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Norcros PLC
14 June 2017

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Norcros plc

Results for the year ended 31 March 2017

'Sustained progress in challenging markets.'

Norcros, the market leading supplier of innovative branded showers, taps, bathroom accessories, tiles and adhesives, today announces its results for the year ended 31 March 2017.

Financial Summary

	2017	2016	% change as reported	% change at constant currency
Revenue	£271.2m	£235.9m	+15.0%	+10.6%
Underlying operating profit*	£23.8m	£21.3m	+11.7%	
Underlying profit before taxation*	£22.9m	£20.4m	+12.3%	
Underlying diluted EPS*	27.8p	27.8p	-	
Underlying operating cash flow*	£29.8m	£20.4m	+46.1%	
Operating profit	£16.8m	£16.7m	+0.6%	
Net debt	£23.2m	£32.5m	-28.6%	
Dividend per share	7.2p	6.6p	+9.1%	

* Definitions of alternative performance measures are provided in note 5.

Highlights

- Eighth consecutive year of growth
- Underlying operating profit up 11.7% at £23.8m (2016: £21.3m)
- Group operating profit was £16.8m (2016: £16.7m)
- Strong cash generation - net debt reduced by £9.3m to £23.2m
- Underlying ROCE at 18.4% (2016: 18.3%) - ahead of strategic target
- Full year dividend increased by 9.1% to 7.2p

Martin Towers, Chairman, commented:

"It gives me great pleasure to announce that Norcros has recorded its eighth consecutive year of revenue and underlying operating profit growth and has also made good progress towards its strategic objectives. These results demonstrate the Group's resilience in the face of some difficult trading conditions, and reflect the successful acquisition strategy and the sustained focus on driving organic growth through market share gain. In view of the success achieved in the current year, and the strong momentum and focus on growth, I remain confident that we will continue to make progress towards achieving our strategic objectives."

There will be a presentation today at 9.30 am for analysts at the offices of Hudson Sandler, 29 Cloth Fair, London, EC1A 7NN. The supporting slides will be available on the Norcros website at http://www.norcros.com later in the day.

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Notes to Editors

· Norcros is a leading supplier of high quality and innovative showers, taps, bathroom accessories, ceramic wall and floor tiles and adhesive products with operations primarily in the UK and South Africa.

· Based in the UK, Norcros operates under six brands:

- Triton Showers - Market leader in the manufacture and marketing of showers in the UK
- Vado - A leading manufacturer and supplier of taps, mixer showers, bathroom accessories and valves
- Croydex - A market-leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories
- Abode - A leading niche designer and distributor of high quality kitchen taps, bathroom taps, and kitchen sinks
- Johnson Tiles - A leading manufacturer and supplier of ceramic tiles in the UK
- Norcros Adhesives - Manufacturer of tile & stone adhesives, grouts and related products

· Based in South Africa, Norcros operates under three brands:

- Tile Africa - Chain of retail stores focused on ceramic and porcelain tiles, and associated products such as sanitary ware, showers and adhesives
- Johnson Tiles South Africa - Manufacturer of ceramic and porcelain tiles
- TAL - The leading manufacturer of ceramic and building adhesives

· Norcros is headquartered in Wilmslow, Cheshire and employs around 2,000 people. The Company is listed on the London Stock Exchange. For further information please visit the Company website: http://www.norcros.com

Chairman's Statement

Overview

It gives me great pleasure to announce that Norcros has recorded its eighth consecutive year of revenue and underlying operating profit growth, with the result achieved in the year being marginally ahead of market expectations. The Group has also made good progress towards its strategic objectives and in particular, by achieving underlying ROCE of 18.4% in the year, ahead of target.

Group revenue for the year was £271.2m, 15.0% higher than the prior year on a reported basis, 10.6% higher on a constant currency basis and 4.1% higher on a like for like constant currency basis. Underlying operating profit at £23.8m was 11.7% higher than the prior year, mainly reflecting a further significant improvement in performance in our South African business, and a first time contribution from Abode, which was acquired in March 2016. Underlying diluted earnings per share was consistent with the previous year at 27.8p.

The recent acquisitions of Croydex and Abode have been integrated seamlessly into the Norcros Group and are performing in line with the Board's expectations. I have been encouraged by the quality and enthusiasm of the management teams of those businesses in identifying and pursuing opportunities in collaboration with the Group's existing portfolio, particularly in the areas of new business development, procurement and supply chain.

The Group has again delivered a strong cash performance, with underlying operating cash flow at 99% of underlying EBITDA (2016: 76%). The Group is in a sound financial position with a strong balance sheet and has reduced net debt by £9.3m to £23.2m (2016: £32.5m), representing leverage of 0.8 times underlying EBITDA.

Dividend

The Board is recommending a final dividend for the year of 4.8p (2016: 4.4p) per share. When added to the interim dividend of 2.4p (2016: 2.2p) per share, which was paid on 12 January 2017, this will make a total dividend for the year of 7.2p (2016: 6.6p) per share, a 9.1% increase on the previous year.

Pension scheme

The gross deficit relating to our UK defined benefit pension scheme as calculated under IAS 19R has increased from £55.7m at 31 March 2016 to £62.7m at 31 March 2017 principally reflecting a reduction in bond yields. Notwithstanding, this position is a significant improvement on the £97.8m deficit reported at the half year, which had increased primarily because of the abnormally low bond yields following the EU referendum result. Despite the volatility experienced in the bond markets and the subsequent effect on our pension liabilities, which have little impact on scheme cashflows, we remain confident that our pension obligations continue to be appropriately funded and well managed.

People

Our employees continue to be our most valuable asset and in recognition of this the Group aims to create an environment in which they can see their careers develop. On behalf of the Board I would like to thank the Group's employees who have helped to deliver revenue and underlying operating profit growth over an extended timeframe and in particular for their contribution over the last twelve months.

Summary

These results demonstrate the Group's resilience in the face of some difficult trading conditions, particularly the revenue growth achieved in the UK in the second half of the year and the continued progress in South Africa. The Group has delivered another strong performance, reflecting the successful acquisition strategy and the sustained focus on driving organic growth through market share gain, investment in new products, operational efficiency programmes and geographic expansion.

The recent acquisition of Abode has been integrated seamlessly into the Group and we are already progressing revenue and procurement synergies with other Group businesses. In view of the success achieved in the current year and the strong momentum and focus on growth, I remain confident that we will continue to make progress towards achieving our medium-term strategic objectives.

Group Chief Executive's Statement

Overview

Building on our record of sustained progress over recent years, Group revenue for the year increased by 15.0% to £271.2m (2016: £235.9m) and by 10.6% on a constant currency basis. Group operating profit was £16.8m compared to £16.7m in the prior year.

