £m	1 April 2019 £m
Current liabilities	**5.2**	3.8
Non-current liabilities	**19.9**	23.9
	25.1	27.7

Lease liabilities recorded at 1 April 2019 can be reconciled to operating lease disclosures as at 31 March 2019 as follows:

	£m
Operating lease commitments disclosed as at 31 March 2019	27.4
(Less): short-term leases recognised on a straight-line basis as expense	(0.4)
(Less): low-value leases recognised on a straight-line basis as expense	(0.1)
Difference due to extensions and split of lease commitments	12.0
Gross future lease cashflows per IFRS 16	38.9
Effect of discounting	(11.2)
IFRS 16 lease liability recognised as at 1 April 2019	27.7

31. Changes in accounting policies continued

Right of use assets

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to leases recognised in the balance sheet as at 1 April 2019. The right of use asset has been reduced by the carrying amount of the onerous lease provision at 1 April 2019 instead of performing impairment reviews under IAS 36.

The recognised right of use assets relate to the following types of assets:

	SA		UK		Total	
	31 March 2020 £m	1 April 2019 £m	31 March 2020 £m	1 April 2019 £m	31 March 2020 £m	1 April 2019 £m
Properties	11.8	14.5	6.6	7.4	18.4	21.9
Plant and equipment	0.6	0.7	0.9	1.1	1.5	1.8
Vehicles	0.1	—	0.6	1.0	0.7	1.0
Total	12.5	15.2	8.1	9.5	20.6	24.7

Impact on the income statement and earnings per share

For the year ended 31 March 2020, instead of recognising a rental expense of £5.0m in the period a depreciation charge of £4.5m has been recognised on the right of use asset and a £1.9m interest charge on the lease liability.

Underlying operating profit was £0.5m higher as a result of applying IFRS 16 due to the lower depreciation charge than rental expense. Profit before tax was £1.4m lower due to interest expenses being higher at the beginning of the lease term. This also reduced diluted underlying earnings per share by 1.3p.

The overall impact of the implementation of IFRS 16 on the income statement over the life of the lease is neutral but will result in a higher charge in the earlier years following implementation and a lower charge in later years. There is no impact on Norcros' existing banking covenants as a result of the implementation.

Impact on the cash flow statement

The overall impact of IFRS 16 on the annual cash flow is zero. Payments in respect of leases which were previously recognised within cash flows from operating activities are now separated between interest cost and the payment of principal elements recorded in the cash flow statement under financing activities. This has increased net cash generated from operations by £5.7m, increased net cash used in financing activities by £3.8m and increased interest cost by £1.9m. Underlying operating cashflow has only increased by £5.0m due to £0.7m of the increased financing activities cashflow being related to onerous lease payment, and excluded from underlying operating cashflow.

Practical expedients applied

Applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. For future options unless it is certain the lease will not be extended, the extension is included in the IFRS 16 assessment.

32. Business combinations

Acquisition of House of Plumbing

On 1 April 2019, Norcros South Africa (Proprietary) Limited acquired the entire issued share capital of RAP Plumbing Supplies (Proprietary) Limited, trading as House of Plumbing ("House of Plumbing"), a private company owned by the directors and a number of other employees and private investors that is a market leading supplier of specialist plumbing materials.

The following table summarises the consideration paid for House of Plumbing (HOP) and the fair value of the assets acquired, and the liabilities assumed:

	£m
Consideration	
Cash	9.8
Contingent consideration	1.1
	10.9

Notes to the Group accounts continued

Year ended 31 March 2020

32. Business combinations continued

Acquisition of House of Plumbing continued

	£m
Recognised amounts of identifiable assets and liabilities	
Intangible assets	2.0
Property, plant and equipment	0.1
Inventories	1.9
Trade and other receivables	3.6
Cash and cash equivalents	1.0
Trade and other payables	(2.4)
Deferred tax liability	(0.4)
Total identifiable net assets	5.8
Goodwill	5.1
Total	10.9

The contingent consideration of £1.1m reflects the maximum amount, also being the best estimate at the time of acquisition, to be paid to a number of former shareholders of House of Plumbing after the two-year anniversary of acquisition subject to the business achieving certain financial performance targets over the same period. As at 31 March 2020, under IFRS 9, the expected fair value of the related provision made on acquisition is nil and therefore £1.1m has been released to the income statement against acquisition related costs.

A number of current employees, who were also shareholders of House of Plumbing, have potential to receive an earn-out contingent upon the continued employment of these individuals and the meeting and the achievement of certain financial performance targets. No contingent consideration has been recognised in accordance with IFRS 3 (revised), however the amounts payable will instead be treated as remuneration and accordingly they will be expensed as acquisition related costs in the income statement over the period the performance targets will be achieved.

The fair value adjustments principally reflect the assessment of the value of acquired intangible assets of £2.0m and a deferred tax liability of £0.4m, mainly arising from the recognition of acquired intangible assets.

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. It is not expected at this stage that any of the goodwill will be deductible for tax purposes.

Costs relating to the transaction have been expensed to the Consolidated Income Statement and included within acquisition related costs in previous periods.

The revenue and profit after tax included in the Consolidated Statement of Comprehensive Income since 1 April 2019 attributable to HOP was £23.7m and £0.8m respectively.

The net cash outflow from the transaction reported within investing activities was as follows:

	£m
Cash consideration	9.8
Cash acquired	(1.0)
Net cash outflow reported in the Consolidated Cash Flow Statement[1]	8.8

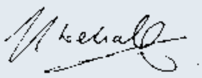
1 Consolidated cash flow statement net cash outflow due to acquisition of subsidiary undertakings includes £0.4m payment of deferred consideration in relation to previous acquisitions.

Parent Company balance sheet

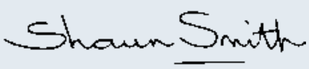
At 31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investments	3	177.3	177.3
Deferred tax assets	4	0.3	0.5
		177.6	177.8
Current assets			
Trade and other receivables	5	37.6	23.1
Current liabilities			
Trade and other payables	6	(0.4)	(0.8)
Net current assets		37.2	22.3
Total assets less current liabilities		214.8	200.1
Non-current liabilities			
Financial liabilities – borrowings	7	(83.6)	(58.4)
Net assets		131.2	141.7
Financed by:			
Share capital	8	8.1	8.0
Share premium account		29.9	29.9
Treasury reserve		(0.4)	(0.3)
Retained earnings before loss for the financial year		95.9	107.7
Loss for the financial year		(2.3)	(3.6)
Total shareholders' funds		131.2	141.7

The financial statements of Norcros plc, registered number 3691883, on pages 119 to 124, were authorised for issue on 25 June 2020 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 2020

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Retained earnings £m	Total equity £m
At 1 April 2018	8.0	29.7	—	114.3	152.0
Comprehensive expense:					
Loss for the year	—	—	—	(3.6)	(3.6)
Total comprehensive expense for the year	—	—	—	(3.6)	(3.6)
Transactions with owners:					
Shares issued	—	0.2	—	—	0.2
Dividends paid	—	—	—	(6.4)	(6.4)
Purchase of treasury shares	—	—	(1.1)	—	(1.1)
Equity-settled share options	—	—	0.8	(1.4)	(0.6)
Value of employee services	—	—	—	1.2	1.2
At 31 March 2019	8.0	29.9	(0.3)	104.1	141.7
Comprehensive expense:					
Loss for the year	—	—	—	(2.3)	(2.3)
Total comprehensive expense for the year	—	—	—	(2.3)	(2.3)
Transactions with owners:					
Shares issued	0.1	—	—	—	0.1
Dividends paid	—	—	—	(7.0)	(7.0)
Purchase of treasury shares	—	—	(0.9)	—	(0.9)
Equity-settled share options	—	—	0.8	(1.3)	(0.5)
Value of employee services	—	—	—	0.1	0.1
At 31 March 2020	**8.1**	**29.9**	**(0.4)**	**93.6**	**131.2**

Notes to the Parent Company accounts

Year ended 31 March 2020

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 has in the current financial year adopted an accounting period of 53 weeks, and as a result of this, the exact year-end date was 5 April 2020. All references to the financial year therefore relate to the 53 weeks commencing on 1 April 2019. In the previous year the accounting period was 52 weeks long, beginning on 2 April 2018 and ending on 31 March 2019.

