Avon Rubber p.l.c.

BUILDING A BRIGHTER FUTURE

ANNUAL REPORT AND ACCOUNTS 2017

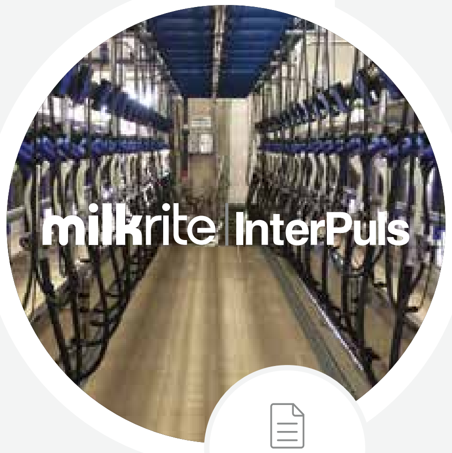
Contents

AVON
Avon Rubber p.l.c.

We are an innovative technology group specialising in respiratory protection systems and milking point solutions through our two businesses, Avon Protection and milkrite | InterPuls. We design, test and manufacture specialist products and services to maximise the performance and capabilities of our customers.

AVON
Avon Rubber p.l.c.

Page 14–15



Page 16–17

Highlights

Group highlights

ORDERS RECEIVED
£173.9m

2017	£173.9m
2016	£142.3m
2015	£121.2m

REVENUE
£163.2m

2017	£163.2m
2016	£142.9m
2015	£134.3m

ADJUSTED OPERATING PROFIT
£25.8m

2017	£25.8m
2016 (Restated)*	£20.9m
2015 (Restated)*	£19.2m

OPERATING PROFIT
£19.8m

2017	£19.8m
2016 (Restated)*	£16.8m
2015 (Restated)*	£17.9m

NET CASH
£24.7m

2017	£24.7m
2016	£2.0m
2015	£(13.2)m

ADJUSTED EARNINGS PER SHARE
82.8p

2017	82.8p
2016 (Restated)*	71.9p
2015 (Restated)*	53.5p

EARNINGS PER SHARE
70.6p

2017	70.6p
2016 (Restated)*	58.1p
2015 (Restated)*	42.7p

DIVIDEND PER SHARE
12.32p

2017	12.32p
2016	58.1p
2015	7.29p

"Growth in orders received across both businesses has delivered a strong financial performance in 2017 and a healthy order book for 2018."

* Restated to correct the charge for share based payments (see note 24).

At a Glance

Avon Protection

Avon Protection is the recognised global leader in advanced Chemical, Biological, Radiological and Nuclear (CBRN) respiratory protection systems for the world's Military, Law Enforcement and Fire markets.

Agents & Distributors

305

milkrite | InterPuls

milkrite | InterPuls is a global leader providing complete milking point solutions to customers across the world with the aim of improving every farm it touches.

Agents & Distributors

2,014

Geographic Overview

We are a global business operating from 12 sites in the US and Europe serving customers in 89 countries around the world.

milkrite | InterPuls

USA
– Johnson Creek
– Modesto

Italy
– Albinea

UK
– Melksham

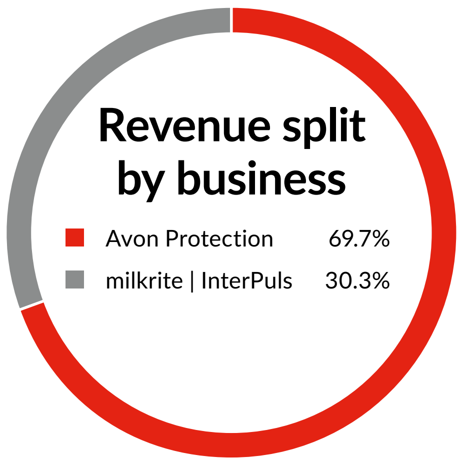
Brazil

China

Avon Protection

USA
– Cadillac
– Belcamp
– Picayune
– West Palm Beach

UK
– Melksham
– Poole
– Chelmsford



Why Invest in Avon Rubber?

We have a clear strategy to generate long-term, profitable earnings growth through maximising the opportunity from our current portfolio and selective product development to maintain our technology leadership position. Our strong financial position and cash generation will allow us to enhance the returns from our organic strategy with value enhancing acquisitions as well as maintain a progressive dividend policy.

Organic sales growth

3%+

Through a focus on innovative products designed for global growth markets we target 3%+ per annum constant currency organic revenue growth from the core

Value enhancing acquisitions

Carefully selected, value enhancing acquisitions to complement our organic growth and take us into related growth markets

Attractive EBITDA margins

20%+

Using our proprietary product expertise to develop market leading products, we target sustainable EBITDA margins greater than 20%

Strong cash generation

90%+

We have a strong cash flow to fund our growth strategy, with an objective of delivering cash conversion of 90% or more

Dividend growth

30%

Under our progressive dividend policy, we expect to continue to grow dividends ahead of earnings until we reach a cover of two times adjusted earnings per share

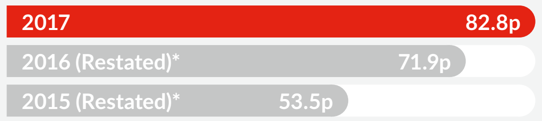
Chairman's Statement

"2017 was another strong year of delivery and we look to the future with confidence."

David Evans
Chairman

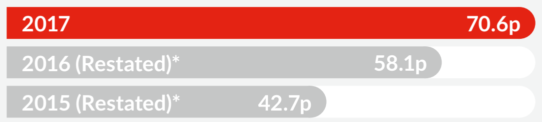
ADJUSTED EARNINGS PER SHARE

82.8p



EARNINGS PER SHARE

70.6p



OVERVIEW

It has been a year of structural and strategic transition for the Group. We have a newly appointed and energised executive team in Paul McDonald and Nick Keveth, who have acted with impressive decisiveness in embedding changes within the organisation as we continue to strengthen the business.

In this year of management change, we have delivered a strong set of financial results. We enter the new financial year as a more robust business with stronger management, a broader product range, increased routes to market and a strong order book. We continue to maintain our focus on creating a healthy and sustainable business and, by investing in and integrating technology in both divisions, we are creating exciting future international growth opportunities.

None of our achievements would have been possible without the energy and commitment of our people. Employees across Avon have worked tirelessly to deliver these results and I would like to thank them all for their commitment and support.

STRATEGY

The Board has focused on refining the Group's strategy during the year. In broad terms, our strategy is to grow the core by maximising organic sales growth from our current product portfolio, supported by selective product development, and through value enhancing acquisitions to complement and extend the reach of our existing businesses and to bring new growth opportunities. Delivery of this strategy requires us to manage the impact of the end of the ten year sole-source contract with the US Department of Defense for the M50 respirator, which we are well prepared for. The investments we have made in recent years to broaden our Protection product portfolio to support a wider range of Military programmes, both in the US and in other countries, gives the Board confidence that we will continue to deliver against our organic growth targets, driving long-term profitable growth and providing sustainable value for our shareholders.

Dividend per share
12.32p
(2016: 9.48p)

SHAREHOLDER RETURNS

On a constant currency basis, orders received grew by 11.8%, revenue was up 4.5% and adjusted operating profit grew by 16.1% reflecting strong performances by both divisions.

The Board considers the dividend to be an important component of shareholder returns and as such has a policy to deliver a progressive dividend year on year. The Board is pleased to be recommending an increased final dividend of 8.21p per share, making a total dividend for the year of 12.32p, which is a 30% increase on the previous year.

GOVERNANCE AND THE BOARD

During the year, Andrew Lewis stood down as Group Finance Director and the Board retained the services of Paul Rayner on an interim basis while the search for a permanent successor was conducted. Nick Keveth was appointed Chief Financial Officer on 1 June 2017. Rob Rennie stepped down as Chief Executive Officer on 15 February 2017 and was replaced by Paul McDonald with immediate effect.

We have a strong and stable Board and I remain personally committed to overseeing the next phase of the Group's growth under the new Executive management team.

The Board has continued to set the right tone from the top during the year, visiting all main sites and meeting regularly with senior management. Our internal Board evaluation in 2017 robustly challenged all aspects of the Board including my performance and that of each Director, the Board Committees and the Board as a whole. I am pleased to report that the Board continues to function effectively as a cohesive body with a good balance of support and challenge, and continues to be committed to the highest standards of governance and compliance.

DELIVERING STRONG RESULTS

2017 was another strong year of delivery and we look to the future with confidence.

We have the right strategy, the right product portfolio and the right management team to generate further value for shareholders in the years to come.

David Evans
Chairman

15 November 2017

Avon Rubber p.l.c.

BUILDING A BRIGHTER FUTURE

We believe in pushing the boundaries of innovation to maximise the capability of our customers through the use of our products and services and thereby differentiate ourselves from our peers.

We have developed an updated forward-looking strategy for the Group with three main strategic priorities:

- grow the core by maximising organic sales growth from our current product portfolio
- pursue selective organic product development to maintain our innovation leadership position
- target value enhancing acquisitions to complement our existing businesses and add additional growth opportunities for the Group

Read more about our strategy on pages **10 to 17**

BUILDING A BRIGHTER FUTURE

Strategic Report

Our Strategy

Our strategy is to generate shareholder value through growing the core business by maximising organic sales growth from our current product portfolio, supported by selective product development, and through value enhancing acquisitions.

Orders received
£173.9m
(2016: £142.3m)

Revenue
£163.2m
(2016: £142.9m)

Grow the core

WE ARE RECOGNISED AS THE LEADER WITHIN OUR CHOSEN MARKET SEGMENTS. THERE ARE FURTHER OPPORTUNITIES FOR ORGANIC GROWTH THROUGH:

- Leveraging the product and customer base
- Responding to customers' growing needs
- Offering new models and solutions
- Expanding our reach through distribution
- Enhancing our commercial effectiveness
- Continuing focus on operational excellence

Creating value through acquisitions

The strong performance of milkrite | InterPuls in growing revenue and profit with improved margins confirms the successful integration of the InterPuls business into the Group following its acquisition in late 2015. InterPuls has provided an enhanced product range whilst broadening routes to market and demonstrates our ability to successfully identify, acquire and importantly, fully integrate value enhancing businesses into our existing operations.

Selective product development

WE HAVE A REPUTATION FOR TECHNOLOGICAL EXCELLENCE AND INNOVATION, WITH A STRONG TRADITION OF NEW PRODUCT DEVELOPMENT. WE SEE ORGANIC GROWTH OPPORTUNITIES THROUGH:

- Moving up the value chain in respiratory protection
- Enabling technologies and integrated systems
- Building the dairy portfolio around service proposition

Revenue growth at constant currency
4.5%
(2016: -0.6%)

Value enhancing acquisitions

WE ARE TARGETING CAREFULLY SELECTED, VALUE ENHANCING ACQUISITIONS WITHIN AVON PROTECTION AND MILKRITE | INTERPULS TO COMPLEMENT OUR ORGANIC GROWTH.

Acquisitions are intended to complement and extend the reach of our existing businesses and bring new growth opportunities.

Clear business criteria have been established to guide our acquisition strategy. We are seeking acquisition targets with at least three of the following five commercial criteria:

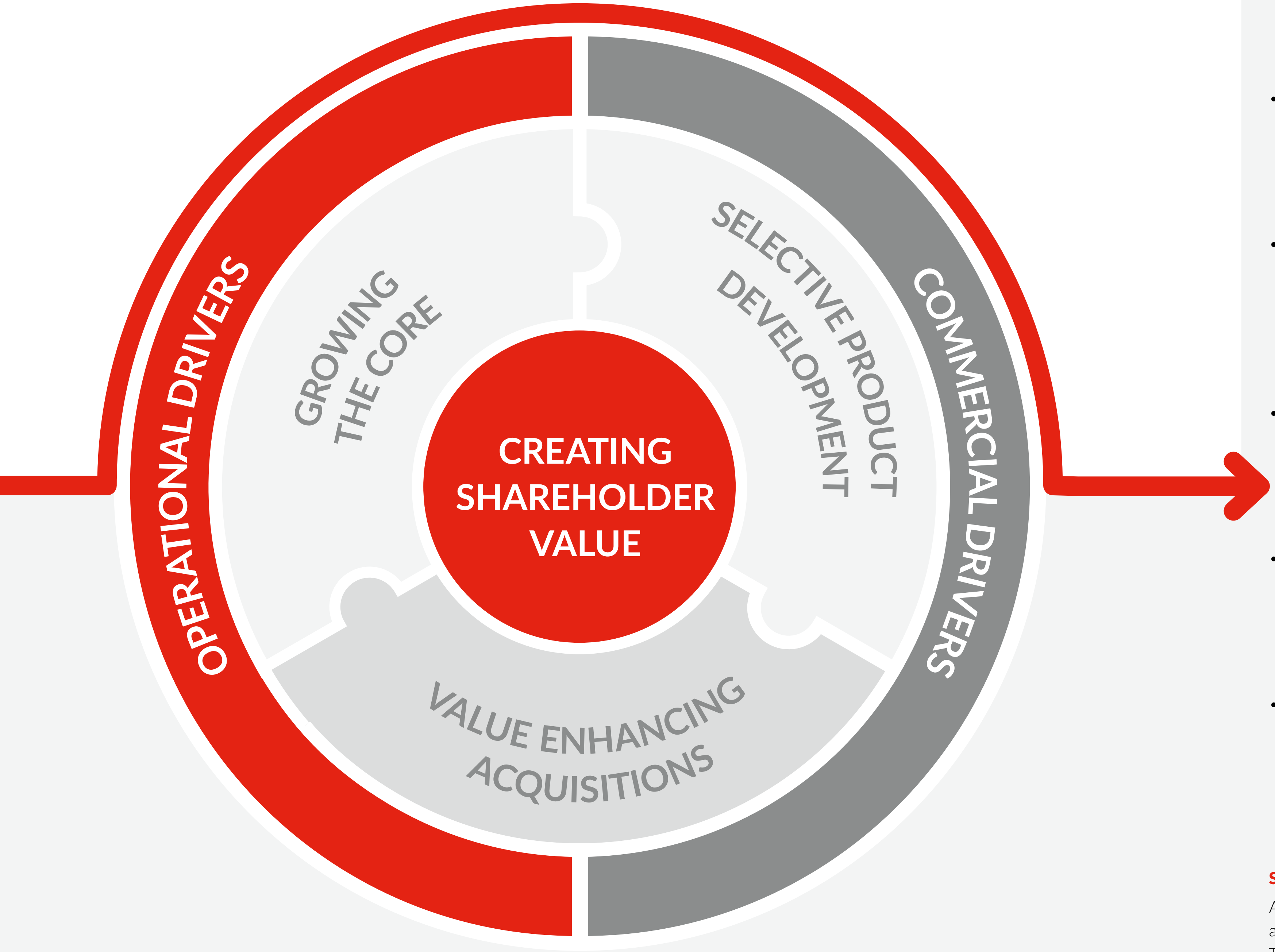
- Strong brand recognition
- Technology which broadens our product range
- Expands our geographical reach
- Secure revenue streams or another source of profitable growth
- Strong management in place

We also expect any acquisition to achieve the following financial criteria:

- Earnings per share enhancement
- Post-acquisition group organic growth, margins and cash conversion in line with our strategic growth objectives
- Return on investment exceeding our weighted cost of capital
- Post-acquisition net debt to EBITDA will remain less than two times

Our Business Model

We are committed to generating shareholder value through serving global markets and developing new products that deliver long-term sustainable profitable revenues. We work to achieve this ambition through our two market-leading businesses, Avon Protection and milkrite | InterPuls.



Our Growth Drivers

GROWING THE CORE

We have established ourself as a technology and service leader in our chosen markets, with a range of innovative products and an established global customer base. We see opportunities to generate further, profitable growth from our core business through a number of initiatives:

- **Leveraging the product and customer base.** As a leader in a number of related technology areas, there is considerable scope to cross sell the wider product portfolio to our existing customers. We have seen with the acquisitions of argus and InterPuls that strong brand positions in complementary markets provide an opportunity to accelerate multi-product sales.
- **Responding to customers' growing needs.** Through our focus on innovation we are constantly enhancing the functionality and capability of our product range. As our customers grow, we see a clear opportunity to migrate them to our premium product offerings as their requirements increase.
- **Offering new models and solutions.** The success of our Cluster Exchange and more recently launched Farm Services programmes have demonstrated the benefits of combining our leading product technology with a service that the customer values. We see alternative ownership models and value-added services as an additional differentiator that has scope to open up a broader market.
- **Expanding our reach through distribution.** We participate in growing global markets with a large and diverse base of potential customers. Expanding our distribution network of agents and dealers will allow us to access wider market opportunities more quickly, in both new and existing territories.
- **Enhancing our commercial effectiveness.** As we target a wider market with increasingly sophisticated technical offerings, we are investing in our people to improve the effectiveness of our sales teams to ensure that we optimise the relationship with our global distribution partners and customers.
- **Continuing focus on operational excellence.** We have invested in a global manufacturing capability and supply chain to meet the high quality requirements of our products and customers. We pursue a continuous improvement culture to further reduce costs and enhance product margins and will benefit from improved operational gearing as we optimise the utilisation of our global operations.

SELECTIVE PRODUCT DEVELOPMENT

As the established leader, we are committed to remaining at the forefront of technology evolution in our markets. To generate the best return on our innovation investment we need to ensure that our development is closely aligned with our customers to enable us to deliver the performance, capability and efficiency that they are looking for:

- **Moving up the value chain in respiratory protection.** Whilst we will continue to expand the portfolio of mask platforms, variant systems and consumables to cater for the specific needs of particular customers or applications, we are actively developing more advanced systems such as the Powered Air and Magnum SCBA ranges targeted at more specialist customer groups.
- **Enabling technologies and integrated systems.** The equipment of the military fighter of the future is expected to be increasingly sophisticated, with seamless integration of protection and technology systems. We are investing in our expertise in enabling technologies, following an Internet of Things principle, to allow greater integration of respiratory protection systems with data and communications technology.
- **Building the Dairy portfolio around the service proposition.** We are expanding the Farm Services product portfolio to include Cluster Exchange, Pulsator Exchange and Tag Exchange to leverage the unique value of this product range.

VALUE ENHANCING ACQUISITIONS

Through growing the core and selective product development, we believe that we can sustain attractive and profitable organic growth into the future. However, we also see the potential to complement this growth and accelerate our strategy through carefully selected value enhancing acquisitions within both Avon Protection and milkrite | InterPuls. These acquisitions have the potential to give us access to new technology and market segments. Our recent track record demonstrates our ability to generate real value by bringing complementary products onto our market leading platform:

- **InterPuls (2015): significantly expanded the product portfolio of the Dairy business.** Consistent with our 'Growing the Core' principles, integration focused on combining the brands and maximising the cross selling opportunity for the expanded product range. The acquired best-in-class manufacturing footprint in Italy was established as the lead development location allowing it to accelerate the 'Selective Product Development' phase of the strategy to widen the portfolio for the global market.
- **argus (2015): followed the 'Growing the Core' principles** when consolidating the thermal imaging camera production into our UK manufacturing facility, whilst adding sales and marketing infrastructure to support organic growth with the traditional argus customers and launching a cross selling initiative with the existing North American SCBA Fire network. Over the mid term we will follow the 'Selective Product Development' principles to develop product upgrades to further enhance the product portfolio.

Our Divisional Strategy

Avon Rubber p.l.c.

Page 22–23

Key Strengths

- Technology and innovation leader with the reputation and capability to design, test and manufacture new products to provide enhanced user performance and capability
- Market leader for Military respirators with long-term pedigree for performance and quality
- High barriers to entry due to long Military programme life cycles
- Quality approvals and technical know how create high barriers to entry for competitors
- Capability and distribution network to provide a range of commercial products for Law Enforcement and Fire markets

Strategic imperatives

- Maximise M50 mask systems revenue and ongoing spares supply
- Launch M69 aircrew mask and M53A1 powered air respirator
- Target the major Military customers with our world leading CBRN capabilities
- Launch powered air solution to global Military and Law Enforcement customers
- Launch Magnum Self-Contained Breathing Apparatus (SCBA) with product upgrades and obtain 2018 NFPA SCBA approval
- Expand global distribution network for both Law Enforcement and Fire

Markets

Military

Global leader within Military CBRN for respiratory protection systems with a long-term pedigree and reputation for quality, comfort and operational effectiveness. Avon Protection is the proud sole-source supplier of the US DoD joint service general purpose mask (M50), which has provided the opportunity to expand into wider respiratory technology applications in both air and sea.

Law Enforcement

Supplying a range of NIOSH and CE approved air purifying respirators for global Law Enforcement customers, whilst organically expanding a wider portfolio of filters, hoods and powered air offerings, to increase capability of the Law Enforcement community in responding to global threats.

Fire

A leading provider of thermal image camera technology and NFPA certified Self-Contained Breathing Apparatus.

Military, Law Enforcement and Fire

Military | Law Enforcement | Fire | Existing Product | New Product

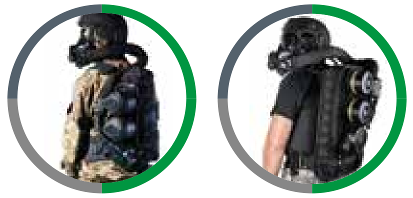
MASKS

FM12 EL50 FM50 M53A1 M69

With an unrivalled pedigree in mask design dating back to the 1920's we have developed an extensive range of mask systems for military and civil use. In addition to market leading M50 and FM50 general service respirators we have developed a range of masks for Law Enforcement and first responder use (PC50 and C50) and for Military special forces (FM53 and FM54). The latest additions to our range include the M69 aircrew mask for use in the DoD's fixed wing aircraft; the M53A1 powered air respirator and the entry level EL50 mask.

Product range:
- FM12
- PC50
- EL50
- C50
- FM50
- FM53
- FM54
- HMK150
- M53A1
- M69

SUPPLIED & POWERED AIR



CS-PAPR CS-Elite

Under Project Fusion we have developed a modular range of supplied and powered air products. This range combines our mask systems with self-contained breathing apparatus ('SCBA') and powered air purifying respirators ('PAPR').

Our PAPR range has recently received the CE European safety approval enabling marketing to commence in Europe. NIOSH approval is in progress and we anticipate launching the range in North America once this approval is obtained.

Product range:
- EZAir
- MP-PAPR
- CS-PAPR
- ST53
- ST53SD
- CS-Elite

FIRE

Mi-TIC S Deltair Magnum

Our fire range is comprised of the argus thermal imaging camera and the Deltair SCBA. We are in the process of upgrading our SCBA system to comply with the new NFPA fire safety standards and will market the upgraded range under the Magnum brand name.

Product range:
- Mi-TIC E L
- Mi-TIC S
- Mi-TIC E
- Mi-TIC 320
- P-Type
- TT-Type
- Deltair
- Magnum

FILTERS

MILCF50 FM61

The FM61 uses pioneering conformal filter technology for closer integration and is designed with bayonet quick fit for use only with the M50 mask.

The MILCF50 filter has a unique conformal shape providing a low profile close fit with the mask. The filter design minimises snag and pull hazards as well as reducing neck loading.

Product range:
- MILCF50
- FM61
- CTC50
- CBRNCF50e
- CBRNF12CE
- CSCF50
- GPCF50

ESCAPE HOODS

NH15 NH15 Combo

The NH15 Escape Hood range is the smallest NIOSH-certified CBRN/CO air purifying escape respirator on the market and is ideal for police, emergency medical services and fire officers seeking immediate or emergency respiratory protection in a CBRN/CO escape scenario.

Product range:
- NH15
- NH15 Combo

UNDERWATER

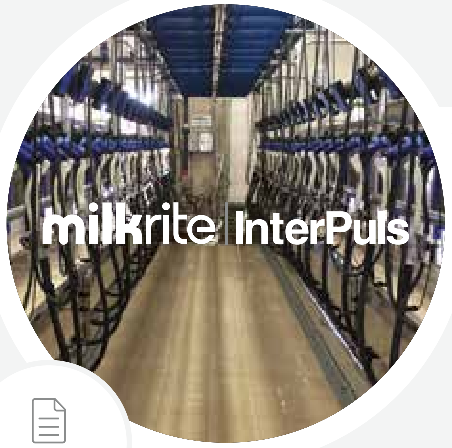
MDC150 MCM100

MCM100 is a state of the art underwater rebreather range for military diving use. During 2017 we obtained the CE European safety approval for the product and post year end we have secured the first orders for this product from military customers. Our underwater product range also includes the MDC150 dive computer designed for military use.

Product range:
- MDC150
- MCM100

Our Divisional Strategy

Avon Rubber p.l.c.



Page 24–25

Key Strengths

- Long-term growth market due to growing global population and demand for dairy protein and products
- Patented technology delivers improved on farm efficiency over the alternative competitive offerings
- Market leader for pulsation and cluster technology in food regulated environment
- Global distribution reach via network of independent dealers
- Farm Services provides alternative ownership model through lease hire business

Strategic imperatives

- Continue to grow market share of own brand sales in each region
- Expand PCI offering into North America
- Expand global distribution network
- Expand Farm Services to include Pulsator and Tag Exchange services

Markets

Interface

milkrite | InterPuls is the market leader for milking cluster technology to remove milk from the cow in the most efficient way and maximise the performance of the farm with improved cost benefits for the farmer and improved animal health for the cow.

Precision, Control & Intelligence (PCI)

Our world leading Precision products control the air system within the milking process to maximise the performance and efficiency of the system and provide the most efficient milking process.

Control systems physically control the milking system to provide automation opportunities and minimise labour inputs.

Intelligence is the critical part of the dairy system to extract data from the cow and integrate this within the farm herd management system or dairy management system when supplied as an integrated solution.

Farm Services

Whilst offering the entire product range on a resale basis, milkrite | InterPuls has developed the unique Farm Services offering, where clusters, pulsators and tags are offered to the farm on a lease hire basis, with a fully incorporated service and warranty scheme managed directly with the farm.

Precision, Control & Intelligence

Dairy | Existing Product | New Product

PRECISION

LO2Air

We are the world-leading manufacturer of state of the art electronic pulsators designed to facilitate gentle, complete and uniform milking.

Other products:

- Pneumatic Pulsator
- Electronic Pulsator
- Control Valves
- Controller
- Bucket Milker

CONTROL

iMilk600

We provide a range of Control products used to manage the milking process. iMilk600 is a state of the art milk meter with advanced electronics and sensors. The user-friendly panel displays real time milk yield, temperature, milking time, cow number and conductivity.

Other products:

- MMV
- Auto Remover
- Sorting Gate

INTELLIGENCE

iFarm

Our iFarm software consolidates and analyses data captured from neck and leg tags as well as the milking process to drive improved efficiency and farm performance.

Other products:

- iFarm
- Leg Tag
- Neck Tag
- Precision Farming

Interface

LINERS

The Impulse and Impulse Air ranges are designed to minimise slip and improve animal health with their unique interlocking anti-twist shell design. Impulse Air takes innovation one step further using a unique air flow to draw the milk away quickly.

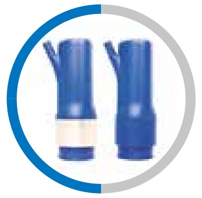
TUBING

Our premium silicone tubing is made from a strong material, with superior tear strength, with proven performance from benchmark testing against similar products.

CLAWS

The Impulse Claw 300 with its durable, lightweight and ergonomic design makes the claw easier for the operator to handle and reduces the overall weight of the cluster, improving cow comfort.

SHELLS



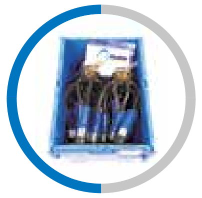
Our lightweight shells are designed to optimise the performance of our Impluse and Impulse Air liners by increasing the responsiveness of the liners to the pulsation signal.

WASHTRAYS

Our liner washing systems are designed to meet the cleaning and sanitisation needs of the dairy farmer.

Farm Services

CLUSTER EXCHANGE



Through our first exchange offering, Cluster Exchange Service, farmers lease complete milking clusters and outsource their liner change process to us. This is managed through service centres established in our existing facilities, with the support of our dealers and third-party logistics specialists.

PULSATOR EXCHANGE

During 2017 we expanded Farm Services with the launch of Pulsator Exchange Service. Farmers lease our market leading pulsators and we provide ongoing servicing and maintenance.

TAG EXCHANGE

We are currently piloting Tag Exchange Service whereby farmers lease leg and neck tags again with servicing and maintenance provided by us. This enables farmers to remove the burden of capital investment and to flex the number of tags according to changes in the size of their herds.

How We Measure Our Performance

The Group uses a variety of key performance indicators and we have revised them this year to align more closely with our updated strategy and investor proposition.

Closing order book

£34.0m

+45.3%

- 2017 £34.0m
- 2016 £23.4m
- 2015 £21.7m

REASON FOR CHOICE

Provides a measure of confidence in the likelihood of achieving future forecasts.

HOW WE CALCULATE

Orders received by the Group and not yet fulfilled. This is measured by the value of future revenue attaching to orders not yet fulfilled.

COMMENTS ON RESULTS

Strong order intake in the second half of the year has resulted in a closing order book of £34m providing good revenue visibility for 2018.

Constant currency revenue growth

4.5%

+5.1%

- 2017 4.5%
- 2016 -0.6%

REASON FOR CHOICE

Indicates the rate at which the Group's business activity is expanding over time.

HOW WE CALCULATE

The growth in revenue comparing current year revenue with prior year revenue retranslated at current year exchange rates.

COMMENTS ON RESULTS

Strong organic growth from milkrite | InterPuls as well as Law Enforcement and Fire with stable constant currency revenue from Military have resulted in constant currency revenue growth of 4.5%, well ahead of our 3% objective.

Adjusted EBITDA margin %

22.1%

+1.2%

- 2017 22.1%
- 2016 (Restated) 20.9%
- 2015 (Restated) 19.6%

REASON FOR CHOICE

Provides a measure of the underlying profitability of the ordinary activities of the business and their potential to generate cash.

HOW WE CALCULATE

The ratio of Adjusted EBITDA to revenue. Adjusted EBITDA is defined as operating profit before depreciation, amortisation, exceptional items and defined benefit pension scheme costs. It excludes any effect of discontinued operations.

COMMENTS ON RESULTS

Our continued focus on profitable growth has resulted in our adjusted EBITDA margin expanding to 22.1%, ahead of our 20%+ objective.

Product development % of revenue

5.1%

-0.7%

- 2017 5.1%
- 2016 5.8%
- 2015 5.3%

REASON FOR CHOICE

Provides a measure of the Group's investment in new products and processes. Investment provides a foundation for the Group's future prosperity.

HOW WE CALCULATE

Total expenditure on research and development including amounts funded by customers, development expenditure capitalised and amounts expensed directly to the Income Statement expressed as a percentage of revenue.

COMMENTS ON RESULTS

5.1% of revenue has been invested into new product development including the M69 aircrew mask, our Deltair SCBA, Powered Air programme and expanding our PCI range in milkrite | InterPuls.

Cash conversion %

98.1%

-12.6%

- 2017 98.1%
- 2016 (Restated) 110.7%
- 2015 (Restated) 91.6%

REASON FOR CHOICE

Provides a measure of the management of working capital and the ability of the Group to convert profits to cash.

HOW WE CALCULATE

The ratio of cash generated from operations before the effect of exceptional items to adjusted EBITDA.

COMMENTS ON RESULTS

Our continued focus on cash management has resulted in 98.1% of EBITDA being converted into cash.

Adjusted earnings per share

82.8p

+15.2%

- 2017 82.8p
- 2016 (Restated) 71.9p
- 2015 (Restated) 53.5p

REASON FOR CHOICE

Measures the ability to generate a return to shareholders. It takes into account our success in growing our business organically and by acquisition coupled with management of the Group's financing and tax.

HOW WE CALCULATE

Adjusted profit for the year divided by the weighted average number of shares in issue. Adjusted profit excludes the amortisation of acquired intangibles and the after tax effect of exceptional items, defined benefit pension scheme costs and discontinued operations.

COMMENTS ON RESULTS

Our revenue growth and improved EBITDA margin has driven a 15% increase in adjusted earnings per share.

Return on capital employed % (ROCE)

25.0%

+1.8%

- 2017 25.0%
- 2016 (Restated) 23.2%
- 2015 (Restated) 29.7%

REASON FOR CHOICE

Measures profitability and the efficiency with which capital is employed.

HOW WE CALCULATE

Adjusted operating profit as a percentage of average capital employed. Capital employed is the sum of shareholders' funds, non-current liabilities and current borrowings.

COMMENTS ON RESULTS

Our improved profitability has driven an increase in ROCE to 25%.

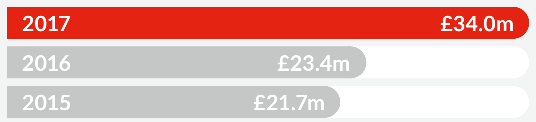
Chief Executive Officer's Review

"There are significant growth opportunities for the Group and I am confident in our ability to deliver value to our customers, our people and our shareholders."

Paul McDonald
Chief Executive Officer

Closing order book

£34.0m



Having worked for Avon for the last 14 years, I was delighted to be appointed Chief Executive Officer on 15 February 2017. There are significant growth opportunities for the Group and I am confident in our ability to deliver value to our customers, our people and our shareholders.

STRATEGY

Following my appointment, I have been working with the Board and my Group Executive management team, to update the Group's strategy for delivering long-term, sustainable growth. Our strategy for creating shareholder value is based upon three key elements:

- grow the core by maximising organic sales growth from our current product portfolio
- pursue selective organic product development to maintain our innovation leadership position
- target value enhancing acquisitions to complement our existing businesses and add additional growth opportunities for the Group

GROW THE CORE

Avon Protection

We see clear growth opportunities for Avon Protection's existing product and service offering across all our markets of Military, Law Enforcement and Fire.

Expanding our global Military customer base

Our technology platform and commitment to service delivery have made Avon Protection the global leader in respiratory protection. Through our strong relationship with the US military, we have created a specialist product portfolio ranging from general service respiratory equipment through to complex integrated CBRN systems. As a result we can offer a tailored solution that addresses both the functionality and cost requirements of our customers. Coupled with excellent service and reliability, this enables us to serve the sophisticated needs of special forces customers as well as high volume general service requirements.