Our performance in the UK in the second half of the year was in marked contrast to the first half, with like for like revenue (excluding revenues from Abode entirely and Croydex for quarter one) up 8.8% in the second half having been down by 5.0% in the first half against the comparative period. The first six months were extremely challenging, particularly in the retail sector, reflecting the uncertainty surrounding the implications of the EU referendum. I am pleased that our UK businesses recovered well in the second half of the year and were able to capitalise on the more stable trading environment, delivering growth in all of our key segments of retail, trade and export. UK revenue for the year at £182.3m (2016: £163.0m) was 11.8% ahead of the prior year and 2.0% higher on a like for like basis. The like for like increase mainly reflected the success of the recent acquisitions, Vado and Croydex, partly offset by the more challenging trading environment experienced by Triton in the first half of the year. UK underlying operating profit for the year was £0.2m higher than the prior year at £17.4m (2016: £17.2m) with an underlying operating margin of 9.5% (2016: 10.6%). The modest improvement in profitability in the year mainly reflected the first-time contribution from Abode and a full year of trading at Croydex partly offset by lower contributions from Johnson Tiles and Triton, reflecting lower revenues than the previous year.

Our South African business continued the sustained progress of recent years with another year of strong growth. The combination of market share gain and the appreciation of the Rand against Sterling during the year resulted in reported revenue 21.9% ahead of the prior year at £88.9m (2016: £72.9m). On a constant currency basis revenue was 8.3% higher than last year. Underlying operating profit for the year increased by 56% to £6.4m (2016: £4.1m), including a £0.9m benefit from the stronger Rand. This performance reflected the business-wide progress, particularly in operating efficiencies, procurement and supply chain management, with improvements made by all three businesses. The return on sales was 7.2% (2016: 5.6%), a considerable improvement on last year. In Johnson Tiles SA, the launch of new product ranges coupled with further manufacturing efficiencies resulted in an underlying operating profit ahead of last year. In TAL, further sales growth and focus on input costs, plant efficiency and logistics resulted in increased profitability. In Tile Africa, the enhanced store experience and success of the in-stock and on-display programme contributed towards a superior financial performance.

The Group sources a significant element of its components and raw materials from China and Europe. Following the UK's vote to leave the European Union there was a substantial weakening of Sterling against the US Dollar and the Euro. In the year, the Group was largely protected from the impact of this devaluation of Sterling on its cost base through its currency hedging strategy. In addition, during the year, the Group actioned a series of measures to protect the future profitability of the business including a combination of effective purchasing, working with our suppliers, price management and cost reduction programmes and we are confident that these actions will mitigate the currency impact in 2017.

Group underlying operating profit at £23.8m (2016: £21.3m) was 11.7% higher than the prior year, with Group underlying operating margins broadly consistent with last year at 8.8% (2016: 9.0%). Underlying operating cash flow improved considerably to £29.8m (2016: £20.4m) reflecting the improved underlying operating profit and strong working capital management. This resulted in net debt falling by £9.3m to £23.2m (2016: £32.5m), and leverage of 0.8 times underlying EBITDA (2016: 1.2 times). The Group is in a strong financial position with funding through a £100m unsecured debt facility (including a £30m accordion) available until July 2019, leaving the Group well placed to capitalise on opportunities as they arise.

Strategy

In 2013, the Board established three strategic targets: to double Group revenue to £420m by 2018; to maintain revenue derived outside of the UK at approximately 50% of Group revenue; and to sustain a pre-tax return on underlying capital employed of 12% to 15% over the economic cycle. We have again made good progress in the current year against all three objectives.

Group revenue in the year increased by 15.0% to £271.2m. Our progress in relation to achieving the Group revenue target of £420m by 2018 has been held back by the significant depreciation of the Rand/Sterling exchange rate since the objective was established in 2013. In constant currency terms, Group revenue would have been £304.0m. The Board recognises that achieving the target of £420m by 2018 remains challenging and accordingly will reassess this timeline later in the current financial year in light of our progress. We nevertheless remain committed to this revenue target.

On a Sterling reported basis, Group revenue derived outside of the UK was 42.8% (2016: 41.6%). Similarly, our progress in relation to this strategic target of 50% of Group revenue to be derived outside of the UK has also been impacted by the significant depreciation of the Rand/Sterling exchange rate since 2013. In constant currency terms, we are in line with our target at 49% and remain focussed on growing our current overseas markets and developing new ones to support this important strategic intent.

As part of its growth strategy the Group has acquired three material and complementary businesses in the last four years. Vado, which was acquired in March 2013, has been an outstanding success with revenue growth of 10.4% per annum and underlying operating profits growing 18.0% per annum since acquisition. Croydex, acquired in June 2015, has also delivered strong like for like revenue and underlying profit growth since its acquisition. Abode, which has only been part of the Group for twelve months, has grown revenue by 5.0% and recorded profits in line with our expectations and, like Croydex and Vado, has been seamlessly integrated into the Group.

Along with our existing business portfolio all the recently acquired businesses have strongly contributed towards the Group achieving an underlying return on capital employed of 18.4% (2016:18.3%), which is ahead of our strategic target.

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

Summary and outlook

The Group has continued to make good progress towards its strategic targets during the year. Whilst the UK market remains uncertain as the ramifications resulting from the UK's vote to leave the EU begin to unfold, I am confident that our UK business is more resilient and better placed to capture further growth opportunities as they arise. Our South African business has continued to deliver sustainable growth, and, notwithstanding the recent political unrest, the medium-term outlook in South Africa remains positive, providing opportunities for the Group to continue to grow its market share. With our leading market positions, portfolio of strong brands, continued new product investment, strong financial position and self-help initiatives focused on market share gain and operational improvement, the Board remains confident that the Group should continue to make further progress for the year ending 31 March 2018.

Business performance

	2017 £m	2016 £m
Revenue	**271.2**	235.9
Operating profit	**16.8**	16.7
IAS 19R administrative expenses	**2.0**	1.7

Acquisition related costs	**2.7**	5.2
Exceptional operating items	**2.3**	(2.3)
Underlying operating profit	**23.8**	21.3

	2017 £m	2016 £m
Revenue - UK	**182.3**	163.0
Revenue - South Africa	**88.9**	72.9
Revenue - Group	**271.2**	235.9
Underlying operating profit - UK	**17.4**	17.2
Underlying operating profit - South Africa	**6.4**	4.1
Underlying operating profit - Group	**23.8**	21.3
Underlying operating profit margin - UK	**9.5%**	10.6%
Underlying operating profit margin - South Africa	**7.2%**	5.6%
Underlying operating profit margin - Group	**8.8%**	9.0%

	2017 £m	2016 £m
Underlying operating profit	**23.8**	21.3
Depreciation	**6.4**	5.5
Underlying EBITDA	**30.2**	26.8
Net working capital movement	**(1.8)**	(7.7)
Share-based payments	**1.4**	1.2
Other non-cash items	**-**	0.1
Underlying operating cash flow	**29.8**	20.4

Business review - UK

In the UK, revenue increased in the year by 11.8% to £182.3m (2016: £163.0m). This includes a full year contribution of £10.6m from our newly acquired Abode business, and an additional three months of contribution from Croydex (acquired June 2015). On a like for like basis (excluding revenues from Abode entirely and Croydex for quarter one), total revenue was 2.0% higher than the prior year, with growth in all key sectors. After an extremely challenging first half of the year, where UK like for like revenues were 5.0% below the prior year, the business has recovered strongly with like for like revenue in the second half 8.8% above the comparative period.