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 2019 are set out in the Group financial statements on page 90. 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 90. None of these standards or interpretations is expected to have a material impact on the Company.

Basis of preparation

Norcros plc is a qualifying entity able to apply FRS 101, 'Reduced disclosure framework'. The separate financial statements of the Company have been prepared in accordance with FRS 101, on the going concern basis and under the historical cost convention modified for fair values, and in accordance with the Companies Act 2006 and with applicable accounting standards.

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 are no critical accounting estimates relating to these financial statements.

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.

Notes to the Parent Company accounts continued

Year ended 31 March 2020

1. Statement of accounting policies continued

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 (2019: £3,000) and staff costs relating to two employees (2019: two) are borne by the Company's subsidiary, without recharge.

Further information about the Directors' remuneration may be found in the Annual Report on Remuneration on pages 67 to 74.

3. Investments

	Shares in subsidiaries £m
At 1 April 2019 and 31 March 2020	**177.3**

Details of the subsidiaries owned by the Company, held both directly and indirectly, are shown in note 11.

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:

	2020 £m	2019 £m
Deferred tax asset at the beginning and end of the year	**0.3**	0.5

The analysis of the deferred tax asset is as follows:

	2020 £m	2019 £m
Other timing differences	**0.3**	0.5

	2020 £m	2019 £m
To be recovered after more than twelve months	**0.2**	0.3
To be recovered within twelve months	**0.1**	0.2
	0.3	0.5

4. Deferred tax assets continued

The full potential asset for deferred tax is as follows:

	2020 £m	2019 £m
Other timing differences	0.3	0.5
Tax losses	4.5	4.5
	4.8	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

	2020 £m	2019 £m
Amounts owed by Group undertakings	37.6	23.1
	37.6	23.1

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

6. Trade and other payables

	2020 £m	2019 £m
Accruals	0.4	0.8
	0.4	0.8

7. Financial liabilities – borrowings

	2020 £m	2019 £m
Loans and bank overdrafts	84.0	59.0
Costs of raising finance	(0.4)	(0.6)
	83.6	58.4
Repayable after more than one year:		
– between one and two years	—	—
– between two and five years	84.0	59.0
– costs of raising finance	(0.4)	(0.6)
	83.6	58.4

The Group increased the amount of its committed banking facilities to £120m (plus a £30m accordion) at the time of the Merlyn acquisition in November 2017. The maturity date was originally November 2021 with an option to extend for a further year. The Group exercised this option during the year ended 31 March 2019 and has extended the maturity date of the facility to November 2022.

The Group has been in compliance with all banking covenants during the year. Post year-end we have agreed covenant waivers at September 2020 and March 2021 with a replacement Maximum Net Debt covenant of £95m to be tested quarterly until June 2021.

8. Called up share capital

	2020 £m	2019 £m
Issued and fully paid		
2020: 80,557,270 (2019: 80,368,315) ordinary shares of 10p each	8.1	8.0

During the year, the Company issued 188,955 10p ordinary shares in order to satisfy vesting of options under the Company's Approved Performance Share Plan, Deferred Bonus Plan and SAYE schemes.

9. Dividends

A final dividend in respect of the year ended 31 March 2019 of £4.5m (5.6p per 10p ordinary share) was paid on 2 August 2019 and an interim dividend of £2.5m (3.1p per 10p ordinary share) was paid on 10 January 2020. No final dividend in respect of the year ended 31 March 2020 is to be proposed at the Annual General Meeting on 30 July 2020.

Notes to the Parent Company accounts continued

Year ended 31 March 2020

10. Contingent liabilities

The Company is party to an omnibus set-off agreement between Lloyds Bank plc and the Group's UK subsidiaries.

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	Dorey Court, Admiral Park, St. Peter Port GY1 2HT, 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
RAP Plumbing Supplies (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

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to consult your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent professional adviser who is authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent professional adviser.

If you sell or otherwise transfer, or have sold or other otherwise transferred, all of your shares in the Company, please send this document and the form of proxy (if you have a proxy form) to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee, save that you should not send such documents in or into any jurisdiction in which to do so would constitute a violation of that jurisdiction's relevant laws or regulations.

If you sell or otherwise transfer, or have sold or otherwise transferred, only part of your holding of shares in the Company, you should retain this document and the form of proxy (if you have a proxy form) and consult the stockbroker, bank or other agent through whom the sale or transfer was effected.

Notice of Annual General Meeting

Notice is given that the 2020 Annual General Meeting of the Company ("**AGM**") will be held at 11.00 am on 30 July 2020 at Norcros plc, Ladyfield House, Station Road, Wilmslow, Cheshire SK9 1BU for the purpose of considering and, if thought fit, passing the resolutions set out below.

COVID-19

We recognise that the AGM is a very important occasion for the Board to engage with shareholders and answer any questions that shareholders might have.

The unprecedented COVID-19 pandemic is a rapidly evolving situation from a public health perspective and is challenging for us all.

The health and wellbeing of our shareholders is of paramount importance to us and we are monitoring the situation and measures advised by the UK Government.

In light of the current UK Government advice and related public health guidance, we have taken the unprecedented decision to hold a very limited AGM this year. As such, pending further guidance and subject to the limited exceptions mentioned below, we will not permit any shareholder entry to or attendance at the AGM with the exception of two Directors who hold shares, so that they can form a quorate meeting and duly record the proxy votes.

If, despite the above, any shareholder would nevertheless like to attend the AGM in person, they may request permission to do so by email to the Company Secretary (info@norcros.com) and it may be possible for the Company to permit a very small number of shareholders to do so provided that they comply with whatever arrangements the Company may require to ensure compliance with the above-mentioned UK Government advice and related public health guidance. In light of the above, the Company reserves the right to refuse such permission and, if such permission is granted, to revoke such permission at any time (whether before or during the AGM) if the Director who is chair of the AGM ("**Chair**") considers this necessary, including if any shareholder who is permitted entry to and attendance at the AGM fails to comply with the above-mentioned arrangements.

As shareholders will not be able to physically attend the AGM this year, subject to the above-mentioned limited exceptions (and, even if permitted entry to the AGM, may not be able to physically attend the AGM throughout), we strongly encourage shareholders to register your proxy votes in advance of the AGM and to appoint the Chair as their proxy, to ensure that they can vote and be represented at the AGM. In light of the above, any proxy other than the Chair may not be permitted entry to or attendance at the AGM, so they may not be able to vote. Details of how to complete and submit your proxy votes are set out on page 128 below.

UK Government advice and related public health guidance in relation to COVID-19 is rapidly evolving and the Board intends to keep the arrangements of the AGM under close review during this period. In the event that it is necessary or desirable to make any changes to the arrangements for the AGM, we will seek to give shareholders as much notice as possible. Details of any changes to those arrangements will be made available on the "AGM 2020" section of the Company's website (www.norcros.com) and, where appropriate, announced via a Regulatory Information Service.