Our world leading expertise and reputation for quality in respiratory protection systems has been recognised by the UK Ministry of Defence through our nomination as the preferred bidder for the resupply and in-service support of its General Service Respirator.

We are actively pursuing further opportunities to broaden our Military customer base and provide access to our world leading products.

Growing the Law Enforcement market

Demand from this market continues to be driven by a need to provide improved protection against growing global CBRN threats, as recently seen in several countries around the world. During 2017 we have experienced strong sales momentum in this market and have seen increased demand for our escape products. In the US in particular, our leading product technologies for Law Enforcement departments are setting Avon Protection apart and enabling us to continue to grow our market share. Over the mid-term we expect market share gains to continue. To cross-sell a broader range of CBRN systems, we look forward to launching our US powered air range once NIOSH approvals are received.

Reshaping our Fire strategy

Our market for Self-Contained Breathing Apparatus (SCBA) in the Fire sector remains competitive and with a fragmented customer base. However we see an opportunity to leverage our technology capability to enhance the product offering in this segment and are in the process of upgrading our system to comply with the new 2018 NFPA standards. We have developed a revised sales strategy to ensure we deliver sustainable growth over the mid-term.

The argus thermal imaging camera technology we acquired in October 2015 has been a significant addition to the Fire product portfolio. This is a trusted brand for firefighters and will enable us to open cross-selling opportunities across the product range and build a wider distribution network for the combined product offering.

Continuous focus on operational excellence

Over the last ten years we have established an efficient and flexible manufacturing operation from which to serve our global customer base. This has enabled us to maintain excellent product reliability, as well as actively manage order scheduling, ensuring that we can maintain high productivity whilst being able to meet our customers' quality and delivery needs.

We are committed to continually improving our production processes and see opportunities for further scale efficiencies in the medium-term. Furthermore, we are exploring opportunities to deploy flexible manufacturing solutions, including local assembly operations to support regional customers, and optimise our production cost base to meet our future growth aspirations.

milkrite | InterPuls

milkrite | InterPuls has developed a set of strategic sales growth priorities for each of its lines of business.

Interface

Further expand our existing global market-leading position and counter competitive challenge by focusing on expanding the global dealer network and launching the next generation of milking products.

Precision, Control and Intelligence (PCI)

Leverage our dominant market position in Interface to maximise cross-sales of our PCI range of products. Complete the development of the control and intelligence product ranges to meet the regional requirements for the geographies that we serve.

Farm Services

Continue to build on the success of Cluster Exchange Service (CES) in both US and European markets by introducing the additional Pulsator Exchange Service (PES) and Tag Exchange Service (TES) and marketing as a Farm Services portfolio, whilst becoming a key partner directly with the farm on a lease hire arrangement.

SELECTIVE PRODUCT DEVELOPMENT

Continued investment to expand our product range

To maintain our innovation leadership position, we will continue to invest in new products in both businesses and in enhancements to our existing product ranges. Our aim is to generate the highest return from our research and development activities by focusing on innovation that is most relevant to our customers and offers the best commercial outcomes. This means that whilst we do not intend to invest at the same levels as recent years, we will target investment in large projects where we see further opportunity to add value in line with our strategic objectives and growth targets.

Building on our long-term partnership with the DoD

The ten year sole-source JSGPM contract for the M50 mask system has been a significant platform for establishing the Group both as a trusted supplier to and as a critical innovation partner for the US Department of Defense ('DoD'). We have established multi-level relationships with the world's largest military customer and our R&D teams continue to work closely in addressing the future challenges for military technology.

We have been working on a number of potentially significant new platform programmes, including the M69 Aircrew Mask and the M53A1 powered air respirator and Powered Air Purifying Respirator (PAPR) system. Following the recent confirmation from the DoD of the Group's participation under the Joint Enterprise – Research, Development, Acquisition and Production Procurement contract vehicle, we anticipate commencing production of these systems during 2018 and expect this to offset any revenue reduction as a result of the transition of the JSGPM contract in 2019.

VALUE ENHANCING ACQUISITIONS

We intend to complement the organic growth strategy described above with carefully selected, value enhancing acquisitions within both Avon Protection and milkrite | InterPuls. Acquisitions are intended to complement and extend the reach of our existing businesses. This will have the effect of building a more robust and diversified business, albeit within our existing markets. We have a strong balance sheet including net cash of £24.7m, together with committed bank facilities of £29.9m and a cash generative business. This financial position, as well as our willingness to extend leverage up to two times EBITDA, means we are well positioned to pursue potential acquisitions that meet our criteria and act decisively when we find them.

I am excited by the potential of our updated strategy which sets out the next chapter in building a brighter future for Avon through the delivery of long-term sustainable growth at improved margins.

PEOPLE

This year saw a high level of transition within the senior executive team, with my appointment as Chief Executive Officer and that of Nick Keveth as Chief Financial Officer. I am delighted to welcome two new divisional leaders this year, Leon Klapwijk for Avon Protection and Craig Sage for milkrite | InterPuls, both being internal appointees from within our business who have extensive knowledge and experience of the Group and the markets we serve. I believe we have a stronger senior management team in place to continue to build on the success of recent years and deliver our ambitious and exciting growth strategy for the future.

Since my appointment, I have visited all of our sites and wish to personally thank all of our employees for their positive response to my appointment and their input to the updated strategy. I thank you all for your continued dedication, enthusiasm and professionalism and look forward to sharing in our future success as a Group.

OUTLOOK

Our closing order book of £34.0m together with £26.6m of orders received post year end provides good visibility as we enter the new financial year and we are well positioned to deliver further growth in 2018.

Within Avon Protection we expect initial orders for the M53A1 powered air respirator and M69 aircrew respirator programmes in 2018, with these orders offsetting the non-recurrence of the 37,000 FM50 general purpose respirator order and anticipated lower M50 mask systems deliveries to the US DoD during 2018. In the medium-term these programmes together with UK General Service Respirator revenues are expected to offset any revenue reduction from anticipated lower M50 deliveries once the ten year sole-source contract ends in 2018. We are also excited by the opportunities emerging from our wider product portfolio that will enable us to grow with the DoD as well as broadening the Military and Law Enforcement customer base.

The Dairy market environment continues to be positive with improved milk prices and low feed costs reflected in increased farmer confidence. In this environment, we anticipate that the growth trends experienced by milkrite | InterPuls in 2017 will continue in the new financial year.

We are well positioned to deliver against all three of our strategic priorities of growing the core, selective product development and value enhancing acquisitions.

Paul McDonald
Chief Executive Officer

15 November 2017

Divisional Review

AVON PROTECTION

Leon Klapwijk
President, Avon Protection

FINANCIAL PERFORMANCE

Orders received totalling £123.9m (2016: £99.7m) together with favourable currency movements drove an increase in revenue of 12.8% to £113.8m (2016: £100.9m). On a constant currency basis, revenue grew by 3.6% with flat Military revenue, 6.1% growth in Law Enforcement and Fire growing by 17.7%.

Adjusted operating profit grew by 31.1% to £19.8m (2016: £15.1m) and adjusted EBITDA was up 26.0% to £27.1m (2016: £21.5m), resulting in an adjusted EBITDA margin of 23.8% (2016: 21.3%). Our margins have improved due to the mix of product shipped and cost efficiencies. On a constant currency basis adjusted operating profit and adjusted EBITDA grew by 22.2% and 16.6% respectively.

MILITARY

Military revenue of £68.2m (2016: £62.3m) was up 9.5% due to favourable currency movements. On a constant currency basis, Military revenues were flat versus last year with the 37,000 FM50 general purpose respirator order offsetting lower DoD revenues.

DoD revenue from M50 mask systems, filters, spares and development costs totalled £50.5m versus £52.9m in 2016 reflecting lower M50 mask system volumes offset by favourable currency movements.

We delivered 150,000 M50 mask systems and 144,000 filter pairs, compared with 189,000 mask systems and 122,000 pairs of filter spares in 2016. DoD spares and development costs revenue increased to £15.6m (2016: £12.9m) due to higher development costs relating to the M69 air crew mask.

"Avon Protection has performed strongly with excellent growth in the Law Enforcement and Fire revenues. The strong order book provides good visibility going into 2018."

Having received orders for 169,000 M50 mask systems during the year, this leaves us with an order book of 49,000 systems as we enter 2018. The closing order book also includes spares of £4.1m primarily relating to 15,000 M50 face piece assemblies. Since the year end we have received further orders for 118,000 filters and £4.5m of spares from the DoD.

Revenue from our Rest of World Military business increased to £13.7m (2016: £4.8m) primarily due to delivery of the 37,000 FM50 general purpose mask order.

Avon Engineered Fabrications ('AEF') has experienced another soft year with revenues of £4.0m (2016: £4.8m), reflecting the variability in timing of certain DoD procurement programmes for fuel and water storage tanks. AEF experienced strong order intake in the final quarter of 2017 and enters 2018 with an order book totalling £4.0m. Our acquisition strategy will result, in the medium-term, in AEF losing the benefits it currently enjoys under the US Small Business regime and therefore we are considering the strategic options for this business.

LAW ENFORCEMENT

Law Enforcement revenue grew 14.2% to £29.0m (2016: £25.4m) due to favourable currency movements and 6.1% at constant currency. North America revenues grew by 22.3% on a constant currency basis to £20.0m, driven by strong performance in hoods and mask systems as we continue to convert police forces to our C50 mask.

FIRE

Fire revenue grew by 25.8% to £16.6m (2016: £13.2m) and 17.7% at constant currency with solid contributions from both SCBA and thermal imaging cameras.

OUTLOOK

The strong closing order book totalling £30.5m (2016: £20.9m) together with the further orders received post year end for 118,000 M61 filter pairs and £4.5m of DoD spares provide excellent visibility for 2018.

The previously reported M53A1 powered air respirator and M69 aircrew mask opportunities continue to progress with initial DoD orders expected in the 2018 financial year. We anticipate that the initial orders under these programmes will offset the non-recurrence of the 37,000 FM50 general purpose respirator order and anticipated lower M50 mask systems deliveries to the US DoD during 2018 resulting in stable Military revenues.

We expect similar levels of Law Enforcement revenue growth in 2018 driven by continued conversion of North American police forces to our C50 mask system and continuing demand for our hoods from a range of global customers. We also expect sales of our new Powered Air Purifying Respirator range to build momentum once NIOSH approvals have been obtained.

We anticipate slower revenue growth in Fire in 2018 as the growth rate for argus thermal imaging cameras reverts to a more normal level.

	2017	2016	% Change	% Change at constant currency
Orders received	£123.9m	£99.7m	24.3%	14.6%
Closing order book	£30.5m	£20.9m	45.9%	50.0%
Revenue	£113.8m	£100.9m	12.8%	3.6%
Adjusted EBITDA	£27.1m	£21.5m	26.0%	16.6%
Adjusted EBITDA margin	23.8%	21.3%	2.5%	
Adjusted operating profit	£19.8m	£15.1m	31.3%	22.2%
Segment result	£15.9m	£13.1m	21.4%	12.8%

Divisional Review

milkrite | InterPuls

Craig Sage
Managing Director, milkrite | InterPuls

FINANCIAL PERFORMANCE

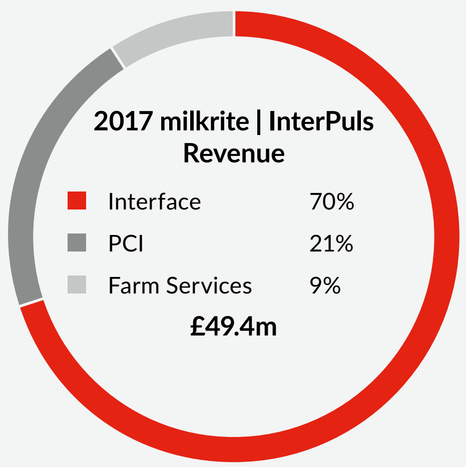
Revenue increased by 17.6% to £49.4m (2016: £42.0m) due to favourable currency movements and 6.6% on a constant currency basis. On a constant currency basis, Interface grew revenue by 4.3%, PCI by 20.2% and Farm Services by 18.9%. The growth trends reflect increased farmer confidence following sustained improvements in the milk price/feed cost ratio as the market recovers from the weaker market conditions experienced in 2016.

Adjusted operating profit grew by 11.1% to £8.0m (2016: £7.2m) and adjusted EBITDA was up 11.2% to £10.9m (2016: £9.8m), resulting in an adjusted EBITDA margin of 22.1% (2016: 23.3%). Our margins have softened due to increased investment to deliver growth in response to improved market conditions. On a constant currency basis adjusted operating profit and adjusted EBITDA grew by 5.8% and 4.7% respectively.

INTERFACE

Interface revenue grew by 12.4% to £34.5m (2016: £30.7m) benefiting from favourable currency movements and 4.3% constant currency growth driven by Europe and Brazil.

North America revenues grew 9.1% to £19.2m (2016: £17.6m), reflecting favourable currency movements. On a constant currency basis revenue declined by 1.1% reflecting a further decline in OEM revenues. milkrite | InterPuls manufactures 64% (2016: 61%) of liners sold in the US with its own brand products share stable at 51% and with the Impulse Air mouthpiece vented liner increasing its share to 31% (2016: 29%).



"Strong performance in milkrite | InterPuls resulted in revenue growth of 8.5% with positive performances from PCI and Farm Services."

In Europe, revenue grew by 17.4% to £9.7m and 15.6% at constant currency. Avon manufactured liners have a 76% (2016: 72%) market share with milkrite | InterPuls's own branded product increasing to 38% (2016: 32%) due to growth in traditional own brand products and the success of our Impulse Air mouthpiece vented liner with its market share increasing to 8% (2016: 6%).

Latin America grew liner revenues by 29.3% on a constant currency basis reflecting market share gains in Brazil. Asia Pacific liner revenues declined by 1% at constant currency as a result of difficult market conditions experienced in China during 2017.

PRECISION, CONTROL & INTELLIGENCE

Sales of our PCI products have benefited from increased farmer confidence resulting in higher investment spend. Revenue grew by 33.3% to £10.4m (2016: £7.8m) reflecting 20.2% constant currency growth and favourable currency movements.

The constant currency growth was driven by growth in Europe of 29.5% and 82.5% in Latin America again reflecting our performance in Brazil. In North America, PCI growth was 3.3% on a constant currency basis.

FARM SERVICES

Farm Services has continued to show exceptional growth with revenue increasing by 28.6% to £4.5m (2016: £3.5m) and with constant currency growth of 18.9%. The constant currency growth was driven by growth in North America of 16.8% and 22.7% in Europe.

At the end of the year, Cluster Exchange had grown by 25% to 35,000 cluster points (2016: 28,000) serving 624,000 cows on 1,891 farms, up from 467,000 cows and 1,530 farms at the same time last year. To increase our European capacity, we plan to open a Farm Services exchange centre at our Albinea site in Italy during 2018.

During the year, we have expanded Farm Services with the launch of Pulsator Exchange in North America. From a zero base, we have introduced 478 Pulsators onto 11 farms serving 19,570 cows.

Tag Exchange will follow in 2018 with farm pilots underway and progressing successfully. We plan to launch Tag Exchange in both North America and Europe in 2018.

OUTLOOK

The dairy market environment continues to be positive with improved milk prices and low feed costs reflected in increased farmer confidence. In this environment, we anticipate that the growth trends experienced in 2017 will continue in the new financial year, although with a moderation in the PCI revenue growth rate to around 10%.

	2017	2016	% Change	% Change at constant currency
Orders received	£50.0m	£42.6m	17.4%	8.5%
Closing order book	£3.5m	£2.5m	40.0%	20.1%
Revenue	£49.4m	£42.0m	17.6%	6.6%
Adjusted EBITDA	£10.9m	£9.8m	11.2%	4.7%
Adjusted EBITDA margin	22.1%	23.3%	(1.2%)	
Adjusted operating profit	£8.0m	£7.2m	11.1%	5.8%
Segment result	£6.3m	£5.4m	16.7%	13.7%

Financial Review

"Cash generation has continued to be strong with 98.1% of adjusted EBITDA converting into cash and year end net cash of £24.7m."

Nick Keveth
Chief Financial Officer

Net cash/debt

£24.7m

The Group has delivered a strong financial performance during the year with growth in orders received of 22.2% and favourable currency movements delivering revenue growth of 14.2% and adjusted operating profit growth of 23.4%. After amortisation of acquired intangibles, the write down of the Emergency Escape Breathing Device ('EEBD') (see below) and post-acquisition adjustments, operating profit grew by 17.9% to £19.8m (2016: £16.8m). At constant currency, orders, revenue and adjusted operating profit increased by 11.8%, 4.5% and 16.1% respectively. Our continued focus on profitable growth has resulted in our adjusted EBITDA margin increasing to 22.1% compared to 20.9% in 2016.

Adjusted profit before tax was £25.6m (2016: £20.7m) and after a tax charge of £0.4m (2016: credit of £1.1m), the Group recorded an adjusted profit for the year of £25.2m (2016: £21.8m).

On a statutory basis, profit before tax was £18.6m (2016: £15.9m) and, after a tax credit, profit for the year was £21.5m (2016: £17.6m).

Adjusted basic earnings per share grew by 15.2% to 82.8p (2016: 71.9p). Basic earnings per share were 70.6p (2016: 58.1p) up 21.5% on 2016.

Our results for 2017 reflect the £2.9m exceptional write down of the EEBD development costs following the discontinuation of this product, as well as higher non-cash share based payment costs of £0.9m to fully reflect the fair value of the share awards.

We have restated our 2016 operating profit to correct the prior year charge for share based payments resulting in a restated 2016 operating profit of £20.9m compared to the £21.8m previously reported. Going forward we expect the higher share based payments costs to be offset by lower amortisation costs in relation to intangible assets.

Cash generation has continued to be strong with 98.1% of adjusted EBITDA converted into operating cash inflows. This has resulted in year end net cash of £24.7m, an increase of £22.7m in the year, which will help fund our growth strategy and future acquisitions.

Against this backdrop, the Board has increased the final dividend by 30% to 8.21p resulting in total dividends for the year of 12.32p also up 30% on 2016.

The closing order book of £34.0m is 45.3% higher than at the end of 2016, reflecting strong performances across all markets in which we operate. On a constant currency basis, the closing order book grew by 46.3%. The closing order book together with £26.6m of orders received post year end provides good visibility for 2018.

The table below summarises the performance by segment, which is further explained in the Divisional reviews.

	2017 £m	2016 (restated) £m	Growth %	Growth at constant currency %
Orders received				
Avon Protection	123.9	99.7	24.3%	14.6%
milkrite | InterPuls	50.0	42.6	17.4%	8.5%
Total	173.9	142.3	22.2%	11.8%
Closing order book				
Avon Protection	30.5	20.9	45.9%	50.0%
milkrite | InterPuls	3.5	2.5	40.0%	20.1%
Total	34.0	23.4	45.3%	46.3%
Revenue				
Avon Protection	113.8	100.9	12.8%	3.6%
milkrite | InterPuls	49.4	42.0	17.6%	6.6%
Total	163.2	142.9	14.2%	4.5%
Adjusted operating profit				
Avon Protection	19.8	15.1	31.1%	22.2%
milkrite | InterPuls	8.0	7.2	11.1%	5.8%
Unallocated corporate costs	(2.0)	(1.4)	42.9%	
Total	25.8	20.9	23.4%	16.1%
Operating profit				
Avon Protection	15.9	13.1	21.4%	12.8%
milkrite | InterPuls	6.3	5.4	16.7%	13.7%
Unallocated corporate costs	(2.4)	(1.7)	41.2%	
Total	19.8	16.8	17.9%	11.0%
Adjusted EBITDA				
Avon Protection	27.1	21.5	26.0%	16.6%
milkrite | InterPuls	10.9	9.8	11.2%	4.7%
Unallocated corporate costs	(2.0)	(1.4)	42.9%	
Total	36.0	29.9	20.4%	12.1%
Adjusted EBITDA margin				
Avon Protection	23.8%	21.3%		
milkrite | InterPuls	22.1%	23.3%		
Total	22.1%	20.9%		

Financial Review continued

PROFIT FOR THE YEAR

	2017 £m	2016 (restated) £m
Adjusted operating profit	25.8	20.9
Adjustments	(6.0)	(4.1)
Operating profit	19.8	16.8
Net finance costs	(1.2)	(0.9)
Profit before taxation	18.6	15.9
Taxation	2.9	2.0
Profit from continuing operations	21.5	17.9
Discontinued operations	–	(0.3)
Profit for the year	21.5	17.6

ADJUSTMENTS

Adjustments of £6.0m (2016: £4.1m) have been excluded from adjusted operating profit and include the £2.9m exceptional write down of costs in developing the EEBD product, amortisation of acquired intangible assets of £3.0m (2016: £3.3m) and pension administration costs of £0.4m (2016: £0.3m). Adjustments in 2017 also included an exceptional credit of £0.3m (2016: nil) for a post-acquisition working capital adjustment relating to the acquisition of InterPuls.

FINANCE COSTS

Net interest costs were £0.2m (2016: £0.2m). Other finance expenses of £1.0m (2016: £0.7m) represent the unwind of the discount on the net pension liability and, as in previous years, has been excluded from adjusted profit for the year.

TAXATION

Taxation was a tax credit of £2.9m (2016: credit of £2.0m) which consists of a £4.3m charge relating to the current year and a £7.2m credit in respect of previous periods. The current year charge represents an effective rate of 23% of profit before tax. The £7.2m credit in respect of previous periods includes a £2.3m credit in connection with company restructuring in previous years and the release of provisions following an updated assessment of uncertain tax positions.

DIVIDENDS

The Board is recommending a final dividend of 8.21p per share (2016: 6.32p) which together with the 4.11p per share interim dividend gives a total dividend of 12.32p (2016: 9.48p), up 30% on last year. The final dividend will be paid on 16 March 2018 to shareholders on the register at 16 February 2018 with an ex-dividend date of 15 February 2018.

Our policy is to maintain a progressive dividend policy balancing dividend increases with the rates of adjusted earnings per share growth achieved, taking into account potential acquisition spend and the Group's financing position. Over recent years, we have grown the dividend per share by 30% per annum and we expect to continue to grow dividends ahead of earnings over the medium-term. Our policy is to maintain dividend cover (the ratio of dividend per share to adjusted earnings per share) above two times. This year dividend cover was 6.7 times (2016: 7.6 times). Once dividend cover has reduced to two times we intend to increase dividends in line with the growth in adjusted earnings per share.

CASHFLOW AND NET CASH

Adjusted cash generated from operations was £35.3m up 6.6% on 2016. Operating cash conversion from adjusted EBITDA continued to be strong at 98.1% (2016: 110.7%) and operating cash conversion from adjusted operating profit was 136.8% (2016: 158.4%).

	2017 £m	2016 £m
Cash generated from operations before effect of exceptional items	35.3	33.1
Cash effect of exceptional items and discontinued operations	0.3	(0.7)
Cash generated from operations	35.6	32.4
Interest	(0.1)	(0.4)
Payments to pension plan	(1.0)	(0.7)
Tax	(2.0)	(1.0)
Purchase of property, plant and equipment	(2.6)	(3.6)
Capitalised development costs and purchased software	(2.9)	(3.3)
Acquisitions	–	(3.3)
Purchase of own shares	(1.0)	(1.8)
Dividends to shareholders	(3.2)	(2.4)
Foreign exchange and other items	(0.1)	(0.7)
Increase in net cash	22.7	15.2

At the year end, the Group had net cash of £24.7m (2016: £2.0m) and an undrawn US Dollar denominated bank facility of £29.9m which is committed to 30 November 2019.

Our strong balance sheet gives us the capacity to fund our growth strategy and make further acquisitions. Our policy is to maintain a strong financial position and keep the ratio of net debt to adjusted EBITDA under two times.

R&D INVESTMENT

We continue to invest for the future and our total investment in research and development (capitalised and expensed) amounted to £8.4m (2016: £8.3m) as shown below. Total research and development as a percentage of revenue was 5.1% (2016: 5.8%).

	2017			2016		
	Protection £m	Dairy £m	Group £m	Protection £m	Dairy £m	Group £m
Total expenditure	7.6	0.8	8.4	7.5	0.8	8.3
Less customer funded	(4.6)	–	(4.6)	(4.3)	–	(4.3)
Group expenditure	3.0	0.8	3.8	3.2	0.8	4.0
Capitalised	(1.9)	(0.8)	(2.7)	(2.5)	(0.6)	(3.1)
Income statement impact of current year expenditure	1.1	–	1.1	0.7	0.2	0.9
Amortisation	3.3	0.2	3.5	2.3	0.1	2.4
Impairment	2.6	–	2.6	–	–	–
Total income statement impact	7.0	0.2	7.2	3.0	0.3	3.3
Revenue	113.8	49.4	163.2	100.9	42.0	142.9
R&D spend as % of revenue	6.7%	1.6%	5.1%	7.4%	1.9%	5.8%

R&D INVESTMENT CONTINUED

In Avon Protection the most significant investments have been in further developing the M69 aircrew mask, our Deltair SCBA and MCM100 product range. In milkrite | InterPuls, investment has been focused on expanding our Precision, Control and Intelligence (PCI) product range.

Having appraised the range of future product opportunities available, we have decided to discontinue the NIOSH approvals process for the EEBD. This product, which is outside of our core CBRN and respiratory range, was primarily developed for a US Navy contract which was ultimately awarded to a competitor in 2015. Following review of alternative commercial opportunities for this technology, further development has been terminated in view of the limited opportunities identified to commercialise the product in the foreseeable future. As a result, an exceptional non-cash impairment charge of £2.9m has been recorded in the year end accounts as a non-recurring item.

PENSIONS

The Group has a UK pension scheme which is closed to future accrual. The net pension liability, as measured under IAS 19 (revised), is £44.1m (2016: £39.9m). The £4.2m increase in the deficit over the last year is due to adopting more conservative mortality and inflation assumptions and the discount rate exceeding actual investment return.

We received the results of the triennial funding valuation as at 31 March 2016 and this showed the plan to be 90% funded on a continuing basis with a deficit of £33.8m. A deficit recovery plan is in place. In 2017, the Group made total contributions of £1.0m (2016: £0.7m) and has agreed to pay £1.5m per annum in future. The level of contributions will next be reassessed following the 2019 triennial funding valuation.

FINANCIAL RISK MANAGEMENT

The Group has clearly defined policies for the management of foreign exchange risk. Exposures resulting from sales and purchases in foreign currency are matched where possible and net exposure may be hedged by the use of forward exchange contracts. The Group does not undertake foreign exchange transactions for which there is no underlying exposure.

Credit and counterparty risk are managed through the use of credit evaluations and credit limits. Cash deposits are made at prevailing interest rates which are not generally fixed for more than one month. Borrowings and overdrafts are at floating interest rates. The Group does not carry out any interest rate hedging.

Financial risk management is further detailed in Note 19 to the Group Financial Statements and the Group's principal business risks are set out on pages 32 to 35.

CURRENCY EFFECT

The Group has translational exposure arising on the consolidation of overseas company results into Sterling. Based on the current mix of currency denominated profit, a five cents appreciation of the US Dollar increases revenue by approximately £5.0m and operating profit by approximately £0.7m. A five cents appreciation of the Euro increases revenue by approximately £0.5m and operating profit by approximately £0.1m.

SHARE BASED PAYMENTS

The non-cash charge to the income statement for share based payments has been understated in previous years, as share awards under the Performance Share Plan have been undervalued for accounting purposes. As a result, the 2016 share based payments charge has been restated from £0.1m to £1.0m, to reflect the fair value of these awards, which has the effect of reducing the 2016 reported and adjusted operating profit by £0.9m. Further details of this restatement to the 2016 comparators is provided in note 24 to the financial statements.

ADJUSTED PERFORMANCE MEASURES

This document contains certain financial measures that are not defined or recognised under IFRS including adjusted operating profit and adjusted earnings per share. The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. These adjusted measures exclude the effect of exceptional items, defined benefit scheme pension costs, the amortisation of acquired intangible assets and discontinued operations. The Group uses these measures for planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses within the Group. Given the term adjusted is not defined under IFRS, the adjusted measures may not be comparable with similarly titled measures used by other companies.

The following tables show the adjustments made to arrive at adjusted operating profit, adjusted profit for the year and adjusted basic earnings per share.

	2017			2016		
Adjusted operating profit	**Protection £m**	**Dairy £m**	**Group £m**	**Protection £m**	**Dairy £m**	**Group (restated) £m**
Operating profit	15.9	6.3	19.8	13.1	5.4	16.8
Amortisation of acquired intangibles	1.0	2.0	3.0	1.5	1.8	3.3
Integration costs	–	–	–	0.5	–	0.5
Defined benefit pension administration costs	–	–	0.4	–	–	0.3
Impairment of EEBD capitalised development expenditure	2.6	–	2.6	–	–	–
Impairment of EEBD plant and machinery	0.3	–	0.3	–	–	–
Post-acquisition working capital adjustment	–	(0.3)	(0.3)	–	–	–
Adjusted operating profit	19.8	8.0	25.8	15.1	7.2	20.9

Adjusted basic earnings per share	**2017 £m**	**2016 (restated) £m**
Profit for the year	21.5	17.6
Amortisation of acquired intangibles	3.0	3.3
Integration costs	–	0.5
Defined benefit pension administration costs	0.4	0.3
Impairment of EEBD capitalised development expenditure	2.6	–
Impairment of EEBD plant and machinery	0.3	–
Post-acquisition working capital adjustment	(0.3)	–
Defined benefit pension net interest cost	1.0	0.7
Tax on exceptional items	(3.3)	(0.9)
Loss from discontinued operations	–	0.3
Adjusted profit for the year	25.2	21.8
Weighted average number of shares (in thousands)	30,434	30,276
Basic earnings per share (in pence)	70.6	58.1
Adjusted basic earnings per share (in pence)	82.8	71.9

Nick Keveth
Chief Financial Officer

15 November 2017

Principal Risks and Risk Management

The Group has an established process for the identification and management of risk across the two divisions, working within the governance framework set out in our corporate governance statement (see pages 43 to 47). Ultimately the management of risk is the responsibility of the Board of Directors, and the development and execution of a comprehensive and robust system of risk management has a high priority at Avon.

The Board's role in risk management includes promoting a culture that emphasises integrity at all levels of business operations, embedding risk management within the core processes of the business, approving appetite for risk, determining the principal risks, ensuring that these are communicated effectively across the businesses and setting the overall policies for risk management and control.

The principal risks affecting the Group are identified by the Group Executive team and reviewed by the Board.

Each risk area has priority tasks allocated to it that are the responsibility of the members of the Group Executive to deliver during the financial year. The risk areas are also addressed and mitigated by the control structures permanently embedded throughout the Group. Regular sessions are held throughout the year to review progress in delivery of the priority tasks at an operational level and the fitness for purpose of the control structures.

THERE ARE THREE MAIN RISK AREAS:

Strategic Risks
risks affecting the achievement of the Group's strategic objectives

Financial Risks
issues that could affect the finances of the business both externally and internally

Operational Risks
matters arising from the operational activities of the Group relating to areas such as sales, product development, procurement, and dealings with commercial partners

The principal risk areas identified through the risk management process in October 2017 and approved by the Audit Committee at its meeting on 9 November 2017 are listed on the following pages in order of the potential severity of their impact on the Group during the forthcoming year. The categorisation given to the risk areas internally is shown alongside. Available mitigation in the form of a generic control structure, is shown by each identified risk area. The individual priority tasks allocated to each risk area during the year within the generic control structures are not noted.

In 2018 projects failure/acquisition integration risk is considered the Group's highest risk, principally due to the reliance on one-off projects and acquisitions to deliver the strategy and build a better business. Market threat is considered the second highest risk due to the reliance on sales growth and managing markets in both businesses. Talent management and product development remain important priorities for the Group, followed by financial management given the new CFO and proposed change of external auditor.

Brexit was considered as a specific risk within the political/economic instability area as part of the annual review in 2017. Given that a substantial part of the Group's business takes place outside of the EU with the US being our largest market; the majority of sales within the EU being made by milkrite | InterPuls with the product being predominantly manufactured within the EU; and our main cross border trading flows being between the UK and US, the risks arising from Brexit are considered to be low.

LIKELIHOOD COLOUR INDICATOR

● Highest potential impact ● Medium potential impact

NOTE: the lowest potential impacting risk areas are not shown but are business interruption/access and political/economic instability.

Arrows indicate whether the level of risk relative to the other risks facing the business has increased ↑, decreased ↓ or remained the same → during the year.