Underlying operating profit grew by £0.2m to £17.4m (2016: £17.2m) with an operating margin of 9.5% (2016: 10.6%). This mainly reflected a full year performance from our newly acquired Abode business, and an additional three months profit from Croydex partly offset by lower contributions from Triton and Johnson Tiles.

Triton

Revenue at Triton, our market leading UK domestic shower business, was 3.8% lower at £48.7m (2016: £50.6m). Pleasingly, revenue in the second half of the year was 5.7% higher than the previous year following the significant destocking by a number of our major customers in the first half of the year.

UK revenue was 6.1% lower than the prior year overall, with the retail sector broadly flat, offset by a 9.5% reduction in revenue from the trade sector, principally reflecting the impact of the first half customer destocking. There has been investment in new product ranges, aimed at both the professional installer and trade contract sectors, which have recently been launched including new mixer showers and the Thermostatic Electric T80Z and T80 Pro-Fit showers. These two premium products join the Triton T80Z Fast Fit, which remains Britain's leading trade electric shower, reaffirming Triton's status and market leading position. Against the backdrop of a challenging DIY sector, Triton once again grew its overall share of the branded UK retail shower market in both the electric and mixer shower segments.

Export revenue, which represents approximately 17% of overall revenue, was 9.0% higher compared to the prior year. The primary export market is the Republic of Ireland and the success in this country was principally driven by the launch of the T90SR, the world's first truly silent pumped electric shower. Growth in new overseas markets such as South America also continued, principally reflecting the launch of the new low pressure electric shower which was specifically developed for this market.

Triton again delivered strong underlying operating profits and good cash conversion, although lower than the prior year, principally reflecting the reduction in revenue in the first half.

Vado

Vado, our leading manufacturer of taps, mixer showers, bathroom accessories and valves, recorded revenue of £37.2m for the period (2016: £33.1m), 12.4% higher than the prior year. The sustained growth in the UK continued, benefiting from the investments made in recent years, and the slow start to the year in export markets was reversed in the second half of the year as the benefits of our change in distribution arrangements in the Middle East took effect.

UK revenue was 17.5% higher than the prior year with continued growth in both the trade and retail segments. UK trade sector revenue grew by an impressive 28.0% against the prior year, which followed 18.5% growth on the prior year, as Vado gained further share in the specification segment. In the previous year Vado won new business with Miller Homes, Stewart Milne and CALA Homes, amongst others, and these relationships have driven increased demand in the current year as Vado products have been specified for additional new home developments.

UK retail revenue was 8.2% ahead of last year as Vado continued to gain market share in the independent retail sector. The business has continued to invest in additional sales resource and marketing programmes to support and drive further progress in this important market segment. Furthermore, the business has continued to make strong progress with independent trade buying groups and, as a mark of this success, in November 2016, Vado was awarded Supplier of the Year to the NBG Group for the second consecutive year.

Export revenue was 1.0% higher than last year with revenue in the second half of the year 22.2% higher than the same period last year reflecting stabilisation following the change in distribution arrangements in our important Middle East market and our establishment of a stocking hub in Dubai to increase service levels and support growth in the region. In addition, the business continues to support Vado revenue growth in South Africa through the Group's Tile Africa retail operations.

New product development remains key for the business and three major new ranges, including the award winning Kovera range, will be launched in early 2017, with a strong pipeline of new product programmes in place for the future. Operationally, further expansion of our warehousing capacity will be available in the second quarter of the current financial year to support the growth in revenue and to maintain Vado's leading customer service offer.

Notwithstanding the continued investment in the business to support future growth, underlying operating profit was ahead of last year.

Croydex

Croydex, our market leading, innovative designer, manufacturer and distributor of high quality bathroom furnishings and accessories, recorded revenue of £24.7m for the period (2016: £17.2m for nine months of Norcros ownership, £22.3m on a full year pro forma basis), 10.8% higher than the prior year on a pro forma basis.

Full year UK revenue was 8.5% higher than last year, with retail sector revenue 14.0% ahead and trade sector revenue 1.1% higher. Export revenue, which accounts for approximately 7% of revenue, increased by 64% in the year, mainly from continued penetration into our existing markets of Germany and the USA. Growing our export business is a key focus and it is pleasing to report that there has been an encouraging take-up following the launch of a range of Croydex products into South Africa through the Group's Tile Africa retail network.

Growth in the UK has been achieved through continued product innovation and an increased emphasis on improving the service proposition for our customers. Unique IP protected innovations such as Flexi-Fix and StickNLock have led to the introduction of new product category programmes with certain customers, and many Croydex products are also being rolled out over a wider store footprint. Customers are also able to make their supply chains more efficient and reduce distribution costs by benefiting from our improved order fulfilment capabilities, with the option of delivery to distribution centres, stores or individual consumers. This is particularly important in the retail sector in support of the strong growth in online business.

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

Abode

Abode, our leading niche designer and distributor of high quality kitchen taps, bathroom taps and kitchen sinks, recorded revenue of £10.6m for the twelve months since acquisition on 31 March 2016, in line with the Board's expectations. Compared to the previous twelve months prior to Norcros ownership, Abode grew revenue by 5.0%.

Central to the growth in revenue has been new product introductions, such as the Pronteau hot water tap, and account wins, principally Bathstore and Homebase. Revenues of Abode-branded products continue to represent an increasing proportion of total revenues as recognition of the brand and the strength of its franchise increases. Operationally, the business has expanded its sales force and sourced additional warehousing to support future growth.

Consistent with our other recent acquisitions it is pleasing to report that Abode has been integrated seamlessly into the Group. The performance of Abode since acquisition has been highly encouraging, with the business generating an underlying profit and cash performance in line with the Board's expectations. Abode is also progressing the potential synergies available to it through working with other Group businesses with new business and alternative sourcing opportunities being the initial areas of focus.

Johnson Tiles

Johnson Tiles, the UK market leading ceramic tile manufacturer and a market leader in the supply of both own manufactured and imported tiles, recorded revenue 1.7% lower at £53.2m (2016: £54.1m). Sales in the first half of the year were 9.0% lower than the comparative period, but encouragingly the performance in the second half was much stronger with revenue 6.1% higher than the prior period.

UK revenue was 1.3% lower overall, which was mainly driven by subdued demand in the DIY sector resulting in revenue being 3.8% below prior year. After a challenging first six months, the second half of the year demonstrated considerable improvement.