In light of the above, it is unlikely that a formal question and answer session will be held. Instead, shareholders are encouraged to submit any questions relating to the business of the AGM in advance of the AGM by email to info@norcros.com and the Board will attempt to ensure, to the extent practicable, that answers are provided by 11.00 am on 27 July 2020. If the Board considers it appropriate and practicable, answers to any commonly asked or particular questions may be published on the "AGM 2020" section of the Company's website (www.norcros.com).

The following resolutions will be proposed at the meeting. Resolutions 1 to 13 (inclusive) will be proposed as ordinary resolutions and resolutions 14 to 17 (inclusive) 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 2020.
2. To approve the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) for the year ended 31 March 2020 set out in the Annual Report and Accounts for the year ended 31 March 2020.
3. To approve the Directors' Remuneration Policy (as contained in the Directors' Remuneration Report) for the year ended 31 March 2020 set out in the Annual Report and Accounts for the year ended 31 March 2020.
4. To elect Mark Allen as a Director.
5. To re-elect Alison Littley 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 appoint BDO LLP as auditor of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid.
10. To authorise the Audit and Risk Committee of the Board of Directors to agree the remuneration of the auditor of the Company.
11. That the Directors be, and are hereby, authorised:
    (a) to adopt and establish the Norcros plc 2020 Deferred Bonus Plan ("DBP"), the principal terms of which are described in Appendix 1 to the notice of this meeting, and the rules of which are produced to the meeting and signed by the Chair of the meeting for the purposes of identification;
    (b) to make such modifications to the DBP as they may consider appropriate to take account of best practice and the legislation governing such arrangements and to adopt the DBP as so modified and to do all such other acts and things as they may consider appropriate to implement the DBP; and
    (c) to establish further plans based on the DBP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the DBP.
12. That the Directors be, and are hereby, authorised:
    (a) to adopt and establish the Norcros plc 2020 Performance Share Plan ("PSP"), the principal terms of which are described in Appendix 2 to the notice of this meeting, and the rules of which are produced to the meeting and signed by the Chair of the meeting for the purposes of identification;
    (b) to make such modifications to the PSP as they may consider appropriate to take account of best practice and the legislation governing such arrangements and to adopt the PSP as so modified and to do all such other acts and things as they may consider appropriate to implement the PSP; and
    (c) to establish further plans based on the PSP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the PSP.
13. That the Directors be and are 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 such authority are shares with an aggregate nominal value of £5,371,443.60 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) such authority shall expire at the close of business on 30 October 2021 or, if earlier, at the conclusion of the Company's next annual general meeting;
    (c) before such expiry, the Company may make any offer or agreement which would or might require such 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 such authority had not expired; and
    (d) all existing authorities vested in the Directors to allot such shares or to grant Allotment Rights that remain unexercised are revoked.

14. That, subject to the passing of resolution 13 in the notice of this meeting (the "Notice"), the Directors be and are empowered pursuant to Sections 570 and 573 of the Companies Act 2006 to allot equity securities (as defined in Section 560(1) of that Act) for cash, pursuant to the authority conferred on them by resolution 13 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 or sale, provided that such power is limited to:

    (a) the allotment or sale of such 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 in the Company on the register on any fixed record date in proportion to their holdings of such ordinary shares (and, if applicable, to the holders of any other class of equity security in the Company 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 regulations or requirements of any regulatory body or any stock exchange; and

    (b) the allotment or sale of such equity securities (other than pursuant to paragraph (a) above) up to an aggregate nominal value of £402,858.20 (representing approximately 5% of the issued share capital of the Company),

    and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the Directors by resolution 13 in the Notice, save that, before the expiry of such power, the Company may make any offer or agreement which would or might require such equity securities to be allotted or sold after such expiry and the Directors may allot or sell such equity securities under any such offer or agreement as if such power had not expired.

15. That, subject to the passing of resolution 13 in the notice of this meeting (the "Notice") and, in addition to the power contained in resolution 14 set out in the Notice, the Directors be and are empowered pursuant to Sections 570 and 573 of the Companies Act 2006 to allot equity securities (as defined in Section 560(1) of that Act) for cash, pursuant to the authority conferred on them by resolution 13 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 or sale, provided that such power is:

    (a) limited to the allotment or sale of such equity securities up to an aggregate nominal value of £402,858.20; 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,

    and shall expire on the revocation or expiry (unless renewed) of the authority conferred on the Directors by resolution 13 in the Notice save that, before the expiry of such power, the Company may make any offer or agreement which would or might require such equity securities to be allotted or sold after such expiry and the Directors may allot or sell such equity securities under any such offer or agreement as if such power had not expired.

16. That the Company be and is generally and unconditionally authorised pursuant to Section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693(4) of that Act) of ordinary shares in its capital provided that:

    (a) the maximum aggregate number of such shares that may be acquired under this authority is 8,057,165;

    (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;

    (d) such authority shall expire at the close of business on 30 October 2021 or, if earlier, at the conclusion of the Company's next annual general meeting; and

    (e) before such expiry, the Company may enter into a contract to purchase such shares which would or might require a purchase to be completed after such expiry and the Company may purchase such shares pursuant to any such contract as if such authority had not expired.

17. 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
25 June 2020

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. A proxy need not be a member. **AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE ONGOING CIRCUMSTANCES RELATING TO COVID-19 AND THE RELATED UK GOVERNMENT ADVICE AND PUBLIC HEALTH GUIDANCE ("COVID-19 RESTRICTIONS"), SHAREHOLDERS ARE STRONGLY ENCOURAGED TO APPOINT THE CHAIR OF THE AGM ("AGM CHAIR") AS THEIR PROXY AND ANY PROXY OTHER THAN THE AGM CHAIR MAY NOT BE PERMITTED TO ATTEND THE MEETING.**
2. The right of a member to attend and 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 by 11.00 am on 28 July 2020 in order to be entitled to attend and vote at the meeting as a member in respect of those shares. **AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE STRONGLY ENCOURAGED TO APPOINT THE AGM CHAIR AS THEIR PROXY AND ANY SHAREHOLDER OR SHAREHOLDER'S REPRESENTATIVE, OR ANY PROXY OTHER THAN THE AGM CHAIR, MAY NOT BE PERMITTED TO ATTEND THE MEETING.**
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. 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. **AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE STRONGLY ENCOURAGED TO APPOINT THE AGM CHAIR AS THEIR PROXY AND ANY SHAREHOLDER OR SHAREHOLDER'S REPRESENTATIVE, OR ANY PROXY OTHER THAN THE AGM CHAIR, MAY NOT BE PERMITTED TO ATTEND THE MEETING.**
4. 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. Appointing a proxy will not prevent a member from attending and voting in person at the meeting should he so wish. **AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE STRONGLY ENCOURAGED TO APPOINT THE AGM CHAIR AS THEIR PROXY AND ANY SHAREHOLDER OR SHAREHOLDER'S REPRESENTATIVE, OR ANY PROXY OTHER THAN THE AGM CHAIR, MAY NOT BE PERMITTED TO ATTEND THE MEETING.**

   A member can appoint a proxy by:

   - logging onto http://www.signalshares.com and submitting a proxy appointment online by following the instructions. A member who has not previously done so will first need to register to use this facility (using the Investor Code detailed on the member's share certificate or otherwise available from the Company's registrar, Link Asset Services); or
   - submitting (if the member is a CREST member) a proxy appointment electronically by using the CREST voting service (in accordance with the notes below).

