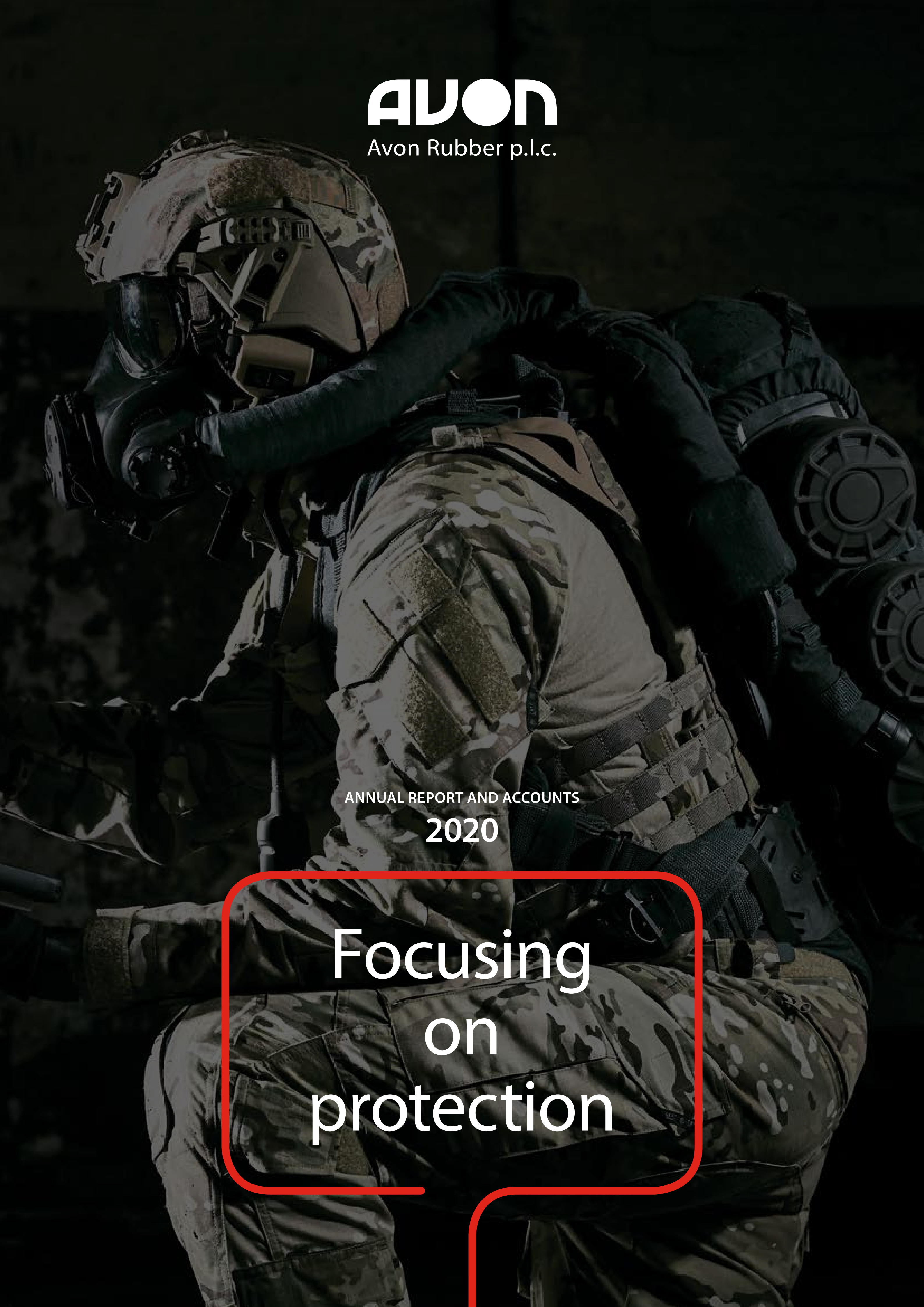


Avon Rubber p.l.c.