PROJECTS FAILURE/ACQUISITION INTEGRATION

Business Risk	Mitigation	Impact on	Likelihood
Project failure due to: • Wrong projects commenced/ misalignment with strategy • Failure to define or implement strategy • Over ambitious expectations **Poor integration of acquired businesses results in:** • Loss of key customers and employees • Failure to integrate management reporting structures and disciplines	**Project failure:** • Board oversight of product development and long-term strategy • Group executive oversight of project expenditure, monthly reporting and achievement of strategic milestones **Acquisition integration:** • Preparation and execution of cross-functional integration plans • Early employee engagement by Avon management on-site • Early integration into existing internal control framework	Sales, costs and profitability, employee morale	↑

MARKET THREAT

Business Risk	Mitigation	Impact on	Likelihood
Lack of sales growth due to: • Loss of major contract or business to competitor • Fall in demand • Delays in order placement • Cuts in Government/ customer funding	• Safety approvals and sole-source supply contracts provide significant barriers to entry • Continued investment in product development to ensure competitive advantage • Setting and implementing the strategy for i) securing US Government funding; ii) winning additional business from existing customers; and iii) capturing new customers and revenue streams • Continuing recruitment of sales personnel • Diversification of customer base and markets	Sales volume and profitability	↓

TALENT MANAGEMENT

Business Risk	Mitigation	Impact on	Likelihood
• Inability to recruit/retain staff • Loss of knowledge and experience, particularly to competitors • Insufficient skills of employees • Poor engagement and morale • Dysfunctional organisational structure/reporting lines	• Robust succession planning and performance management • Regularly benchmarked remuneration and benefits • Restrictive covenants and confidentiality obligations in employment agreements • Celebrating and rewarding achievements • Promoting positive action by effective communication and empowerment of employees • Continuing to realign teams and structures, recruiting where appropriate to ensure that as the Group grows the organisational structure remains fit for purpose	Medium-term cost and quality issues Long-term sustainable growth	↑

Principal Risks and Risk Management continued

PRODUCT DEVELOPMENT

Business Risk	Mitigation	Impact on	Likelihood
• Failure to identify and implement new products • Lack of investment in new products • Failure to meet regulatory product/system requirements	• Implementation of a product development roadmap which aligns with the business strategy • Market research and engagement with user groups to understand future requirements, timing and competitor activity • Publication of and adherence to a new product introduction process and intellectual property manual • Focus on delivery of projects on time to budget and cost • Identification and capture of external funding and new revenue streams	Sales volume and profitability	↓

FINANCIAL MANAGEMENT

Business Risk	Mitigation	Impact on	Likelihood
• Risks related to tax, debt capacity, cash flow, exchange rates • Insufficient financial/ overhead control • Margin erosion due to inconsistent quoting/lack of strategy • Poor inventory management • Fraud • Failure to achieve payback from capital expenditure	• Robust and professional corporate finance function and oversight by the Board • Internal and external audit • Robust internal control manual and procedures • Hedging of foreign currency exposure	Costs and profitability Reputational damage	↑

CUSTOMER DEPENDENCY

Business Risk	Mitigation	Impact on	Likelihood
• Over reliance on a few customers e.g. the US Department of Defense and associated budget funding and contract processes • Poor customer relationships and communication due to incomplete understanding of customers' requirements or failure to meet expectations	• Engagement with customers to provide advanced notice and an opportunity to mitigate • Establishment of a diverse business base to spread risk • Setting and regular monitoring of sales budgets and sales prospects by the Group executive management team and the Board	Sales and Profitability	↓

BUSINESS INTERRUPTION – SUPPLY CHAIN

Business Risk	Mitigation	Impact on	Likelihood
• Dependency on sole supplier/ subcontractor • Availability/pricing/quality of raw materials • Failure to manage distributors and dealers correctly	• Proactive approach to the approval of second sources and reducing cost through purchasing initiatives • Robust supplier quality management procedures • Negotiations with customers to pass on increases in raw material prices	Costs, sales and profitability	→

NON-COMPLIANCE WITH LEGISLATION

Business Risk	Mitigation	Impact on	Likelihood
• Failure to comply with export controls, the International Traffic in Arms Regulations, the Bribery Act and product approvals • Litigation against Avon • Protest of contract awards by competitors • Failure or delay in obtaining/ maintaining product approvals for new products or in new territories	• In-depth understanding of the controls applying to the Group's business activities • New product introduction process • Internal and external audit • In-house legal department	Ability to ship products, financial loss, reputational damage	↑

QUALITY RISKS AND PRODUCT RECALL

Business Risk	Mitigation	Impact on	Likelihood
• Poor quality systems • Allow faulty product to reach customer • Process/material/equipment inadequacy e.g. our Protection products are safety critical therefore all product reaching the end consumer must meet specification	• Focus on implementation of Six Sigma manufacturing disciplines, site quality procedures and employee engagement • Robust product design and testing regimes • Focus on manufacturing equipment and process improvements • Product liability insurance	Financial loss, reputational damage	↓

LIKELIHOOD COLOUR INDICATOR

● Highest potential impact ● Medium potential impact

NOTE: the lowest potential impacting risk areas are not shown but are business interruption/access and political/economic instability.

Arrows indicate whether the level of risk relative to the other risks facing the business has increased ↑, decreased ↓ or remained the same → compared to last year.

Environment and Corporate Social Responsibility

Our Albinea site runs on 100% green energy

In order to secure the future of the business we are committed to contributing to economic, social and environmental sustainability, both locally and globally. The Directors acknowledge that this involves balancing the interests of shareholders, employees, customers, suppliers and the wider communities in which our business operates.

THE GROUP'S APPROACH

A forward thinking approach to health and safety, the environment, business ethics and employee engagement are of paramount importance and we constantly endeavour to improve our systems to maintain our excellent record.

HEALTH AND SAFETY (H&S)

Avon is committed to safeguarding the health and safety of its employees and contractors. All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit by actively reporting all safety observations, being involved in safety audits, assessments and regular training sessions.

Over the year, monthly global H&S meetings are held where information, knowledge and ideas are shared to implement best practice across our sites and create positive safety attitudes.

Our management teams put considerable focus on potential hazard reporting, to ensure the appropriate action is taken before they can cause an incident or an accident. These actions are key to ensuring our facilities are safe places in which to work.

ENVIRONMENT

We are committed to minimising the impact of our operations on the environment and encourage all employees to think about ways of modifying their behaviour.

At the start of each year we set environmental improvement goals. Each site has delivered a number of improvements, for example the replacement of overhead lighting with LEDs at our Melksham site.

Each facility participates in recycling paper, metal, plastic, cardboard and used products, and continues to focus on minimising energy consumption.

We have experienced no external environmental incidents or concerns throughout the 2017 financial year at any of our locations.

The electricity, gas and water used at our UK sites is monitored on a weekly basis to spot peaks in usage. The aim is to identify possible improvements to reduce energy consumption of these processes.

With evolving environmental legislation within Europe and USA, Avon ensures compliance through regular environmental updates from its membership to the Institute of Environmental Management and Assessment (IEMA).

MANDATORY CARBON REDUCTION SCHEME

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 requires quoted companies to include within their annual report details of greenhouse gas emissions for which they are responsible and other environmental matters for which key performance indicators are selected.

Avon has employees in each of its facilities who are responsible for collecting and acting on the data. The collected data allows the organisation to monitor and examine carbon emission trends.

GREENHOUSE GAS (GHG) EMISSIONS

	GHG emissions in tons 2017	GHG emissions in tons 2016
Scope 1	2,012	2,198
Scope 2	4,621	5,351
Total	6,633	7,549
Tons of CO_2e per employee	8.48	9.65

Scope 1: Greenhouse gas emissions derived from our operations including gas usage and company owned transport

Scope 2: Mandatory reporting of emissions from electricity usage

BUSINESS ETHICS

Our Code of Conduct ('the Code') sets out the values and standards of behaviour expected from all those working for or on behalf of Avon and is available on the Group's website. The Code requires all representatives of the Group to comply with the laws and regulations in the countries in which we operate. It also contains guidance on avoiding conflicts of interest, confidentiality, adherence to export controls, our approach to gifts and hospitality, bribery and corruption and managing relationships with third parties.

We encourage everyone to report any behaviour, which may be a breach of the Code, or is unethical or illegal.

We implement and enforce effective systems to uphold our zero-tolerance approach to bribery and corruption. To ensure we only work with third parties whose standards are consistent with our own, all agents and third parties who act on behalf of the Group are obliged by written agreement to comply with the standards set out in the Code. In addition, a programme of supplier audits exists to ensure suppliers adhere to Avon's standards.

Avon is fully committed to respecting the human rights of all those working with or for us. We do not accept any form of child or forced labour and we will not do business with anyone who fails to uphold these standards.

Avon has a zero-tolerance approach to modern slavery and is committed to acting with integrity in all of its business dealings and relationships and to implementing and enforcing effective measures to ensure modern slavery is not taking place in the business or its supply chains. Our first Modern Slavery Act statement is on our website and will be updated in 2018 to reflect the progress made.

EMPLOYEES

Our success depends on our people. The Group aims to support all employees to develop their potential and we are committed to recognising, encouraging and nurturing talent across our business.

We are committed to providing a working environment where everyone feels respected and valued and we pursue equality of opportunity in all employment practices, policies and procedures regardless of race, nationality, gender, age, marital status, sexual orientation, disability and religious or political beliefs. A formal diversity policy is in place, setting out our approach to diversity. A copy can be found in the corporate governance section of our website.

The gender of our staff at 30 September 2017 was as follows:

	Male	Female
Non-Executive Directors	2	1
Executive Directors	2	–
Senior Managers	17	3
Other Employees	463	294
Total	484	298

Environment and Corporate Social Responsibility continued

OUR CORE VALUES

The Group's core values are embodied by the acronym CREED, a set of principles and cultural values rigorously pursued and adhered to across the Group.

C

Understanding and delivering our customer (internal/ external) needs and expectations.

R

Motivating our people through appropriate recognition and reward programmes.

E

Providing responsibility through meaningful employee empowerment.

E

Ensuring a friendly and engaged environment that embraces worthwhile communications where innovation is encouraged.

D

Recognising the value of cultural diversity and talent across our business.

RECOGNITION

All employees have a part to play in ensuring Avon remains a great place to work. One of our corporate values is to motivate our people through appropriate recognition and reward programmes.

Under our reward programme, employees can nominate colleagues whom they believe embody one or more of the CREED values in their job performance. Each month all those nominated receive a recognition award from the Group, with a quarterly and annual winner selected from those nominated. The 2017 Albinea Annual Site winner, Giovanni Grasselli, is pictured above with Paul McDonald, Chief Executive Officer.

COMMUNICATION

Employee engagement is important to us and effective communication throughout the business is vital in achieving this.

We communicate our strategy, performance and business priorities to all employees in a variety of ways, including through our intranet sites, email and quarterly newsletters as well as through regular employee meetings at all levels of the organisation. We also encourage employees to provide feedback to the business, either face to face or through discussion boards on our intranet. All employees have the ability to make suggestions directly to the CEO via our 'Ask the CEO' mailbox.

Part of the communication programme is our employee opinion survey. The survey gives employees the opportunity to give anonymous feedback to management, which we assess and use to inspire improvement plans. The survey helps to ensure Avon listens to its employees and strives for continuing improvement. This year's survey had a response rate of 67% against a target of 50%. The responses are evaluated by each level of management and it will continue to be a platform that helps Avon invest in its people and drive success.

Great Place to Work

"Great Place to Work is a framework that gives every employee an opportunity to contribute towards a culture that truly does make Avon a great place to work. The framework comprises five key areas: Recognition, Communication, Wellbeing, Community and Training and Development."

WELLBEING

Under our wellbeing initiative, we offer healthy lifestyle support and advice, with the aim of encouraging better health and wellbeing for all employees.

We believe wellbeing works best when the experience is a shared one, we have regular global wellness challenges for our employees to take part in to help stimulate small changes to improve their overall health. These include challenges related to increasing activity levels, eating healthier and drinking more water.

We have a global wellness week each year with a variety of activities on offer at all of our sites including healthy eating options in our canteens, a wellness fair and health quizzes. Pictured above is the team at AEF and their healthy lunchtime options.

Our wellbeing programme also covers financial wellness. We operate group-wide employee share plans to encourage our staff to participate in the future of the Group through share ownership. All UK employees are entitled to participate in the Share Incentive Plan whilst US employees are invited to join the Employee Stock Purchase Plan. Both provide the opportunity to purchase shares through payroll deductions.

COMMUNITY

We aim to work with and for the communities in which we operate, recognising our role as a major employer in our geographical site locations. We are aware of the impact the Group has on its local environment and seek to contribute to its economic, social and environmental sustainability.

Our community programme is led from the bottom up rather than top down, which means each site is empowered to create their own initiatives to help benefit their local community. Engaging with, and giving back positively to the local community ensures that we are supporting our employees, their friends and families. We also work with many charitable organisations who are involved in some way with the areas of business in which we operate.

This year we launched the #thinkSTEM campaign to help address the issue of skills shortage in science, technology, engineering and maths careers. Through this campaign, we want to inspire more young people to consider STEM related careers and we do this by working with our local schools to engage with pupils from a young age to help them understand the different opportunities available to them.

We recognise the value provided to local and wider communities by members of the reserve forces and those in public service. We are proud to have employees serving and a number of our employees are part of service families. We support their commitment and dedication to serve.

It's not just about supporting our local communities, it's also about creating a community at work. That's why we offer opportunities for our employees to establish relationships with each other outside of their day to day job. From football matches to bake-offs, we want our employees to feel that working within and for the community is embedded within the culture of the organisation. Pictured below is the bake-off held at our Melksham facility to raise money for Macmillan Cancer Support.

TRAINING AND DEVELOPMENT

We want to attract, retain and develop talented individuals.

We strive to provide an environment that offers the right training and development to ensure we retain our employees. By providing a combination of formal training opportunities and on the job experiences, our employees have the opportunity to achieve their potential and become the future leaders of our business.

We will run our flagship Global Leadership Programme in the new financial year for individuals identified as having the potential to be future leaders. Several of our senior executives and other influential managers have previously completed this programme, which is testimony to the value added to the business from this initiative.

Our global Professional Development Programme has completed two cycles. The programme enables participants across our business to manage their own career development through setting self-learning objectives with the help and guidance of a mentor from the senior leadership team and an external facilitator.

Employees can apply for training grants for qualifications they wish to work towards. Avon funds half of the tuition fees and loans the other half to the employee, repaid over time. So far the initiative has helped the continued development of many departments across the business.

We also offer numerous positions for placement students in our engineering team, both in the US and the UK. The students help us tackle real-world engineering problems as they learn about the profession as well as having the potential for long-term employment within Avon. A number of our student placements have taken up full-time employment with the Group following their graduation and contribute significantly to Group achievements.

Our graduate recruitment scheme is now in its third year and two new graduates joined in September to support the growing needs of our business. The scheme is based on a two year 'work and learn' programme designed to bring new talent into our organisation.

Avon Rubber p.l.c.

CREATING A CULTURE OF INNOVATION

The breadth and quality of the products and services that we offer in our markets helps to differentiate us from our peers.

Through a culture of constant innovation, our product development pipeline has never been healthier.

We have a deep understanding of what our customers need which drives the development of all our new technologies, products and services across both of our businesses.

To sustain this thinking, we make significant investment into development programmes which we believe will deliver competitive, next-generation products and services.

Read more about our product range on pages **14 to 17**

Governance

Board of Directors

DAVID EVANS

Chairman

David took up the position of Chairman of the Board in February 2012 having served on the Board from the time of his appointment in June 2007. He has been working in the defence sector for over 30 years with extensive knowledge of the US market. David spent 17 years with GEC-Marconi before joining Chemring Group PLC in 1987 where he was appointed Chief Executive in 1999. He remained on the Chemring Board as a Non-Executive Director following his retirement in 2005 but stood down from this role during 2012 to focus on his role as Chairman of Avon Rubber p.l.c.

PAUL MCDONALD

Chief Executive Officer

Paul was appointed Chief Executive Officer on 15 February 2017. Prior to this, Paul was Managing Director of Avon's Dairy division and a key member of the Group Executive management team since 2007. Paul joined the Group in 2003 and spent the early part of his career at Avon in commercial and operational roles which included responsibility for all UK operations and the European Protection and Dairy business units.

NICK KEVETH

Chief Financial Officer

Nick was appointed as Chief Financial Officer in June 2017. Prior to joining Avon, Nick was Director of Finance, Planning & Reporting at Imperial Brands, the FTSE 100 tobacco group. He was with Imperial for 12 years and held a variety of roles during this period including Finance Director Sales & Marketing, Director of Accounting, Forecasting & Tax and Interim Investor Relations Director. Prior to this, Nick also worked for PricewaterhouseCoopers for 14 years in both audit and advisory roles.

CHLOE PONSONBY

Non-Executive Director

Chloe joined the Board in March 2016 and chairs the Remuneration Committee. Chloe recently joined institutional stockbroker Panmure Gordon, as Senior Managing Director in the Corporate Advisory division. Prior to this, Chloe was a Partner at McClean Advisory, an independent corporate advisory firm. Before joining McLean Advisory in November 2013, Chloe had spent approximately half her 15 year career managing UK equity funds at Jupiter, and the other half advising companies as a corporate broker, including at Altium, where she set up and managed the Corporate Broking and Investor Relations teams.

PIM VERVAAT

Non-Executive Director

Pim joined the Board in March 2015, chairs the Audit Committee and is the Senior Independent Director. Pim is Chief Executive of RPC Group Plc, the UK based manufacturer of rigid plastic packaging. Pim was appointed RPC's CEO in 2013, having previously been its Finance Director since 2007. Prior to this, Pim worked for Dutch metals producer, Hoogovens Groep, before joining Dutch ship propulsion producer Lips Group as Chief Financial Officer in 1996. In 1999 he returned to Hoogovens Groep (acquired by Corus) and in 2004 became divisional Finance Director of the £3bn turnover Corus Distribution and Building Systems Division.

MILES INGREY-COUNTER

Group Counsel and Company Secretary

Miles was appointed Group Counsel and Company Secretary on 1 October 2007 and is Secretary to the Board and its main Committees. Miles is a qualified solicitor, joined the group in January 2004 and has been a member of the Group Executive management team since 2008. Miles also has responsibility for all Group HR matters and is chairman of the Avon Rubber Retirement and Death Benefits Plan. Prior to joining Avon, Miles was a solicitor with Osborne Clarke LLP.

Corporate Governance Report

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Board of Directors believes in high standards of corporate governance, notwithstanding the Company's size and status as a member of the FTSE SmallCap Index, and is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the UK Corporate Governance Code ('the Code') which is available on the website of the Financial Reporting Council ('FRC').

The Company is a smaller company for the purposes of the Code and in consequence certain provisions of the Code either do not apply to the Company or may be judged to be disproportionate or less relevant in its case.

The Board considers that throughout 2017, Avon complied with the Code, save that the Senior Independent Director does not attend meetings with the major shareholders to listen to their views (which is explained further below).

This statement will address the main subject areas of the Code, namely leadership, effectiveness, accountability and relations with shareholders. Remuneration is dealt with in the Remuneration Report on pages 53 to 74.

The Board has an established framework of internal controls covering both financial and non-financial controls. In addition, there is an ongoing process for identifying, evaluating and managing significant business risks faced by the Group. This process was in place throughout the 2017 financial year and accords with the FRC's Guidance for Directors on Internal Control.

THE BOARD

During the year there have been three changes to the membership of the Board. Andrew Lewis, Group Finance Director, stepped down from the Board on 30 November 2016 and was replaced by interim Group Finance Director, Paul Rayner, on 1 December 2016. Mr Rayner stepped down from the Board when Nick Keveth was appointed Chief Financial Officer on 1 June 2017. Rob Rennie, Chief Executive Officer, stepped down from the Board on 15 February 2017 and was replaced by Paul McDonald.

Rules concerning the appointment and replacement of Directors of the Company are contained in the Articles of Association.

Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first annual general meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

The Board is aware of the FRC's suggestion that companies outside the FTSE 350 should consider the annual re-election of all Directors. On the basis that this is not a requirement of the Code and it has not been raised as an issue by any shareholders the Board has chosen not to change its existing practice.

Non-Executive Directors submit themselves for annual re-election if they have served for more than nine years since first election.

The Non-Executive Directors are appointed by the Board on terms which allow for termination on three months' notice. Copies of Executive Directors' service contracts and terms and conditions of appointment for Non-Executive Directors are available for inspection at the Registered Office and prior to the AGM.

Biographies of the Directors appear on page 42. These illustrate the range of business and financial experience upon which the Board is able to call. The intention of the Board is that its membership should be balanced between executives and non-executives and have the appropriate skills and experience. The special position and role of the Chairman under the Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and Chief Executive Officer has been agreed. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chief Executive Officer manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders. The Chairman ensures that meetings of Non-Executive Directors without the Executive Directors are held.

HOW THE BOARD OPERATES

The Chairman ensures through the Company Secretary that the Board agenda and all relevant information is provided to the Board sufficiently in advance of meetings and that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chief Executive Officer and the Company Secretary discuss the agenda ahead of every meeting. At meetings the Chairman ensures that all Directors are able to make an effective contribution and every Director is encouraged to participate and provide opinions on each agenda item. The Chairman always seeks to achieve unanimous decisions of the Board following due discussion of agenda items. The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its oversight and control, reserved a list of powers solely to itself which are not to be delegated to management.

This list includes appropriate strategic, financial, organisational and compliance issues, including the approval of high level announcements, circulars and the Annual Report and Accounts and certain strategic and management issues.

Examples of strategic and management issues include the following:

- Approval of the annual operating budget and the three year plan
- The extension of the Group's activities into new business and geographic areas (or their cessation)
- Changes to the corporate or capital structure
- Financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees
- Changes to the constitution of the Board
- The approval of significant contracts, for example the acquisition or disposal of assets worth more than £1,000,000 or the exposure of the Company or the Group to a risk greater than £1,000,000
- The approval of unbudgeted capital expenditure exceeding £250,000
- The approval of quotations and sale contracts where the sales commission payable to an intermediary exceeds 10% of the net invoice price
- Consideration and approval of all proposed acquisitions and mergers

Each Director has full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings. All Directors receive a tailored induction to the Group from the Company Secretary on joining the Board. When appointed, Non-Executive Directors are made aware of and acknowledge their ability to meet the time commitments necessary to fulfil their Board and Committee duties. Procedures are in place, which have been agreed by the Board, for Directors, where necessary in the furtherance of their duties, to take independent professional advice at the Company's expense and all Directors have access to the Company Secretary. The Company Secretary is responsible to the Board for ensuring that all Board procedures are complied with. The removal of the Company Secretary is a decision for the Board as a whole.

COMMITTEES OF THE BOARD

Of particular importance in a governance context are the three committees of the Board, namely the Remuneration Committee, the Nomination Committee and the Audit Committee. Each Committee operates under clear terms of reference, copies of which are available on our website. Detail of the operation of each Committee is provided within the relevant Committees' report.

The members of the Committees comprise the Chairman and all the Non-Executive Directors. The Company Secretary advises and acts as a secretary to the Committees. The Non-Executive Directors continue to regard the Chairman as adding significant value to the deliberations of the Audit Committee and his membership is ratified by Provision C.3.1. of the Code, which permits listed companies outside the FTSE 350 to allow the Chairman to sit on the Audit Committee where he or she was considered independent on appointment as Chairman. Pim Vervaat is Chairman of the Audit Committee. The Board is satisfied that Mr Vervaat has recent relevant financial experience and his profile appears on page 42. David Evans is Chairman of the Nomination Committee but, in accordance with the Committee's terms of reference, is not permitted to chair meetings when the Committee is dealing with matters relating to the Board Chairman position. Chloe Ponsonby is Chair of the Remuneration Committee.

The Remuneration Committee's principal responsibilities are to decide on remuneration policy on behalf of the Board and to determine remuneration packages and other terms and conditions of employment, including appropriate performance related benefits for the Executive Directors and other senior executives. More details of the activities of the Remuneration Committee are set out in the Remuneration Report on pages 53 to 74.

ATTENDANCE AT MEETINGS

The Board schedules eight regular meetings per year. This year, three further meetings were convened to deal with matters arising between scheduled meetings.

The Chief Executive Officer and the Chief Financial Officer attend meetings of the Committee by invitation, but are absent when issues relating to each of them are discussed.

All Committee and Board meetings held in the year were quorate. Directors' attendance during the year ended 30 September 2017 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul McDonald[1]	5/11	2/3*	2/7*	2/4*
Nick Keveth[2]	2/11	1/3*	1/7*	1/4*
David Evans	11/11	3/3	7/7	4/4
Pim Vervaat	11/11	3/3	7/7	4/4
Chloe Ponsonby	11/11	3/3	7/7	4/4
Andrew Lewis[3]	2/11	1/3*	1/7*	–
Rob Rennie[4]	4/11	1/3*	4/7*	2/4*
Paul Rayner[5]	5/11	2/3*	2/7*	–

1 Paul McDonald was appointed as a Director on 15 February 2017
2 Nick Keveth was appointed as a Director on 1 June 2017
3 Andrew Lewis stepped down from the Board on 30 November 2016
4 Rob Rennie stepped down from the Board on 15 February 2017
5 Paul Rayner was appointed as a Director on 1 December 2016 and stepped down from the Board on 1 June 2017
* Attended by invitation

PERFORMANCE EVALUATION

The Board conducts an annual review of its performance and that of its Committees and the individual Directors. The 2017 Board evaluation process was conducted internally, led by the Chairman and facilitated by the Company Secretary. All Board members completed detailed questionnaires and took part in individual interviews. The evaluation covered a number of areas including: Board remit and responsibilities, Committees and their operation, induction and development; Group strategy, internal control and risk management. A detailed discussion of the findings was held at the September Board meeting to consider the matters raised.

The results of the evaluation concluded that all Board members considered that the Board, its Committees and individual Directors performed effectively during 2017, both individually and as a collective unit.

RELATIONS WITH SHAREHOLDERS

The Directors regard regular communications with shareholders as extremely important. All members of the Board receive copies of analysts' reports of which the Company is made aware and receive an investor relations report from the Chief Financial Officer at every Board meeting.

The Board reports formally to its shareholders in a number of ways, including regulatory news announcements or press releases in response to events or routine reporting obligations, a detailed Annual Report and Accounts and, at the half year, an interim report.

Regular dialogue takes place with institutional shareholders, including presentations after the Company's preliminary announcements of the half and full year results. The Board receives comments from analyst meetings and shareholder meetings after both interim and final results and at other times during the year.

RELATIONS WITH SHAREHOLDERS CONTINUED

Shareholders have the opportunity to ask questions at the AGM and also have the opportunity to leave written questions with the Company Secretary for the response of the Directors. The Directors also make themselves available after the AGM to talk informally to shareholders, should they wish to do so and respond throughout the year to any correspondence from individual shareholders.

At the AGM on 1 February 2018, the Board will be following the recommendations in the Code regarding the constructive use of annual general meetings; as usual, the agenda will include a presentation by the Chief Executive Officer on aspects of the Group's business and an opportunity for shareholders to ask questions. The level of proxies received for each AGM resolution is declared after the resolution has been dealt with on a show of hands, providing no poll has been called for. The Board has no plans to introduce poll voting on all business at general meetings as a substitute for using proxy votes, as this is not a requirement of the Code.

The Non-Executive Directors, having considered the Code with regard to relations with shareholders, are of the view that it is most appropriate for the shareholders to have regular dialogue with the Executive Directors. The results of all dialogue with shareholders are communicated to the Board and reviewed by all Non-Executive Directors. However, should shareholders have concerns, which they feel cannot be resolved through normal shareholder meetings, the Chairman, Senior Independent Non-Executive Director and the remaining Non-Executive Director may be contacted through the Company Secretary.

ACCOUNTABILITY AND AUDIT

The Code requires that Directors review the effectiveness of the Group's system of internal controls on a continuing basis. The scope of this review covers all controls including financial, operational and compliance controls, as well as risk management. As indicated earlier, the Board has put in place a framework of internal controls and the Audit Committee has responsibility to review, monitor and make policy and recommendations to the Board upon all such matters.

The Directors acknowledge their responsibility for the Group's system of internal control. The Board, through the Audit Committee, keeps this system under continuous review and formally considers its content and its effectiveness on an annual basis. Such a system can provide only reasonable, and not absolute, assurance against material misstatements or losses. The section on internal control in the Audit Committee Report on pages 50 to 52 and the following paragraphs describe relevant key procedures within the Group's systems of internal control and the process by which the Directors have reviewed their effectiveness.

Systems exist throughout the Group which provide for the creation of three year plans and annual budgets; monthly reports enable the Board to compare performance against budget and to take action where appropriate.

Procedures are in place to identify all major business risks and to evaluate their potential impact on the Group.

These risks are described within the Strategic Report on pages 32 to 35.

RISK MANAGEMENT

Risk is managed by the Group Executive team during the year, led by the Company Secretary and the Chief Executive Officer. The Group Executive team sets its key priorities for successfully managing the Group's businesses. This process inherently addresses risk and the Company Secretary leads an exercise that ensures the known risks to the businesses, together with any newly identified risks, are assessed and analysed effectively and that the priorities eliminate, minimise, control or transfer risk (or the effect thereof) as appropriate. The Company Secretary also sponsors a review of the continuing effectiveness of other aspects of the control environment by the Group Executive team.

The Board carried out quarterly reviews of the key risks facing the Group during the year, following the quarterly reviews conducted by the Group Executive management team.

The Board also carried out an annual review of the major business risks affecting the Group, including the macro risks. In the year under review, the risk assessments carried out both at business level and at Board level continue to be reviewed and strengthened.

INTERNAL CONTROL

There is a clearly defined delegation of authority from the Board to the business units, with appropriate reporting lines to individual Executive Directors. There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.

Internal controls are in existence which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The Group finance department manages the financial reporting process to ensure that there is appropriate control and review of the financial information including the production of the consolidated annual accounts. Group Finance is supported by the operational finance managers throughout the Group, who have the responsibility and accountability for providing information in keeping with our policies, procedures and internal best practices as documented in the internal control manual.

The Board has issued a Code of Conduct which reinforces the importance of a robust internal control framework throughout the Group. The Board recognises that an open and honest culture is key to understanding concerns within the business and to uncovering and investigating any potential wrongdoing. The Code of Conduct sets out the procedure whereby individuals may raise concerns in matters of financial reporting or any other matter of concern with management and directly with the Chairman of the Audit Committee to ensure independent investigation and appropriate follow up action. The Code of Conduct is reviewed annually.

Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee meets at least three times a year with management and external auditors to review specific accounting, reporting and financial control matters. This Committee also reviews the interim, preliminary and annual statements and has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors.

DISCLOSURE AND TRANSPARENCY RULES ('DTR')

Disclosures in respect of the DTR requirements under DTR 7.2.6 are given in the Directors' Report on pages 75 to 79 and have been included by reference.

GOING CONCERN

After making appropriate enquiries, the Directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

This conclusion is based on a review of the resources available to the Group, taking account of the Group's financial projections together with available cash and committed borrowing facilities.

In reaching this conclusion, the Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

LONG-TERM VIABILITY STATEMENT

The Directors have assessed the viability of the Group over a three year period to September 2020, taking account of the Group's current position and the potential impact of the principal risks documented in the Strategic Report. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2020.

In making this statement, the Directors have considered the resilience of the Group, taking account of its current position, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three year period to September 2020 is an appropriate period over which to provide its viability statement. In making their assessment, the Directors have taken account of the Group's net cash position (see note 22), its ability to raise new finance in most market conditions and other potential mitigating actions such as restricting dividend payments.

Pim Vervaat
Chairman of the Audit Committee

15 November 2017

Nomination Committee Report

David Evans
Chairman of the Nomination Committee

The Nomination Committee reviews the Board structure, leads the process for Board appointments and makes recommendations to the Board, including on Board succession planning. The Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in light of this evaluation, prepares a description of the role for new appointments.

In identifying potential candidates for positions as Non-Executive Directors, the Committee has full regard to the principles of the Code regarding the independence of Non-Executive Directors.

The Committee meets at least once each year and thereafter as circumstances dictate. The Committee met four times during the year in connection with identifying replacements for Mr Lewis and Mr Rennie.

MAIN RESPONSIBILITIES

The main responsibilities of the Committee are as follows:

- To lead the process for identifying and nominating candidates for the approval of the Board, to fill Board vacancies as and when they arise
- To put in place plans for succession
- To regularly review the Board's structure, size and composition taking into account the challenges and opportunities facing the Group and the skills, knowledge and experience needed by the Board and make recommendations to the Board with regard to any changes

The Committee's terms of reference are available within the Corporate Governance section of the Company's website.

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Committee. Board appointments are made on merit, against criteria identified by the Committee having regard to the benefits of diversity on the Board, including gender.

The Nomination Committee is also responsible for the Board's policy on diversity.

The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint new Directors to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit. The Board's diversity policy can be found in the Corporate Governance section of the Company's website.

Further information, including the number of women in senior management and within the organisation is shown in the Environmental and Corporate Social Responsibility Report on pages 36 to 39.

RECENT APPOINTMENTS TO THE BOARD

The Committee initiated the recruitment process for a permanent successor to the departing Group Finance Director, Andrew Lewis, following the announcement on 18 October 2016 that he would step down from the Board on 30 November 2016.

The Committee directed the selection process, which included agreeing a candidate profile and engaging SR Search to work with the Committee on this assignment.

SR Search researched the market for potential candidates to produce a 'long list' of candidates for the Committee's consideration. The potential candidates were considered on the basis of their skills and experience and shortlisted for interview with members of the Nomination Committee and the Chief Executive Officer. Nick Keveth was identified as the preferred candidate and was appointed Chief Financial Officer on 1 June 2017. To allow sufficient time to run a robust and comprehensive recruitment process, the Committee recommended to the Board the appointment of an interim Group Finance Director, Paul Rayner who was in post from 1 December 2016 to 1 June 2017.

SR Search have no other connection with the Company and are an independent provider of recruitment services to the Company.

At the time of departure of Rob Rennie, the Committee recommended to the Board the appointment of Paul McDonald as replacement Chief Executive Officer. Following an intensive interview process, the Committee came to the view that, as an internal candidate with extensive experience, Mr McDonald had the appropriate skills to take on the role. No external recruitment process was run to identify Mr Rennie's successor and Mr McDonald was appointed on 15 February 2017.

David Evans
Chairman of the Nomination Committee

15 November 2017

Audit Committee Report

Pim Vervaat
Chairman of the Audit Committee

MAIN RESPONSIBILITIES

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk
- Reviewing significant financial reporting issues and judgements
- Monitoring the integrity of the Company's financial statements
- Keeping the relationship with the auditors under review, including their terms of engagement, fees and independence
- Monitoring the role and effectiveness of the internal audit function
- Advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

ACTIVITIES DURING THE YEAR

The Audit Committee meets three times a year. Meetings are also attended by the Executive Directors and the Group's external auditors. Time is allowed for the Audit Committee to discuss issues with the external auditors at each meeting without the Executive Directors being present.

An annual rolling agenda is reviewed to ensure that all matters within the Audit Committee's Terms of Reference during the year are appropriately covered. The Committee operates under formal terms of reference and these are reviewed annually. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate during the year.