   A member who would prefer a paper proxy form may request one from the Company's registrar by calling the helpline number below. A paper proxy appointment form must be completed in accordance with the instructions that accompany it and must be delivered (together with any power of attorney or other authority under which it is signed, or a copy certified by a notary or in some other way approved by the Board) to Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

   All proxy appointments must be received by no later than 11.00 am on 28 July 2020 to be valid. The Company's registrar, Link Asset Services, can be contacted on its helpline number by calling 0371 664 0300 (calls cost 12p per minute plus the relevant phone company's access charge). The number to call from outside the United Kingdom is +44 371 664 0300 and calls will be charged at the applicable international rate. Phone lines are open 9.00 am–5.30 pm (BST), Monday to Friday excluding public holidays in England and Wales.

   AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE STRONGLY ENCOURAGED TO APPOINT THE AGM CHAIR AS THEIR PROXY AND ANY SHAREHOLDER OR SHAREHOLDER'S REPRESENTATIVE, OR ANY PROXY OTHER THAN THE AGM CHAIR, MAY NOT BE PERMITTED TO ATTEND THE MEETING.
5. 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 (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.
6. 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 "AGM 2020" section of the Company's website (www.norcros.com).
7. As at 23 June 2020 (being the latest practicable date prior to the printing of the Annual Report and Accounts 2020), (i) the Company's issued share capital consisted of 80,571,654 ordinary shares carrying one vote each and (ii) the total voting rights in the Company were 80,571,654.

Notes continued

8. 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, 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 to publish on a website in advance of the meeting may be viewed at the "AGM 2020" section of the Company's website (www.norcros.com). A member may not use any electronic address provided by the Company in the Annual Report and Accounts 2020 or in any accompanying document or in any website for communicating with the Company for any purpose in relation to the meeting other than as expressly stated in it.
AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE REQUESTED TO SUBMIT QUESTIONS TO THE BOARD IN ADVANCE OF THE MEETING (AS SET OUT ON THAT PAGE).
9. It is possible that, pursuant to members' requests made in accordance with Section 527 of the Companies Act 2006, 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(s) 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. **AS STATED ON PAGE 125 ABOVE, IN LIGHT OF THE COVID-19 RESTRICTIONS, SHAREHOLDERS ARE REQUESTED TO SUBMIT QUESTIONS TO THE BOARD IN ADVANCE OF THE MEETING (AS SET OUT ON THAT PAGE).**
10. 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 28 July 2020. 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.
11. The Company takes all reasonable precautions to ensure that no malicious software or computer viruses (all such things being referred to here as "Malware") 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 suitable Malware 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 appointment) which is believed to or is found to contain any Malware will not be accepted.
12. 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 meeting for at least 15 minutes prior to and during the meeting. In addition, an electronic copy of any such document is available by request from a member to the Company Secretary (email: info@norcros.com).
13. Information regarding this meeting, including information required by Section 311A of the Companies Act 2006, is available on the "AGM 2020" section of the Company's website (www.norcros.com). **SHAREHOLDERS ARE ENCOURAGED TO REGULARLY REVIEW THE "AGM 2020" SECTION OF THE COMPANY WEBSITE IN CASE OF ANY CHANGES TO THE ARRANGEMENTS REGARDING THE MEETING.**
14. The following documents will be available for inspection at the place of the meeting for at least 15 minutes prior to and during the meeting:
    - a copy of the draft form of the rules of the Norcros plc 2020 Deferred Bonus Plan; and
    - a copy of the draft form of the rules of the Norcros plc 2020 Performance Share Plan.

    A copy of the draft form of the rules of the Norcros plc 2020 Deferred Bonus Plan and the Norcros plc 2020 Performance Share Plan will also be available for inspection at the registered office of the Company and also at Eversheds Sutherland LLP, 1 Wood Street, London EC2V 7WS during normal business hours on any week day, other than Saturday, Sunday and public holidays, from the date of this Notice until the close of the meeting. In addition, an electronic copy of each of these documents is available on the "AGM 2020" section of the Company's website (www.norcros.com).

Fair Processing Notice

Norcros will only process your information for the purpose of managing AGM voting and analysis of voting patterns (not how individuals cast their votes). This data will only be retained for 14 months before being deleted. For more information on how we look after your personal data please see our Privacy Policy at www.norcros.com.

Explanatory notes

The 2020 Annual General Meeting of the Company will take place at 11.00 am on 30 July 2020 at Norcros plc, Ladyfield House, Station Road, Wilmslow, Cheshire SK9 1BU. The notice convening that meeting, together with the resolutions to be proposed, appears on pages 125 to 139. 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. For the purposes of these notes, reference to 23 June 2020 in relation to the Company's issued share capital is a reference to the latest practicable date prior to the publication of the Company's annual report and accounts for the financial year ended 31 March 2020 ("Annual Report and Accounts 2020").

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. In line with best practice, shareholders are invited to vote on the receipt of the Annual Report and Accounts 2020.

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 2020. 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 is set out in full on pages 56 to 74 of the Annual Report and Accounts 2020. For the purposes of this resolution, the Directors' Remuneration Report does not include the Directors' Remuneration Policy which is set out on pages 59 to 66.

Resolution 3

Approval of the Directors' Remuneration Policy

In accordance with the Companies Act 2006, the Company proposes an ordinary resolution to approve the Directors' Remuneration Policy contained in the Directors' Remuneration Report. The proposed Directors' Remuneration Policy is set out on pages 59 to 66 of the Annual Report and Accounts 2020. The vote on this resolution is binding and, if passed, will mean that the Directors can only make remuneration payments in accordance with the approved policy unless such payments have otherwise been approved by a separate shareholder resolution. The Company is required to ensure that a vote on its remuneration policy takes place annually unless the approved policy remains unchanged, in which case the Company need only propose a similar resolution at least every three years.

The shareholders approved the current Directors' Remuneration Policy at the Company's 2017 annual general meeting. The policy proposed for approval by shareholders at this year's annual general meeting is broadly the same as the previous policy, subject to some minor amendments, which are explained on pages 56 and 58 of the Annual Report and Accounts 2020.

Resolutions 4 to 8

Election and re-election of Directors

Resolutions 4 to 8 relate to the retirement and election or re-election of the Company's Directors. The Company's Articles of Association require a Director who has been appointed by the Board of Directors to retire at the annual general meeting next following his or her appointment. Mark Allen was appointed as a Director with effect from 1 May 2020. Consequently, he will retire from office at the Annual General Meeting and intends to stand for election by the shareholders for the first time.

The Company's Articles of Association also require certain Directors to retire from office at intervals, and that at each annual general meeting one-third of eligible Directors must retire from office by rotation. Notwithstanding the provisions of the Articles of Association, the Board has determined that each of the remaining Directors shall also retire from office at the 2020 Annual General Meeting in line with best practice recommendations of the UK Corporate Governance Code. Each of the Directors intends to stand for re-election by the shareholders, with the exception of Martin Towers who will step down from the Board at the conclusion of the meeting.

The Board confirms that, following formal performance evaluation of all of the Directors (other than Mark Allen), each of the Directors standing for election or re-election continues to be an effective and valuable member of the Board, to make a positive contribution and to demonstrate commitment to his or her role (including making sufficient time available for Board and committee meetings and other duties). The Board believes that the considerable and wide-ranging experience of the Directors will continue to be invaluable to the Company. The Board is satisfied that each non-executive Director standing for election or re-election is independent (as defined in the UK Corporate Governance Code). Brief biographical details of all of the Directors standing for election or re-election can be found on pages 44 and 45 of the Annual Report and Accounts 2020.