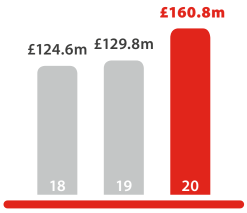
ANNUAL REPORT AND ACCOUNTS

2020

Focusing on protection

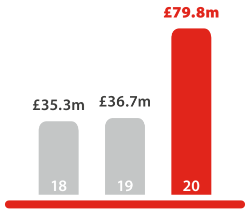
For the latest investor relations information, go to our website at:
www.avon-rubber.com/investors

Highlights



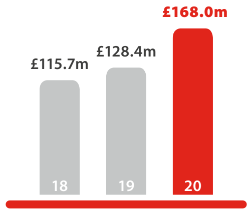
Orders received

£160.8m



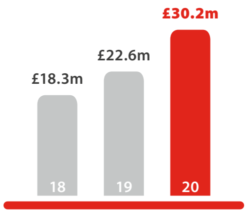
Closing order book

£79.8m



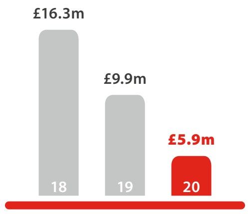
Revenue

£168.0m



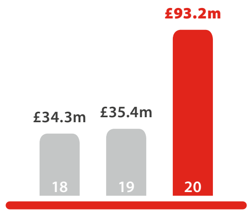
Adjusted operating profit

£30.2m



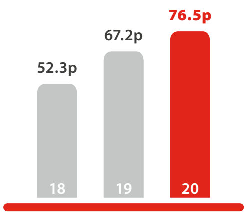
Operating profit

£5.9m



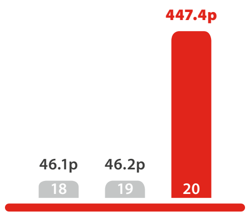
Net cash

£93.2m



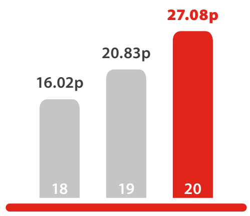
Adjusted basic earnings per share

76.5p



Basic earnings per share

447.4p



Dividend per share

27.08p

The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, costs associated with acquisitions, defined benefit pension scheme costs, the amortisation of acquired intangibles and discontinued operations.

A reconciliation of adjusted performance measure is available on page 34.

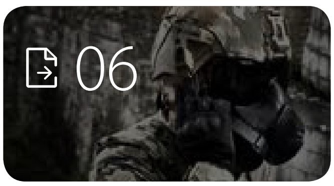
The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020, to reflect the impact of adopting IFRS 16 Lease accounting which came into effect on 1 October 2019 and to reflect the impact of the Barber pension equalisation adjustment.

A full glossary of terms is available on page 162.

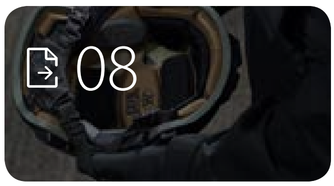
GROWING THE CORE

Leveraging our existing product portfolio to widen our customer base.



SELECTIVE PRODUCT DEVELOPMENT

Developing next generation products in partnership with our customers



VALUE ENHANCING ACQUISITIONS

Acquisition of Team Wendy

COVID-19 UPDATE

The business has continued to operate with only minor disruption throughout the year, despite the unprecedented challenge of COVID-19, thanks to the dedication of our employees. Where you see this icon, we will explain our response to the global pandemic.

At a Glance

We are an innovative technology group, which designs and produces life critical personal protection systems to maximise the performance and capabilities of our customers, with leading positions in the global respiratory and ballistic protection markets.

OUR PRODUCT CATEGORIES

Respiratory Protection

Our leading range of respiratory protection includes respirators, powered and supplied air systems, filters, spares and accessories.

76% of revenue

More information **on page 21**

Ballistic Protection

Our ballistic protection portfolio includes next generation helmets and body armor as well as helmet liner and retention systems.

24% of revenue

More information **on page 20**

OUR MARKETS

Military

We are a leading provider of respiratory and ballistic protection to the U.S. DOD and other Rest of World Military customers.

More information **on page 16**

First Responder

We are a trusted supplier of respiratory and ballistic protection and have a robust network of distributors and agents selling to first responder agencies, correctional facilities, SWAT and other tactical police units.

More information **on page 18**

OUR BRANDS

Avon Protection is a leading provider of life critical personal protection systems with leading positions in the global respiratory and ballistic protection markets for the world's militaries and first responders.

As a leading global supplier of helmets and helmet liner and retention systems for Military and First Responder markets, Team Wendy is dedicated to providing exceptional head protection systems, designed from the inside out, for those that risk their lives every day.