UK trade sector revenue was 1.3% higher than the prior year. Johnson Tiles continued to make gains in the house developer sector with Barratt David Wilson, Persimmon, Redrow and an increasing number of smaller regional builders, although the social housing refurbishment market remained weak, because of continued tight funding control. The business has remained active in the commercial specification market supplying contracts as varied as the IBIS Manchester, the Darwin Shopping Centre in Shrewsbury, Anytime Fitness Health Clubs and the Silverstone Innovation Centre.

Export revenue was 4.8% lower than the prior year, with good project-led growth in the Middle East offset by our conscious decision to exit some lower margin business in Australia. During the year Johnson Tiles also agreed with Leroy Merlin to launch the innovative new tile fixing product Cristalgrip into its French stores. This product has been developed by Johnson Tiles over a number of years and has garnered an extremely positive reception. Although it is too early to estimate the quantum of the revenues that this product might generate we are confident of its ultimate commercial acceptance. We are planning to launch the product in the UK later this year.

Operationally, the business continued to perform efficiently, though the reduction in revenue resulted in underlying operating profit being lower than the prior year. Consequently, and as previously announced, the Group commenced a restructuring of the business in March 2017. The re-organisation will increase manufacturing flexibility, improve operating performance, better align capacity with demand, reduce inventory and will entail the loss of around 90 jobs. This has resulted in a charge of £2.3m which has been treated as an exceptional operating item, with the subsequent cash outflow occurring in the first half of the year to 31 March 2018. It is expected that the restructuring will pay back in cash terms within twelve months.

Norcros Adhesives

Revenue at Norcros Adhesives, our UK manufacturer and supplier of tile and stone adhesives and ancillary products, was marginally lower at £7.9m (2016: £8.0m).

Domestic revenue was 7.6% below last year, reflecting reduced activity levels in the market following the EU referendum, with softness in both trade and retail. This was offset by significant growth in export revenue as the local sales operation, established in Dubai in the previous year, began to gain momentum, with an encouraging pipeline of projects in place for the coming year.

More recently the business has secured significant contract wins to supply Wickes and the NMBS buying group, and has grown its relationship with Travis Perkins such that several new products will be rolled out across its extensive branch network. To meet this growth in volume we have started to expand the production facility in the UK which will be completed in the first half of the next financial year.

Our product development work has focused on developing a moisture suppressant, "Pro DPM", which can be used to control the rate of moisture released from a surface to enable the fast track installation of floor coverings and a new range of tile backer boards, "Pro Ply", that are magnesium oxide based and will complement our existing Pro Board range of cementitious boards. The Pro DPM will be a component part of Pro Gypbase, a product to be launched in the first quarter of the next financial year, which will meet a clear need in the market for a fast-track method to allow tiling onto gypsum-based screeds within seven days.

Underlying operating profit performance was marginally below last year reflecting the lower revenue and the continued investment in developing our new product programmes and increasing sales presence.

Business review - South Africa

Our South African business continued the sustained progress of recent years with another year of strong constant currency growth with revenue 8.3% higher than last year. The Rand appreciated against Sterling during the year with the average exchange rate 10.7% stronger at ZAR 18.31 (2016: ZAR 20.50), resulting in full year reported revenue 21.9% ahead of prior year at £88.9m (2016: £72.9m).

Underlying operating profit for the year improved by 56% to £6.4m (2016: £4.1m) including a £0.9m benefit from the stronger Rand. This reflected the business-wide progress, particularly in supply chain management, with improvements made by all three businesses. The return on sales was 7.2% (2016: 5.6%), a considerable increase on last year.

Johnson Tiles South Africa

Johnson Tiles South Africa, our tile manufacturing business in South Africa, continues to operate at maximum manufacturing capacity. As a consequence of the growth in demand from Tile Africa, supply to the independent market was constrained with external revenues of £10.8m, 1.8% lower than last year on a constant currency basis. On a reported basis revenue was 10.2% ahead of the £9.8m achieved in the prior year.

The launch of new manufactured and factored ranges, such as the Johnson White Collection, together with sales of higher value large format tiles and coupled with further operational plant improvements resulted in an underlying operating profit ahead of last year, with excellent cash conversion.

It is pleasing to report that the plant was awarded the ISO 14001 environmental management certification during the period. Additionally, capacity expansion options for the short and medium term are well developed with the business currently engaged in a number of projects to gradually increase our existing plant capacity over the next two years.

TAL

TAL, our market leading adhesives business in South Africa, delivered strong growth with constant currency independent sector revenue increasing 4.5% compared to prior year or 17.9% on a reported Sterling basis to £21.1m (2016: £17.9m). This reflected further growth in exports to Sub-Saharan Africa with export revenue outside of South Africa now accounting for 17.3% of independent sector revenue.

During the year there has been continued focus on input costs, plant efficiency and logistics which in addition to the revenue growth resulted in further underlying operating profit growth. The business also maintained its record of strong cash conversion.

Tile Africa

Tile Africa, our leading retailer of wall and floor tiles, adhesives, showers, sanitaryware and bathroom fittings, delivered its third successive year of double digit constant currency growth with revenue 12.0% higher on a constant currency basis, being 26.1% higher on a Sterling reported basis, at £57.0m (2016: £45.2m).

The ongoing focus on delivering improvements in our supply chain and store experience continues to benefit our performance and has been particularly apparent in the success of our in-stock and on-display programme. The Customer Experience (CX) format stores, both new and upgraded, are performing ahead of expectations. We now have seven CX stores and we continue to improve our retail proposition as our retail portfolio is upgraded, including all stores receiving updated tap displays. Growth is being delivered at improved margins as Tile Africa increasingly makes use of our international group supply chain infrastructure to source exclusive product ranges at lower costs. The launch of the Croydex product range earlier this year has exceeded our revenue projections and, along with a new Tap range from Vado, further progress is expected in the new year.

The business now has 31 owned stores and two franchise stores. A new store was successfully opened in Southgate in May 2017 and there are plans to upgrade three further stores to the CX format in the coming year.

Underlying operating profit for the year was ahead of last year with strong cash conversion in the business.

Financial overview

Continuing operations	**2017 £m**	2016 £m
Revenue	**271.2**	235.9
Underlying operating profit	**23.8**	21.3
IAS 19R administrative costs	**(2.0)**	(1.7)
Acquisition related costs	**(2.7)**	(5.2)
Exceptional operating items	**(2.3)**	2.3
Operating profit	**16.8**	16.7
Net finance costs	**(5.3)**	(1.3)
Profit before taxation	**11.5**	15.4
Taxation	**(3.0)**	(2.4)
Profit for the year	**8.5**	13.0

Revenue

Group revenue at £271.2m (2016: £235.9m) increased by 15.0% on a reported basis, 10.6% on a constant currency basis, and 4.1% on a constant currency like for like basis (excluding revenues from Abode entirely and Croydex for quarter one).

Underlying operating profit

Underlying operating profit increased by 11.7% to £23.8m (2016: £21.3m). Our UK businesses delivered underlying operating profit of £17.4m (2016: £17.2m), and our South African businesses generated an underlying operating profit of £6.4m (2016: £4.1m). On a constant currency basis the improvement in underlying operating profit in the South African businesses was £1.4m. Group underlying operating profit margin was 8.8% (2016: 9.0%).