FINANCIAL REPORTING

During the year the Committee reviewed the appropriateness of the Group's half year and full year financial statements including considering significant financial reporting judgments made by management, taking into account reports from management and the external auditors. The main areas of focus considered by the Committee during 2017 were as follows:

- The presentation of the financial statements and, in particular, the presentation of adjusted performance and the adjusting items. The Committee reviewed a paper prepared by management and reviewed the disclosure of adjusted items within the Group's half year and full year results, agreeing that the position taken in the financial statements is appropriate
- Review of the key judgements made in estimating the Group's tax charge. The review and discussion included an update on the current position and the status of discussions with the relevant tax authorities. The Committee agreed that the position taken in the financial statements is appropriate
- The impairment review in respect of intangible assets and goodwill on acquisition. Following a review of a report summarising the key issues in relation to impairment, the Committee concurred with management's assessment to record an impairment charge against the carrying value of intangible assets relating to the Emergency Escape Breathing Device. The Committee concurred with management's assessment that the carrying value of goodwill was not impaired
- Review of the funding level of the defined benefit pension scheme. As the costs, assets and liabilities are regularly reviewed and advice is taken from an independent actuary on the appropriateness of the assumptions used, the Committee agreed this was being managed appropriately
- The accounting treatment in respect of share based payments. Following consideration of a report by management, the Committee concurred with management's conclusions that the non-cash charge to the income statement for share based payments had been understated in error in previous years, as a result of share awards under the Performance Share Plan having been undervalued for accounting purposes. The Committee agreed that the revised valuations prepared by independent valuation experts were appropriate and accepted management's recommendation to restate the 2016 consolidated statement of comprehensive income
- At the request of the Board, the Committee considered whether the 2017 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. Having taken account of the other information provided to the Board throughout the year, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts was fair, balanced and understandable

The Committee was content, after due challenge and debate, with the assumptions made and the judgements applied in the accounts and agreed with management's recommendations. In addition, the Committee reviewed and recommended the approval of the statements on corporate governance, internal control and risk management in the Annual Report and Accounts and the half year and all trading statements.

EXTERNAL AUDITORS

The Committee oversees the relationship with the external auditors and monitors all services provided by and fees payable to them, to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained. In particular the Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process. At the outset of the audit process, the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure coverage is appropriately focused.

Feedback on the audit process is requested from management. For the 2017 financial year, management were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process as satisfactory. The Committee concurred with the view of management. The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

The Audit Committee keeps the assessment of the need to tender the audit mandate under continuing review. PricewaterhouseCoopers LLP ('PwC') have been the Company's external auditors for well over 20 years and as disclosed in last year's report, under new legislation on mandatory audit firm rotation, PwC would not be able to be appointed as the Company's external auditors after 2020. Following the change in Executive management, the Committee recommended to the Board that the Company bring forward the tender process for the external audit mandate and appoint a new external auditor for 2018. The Board accepted the recommendation at its meeting on 9 November 2017 and requested the Audit Committee run a tender process in early 2018.

As the tender process will not have concluded before the AGM, and the Company should at all times have an auditor in place, PwC have confirmed their willingness to stand for reappointment as auditor of the Company at the upcoming AGM. Following the completion of the tender process in 2018 the Board will appoint a successor to PwC in respect of the current financial year until the conclusion of the 2019 AGM, at which shareholders will be invited to vote on the reappointment of the successor firm.

In order to ensure the independence and objectivity of the external auditors and avoid a situation where the auditor's familiarity with the Group's affairs results in excessive trust, the Committee maintains a formal Auditor Independence Policy. This policy provides clear definitions of services that the external auditors can and cannot provide. They may only provide non-audit services where those services do not conflict with their independence. A formal authorisation policy is in place for the provision of non-audit services to ensure that appropriate pre-approval is obtained as necessary. The latest version provides that non-audit services permitted under the policy with a value of more than £50,000 or which cumulatively exceed the annual audit fee require the approval of the Board. This approach was preferred to capping the value of non-audit services performed by the external auditor by reference to the external audit fee. The policy also establishes guidelines for the recruitment of employees or former employees of the external auditor. To ensure compliance with this policy the Audit Committee carried out a review during the year of the remuneration received by PwC for audit services, audit-related services and non-audit work. The breakdown of the fees paid to the external auditor, including the split between audit and non-audit is included in note 5 on page 101 of the financial statements. No non-audit services were carried out by PwC during the year. These reviews ensure a balance of objectivity, value for money and compliance with this policy. The outcome of these reviews was that no conflicts of interest existed between such audit and non-audit work.

INTERNAL CONTROL

The Committee regularly reviews the effectiveness of the Group's system of internal controls and risk management. This involves the monitoring and review of the effectiveness of internal audit activities, which included a review of the audits carried out and the results thereof, the management response and the programme and resourcing for 2017 and 2018. The Committee believes it is appropriate that the internal audit process is undertaken by members of the finance team who conduct financial reviews of the sites on a rotational basis.

In addition, site controllers and plant managers are obliged to positively confirm, on a bi-annual basis, that the controls as documented in the internal control manual are in place and are being adhered to, with specific reference to key controls such as bank and control account reconciliations. This process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. It has been reviewed by the Board and continues to be monitored by the Committee, which remains satisfied with the arrangements.

No significant failings or weaknesses were identified by the internal audit process but several minor improvements were identified and implemented. As part of its work, and in line with its terms of reference, the Committee also considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the Code and the FRC guidance on Risk Management, Internal Control and Related Financial Business Reporting.

Risk management activities are dealt with in more detail in the Corporate Governance Report on pages 43 to 47.

Pim Vervaat
Chairman of the Audit Committee

15 November 2017

Remuneration Report

Chloe Ponsonby
Chair of the Remuneration Committee

LETTER FROM THE CHAIR OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 September 2017.

The Remuneration Report is split into three sections:

- This Annual Statement summarising the work of the Remuneration Committee in 2017
- The Directors' Remuneration Policy (the 'Policy') as approved at the 2016 AGM
- The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in the year ended 30 September 2017 under the Policy. This will be the subject of an advisory vote at the forthcoming AGM

2017 PERFORMANCE

As set out in the Strategic Report, the results for the year ended 30 September 2017 reflect another strong performance, confirming the progress the Group has made over the past 12 months in delivering growth. Increases were seen in revenue (14%) adjusted operating profit (23%) and adjusted earnings per share (15%). Strong financial management has produced good cash conversion, meaning the Group ended the year with net cash of £24.7m.

REMUNERATION COMMITTEE ACTIVITIES IN 2017

The key decisions made by the Remuneration Committee ('the Committee') in respect of 2017 remuneration were as follows:

Board changes

In a year of change at Board level, the Committee oversaw the negotiation of and approved all packages paid to current and former Executive Directors as follows:

- Following eight successful years as Group Finance Director and as announced to shareholders on 18 October 2016, Andrew Lewis stood down as Group Finance Director on 30 November 2016. It was agreed that a short period of handover would be helpful and Andrew remained an employee of the Group, receiving his salary, pension and other contractual benefits until 16 December 2016. Full details of the terms agreed in connection with Mr Lewis's departure are disclosed in the Remuneration Report
- The Board retained the services of Paul Rayner, an experienced listed company Finance Director, on an interim basis while the search for a permanent successor for Mr Lewis was conducted. The remuneration agreed for Mr Rayner was specific to the interim nature of his appointment and details of the remuneration paid are set out on page 67
- Rob Rennie stepped down as Chief Executive Officer on 15 February 2017 to pursue other interests. Details of Mr Rennie's leaving package are disclosed on pages 72 and 73. In summary the Company agreed to pay Mr Rennie's salary for his 12 month notice period in monthly instalments, subject to an obligation on Mr Rennie to mitigate his loss, such that monthly payments would either reduce or cease in the event Mr Rennie gained new employment or remuneration. Mr Rennie remained entitled to participate in the 2017 annual bonus scheme on a pro-rated basis, with the personal performance element removed. All of Mr Rennie's outstanding share awards lapsed in full
- Paul McDonald was appointed Chief Executive Officer on 15 February 2017 and Nick Keveth was appointed Chief Financial Officer on 1 June 2017. In accordance with our Remuneration Policy, annual salaries for each were set below the median level, at £300,000 and £230,000 respectively. Both will be considered for increases to the median level on the anniversary of their appointment. Full details of the agreed packages are set out in the Remuneration Report

Non-Executive Director pay

- Under the Policy, the fees of Non-Executive Directors are reviewed and benchmarked every three years, with increases only implemented if current fees are found to be below the median of a comparator group. The previous review was in 2014 and therefore a review and benchmarking exercise was conducted during this financial year. The review, which was conducted by the Board Chairman and the Executive Directors for the Non-Executive Directors, excluding the Chairman, and by the Remuneration Committee for the Chairman, concluded that as current fees remained close to the median of the comparator group, no increases would be made for the 2018 financial year

Performance related pay

- The bonus outcomes for the Executive Directors were determined by reference to performance against the agreed financial business targets, as well as the Committee's assessment of their individual performance and delivery of personal objectives. The Company's financial performance for the year, together with the assessment of individual performance and contribution, resulted in bonus awards for the Executive Directors at 81% of maximum for Paul McDonald and 83% of maximum for Nick Keveth. As both were appointed during the financial year, awards were paid on a pro-rata basis according to quarters of the financial year worked. Mr McDonald also received a bonus payment relating to the first half of the financial year when he was Managing Director of the Dairy division. This was calculated using slightly different financial performance metrics which are explained on page 68. This element of Paul McDonald's bonus payment has not been included in the above percentage figure which relates only to the period while he was appointed Chief Executive Officer
- Vesting of the 2010 Performance Share Plan ('PSP') took place in December 2016, based on the agreed measures of relative Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') growth over the three years to 30 September 2016. The overall vesting level achieved for these awards was 100%
- The Committee also considered the impact of the restatement of the 2016 income statement on payments made under the annual bonus scheme and the vesting of awards made under the Performance Share Plan in previous years. The definition of profit before interest, tax and exceptionals ('PBITE') used in the calculation of the annual bonus explicitly excludes the charge for the share based payment so the calculation error did not impact the achievement of the PBITE bonus objectives in previous years. The definition of EPS in the performance condition for PSP purposes does not exclude this charge, however, given the extent of overachievement against the maximum vesting target, the inclusion of the revised charge would not have impacted the vesting level of awards in December 2015 or December 2016

POLICY

The Directors' Remuneration Policy was approved by shareholders at the AGM on 26 January 2016 and will remain in effect until the 2019 AGM. Following a review of feedback received from shareholders, the Committee decided to limit the maximum bonus for Executive Directors for the 2017 financial year to 100% of salary by removing the 50% element for EPS growth in excess of 20% of prior year. This change is within the existing approved policy and therefore the Policy Report is not subject to a shareholder vote this year. This change will continue to apply for the 2018 financial year.

LINK BETWEEN REMUNERATION AND COMPANY STRATEGY

The Committee seeks to support the delivery of the Group's strategy through establishing appropriate remuneration arrangements. The Remuneration Policy is designed to align the Executive Directors' interests with those of shareholders, and to incentivise the Executive Directors to meet the Company's financial and strategic objectives by making a significant proportion of remuneration performance-related. The Group's financial and strategic objectives are set out in the Strategic Report on pages 10 to 39. The Committee reviews the application of the Policy regularly to ensure it remains appropriate and it expires next year after three years. Between now and then I will be working to review all aspects of Executive Director remuneration to ensure it is aligned with the new strategy communicated to shareholders this year. In particular, I will be reviewing the annual bonus scheme with the intention of proposing an updated scheme as part of the next version of the Remuneration Policy.

COMMUNICATION WITH SHAREHOLDERS

I welcome all shareholder feedback on this report. We acknowledge the support we have received in the past from our shareholders and hope that we will continue to receive your support at the forthcoming AGM. Should you have any queries in relation to this report please do not hesitate to contact me through the Company Secretary.

Chloe Ponsonby
Chair of the Remuneration Committee

15 November 2017

REMUNERATION POLICY REPORT

The Company's Remuneration Policy was approved by shareholders at the AGM on 26 January 2016 and took effect from that date. The Policy Report is not subject to a shareholder vote this year but has been reproduced here for ease of reference.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for developing and implementing remuneration policy and for determining the Executive Directors' individual packages and terms of service together with those of the other members of the Group Executive management team.

GUIDING POLICY

The Remuneration Committee's terms of reference are available on the Company's website and include:

- Determining and agreeing with the Board the policy for the remuneration of the Company's Chief Executive Officer, Chief Financial Officer, Chairman, the Company Secretary and such other members of the senior management team as it chooses to consider or is designated to consider (currently the Group Executive management team), having regard to remuneration trends across the Group
- Within the terms of the agreed policy, determining the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments, share options and pension arrangements. The remuneration of Non-Executive Directors is a matter for the Chairman and the Executive Directors
- Determining the targets for the performance related bonus schemes for the Executive Directors and the Group Executive management team
- Reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such discretionary plans, determining each year whether awards will be made, the overall amount of such awards, the individual awards to Executive Directors and the Group Executive management team (and others) and the performance targets to be used
- Agreeing termination arrangements for senior executives

The Committee aims to provide a remuneration structure that supports the achievement of the Company's performance objectives and, in turn, increases shareholder value.

The Company's guiding policy on executive remuneration is that:

- Executive remuneration packages should take into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the setting of incentives, both in the short and the long-term
- The overall level of salary, incentives, pension and other benefits should be competitive when compared with other companies of a similar size and global spread to attract, retain and motivate Executive Directors of superior calibre in order to deliver continued growth of the business
- Performance related components should form a significant proportion of the overall remuneration package, with maximum total potential rewards being earned through the achievement of challenging performance targets based on measures that represent the best interests of shareholders

APPROACH TO RECRUITMENT REMUNERATION

The Committee's policy on recruitment remuneration is that new Executive Directors will be offered a base salary below the median level in the applicable benchmarking report until proven, at which point they will receive an uplift to the benchmark median salary level determined and maintained by reference to independent benchmarking studies carried out every three years. Annual bonus awards, performance share plan awards and pension contributions would not be in excess of the current levels stated for the Chief Executive Officer and the Chief Financial Officer. This is the approach that has been followed in setting the remuneration package for the new Chief Executive Officer and Chief Financial Officer.

In unusual circumstances it may be necessary to pay a joining incentive to secure the right candidate. The Committee might consider paying up to 2.5 times base salary in these circumstances with the actual amount being defined by market requirements at the time. However, any such payment would be subject to performance conditions and a claw back on underperformance during the first two years of employment. The Committee would be very cautious before using such flexibility and would do so only when absolutely necessary to secure the right candidate. Any proposed buyout would take account of remuneration given up at the individual's former employer and would be capped at the value foregone. The Company has not paid any joining incentives in connection with recruitment of new Directors under the current Remuneration Policy.

CONSIDERATION OF CONDITIONS ELSEWHERE IN THE COMPANY

The experience of Committee members and an independent experts' benchmarking report have been relied upon in setting the remuneration packages for the Executive Directors and this Remuneration Policy. Employees have not been specifically consulted in this regard. In line with other small to mid-sized companies there is no works council and therefore there is no established process or platform to consult employees in relation to executive remuneration, although the Committee has regard to the general terms and conditions of employment within the Company. Consistent with this approach, annual cost of living increases granted to the wider workforce are not paid to the Executive Directors or to the other members of the Group Executive management team. The Company does hold an annual Employee Opinion Survey and the Committee is kept informed of pay and conditions applying to the general population across the Group.

The Committee monitors the remuneration of the wider workforce and, in particular, the divisional management teams as well as other key employees. As with the current policy for the Executive Directors, general practice across the Group is to recruit employees at market rates and this tends to be at the median salary level or above to attract them to the Group. When considering salary increases for Directors, the Company will be sensitive to pay and employment conditions across the wider workforce.

Because of the numbers involved and the need to absorb new recruits at salaries comparable with those already employed, salaries are normalised upwards over time to the median salary level so that the pay level of the workforce is always kept close to the median level and maintained at that level by the cost of living increases. Employees are then able to earn annual bonuses in excess of the mid-market rate in return for delivering exceptional performance.

In addition, the Group Executive management team maintains a benchmarking database of all management employees in the Group with the aim of ensuring that each is being paid at or near the median local benchmark level for their role and that, where applicable, each has a career and associated salary progression plan. It is possible that some of the more senior personnel within that group will be brought within the Committee's remit but the Committee remains comfortable that the Group Executive management team sets the remuneration for the divisional management levels beneath it in the organisation structure.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee engages pro-actively with the Company's major shareholders. Ahead of the next Remuneration Policy being put to shareholders at the 2019 AGM, the Committee intends to consult with major shareholders.

POLICY TABLE

Set out on the following pages is a summary of the main components of the remuneration policy for Directors, together with further information on how these aspects of remuneration operate. The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting on 26 January 2016 and will remain in effect until shareholders are asked to approve a new policy at the 2019 AGM. The Remuneration Committee has discretion to amend remuneration and benefits in 2018 to the extent described in the table and the written sections that follow it.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Base Salary	To provide competitive fixed remuneration. To attract and retain Executive Directors of superior calibre in order to deliver growth for the business. Intended to reflect that paid to senior management of comparable companies. Reflects individual experience and role.	Reviewed every three years by the Remuneration Committee. Individual salary adjustments take into account each Executive Director's performance against agreed challenging objectives and the Group's financial circumstances, as well as relative to the external market as identified in a benchmarking study based on an appropriate comparator group. An Executive Director may be paid a salary supplement for fulfilling the role of another higher paid Executive Director when that Executive Director retires or leaves the Company.	No prescribed maximum triennial increase. Basic salary should reflect the median of a suitable comparator group. Salary supplement is capped at the leaving Director's base salary.	Not applicable.
Benefits	As above.	Executive Directors are entitled to medicals every two years and private health insurance. Cash for car payments were phased out in 2009. Life assurance is a benefit under the pension scheme but paid for by the Company. Small loans have been made in connection with the jointly owned equity awards under the Performance Share Plan.	Full cost of healthcare benefits is circa £2,000 per Executive Director per annum. Life assurance is provided as part of a group-wide policy and therefore a specific cost cannot be attributed to the Executive Director.	Not applicable.
Annual Bonus	Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives. Maximum bonus only payable for achieving demanding targets. Deferred element encourages long-term shareholding and discourages excessive risk taking.	Paid in cash except for 25% which is deferred into shares to be held for two years. Not pensionable. Deferral does not apply to the percentage award relating to achievement of personal objectives. Claw back applies if the financial results which led to the bonus being paid are restated due to an error in the subsequent two years. Shareholders have previously approved annual bonus potential for the CEO and CFO of up to 150% of salary. The Remuneration Committee have decided to cap CEO and CFO bonuses at 100% of salary for FY17 and again in FY18.	CEO and CFO: 150% of salary. Capped at 100% in FY17 and FY18.	The first 100% is based upon a combination of Group profit budget achievement (Group PBITE), year on year PBITE growth and Group cash generation (ratio of operating cash flow to operating profit) plus specific personal performance targets. Bonus in excess of 100% of salary is based upon EPS growth occurring in excess of 20% over the previous year. This element of annual bonus was not included for the 2017 financial year and maximum bonus potential is therefore capped at 100%. The same applies for FY18.

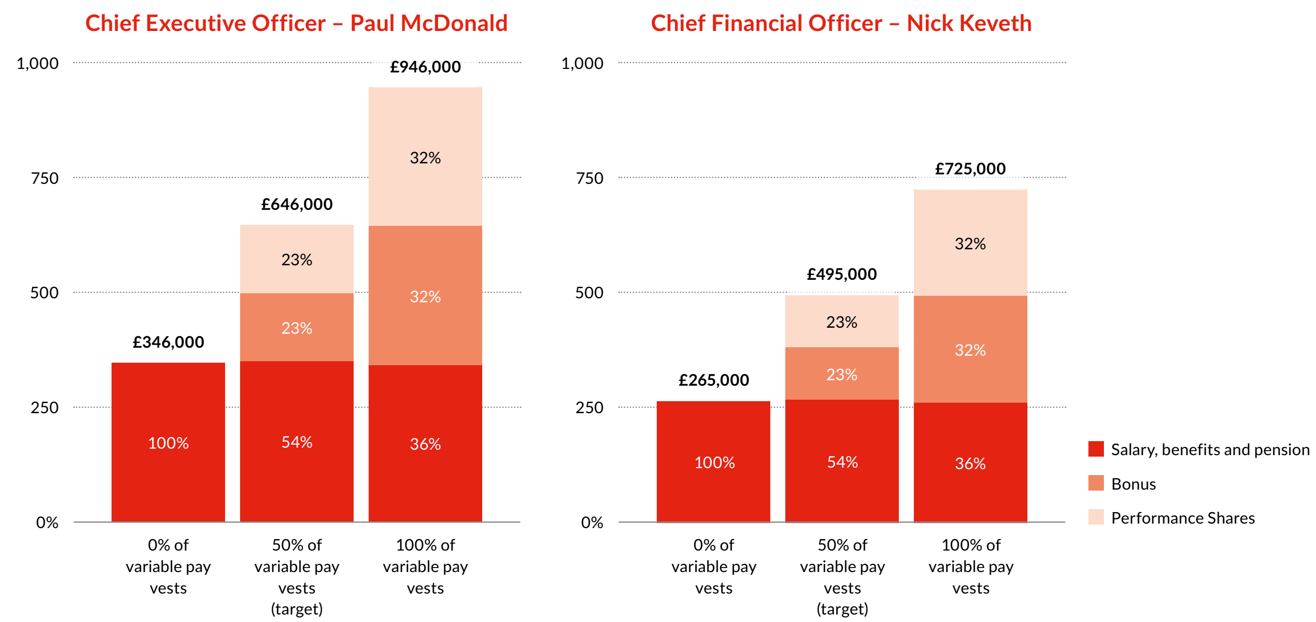
Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Performance Share Plan	Designed to align Executive Directors' interests with both the strategic objectives of delivering sustainable earnings growth and the interests of shareholders.	The Company has one Performance Share Plan, which was originally approved by shareholders in 2010 and most recently amended and approved in 2016. Annual grants of conditional share awards which vest after a three year performance period, subject to achievement of performance targets and continued service.	Under the rules of the PSP, Executive Directors may receive a normal award of up to 100% of salary and up to a further 100% in exceptional circumstances. All awards to date have been normal. No exceptional awards have been made.	For the normal 100% award, the split is as follows: 50% TSR (of which 25% vests for median increasing to 100% vesting for upper quartile of the FTSE SmallCap Index excluding investment trusts). For awards after 1 October 2015, the FTSE All-Share Index is used as the comparator group. 50% EPS (which starts vesting at nil for RPI +3% rising to 100% at RPI +8%). For awards after 1 October 2015, CPI is used instead of RPI. For the additional 100% exceptional award: Financial performance conditions dependent on circumstances of award, measured over a three year period.
Share ownership guidelines	To increase alignment between executives and shareholders.	Executive Directors are required to retain a proportion of their net of tax vested awards until the guideline is met.	Executive Directors are required to build up and maintain a shareholding worth 200% of salary. An additional two year holding period applies for awards made in excess of 100% of salary.	Not applicable.
Pension	To reward sustained contribution by providing retirement benefits.	The Company funds contributions to a Director's pension as appropriate, through contribution to the Company's money purchase scheme or through the provision of salary supplements.	Company contribution fixed at 15% of salary.	Not applicable.
One off bonus	To mitigate continuity risk amongst Executive Directors associated with the departure of other Executive Directors by retaining their services and to reward extra work and responsibility during the recruitment and transition period.	Executive Directors may be awarded a one off bonus capped at one year's base salary, payable in instalments over a defined period and subject to an adjustment factor based on the Company's TSR compared to a comparator group TSR over the defined period.	One year's base salary.	Payment to be multiplied by an adjustment factor set by reference to the Company's relative TSR performance when compared to the FTSE All-Share Index excluding investment trusts over the previous 12 months. If Avon tracks the FTSE All Share exactly over the period the adjustment factor is 1. For example, if Avon underperforms by 10% the adjustment factor is 0.9, if it outperforms by 10% the adjustment factor is 1.1.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Chairman and Non-Executive Directors' fees	To provide compensation in line with the demands of the roles at a level that attracts high calibre individuals and reflects their experience and knowledge.	Base fee for Chairman and Non-Executive Directors. Additional fees are paid to Non-Executive Directors for additional services, such as chairing a Board Committee and sitting on a Board Committee. Fee levels are determined by the Board in light of market research and benchmarking advice provided by an external advisor. Fees are benchmarked every three years and adjusted to the median level of the comparator group. Fees were last reviewed in September 2017 with no increases made.	No maximum fee or maximum fee increase. Fees are benchmarked every three years and adjusted to the median level of the comparator group.	Not applicable.

There are no elements of remuneration other than basic salary, benefits and pension that are not subject to performance requirements.

Illustration of the application of the Policy

The charts below illustrate how the policy would function for minimum, on target and maximum performance for each Executive Director.



Assumptions for charts above:

1) Salary levels are based on those applying from 1 October 2017. The pension cost is 15% of annual basic salary. Other benefits relate to private health insurance and executive medical.

2) The on-target level of bonus is 50% of the maximum opportunity, i.e. 50% of salary. The on-target level of vesting under the PSP is taken to be 50% of the face value of the award at grant, i.e. 50% of salary.

3) The maximum level of bonus is 100% of the maximum opportunity, i.e. 100% of salary. The maximum level of vesting under the PSP is taken to be 100% of the face value of the award at grant, i.e. 100% of salary.

4) No share price appreciation has been assumed for the PSP awards.

Basic salary and benefits

The basic salary for each Executive Director is reviewed every three years by the Remuneration Committee. It is intended that basic salary levels should reflect the median of a suitable comparator group selected according to size, industry sector or location as a suitable benchmark group for the Company and will be paid subject to the Group's wider financial circumstances.

The Group's employees have received an increase of approximately 8% over the same period, including annual cost of living, promotional increases and increases based on exceptional performance.

The Company has the ability to pay a salary supplement where any Executive Director takes on another Executive Director's role in addition to their own. The amount of supplement when added to the Executive Director's existing salary will always be capped at the salary level of the Executive Director being replaced.

Annual cash bonus

The Executives' annual bonus arrangements are focused on the achievement of the Company's short and medium-term financial objectives. Before the start of each year, the Remuneration Committee confirms financial performance targets for the year. These are designed to be stretching. Bonus payments are not pensionable.

	Paul McDonald	Nick Keveth
1. FINANCIAL TARGETS		
(a) Group profit budget achievement (Group PBITE)	25%	25%
Less than 90% of budget pays nothing. Bonus is earned from 90% of budget pro-rata up to 110% of budget on a straight line basis. Measured (for foreign exchange translation) at budget exchange rates.		
(b) Profit growth on previous year (year on year PBITE growth)	25%	25%
Bonus will be earned for growth on the previous year between 0% and 10% on a straight line basis. Measured (for foreign exchange translation) at prior year exchange rates (i.e. constant currency measure).		
(c) Group cash generation (ratio of operating cash flow to operating profit)	20%	20%
As reported in the Annual Report and Accounts each year. Pays on a straight line basis where the ratio exceeds 80% up to a maximum of 100%. Excludes exceptional items and other adjustments from both measures.		
(d) Earnings per share growth in excess of 20% over the previous year	n/a	n/a
This element of the bonus was removed by the Committee.		
2. PERSONAL PERFORMANCE TARGETS		
A portion of bonus can be earned based on an individual reviewer's assessment of personal performance against personal performance targets set at the beginning of the financial year.	30%	30%
TOTAL potential bonus 2017 as a percentage of basic salary	100%	100%

The financial and performance targets Mr McDonald was subject to for the first half of the year while Managing Director of Dairy are explained on page 68.

2017

For the year ended 30 September 2017, 70% of the Executive Directors' bonus potential, capped at 100% of salary, was based on the achievement of Group financial targets.

The remaining 30% was based on achieving measurable personal performance targets, as shown above.

Performance measures (a) to (c) were the same as in previous years and closely align the performance of the Executive Directors with the strategy of the Company's business and shareholder value creation. The Committee decided to remove performance target (d) for the Executive Directors and cap the bonus potential at 100%. The personal performance targets are a set of non-financial personal targets which also support the delivery of the strategy.

A claw back rule applies if the Group's financial results are restated due to an error during the two years following their release and a deferral rule provides for 25% of annual bonus payments to be deferred into shares to be held for two years. Upon release these shares are not subject to the executive shareholding guidelines.

One off bonus arrangements

In order to mitigate continuity risk associated with the departure of an Executive Director and to recognise any extra work and responsibility carried out by the remaining Executive Director(s) during this period, Executive Directors may be awarded a one off bonus capped at one year's base salary, payable in instalments over a defined period and subject to an adjustment factor based on the Company's total shareholder return compared to a comparator group TSR over the defined period.

During the three year term of the Policy, the Committee has only approved one bonus payment under this arrangement, which was put in place following the retirement of Peter Slabbert as Chief Executive Officer in 2015. This was a one off bonus arrangement for Andrew Lewis, at the time the Group Finance Director, in order to minimise the risk of him leaving and preserve the stability of the Board while the recruitment and transition to a new CEO was completed. The payment was also designed to reflect the extra work and responsibility Mr Lewis had to carry out during this period. As reported in last year's Remuneration Report, the final payment under this arrangement was made to Mr Lewis on 30 November 2016.

As confirmed last year, the Committee felt it was important to mitigate the continuity risk associated with the departure of Mr Slabbert after his long tenure as Chief Executive Officer, although it was also recognised that shareholders have concerns in relation to such arrangements. Only the above mentioned payment was agreed under this element of the Policy and no new arrangements were agreed during the year. This element of the current Policy will be reviewed as part of the updated Policy to be put before shareholders next year.

Long-term incentive plan – Performance Share Plan (the 'Plan')

The Remuneration Committee introduced the Plan with shareholder approval at the AGM in 2002. In 2010 and 2016 shareholders approved an updated plan. The existing version of the Plan therefore came into effect from 26 January 2016 and expires in 2020. The aim of the Plan is to motivate Executive Directors and other senior executives to achieve performance superior to the Company's peers and to maintain and increase earnings levels whilst at the same time ensuring that it is not at the expense of longer-term shareholder returns. This is reflected in the Plan's performance conditions which are based on TSR and earnings per share ('EPS').

The current financial performance conditions remain appropriate for a growing business and the expectations of shareholders over the life of the current policy. They will therefore be applied to the next cycle of awards in December 2017. Non-financial performance conditions are not considered appropriate at the current stage in the development of the Group, although this will be kept under review.

The TSR measure takes the total return received by the Company's shareholders in terms of share price growth and dividends over a three year period and compares it with the total returns received by shareholders in companies within a predetermined and appropriate comparator group.

The EPS measure is based on real growth in adjusted earnings per share over the performance period where real growth is expressed as a percentage above inflation.

Under the Plan, Executive Directors and a limited number of other senior executives and employees receive conditional share awards (which may be in the form of nil-cost options) in respect of the Company's shares. The awards are split so that 50% vests in accordance with the TSR target and 50% in accordance with the EPS target. The Committee considered as part of its 2015 review, whether to make the targets apply concurrently but decided against this, preferring the balance of measures relating to earnings growth and long-term strategic performance that are assessed independently of each other. The actual number of shares that each participant receives depends on the Company's performance over a three year performance period against the combined EPS/TSR target.

The Committee believes following its review that a three year performance period remains appropriate for the Company and in line with market practice. An extended retention period of two years applies for 'exceptional' awards in excess of 100% of salary, none of which have been made.

For the TSR measure, the performance of the Company's shares over the performance period is compared with the TSR performance within a comparator group comprising the FTSE Small Cap Index, excluding investment trusts. For awards after 1 October 2015, the comparator group is the FTSE All Share index (excluding investment trusts).

Long-term incentive plan – Performance Share Plan (the 'Plan') continued

Over the three year period:

- If the Company's TSR performance is below the median TSR of the comparator group, no shares will vest
- If the Company's TSR performance is equal to the median TSR of the comparator group, 25% of the shares may vest
- If the Company's TSR performance is between the median and upper quartile TSR of the comparator group, shares may vest on a pro-rata basis
- If the Company's TSR performance is equal to, or exceeds, the upper quartile TSR of the comparator group, 100% of the shares may vest

The above reflects the Remuneration Committee's intention to reward only TSR performance which outperforms the comparator group and the Committee's view is that measuring this by reference to median and upper quartile placing remains appropriate.

For the EPS measure, adjusted earnings per share over the performance period are compared with a scale which provides for nil vesting at RPI +3% and maximum vesting at RPI +8%, with vesting on a pro-rata basis for performance between these two figures. This range was first introduced for the awards made in December 2011 and remains appropriate, but the Committee will keep it under review and will include it as part of its review of all aspects of executive remuneration during 2018.

For all PSP awards from 1 October 2015, the Committee amended the calculation of the EPS performance condition to CPI instead of RPI.

The maximum value that can currently be granted under the Plan rules in any year for a 'normal' award is 100% of salary and up to a further 100% in exceptional circumstances, if an appropriate business challenge warrants such treatment e.g. a major acquisition or strategic initiative. The performance conditions for special awards will be financial and will be set at the time the awards are made. They are likely to be a more challenging version of the existing TSR/EPS conditions, but the Committee may decide to use a different financial performance condition if appropriate in the circumstances. The Committee has no current plans to issue any exceptional awards and none have been awarded to date.

The Committee has discretion to reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting. In addition, the Committee has discretion to allow good leaver status on a case-by-case basis and for added flexibility, the rules allow for a clean break when an executive leaves. This permits vesting to be triggered at the point of leaving by reference to performance at that date, rather than waiting until the end of the performance period if the Committee so decides. This, in turn, will allow vesting at rates appropriate to the Board's strategy for managing an exit, for example to offset cash compensation by allowing earlier vesting conditions. On a change of control, any vesting of awards will be pro-rated by reference to time and performance.

The current remuneration policy is that both the Chief Executive Officer and Chief Financial Officer should receive 'normal' awards of up to 100% of salary, being the median level identified in the 2016 benchmarking exercise.

Under the Plan as amended in 2010, joint ownership awards were permitted for the first time and have been issued to UK resident employees ever since. In the Company's case until 2016, savings in employer National Insurance Contributions resulting from this were not offset by the loss of corporation tax credits because of the presence of historic corporation tax losses in the UK.

Where joint ownership awards are made, the Company loans recipients the small up-front cost of purchasing their interest in the joint ownership award shares. For consistency the Executive Directors have been treated in the same way as other recipients and have therefore received small loans in connection with their outstanding awards. The total value of the loans received by the Executive Directors is capped at £10,000.

As announced to shareholders in December 2016, joint ownership awards, nil-cost options and conditional awards of shares were granted under the 2010 Plan to the Chief Executive Officer, members of the Group Executive management team and other valued employees. A further award will be made in December 2017 in the form of nil-cost options within the existing parameters of the Plan as approved under the Policy at 100% of salary for the Chief Executive Officer and Chief Financial Officer.