7
Sites

60+
Countries

1,000
Employees

OUR PURPOSE:

Our purpose is to create sustainable value for all our stakeholders. This purpose unites us, guides our decisions and inspires us wherever we operate. We create sustainable value for:

Our shareholders
who benefit from strong financial returns and a progressive dividend policy

Our customers
who use our products to protect themselves in the most extreme environments

Our employees
who advance their careers in safe, inclusive and collaborative workplaces

Our suppliers
that we engage with for continuous improvement and responsibly sourced materials and services

Our communities
that we support through charitable contributions

OUR STRATEGY

Our strategy is to generate shareholder value through growing the core business by maximising revenue growth, supported by selective product development and value enhancing acquisitions.

Growing the core

Read more **on page 04**

Selective product development

Read more **on page 06**

Value enhancing acquisitions

Read more **on page 08**

How we do it:

Our people and culture
Our people are at the heart of everything we do.

Read more **on page 50**

Robust risk management
We have an established process for the identification and management of risk.

Read more **on page 40**

Responsible approach to sustainability
We are committed to minimising the impact of our operations on the environment and our employees.

Read more **on page 46**

Effective governance
We are committed to high standards of corporate governance, as set out in the U.K. Corporate Governance Code.

Read more **on page 60**

Creating value for all our key stakeholder groups

Strategy in Action

GROWING THE CORE

NATO Support and Procurement Agency Contract

Leveraging our existing product portfolio to widen our customer base

We continue to leverage our technology leadership position to attract new and legacy Rest of World customers and as a result continue to build a strong pipeline of customers for our respiratory protection products. The collaborative development programme with the NATO Support and Procurement Agency (NSPA), which provides support to NATO nations, NATO military authorities and partner nations, is an exceptional example of our ability to maximise growth from our existing product portfolio and widen our customer base.

The 10-year framework contract with the NSPA, which was awarded in the second half of the year, will enable NATO countries and NATO affiliated nations to purchase our market leading respirator system, based around the FM50 mask system, full suite of filters, MP-PAPR (Powered Air Purifying Respirator), ST53 Self-Contained Breathing Apparatus and accessories.

> "We are proud to be awarded this strategically important contract from the NSPA and we look forward to working with NATO and their partners to continue to support world leading military capability."

"Enabling nations to counter the multiple CBRN threats encountered in modern warfare, anti-terrorist and peacekeeping operations."

The procurement was led by Finland and Norway to establish technical requirements and complete demanding end user testing. Understanding the operational flexibility required by NATO forces was key to meeting these requirements, with our unique modular respirator system chosen to protect NATO troops in the most demanding environments.

There is now a strong pipeline of Rest of World opportunities with first orders and deliveries under the new 10-year NATO Support & Procurement Agency contract which provides access to our broad respiratory portfolio including:

FM50 mask system

The most advanced general service respiratory protection mask to date with a twin filter designed to significantly reduce breathing resistance and improve weight distribution.

Powered and supplied air

Our range of Powered Air Purifying Respirators and Supplied Air products provide clean breathable air and maximum operational flexibility for the end user.

Filters and accessories

Our filters provide protection from CB agents, toxins and a number of Toxic Industrial Materials/Chemicals such as particulate matter including radioactive hazards.

Strategy in Action continued

SELECTIVE PRODUCT DEVELOPMENT

Developing products in partnership

New contract awards in the year demonstrate our ongoing focus to meet the needs of our customers through our technology leading innovation position.

Our development pipeline is designed in partnership with our customers to guarantee that their exacting performance requirements are met whilst ensuring we have a committed and commercial route to market to maximise our return on investment.

In ballistic protection, development expenditure in the year has predominantly focused on continuing the development of the Integrated Head Protection System (IHPS) helmet and Vital Torso Protection (VTP) body armor for the U.S. DOD.

In respiratory protection, there has also been a focus on enhancements to the U.K. GSR programme and ongoing improvements in the capabilities of the MCM100 underwater rebreather following a full dive test programme with the U.S. Navy.

> “We have a reputation for technical excellence and innovation, with a strong tradition of new product development.”

What is VTP?

VTP, which is one of four major components of the U.S. Army's next generation Soldier Protection System, provides lightweight, high-performance body armor to U.S. Soldiers.