IAS 19R administrative costs

These costs represent the costs incurred by the Trustee of administering the UK pension schemes and are reflected in the Income Statement under IAS 19R. During the year a restructuring of the Group's UK pension scheme's administrative functions took place with a view to streamlining activities and reducing ongoing costs. This resulted in a number of termination costs being incurred and meant that costs of £2.0m (2016: £1.7m) were higher than the prior year.

Acquisition related costs

A cost of £2.7m (2016: £5.2m) has been recognised in the year and is analysed as follows:

	2017 £m	2016 £m
Deferred remuneration	**0.4**	2.5
Intangible asset amortisation	**1.2**	0.9
Staff costs and advisory fees	**1.1**	1.8
	2.7	5.2

In accordance with IFRS 3R, a proportion of deferred consideration payable to the former shareholders of recently acquired businesses is required to be treated as remuneration and, accordingly, is expensed to the Income Statement as incurred. Included in the amount for the year to 31 March 2016 is the final charge for deferred remuneration in connection with the Vado acquisition. Non-cash amortisation charges in respect of intangible assets increased by £0.3m following the acquisition of Croydex in June 2015 and Abode in March 2016. Staff costs and advisory fees reduced by £0.7m in the year, which is mainly because no acquisitions were completed in the year compared to two in the previous year (Croydex and Abode).

Exceptional operating items

A net exceptional operating charge of £2.3m (2016: £2.3m credit) was recorded as analysed in the table below. These are items of expense or income which arose from transactions which occurred outside of the Group's normal operations.

	2017 £m	2016 £m
Restructuring costs	**2.3**	-
Legal claim	**-**	(1.9)
Pension scheme settlement gain	**-**	(0.4)
	2.3	(2.3)

In order to improve operating performance and better align capacity with demand, the Group commenced a restructuring of its UK tiles business in March 2017. The re-organisation will increase manufacturing flexibility, reduce inventory and involve the loss of around 90 jobs and has resulted in a charge of £2.3m. The subsequent cash outflow will occur in the first half of the year to 31 March 2018. It is expected that the restructuring will pay back in cash terms within twelve months.

In 2016, a legal claim relating to the land at the Highgate site in Tunstall, UK, was settled. Under the terms of the settlement with Wm Morrison Supermarkets plc, the Group received a payment of £2.0m and costs in connection with the claim of £0.1m were incurred. In 2015, the Group undertook a number of liability management exercises in connection with its principal UK defined benefit pension scheme. Whilst most of the net benefit was recognised in 2015, a further £0.4m benefit arose in 2016.

Operating profit for the year was £16.8m (2016: £16.7m).

Net finance costs

Net finance costs for the year of £5.3m (2016: £1.3m) increased mainly due to the £3.4m non-cash change relating to the movement in the fair value of foreign exchange contracts. Bank interest payable of £0.9m (2016: £0.9m) was consistent with the previous year.

In addition, the Group has recognised a £2.0m interest cost in respect of the pension scheme liability (2016: £1.4m) which increased by £0.6m principally reflecting the increase in the opening pension deficit.

Profit before tax

Underlying profit before tax was £22.9m (2016: £20.4m), reflecting the increased underlying operating profit of £2.5m noted above. Underlying profit before tax is reconciled as shown below:

	2017 £m	2016 £m
Profit before taxation from continuing operations	**11.5**	15.4
Adjusted for:		
- IAS 19R administrative expenses	**2.0**	1.7
- acquisition related costs	**2.7**	5.2
- exceptional operating items	**2.3**	(2.3)
- amortisation of costs of raising finance	**0.2**	0.2
- net movement on fair value of derivative financial instruments	**2.2**	(1.2)
- IAS 19R finance cost	**2.0**	1.4
Underlying profit before taxation	**22.9**	20.4

The Group reported profit before tax of £11.5m (2016: £15.4m).

Taxation

The tax charge for the year of £3.0m (2016: £2.4m) represents an effective tax rate for the year of 26.1% (2016: 15.5%).

In the previous year a further restructuring of the financing of our South African operations crystallised the remaining foreign exchange losses on historic intra-Group loans which gave rise to a tax benefit in the UK which had not previously been recognised as a deferred tax asset. The effect of this was to reduce the tax charge in the year by £1.4m. Adjusting for this, the tax rate would have been 24.7% in 2016. The effective rate in the current year of 26.1% was higher than the adjusted comparative rate of 24.7% mainly because a higher proportion of the Group's taxable profits were generated in South Africa, where the rate of tax is higher than the UK.

The standard rates of corporation tax in the UK and South Africa were 20% and 28% respectively, unchanged from 2016.

Dividends

As previously announced it is the Board's intention to continue a progressive yet prudent dividend policy subject to the Group's earnings, cash flow and Balance Sheet position. As such the Board is recommending a final dividend of 4.8p (2016: 4.4p) per share, which, if approved, together with the interim dividend of 2.4p (2016: 2.2p), makes a total dividend of 7.2p (2016: 6.6p) in respect of the year ended 31 March 2017.

This final dividend, if approved at the Annual General Meeting, will be payable on 3 August 2017 to shareholders on the register on 23 June 2017. The shares will be quoted ex-dividend on 22 June 2017.

Balance Sheet

The Group's Balance Sheet is summarised below. The comparative Balance Sheet has been restated to reflect measurement period adjustments in respect of the acquisition of Abode, though this had no impact on overall net assets.

	2017 £m	2016 £m
Property, plant and equipment	**43.0**	38.2
Goodwill and intangible assets	**44.8**	45.2
Deferred tax	**11.0**	10.0
Net current assets excluding cash and borrowings	**53.0**	48.7
Pension scheme liability	**(62.7)**	(55.7)
Other non-current assets and liabilities	**(9.3)**	(6.3)
Cash and borrowings	**(23.2)**	(32.5)
Net assets	**56.6**	47.6

Property, plant and equipment increased by £4.8m overall, and included additions of £7.9m (2016: £6.2m) but there were no acquisitions in the year (2016: £2.0m). The depreciation charge was £6.4m (2016: £5.5m) and exchange differences were £3.3m (2016: £2.0m). The disposals in the year had no impact on net book value (2016: £0.1m).

The deferred tax asset increased by £1.0m to £11.0m (2016: £10.0m). This was mainly due to the fact that the balance attributable to the pension scheme liability rose by £0.7m due to the increase in the size of the underlying deficit.

Pension schemes

The gross defined benefit pension scheme valuation on the UK scheme showed a deficit of £62.7m compared to a deficit of £55.7m last year. Whilst the value of scheme assets rose by £38.5m in the year on the back of improving equity markets, the value of the liabilities increased by £45.5m, which was mainly due to a lower discount rate of 2.60% (2016: 3.55%).