Shareholding guidelines

Executives participating in the Performance Share Plan are required to build up and retain a shareholding in the Company. For Executive Directors, the shareholding requirement is two times base salary. For other recipients the shareholding requirement is equivalent to one times base salary. The Executive Directors and other members of the Group Executive management team are required to retain a portion of any awards that vest under the Plan until their respective shareholding guideline is met. Once the shareholding guideline is met executives are not required to retain any portion of future awards that vest.

For awards in excess of 100% of salary, a two year mandatory holding period applies following the three year performance period. At the end of this period the shares subject to the award will not be subject to the shareholding guidelines for normal awards and may be sold.

Dilution

The Company reviews the awards of shares made under the all employee and executive share plans in terms of their effect on dilution limits in any rolling ten year period. The current position is set out on page 70 of this report and no change to this is proposed. In summary, in 2011 shareholders approved a 15% dilution limit for all employee schemes which is in excess of the 10% recommended by the Investment Association, and a 10% dilution limit for discretionary (executive) schemes which is in excess of the 5% recommended by the Investment Association. At the time the Company committed to consult with certain institutional shareholders before exceeding the 10% limit but has never had cause to do this and has no plans to exceed 10% in future. In practice there is therefore a 10% dilution limit on all schemes which the Company will continue to operate within.

Other share plans

Shareholders approved the introduction of the Avon Rubber p.l.c. Share Incentive Plan (the 'SIP') at the AGM in February 2012. All UK tax resident employees of the Company and its subsidiaries are entitled to participate. Under the SIP, participants purchase shares in the Company monthly using deductions from their pre-tax pay. The maximum contribution each month under the SIP is currently £150, a sum which is set by the Government. Nick Keveth has participated in the SIP at the maximum level since July 2017. Paul McDonald is not currently a member.

Shareholders also approved the introduction of the Avon Rubber p.l.c. Employee Stock Purchase Plan (the 'ESPP') at the AGM in February 2012. The ESPP is open to all US tax resident employees and allows participants to accumulate deductions from their post-tax pay over an offering period of 12 months. The maximum contribution for each 12 month period is $3,000. At the conclusion of the offering period the accumulated funds are used to purchase the Company's shares at a discount. Executive Directors are not eligible to participate in the ESPP.

In 2016 shareholders approved the introduction of two new share option schemes, the Avon Rubber p.l.c. 2015 Share Option Plan (the 'CSOP') in the UK and the Avon Rubber p.l.c. 2015 Incentive and Non-Qualified Stock Option Plan (the 'ISO') in the US. Awards under both schemes are targeted at junior management and may be supplemented by unapproved share options. Neither Paul McDonald nor Nick Keveth will be granted awards under the CSOP and neither will be entitled to participate in the ISO.

Pension

Under the Policy, UK-based Executive Directors joining the Company are offered defined contribution arrangements. Under the Company's money purchase scheme, members receive a pension based upon the size of their retirement account on retirement from age 65. Membership of the pension scheme entitles members to life assurance which pays a lump sum of four times pensionable salary on death, together with a spouse's pension of one quarter of the member's pensionable salary. The Company funds contributions to an Executive Director's pension as appropriate, through contribution to the Company's money purchase scheme or through the provision of salary supplements. Both Paul McDonald and Nick Keveth receive a company pension contribution equal to 15% of annual salary. Mr McDonald is a member of the money purchase scheme. Part of his company pension contribution is paid into the pension scheme with the remainder paid as a salary supplement. Mr Keveth has reached the lifetime allowance and his company contribution is paid as a non-pensionable salary supplement. Mr Keveth receives the life assurance benefit described above despite not being a member of the pension scheme.

Service contracts and policy on payments for loss of office

The Company's policy is that Executive Directors should normally be employed under a contract which may be terminated by either the Company or the Executive Director giving 12 months' notice. The Company may terminate the contract with immediate effect with or without cause by making a payment in lieu of notice by monthly instalments of salary and benefits to a maximum of 12 months, with reductions for any amounts received from providing services to others during this period. There are no obligations to make payments beyond those disclosed elsewhere in this report.

The Remuneration Committee may vary these terms if the particular circumstances surrounding the appointment of a new Executive Director demand it but this would be exceptional and has never occurred. The parameters for varying the contractual terms on recruitment are described in the guiding policy section above.

The Remuneration Committee strongly endorses the obligation on an Executive Director to mitigate any loss on early termination and will seek to reduce the amount payable on termination where it is appropriate to do so. The Committee will also take care to ensure that, while meeting its contractual obligations, poor performance is not rewarded. The Executive Directors' contracts contain early termination provisions consistent with the policy outlined above.

The table below summarises key details in respect of each Executive Director's contract.

	Contract date	Company notice period	Executive notice period
Paul McDonald	14 February 2017	12 months	12 months
Nick Keveth	9 May 2017	12 months	12 months

Other appointments

Neither Paul McDonald nor Nick Keveth is currently appointed as a Non-Executive Director of any company outside the Group. The Remuneration Committee will consider its approach to the treatment of any fees received by Executive Directors in respect of Non-Executive roles as they arise.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Non-Executive Directors are not employed under service contracts and do not receive compensation for loss of office. All Non-Executive Directors are appointed on a rolling annual basis, which may be terminated on giving three months' notice at any time.

Chairman and Non-Executive Director appointments are subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years. Any Non-Executive Director who has served for more than nine years since first election is subject to annual re-election by shareholders. This now applies to David Evans.

The date of each appointment is set out below, together with the date of their last re-election by shareholders.

	Date of initial appointment	Date of last re-election
David Evans	1 June 2007	2 February 2017
Chloe Ponsonby	1 March 2016	2 February 2017
Pim Vervaat	1 March 2015	26 January 2016

ANNUAL REPORT ON REMUNERATION

ROLE AND COMPOSITION OF THE REMUNERATION COMMITTEE

The Remuneration Committee is responsible for developing and implementing remuneration policy and for determining the Executive Directors' individual packages and terms of service together with those of the other members of the Group Executive management team.

The Committee comprises Chloe Ponsonby, David Evans and Pim Vervaat. The Committee uses external independent professional advisers when needed. Deloitte are the Company's independent actuarial advisor on pension matters and will provide the Committee with information on executive pension arrangements when this cannot be provided by the pension scheme actuary AonHewitt. During 2017, EY provided annual performance monitoring data and share award valuations for review by the Committee in relation to the Performance Share Plan. EY also provided remuneration benchmarking of the reward packages received by the Executive Directors, the Group Executive and the fees received by the Chairman and the other Non-Executive Directors as well as more general advice on executive remuneration. The Company's solicitors, TLT LLP, provide advice on remuneration governance and all share plans.

The Committee addressed the following main issues during the last year:

- Reviewed and approved all remuneration packages paid to current Directors
- Reviewed and approved the leaving terms of former Directors
- Approved the annual bonus payments to the Executive Directors in November 2016
- Approved the annual bonus plan for the Executive Directors for the 2017 financial year
- Reviewed and confirmed the vesting of the 2014 Performance Share Plan awards in December 2016
- Reviewed and approved the 2017 Performance Share Plan awards granted in December 2016 and monitored the performance of the outstanding awards against their performance targets
- Oversaw the remuneration benchmarking process for the Non-Executive Directors

Since the end of the 2017 financial year, the Committee has:

- Approved annual bonus payments to the Executive Directors and the Group Executive management team, following completion of the external audit in November 2017
- Made preparations for the 2018 Performance Share Plan awards to be granted in December 2017

The information that follows has been audited (except where indicated) by the Company's auditors PricewaterhouseCoopers LLP.

Directors' remuneration for the year ended 30 September 2017 was as follows:

SINGLE TOTAL FIGURE OF REMUNERATION FOR DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 2017:

		Fixed Pay				Pay for performance			
	Year	Basic salary and fees £'000	Pension/other supplements £'000	Other Benefits* £'000	Subtotal £'000	Annual Bonus** £'000	PSP £'000***	Subtotal £'000	Total Remuneration £'000
Executive Directors									
Paul McDonald[1]	2017	261	33	1	295	181	208	389	684
	2016	–	–	–	–	–	–	–	–
	2015	–	–	–	–	–	–	–	–
Nick Keveth[2]	2017	77	12	–	89	48	–	48	137
	2016	–	–	–	–	–	–	–	–
	2015	–	–	–	–	–	–	–	–

Remuneration Report continued

SINGLE TOTAL FIGURE OF REMUNERATION FOR DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 2017 CONTINUED:

		Fixed Pay				Pay for performance			
	Year	Basic salary and fees £'000	Pension/other supplements £'000	Other Benefits* £'000	Subtotal £'000	Annual Bonus** £'000	PSP £'000***	Subtotal £'000	Total Remuneration £'000
Non–Executive Directors									
David Evans	2017	125	–	4	129	–	–	–	129
	2016	125	–	4	129	–	–	–	129
	2015	125	–	3	128	–	–	–	128
Pim Vervaat	2017	51	–		51	–	–	–	51
	2016	51	–	–	51	–	–	–	51
	2015	29	–	–	29	–	–	–	29
Chloe Ponsonby	2017	51	–		51	–	–	–	51
	2016	29	–	–	29	–	–	–	29
	2015	–	–	–	–	–	–	–	–
Former Directors									
Rob Rennie[3]	2017	124	19	–	143	70	–	70	213
	2016	250[5]	38	22	310	174	–	174	484
	2015	–	–	–	–	–	–	–	–
Andrew Lewis[4]	2017	42	6	1	49	–	721	721	770
	2016	265[9]	40	2	307	517	483	1,000	1,307
	2015	252	38	2	292	335	345	680	972
Paul Rayner[5]	2017	175	–	–	175	–	–	–	175
	2016	–	–	–	–	–	–	–	–
	2015	–	–	–	–	–	–	–	–
Richard Wood[6]	2017	–	–	–	–	–	–	–	–
	2016	21	–	–	21	–	–	–	21
	2015	51	–	–	51	–	–	–	51
Peter Slabbert[7]	2017	–	–	–	–	–	387	387	387
	2016	–	–	–	–	–	845	845	845
	2015	330	50	3	383	448	604	1,052	1,435
Stella Pirie[8]	2017	–	–	–	–	–	–	–	–
	2016	–	–	–	–	–	–	–	–
	2015	22	–	–	22	–	–	–	22
Total	2017	906	70	6	982	299	1,316	1,615	2,597
	2016	741	78	28	847	691	1,328	2,019	2,866
	2015	809	88	8	905	783	949	1,732	2,637

1 P. McDonald was appointed to the Board with effect from 15 February 2017. The remuneration shown for P. McDonald includes all remuneration received during 2017, including that received in the period prior to his appointment as Director.

2 N. Keveth was appointed to the Board with effect from 1 June 2017.

3 R. Rennie stepped down from the Board on 15 February 2017.

4 A. Lewis stepped down from the Board on 30 November 2016.

5 P. Rayner was appointed to the Board with effect from 1 December 2016 and stepped down from the Board on 1 June 2017.

6 R. Wood retired from the Board on 26 January 2016.

7 P. Slabbert retired from the Board on 30 September 2015.

8 S. Pirie retired from the Board on 29 January 2015.

9 This amount includes a salary supplement for acting as Interim Chief Executive Officer during October and November 2015.

* This is the cost of private health insurance, executive medical and for R. Rennie, relocation costs paid. No Director waived emoluments in respect of the year ended 30 September 2017 (2016: £nil).

** 2017 bonus payments as a percentage of salary were 73% for P. McDonald and 83% for N. Keveth, against maximum percentages of 100%. The calculation of the percentage figure for Mr McDonald reflects all bonus received in respect of the full financial year, including prior to his appointment as Chief Executive Officer. For the first half of the financial year while Managing Director of the Dairy division, Mr McDonald received a bonus payment of 61% out of a maximum of 100% and for the second half of the year following his appointment as Chief Executive Officer he received a bonus payment of 81% out of a maximum of 100%.

*** Calculated by multiplying the number of shares that vested by the share price on the day of vesting, which in 2017 was 1020p (100% vesting), in 2016 was 1030p (100% vesting) and in 2015 was 720p (96% vesting).

Interim Group Finance Director

The Company appointed Paul Rayner as Interim Group Finance Director with effect from 1 December 2016. Mr Rayner was appointed on a fixed-term contract expiring on 31 July 2017. He stood down from the Board on 1 June 2017 and remained an employee of the Company for a period of handover until 31 July 2017. Under the terms of his agreement, his salary for the eight month period was £233,336. Mr Rayner was entitled under the terms of his contract to receive an extra month's salary of £29,167, as a completion bonus.

Paul Rayner did not receive any pension contribution or other benefits and did not participate in the annual bonus scheme or performance share plan. Prior to Mr Rayner's appointment as Interim Group Finance Director, he became an employee of the Company on 18 October 2016, working on an ad-hoc basis as necessary between then and 1 December 2016 as part of the transition of responsibilities from Mr Lewis. During this period Mr Rayner was paid £11,250. These remuneration arrangements were specific and tailored to this interim assignment.

PERCENTAGE CHANGE IN REMUNERATION OF THE CEO COMPARED WITH OTHER EMPLOYEES (UNAUDITED)

The Committee continues to believe it is inappropriate to compare the percentage change in remuneration of the CEO with the wider workforce. This is because the CEO's salary is fixed and brought up to the median level every three years, whereas the wider workforce are, largely, already at the median level and receive annual cost of living increases. Nevertheless in line with current practice, we have reported changes in the CEO's remuneration against the wider workforce. Last year we reported that, having brought the CEO's salary up to the median level in 2013, we expected future increases, made to keep track with the median, to start aligning with the annual increases made to other employees each year, when measured over a three year period. The result of the 2016 benchmarking exercise was that the CEO's 2013 salary remained the median of the 2016 comparator group and the increase made for Mr Rennie in October 2016 brought his salary up to that level. Mr McDonald's salary is consistent with this approach.

The following table sets out the percentage change in remuneration between the reported year and the preceding year in certain aspects of the CEO's remuneration and the average of employees across the Group:

	CEO			All employees		
	2015	2016	2017	2015	2016	2017
Salary	0%	-9%	0%	+3%	+2%	2%
Benefits	0%	0%	0%	0%	0%	0%
Annual Bonus	-1%	-61%	+4%	+8%	-51%	109%

The ratio of CEO fixed pay to average employee fixed pay is 8.8:1 for the year under review (2016: 9.6:1).

RELATIVE IMPORTANCE OF SPEND ON PAY (UNAUDITED)

The following table shows actual expenditure of the Group and the change in expenditure between current and previous financial periods on remuneration paid to all employees globally, set against distributions to shareholders and other uses of profit or cash flow being profits retained within the business and investments in research and development and property, plant and equipment:

Global remuneration spend

	Global remuneration spend	Other expenditure as a percentage of global remuneration spend: Dividends to shareholders		Profit retained		Research and development expenditure		Expenditure on property, plant and machinery	
	£'000	£'000	%	£'000	%	£'000	%	£'000	%
2017	43,673	3,176	7.8%	18,311	41.9%	8,394	19.2%	2,644	6.1%
2016	38,211	2,430	6.4%	15,849	41.5%	8,341	21.8%	3,689	9.7%
2015	34,344	1,859	5.4%	11,807	34.4%	7,139	20.8%	3,222	9.4%

ANNUAL BONUS (UNAUDITED)

The Remuneration Committee determined at its meeting on 9 November 2017 that certain criteria for making an award under the annual bonus scheme had been met. No discretion was exercised by the Committee to reduce or increase payments. The breakdown is as follows:

	Paul McDonald* MD Dairy (Oct 16 to Mar 17)		Paul McDonald CEO (Apr 17 to Sep 17)		Nick Keveth CFO	
	Actual	Max	Actual	Max	Actual	Max
1. Financial Targets						
(a) Group profit budget achievement (Group PBITE)	15%	15%	12%	25%	12%	25%
(b) Profit growth on previous year (year on year PBITE growth)	7%	15%	25%	25%	25%	25%
(c) Group cash generation (ratio of operating cash flow to operating profit)	20%	20%	20%	20%	20%	20%
(d) Dairy divisional profit budget achievement	3%	30%	n/a	n/a	n/a	n/a
2. Personal Performance Targets	16%	20%	24%	30%	26%	30%
Total bonus 2017 as a percentage of basic salary	61%	100%	81%	100%	83%	100%

* Changes to the annual bonus scheme are implemented at the beginning of the quarter following a change of role and so Mr McDonald became entitled to participate in the CEO bonus scheme from 1 April 2017, having been appointed on 15 February 2017.

The Board considers the disclosure in advance of actual performance against the targets for the upcoming year to be commercially sensitive and the Committee has taken the decision not to disclose them. The Committee is not of the view that such targets will necessarily always be confidential but will keep this under review. The Committee is prepared to disclose financial performance targets and performance against them retrospectively as set out below:

EXECUTIVE DIRECTOR FINANCIAL PERFORMANCE TARGETS FOR THE YEAR ENDED 30 SEPTEMBER 2017 (UNAUDITED)

	Threshold (0% payable)	Target (50% payable)	Stretch (100% payable)	Actual/ Reported	Applied	Bonus payable
Group PBITE (£'000)	22,256	24,729	27,202	24,544	46%	12%
Year on year PBITE growth (£'000)	22,003	23,103	24,203	24,544	100%	25%
Group cash generation*	80%	90%	100%	144%	100%	20%

* Ratio of operating cashflow to operating profit.

Of the bonus payable for meeting the financial targets 75% will be paid in cash and the remaining 25% will be deferred into shares to be held for two years. A claw back rule applies if the Group's financial results are restated due to an error during the two years following release.

PENSIONS

As confirmed under the Policy, the Executive Directors are entitled to receive a contribution towards pension of 15% of basic salary, paid either as a non-pensionable salary supplement or delivered though the Group's money purchase scheme.

Mr McDonald is a member of the money purchase scheme. Part of his company pension contribution is paid into the pension scheme with the remainder paid as a salary supplement.

Mr Keveth has reached the lifetime allowance and has not joined the Plan. His pension contribution is paid entirely as a salary supplement.

The employer pension contribution is shown in the table below:

Executive Director	Salary supplement £'000	Contribution into the Plan £'000
Paul McDonald	21	13
Nick Keveth	12	–

The Company does not contribute to any pension arrangements for Non-Executive Directors.

DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS

Beneficial interests of Directors, their families and trusts in ordinary shares of the Company were:

	At the end of the year	At the beginning of the year
Paul McDonald	26,531*	17,581
Nick Keveth	4,260	n/a
David Evans	40,000	40,000
Pim Vervaat	2,000	2,000
Chloe Ponsonby	2,000	0

* Includes 1,664 shares held under the annual bonus deferral scheme.

Interests in jointly owned shares held by the Executive Directors under the Performance Share Plan are excluded from the above and detailed separately.

The only change in the interests set out above between 30 September 2017 and 15 November 2017 were the additional shares bought by Mr Keveth under the Share Incentive Plan, which increased his total shareholding to 4,290.

The register of Directors' interests contains details of the Directors' shareholdings and share options. The position under the shareholding guidelines for the Executive Directors is set out on page 70.

PERFORMANCE SHARE PLAN 2010 ('THE PLAN')

The Committee determined in December 2016 that the 2014 award vested in full on the basis that the TSR over the three years from 1 October 2013 to 30 September 2016 was significantly ahead of the upper quartile of the comparator group. As a consequence, and as announced to shareholders in December 2016, 20,424 shares were awarded to Mr McDonald who was subsequently appointed as a Director on 15 February 2017.

The Directors' contingent interests in ordinary shares under the Plan at 30 September 2017 were as follows:

	30 Sep 2016	Granted in the year*	Exercised in the year**	Lapsed in the year	30 Sep 2017***
Paul McDonald	47,776	14,809	(20,424)	–	42,161
Nick Keveth	–	–	–	–	–
Other senior employees****	538,951	168,339	(227,286)	(106,958)	373,046
	586,727	183,148	(247,710)	(106,598)	415,207

* The award price at the date of grant was 1,053.4 pence.

** The market price at the vesting date for the 2014 award was 1,043 pence.

*** The weighted average remaining life of the awards outstanding at the year end is 1.2 years (2016: 1.2 years).

**** This figure includes 129,310 (2016: 162,932) in respect of key management as defined in note 9 of the financial statements.

Remuneration Report continued

PERFORMANCE SHARE PLAN 2010 ('THE PLAN') CONTINUED

Outstanding awards granted annually under the Plan were as follows:

	2015	2016	2017	Total*
Paul McDonald[1]	16,440	10,912	14,809	42,161
Nick Keveth	–	–	–	–
Other senior employees	143,826	97,026	132,194	373,046
	160,266	107,938	147,003	415,207

1 P. McDonald was appointed as a Director on 15 February 2017.

* In relation to the awards outstanding at 30 September 2017, deferred loan payments for the awards granted in 2015, 2016 and 2017 will become due to the Company as follows: P. McDonald £5,839.79, N. Keveth nil.

The award price for the 2017 awards was 1053 pence, for the 2016 awards it was 1085 pence, for the 2015 award it was 720 pence.

PLAN PERFORMANCE CONDITIONS

PSP Performance Period years ending	30 September 2016 (Cycle F)[3]	30 September 2017 (Cycle G)[4]	30 September 2018 (Cycle H)[5]	30 September 2019 (Cycle I)[5]
TSR element[1]	50%	50%	50%	50%
EPS element[2]	50%	50%	50%	50%
Total exercisable rate (% grant)	100%	100%	100%	100%

1 Based on Avon Rubber p.l.c.'s Total Shareholder Return ranked relative to companies in the FTSE SmallCap Index at the start of the period. For awards after 1 October 2015 the FTSE All-Share index (excluding investment trusts) was used.

2 Based on the real growth in earnings over the performance period where real growth is expressed as a % above inflation.

3 These awards vested in full in December 2016 on the basis of a Company TSR of 86% compared to the upper quartile of the comparator group at 37%

4 The three year performance period in respect of these awards is complete but vesting is not determined until the end of November 2017 following release of the Group results.

5 The three year performance periods in respect of these awards is not yet complete.

POSITION UNDER SHAREHOLDING GUIDELINES

	Shareholding as at 30 September 2017* Number of shares	Actual value** £000	Target value*** £000	Achievement****	Shares held voluntarily in excess of guideline Number of shares
Paul McDonald	26,531	249	600	83%	–
Nick Keveth	4,260	40	460	17%	–

* Taken from the table on page 69.

** Using the closing share price on 30 September 2017 of 937.5 pence.

*** 200% of current salary for Executive Directors Salaries used are those effective 1 October 2017.

**** Actual value as a percentage of current salary.

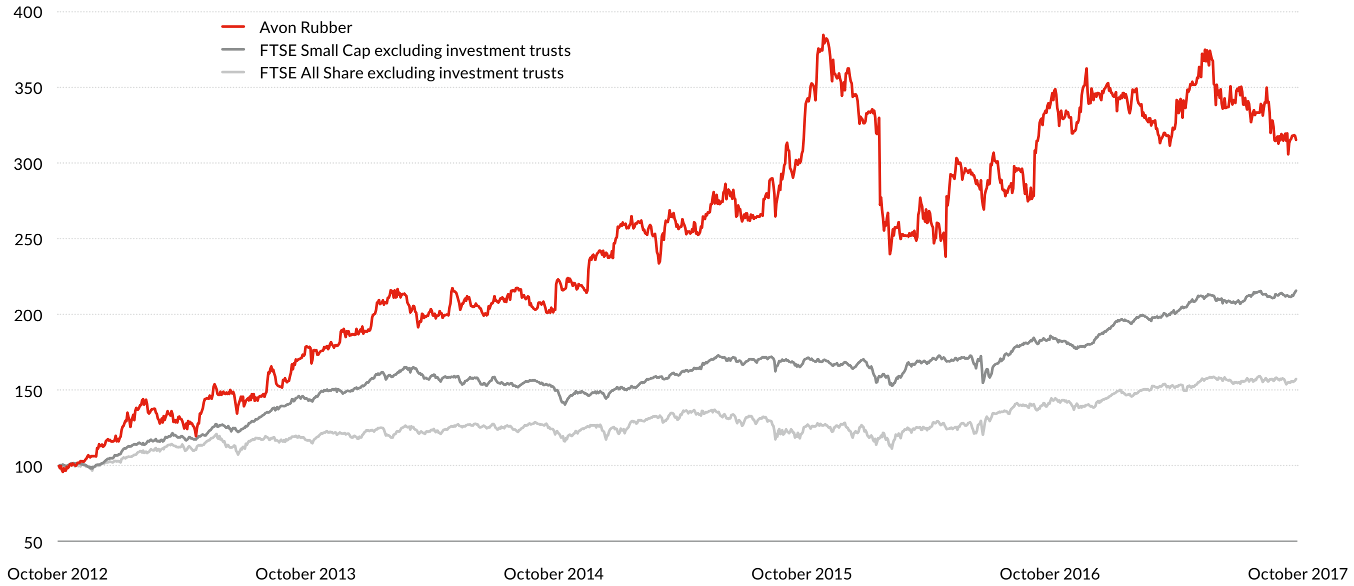
DILUTION

In respect of the 5% and 10% limits recommended by the Association of British Insurers, the relevant percentages were 7.39% and 7.44% respectively based on the issued share capital at 30 September 2017.

It remains the Company's practice to use Employee Share Ownership Trusts ('ESOTs') in order to meet its liability for shares awarded under the Plan. Two trusts have been established in connection with the jointly owned equity awards. At 30 September 2017 there were 565,803 shares held in the ESOTs which will either be used to satisfy awards granted under the Plan to date, or in connection with future awards. A hedging committee ensures that the ESOTs hold sufficient shares to satisfy existing and future awards made under the Plan by buying shares in the market or causing the Company to issue new shares. Shares held in the ESOTs do not receive dividends.

TOTAL SHAREHOLDER RETURN PERFORMANCE GRAPH (UNAUDITED)

The following graph illustrates the total return, in terms of share price growth and dividends on a notional investment of £100 in the Company over the last five years relative to the FTSE SmallCap Index (excluding investment trusts) and the FTSE All Share Index (excluding investment trusts). These indices were chosen by the Remuneration Committee as a competitive indicator of general UK market performance for companies of a similar size.



CHIEF EXECUTIVE OFFICER'S REMUNERATION (UNAUDITED)

The total remuneration figures, including annual bonus and vested PSP awards (shown as a percentage of the maximum that could have been achieved) for the Chief Executive Officer for each of the last eight financial years are shown in the table below.

Mr Slabbert retired on 30 September 2015, Mr Rennie stood down from the Board on 15 February 2017 and was replaced by Mr McDonald on 15 February 2017.

Year	CEO	CEO single figure of total remuneration £000	Annual bonus pay out against maximum opportunity	Long-term incentive vesting rates against maximum opportunity
2017	Paul McDonald	338	81%	–
2017	Rob Rennie	213	57%	–
2016	Rob Rennie	484	52%	–
2015	Peter Slabbert	1,435	91%	96%
2014	Peter Slabbert	1,538	91%	100%
2013	Peter Slabbert	1,374	86%	100%
2012	Peter Slabbert	1,864	40%	100%
2011	Peter Slabbert	404	74%	nil
2010	Peter Slabbert	395	90%	nil
2009	Peter Slabbert	366	91%	nil

STATEMENT OF SHAREHOLDER VOTING ON THE REMUNERATION REPORT (UNAUDITED)

The shareholder vote on the Remuneration Report for the year ended 30 September 2016 at the AGM which took place on 2 February 2017 was as follows:

Resolution	Votes For (including discretionary)	% For	Votes Against (excluding withheld)	% Against	Total (excluding withheld and third party discretionary)	Withheld
Approval of Remuneration Report	19,692,414	91.53	1,823,305	8.47	21,515,719	875,950

SHARE INCENTIVE PLAN

Mr McDonald is not a member of the SIP. Mr Keveth is a member and as at 30 September had purchased 45 shares through this scheme.

As at 30 September 2017, the market price of Avon Rubber p.l.c. shares was £9.375 (2016: £10.10). During the year the highest and lowest market prices were £11.19 and £9.31 respectively.

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE

The Committee's approach when exercising its discretion under the policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group.

Andrew Lewis

Andrew Lewis stood down as Group Finance Director on 30 November 2016. The remuneration received by Mr Lewis in respect of his services as an Executive Director in the 2017 financial year is set out in the 2017 Single Figure Table and includes salary and an annual bonus payment. This remuneration also included payment of a one off bonus of £252,000, paid in connection with the retirement of a previous CEO, Mr Slabbert, as previously disclosed.

Mr Lewis's employment with the Group ended on 16 December 2016. Between 30 November 2016 when he stood down from the Board and 16 December 2016, Mr Lewis received £13,257 in respect of salary, benefits and pension contributions in accordance with his contract of employment. In line with market practice, the Group paid the professional legal fees incurred by him in finalising his termination arrangements, which amounted to £1,500 plus VAT. In addition, in consideration of agreeing to certain restrictive covenant provisions, Mr Lewis received £200. Mr Lewis did not receive a loss of office payment and did not retain any pro-rated entitlement to an annual bonus for the 2017 financial year.

Mr Lewis continued to be provided with private medical and dental insurance cover and life assurance until the policy expired in April 2017.

Mr Lewis's deferred bonus award of £33,811.18 in respect of the 2015 financial year and £24,578.80 in respect of the 2016 financial year will be released in accordance with the plan rules upon announcement of the Company's full year financial results for the years ending 30 September 2017 and 30 September 2018 respectively.

Recognising Mr Lewis's contribution to the Company's success over a period of eight years, the Committee exercised its discretion in accordance with the Directors' Remuneration Policy to determine that Mr Lewis was permitted to retain his 2015 and 2016 PSP awards on a good leaver basis, pro-rated for service by one third and two thirds respectively. The Committee also permitted these awards to vest early, under the clean break provisions in the rules of the 2010 Performance Share Plan, subject to the normal performance conditions which were assessed at the time. Mr Lewis received 27,198 shares as a result of the accelerated vesting of the 2015 and 2016 awards on 30 November 2016, with a value of £277,420 which is included in the 2017 Single Figure Table.

Rob Rennie

Mr Rennie stepped down as Chief Executive Officer on 15 February 2017. The remuneration he received in respect of his services as an Executive Director is set out in the 2017 Single Figure Table. Mr Rennie will receive up to £330,000, which equates to 12 months' salary and reflects the 12 month notice clause in Mr Rennie's service agreement, plus a cash supplement in lieu of pension, paid in monthly instalments. These monthly payments are being made subject to an obligation on Mr Rennie to mitigate his loss, such that the payments will either reduce or cease in the event Mr Rennie gains new employment or remuneration. Mr Rennie did not receive a loss of office payment.

In line with market practice, the Group paid professional legal fees incurred by him in finalising his termination arrangements of £400 plus VAT. The Company also agreed to fund outplacement fees of up to £20,000. Mr Rennie received £3,808 in respect of 3 days accrued but untaken holiday entitlement.

As at 30 September 2017, Mr Rennie has received £220,000 which represents eight monthly instalments and has not claimed any payment in respect of outplacement fees.

Mr Rennie continued to be provided with private medical and dental insurance cover and life assurance until the policy expired in April 2017.

Mr Rennie also remained entitled to participate in the 2017 annual bonus scheme on a pro-rated basis and with the personal performance element removed. In the 2017 year Mr Rennie earned a pro-rated annual bonus, assessed against the normal performance conditions, of £70,043. This will be paid to Mr Rennie on 30 November 2017. Mr Rennie's 2,081 shares held under the Company's Deferred Bonus Plan in respect of the bonus earned for the 2016 financial year, will be released to him under the rules of the plan in November 2018.

All Mr Rennie's outstanding awards under the Company's 2010 Performance Share Plan lapsed in full.

Paul Rayner

The remuneration received by Mr Rayner in respect of his services as an Executive Director is set out in the 2017 Single Figure table. Having been appointed with effect from 1 December 2016, Mr Rayner stood down from the Board on 1 June 2017 and remained an employee of the Company for a period of handover until 31 July 2017. During the period from 1 June 2017 to 31 July 2017, Mr Rayner continued to receive his monthly salary payments of £29,167 per month and on 31 July 2017 he was paid an additional month's salary as a completion bonus. The total sum received by Mr Rayner from 1 June to 31 July 2017 was £87,500.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2018

Salary benchmarking

As detailed in last year's report, Executive Director salaries were benchmarked last year. The median salary level was not increased. The level of median salary identified last year for the Chief Financial Officer role was benchmarked and confirmed this year as part of the recruitment process which resulted in the appointment of Mr Keveth. The annual salaries of both Paul McDonald and Nick Keveth were set below the median level and will be considered for increase to the median level on the anniversary of their appointment, when they are expected to be proven in their roles.

Basic salaries for Directors

Basic salary	2017	2018	% Increase	Median
Paul McDonald	£300,000	£300,000	–	£330,000
Nick Keveth	£230,000	£230,000	–	£240,000

Non-Executive Director Fees

In accordance with our Policy, the fees of Non-Executive Directors are reviewed and benchmarked every three years, with increases only implemented if current fees were found to be below the median of a comparator group. The previous review was in 2014 and therefore a review and benchmarking exercise was conducted during the 2017 financial year. The review concluded that current fees remained close to the median and therefore no increases were made for the 2018 financial year.

Current fees for Non-Executive Director fees are:

	2017	2018	% Increase
Chairman	£125,000	£125,000	–
Base fee Non-Executive	£38,500	£38,500	–
Committee Chairman fee	£10,000	£10,000	–
Committee attendance fee	£2,000	£2,000	–

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2018 CONTINUED

Benefits and pension

These will be paid and provided in accordance with the approved policy. Benefits will be in line with those received in 2017.

Bonus

The maximum opportunity under the annual bonus plan for 2018 will be 100% of base salary for both Executive Directors.

Bonuses will be based on Group profit budget achievement (25%), profit growth on previous year (25%), Group cash generation (20%) and personal performance targets (30%) as set out on page 60.

The Committee has chosen not to disclose, in advance, the financial performance targets for the forthcoming year as these include matters which the Committee considers commercially sensitive. Retrospective disclosure of the performance against them will be made in next year's Annual Report on Remuneration to the extent the targets are not commercially sensitive at that time.