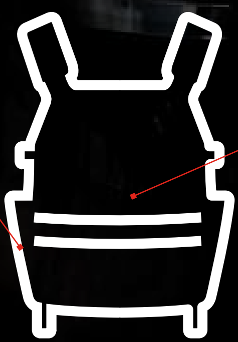
VTP consists of several variants of protective inserts for varying threat levels. Variants include the Enhanced Small Arm Protective Inserts (ESAPI), Enhanced Side Ballistic Inserts (ESBI), X Threat Small Arms Protective Inserts (XSAPI), and X Threat Side Ballistic Inserts (XSBI).

What do they protect against?

All VTP variants and the DLA-procured 'legacy ESAPI' variant offer protection against the most common armor-piercing (AP) small-arms fire. XSAPI and XSBI offer an additional level of protection against the most lethal AP small-arms fire.

ESBI/XSBI plates

Inserted into the side pockets of a tactical vest to protect the waist.



ESAPI/XSAPI plates

Inserted into the front and back pockets of a tactical vest to protect the chest and back.

What is the IHPS?

The IHPS is another of the four major components of the U.S. Army's Soldier Protection System. It is a modular, scalable, and tailorable system to defeat current threats at a reduced weight. IHPS provides lightweight and high-performance ballistic helmets to U.S. Soldiers.

What does it protect against?

The next generation IHPS increases the helmet shell's protection level above the first-generation helmet, to combat the most prevalent threat ammunition facing soldiers. Specific details regarding the threat remain classified.

Attachable visor

Capable of providing fragmentary protection for the eyes.

Attachable mandible

Capable of providing fragmentary protection for the face.

Helmet shell

Capable of increased rifle bullet resistance.

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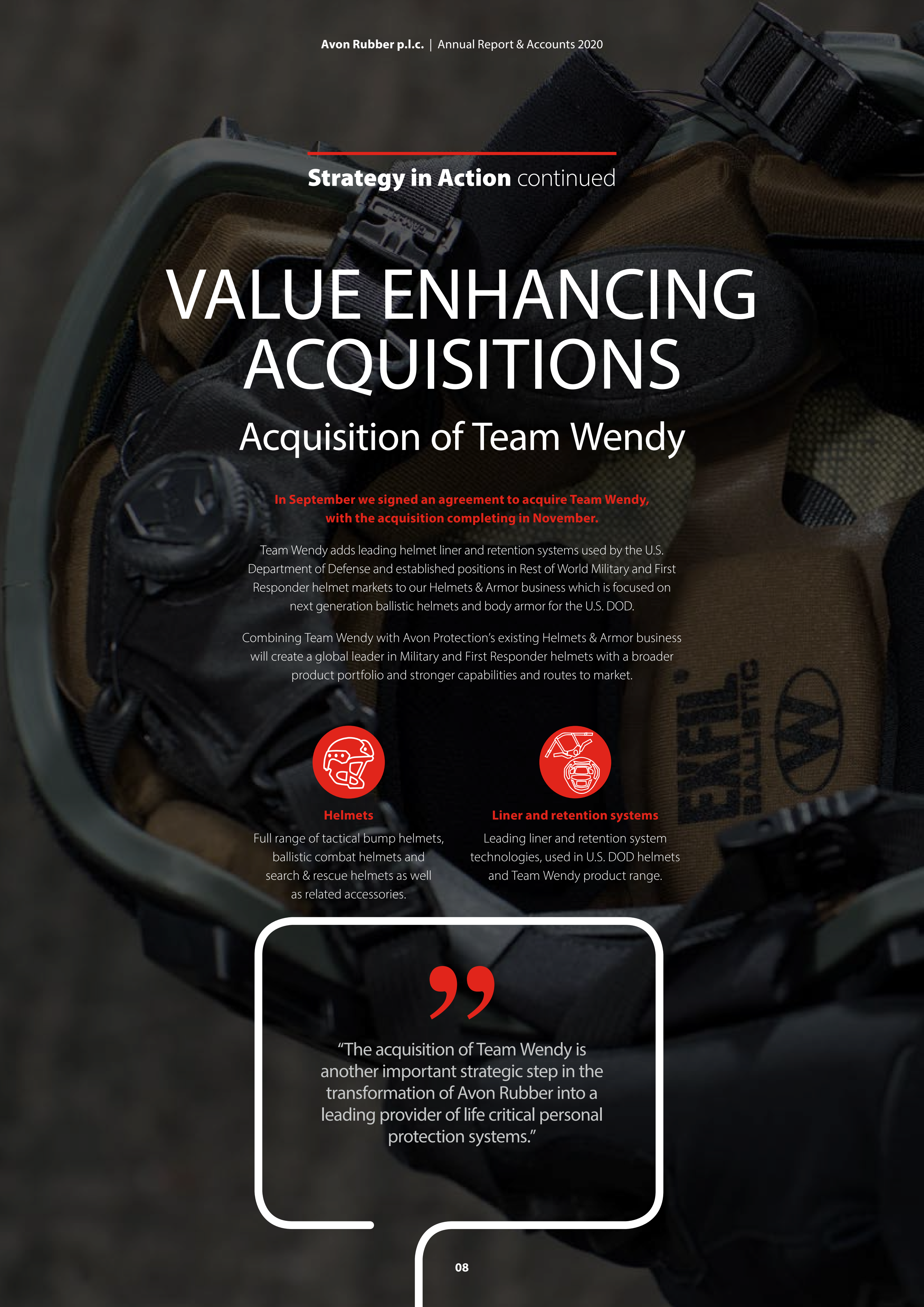