Resolutions 9 and 10

Appointment and remuneration of auditor

The Company is required to appoint an auditor at each general meeting at which accounts are laid, to hold office until the conclusion of the next such meeting. During the year, and in light of regulatory guidance regarding audit tendering and audit firm rotation, the Audit and Risk Committee oversaw a formal and comprehensive tender process for the external audit appointment with a view to a new audit firm being appointed to audit the financial statements for the year ending 31 March 2021. Following completion of such tender process, the Audit and Risk Committee recommended to the Board that BDO LLP be appointed and confirmed to the Board that its recommendation was free from third party influence and that no restrictive contractual provisions had been imposed on the Company limiting its choice of auditor. PricewaterhouseCoopers LLP, the current auditor of the Company, will cease to hold office as the Company's auditor with effect from the conclusion of the meeting (and will not stand for re-appointment at the meeting). BDO LLP has indicated that it is willing to act as the Company's auditor and the Board intends to appoint BDO LLP as the Company's new auditor with effect from the conclusion of the meeting to fill the vacancy that will have arisen. Accordingly, shareholder approval is now sought to confirm the appointment of BDO LLP as the Company's auditor. Further details of the tender process are provided in the Audit and Risk Committee report on page 54 of the Annual Report and Accounts 2020. As outgoing auditor, PricewaterhouseCoopers LLP has provided the Company with a Statement of Circumstances as required by company law and a copy of that Statement of Circumstances is set out in Appendix 3 to this Notice. Resolution 9 therefore proposes to permit that BDO LLP be appointed as the Company's auditor to hold office with effect from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid. Resolution 10 follows best practice in giving authority to the Audit and Risk Committee to agree the remuneration of the Company's auditor.

Resolution 11

Adoption of the rules of the Norcros plc 2020 Deferred Bonus Plan (DBP)

Resolution 11 is to authorise the adoption of the DBP.

The Company already operates the Norcros plc 2011 Deferred Bonus Plan ("2011 DBP") but this is due to expire next year. Following the expiry of the 2011 DBP no further awards may be granted pursuant to the 2011 DBP. The Company is therefore proposing to introduce the DBP to replace the 2011 DBP.

Under the DBP a percentage of the bonus payable to eligible Executive Directors and other members of the senior management team will be deferred and delivered in the form of shares rather than cash in order to strengthen alignment with shareholder interests. In line with the Directors' Remuneration Policy, published in the Annual Report and Accounts 2020 at pages 59 to 66, which shareholders will be asked to approve at the Annual General Meeting by the passing of resolution 3, it is intended that 50% of a participant's bonus will be converted into a nil-cost option to acquire shares. Options granted pursuant to the DBP will normally vest at the end of a three-year period subject to the award holder remaining employed by the Group.

The DBP will allow the Company to deliver an appropriate balance between long-term and short-term reward, will align the interests of participants and shareholders and enable Executive Directors to build up shareholdings in line with the Company's shareholdings policy.

The principal terms of the DBP are set out in the summary contained in Appendix 1 to this Notice.

Subject to resolution 11 being passed by the shareholders, it is intended that the DBP shall be adopted by the Company.

Resolution 12

Adoption of the rules of the Norcros plc 2020 Performance Share Plan (PSP)

Resolution 12 is to authorise the adoption of the PSP.

The Company already operates the Norcros plc 2011 Performance Share Plan with HM Revenue & Customs Approved Schedule ("2011 PSP") but this is due to expire next year. Following the expiry of the 2011 PSP no further awards may be granted pursuant to the 2011 PSP. The Company is therefore proposing to introduce the PSP to replace the 2011 PSP.

Pursuant to the PSP the Company will grant nil-cost and market value options to eligible Executive Directors and other members of the senior management team. The options will entitle the participants to acquire shares following a three-year period subject to the satisfaction of performance criteria set at the grant of the option and the continued employment of the participant. The PSP also allows HMRC tax-advantaged options to be granted which enables an element of the incentive to be delivered in a tax efficient manner for both the participant and the Company.

The PSP will allow the Company to deliver an appropriate balance between long-term and short-term reward, will align the interests of participants and shareholders and enable Executive Directors to build up shareholdings in line with the Company's shareholdings policy.

The principal terms of the PSP are set out in the summary contained in Appendix 2 to this Notice.

Subject to resolution 12 being passed by the shareholders, it is intended that the PSP shall be adopted by the Company.

Explanatory notes continued

Resolution 13

Authority to allot shares

Most listed companies renew their directors' authority to issue shares at each annual general meeting. Such an authority was granted by the Company's shareholders last year and is due to expire at the conclusion of the 2020 Annual General Meeting. In accordance with best practice, this resolution seeks to renew the Directors' authority to allot shares.

Resolution 13, if passed, will renew the Directors' authority to allot shares in the capital of the Company up to a maximum aggregate nominal value of £5,371,443.60. This represents approximately two-thirds of the Company's issued ordinary share capital as at 23 June 2020 and is within the limits prescribed by The Investment Association. Of this amount, ordinary shares up to an aggregate nominal value of £2,685,721.80 (which represents approximately one-third of the Company's issued ordinary share capital as at 23 June 2020) can only be allotted pursuant to a rights issue.

As at 23 June 2020, the Company did not hold any shares in the Company in treasury. The renewed authority will, if passed, remain in force until the close of business on 30 October 2021 or, if earlier, the conclusion of the Company's next annual general meeting.

Except for the allotment and issue of shares where necessary to satisfy the exercise of share options already granted by the Company, 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 14 and 15

Disapplication of pre-emption rights

The Directors are currently empowered, subject to certain limitations, to issue shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That power will expire at the conclusion of the 2020 Annual General Meeting and, in accordance with best practice, resolutions 14 and 15 (which will be proposed as special resolutions) seek to renew the Directors' power to disapply pre-emption rights as referenced below and in line with the Statement of Principles published by The Pre-Emption Group in March 2015.

Other than in connection with a rights issue or other similar pre-emptive issue, the power contained in resolution 14 will be limited to ordinary shares up to a maximum aggregate nominal value of £402,858.20. This amount equates to approximately 5% of the issued ordinary share capital of the Company as at 23 June 2020.

In line with the Pre-Emption Group's Statement of Principles, the Directors are also seeking (at resolution 15) a power to issue up to an additional 5% of the Company's issued ordinary share capital for cash without pre-emption rights applying. In accordance with those Principles, the Company will only allot shares up to a maximum aggregate nominal value of £402,858.20 (representing 5% of the issued ordinary share capital of the Company as at 23 June 2020) on a non-pre-emptive basis under this power 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, if passed, remain in force until the close of business on 30 October 2021 or, if earlier, the conclusion of the Company's next annual general meeting.

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 Company's issued share capital will be issued for cash on a non-pre-emptive basis during any rolling three-year period, without prior consultation with shareholders. This limit excludes any ordinary shares issued pursuant to a general disapplication of pre-emption rights in connection with an acquisition or specified capital investment.

Resolution 16

Authority to purchase own shares

This resolution, which will be proposed as a special resolution, is to give the Company the flexibility 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 8,057,165 ordinary shares which represents approximately 10% of the Company's issued ordinary share capital as at 23 June 2020 and sets minimum and maximum prices. The renewed authority will, if passed, remain in force until the close of business on 30 October 2021 or, if earlier, the conclusion of the Company's next annual general meeting.