Long-term incentive plan – Performance Share Plan

The Remuneration Committee has decided that the 2018 PSP awards will take the form of nil-cost options with a market value at grant of 100% of salary for the Executive Directors. Vesting will be subject to the following performance conditions:

- 50% will be based on relative TSR performance with 25% vesting at median increasing to 100% for upper quartile performance. The comparator group will be the FTSE All-Share index (excluding investment trusts)
- 50% will be based on EPS growth. EPS growth will be compared on a scale which provides for nil vesting at CPI + 3% and maximum vesting at CPI + 8%, with vesting on a pro-rata basis between these two figures

DETAILS OF ADVISORS TO THE REMUNERATION COMMITTEE AND THEIR FEES

During the year to 30 September 2017 the Company incurred costs of £14,000 (2016: £11,000) in respect of fees for advisors to the Remuneration Committee.

The Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Chloe Ponsonby
Chair of the Remuneration Committee

15 November 2017

Directors' Report

The Directors submit the Annual Report and audited financial statements of Avon Rubber p.l.c. ('the Company') and the Avon Rubber group of companies, ('the Group') for the year ended 30 September 2017. The Company is registered in England and Wales with company registration number 32965. The Company's principal subsidiary undertakings and branches, including those located outside the UK, are listed in note 27 to the financial statements.

STRATEGIC REPORT

The Strategic Report, which contains a review of the Group's business (including by reference to key performance indicators), a description of the principal risks and uncertainties facing the Group, and commentary on likely future developments is set out on pages 10 to 39 and is incorporated into this Directors' Report by reference.

FINANCIAL RESULTS AND DIVIDEND

The Group statutory profit for the year after taxation amounts to £21.5m (2016: £17.6m). Full details are set out in the Consolidated Statement of Comprehensive Income on page 88.

An interim dividend of 4.11p per share was paid in respect of the year ended 30 September 2017 (2016: 3.16p).

The Directors recommend a final dividend of 8.21p per share (2016: 6.32p) resulting in a total dividend distribution per share for the year to 30 September 2017 of 12.32p (2016: 9.48p).

SHARE CAPITAL

As at 15 November 2017, the issued share capital of the Company was 31,023,292 ordinary shares of £1 each. Details of the shares in issue during the financial year are set out in note 20 of the financial statements.

The rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association ('the Articles'), copies of which can be obtained from Companies House or by writing to the Company Secretary. Shareholders are entitled to receive the Company's reports and accounts, to attend and speak at general meetings, to exercise voting rights in person or by appointing a proxy and to receive a dividend where declared or paid out of profits available for that purpose. There are no restrictions on the transfer of issued shares or on the exercise of voting rights attached to them, except where the Company has suspended their voting rights or prohibited their transfer following a failure to respond to a notice to shareholders under section 793 of the Companies Act 2006, or where the holder is precluded from transferring or voting by the Financial Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

The 565,803 shares held in the names of the two Employee Share Ownership Trusts on a jointly owned basis or as a hedge against awards previously made or to be made pursuant to the Performance Share Plan are held on terms which provide voting rights to the Trustee and, in certain circumstances under the terms of joint ownership awards, to the recipient of the awards.

The Company is also not aware of any agreements between its shareholders which may restrict the transfer of their shares or the exercise of their voting rights. The only exception to this being the Trustees of the two Employee Share Ownership Trusts have waived their rights to dividends.

At the Company's last AGM held on 2 February 2017, shareholders authorised the Company to make market purchases of up to 4,653,492 of the Company's issued ordinary shares. No shares were purchased under this authority during the year. A resolution will be put to shareholders at the forthcoming AGM to renew this authority, although this number has been reduced to 3,102,329 shares representing 10% of the Company's issued share capital.

The Directors require authority to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2017 AGM and resolutions to renew these authorities will be proposed at the 2018 AGM, see explanatory notes on pages 134 to 136. No shares were allotted under this authority during the year.

SUBSTANTIAL SHAREHOLDINGS

At 30 October 2017, the following shareholders held 3% or more of the Company's issued ordinary share capital:

BlackRock Investment Management	8.72%
Schroder Investment Management	8.19%
River & Mercantile Asset Management LLP	5.72%
Threadneedle Asset Management	5.35%
Hargreave Hale & Co	4.71%
Janus Henderson & Co	4.20%
JPMorgan Asset Management (UK)	3.39%

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

The only significant agreements to which the Company is a party which take effect, alter or terminate upon a change of control of the Company following a takeover bid are:

- the Company's revolving credit facility agreement
- the Performance Share Plan

The unsecured revolving credit facility of $40 million provided by Barclays Bank PLC and Comerica Bank Inc. contains a provision which, in the event of a change of control of the Company, gives the lending banks the right to cancel all commitments to the Company and to declare all outstanding credit and accrued interest immediately due and payable.

A change of control will be deemed to have occurred if any person or persons acting in concert (as defined in the City Code on Takeovers and Mergers) gains direct or indirect control of the Company.

Under the rules of the Performance Share Plan, on a takeover a proportion of each outstanding grant will vest. The number of shares that vest is to be determined by the Remuneration Committee, including by reference to the extent to which the performance condition has been satisfied and the number of months that have passed since the award was made.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a change of control, except in relation to the Performance Share Plan as described above.

DIRECTORS

The names of the Directors as at 15 November 2017 are set out on page 42 along with their photographs and biographies.

The Company's rules about the appointment and replacement of Directors, together with the powers of Directors, are contained in the Articles. Changes to the Articles must be approved by special resolution of the shareholders.

During the year there have been three changes to the membership of the Board.

Andrew Lewis Group Finance Director, stepped down from the Board on 30 November 2016 and was replaced by interim Group Finance Director, Paul Rayner, on 1 December 2016. Mr. Rayner stepped down from the Board when Nick Keveth was appointed Chief Financial Officer on 1 June 2017. Rob Rennie, Chief Executive Officer, stepped down from the Board on 15 February 2017 and was replaced by Paul McDonald.

The Board is satisfied that David Evans, Pim Vervaat and Chloe Ponsonby are independent Non-Executive Directors.

In accordance with the UK Corporate Governance Code and the Company's Articles, all Directors are subject to election by shareholders at the first AGM after their appointment, and to re-election thereafter at intervals of no more than three years. Non-Executive Directors who have served longer than nine years are subject to annual re-election.

David Evans retires by rotation and, being eligible, offers himself for re-election. The Board confirms that Mr Evans has contributed substantially to the performance of the Board. Pim Vervaat, the Senior Independent Non-Executive Director, gives his full support to Mr Evans's offer of re-election and draws the attention of shareholders to his profile on page 42.

Paul McDonald and Nick Keveth who, having been appointed since the Company's last AGM, retire in accordance with Article 79 of the Articles and, being eligible, offer themselves for re-election. The Board confirms that both have contributed substantially to the performance of the Board since their appointment and the Chairman gives his full support to their offer of re-election and draws shareholders' attention to their profiles on page 42.

All Executive Directors' service contracts with the Company require one year's notice of termination. Neither Paul McDonald nor Nick Keveth are currently appointed as a Non-Executive Director of any company outside the Group.

None of the Directors have a beneficial interest in any contract to which the Company or any subsidiary was a party during the year. Beneficial interests of Directors, their families and trusts in ordinary shares of the Company can be found on page 69.

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

In accordance with the Company's Articles and subject to the provisions of the Companies Act 2006 ('the Act'), the Company maintains, at its expense, Directors and Officers insurance to provide cover in respect of legal action against its Directors. This was in force throughout the financial year and remains in force as at the date of this report.

The Company's Articles allow the Company to provide the Directors with funds to cover the costs incurred in defending legal proceedings. The Company is therefore treated as providing an indemnity for its Directors and Company Secretary which is a qualifying third party indemnity provision for the purposes of the Act.

CONFLICTS OF INTEREST

During the year no Director held any beneficial interest in any contract significant to the Company's business, other than a contract of employment. The Company has procedures set out in the Articles for managing conflicts of interest. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Group, they are required to notify the Board as soon as reasonably practicable.

RESEARCH AND DEVELOPMENT

The Group continues to utilise its technical and materials expertise to further advance its products and remain at the forefront of technology in the fields of respiratory protection, dairy milking technology and polymer engineering. The Group maintains its links to key universities in the US and UK and continues to work with new and existing customers and suppliers to develop its knowledge and product range. Total Group expenditure on research and development in the year was £8.4m (2016: £8.3m) further details of which are contained in the Strategic Report on pages 29 to 30.

Through ARTIS, the Group's research and development arm, the Group is recognised as a world leader in understanding the composition and use of polymer products.

CORPORATE GOVERNANCE

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 43 to 47. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

ENVIRONMENTAL AND CORPORATE SOCIAL RESPONSIBILITY

Matters relating to Environmental and Corporate Social Responsibility including reference to our policy on diversity are set out on pages 36 to 39.

GREENHOUSE GAS EMISSIONS

The disclosures concerning greenhouse gas emissions required by law are included in the Environment and Corporate Social Responsibility Report on page 37.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No political contributions were made during the year or the prior year. Contributions for charitable purposes amounted to £10,915 (2016: £15,528) consisting exclusively of numerous small donations to various community charities in Wiltshire, Maryland, Michigan, Wisconsin and Mississippi.

POST BALANCE SHEET EVENTS

There have been no material events from 30 September 2017 to the date of this report.

FINANCIAL INSTRUMENTS

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 19 of the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. The Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB).

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 the parent company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether IFRSs as adopted by the European Union and IFRSs issued by the IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

INDEPENDENT AUDITORS

Each of the Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there was no relevant audit information of which the auditors are unaware; and each Director has taken all the steps 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 auditors are aware of that information.

Having taken advice from the Audit Committee, the Board considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 42 confirm that, to the best of their knowledge the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and the Strategic Report contained on pages 10 to 39 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting will be held at our Hampton Park West facility, Semington Road, Melksham, Wiltshire SN12 6NB on 1 February 2018 at 10.30am. The Notice of Meeting can be found on pages 132 to 139. Registration will be from 10.00am.

Miles Ingrey-Counter
Company Secretary

15 November 2017

Avon Rubber p.l.c.

FOCUSING ON OUR PEOPLE

Our people will deliver the strategy, so it is important that we attract, develop and retain exceptional people who will help us deliver the strategy and grow the business.

Two years ago, we launched our employee engagement framework called Great Place to Work. The framework gives every employee an opportunity to contribute towards a culture that truly does make Avon a great place to work.

The framework comprises five key areas: Recognition, Communication, Wellbeing, Community and Training & Development.

Read more about Great Place to Work on pages **38 to 39**

Financial Statements

Independent Auditors' Report to the Members of Avon Rubber p.l.c.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- Avon Rubber p.l.c.'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 30 September 2017 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Consolidated and Parent Company Balance Sheets as at 30 September 2017; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; the Consolidated and Parent Company accounting policies and critical accounting judgements and the notes to the financial statements.

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

Basis for opinion

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

Independence

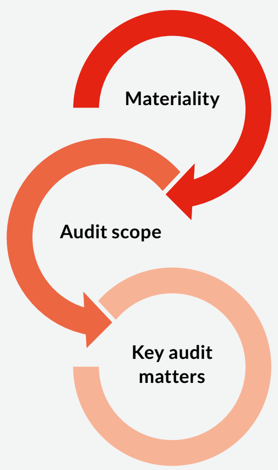
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

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

We have provided no non-audit services to the Group or the parent company in the period from 1 October 2016 to 30 September 2017.

Our audit approach

Overview



- Overall Group materiality: £930,000 (2016: £850,000), based on 5% of Group profit before tax.
- Overall parent company materiality: £700,000 (2016: £645,000), based on 1% of total assets, restricted due to component reporting requirements.

- The UK audit team performed an audit of the complete financial information of the two main operating units in the USA (Avon Protection NA and Avon Dairy Solutions NA) and the two main operating units in the UK (Avon Polymer Products Ltd (comprising of Avon Protection UK and Avon Dairy Solutions) and Avon Rubber p.l.c.).
- Taken together, these four reporting units account for 88% of Group revenue and in excess of 90% of the total Group profit before tax.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions at the remaining seven reporting units.

- Provisions for uncertain tax provisions (Group).
- Valuation of the Group's net pension deficit (Group).
- Intangible assets (development expenditure) impairment assessment (Group).
- Risk of fraud in revenue recognition (Group).

Our audit approach continued

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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Provisions for uncertain tax provisions (Group)	
As noted in the critical accounting judgements section on page 97, and included within note 6, there are a number of significant judgements involved in the determination of taxation balances. The Group also has material uncertain taxation positions resulting from the interpretation of the impact of the application of tax regulations in certain jurisdictions, particularly the US. Management have applied judgement in estimating the magnitude of the risk and probability of a future outflow in each case to derive the level of provisions held. In total the provision for uncertain tax provisions was £6.7m at 30 September 2017. Given the number of judgements involved and the complexities of dealing with taxation rules and regulations in different countries and states within the US, this was an area of focus for us.	We used tax specialist to assess the adequacy of the level of provision established in relation to a number of uncertain taxation positions primarily in respect of risks in the US. The judgements made by management took account of the level and nature of the risks giving rise to the uncertain tax positions, together with their assessment of the likely outcome. We considered the judgements made by management to be reasonable based on our understanding of the relevant tax regulations. We also obtained the filing positions for each jurisdiction which we read, considered in light of our understanding of the business and reconciled to the underlying taxation calculations used to prepare the taxation balances in the financial statements, noting no material differences.
Valuation of the Group's net pension deficit (Group)	
We focussed on this area because of the magnitude of the defined benefit pension deficit of £44.1m and the material judgements involved in determining the actuarial assumptions which are set out in note 10. The net pension deficit is subject to the Directors' judgements regarding the selection of appropriate actuarial assumptions based on the nature of the scheme, including the discount rate, inflation rate and mortality rate, being the assumptions to which the deficit is most sensitive A change in each of these assumptions by 0.25% can cause a material change in the value of the underlying pension deficit (as highlighted on page 107). The Directors employed an independent actuary to assist them with the valuation of the deficit.	We used our actuarial experts to assess the methodology adopted by the Directors and their actuary to determine the net pension deficit. We concluded that the requirements of IAS 19 'Employee benefits' had been applied. We also used our actuarial experts to assess the reasonableness of the key actuarial assumptions selected, by comparing these to our own independent benchmark ranges based on our assessment of current market conditions and available actuarial data. We noted that the discount rate, inflation rate and mortality rate were within our acceptable range. We considered the competence and objectivity of the Directors' independent actuary including the experience and reputation of the firm together with the length of service. We were satisfied that the actuary was competent and objective. We also assessed the actuary's valuation by obtaining supporting evidence for each of the key inputs into the overall pension deficit calculation including independently agreeing changes in membership census data to pension scheme records and agreeing the scheme asset values to independent sources, such as fund manager confirmations and/or quoted market prices where available, noting no exceptions.

Independent Auditors' Report to the Members of Avon Rubber p.l.c.
continued

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS CONTINUED

Our audit approach continued

Key audit matter	How our audit addressed the key audit matter
Intangible assets (development expenditure) impairment assessment (Group)	
We focussed on this area because of the magnitude of capitalised development expenditure of £15.4m and the risk that amounts may not be recoverable if estimated future sales orders cannot be delivered or regulatory approvals are not obtained. This risk is set out in the critical accounting judgments on page 97 and the amounts capitalised are included in note 11. In particular we focussed on the capitalised development costs relating to the PAPR and Deltair, given the amounts held in the balance sheet and the stage of their development. These products are described on page 15. We also focused on whether the impairment of EEBD was appropriate.	We tested a sample of capitalised development costs against the criteria set out in IAS38 'Intangible assets' including the technical feasibility and the viability of the completion of the projects and the ability for the projects to generate future economic benefits and gain necessary regulatory approvals. We met with key operational personnel to update our understanding of the status of major projects and assessed the process and governance which have been put in place around project approval, authorisation and ongoing monitoring. We considered that these processes were appropriate. We assessed individually each of the major projects for indicators of impairment, such as an inability to obtain regulatory approval or not achieving forecast sales orders. As a result of our work we determined that the judgement by management to fully impair EEBD is appropriate and that no impairment was required for PAPR, Deltair and other major development projects.
Risk of fraud in revenue recognition (Group)	
We focused on this area as judgements are made by the Directors in determining whether provisions should be made against revenue on certain contractual arrangements in the US Protection business The Directors made an estimate of amounts which could be due back to customers reflecting the risks inherent within the performance of the contracts over a number of years.	We obtained the calculations of contractual revenue provisions and evaluated the Directors' assessment of the risk of claw back based on our independent reading of the relevant contractual terms and the revenue recognised. In doing so, we concluded that the Group recognised revenue in line with their contractual obligations and their revenue recognition accounting policy.

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

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 comprises two divisions, being Protection and Dairy and we focused our audit work on the Group's largest operating units, within these divisions, in the USA and UK. The UK audit team conducted an audit of the complete financial information of four operating units (the two largest in the USA, and two largest in the UK) due to their size and risk characteristics.

Taken together, these four operating units where we performed audit work accounted for approximately 88% of Group revenues and in excess of 90% of Group profit before taxation.

Specific audit procedures were also performed by the UK team on certain balances and transactions material to the Group financial statements at the remaining reporting units. The parent company's complete financial information was also subject to audit.

The procedures set out above, together with additional procedures performed at the Group level over centralised processes and functions, including the audit of consolidation journals, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

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	£930,000 (2016: £850,000).	£700,000 (2016: £645,000).
How we determined it	5% of Group profit before tax.	1% of Total assets.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group.	We believe that total assets is the most suitable measure as the parent entity is not a trading company, and is a generally accepted auditing benchmark. Overall materiality applied is limited to £700,000, lower than 1% of total assets, due to being restricted for Group reporting for the purposes of the audit of the consolidated financial statements of the Group.

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 £540,000 to £838,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £46,500 (Group audit) (2016: £43,000) and £34,900 (parent company audit) (2016: £32,000) 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, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report to the Members of Avon Rubber p.l.c.
continued

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS CONTINUED

Reporting on other information continued

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 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)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 43 to 47) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ('DTR') 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 this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 43 to 47) with respect to the parent company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the parent company. (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 46 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 47 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 78, 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 50 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the members prior to 1955 which is as far back as records have been located, and therefore the length of uninterrupted engagement is at least 62 years.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

15 November 2017

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2017

	Note	2017 Adjusted £m	2017 Adjustments* £m	2017 Statutory £m	2016 Adjusted (restated) £m	2016 Adjustments* £m	2016 Statutory (restated) £m
Continuing operations							
Revenue	1	163.2	–	163.2	142.9	–	142.9
Cost of sales		(101.5)	–	(101.5)	(90.2)	–	(90.2)
Gross profit		61.7	–	61.7	52.7	–	52.7
Selling and distribution costs		(20.0)	–	(20.0)	(18.0)	–	(18.0)
General and administrative expenses		(15.9)	(6.0)	(21.9)	(13.8)	(4.1)	(17.9)
Operating profit	1	25.8	(6.0)	19.8	20.9	(4.1)	16.8
Operating profit is analysed as:							
Before depreciation and amortisation		36.0	(0.1)	35.9	29.9	(0.8)	29.1
Depreciation and amortisation	11,12	(10.2)	(5.9)	(16.1)	(9.0)	(3.3)	(12.3)
Operating profit		25.8	(6.0)	19.8	20.9	(4.1)	16.8
Finance income	4	0.1	–	0.1	–	–	–
Finance costs	4	(0.3)	–	(0.3)	(0.2)	–	(0.2)
Other finance expense	4	–	(1.0)	(1.0)	–	(0.7)	(0.7)
Profit before taxation	5	25.6	(7.0)	18.6	20.7	(4.8)	15.9
Taxation	6	(0.4)	3.3	2.9	1.1	0.9	2.0
Profit for the year from continuing operations		25.2	(3.7)	21.5	21.8	(3.9)	17.9
Discontinued operations – loss for the year	3	–	–	–	–	(0.3)	(0.3)
Profit for the year		25.2	(3.7)	21.5	21.8	(4.2)	17.6
Other comprehensive (expense)/income							
Items that are not subsequently reclassified to the income statement							
Actuarial loss recognised on retirement benefit scheme	10			(3.8)			(23.1)
Deferred tax relating to retirement benefit scheme	6			0.6			3.5
Items that may be subsequently reclassified to the income statement							
Net exchange differences offset in reserves				(2.3)			7.9
Cash flow hedges	19			1.1			(0.9)
Tax relating to exchange differences offset in reserves				0.2			(1.7)
Other comprehensive (expense)/income for the year, net of taxation				(4.2)			(14.3)
Total comprehensive income for the year				17.3			3.3
Earnings per share	8						
Basic		82.8p		70.6p	71.9p		58.1p
Diluted		82.3p		70.2p	70.6p		57.0p
Earnings per share from continuing operations	8						
Basic		82.8p		70.6p	71.9p		59.1p
Diluted		82.3p		70.2p	70.6p		58.0p

2016 has been restated to correct the charge for share based payments (see note 24).

* See note 3 for further details of adjustments.

Consolidated Balance Sheet

At 30 September 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	11	40.4	47.3
Property, plant and equipment	12	26.3	30.1
Deferred tax assets	6	8.2	7.8
		74.9	85.2
Current assets			
Inventories	13	21.8	20.6
Trade and other receivables	14	23.8	20.0
Derivative financial instruments	19	0.2	–
Cash and cash equivalents	15	26.5	4.5
		72.3	45.1
Liabilities			
Current liabilities			
Borrowings	17	1.8	2.5
Trade and other payables	16	30.1	24.2
Derivative financial instruments	19	–	0.9
Provisions for liabilities and charges	18	0.3	0.7
Current tax liabilities		6.8	8.3
		39.0	36.6
Net current assets		33.3	8.5
Non-current liabilities			
Deferred tax liabilities	6	6.8	10.0
Retirement benefit obligations	10	44.1	39.9
Provisions for liabilities and charges	18	1.7	1.8
		52.6	51.7
Net assets		55.6	42.0
Shareholders' equity			
Ordinary shares	20	31.0	31.0
Share premium account	20	34.7	34.7
Capital redemption reserve		0.5	0.5
Translation reserve		6.5	8.6
Accumulated losses		(17.1)	(32.8)
Total equity		55.6	42.0

These financial statements on pages 88 to 121 were approved by the Board of Directors on 15 November 2017 and signed on its behalf by:

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 30 September 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from continuing operating activities before the impact of exceptional items	21	35.3	33.1
Cash impact of exceptional items		0.3	(0.4)
Cash generated from continuing operations		35.6	32.7
Cash used in discontinued operations		–	(0.3)
Cash generated from operations	21	35.6	32.4
Finance income received		0.1	–
Finance costs paid		(0.2)	(0.4)
Retirement benefit deficit recovery contributions		(1.0)	(0.7)
Tax paid		(2.0)	(1.0)
Net cash generated from operating activities		32.5	30.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		–	0.1
Purchase of property, plant and equipment		(2.6)	(3.6)
Capitalised development costs and purchased software		(2.9)	(3.3)
Acquisition of subsidiaries and businesses	26	–	(3.3)
Net cash used in investing activities		(5.5)	(10.1)
Cash flows from financing activities			
Net movements in loans	22	(0.8)	(12.0)
Dividends paid to shareholders	7	(3.2)	(2.4)
Purchase of own shares	20	(1.0)	(1.8)
Net cash used in financing activities		(5.0)	(16.2)
Net increase in cash, cash equivalents and bank overdrafts		22.0	4.0
Cash, cash equivalents, and bank overdrafts at beginning of the year		4.5	0.3
Effects of exchange rate changes		–	0.2
Cash, cash equivalents, and bank overdrafts at end of the year	22	26.5	4.5

Consolidated Statement of Changes in Equity

For the year ended 30 September 2017

	Note	Share capital £m	Share premium £m	Other reserves £m	Accumulated losses (restated) £m	Total equity (restated) £m
At 30 September 2015		31.0	34.7	2.9	(26.4)	42.2
Profit for the year		–	–	–	17.6	17.6
Net exchange differences offset in reserves		–	–	7.9	–	7.9
Tax relating to exchange differences offset in reserves	6	–	–	(1.7)	–	(1.7)
Cash flow hedges	19	–	–	–	(0.9)	(0.9)
Actuarial loss recognised on retirement benefit scheme	10	–	–	–	(23.1)	(23.1)
Deferred tax relating to retirement benefit scheme	6	–	–	–	3.5	3.5
Total comprehensive income for the year		–	–	6.2	(2.9)	3.3
Dividends paid	7	–	–	–	(2.4)	(2.4)
Movement in shares held by the employee benefit trust	20	–	–	–	(1.8)	(1.8)
Movement in respect of employee share schemes	24	–	–	–	1.0	1.0
Deferred tax relating to employee share schemes	6	–	–	–	(0.3)	(0.3)
At 30 September 2016		31.0	34.7	9.1	(32.8)	42.0
Profit for the year		–	–	–	21.5	21.5
Net exchange differences offset in reserves		–	–	(2.3)	–	(2.3)
Tax relating to exchange differences offset in reserves	6	–	–	0.2	–	0.2
Cash flow hedges	19	–	–	–	1.1	1.1
Actuarial loss recognised on retirement benefit scheme	10	–	–	–	(3.8)	(3.8)
Deferred tax relating to retirement benefit scheme	6	–	–	–	0.6	0.6
Total comprehensive income for the year		–	–	(2.1)	19.4	17.3
Dividends paid	7	–	–	–	(3.2)	(3.2)
Movement in shares held by the employee benefit trust	20	–	–	–	(1.0)	(1.0)
Movement in respect of employee share schemes	24	–	–	–	0.9	0.9
Deferred tax relating to employee share schemes	6	–	–	–	(0.4)	(0.4)
At 30 September 2017		31.0	34.7	7.0	(17.1)	55.6

Other reserves consist of the capital redemption reserve of £0.5m (2016: £0.5m) and the translation reserve of £6.3m (2016: £8.6m).

All movements in other reserves relate to the translation reserve.

Accounting Policies and Critical Accounting Judgements

For the year ended 30 September 2017

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

Avon Rubber p.l.c. is a public limited company incorporated and domiciled in England and Wales and its ordinary shares are traded on the London Stock Exchange.

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis under the historical cost convention except for derivative instruments which are held at fair value through profit or loss.

RECENT ACCOUNTING DEVELOPMENTS

The following amendments to existing standards were adopted for the financial year but with no impact on the financial statements:

- Amendments to IAS 1, 'Disclosure Initiative'
- Amendments to IFRS 10, IFRS 12 and IAS 28, 'Applying the consolidation exemption'
- Annual improvements 2012–2014 cycle

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the financial period:

- IFRS 9, 'Financial instruments' (applicable from year ending 30 September 2019)
- IFRS 15, 'Revenue from Customer Contracts' (applicable from year ending 30 September 2019)
- IFRS 16, 'Leases' (applicable from year ending 30 September 2020)

The Directors plan to adopt these standards in line with their effective dates.

Under IFRS 16 'Leases', lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the financial statements as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. This depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 30 September 2017, operating lease commitments were £19.7m (see note 23) and operating lease payments for 2017 were £2.3m (see note 2).

The Directors anticipate that the adoption of IFRS 9 and IFRS 15 will not have a material impact on the amounts reported and disclosures made in the Group's financial statements in the period of initial application.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial results and position of the Group and its subsidiaries.

Subsidiaries are all entities over which the Group has power, exposure or rights to variable returns from its involvement with the entity and the ability to use its power to affect the amount of the Group's returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Inter-group transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

FOREIGN CURRENCIES

The Group's presentation currency is Sterling. The results and financial position of all subsidiaries and associates that have a functional currency different from Sterling are translated into Sterling as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date; and
- income and expenses are translated at the rate of exchange at the date of the transaction

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, the cumulative amount of such exchange difference is recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets or liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in equity as qualifying hedges.

REVENUE

Revenue comprises the fair value of the consideration received for the sale of goods and services, net of trade discounts and sales-related taxes. Revenue is recognised when the risks and rewards of the underlying sale have been transferred to the customer, and when collectability of the related receivables is reasonably assured. Transfer of risks and rewards is determined with reference to shipping terms or when a separately identifiable phase of a contract or customer-funded development has been completed and accepted by the customer.

SEGMENT REPORTING

Segments are identified based on management information provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive team. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The chief operating decision-maker assesses the performance of the operating segments based on the measures of revenue, EBIT and EBITDA. Central overheads, finance income and expense and taxation are not allocated to the business segments.

EXCEPTIONAL ITEMS

Transactions are classified as exceptional where they relate to an event that falls outside of the ordinary activities of the business and where individually or in aggregate they have a material impact on the financial statements.

EMPLOYEE BENEFITS

Pension obligations and post-retirement benefits

The Group has both defined benefit and defined contribution plans.

The defined benefit plan's asset or liability as recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date 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 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 liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur, as part of other comprehensive income. Costs associated with investment management are deducted from the return on plan assets. Other expenses are recognised in the income statement as incurred.

For the defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. Contributions are expensed as incurred.

SHARE BASED COMPENSATION

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives service from employees as consideration for equity instruments (options) of the Group. The fair value of the employee service received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market based performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2017

INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Identifiable net assets include intangible assets other than goodwill. Any such intangible assets are amortised over their expected future lives unless they are regarded as having an indefinite life, in which case they are not amortised, but subjected to annual impairment testing in a similar manner to goodwill.

Since the transition to IFRS, goodwill arising from acquisitions of subsidiaries after 3 October 1998 is included in intangible assets. It is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising from acquisitions of subsidiaries before 3 October 1998, which was set against reserves in the year of acquisition under UK GAAP, has not been reinstated and is not included in determining any subsequent profit or loss on disposal of the related entity.

Goodwill is tested for impairment at least annually or whenever there is an indication that the asset may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Any impairment is recognised immediately in the consolidated statement of comprehensive income. Subsequent reversals of impairment losses for goodwill are not recognised.

DEVELOPMENT EXPENDITURE

Expenditure in respect of the development of new products where the outcome is assessed as being reasonably certain as regards viability and technical feasibility is capitalised and amortised over the expected useful life of the development (between five and 15 years). Expenditure that does not meet these criteria is expensed as incurred. The capitalised costs are amortised over the estimated period of sale for each product, commencing in the year in which the product is available to sale. Development costs capitalised are tested for impairment whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the consolidated statement of comprehensive income. Subsequent reversals of impairment losses for research and development are not recognised.

COMPUTER SOFTWARE

Computer software is included in intangible assets at cost and amortised over its estimated life.

OTHER INTANGIBLE ASSETS

Other intangible assets that are acquired by the Group as part of business combinations are stated at cost less accumulated amortisation and impairment losses. The useful lives take account of the differing natures of each of the assets acquired. The lives used are:

- Brands and trademarks – four to ten years
- Customer relationships – seven to ten years
- Order backlog – three months to one year

Amortisation is charged on a straight-line basis over the estimated useful lives of the assets through general and administrative expenses.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost or deemed cost where IFRS 1 exemptions have been applied, less accumulated depreciation and any recognised impairment losses.

Costs include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use including any qualifying finance expenses.

Land is not depreciated. Depreciation is provided on other assets estimated to write down the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the lives used are:

- Freehold – 40 years
- Short leasehold property – over the period of the lease
- Plant and machinery
  - Computer hardware and motor vehicles – three years
  - Presses – 15 years
  - Other plant and machinery – five to ten years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of comprehensive income.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The sale and lease back of property, where the sale price is at fair value and substantially all the risks and rewards of ownership are transferred to the purchaser, is treated as an operating lease. The profit or loss on the transaction is recognised immediately and lease payments charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments are shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the consolidated statement of comprehensive income, and the liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable incremental selling expenses.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost less any provisions for impairment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are initially recognised at fair value and subsequently held at amortised cost.

PROVISIONS

Provisions are recognised when:

- the Group has a legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Where a leasehold property, or part thereof, is vacant or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Borrowing costs are expensed using the effective interest method.

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2017

TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax.

Taxable profit differs from accounting profit because it excludes certain items of income and expense that are recognised in the financial statements but are treated differently for tax purposes. Current tax is the amount of tax expected to be payable or receivable on the taxable profit or loss for the current period. This amount is then amended for any adjustments in respect of prior periods.

Current tax is calculated using tax rates that have been written into law ('enacted') or irrevocably announced/committed by the respective Government ('substantively enacted') at the period-end date. Current tax receivable (assets) and payable (liabilities) are offset only when there is a legal right to settle them net and the entity intends to do so. This is generally true when the taxes are levied by the same tax authority.

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax liabilities arise where the carrying amount of an asset is higher than the tax value (more tax deduction has been taken). This can happen where the Group invests in capital assets, as governments often encourage investment by allowing tax depreciation to be recognised faster than accounting depreciation. This reduces the tax value of the asset relative to its accounting carrying amount. Deferred tax liabilities are generally provided on all taxable temporary differences. The periods over which such temporary differences reverse will vary depending on the life of the related asset or liability.

Deferred tax assets arise where the carrying amount of an asset is lower than the tax value (less tax benefit has been taken). This can happen where the Group has trading losses, which cannot be offset in the current period but can be carried forward. Deferred tax assets are recognised only where the Group considers it probable that it will be able to use such losses by offsetting them against future taxable profits.

However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Taxable temporary differences can also arise on investments in foreign subsidiaries and associates, and interests in joint ventures. Where the Group is able to control the reversal of these differences and it is probable that these will not reverse in the foreseeable future, then no deferred tax is provided. Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset is realised or the liability is settled. Similarly to current taxes, deferred tax assets and liabilities are offset only when there is a legal right to settle them net and the entity intends to do so. This normally requires both assets and liabilities to have arisen in the same country.

Income tax expense reported in the financial statements comprises current tax as well as the effects of changes in deferred tax assets and liabilities. Tax expense/credits are generally recognised in the same place as the items to which they relate. For example, the tax associated with a gain on disposal is recognised in the income statement, in line with the gain on disposal. Equally, the tax associated with pension obligation actuarial gains and losses is recognised in other comprehensive income, in line with the actuarial gains and losses.

DIVIDENDS

Final dividends are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRSs 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 financial statements are disclosed below.