Strategy in Action continued

VALUE ENHANCING ACQUISITIONS

Acquisition of Team Wendy

In September we signed an agreement to acquire Team Wendy, with the acquisition completing in November.

Team Wendy adds leading helmet liner and retention systems used by the U.S. Department of Defense and established positions in Rest of World Military and First Responder helmet markets to our Helmets & Armor business which is focused on next generation ballistic helmets and body armor for the U.S. DOD.

Combining Team Wendy with Avon Protection's existing Helmets & Armor business will create a global leader in Military and First Responder helmets with a broader product portfolio and stronger capabilities and routes to market.

Helmets

Full range of tactical bump helmets, ballistic combat helmets and search & rescue helmets as well as related accessories.

Liner and retention systems

Leading liner and retention system technologies, used in U.S. DOD helmets and Team Wendy product range.

"The acquisition of Team Wendy is another important strategic step in the transformation of Avon Rubber into a leading provider of life critical personal protection systems."

CREATING A GLOBAL LEADER IN HELMETS

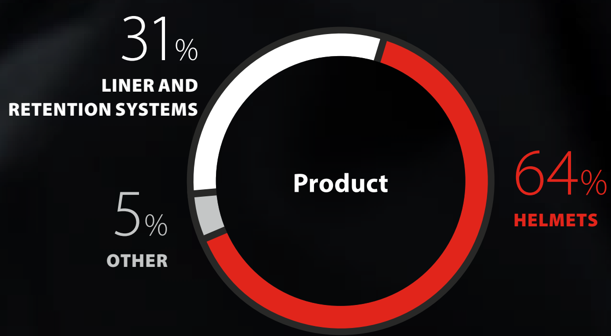
Team Wendy's key strengths are closely aligned to those of Avon Protection

- A diversified customer base of Military and First Responder users, both in the U.S. and internationally, with customers in over 50 countries ensuring it is not reliant on any single customer or contract.
- Strong R&D capabilities with leading helmet liner and retention system technologies and a focus on impact protection capabilities. Team Wendy has developed advanced proprietary technology relating to helmet liner and retention systems.
- The Team Wendy brand name is well respected and widely recognised internationally for its high-quality products, commitment to safety and advanced technological capabilities.
- Revenue in the year ended 31 December 2019 of U.S. $44.2m and EBITDA of U.S. $13.4m resulting in an EBITDA margin of 30.3%.
- Strong and long-standing management team who have transferred with Team Wendy following completion.

Team Wendy currently operates from a single facility in Cleveland, Ohio, employing approximately 130 people. Team Wendy will continue to operate from its Cleveland base, benefiting from the wider Avon Rubber infrastructure and management support.

2019 Revenue

$44.2m



For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

Why Invest in Avon Rubber

We have a clear strategy to generate long-term earnings growth through maximising the opportunities 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 additional value enhancing acquisitions, whilst maintaining a progressive dividend policy.

"There are significant growth opportunities for both Military & First Responder customers, across both the respiratory and ballistic product offerings. The transformed outlook provides us with the ability to continue delivering value to our customers, our people and our shareholders in the future."