The plan undertook a number of liability management exercises during 2015 which resulted in a number of benefits being settled and some changes to pension increases in payment. A number of further settlements took place as a result of that exercise in the previous year reducing the net deficit by £0.4m, which was reflected in the Consolidated Income Statement as an exceptional operating item.

The most recent triennial actuarial valuation for the Group's UK defined benefit pension scheme was completed in March 2015 and showed a deficit of £73.5m (2012: £61.9m) representing an 84% funding level (2012: 85%). The increased deficit was driven predominantly by historically low gilt yields. A revised deficit recovery plan was agreed with the Scheme Trustee, with a cash contribution of £2.5m per annum starting in April 2016, and increasing with CPI, replacing the previous agreement to pay £2.1m plus CPI per annum. This will be payable over the next ten years and thereby provides a greater degree of certainty around future deficit recovery contributions.

In line with the above agreement the Group made deficit recovery contributions of £2.5m (2016: £2.1m) into its UK defined benefit pension scheme during the year.

The Group's contributions to its defined contribution pension schemes were £3.1m (2016: £2.7m).

Cash flow and net debt

Net debt reduced by £9.3m in the year to £23.2m (2016: £32.5m). A summary of the movement in net debt is shown below.

Underlying operating cash flow was £9.4m higher than in the prior year at £29.8m (2016: £20.4m), which was mainly due to an increase in underlying operating profit of £2.5m and a £5.9m lower outflow from working capital. The Group's working capital outflow was £1.8m (2016: £7.7m), with the movement in the previous year reflecting investment in inventory to support growth in Vado, Croydex and South Africa. This represents cash conversion in the year of 98.7% of underlying EBITDA (2016: 76.1%).

Net cash generated from operating activities was £7.0m higher than the previous year at £25.5m, largely due to the £9.4m improvement in underlying operating cash flows offset by a £2.0m increase in outflows from exceptional items and acquisition related costs. This was mainly because the previous year included a £1.9m inflow from the resolution of the legal dispute with Wm Morrison Supermarkets plc.

	2017 £m	2016 £m
Underlying operating cash flow	**29.8**	20.4
Cash flows from exceptional items and acquisition related costs	**(1.8)**	0.2
Pension fund deficit recovery contributions	**(2.5)**	(2.1)
Cash flow generated from operations	**25.5**	18.5
Net interest paid	**(0.9)**	(0.9)
Taxation	**(1.9)**	(1.0)
Net cash generated from operating activities	**22.7**	16.6
Capital expenditure	**(8.0)**	(6.6)
Acquisitions	**(2.7)**	(23.6)
Dividends	**(4.2)**	(3.6)
Issue of share capital	**-**	0.1
Other items	**1.5**	(1.2)
Movement in net debt	**9.3**	(18.3)
Opening net debt	**(32.5)**	(14.2)
Closing net debt	**(23.2)**	(32.5)

Outflows relating to acquisitions include the final deferred consideration payment of £2.5m to the former shareholders of Vado and £0.2m paid in respect of the acquisition of Abode. In the previous year, the total of £23.6m comprised outflows of £19.3m and £3.1m in respect of the acquisitions of Croydex and Abode respectively, together with £1.2m paid to the former shareholders of Vado under the earn-out arrangement.

Capital expenditure at £8.0m (2016: £6.6m) included the new store at Southgate and other store upgrades, mainly at Randburg and Springfield together with plant improvements at TAL and Johnson Tiles South Africa. In the UK, major items of investment included the installation of new ink jet printing capability together with machinery to produce the new Cristalgrip product at Johnson Tiles and continued investment in tooling for new products at Vado and Triton.

Bank funding

In July 2014 the Group agreed an unsecured £70m revolving credit facility plus a £30m accordion facility with Lloyds Bank plc, Barclays Bank plc and HSBC Bank plc. The banking facility matures in July 2019.

Responsibility Statement

Each of the directors, whose names and functions are listed below, confirms that, to the best of their knowledge:

The consolidated financial statements, prepared in accordance with the applicable United Kingdom law and in conformity with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
The business review includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole.

Directors: Martin Towers (Chairman), Nick Kelsall (Group Chief Executive), Shaun Smith (Group Finance Director), David McKeith (Non-Executive Director) and Jo Hallas (Non-Executive Director).

Nick Kelsall
Group Chief Executive

Shaun Smith
Group Finance Director

Consolidated income statement
Year ended 31 March 2017

	Notes	**2017 £m**	2016 £m
Continuing operations			
Revenue	2	**271.2**	235.9
Underlying* operating profit		**23.8**	21.3
IAS 19R administrative expenses		**(2.0)**	(1.7)
Acquisition related costs	3	**(2.7)**	(5.2)
Exceptional operating items	3	**(2.3)**	2.3
Operating profit		**16.8**	16.7
Finance costs	4	**(3.3)**	(1.1)
Finance income	4	-	1.2
IAS 19R finance cost		**(2.0)**	(1.4)
Profit before taxation		**11.5**	15.4
Taxation		**(3.0)**	(2.4)
Profit for the year from continuing operations		**8.5**	13.0
Earnings per share attributable to equity holders of the Company			
Basic earnings per share:			
From profit for the year	6	**13.9p**	21.4p
Diluted earnings per share:			
From profit for the year	6	**13.4p**	20.8p
Weighted average number of shares for basic earnings per share (millions)	6	**61.1**	60.6
Alternative performance measures*:			
Underlying profit before taxation (£m)	5	**22.9**	20.4
Underlying earnings (£m)	5	**17.6**	17.3
Basic underlying earnings per share	6	**28.8p**	28.5p
Diluted underlying earnings per share	6	**27.8p**	27.8p

* Definitions of alternative performance measures are provided in note 5.

Consolidated statement of comprehensive income and expense
Year ended 31 March 2017

	2017 £m	2016 £m
Profit for the year	**8.5**	13.0
Other comprehensive income and expense:		
Items that will not subsequently be reclassified to the Income Statement		
Actuarial losses on retirement benefit obligations	**(5.2)**	(9.7)
Items that may be subsequently reclassified to the Income Statement		
Foreign currency translation adjustments	**8.5**	(6.1)
Other comprehensive income/(expense) for the year	**3.3**	(15.8)
Total comprehensive income/(expense) for the year	**11.8**	(2.8)

Items in the statement are disclosed net of tax.