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.

Resolution 16 continued

Authority to purchase own shares continued

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 23 June 2020, there were options over approximately 3,662,527 ordinary shares in the capital of the Company, which represent approximately 4.5% 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 5.0% of the Company's issued ordinary share capital. As at 23 June 2020, the Company did not hold any shares in treasury.

Resolution 17

Notice of general meetings

This special resolution is required to preserve the ability of the Company to convene general meetings (other than annual general meetings) 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 do so, the Company's shareholders must approve the calling of such meetings on shorter notice. Resolution 17 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.

Appendix 1 – The Norcros plc 2020 Deferred Bonus Plan (DBP)

Status of the DBP

The DBP allows for the deferral of part of a participant's bonus (on a net or gross basis) and for it to be delivered in the form of ordinary shares in the capital of the Company ("**Shares**") rather than cash. The percentage of the bonus which is to be deferred is converted into an option to acquire Shares (an "**Option**") in the future either for no consideration or for a price per Share determined by the remuneration committee of the Company ("**Committee**"), which may be equal to or less than the market value of a Share at the date of grant. The Options have no beneficial tax status.

Eligibility

All employees (including executive directors) of the Company and any of its subsidiaries may be granted Options under the DBP.

Grant of Options

The Committee will have absolute discretion to select the persons to whom Options may be granted and the percentage of their bonus which will be converted into an Option. Subject to the limits set out below, the number of Shares each Option will be granted over will be such number as equates to the amount of the bonus to be deferred divided by the market value of a Share on the date of grant of the Option. Market value for this purpose being the mid-market value for the dealing day prior to the date of grant.

Options may be granted during the period of 42 days commencing on: (a) the date of adoption (b) the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year; or (c) any other time fixed by the Committee where, in its discretion, circumstances are considered to be exceptional so as to justify the grant of Options.

If the grant of an Option on any of the above days would be prohibited by virtue of the Company's share dealing policy, or any statute or regulation or order made pursuant to such statute, then such Option may be granted during the period of 42 days commencing immediately after the dealing day following the time that such prohibition shall cease to have effect.

No consideration is payable for the grant of an Option.

Plan limits

On any date, no Option may be granted under the DBP if, as a result, the aggregate number of Shares issued or issuable pursuant to Options granted during the previous ten years under the DBP or any other discretionary employees' share scheme adopted by the Company would exceed five per cent of the share capital of the Company in issue on that date.

On any date, no Option may be granted under the DBP if, as a result, the aggregate number of Shares issued or issuable pursuant to Options granted during the previous ten years under the DBP or any other employees' share scheme adopted by the Company would exceed ten per cent of the share capital of the Company in issue on that date.

For the purposes of the limits set out above:

- Where an Option takes the form of a right to acquire Shares from an employee benefit trust established by the Company, such Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust for the purposes of the DBP or any other employees' share scheme operated by the Company.
- Options or other rights to acquire Shares which lapse or have been released do not count.
- Where, instead of paying the exercise price, an Option exercise is satisfied by the number of Shares representing the growth in value of a Share between the exercise price and the market value at the date of exercise, only the number of Shares actually issued shall count towards these limits.

Individual limits

No employee may be granted Options under the DBP in any financial year if it would cause the aggregate market value of Shares which such employee may acquire pursuant to an Option granted to him under the DBP to exceed 200 per cent. of his/her base salary, unless the Committee determines that exceptional circumstances exist which justify a higher percentage, not exceeding 300 per cent. of base salary.

Performance conditions

The exercise of Options may be made conditional upon the achievement of a performance target set at the time of grant. Such performance target shall be measured over a performance period (determined by the Committee at the time of grant but which shall not be less than three years) ("**Performance Period**").

If events occur which cause the Committee, acting fairly and reasonably, to consider that a target is no longer suitable, the Committee may, having taken into account of the interests of the shareholders of the Company, waive, vary or amend the original performance target in such manner as it deems fit provided that any varied or amended target is not more or less difficult to achieve than the original performance target.

It should also be noted that a performance target, applying to an Option, may be measured over an abbreviated period less than the Performance Period in circumstances where an employee ceases to be an employee of the group before the end of the relevant Performance Period or certain corporate events occur (such as a change of control of the Company) before the end of the relevant Performance Period.

Dividends

Until an Option has been exercised and the Shares have been transferred or issued to the participant, the participant shall have no entitlement to any dividends or other distributions payable by reference to a record date preceding the date of such transfer or issue.

On the exercise of an Option the participant will receive a cash payment or additional Shares to reflect the value of any dividends or other cash distribution paid by the Company in respect of its Shares ("**Dividend Equivalents**"). The participant will only be entitled to receive Dividend Equivalents in respect of vested Shares.

Where Dividend Equivalents are or will be satisfied with newly issued Shares, such Shares shall be taken into account for the purposes of applying the plan limits set out above.

Exercise of options

An Option will normally be exercisable between the third and tenth years following its grant provided that any specified performance target has been satisfied and the participant is still an employee within the group. On the grant of an Option the Committee may specify a longer vesting period than three years up to a maximum of five years. The Committee may also determine that the Shares acquired pursuant to an Option will be subject to a holding period which shall expire no later than the date falling on the fifth anniversary of the date of grant of the Option.

Options may not be exercised during any prohibited period specified by the Company's share dealing policy or any other statute or regulation or any order made pursuant to such statute.

Leavers

If a participant ceases employment with the group for any reason any Options that they hold will lapse on the date falling one month following such cessation of employment unless the Committee has, prior to such date, determined that the Option may be retained.

Where an Option may be retained, if it has already vested then the participant has six months from the date they cease employment to exercise their Option or, in the case of death, their personal representatives will have twelve months, following which it will lapse.

If the Option has not vested it will vest either on the date of cessation or the normal vesting date, as determined by the Committee. The number of Shares in respect of which the Option may be exercised will be such number as determined by the Committee taking into account the time that has elapsed since the grant date as compared to the normal vesting period and the extent to which any applicable performance targets have been satisfied. The participant will have six months from the vesting date to exercise their Option, or in the case of death their personal representatives will have twelve months, following which it will lapse.

Change of control

In the event of a takeover, scheme of arrangement resulting in a change of control or voluntary winding up of the Company prior to the vesting of an Option, the Option will become capable of exercise early. If there a scheme of arrangement being sanctioned by the court or a demerger and the Committee consider that a participant will be disadvantaged if their Option does not vest early then they may permit the Option to be exercised early. The number of Shares in respect of which the Option may be exercised on the occurrence of a corporate event will be such number, unless the Committee determine otherwise, as is determined by the extent to which the performance targets, if any, have been satisfied at the date of the relevant corporate event and such other factors, including the performance of the Company and the conduct of the participant. Unless the Committee determine otherwise such number will then be reduced on a pro-rated basis to reflect the time which has elapsed since the date of grant as compared to the vesting period.

Alternatively, Options may (or, if the Committee so determines, shall) be exchanged for new equivalent options over shares in the acquiring company where appropriate. In such case any performance targets will continue unless the Committee determines otherwise.

Malus and Clawback

Options shall be subject to the Malus and Clawback Policy operated by the Company which provides that the Company may forfeit or withhold all or part of any share incentives granted to employees prior to their vesting/exercise and may recover sums already paid on the occurrence of events of the following kind:

- material misstatement in accounting records;
- gross misconduct;
- calculation error; and
- corporate failure.