Organic sales growth

3%+

Through a focus on innovative products designed for global growth markets we target 3%+p.a. constant currency organic revenue growth

2020:

0.1%

at organic constant currency

Value enhancing acquisitions

We are targeting carefully selected, value enhancing acquisitions to complement our organic growth

2020:

Acquisitions of Helmets & Armor and Team Wendy

Attractive EBITDA margins

20%+

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

2020:

22.9%

+140bps at constant currency

Strong cash generation

90%+

Our objective of delivering cash EBITDA conversion of 90% or more provides the cash flow to fund our growth strategy

2020:

123.3%

Organic cash conversion

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

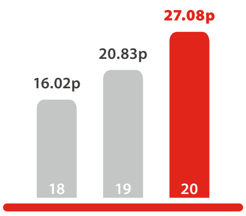
2020:

+30%

27.08p dividend per share

Chair's Statement

2020 has been a successful year and we have delivered significant progress against our strategic objectives.



Dividend per share

27.08p

2020 has been a truly transformational year for Avon Rubber. The consistent execution of our strategy has transformed the Group into a focused provider of life critical personal protection systems with leading positions in respiratory and ballistic protection for the world's militaries and first responders.

This transformation has been completed against the backdrop of the global COVID-19 pandemic, which has presented some unprecedented challenges to the way all of us operate. During these extraordinary times, the Group has not only proved itself to be resilient, by continuing to operate with only minor disruption, but it has also delivered record results. I recognise that this is due to the continued hard work and dedication of our employees, whose health and safety remains our top priority. On behalf of the Board I would like to personally thank all our employees, who have once again worked tirelessly to deliver these excellent results in challenging circumstances.

Strategy

Our strategy is to deliver organic growth by maximising sales from our current product portfolio and selective product development. Alongside this, we aim to complement our organic growth through carefully selected value enhancing acquisitions.

2020 has been a very busy year and we have delivered significant progress against our strategic objectives.

Within our respiratory protection business we secured new multi-year sustainment contracts to supply the U.S. DOD with the M50 mask system and M61 filters. We further broadened our respiratory protection customer base through being awarded a 10-year contract with the NATO Support and Procurement Agency to supply FM50 mask systems, powered and supplied air systems, filters, spares and accessories.

The acquisition of 3M's ballistic protection business, which completed in January of this year, expanded our product portfolio into ballistic helmets and armor. The business has made excellent progress since completion, securing multi-year contracts with the U.S. DOD for next generation ballistic helmets and body armor, as well as the continuing supply of legacy body armor products. The integration of this business continues to progress well and is on track for completion by the end of 2020.

We announced the divestment of milkrite | InterPuls in July and completed the sale on 25 September 2020. The divestment represented an important step in our strategic development, focusing the Group on our Avon Protection business and providing funding capacity for future M&A. We wish everyone at milkrite | InterPuls a successful future under new ownership.

In September, we announced the acquisition of Team Wendy LLC, a leading supplier of helmets and helmet liner and retention systems for Military and First Responder markets, which completed on 2 November 2020. The combination of Team Wendy with the helmet business acquired from 3M creates a global leader in Military and First Responder helmets, with an enhanced and broader product range with stronger capabilities and routes to market.

Shareholder returns

During 2020 we delivered a total shareholder return of 158%. The Company's share price rose from £16.80 at the start of October 2019 to £42.50 on 30 September 2020, and dividends totalling £7.0m were paid to shareholders. 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 18.06p per share, making a total dividend for the year of 27.08p, which is a 30% increase on the previous year and reflects our confidence in the outlook of the Group.

Governance and the Board

The Board remains committed to the highest standards of corporate governance and continues to actively monitor the effectiveness of our governance processes throughout the Group. 2020 was our first year reporting against the 2018 U.K. Corporate Governance Code.

As I explained last year, 2020 was to be the last full year that I would Chair the Board. As announced to shareholders in November, I am formally standing down on 2 December 2020.

During 2020 we welcomed three new Non-Executive Directors to our Board. Bruce Thompson was appointed as Chair Designate with effect from 1 March 2020 and succeeds me as Chair from 2 December 2020. Bruce brings a wide range of strategic and leadership expertise to the Board with proven experience of growing international industrial businesses in a FTSE 250 environment. During his executive career, Bruce was Chief Executive Officer of Diploma PLC for over 20 years.

Bindi Foyle was appointed as Non-Executive Director on 1 May 2020. Bindi has been Group Finance Director of Senior plc since July 2017 and brings experience in the high tech manufacturing industry alongside her financial skills. I have overseen the induction of Bruce and Bindi to the Board and both have already made a significant contribution.