Consolidated balance sheet

At 31 March 2017

	2017 £m	(Restated)* 2016 £m
Non-current assets		
Goodwill	**31.1**	30.4
Intangible assets	**13.7**	14.8
Property, plant and equipment	**43.0**	38.2
Deferred tax assets	**11.0**	10.0
	98.8	93.4
Current assets		
Inventories	**70.3**	60.1
Trade and other receivables	**56.8**	50.9
Derivative financial instruments	**0.7**	2.5
Cash and cash equivalents	**37.5**	25.5
	165.3	139.0
Current liabilities		
Trade and other payables	**(72.0)**	(64.7)
Derivative financial instruments	**(0.8)**	(0.1)
Current tax liabilities	**(2.0)**	-
Financial liabilities - borrowings	**(30.9)**	(22.4)
	(105.7)	(87.2)
Net current assets	**59.6**	51.8
Total assets less current liabilities	**158.4**	145.2
Non-current liabilities		
Financial liabilities - borrowings	**(29.8)**	(35.6)
Pension scheme liability	**(62.7)**	(55.7)
Other non-current liabilities	**(3.6)**	(3.0)
Provisions	**(5.7)**	(3.3)
	(101.8)	(97.6)
Net assets	**56.6**	47.6
Financed by:		
Share capital	**6.1**	6.1
Share premium	**1.1**	1.1
Retained earnings and other reserves	**49.4**	40.4
Total equity	**56.6**	47.6

** The Balance Sheet at 31 March 2016 has been restated to reflect the recent guidance regarding the presentation of cash and overdraft balances (see note 1) and measurement period adjustments in respect of business combinations.*

Consolidated cash flow statement

Year ended 31 March 2017

	Notes	2017 £m	2016 £m
Cash generated from operations	7	**25.5**	18.5
Income taxes paid		**(1.9)**	(1.0)
Interest paid		**(0.9)**	(0.9)

Net cash generated from operating activities	**22.7**	16.6
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	**(8.0)**	(6.6)
Acquisition of subsidiary undertakings (including payment of deferred consideration) net of cash acquired	**(2.7)**	(23.6)
Net cash used in investing activities	**(10.7)**	(30.2)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**-**	0.1
(Repayment)/drawdown of borrowings	**(6.0)**	17.0
Dividends paid to the Company's shareholders	**(4.2)**	(3.6)
Net cash (used in)/generated from financing activities	**(10.2)**	13.5
Net increase/(decrease) in cash at bank and in hand and bank overdrafts	**1.8**	(0.1)
Cash at bank and in hand and bank overdrafts at the beginning of the year	**3.1**	4.2
Exchange movements on cash and bank overdrafts	**1.7**	(1.0)
Cash at bank and in hand and bank overdrafts at the end of the year	**6.6**	3.1

Consolidated statement of changes in equity

Year ended 31 March 2017

	Ordinary share capital £m	Share premium £m	Treasury reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2015	6.0	1.0	(0.1)	(9.1)	54.9	52.7
Comprehensive income:						
Profit for the year	-	-	-	-	13.0	13.0
Other comprehensive expense:						
Actuarial loss on retirement benefit obligations	-	-	-	-	(9.7)	(9.7)
Foreign currency translation adjustments	-	-	-	(6.1)	-	(6.1)
Total other comprehensive expense	-	-	-	(6.1)	(9.7)	(15.8)
Transactions with owners:						
Shares issued	0.1	0.1	(0.1)	-	-	0.1
Dividends paid	-	-	-	-	(3.6)	(3.6)
Share option schemes and warrants	-	-	0.2	-	1.0	1.2
At 31 March 2016	6.1	1.1	-	(15.2)	55.6	47.6
Comprehensive income:						
Profit for the year	-	-	-	-	8.5	8.5
Other comprehensive income/(expense):						
Actuarial loss on retirement benefit obligations	-	-	-	-	(5.2)	(5.2)
Foreign currency translation adjustments	-	-	-	8.5	-	8.5
Total other comprehensive income/(expense)	-	-	-	8.5	(5.2)	3.3
Transactions with owners:						
Shares issued	-	-	-	-	-	-
Dividends paid	-	-	-	-	(4.2)	(4.2)
Share option schemes and warrants	-	-	-	-	1.4	1.4
At 31 March 2017	**6.1**	**1.1**	**-**	**(6.7)**	**56.1**	**56.6**

Notes to the preliminary statement

Year ended 31 March 2017

1. Basis of preparation

Norcros plc ("the Company") and its subsidiaries (together "the Group") principal activities are the development, manufacture and marketing of home consumer products in the UK and South Africa. The Company is a public limited company which is listed on the London Stock Exchange market of listed securities and is incorporated and domiciled in the UK. The address of its registered office is Ladyfield House, Station Road, Wilmslow, SK9 1BU.

The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group's audited financial statements for the year ended 31 March 2017. The financial information set out above does not constitute the Company's statutory financial statements for the periods ended 31 March 2017 or 31 March 2016 but is derived from those financial statements. Statutory financial statements for 2017 will be delivered following the

Company's annual general meeting. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Group's results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Restatement

The Group operates two cash-pooling arrangements in respect of its operations based in the UK and South Africa in order to maximise the efficiency of its treasury function. Under each facility, the Group and its bankers have a legal right to offset certain balances, which from time to time may be in an overdraft or positive funds position. In view of this, the Group previously offset the balances in an overdraft and positive funds position in determining the presentation of cash and borrowings in the Group Balance Sheet.

In March 2016, the IFRS Interpretations Committee (IFRIC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32.
Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts resulting in £30.9m of bank overdrafts being reported in borrowings, with a corresponding increase in cash. The comparative figures at 31 March 2016 have also been restated with an additional £19.6m of bank overdrafts being reported in borrowings. Consequently, borrowings within current liabilities have increased by this amount to £22.4m, with a corresponding increase in cash from £5.9m, as previously reported, to £25.5m.

The Group has considered the requirements of IAS 8 in respect of changes in accounting policies and the requirement to present a Balance Sheet as at the start date of the comparative period. As the change in accounting policy has no impact on the Group's reported profit, or the net assets of the Group, the Group does not therefore consider the adjustment to be material to require the presentation of an additional Balance Sheet. The impact on the opening comparative period, being as at 1 April 2015, would have been to increase both cash and short-term deposits and borrowings by £17.5m.

2. Segmental reporting

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

Continuing operations - year ended 31 March 2017

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

Revenues of £31.9m (2016: £31.4m) are derived from a single customer. These revenues are attributable to the UK segment.

Continuing operations - year ended 31 March 2016

	UK £m	South Africa £m	Group £m
Revenue	163.0	72.9	235.9
Underlying operating profit	17.2	4.1	21.3
IAS 19R administrative expenses	(1.7)	-	(1.7)

Acquisition related costs	(5.2)	-	(5.2)
Exceptional operating items	2.3	-	2.3
Operating profit	12.6	4.1	16.7
Finance costs (net)			(1.3)
Profit before taxation			15.4
Taxation			(2.4)
Profit for the year from continuing operations			13.0
Net debt			(32.5)
Segmental assets	182.7	49.7	232.4
Segmental liabilities	(168.9)	(15.9)	(184.8)
Additions to property, plant and equipment	3.8	2.4	6.2
Loss on disposal of property, plant and equipment	(0.1)	-	(0.1)
Depreciation	3.8	1.7	5.5

3. Acquisition related costs and exceptional operating items

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

Acquisition related costs	**2017 £m**	2016 £m
Deferred remuneration[1]	**0.4**	2.5
Intangible asset amortisation[2]	**1.2**	0.9
Staff costs and advisory fees[3]	**1.1**	1.8
	2.7	5.2

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.
2. Non-cash amortisation charges in respect of intangible assets recognised following certain recent acquisitions.
3. Costs of maintaining an in-house acquisitions department and professional advisory fees incurred in connection with the Group's business combination activities.