Participants will be provided with a copy of the Malus and Clawback Policy and it will be a condition of the vesting of an Option that they have signed and returned to the Company an acceptance notice pursuant to which they irrevocably agree that their Option will be subject to such policy.

Where an event specified in the Malus and Clawback Policy occurs the Committee may reduce down the number of Shares that an Option may be exercised to give effect to the provisions of the Malus and Clawback Policy.

Appendix 1 – The Norcros plc 2020 Deferred Bonus Plan (DBP) continued

Other Option terms

Options may be satisfied using newly issued Shares or existing Shares.

Options are not capable of transfer or assignment (other than on death).

Until Options are exercised, participants have no voting or other rights in relation to the Shares subject to those Options.

Shares allotted pursuant to the exercise of an Option will rank pari passu in all respects with the Shares already in issue. Shares transferred on the exercise of an Option shall be transferred without the benefit of any rights attaching to the Shares by reference to a record date preceding the date of that exercise. For so long as the Company's Shares are listed on the Official List, the Company will apply for any Shares issued following exercise of any Options to be admitted to the Official List as soon as practicable after allotment.

Benefits obtained under the DBP are not pensionable.

The Committee have the discretion to override any formulaic outcomes resulting from the application of any provision of the DBP or any performance conditions.

Adjustment of Options

The number of Shares under Option and their exercise price may be adjusted by the Committee in the event of any variation of the share capital of the Company.

Administration and amendment

The DBP is administered by the Committee. The Committee may amend the provisions of the DBP. However, the rules of the DBP which relate to:

- the persons to whom Shares are provided under the DBP;
- the limits on the number of Shares which may be issued under the DBP;
- the maximum entitlement of any participant;
- the basis for determining a participant's entitlement to Shares or Options; and
- the basis for determining the adjustment of any Option granted under the DBP following any increase or variation in the share capital of the Company,

cannot be amended to the material advantage of any participant without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the DBP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any group company.

Termination

The DBP may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption so that no further Options can be granted under the DBP after such termination. Termination shall not affect the outstanding rights of existing participants.

Overseas employees

The Company may adopt a sub-plan to the DBP or amend the terms of an Option so as to grant Options to overseas employees on different terms which take account of relevant overseas tax, securities or exchange control laws provided that the Options are not overall more favourable than the terms of Options granted to other employees and the number of Shares made available under any sub-plan shall be included in the plan limits referred to above.

Appendix 2 – The Norcros plc 2020 Performance Share Plan (PSP)

Status of the PSP

The PSP allows for the grant of options to acquire Shares subject to the satisfaction of performance conditions which are assessed over a three-year period ("**Options**"). The PSP allows for both HMRC tax-advantaged options (granted in accordance with Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003 ("**Schedule 4**")) ("**TA Options**") and HMRC non-tax-advantaged options ("**NTA Options**") to be granted which enables an element of the incentive to be delivered in a tax efficient manner.

Eligibility

All employees (including executive directors) of the Company and any of its subsidiaries may be granted Options under the PSP. Eligible employees may only be granted a TA Option CSOP provided that they are not prohibited under the relevant legislation relating to HMRC company share option plans from being granted an Option by virtue of having, or having had, a material interest in the Company.

Grant

The Committee will have absolute discretion to select the persons to whom Options may be granted and, subject to the limits set out below, in determining the number of Shares to be subject to each Option.

Options may be granted during the period of 42 days commencing on: (a) the date of adoption (b) the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year; or (c) any other time fixed by the Committee where, in its discretion, circumstances are considered to be exceptional so as to justify the grant of Options.

If the grant of an Option on any of the above days would be prohibited by virtue of the Company's share dealing policy, or any statute or regulation or order made pursuant to such statute, then such Option may be granted during the period of 42 days commencing immediately after the dealing day following the time that such prohibition shall cease to have effect.

No consideration is payable for the grant of an Option.

Plan limits

On any date, no Option may be granted under the PSP if, as a result, the aggregate number of Shares issued or issuable pursuant to Options granted during the previous ten years under the DBP or any other discretionary employees' share scheme adopted by the Company would exceed five per cent of the share capital of the Company in issue on that date.

On any date, no Option may be granted under the PSP if, as a result, the aggregate number of Shares issued or issuable pursuant to Options granted during the previous ten years under the PSP or any other employees' share scheme adopted by the Company would exceed ten per cent of the share capital of the Company in issue on that date.

For the purposes of the limits set out above:

- Where an Option takes the form of a right to acquire Shares from an employee benefit trust established by the Company, such Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust for the purposes of the PSP or any other employees' share scheme operated by the Company.
- Options or other rights to acquire Shares which lapse or have been released do not count.

Individual limit

No employee may be granted an Option under the PSP if it would cause the aggregate market value of Shares which such employee may acquire pursuant to an Option granted to him under the PSP (ignoring Shares under a linked award) to exceed 100 per cent. of his/her base salary, unless the Committee determines that exceptional circumstances exist which justify a higher percentage, not exceeding 150 per cent. of base salary.

The number of Shares a TA Option may be granted over shall be limited so that the aggregate market value of the Shares subject to that TA Option and all other TA Options and any other tax-advantaged option granted pursuant to any other Schedule 4 plan operated by the Company or any associated company held by an individual (calculated as at the date of grant of each option), shall not exceed £30,000 (or such other amount as may be permitted by HMRC from time to time).

Exercise price

No exercise price will be payable on the exercise of a NTA Option.

The exercise price per Share payable on the exercise of a TA Option will be than the greater of (i) the market value of a Share as at the date of grant and (ii) in the case of an option to subscribe for Shares, the nominal value of a Share Market value for this purpose being the mid-market value for the dealing day prior to the date of grant.

Performance target

The exercise of Options will in normal circumstances be made conditional upon the achievement of an objective performance target set at the time of grant. Such performance target shall be measured over a performance period (determined by the Committee at the time of grant but which shall not be less than three years) ("**Performance Period**").

If events occur which cause the Committee, acting fairly and reasonably, to consider that a target is no longer appropriate, the Committee may waive, vary or amend the original performance target in such manner as it deems fit provided that any varied or amended target is not more or less difficult to achieve than the original performance target.

It should also be noted that a performance target, applying to an Option, may be measured over an abbreviated period less than the Performance Period in circumstances where an employee ceases to be an employee of the group before the end of the relevant Performance Period or certain corporate events occur (such as a change of control of the Company) before the end of the relevant Performance Period.

Performance target continued

It is proposed that the initial Options granted pursuant to the PSP will be granted subject to targets relating to the Earnings Per Share performance of the Company's shares, more details of which can be found in the Remuneration Committee Report contained in pages 56 to 74 of the Company's Annual Report and Accounts 2020.

Dividends

Until an Option has been exercised and the Shares have been transferred or issued to the participant, the participant shall have no entitlement to any dividends or other distributions payable by reference to a record date preceding the date of such transfer or issue.

On the exercise of an NTA Option the participant will receive a cash payment or additional Shares to reflect the value of any dividends or other cash distribution paid by the Company in respect of its Shares ("**Dividend Equivalents**"). The participant will only be entitled to receive Dividend Equivalents in respect of vested Shares acquired pursuant to an NTA Option.

Where Dividend Equivalents are or will be satisfied with newly issued Shares, such Shares that have been notionally added to an NTA Option shall be taken into account for the purposes of applying the plan limits set out above.