Victor Chavez CBE was appointed as an independent Non-Executive Director on 1 December 2020. Victor has recently retired from a long and successful tenure as CEO of Thales U.K., with responsibility for 6,500 employees operating across the defence, cyber security, transportation, aerospace and space sectors. I am delighted to welcome a Non-Executive Director of Victor's standing in the defence sector to the Board. This appointment significantly strengthens the Board's defence industry experience, replacing the experience and knowledge that I have brought to the Board in this area.

After six years, Pim Vervaat will also be standing down from the Board after the Annual General Meeting (AGM) in January 2021. The Board has benefitted greatly from Pim's contribution and leadership of the Audit Committee and we wish him well in his new role as CEO of Constantia Flexibles. Bindi Foyle will replace Pim as Chair of the Audit Committee.

I am confident that I leave the Board with the right combination of diversity, skills, experience and knowledge to steer the Group through its next chapter. Our internal Board evaluation in 2020 robustly challenged all aspects of the Board 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 that its individual members are performing to a high standard.

The Code makes reference to the need for Boards to consider carefully the culture of the Company when making decisions. The Board has worked with the executive team over the last year to increase its awareness and knowledge in this area and to develop ways to monitor our culture going forward. As a consequence we have increased our focus on the mechanisms to increase employee engagement generally. The Board recognises the importance of its role in setting the right tone and behaviours from the top down and embedding them throughout the Group. Our code of conduct, which is reviewed annually by the Board, sets out our expectations around behaviours and is given to all employees. It is also available to all stakeholders, including customers and suppliers.

Strong results in another transformational year

2020 was another strong year of delivery against our strategy and featured two striking acquisitions. Looking ahead, the Board are confident that our enhanced product portfolio, strong balance sheet and talented leadership team will enable the Group to continue to succeed and grow in future years.

My thanks go to all of our shareholders for supporting the Group during my tenure. It has been a privilege to lead this excellent Company, first as a Non-Executive Director from 2007 and then as Chair from 2012. I am proud to have overseen the transformation and new strategic direction of the Group. The Group has a bright future with the right people in place to capitalise on the opportunities ahead and I wish the team every continued success.

D R Evans

David Evans
Chair

2 December 2020

“Successful execution of our strategy has transformed the business into a leading provider of life critical personal protection.”

Strategic Report

Military Market

We are an innovator of respiratory and ballistic protection products and systems for a variety of customers including the U.S. DOD, NATO and the U.K. MOD amongst others. As a global leader in soldier protection technologies, we will continue to integrate complementary subsystems and technologies and continue to innovate, and exploit new opportunities to expand our product portfolio and customer base.

Continuing global tensions

Tensions, conflicts and crises that have emerged in the past decade remain unresolved as we enter a new wave of uncertainty arising from the global COVID-19 pandemic.

As a result, we are seeing a rising global incidence of terrorism driving increased military spending worldwide.

Changing threat

During 2013, the 100-year taboo on using chemical weapons was broken and we have seen increasing instances of its usage ever since, leading to an increasing awareness of the CBRN weapon threat.

Bombings and armed assaults remain the most common type of terrorist attack driving the continued need for ballistic protection.

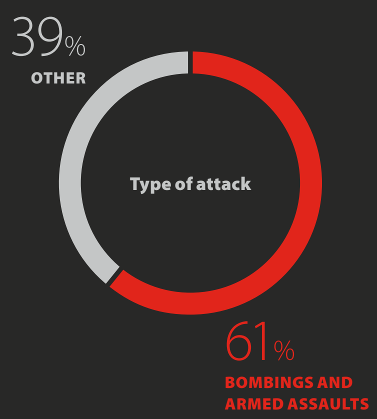
Modernisation

Militaries are prioritising the upgrade of integrated soldier protection systems and equipment to better defend soldiers against the ever-changing threat.

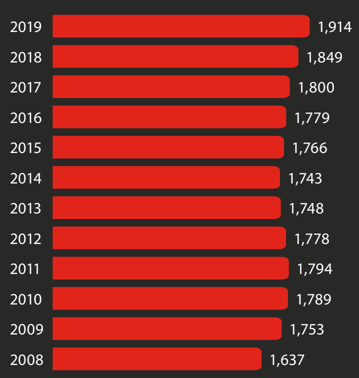
The U.S. in particular, is putting pressure on NATO to increase spending to collectively combat adversaries.

For the same reason Asia Pacific militaries are also undertaking modernisation and increased spending.