Retirement benefit obligations

Measurement of defined benefit pension obligations requires estimation of future changes in inflation and mortality rates, and the selection of a suitable discount rate (see note 10).

Impairment of intangible assets

The Group capitalises the development of new products and processes as intangible assets or property, plant and equipment. Initial capitalisation and any subsequent impairment is based on the Group's judgement that technological and economic feasibility is demonstrated. In determining the amounts to be capitalised the Group makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Valuation of acquired intangible assets

Acquisitions may result in the recognition of customer relationships, brands and trademarks, patents and order backlogs. Valuation estimates are used to determine the fair values of these intangible assets. This includes estimation of future cash flows, weighted average cost of capital and useful lives.

Taxation

The Group operates in a number of countries around the world. Uncertainties exist in relation to the interpretation of complex tax legislation, changes in tax laws and the amount and timing of future taxable income. In some jurisdictions agreeing tax liabilities with local tax authorities can take several years. This could necessitate future adjustments to taxable income and expense already recorded. At the year end date, tax liabilities and assets are based on management's judgements around the application of the tax regulations and management's estimate of the future amounts that will be settled.

The Group's operating model involves the cross-border supply of goods into end markets. There is a risk that different tax authorities could seek to assess higher profits (or lower costs) to activities being undertaken in their jurisdiction, potentially leading to higher total tax payable by the Group.

At 30 September 2017 there is a provision of £6.7m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgments are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that the reasonably possible range of outcomes is between an additional liability of up to £2.5m and a reduction in liabilities of up to £6.7m.

Notes to the Group Financial Statements

For the year ended 30 September 2017

1 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive team.

The Group has two clearly defined business segments, Protection and Dairy.

Business segments

Year ended 30 September 2017	Protection £m	Dairy £m	Unallocated £m	Group £m
Revenue	113.8	49.4	–	163.2
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	27.1	10.9	(2.0)	36.0
Depreciation of property, plant and equipment	(3.7)	(2.3)	–	(6.0)
Amortisation of development costs and software	(3.6)	(0.6)	–	(4.2)
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	19.8	8.0	(2.0)	25.8
Amortisation of acquired intangibles	(1.0)	(2.0)	–	(3.0)
Exceptional items	(2.9)	0.3	–	(2.6)
Defined benefit pension scheme costs			(0.4)	(0.4)
Segment result	15.9	6.3	(2.4)	19.8
Finance income				0.1
Finance costs				(0.3)
Other finance expense				(1.0)
Profit before taxation				18.6
Taxation				2.9
Profit for the year				21.5
Segment assets	62.3	50.2	34.7	147.2
Segment liabilities	15.6	15.3	60.7	91.6
Other segment items				
Capital expenditure				
– intangible assets	2.2	0.7	–	2.9
– property, plant and equipment	1.1	1.5	–	2.6

The Protection segment includes £50.5m (2016: £52.9m) of revenues from the DoD, the only customer which individually contributes more than 10% to Group revenues.

Year ended 30 September 2016	Protection (restated) £m	Dairy £m	Unallocated £m	Group (restated) £m
Revenue	100.9	42.0	–	142.9
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	21.5	9.8	(1.4)	29.9
Depreciation of property, plant and equipment	(3.9)	(2.0)	–	(5.9)
Amortisation of development costs and software	(2.5)	(0.6)	–	(3.1)
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	15.1	7.2	(1.4)	20.9
Amortisation of acquired intangibles	(1.5)	(1.8)	–	(3.3)
Exceptional items	(0.5)	–	–	(0.5)
Defined benefit pension scheme costs			(0.3)	(0.3)
Segment result	13.1	5.4	(1.7)	16.8
Finance income				–
Finance costs				(0.2)
Other finance expense				(0.7)
Profit before taxation				15.9
Taxation				2.0
Profit for the year from continuing operations				17.9
Discontinued operations – loss for the year				(0.3)
Profit for the year				17.6
Segment assets	69.2	48.6	12.5	130.3
Segment liabilities	14.2	12.3	61.8	88.3
Other segment items				
Capital expenditure				
– intangible assets	2.7	0.6	–	3.3
– property, plant and equipment	1.9	1.7	–	3.6

Geographical segments by origin

Year ended 30 September 2017	North America £m	Europe £m	Group £m
Revenue	123.0	40.2	163.2
Non-current assets	27.9	47.0	74.9

Year ended 30 September 2016	North America £m	Europe £m	Group £m
Revenue	111.2	31.7	142.9
Non-current assets	40.2	45.0	85.2

Notes to the Group Financial Statements continued

For the year ended 30 September 2017

2 EXPENSES BY NATURE

	2017 £m	2016 (restated) £m
Changes in inventories of finished goods and work in progress	1.5	1.5
Raw materials and consumables used	61.1	53.9
Employee benefit expense (note 9)	43.7	39.1
Depreciation and amortisation charges (notes 11 and 12)	13.2	12.3
Impairment of capitalised development expenditure (notes 3 and 11)	2.6	–
Impairment of plant and machinery (notes 3 and 12)	0.3	–
Transportation expenses	2.3	1.9
Operating lease payments	2.3	2.3
Travelling costs	3.1	2.8
Legal and professional fees	1.5	1.5
Other expenses	11.8	10.8
Total cost of sales, selling and distribution costs and general and administrative expenses	143.4	126.1

3 ADJUSTMENTS AND DISCONTINUED OPERATIONS

	2017 £m	2016 £m
Amortisation of acquired intangible assets (note 11)	(3.0)	(3.3)
Exceptional impairment of capitalised development expenditure (note 11)	(2.6)	–
Exceptional impairment of plant and machinery (note 12)	(0.3)	–
Exceptional post-acquistion working capital adjustment	0.3	–
Exceptional integration costs	–	(0.5)
Defined benefit pension scheme administration costs	(0.4)	(0.3)
	(6.0)	(4.1)

The tax impact of the above gives rise to a deferred tax credit to the income statement of £1.0m (2016: £0.9m).

The impairment of capitalised development expenditure and plant and machinery in 2017 represents the write down of costs of developing the Emergency Escape Breathing Device (EEBD) product. Further development of this product has been terminated as there are limited commercial opportunities in the current market.

The integration costs in 2016 relate to the acquisition of the argus thermal imaging camera business and the relocation of the manufacturing to our Melksham, UK site.

Defined benefit pension scheme costs relate to administrative expenses of the scheme which is closed to future accrual. £1.0m (2016: £0.7m) of other finance expense relating to the pension scheme is also treated as an adjustment.

The impact on the cash flow statement of the exceptional items was £0.3m cash inflow (2016: £0.4m cash outflow).

	2017 £m	2016 £m
Loss from discontinued operations	–	0.3

The loss from discontinued operations in 2016 relates to dilapidations costs of former leased premises of a business which was disposed of in 2006. There was no tax impact of these costs.

Discontinued operations had no impact on the cashflow statement in 2017 (2016: £0.3m).

4 FINANCE INCOME AND COSTS

	2017 £m	2016 £m
Interest payable on bank loans and overdrafts	(0.3)	(0.2)
Finance income	0.1	–
	(0.2)	(0.2)

Other finance expense

	2017 £m	2016 £m
Net interest cost: UK defined benefit pension scheme (note 10)	(1.0)	(0.7)
	(1.0)	(0.7)

5 PROFIT BEFORE TAXATION

	2017 £m	2016 £m
Profit before taxation is shown after charging:		
Loss on foreign exchange	1.1	0.4
Depreciation of property, plant and equipment	6.0	5.9
Impairment of plant and machinery (notes 3 and 12)	0.3	–
Repairs and maintenance of property, plant and equipment	0.8	0.7
Amortisation of development expenditure and software	4.2	3.1
Impairment of development expenditure (notes 3 and 11)	2.6	–
Amortisation of acquired intangibles	3.0	3.3
Research and development	1.2	0.9
(Write back)/impairment of inventories	(0.7)	1.0
Impairment of trade receivables	0.1	–
Operating leases	2.3	2.3

Services provided to the Group (including its overseas subsidiaries) by the Company's auditors:		
Audit fees in respect of the audit of the accounts of the parent company and consolidation	–	–
Audit fees in respect of the audit of the accounts of subsidiaries of the Company	0.2	0.2
Total fees	0.2	0.2

6 TAXATION

	2017 £m	2016 (restated) £m
UK current tax	2.2	1.2
UK adjustment in respect of previous periods	(0.3)	–
Overseas current tax	1.5	2.2
Overseas adjustment in respect of previous periods	(2.6)	(3.8)
Total current tax charge/(credit)	0.8	(0.4)
Deferred tax – current year	0.6	(0.9)
Deferred tax – adjustment in respect of previous periods	(4.3)	(0.7)
Total deferred tax credit	(3.7)	(1.6)
Total tax credit	(2.9)	(2.0)

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

	2017 £m	2016 (restated) £m
Profit before taxation	18.6	15.9
Profit before taxation at the average standard rate of 19.5% (2016: 20%)	3.6	3.2
Permanent differences	(0.1)	(1.0)
Losses for which no deferred taxation asset was recognised	–	(0.6)
Differences in overseas tax rates	0.8	0.8
Adjustment in respect of previous periods	(7.2)	(4.4)
Tax credit	(2.9)	(2.0)

The £7.2m credit adjustment in respect of previous periods includes a £2.3m tax credit in connection with company restructuring in previous years and the release of provisions following an updated assessment of uncertain tax positions.

The income tax credited directly to equity during the year was £0.2m (2016: £1.7m charge).

The deferred tax credited directly to equity during the year was £0.2m (2016: £3.2m).

Deferred tax liabilities

	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 October 2015	2.5	7.2	9.7
Arising on acquisition of subsidiaries	–	0.5	0.5
Credited to profit for the year	(0.3)	(1.2)	(1.5)
Exchange differences	0.3	1.0	1.3
At 30 September 2016	2.5	7.5	10.0
Credited to profit for the year	(0.7)	(2.8)	(3.5)
Exchange differences	0.1	0.2	0.3
At 30 September 2017	1.9	4.9	6.8

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

Deferred tax assets

	Retirement benefit obligation £m	Share options (restated) £m	Accelerated capital allowances £m	Other temporary differences £m	Total (restated) £m
At 30 September 2015	3.3	0.7	0.4	0.1	4.5
Credited to profit for the year	–	0.2	–	(0.1)	0.1
Credited/(charged) to equity on recognition	3.5	(0.3)	–	–	3.2
At 30 September 2016	6.8	0.6	0.4	–	7.8
Credited/(charged) against profit for the year	0.1	0.2	(0.1)	–	0.2
Credited/(charged) to equity	0.6	(0.4)	–	–	0.2
At 30 September 2017	7.5	0.4	0.3	–	8.2

The standard rate of corporation tax in the UK is 19%.

A number of changes to the UK corporation tax system were announced in the March 2016 Budget Statement, which reduce the main rate of corporation tax to 17% by 1 April 2020. These changes were substantively enacted at the balance sheet date.

The Group has not recognised deferred tax assets in respect of the following matters in the UK, as it is uncertain when the criteria for recognition of these assets will be met.

	2017 £m	2016 £m
Losses	–	–
Other	0.7	0.7
	0.7	0.7

7 DIVIDENDS

On 2 February 2017, the shareholders approved a final dividend of 6.32p per qualifying ordinary share in respect of the year ended 30 September 2016. This was paid on 17 March 2017 absorbing £1.9m of shareholders' funds.

The Board of Directors declared an interim dividend of 4.11p (2016: 3.16p) per qualifying ordinary share in respect of the year ended 30 September 2017. This was paid on 8 September 2017 absorbing £1.3m (2016: £1.0m) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 8.21p per qualifying ordinary share in respect of the year ended 30 September 2017, which will absorb an estimated £2.5m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 16 March 2018 to shareholders on the register at the close of business on 16 February 2018. In accordance with accounting standards this dividend has not been provided for and there are no corporation tax consequences.

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trust. The Company has dilutive potential ordinary shares in respect of the Performance Share Plan (see page 61). Adjusted earnings per share removes the effect of the amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2017	2016
Weighted average number of ordinary shares in issue used in basic calculations (thousands)	30,434	30,276
Potentially dilutive shares (weighted average) (thousands)	186	612
Fully diluted number of ordinary shares (weighted average) (thousands)	30,620	30,888

	2017			2016 (restated)		
	£m	Basic EPS pence	Diluted EPS pence	£m	Basic EPS pence	Diluted EPS pence
Profit attributable to equity shareholders of the Company	21.5	70.6	70.2	17.6	58.1	57.0
Loss from discontinued operations	–	–	–	0.3	1.0	1.0
Profit from continuing operations	21.5	70.6	70.2	17.9	59.1	58.0
Adjustments	3.7	12.2	12.1	3.9	12.8	12.6
Profit excluding loss from discontinued operations, amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs	25.2	82.8	82.3	21.8	71.9	70.6

9 EMPLOYEES

The total remuneration and associated costs during the year were:

	2017 £m	2016 (restated) £m
Wages and salaries	34.8	31.0
Social security costs	4.0	3.6
Other pension costs	0.9	0.9
US healthcare costs	3.1	2.6
Share based payments (note 24)	0.9	1.0
	43.7	39.1

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid director, are given on pages 65 to 73.

The average monthly number of employees (including Executive Directors) during the year was::

	2017 Number	2016 Number
By business segment		
Protection	490	569
Dairy	281	282
Other	12	13
	783	864

At the end of the financial year the total number of employees in the Group was 779 (2016: 828).

Key management compensation

	2017 £m	2016 (restated) £m
Salaries and other employee benefits	1.9	2.2
Post employment benefits	0.1	0.1
Share based payments	0.3	0.5
	2.3	2.8

The key management compensation above includes the Directors plus five (2016: four) others who were members of the Group Executive during the year.

10 PENSIONS AND OTHER RETIREMENT BENEFITS

Retirement benefit assets and liabilities can be analysed as follows:

	2017 £m	2016 £m
Pension liability	44.1	39.9

Defined benefit pension scheme

Full disclosures are provided in respect of the UK defined benefit pension scheme below.

The Group operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The plan was closed to future accrual of benefit on 1 October 2009 and has a weighted average maturity of approximately 17 years. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The Trustee is Avon Rubber Pension Trust Limited, the Directors of which are members of the plan. Four of the Directors are appointed by the Company and two are elected by the members.

The funding of the plan is based on regular actuarial valuations. The most recent finalised actuarial valuation of the plan was carried out at 31 March 2016 when the market value of the plan's assets was £298.6m. The fair value of those assets represented 90% of the value of the benefits which had accrued to members, after allowing for future increase in pensions.

During the year the Group made payments to the fund of £1.0m (2016: 0.7m), in respect of scheme expenses and deficit recovery plan payments. In accordance with the deficit recovery plan agreed following the 31 March 2016 actuarial valuation, the Group will make payments in 2018 of £1.5m in respect of deficit recovery plan payments and scheme expenses.

The defined benefit plan exposes the Group to actuarial risks such as longevity risk, inflation risk and investment risk.

An updated actuarial valuation for IAS 19 (revised) purposes was carried out by an independent actuary at 30 September 2016 using the projected unit method.

Notes to the Group Financial Statements continued

For the year ended 30 September 2017

10 PENSIONS AND OTHER RETIREMENT BENEFITS CONTINUED

Movement in net defined benefit liability

	Defined benefit obligation		Defined benefit asset		Net defined benefit liability	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
At 1 October	(373.4)	(316.0)	333.5	299.5	(39.9)	(16.5)
Included in profit or loss						
Administrative expenses	(0.4)	(0.3)	–	–	(0.4)	(0.3)
Net interest cost	(9.0)	(12.0)	8.0	11.3	(1.0)	(0.7)
	(9.4)	(12.3)	8.0	11.3	(1.4)	(1.0)
Included in other comprehensive income						
Remeasurement (loss)/gain:						
– Actuarial (loss)/gain arising from:						
– demographic assumptions	(3.9)	7.2	–	–	(3.9)	7.2
– financial assumptions	(10.7)	(73.9)	–	–	(10.7)	(73.9)
– experience adjustment	13.2	5.7	–	–	13.2	5.7
– Return on plan assets excluding interest income	–	–	(2.4)	37.9	(2.4)	37.9
	(1.4)	(61.0)	(2.4)	37.9	(3.8)	(23.1)
Other						
Contributions by the employer	–	–	1.0	0.7	1.0	0.7
Net benefits paid out	15.8	15.9	(15.8)	(15.9)	–	–
At 30 September	(368.4)	(373.4)	324.3	333.5	(44.1)	(39.9)

Plan assets

	2017 £m	2016 £m
Equities	200.1	166.2
Liability Driven Investment	85.5	95.0
Corporate bonds	30.0	29.7
Cash	8.7	42.6
Total fair value of assets	324.3	333.5

The Liability Driven Investment (LDI) comprises a series of LIBOR-earning cash deposits which are combined with contracts to hedge interest rate and inflation rate risk over the expected life of the plan's liabilities.

All equity securities and corporate bonds have quoted prices in active markets.

The aim of the Trustee is to invest the assets of the plan to ensure that the benefits promised to members are provided. The target weightings under the current asset allocation strategy are 50% to growth assets, 20% to mid-risk assets and 30% to LDI.

Actuarial assumptions

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 (revised) are set out below:

	2017 % p.a.	2016 % p.a.
Inflation (RPI)	3.10	2.85
Inflation (CPI)	2.10	1.65
Pension increases post August 2005	2.15	2.05
Pension increases pre August 2005	3.05	2.75
Discount rate for scheme liabilities	2.55	2.45

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience. The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2017	2016
Male	22.2	21.9
Female	24.1	23.9

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2017	2016
Male	23.9	23.2
Female	25.9	25.4

Sensitivity analysis

	Defined benefit obligation Increase/(decrease) £m
Inflation (RPI) (0.25% increase)	7.3
Discount rate for scheme liabilities (0.25% increase)	(11.4)
Future mortality (one year increase)	12.3

The above sensitivity analysis shows the impact on the defined benefit obligation only, not the net pension liability as it does not take into account any impact on the asset valuation.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur.

Defined contribution pension scheme

The charge in respect of defined contribution pension schemes was £0.9m (2016: £0.9m).

Notes to the Group Financial Statements continued

For the year ended 30 September 2017

11 INTANGIBLE ASSETS

	Goodwill £m	Acquired intangibles £m	Development expenditure £m	Computer software £m	Total £m
At 1 October 2015					
Cost	2.3	22.3	25.5	3.8	53.9
Accumulated amortisation and impairment	–	(1.6)	(9.3)	(1.7)	(12.6)
Net book amount	2.3	20.7	16.2	2.1	41.3
Year ended 30 September 2016					
Opening net book amount	2.3	20.7	16.2	2.1	41.3
Exchange differences	0.4	3.1	2.2	0.6	6.3
Additions	–	–	3.2	0.1	3.3
Acquisitions (note 26)	0.5	2.3	–	–	2.8
Amortisation	–	(3.3)	(2.4)	(0.7)	(6.4)
Closing net book amount	3.2	22.8	19.2	2.1	47.3
At 30 September 2016					
Cost	3.2	27.1	34.1	4.7	69.1
Accumulated amortisation and impairment	–	(4.3)	(14.9)	(2.6)	(21.8)
Net book amount	3.2	22.8	19.2	2.1	47.3
Year ended 30 September 2017					
Opening net book amount	3.2	22.8	19.2	2.1	47.3
Exchange differences	–	0.4	(0.4)	–	–
Additions	–	–	2.7	0.2	2.9
Impairment	–	–	(2.6)	–	(2.6)
Amortisation	–	(3.0)	(3.5)	(0.7)	(7.2)
Closing net book amount	3.2	20.2	15.4	1.6	40.4
At 30 September 2017					
Cost	3.2	27.5	30.9	4.8	66.4
Accumulated amortisation and impairment	–	(7.3)	(15.5)	(3.2)	(26.0)
Net book amount	3.2	20.2	15.4	1.6	40.4

Development expenditure is amortised over a period between five and 15 years.
Computer software is amortised over a period between three and seven years.
The remaining useful economic life of the development expenditure is between five and 12 years.

Acquired intangibles include customer relationships, development costs, order book on acquisition and brands and are amortised over a period between three and ten years.

Goodwill acquired in a business combination is allocated to the groups of cash generating units (CGUs) that are expected to benefit from that business combination. Goodwill of £1.8m (2016: £1.8m) is allocated to the Protection division and £1.4m (2016: £1.4m) is allocated to the Dairy division.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill values are compared against the value in use of the relevant CGU groups. The value in use calculations were based on projected cash flows for 2018 to 2020 derived from the latest three year plan approved by the Board. Cash flows for 2021 onwards for both divisions were projected to grow by 2.0% per annum. Cash flows were discounted to give a present value using a pre-tax discount rate of 11.7%.

Management considers that there are no reasonably likely changes to the above key assumptions which would lead to an impairment being recognised.

12 PROPERTY, PLANT AND EQUIPMENT

	Freeholds £m	Short leaseholds £m	Plant and machinery £m	Total £m
At 30 September 2015				
Cost	8.9	3.2	57.6	69.7
Accumulated depreciation and impairment	(1.2)	(0.6)	(39.7)	(41.5)
Net book amount	7.7	2.6	17.9	28.2
Year ended 30 September 2016				
Opening net book amount	7.7	2.6	17.9	28.2
Exchange differences	1.6	0.1	2.3	4.0
Reclassifications	2.6	(2.6)	–	–
Additions	0.1	–	3.6	3.7
Acquisitions (note 26)	–	–	0.2	0.2
Disposals	–	–	(0.1)	(0.1)
Depreciation charge	(0.3)	(0.1)	(5.5)	(5.9)
Closing net book amount	11.7	–	18.4	30.1
At 30 September 2016				
Cost	14.3	–	65.8	80.1
Accumulated depreciation and impairment	(2.6)	–	(47.4)	(50.0)
Net book amount	11.7	–	18.4	30.1
Year ended 30 September 2017				
Opening net book amount	11.7	–	18.4	30.1
Exchange differences	0.1	–	(0.2)	(0.1)
Additions	0.2	–	2.4	2.6
Impairment	–	–	(0.3)	(0.3)
Depreciation charge	(0.5)	–	(5.5)	(6.0)
Closing net book amount	11.5	–	14.8	26.3
At 30 September 2017				
Cost	14.6	–	66.2	80.8
Accumulated depreciation and impairment	(3.1)	–	(51.4)	(54.5)
Net book amount	11.5	–	14.8	26.3

Notes to the Group Financial Statements continued

For the year ended 30 September 2017

13 INVENTORIES

	2017 £m	2016 £m
Raw materials	15.1	13.4
Work in progress	0.8	0.4
Finished goods	5.9	6.8
	21.8	20.6

Provisions for inventory write downs were £3.7m (2016: £4.2m).

The cost of inventories recognised as an expense and included in cost of sales amounted to £62.6m (2016: £55.4m).

14 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Trade receivables	20.4	18.4
Less: provision for impairment of receivables	(0.3)	(0.4)
Trade receivables – net	20.1	18.0
Prepayments	0.8	0.7
Other receivables	2.9	1.3
	23.8	20.0

Other receivables comprise sundry items which are not individually significant for disclosure.

Movements on the Group provision for impairment of receivables are as follows:

	2017 £m	2016 £m
At 1 October	0.4	0.4
Release of provision for impairment of receivables	(0.1)	–
Acquisitions	–	–
Receivables written off during the year as uncollectable	–	–
At 30 September	0.3	0.4

The creation and release of provisions for impaired receivables have been included in general and administrative expenses in the consolidated statement of comprehensive income.

15 CASH AND CASH EQUIVALENTS

	2017 £m	2016 £m
Cash at bank and in hand	26.5	4.5

Cash at bank and in hand balances are denominated in a number of different currencies and earn interest based on national rates.

16 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade payables	12.0	6.5
Other taxation and social security	0.4	0.6
Other payables	0.8	0.4
Accruals	16.9	16.7
	30.1	24.2

Other payables comprise sundry items which are not individually significant for disclosure.

17 BORROWINGS

	2017 £m	2016 £m
Current		
Bank loans	1.8	2.5
	1.8	2.5
Non-current		
Bank loans and overdrafts	–	–
Total borrowings	1.8	2.5
The maturity profile of the Group's borrowings at the year end was as follows:		
In one year or less, or on demand	1.8	2.5
	1.8	2.5

The Group has the following undrawn committed facilities:

	2017 £m	2016 £m
Expiring within one year	–	–
Expiring beyond one year	29.9	30.6
Total undrawn committed borrowing facilities	29.9	30.6
Bank loans and overdrafts utilised	1.8	2.5
Utilised in respect of guarantees	0.3	0.3
Total Group facilities	32.0	33.4

All facilities are at floating interest rates.

On 9 June 2014 the Group agreed new bank facilities with Barclays Bank and Comerica Bank. The combined facility comprises a revolving credit facility of $40m and expires on 30 November 2019. This facility is priced on the Dollar LIBOR plus margin of 1.25% and includes financial covenants which are measured on a quarterly basis. The Group was in compliance with its financial covenants during 2017 and 2016.

InterPuls S.p.A. has a fixed term loan of €2.0m which expires on 31 October 2017. This facility is priced on EURIBOR plus margin of 1.15%.

The Group has provided the lenders with a negative pledge in respect of certain shares in Group companies.

17 BORROWINGS CONTINUED

The effective interest rates at the balance sheet dates were as follows:

	2017 Sterling %	2017 Dollar %	2017 Euro %	2016 Sterling %	2016 Dollar %	2016 Euro %
Bank loans	–	–	0.8	–	–	1.0
Finance lease liabilities	–	–	–	–	–	3.0

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Property obligations £m	Total £m
Balance at 30 September 2015	2.6	2.6
Payments in the year	(0.1)	(0.1)
Balance at 30 September 2016	2.5	2.5
Payments in the year	(0.5)	(0.5)
Balance at 30 September 2017	2.0	2.0

Analysis of total provisions	2017 £m	2016 £m
Non-current	1.7	1.8
Current	0.3	0.7
	2.0	2.5

Property obligations include an onerous lease provision of £1.2m in respect of unutilised space at the Group's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2018 and the remaining £0.9m over the following three years. Other property obligations relate to former premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next ten years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, or subletting of surplus leasehold property and the final negotiated settlement of any dilapidation claims with landlords.

19 FINANCIAL INSTRUMENTS

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as 'loans and receivables'. Borrowings and trade and other payables are classified as 'other financial liabilities at amortised cost'. Both categories are initially measured at fair value and subsequently held at amortised cost.

Derivatives (forward exchange contracts) are classified as 'derivatives used for hedging' and accounted for at fair value with gains and losses taken to reserves through the consolidated statement of comprehensive income.

Financial risk and treasury policies

The Group's treasury management team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange rate risk. The Group treasury management team is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

The US Government through the Department of Defense is a major customer of the Group. Credit evaluations are carried out on all non-Government customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk, except in respect of the US Government noted above.

Counterparty risk arises from the use of derivative financial instruments. This is managed through credit limits, counterparty approvals and rigorous monitoring procedures.

Where possible, letters of credit or payments in advance are received for significant export sales.

The Group establishes an allowance for impairment in respect of receivables where recoverability is considered doubtful.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	2017 £m	2016 £m
Trade receivables	20.1	18.0
Other receivables	2.9	1.3
Cash and cash equivalents	26.5	4.5
Forward exchange contracts used for hedging	0.2	–
	49.7	23.8

The maximum exposure to credit risk for financial assets at the reporting date by currency was:

Carrying amount of financial assets	2017 £m	2016 £m
Sterling	18.1	2.6
US Dollar	24.9	16.1
Euro	4.5	4.1
Other currencies	2.2	1.0
	49.7	23.8

19 FINANCIAL INSTRUMENTS CONTINUED

Provisions against trade receivables

The ageing of trade receivables and associated provision for impairment at the reporting date was:

	Gross 2017 £m	Provision 2017 £m	Net 2017 £m	Gross 2016 £m	Provision 2016 £m	Net 2016 £m
Not past due	16.7	–	16.7	14.9	–	14.9
Past due 0–30 days	1.9	–	1.9	2.4	–	2.4
Past due 31–60 days	0.4	–	0.4	0.5	(0.1)	0.4
Past due 61–90 days	0.1	–	0.1	0.2	–	0.2
Past due more than 91 days	1.3	(0.3)	1.0	0.4	(0.3)	0.1
	20.4	(0.3)	20.1	18.4	(0.4)	18.0

The total past due receivables, net of provisions is £3.4m (2016: £3.1m).

The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered. For trade receivables that are not past due, taking into account good historical collection experience, management records an impairment charge only where there is a specific risk of non-collection.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position. Typically the Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses and at the year end had facilities of £32.0m (2016: £33.4m).

The following shows the contractual maturities of financial liabilities, including interest payments, where applicable, and excluding the impact of netting agreements and on an undiscounted basis:

Analysis of contractual cash flow maturities	Carrying amount £m	Contractual cash flows £m	Less than 12 months £m	1–2 Years £m	2–5 Years £m	More than 5 Years £m
30 September 2017						
Bank loans and overdrafts	1.8	1.8	1.8			
Trade and other payables	29.7	29.7	29.7	–	–	–
Forward exchange contracts used for hedging						
– Outflow	–	–	–	–	–	–
– Inflow	0.2	8.9	8.9	–	–	–
	31.7	40.4	40.4	–	–	–

Analysis of contractual cash flow maturities	Carrying amount £m	Contractual cash flows £m	Less than 12 months £m	1–2 Years £m	2–5 Years £m	More than 5 Years £m
30 September 2016						
Bank loans and overdrafts	2.5	2.5	2.5	–	–	–
Trade and other payables	23.6	23.6	23.6	–	–	–
Forward exchange contracts used for hedging						
– Outflow	0.9	11.9	11.9	–	–	–
– Inflow	–	–	–	–	–	–
	27.0	38.0	38.0	–	–	–

(iii) Market risks

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control risk within suitable parameters.

(a) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies giving rise to this risk are primarily the US Dollar and related currencies and the Euro. The Group hedges material forecast US Dollar or euro foreign currency transactional exposures using forward exchange contracts. In respect of other monetary assets and liabilities held in currencies other than Sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value through the consolidated statement of comprehensive income. Fair value is assessed by reference to year end spot exchange rates, adjusted for forward points associated with contracts of similar duration. The fair value of forward exchange contracts used as hedges at 30 September 2017 was a £0.2m asset (2016: £0.9m liability).

All forward exchange contracts in place at 30 September 2017 mature within one year.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of five cents in the value of the US Dollar against Sterling would have had a £0.7m (2016: £0.6m) impact on the Group's current year profit before interest and tax, a £0.7m (2016: £0.6m) impact on the Group's profit after tax and a £1.7m (2016: £0.9m) impact on shareholders' funds. The method of estimation, which has been applied consistently, involves assessing the translation impact of the US Dollar.

A general change of five cents in the value of the Euro against Sterling would have had an £0.1m (2016: nil) impact on the Group's current year profit before interest and tax, a £0.1m (2016: nil) impact on the Group's profit after tax and a £1.0m (2016: £0.2m) impact on shareholders' funds. The method of estimation which has been applied consistently, involves assessing the translation impact of the Euro.

The following significant exchange rates applied during the year:

	Average rate 2017	Closing rate 2017	Average rate 2016	Closing rate 2016
US Dollar	1.267	1.339	1.423	1.296
Euro	1.147	1.134	1.282	1.161

19 FINANCIAL INSTRUMENTS CONTINUED

(b) Interest rate risk
The Group does not undertake any hedging activity in this area. All foreign currency cash deposits are made at prevailing interest rates and where rates are fixed the period of the fix is generally not more than one month. The main element of interest rate risk concerns borrowings which are made on a floating LIBOR-based rate and short-term overdrafts in foreign currencies which are also on a floating rate.

The Group is exposed to interest rate fluctuations but with net cash of £24.7m (2016: £2.0m) a 1% increase in interest rates would have no material impact on interest costs (2016: nil).

The floating rate financial liabilities comprised bank loans bearing floating interest rates fixed by reference to the relevant LIBOR or equivalent rate.

All cash deposits are on floating rates or overnight rates based on the relevant LIBOR or equivalent rate.

(iv) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio, calculated as net debt divided by capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is measured by the current market capitalisation of the Group, plus net debt.

The Group's net debt at the balance sheet date was:

	2017 £m	2016 £m
Total borrowings	(1.8)	(2.5)
Cash and cash equivalents	26.5	4.5
Group net cash	24.7	2.0
Market capitalisation of the Group at 30 September	290.8	313.3
Gearing ratio	n/a	n/a

(v) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2017 £m	Fair value 2017 £m	Carrying amount 2016 £m	Fair value 2016 £m
Trade receivables	20.1	20.1	18.0	18.0
Other receivables	2.9	2.9	1.3	1.3
Cash and cash equivalents	26.5	26.5	4.5	4.5
Forward exchange contracts	0.2	0.2	(0.9)	(0.9)
Bank loans, overdrafts and finance leases	(1.8)	(1.8)	(2.5)	(2.5)
Trade and other payables	(29.7)	(29.7)	(23.6)	(23.6)
	18.2	18.2	(3.2)	(3.2)

Basis for determining fair value
The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives
The fair value of forward exchange contracts is determined by using valuation techniques using year end spot rates, adjusted for the forward points to the contract's value date. No contract's value date is greater than one year from the year end. These instruments are included in level 2 in the fair value hierarchy as the valuation is based on inputs that are either directly or indirectly observable.

Secured loans
As the loans are floating rate borrowings, amortised cost is deemed to reflect fair value.

Trade and other receivables/payables
As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

20 SHARE CAPITAL

	No. of shares 2017	Ordinary shares 2017 £m	Share premium 2017 £m	No. of shares 2016	Ordinary shares 2016 £m	Share premium 2016 £m
Called up allotted and fully paid ordinary shares of £1 each						
At the beginning of the year	31,023,292	31.0	34.7	31,023,292	31.0	34.7
At the end of the year	31,023,292	31.0	34.7	31,023,292	31.0	34.7

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report on pages 69 to 70.

Ordinary shareholders are entitled to receive dividends and are entitled to vote at meetings of the Company.