Exercise of Options

An Option will normally be exercisable between the third and tenth years following its grant provided that any specified performance target has been satisfied and the participant is still an employee within the group. On the grant of an Option the Committee may specify a longer vesting period than three years. The Committee may also determine that the Shares acquired pursuant to an Option will be subject to a holding period which shall expire no later than the date falling on the fifth anniversary of the date of grant of the Option.

Options may not be exercised during any prohibited period specified by the Company's share dealing policy or any other statute or regulation or order made pursuant to such statute.

Leavers

NTA Options

If a participant ceases employment with the group for any reason any NTA Options that they hold will lapse on the date falling one month following such cessation of employment unless the Committee has, prior to such date, determined that the NTA Option may be retained.

Where an NTA Option may be retained, if it has already vested then the participant has six months from the date they cease employment to exercise their NTA Option or, in the case of death, their personal representatives will have twelve months, following which it will lapse.

If the NTA Option has not vested it will vest either on the date of cessation or the normal vesting date, as determined by the Committee. The number of Shares in respect of which the NTA Option may be exercised will be such number as determined by the Committee taking into account the time that has elapsed since the grant date as compared to the normal vesting period and the extent to which any applicable performance targets have been satisfied. The participant will have six months from the vesting date to exercise their NTA Option, or in the case of death their personal representatives will have twelve months, following which it will lapse.

TA Options

If a participant ceases employment with the group by reason of injury, disability (evidenced to the satisfaction of the Committee), redundancy or retirement or upon the sale or transfer out of the group of the company or undertaking employing him then the participant may exercise any TA Option at any time during the six-month period following the cessation of their employment, following which their TA Option will lapse. In the event of cessation of employment of the participant by reason of his death, his personal representatives will be entitled to exercise a TA Option within twelve months following the date of his death.

If a TA Option has not vested as at the date of cessation of employment the number of Shares in respect of which the TA Option may be exercised will be such number as determined by the Committee (acting fairly and reasonably) taking into account the time that has elapsed since the grant date as compared to the normal vesting period and the extent to which any applicable performance targets have been satisfied.

Where a participant ceases to be employed within the group for any reason not stated above, any TA Options he holds will lapse on the date falling one month following such cessation of employment unless the Committee has, prior to such date, determined that the TA Option may be retained. Where a TA Option may be retained the same treatment as applies for NTA Options will apply to the TA Option.

Change of control

In the event of a takeover, a scheme of arrangement being sanctioned by the court or voluntary winding up of the Company prior to the vesting of an Option, the Option will become capable of exercise early. If there is a demerger, dividend in specie, super dividend or other transaction that will adversely affect the value of an Option then the Committee may allow the Option to be exercised early.

The number of Shares in respect of which the Option may be exercised will be such number as is determined by the Committee taking into account the extent to which the performance targets have been satisfied at the date of the relevant corporate event and the time which has elapsed since the date of grant as compared to the vesting period.

Alternatively, Options may be exchanged for new equivalent options over shares in the acquiring company where appropriate. In such case any performance conditions will continue unless the Committee determines otherwise.

Malus and Clawback
Options shall be subject to the Malus and Clawback Policy operated by the Company which provides that the Company may forfeit or withhold all or part of any share incentives granted to employees prior to their vesting/exercise and may recover sums already paid on the occurrence of any event of the following kind:

- material misstatement in accounting records;
- gross misconduct;
- calculation error; and
- corporate failure.

Participants will be provided with a copy of the Malus and Clawback Policy and it will be a condition of the vesting of an Option that they have signed and returned to the Company an acceptance notice pursuant to which they irrevocably agree that their Option will be subject to such policy.

Where an event specified in the Malus and Clawback Policy occurs the Committee may reduce down the number of Shares that an Option may be exercised to give effect to the provisions of the Malus and Clawback Policy.

Other Option terms
Options may be satisfied using newly issued Shares or existing Shares.

Options are not capable of transfer or assignment (other than on death).

Until Options are exercised, participants have no voting or other rights in relation to the Shares subject to those Options.

Shares allotted pursuant to the exercise of an Option will rank pari passu in all respects with the Shares already in issue. Shares transferred on the exercise of an Option shall be transferred without the benefit of any rights attaching to the Shares by reference to a record date preceding the date of that exercise. For so long as the Company's Shares are listed on the Official List, the Company will apply for any Shares issued following exercise of any Options to be admitted to the Official List as soon as practicable after allotment.

Benefits obtained under the PSP are not pensionable.

The Committee have the discretion to override any formulaic outcomes resulting from the application of any provision of the PSP or any performance conditions.

Adjustment of Options
The number of Shares under Option and their exercise price may be adjusted by the Committee in the event of any variation of the share capital of the Company (except that a TA Option may not be adjusted in the event of a demerger of the Company and any adjustment of a TA Option must result in the market value of the Shares subject to the adjusted option and the exercise price of the adjusted option being substantially the same as the market value and exercise price prior to the adjustment).

Administration and amendment
The PSP is administered by the Committee. The Committee may amend the provisions of the PSP. However, the rules of the PSP which relate to:

- the persons to whom Shares are provided under the PSP;
- the limits on the number of Shares which may be issued under the PSP;
- the maximum entitlement of any participant;
- the basis for determining a participant's entitlement to Shares or Options; and
- the basis for determining the adjustment of any Option granted under the PSP following any increase or variation in the share capital of the Company,

cannot be amended to the material advantage of any participant without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the PSP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any group company.

No amendments may be made to the PSP which would result in the provisions of the plan that relate to TA Options ceasing to qualify as a Schedule 4 plan.

Termination
The PSP may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption so that no further Options can be granted under the PSP after such termination. Termination shall not affect the outstanding rights of existing participants.

Overseas employees
The Company may adopt a sub-plan to the PSP or amend the terms of an Option so as to grant Options to overseas employees on different terms which take account of relevant overseas tax, securities or exchange control laws provided that the Options are not overall more favourable than the terms of Options granted to other employees and the number of Shares made available under any sub-plan shall be included in the plan limits referred to above.

Appendix 3 – Auditor's Statement of Circumstances

PricewaterhouseCoopers LLP makes the following statement as departing auditor, pursuant to Section 519 of the Companies Act 2006.

The Directors
Norcros plc
Ladyfield House
Station Road
Wilmslow
Cheshire
SK9 1BU

23 June 2020

Dear Ladies and Gentlemen,

Statement of Reasons connected with ceasing to hold office as Auditors

In accordance with Section 519 of the Companies Act 2006 (the "Act"), we set out below the reasons connected with PricewaterhouseCoopers LLP, registered auditor number C001004062, ceasing to hold office as auditors of Norcros plc, registered no: 3691883 (the "Company") effective from 30 July 2020.

The reason we are not standing for reappointment as auditors at the AGM is that the Company undertook a competitive tender for the audit and decided to appoint an alternative auditor.

There are no reasons for and no other matters connected with our ceasing to hold office as auditors of the Company that we consider need to be brought to the attention of the Company's members or creditors.

Yours faithfully,

PricewaterhouseCoopers LLP

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www.norcros.com

Front Cover:
Vado's Axbridge Showering Range from Booth & Co. A warm, nickel finish, ergonomic handles and crackled ceramics. The Axbridge showering collection uses the latest in thermostatic technology to guarantee an enriched showering experience.

Back Cover:
Top: Vado's Axbridge Lever Chrome range with ceramic lever handles in dove white.

Bottom:
Vado's Axbridge Cross Nickel, the cross handles' symmetrical, petal-shaped allure is beautifully accentuated with a bright nickel finish and intricate, crackled indices to capture the essence of Victorian drama.

norcros