Exceptional operating items	**2017 £m**	2016 £m
Restructuring costs[1]	**2.3**	-
Legal claim[2]	-	(1.9)
Pension scheme settlement gain[3]	-	(0.4)
	2.3	(2.3)

1. As recently announced, the Group commenced a restructuring of its UK tiles business in March 2017 at a cost of £2.3m in order to increase manufacturing flexibility and reduce inventory.
2. A legal claim relating to the land at the Highgate site in Tunstall, UK, was settled in the previous year. Under the terms of the settlement with Wm Morrison Supermarkets plc, the Group received a payment of £2.0m. Costs in connection with the claim were £0.1m.
3. In 2015 the Group undertook a number of liability management exercises in connection with its principal UK defined benefit pension scheme. Whilst the main reduction in the net deficit of £1.7m arose in 2015, a further £0.4m reduction arose in 2016.

4. Finance income and costs

	2017 £m	2016 £m
Finance costs		
Interest payable on bank borrowings	**0.9**	0.9
Amortisation of costs of raising debt finance	**0.2**	0.2
Movement on fair value of derivative financial instruments	**2.2**	-
Finance costs	**3.3**	1.1
Finance income		
Movement on fair value of derivative financial instruments	-	(1.2)
Net finance costs/(income)	**3.3**	(0.1)

5. Alternative performance measures

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

The alternative performance measures used by the Group are:

Measure	**Definition**
Underlying operating profit	Operating profit before IAS 19R administrative expenses,

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

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

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

Consolidated Income Statement

(a) Underlying profit before taxation and underlying earnings

	2017 £m	2016 £m
Profit before taxation from continuing operations	**11.5**	15.4
Adjusted for:		
- IAS 19R administrative expenses	**2.0**	1.7
- acquisition related costs (see note 3)	**2.7**	5.2
- exceptional operating items (see note 3)	**2.3**	(2.3)
- amortisation of costs of raising finance	**0.2**	0.2
- net movement on fair value of derivative financial instruments	**2.2**	(1.2)
- IAS 19R finance cost	**2.0**	1.4
Underlying profit before taxation	**22.9**	20.4
Taxation attributable to underlying profit before taxation	**(5.3)**	(3.1)
Underlying earnings	**17.6**	17.3

(b) Underlying EBITDA

	2017 £m	2016 £m
Operating profit from continuing operations	**16.8**	16.7
Adjusted for:		
- depreciation	**6.4**	5.5
- IAS 19R administrative expenses	**2.0**	1.7
- acquisition related costs (see note 3)	**2.7**	5.2
- exceptional operating items (see note 3)	**2.3**	(2.3)
Underlying EBITDA	**30.2**	26.8

Consolidated Cash Flow Statement

(a) Underlying operating cash flow

	2017 £m	2016 £m
Cash generated from continuing operations (see note 7)	**25.5**	18.5
Adjusted for:		
- cash flows from exceptional items and acquisition related costs (see note 7)	**1.8**	(0.2)
- pension fund deficit recovery contributions (see note 7)	**2.5**	2.1
Underlying operating cash flow	**29.8**	20.4

Consolidated Balance Sheet

(a) Underlying capital employed

	2017 £m	2016 £m
Net assets	**56.6**	47.6
Adjusted for:		
- pension scheme liability (net of associated tax)	**52.0**	45.7
- cash and cash equivalents	**(37.5)**	(25.5)
- financial liabilities - borrowings	**60.7**	58.0
Capital employed	**131.8**	125.8
- foreign exchange adjustment	**(3.5)**	4.0
Underlying capital employed	**128.3**	129.8

6. Earnings per share

Basic and diluted earnings per share

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

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. At 31 March 2017 the potential dilutive ordinary shares amounted to 2,042,900 (2016: 1,639,137) as calculated in accordance with IAS 33.

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

	2017 £m	2016 £m
Profit for the year	**8.5**	**13.0**

	2017 Number	2016 Number
Weighted average number of shares for basic earnings per share	**61,098,476**	60,590,559
Share options and warrants	**2,042,900**	1,639,137
Weighted average number of shares for diluted earnings per share	**63,141,376**	62,229,696

	2017	2016
Basic earnings per share:		
From profit for the year	**13.9p**	**21.4p**
Diluted earnings per share:		
From profit for the year	**13.4p**	**20.8p**

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.

	2017 £m	2016 £m
Underlying earnings (see note 5)	**17.6**	17.3

	2017	2016
Basic underlying earnings per share	**28.8p**	28.5p
Diluted underlying earnings per share	**27.8p**	27.8p

7. Consolidated cash flow statement

(a) Cash generated from operations

The analysis of cash generated from operations is given below:

Continuing operations

	2017 £m	2016 £m
Profit before taxation	**11.5**	15.4
Adjustments for:		
- IAS 19R administrative expenses included in the Income Statement	**2.0**	1.7
- acquisition related costs included in the Income Statement	**2.7**	5.2
- exceptional items included in the Income Statement	**2.3**	(2.3)
- finance costs included in the Income Statement	**3.3**	1.1
- finance income included in the Income Statement	-	(1.2)
- IAS 19R finance cost included in the Income Statement	**2.0**	1.4
- cash flows from exceptional items and acquisition related costs	**(1.8)**	0.2
- depreciation	**6.4**	5.5
- pension fund deficit recovery contributions	**(2.5)**	(2.1)
- loss on disposal of property, plant and equipment	-	0.1
- share-based payments	**1.4**	1.2
Operating cash flows before movement in working capital	**27.3**	26.2
Changes in working capital:		
- increase in inventories	**(5.1)**	(7.2)
- increase in trade and other receivables	**(3.7)**	(4.9)
- increase in trade and other payables	**7.0**	4.4
Cash generated from operations	**25.5**	18.5

(b) Outflow related to exceptional items and acquisition related costs

This includes expenditure charged to exceptional provisions relating to onerous lease costs, acquisition related costs (excluding deferred remuneration) and other business rationalisation and restructuring costs.

(c) Analysis of net debt

	Net cash and current borrowings £m	Non-current borrowings £m	Net debt £m
At 1 April 2015	4.2	(18.4)	(14.2)
Cash flow	(0.1)	(17.0)	(17.1)
Other non-cash movements	-	(0.2)	(0.2)
Exchange movement	(1.0)	-	(1.0)
At 31 March 2016	3.1	(35.6)	(32.5)
Cash flow	1.8	6.0	7.8
Other non-cash movements	-	(0.2)	(0.2)
Exchange movement	1.7	-	1.7
At 31 March 2017	**6.6**	**(29.8)**	**(23.2)**

Other non-cash movements principally relate to the movement in the costs of raising debt finance in the year.

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