At 30 September 2017, 565,803 (2016: 718,789) ordinary shares were held by a trust in respect of obligations under the 2010 Performance Share Plan. Dividends on these shares have been waived. The market value of the shares held in the trust at 30 September 2017 was £5.3m (2016: £7.3m). These shares are held at cost as treasury shares and deducted from shareholders' equity.

During 2017 the trust acquired 100,000 (2016: 181,890) shares at a cost of £1.0m (2016: £1.8m).

247,099 (2016: 343,526) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

5,887 (2016: 6,890) ordinary shares of £1 each were awarded in relation to the annual incentive plan.

Notes to the Group Financial Statements continued

For the year ended 30 September 2017

21 CASH GENERATED FROM OPERATIONS

	2017 £m	2016 (restated) £m
Continuing operations		
Profit for the year	21.5	17.9
Adjustments for:		
Taxation	(2.9)	(2.0)
Depreciation	6.0	5.9
Amortisation of intangible assets	7.2	6.4
Impairment of plant and machinery	0.3	–
Impairment of development expenditure	2.6	–
Defined benefit pension scheme cost	0.4	0.3
Finance income	(0.1)	–
Finance costs	0.3	0.2
Other finance expense	1.0	0.7
Movement in respect of employee share scheme	0.9	1.0
Increase in inventories	(1.7)	(0.4)
Increase in receivables	(4.7)	(0.7)
Increase in payables and provisions	4.8	3.4
Cash generated from continuing operations	35.6	32.7
Analysed as:		
Cash generated from continuing operations prior to the effect of exceptional operating items	35.3	33.1
Cash effect of exceptional operating items	0.3	(0.4)
Discontinued operations		
Loss for the year	–	(0.3)
Cash used in discontinued operations	–	(0.3)
Cash generated from operations	35.6	32.4

Cash flows relating to the discontinued operations are as follows:

	2017 £m	2016 £m
Cash flows from operating activities	–	(0.3)
Cash used in discontinued operations	–	(0.3)

22 ANALYSIS OF NET CASH/(DEBT)

This note sets out the calculation of net debt, a measure considered important in explaining our financial position.

	At 1 Oct 2016 £m	Cash flow £m	Exchange movements £m	At 30 Sep 2017 £m
Cash at bank and in hand	4.5	22.0	–	26.5
Overdrafts	–	–	–	–
Net cash and cash equivalents	4.5	22.0	–	26.5
Debt due in less than 1 year	(2.5)	0.8	(0.1)	(1.8)
	2.0	22.8	(0.1)	24.7

23 OTHER FINANCIAL COMMITMENTS

	2017 £m	2016 £m
Capital expenditure committed	1.0	–

Capital expenditure committed represents the amount contracted in respect of property, plant and equipment at the end of the financial year for which no provision has been made in the financial statements.

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2017 £m	2016 £m
Within one year	1.5	1.4
Between 1 and 5 years	6.9	6.1
Later than 5 years	11.3	13.4
	19.7	20.9

The majority of leases of land and buildings are subject to rent reviews.

24 SHARE BASED PAYMENTS

The Group operates an equity-settled share based performance share plan ('PSP'). Details of the Plan, awards granted and options outstanding are set out in the Remuneration Report on pages 53 and 74 and are incorporated by reference into these financial statements. An expense of £0.9m was recognised in the year. In 2017 an error was identified in the process for valuing the share based payments charged to the income statement in previous years. The comparative figures for 2016 have therefore been restated to correct the charge and the related disclosures. The effect is to increase the 2016 share based payment charge (included in General and administrative expenses in the Income Statement) from £0.1m to £1.0m and to reduce statutory and adjusted operating profit by £0.9m. This reduces adjusted basic and basic earnings per share by 2.3 pence and reduces diluted earnings per share by 2.2 pence. The share based payment charge is a non-cash amount and there is no impact on the Group's balance sheet.

A Monte Carlo simulation was used to calculate the fair value of awards granted that are subject to a Total Shareholder Return performance condition. The fair value of other awards was calculated as the market price of the shares at the date of grant reduced by the present value of the dividends expected to be paid over the vesting period. The principal assumptions used were:

	2017	2016 (restated)
Weighted average fair value (£)	8.02	8.13
Key assumptions used:		
Share price or date of grant	10.40	10.72
Expected volatility (%)	28	23
Risk-free interest rate (%)	0.2	0.8
Expected option term (years)	3.0	3.0
Dividend yield (%)	0.9	0.7

Volatility is estimated based on actual experience over the last three years.

25 RELATED PARTY TRANSACTIONS

There were no related party transactions during the year or outstanding at the end of the year (2016: £nil). Other than key management compensation which is disclosed in note 9.

26 ACQUISITIONS

argus

On 8 October 2015, the Group acquired the trade and assets of the argus thermal imaging business from e2v technologies for consideration of £3.3m. Based in Chelmsford UK, argus is a leading designer and manufacturer of thermal imaging cameras for the first responder and Fire markets.

	Book value £m	Accounting policy alignment £m	Fair value adjustment £m	Fair value £m
Intangible assets	–	0.8	1.5	2.3
Property, plant and equipment	0.2	–	–	0.2
Inventories	0.8	–	–	0.8
Deferred tax liabilities	–	(0.2)	(0.3)	(0.5)
Net assets acquired	1.0	0.6	1.2	2.8
Goodwill				0.5
Total consideration				3.3
Satisfied by:				
Cash				3.3
				3.3

The goodwill is attributable to sales synergies from integration of distribution channels, access to new markets and the workforce of the acquired businesses.

The Directors have reviewed the goodwill for impairment and concluded that the carrying value is recoverable as the fair value less costs to sell exceeds the carrying amount of the net assets and goodwill recognised.

Intangible assets comprise customer relationships (£0.6m), development costs (£0.8m), order book (£0.4m) and brand (£0.5m).

The results of the acquired business have been included in the Group's consolidated statement of comprehensive income from 8 October 2015 and contributed revenue of £5.5m and profit of £0.5m in 2016.

27 GROUP UNDERTAKINGS

	Registered office address	Country in which incorporated
Held by parent company		
Avon Polymer Products Limited	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Rubber Overseas Limited	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Rubber Pension Trust Limited	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Dairy Solutions (Shanghai) International Trading Company Limited	Section B1, 1F, District D12C, 207 Taigu road, Waigaoqiao Free Trade Zone, Shanghai, PRC	China
Avon Rubber Italia S.r.l.	Corso di Porta Vittoria 9, 20122, Milano, Italy	Italy
Held by Group undertakings		
Avon Engineered Fabrications, Inc.	113 Street A, Picayune, Mississippi, 39466, United States	US
Avon Hi-Life, Inc.	110 Lincoln St, Johnson Creek, WI 53038, United States	US
Avon Protection Systems, Inc.	503 8th St, Cadillac, MI 49601, United States	US
Avon Rubber & Plastics, Inc.	503 8th St, Cadillac, MI 49601, United States	US
Avon Group Limited	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Protection Systems UK Limited	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon-Dairy America do sul Solucoes Para Ordentia LTDA	City of Castro, State of Parana, at Rua José Antonio de Oliveira, 80, Jardim das Araucárias, Zip Code 84174620	Brazil
InterPuls S.p.A.	via F. Maritano, 11 | 42020, Albinea RE, Italy	Italy

Shareholdings are ordinary shares and all undertakings are wholly owned by the Group and operate primarily in their country of incorporation.

All companies have a year ending in September, except Avon Dairy Solutions (Shanghai) which has a year ending in December. For the purpose of the Group accounts the results are consolidated to 30 September.

Avon Rubber Pension Trust Limited is a pension fund trustee.

Avon Rubber Overseas Limited, Avon Rubber Italia S.r.l. and Avon Rubber & Plastics, Inc. are investment holding companies.

InterPuls S.p.A. designs and manufactures specialist milking components for use in the dairy industry.

The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer based products.

Avon Polymer Products Limited and Avon Rubber Overseas Limited are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006 ('the Act'). All remaining UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 480 of the Act.

Parent Company Balance Sheet

At 30 September 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets	4	–	–
Property, plant and equipment	5	–	–
Investments in subsidiaries	6	70.8	70.8
Deferred tax assets	7	0.5	0.7
		71.3	71.5
Current assets			
Trade and other receivables	8	0.4	0.5
Amounts owed by Group undertakings		70.4	73.2
Cash and cash equivalents		14.7	0.1
		85.5	73.8
Liabilities			
Current liabilities			
Trade and other payables	9	3.6	3.2
Amounts owed to Group undertakings		21.0	8.3
Provisions for liabilities and charges	10	0.3	0.7
		24.9	12.2
Net current assets		60.6	61.6
Non-current liabilities			
Borrowings	11	–	–
Provisions for liabilities and charges	10	1.2	1.8
		1.2	1.8
Net assets		130.7	131.3
Shareholders' equity			
Ordinary shares	12	31.0	31.0
Share premium account		34.7	34.7
Capital redemption reserve		0.5	0.5
Retained Earnings		64.5	65.1
Total equity		130.7	131.3

The parent company's profit for the financial year was £3.1m (2016 restated: £6.4m).

These financial statements on pages 122 to 130 were approved by the Board of Directors on 15 November 2017 and signed on its behalf by:

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 30 September 2017

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings (restated) £m	Total equity (restated) £m
At 30 September 2015		31.0	34.7	0.5	62.1	128.3
Profit for the year	1	–	–	–	6.4	6.4
Dividends paid	2	–	–	–	(2.4)	(2.4)
Movement in shares held by the employee benefit trust	12	–	–	–	(1.7)	(1.7)
Movement in respect of employee share schemes	14	–	–	–	1.0	1.0
Deferred tax relating to employee share schemes	7	–	–	–	(0.3)	(0.3)
At 30 September 2016		31.0	34.7	0.5	65.1	131.3
Profit for the year	1	–	–	–	3.1	3.1
Dividends paid	2	–	–	–	(3.2)	(3.2)
Movement in shares held by the employee benefit trust	12	–	–	–	(1.0)	(1.0)
Movement in respect of employee share schemes	14	–	–	–	0.9	0.9
Deferred tax relating to employee share schemes	7	–	–	–	(0.4)	(0.4)
At 30 September 2017		31.0	34.7	0.5	64.5	130.7

2016 has been restated to correct the charge for share based payments (see note 1).

Parent Company Accounting Policies

For the year ended 30 September 2017

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF PREPARATION

The accounts have been prepared on a going concern basis and in accordance with the Companies Act 2006 and with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and under the historical cost convention except for financial assets and liabilities (including derivative instruments) held at fair value through profit and loss.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to the following:

- presentation of a cash flow statement and related notes
- comparative period reconciliations for share capital and intangible and tangible fixed assets
- transactions with wholly owned subsidiaries
- capital management
- share based payments
- financial instruments
- compensation of key management personnel

Where required, equivalent disclosures are given in the Group financial statements.

FOREIGN CURRENCIES

The Company's functional currency is Sterling. Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

PENSIONS

The Company operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is closed to new entrants and was closed to future accrual of benefits from 1 October 2009. Scheme assets are measured using market values, while liabilities are measured using the projected unit method. One of the Company's subsidiaries, Avon Polymer Products Limited is the employer that is legally responsible for the scheme and the pension obligations are included in full in its accounts. No asset or provision has been reflected in the Company's balance sheet for any surplus or deficit arising in respect of pension obligations.

The Company also provides pensions by contributing to defined contribution schemes. The charge in the profit and loss account reflects the contributions paid and payable to these schemes during the period. Full disclosures of the UK pension schemes have been provided in the Group financial statements.

SHARE BASED PAYMENT

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 the 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 (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity 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 profit and loss account. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

INTANGIBLE ASSETS

Computer software is included in intangible assets at cost and amortised over its estimated life.

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the intangible assets based upon discounted cash flow projections using an appropriate risk weighted discount factor.

PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment losses.

Costs include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use including any qualifying finance expenses.

Depreciation is provided estimated to write down the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the lives used are:

- Computer hardware – three years
- Other plant and machinery – five to ten years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts.

LEASED ASSETS

Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

DEFERRED TAXATION

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax liabilities arise where the carrying amount of an asset is higher than the tax value (more tax deduction has been taken). This can happen where the Company invests in capital assets, as governments often encourage investment by allowing tax depreciation to be recognised faster than accounting depreciation. This reduces the tax value of the asset relative to its accounting carrying amount. Deferred tax liabilities are generally provided on all taxable temporary differences. The periods over which such temporary differences reverse will vary depending on the life of the related asset or liability.

Deferred tax assets arise where the carrying amount of an asset is lower than the tax value (less tax benefit has been taken). Deferred tax assets are recognised only where the Company considers it probable that it will be able to use such losses by offsetting them against future taxable profits.

However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset is realised or the liability is settled.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost after deducting provisions for impairment of receivables.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank and in hand, highly liquid interest-bearing securities with maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are initially recognised at fair value and subsequently held at amortised cost.

PROVISIONS

Provisions are recognised when:

- the Company has a legal or constructive obligation as a result of a past event
- it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Where a leasehold property, or part thereof, is vacant or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

Parent Company Accounting Policies continued

For the year ended 30 September 2017

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Borrowing costs are expensed using the effective interest method.

DIVIDENDS

Final dividends are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by shareholders, while interim dividends are recognised in the period in which the dividends are paid.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own share capital (treasury shares) through Employee Share Ownership Trusts, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in shareholders' funds.

Notes to the Parent Company Financial Statements

For the year ended 30 September 2017

1 PARENT COMPANY

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the parent company is omitted from the accounts by virtue of section 408 of the Companies Act 2006. The parent company's profit for the financial year was £3.1m (2016 restated: £6.4m). As disclosed in note 24 to the Group Financial Statements, in 2017 an error was identified in the process for valuing the share based payments charged to the income statement in previous years. The comparative figures for 2016 have therefore been restated to correct the charge and the related disclosures. The effect is to increase the 2016 share based payment charge from £0.1m to £1.0m and to reduce profit for the year after tax by £0.7m. The share based payment charge is a non-cash amount and there is no impact on the Company's balance sheet.

The audit fee in respect of the parent company is set out in note 5 to the Group financial statements.

2 DIVIDENDS

Details of the Company's dividends are set out in note 7 to the Group financial statements.

3 EMPLOYEES

The total remuneration and associated costs during the year were:

	2017 £m	2016 (restated) £m
Wages and salaries	2.4	2.0
Social security costs	0.3	0.3
Other pension costs	0.9	0.2
Share based payments	0.9	1.0
	4.5	3.5

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid director, are given on pages 65 to 73.

The average monthly number of employees (including Executive Directors) during the year was 12 (2016: 11), all of whom were classified as administrative staff.

4 INTANGIBLE ASSETS

	Computer software £m
Cost	
At 1 October 2016	0.1
At 30 September 2017	0.1
Amortisation charge	
At 1 October 2016	0.1
Charge for the year	–
At 30 September 2017	0.1
Net book value	
At 30 September 2016	–
At 30 September 2017	–

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2017

5 PLANT AND EQUIPMENT

	£m
Cost	
At 1 October 2016	0.3
At 30 September 2017	0.3
Amortisation charge	
At 1 October 2016	0.3
Charge for the year	–
At 30 September 2017	0.3
Net book value	
At 30 September 2016	–
At 30 September 2017	–

6 INVESTMENTS IN SUBSIDIARIES

	£m
Cost and net book value	
At 1 October 2016	70.8
At 30 September 2017	70.8

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The investments consist of a 100% (unless indicated as otherwise) interest in the following subsidiaries:

	Principal activity	Country in which incorporated
Avon Polymer Products Limited	The manufacture and distribution of rubber and polymer based products	UK
Avon Rubber Overseas Limited	Investment company	UK
Avon Rubber Pension Trust Limited	Pension Fund Trustee	UK
Avon Dairy Solutions (Shanghai) International Trading Company Limited	Trading company	China
Avon Rubber Italia S.r.l.	Investment company	Italy
Avon-Dairy America do sul Solucoes Para Ordenha LTDA (1%)	Trading company	Brazil

Details of investments held by these subsidiaries and the addresses of their registered offices are given in note 27 to the Group accounts on page 121.

7 DEFERRED TAX ASSETS

	Share Options (restated) £m	Accelerated capital allowances £m	Other temporary differences £m	Total (restated) £m
At 30 September 2015	0.7	–	0.1	0.8
(Charged)/credited to profit for the year	0.2	0.1	(0.1)	0.2
Charged to equity	(0.3)	–	–	(0.3)
At 30 September 2016	0.6	0.1	–	0.7
Credited to profit for the year	0.2	–	–	0.2
Charged to equity	(0.4)	–	–	(0.4)
At 30 September 2017	0.4	0.1	–	0.5

8 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Other receivables	0.2	0.3
Prepayments	0.2	0.2
	0.4	0.5

9 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade payables	0.4	0.1
Accruals	3.2	3.1
	3.6	3.2

10 PROVISIONS FOR LIABILITIES AND CHARGES

	Property obligations £m
Balance at 30 September 2015	1.7
Charged in the year	0.9
Payments in the year	(0.1)
Balance at 30 September 2016	2.5
Payments in the year	(1.0)
Balance at 30 September 2017	1.5

	2017 £m	2016 £m
Analysis of total provisions		
Non-current	1.2	1.8
Current	0.3	0.7
	1.5	2.5

Property obligations include an onerous lease provision of £1.2m in respect of unutilised space at the Group's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2018 and the remaining £0.9m over the following three years. Other property obligations relate to former premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next ten years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, or subletting of surplus leasehold property and the final negotiated settlement of any dilapidation claims with landlords.

11 BORROWINGS

On 9 June 2014 the Company agreed new bank facilities with Barclays Bank and Comerica Bank. The combined facility comprises a revolving credit facility of $40m and expires on 30 November 2019. This facility is priced on the Dollar LIBOR plus a margin of 1.25% and includes financial covenants which are measured on a quarterly basis. The Company was in compliance with its financial covenants during 2017 and 2016.

The Company has provided the lenders with a negative pledge in respect of certain shares in Group companies.

There was no drawdown of loans in 2017 and 2016.

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2017

12 SHARE CAPITAL

Details of the Company's share capital are set out in note 20 to the Group financial statements.

13 OTHER FINANCIAL COMMITMENTS

	2017 £m	2016 £m
Capital expenditure committed	–	–

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2017 £m	2016 £m
Within one year	0.4	0.4
Between 1 and 5 years	3.7	3.2
Later than 5 years	9.6	10.9
	13.7	14.5

The majority of leases of land and buildings are subject to rent reviews.

14 SHARE BASED PAYMENTS

The Company operates an equity-settled share based performance share plan (PSP), details of which are disclosed in note 24 to the Group financial statements. The 2016 share based payments charge has been restated as disclosed in note 1.

Five Year Record

For the year ended 30 September 2017

	2017 £m	2016 (restated) £m	2015 (restated) £m	2014 £m	2013 £m
Revenue	163.2	142.9	134.3	124.8	124.9
Operating profit before amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	25.8	20.9	19.2	17.0	14.2
Amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	(6.0)	(4.1)	(1.3)	(2.7)	(1.2)
Operating profit	19.8	16.8	17.9	14.3	13.0
Net finance costs and other finance expense	(1.2)	(0.9)	(1.0)	(0.5)	(0.6)
Profit before taxation	18.6	15.9	16.9	13.8	12.4
Taxation	2.9	2.0	(2.5)	(3.1)	(3.6)
Profit for the year from continuing operations	21.5	17.9	14.4	10.7	8.8
Discontinued operations – loss for the year	–	(0.3)	(1.5)	–	–
Profit attributable to equity shareholders	21.5	17.6	12.9	10.7	8.8
Ordinary dividends	(3.2)	(2.4)	(1.9)	(1.4)	(1.1)
Retained profit	18.3	15.2	11.0	9.3	7.7
Intangible assets and property,plant and equipment	66.7	77.4	69.5	36.8	36.9
Working capital	8.9	7.2	10.3	7.4	11.6
Provisions	(2.0)	(2.5)	(2.6)	(3.8)	(2.6)
Pension liability	(44.1)	(39.9)	(16.6)	(16.0)	(11.3)
Net deferred tax asset/(liability)	1.4	(2.2)	(5.2)	(2.3)	(3.0)
Net cash/(borrowings)	24.7	2.0	(13.2)	2.9	(10.9)
Net assets employed	55.6	42.0	42.2	25.0	20.7
Financed by:					
Ordinary share capital	31.0	31.0	31.0	31.0	30.7
Reserves attributable to equity shareholders	24.6	11.0	11.2	(6.0)	(10.0)
Total equity	55.6	42.0	42.2	25.0	20.7
Basic earnings per share	70.6p	58.1p	42.7p	36.2p	30.0p
Adjusted basic earnings per share	82.8p	71.9p	53.5p	43.7p	33.8p
Dividends per share paid in cash	10.43p	8.02p	6.17p	4.75p	3.84p

The results for 2016 and 2015 have been restated to correct the charge for share based payments (see note 24 to the Group financial statements). 2014 and 2013 have not been restated.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your shares in Avon Rubber p.l.c., please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR ENDED 30 SEPTEMBER 2017

Notice is hereby given that the annual general meeting ('AGM') of shareholders of Avon Rubber p.l.c. (the 'Company') will be held at Hampton Park West, Semington Road, Melksham, Wiltshire on 1 February 2018 at 10.30am for the following purposes:

ORDINARY BUSINESS

To consider and, if thought fit, pass resolutions 1–8 (inclusive) as Ordinary Resolutions:

Resolution 1

To receive the Company's accounts and the reports of the Directors and the Auditors for the year ended 30 September 2017.

Resolution 2

To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) for the year ended 30 September 2017.

Resolution 3

To declare a final dividend of 8.21p per ordinary share as recommended by the Directors.

Resolution 4

To re-appoint David Evans as Director who retires by rotation.

Resolution 5

To re-appoint Paul McDonald as Director who has been appointed since the last AGM.

Resolution 6

To re-appoint Nick Keveth as Director who has been appointed since the last AGM.

Resolution 7

To re-appoint PricewaterhouseCoopers LLP as auditors of the Company.

Resolution 8

To authorise the Directors to determine the auditors' remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass resolution 9 as an Ordinary Resolution and resolutions 10–13 (inclusive) as Special Resolutions:

Resolution 9

That in accordance with section 551 of the Companies Act 2006 (the 'Act') the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined in the notes to this resolution) comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £10,341,097 but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Resolution 10

That, subject to the passing of Resolution 9, the Directors be authorised to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

(b) expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 11

That, subject to the passing of Resolution 9, the Directors be authorised, in addition to any authority granted under Resolution 10, to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

(b) be used for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors have determined 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 this notice; and

(c) expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this Resolution has expired.

Resolution 12

That the Company be and is hereby unconditionally and generally authorised for the purpose of section 701 of the Act to make market purchases (within the meaning of 693(4) of the Act) of ordinary shares of £1 each in the capital of the Company provided that:

(a) the maximum number of shares which may be purchased is 3,102,329;

(b) the minimum price (excluding expenses) which may be paid for each share is £1;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share is an amount equal to the higher of:

(i) 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the Official List of the London Stock Exchange for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and

(ii) the value of an ordinary share calculated on the basis of the higher of the price quoted for the last independent trade of and the highest current independent bid for any number of the Company's ordinary shares on the London Stock Exchange Official List at the time the purchase is agreed; and

(d) this authority shall expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

Resolution 13

That a general meeting of the Company (other than an annual general meeting), may be called on not less than 14 clear days' notice.

By order of the Board

Miles Ingrey-Counter
Company Secretary

15 November 2017

Notice of Annual General Meeting continued

EXPLANATORY NOTES RELATING TO THE RESOLUTIONS

The Board believes that the adoption of resolutions 1 to 13 will promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Board unanimously recommends that all shareholders should vote in favour of all the resolutions to be proposed at the AGM. Each of the Directors of the Company intends to vote in favour of all resolutions in respect of their own beneficial holdings.

Resolution 1 – Report and Accounts

The Directors are required by law to present to the AGM the accounts, and the reports of the Directors and Auditors, for the year ended 30 September 2017. These are contained in the Company's 2017 Annual Report.

Resolution 2 – Directors' Remuneration Report

Resolution 2 seeks approval for the Directors' Remuneration Report for the year ended 30 September 2017 contained on pages 53 to 74 of the Annual Report. As in previous years, the vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on it being passed. The Company's Remuneration Policy, which is re-stated in the Remuneration Report was approved by shareholders at the 2016 AGM and an amended policy will be put before shareholders at the 2019 AGM. No amendments to the Directors' Remuneration Policy are proposed at this year's AGM.

Resolution 3 – Declaration of a dividend

A final dividend can only be paid after the shareholders have approved it at a general meeting. The Directors recommend that a final dividend in respect of the financial year ended 30 September 2017 of 8.21p be paid.

Subject to approval, the final dividend will be paid on 16 March 2018 to eligible shareholders on the Company's register of members at close of business on 16 February 2018.

Resolutions 4 to 6 – Election and re-election of Directors

In accordance with the UK Corporate Governance Code and the Company's Articles, all Directors are subject to election by shareholders at the first AGM after their appointment, and to re-election thereafter at intervals of no more than three years. Non-Executive Directors who have served longer than nine years are subject to annual re-election.

David Evans retires by rotation and, being eligible, offers himself for re-election.

Paul McDonald was appointed as a Director with effect from 15 February 2017 and Nick Keveth was appointed with effect from 1 June 2017. In accordance with the Company's Articles, both retire at this year's AGM and Resolutions 5 and 6 propose their re-appointment.

Resolution 7 & 8 – Re-appointment and remuneration of Auditors

The current appointment of PricewaterhouseCoopers LLP ('PwC') as auditor of the Company terminates at the conclusion of the AGM. As noted in the Audit Committee Report on pages 50 to 52, the Audit Committee intends to commence a tender process for the external audit mandate. Under new legislation on mandatory audit firm rotation, which came into force in June 2016, listed companies are required to change auditor at least every 20 years. As PwC would not be able to remain as external auditors after 2020, it has been agreed that PwC will not participate in the forthcoming tender process.

As the tender process will not have concluded before the AGM, and the Company should at all times have an auditor in place, PwC has confirmed its willingness to stand for reappointment as auditor of the Company at the upcoming AGM and the Directors recommend their reappointment.

Following the tender process the Board will appoint a successor to replace PwC to act as external auditor in respect of the 2018 financial year until the conclusion of the 2019 AGM, at which shareholders will be invited to vote on their reappointment.

The Directors are also seeking authority to set the auditor's remuneration.

Resolution 9 – Directors' authority to allot

This Resolution deals with the Directors' authority to allot Relevant Securities in accordance with section 551 of the Act. The authority granted at the last annual general meeting is due to expire at the conclusion of this year's AGM and accordingly it is proposed to renew this authority.

This Resolution will, if passed, authorise the Directors to allot Relevant Securities up to a maximum nominal amount of £10,341,097, which is equal to approximately one-third of the issued share capital of the Company as at 15 November 2017 in accordance with institutional shareholder guidelines.

The Directors have no present intention of exercising this authority.

The authority granted by this resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

In this resolution, Relevant Securities means:

(i) shares in the Company other than shares allotted pursuant to:

- an employee share scheme (as defined by section 1166 of the Act);
- a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or
- a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

(ii) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Act). References to the allotment of Relevant Securities in this resolution include the grant of such rights.

Resolution 10 – General disapplication of pre-emption rights

This Resolution will, if passed, give the Directors power, pursuant to the authority to allot granted by Resolution 9, to allot equity securities (as defined by section 560 of the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 15 November 2017 and renews the authority given at the AGM in 2017.

The figure of 5% reflects the Pre-Emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the 'Statement of Principles'). The Directors will have due regard to the Statement of Principles in relation to any exercise of this power, in particular they do not intend to allot shares for cash on a non-pre-emptive basis pursuant to this power in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company in any rolling three year period, without prior consultation with shareholders save as permitted in connection with an acquisition or specified capital investment as described in the notes for Resolution 11.

The power granted by this Resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors have no present intention to exercise the authority conferred by this resolution.

Resolution 11 – Additional disapplication of pre-emption rights

This Resolution seeks a further power pursuant to the authority granted by Resolution 9, to allot equity securities (as defined by section 560 of the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 15 November 2017. This is in addition to the 5% referred to in Resolution 10 above.

The power granted by this Resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors will have due regard to the Statement of Principles in relation to any exercise of this power and in particular they confirm that they intend to use this power only in connection with a transaction which they have determined to be an acquisition or other capital investment (of a kind contemplated by the Statement of Principles most recently published prior to the date of this Notice) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six month period and is disclosed in the announcement of the issue.

Resolution 12 – Authority to purchase own shares

This Resolution seeks authority for the Company to make market purchases of its own shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 3,102,329 ordinary shares of £1 each, representing 10% of the Company's issued ordinary share capital as at 15 November 2017.

The Resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the date 15 months after the date of this Resolution and the Company's next AGM. The Company purchased no ordinary shares in the period from the last AGM to 15 November 2017 under the existing authority.

The Directors have no present intention of exercising the authority to make market purchases; however, the authority provides the flexibility to allow them to do so in the future.

EXPLANATORY NOTES RELATING TO THE RESOLUTIONS CONTINUED

The Directors will exercise this authority only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the earnings per ordinary share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. In the event of any purchase under this authority, the Directors would either hold the purchased ordinary shares in treasury or cancel them.

Bonus and incentive scheme targets for Executive Directors would not be affected by any enhancement of earnings per share following a share re-purchase.

As of 15 November 2017 there were options to subscribe outstanding over 415,207 ordinary shares, representing 1.34% of the Company's ordinary issued share capital. If the authority given by Resolution 12 were to be fully exercised, these options would represent 1.49% of the Company's ordinary issued share capital after cancellation of the re-purchased shares. As of 15 November 2017 there were no warrants outstanding over ordinary shares.

Resolution 13 – Notice of Meeting

Resolution 13 is a resolution to allow the Company to hold general meetings (other than annual general meetings) on 14 days' notice.

Before the introduction of the Companies (Shareholders' Rights) Regulations in August 2009, the Company was able to call general meetings (other than annual general meetings) on 14 clear days' notice. One of the amendments that the Companies (Shareholders' Rights) Regulations 2009 made to the Act was to increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided that: (i) the Company offers facilities for shareholders to vote by electronic means; and (ii) there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days.

Resolution 13 is therefore proposed as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The approval will be effective until the Company's next annual general meeting, when it is intended that the approval be renewed. The Company will use this notice period only when permitted to do so in accordance with the Act and when the Directors consider it appropriate to do so.

GENERAL NOTES

(1) Information regarding the annual general meeting including the information required by section 311A of the Act, is available at www.avon-rubber.com.

(2) In order to be able to attend and vote at the AGM or any adjourned meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by close of business on 30 January 2018 (or close of business on the date two days before any adjourned meeting, ignoring non-working days). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

(3) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(4) A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notarially) must be returned by one of the following methods:

  (a) in hard copy form by post, by courier or by hand to the Company's registrars, Link Asset Services, 34 Beckenham Road, Beckenham, Kent BR3 4ZF;

  (b) via www.signalshares.com; or

  (c) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,

  and in each case must be received by the Company not less than 48 hours before the time of the AGM.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST Manual (available from https://euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) 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 instruction, made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. Regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy the message must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in this Notice.

For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

Notice of Annual General Meeting continued

GENERAL NOTES CONTINUED

(5) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with section 146 of the Act ('Nominated Persons'). Nominated Persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if Nominated Persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

(6) To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

(7) In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

(8) In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by the Company's registrars, Link Asset Services Registrars, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF no later than 30 January 2018 at 10.30am.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the AGM and voting in person. If you have appointed a proxy and attend the AGM in person, your proxy appointment will automatically be terminated.

(9) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(10) Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM, but no such answer need be given if; (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

(11) Biographical details of the Directors are shown on page 42 of the Annual Report.

(12) The issued share capital of the Company as at 15 November 2017 was 31,023,292 ordinary shares, carrying one vote each and representing the total number of voting rights in the Company.

(13) Copies of Executive Directors' service agreements and copies of the terms and conditions of appointment of Non-Executive Directors are available for inspection at the Company's registered office during normal business hours from the date of this Notice until the close of the AGM (Saturdays, Sundays and public holidays excluded) and will be available for inspection at the place of the AGM for at least 15 minutes prior to and during the AGM.

(14) Please note that the Company takes all reasonable precautions to ensure no viruses are present in any electronic communication it sends out but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that the members subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company, including the lodgement of an electronic proxy form, that is found to contain any virus will not be accepted.

(15) Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act, (in each case) that the members propose to raise at the AGM. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

(16) Under section 338 and section 338A of the Act, shareholders meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to the Company's shareholders entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six clear weeks before the AGM, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

(17) You may not use any electronic address provided in either the Notice of Annual General Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Shareholder Information

SHAREHOLDING

As at 30 October 2017 the Company had 1,498 shareholders, of which 903 had 1,000 shares or fewer.

FINANCIAL CALENDAR

Interim results are announced in May and final results in November.

In respect of the year ended 30 September 2017 the annual general meeting will be held on 1 February 2018 at Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England.

CORPORATE INFORMATION

Registered office

Hampton Park West, Semington Road, Melksham,
Wiltshire, SN12 6NB, England

Registered

In England and Wales No. 32965
VAT No. GB 137 575 643

Board of Directors

David Evans (Chairman)
Paul McDonald (Chief Executive Officer)
Nick Keveth (Chief Financial Officer)
Pim Vervaat (Non-Executive Director)
Chloe Ponsonby (Non-Executive Director)

Company secretary

Miles Ingrey-Counter

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Registrars and transfer office

Link Asset Services, The Registry, 34 Beckenham Road,
Beckenham, BR3 4TU

Tel: 0871 664 0300
(calls cost 10p per minute plus network extras, lines are open 8.30am–5.30pm, Monday to Friday excluding UK public holidays)

Brokers

Peel Hunt LLP

Solicitors

TLT LLP

Principal bankers

Barclays Bank PLC
Comerica Inc.

Website

www.avon-rubber.com

Designed and produced by emperor
Visit us at emperor.works

Avon Rubber p.l.c.

Corporate Headquarters
Hampton Park West
Semington Road
Melksham
Wiltshire
SN12 6NB
England

Telephone: +44 (0) 1225 896 800
Email: enquiries@avon-rubber.com

www.avon-rubber.com