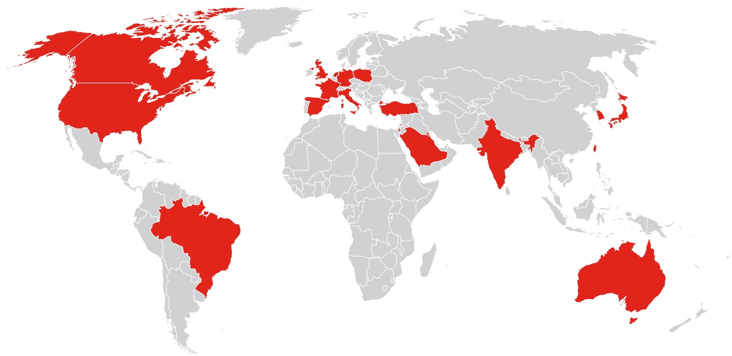
"In 2018, 71 countries experienced at least one death from terrorism which is the second highest number of countries recording one or more deaths in the past 20 years."



Global military expenditure (U.S.$bn) excluding Iraq



Top 20 addressable markets

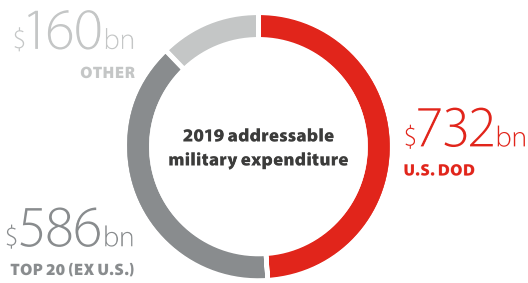


Top 20 addressable countries by highest military expenditure during 2019*

* Excluding non-addressable countries such as China, Russia and Iran.

Global military expenditure

Military expenditure has increased over the last 10 years since the economic crisis of 2008.



LINK TO OUR STRATEGY

Growing the core

Technological re-fresh & sustainment

We have a long-standing relationship supplying respiratory and ballistic protection to the U.S. DOD as well as continuing to support their continuous technological development. As a result, we have also secured a number of important long-term contracts with them as shown in the 'Contract Highlights'.

Contracts with other militaries

NATO member states provide continued opportunities as they look to increase their military spend to 2% of GDP. We continue to pursue large multi-year replacement & upgrade programs and have recently been awarded a 10-year contract by the NATO Support and Procurement Agency to supply our market leading respirator system which is a perfect example of our ability to maximise growth from our existing product portfolio and widen our customer base.

Expanding support to customers

We continue to benefit from strong sustainable revenues from associated consumable products of filters, spares and accessories from our installed mask base.

Providing spares and accessories for our range of respirators and other life sustaining equipment, we can continue to develop our customer relationships.

Selective product development

Innovating in partnership with our customers

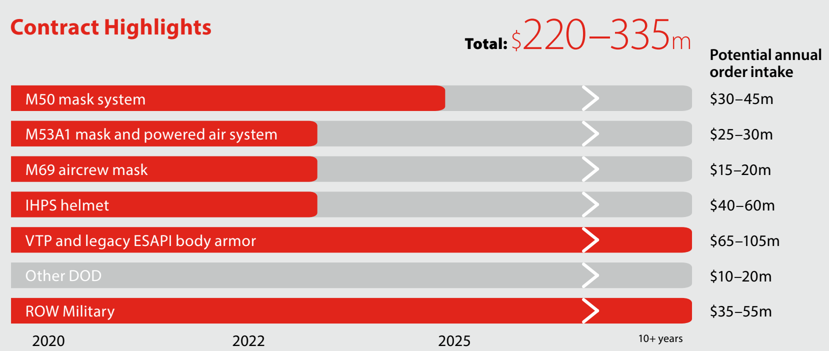
With modernisation programmes in place, we continue to ensure our development pipeline is designed in partnership with our customers to ensure that their exacting performance requirements are met whilst maintaining a committed and commercial route to market to maximise our return on investment. The recent contract award of the Integrated Head Protection System (IHPS) helmet and Vital Torso Protection (VTP) body armor for the U.S. DOD demonstrate that we maintain our innovative technology leadership position in respiratory and ballistic protection.

Value enhancing acquisitions

Broader range of life critical personal protection

With increasing budgets, the acquisition of the Helmets & Armor business and Team Wendy illustrate the potential for the Group to leverage its leading market position, deeply embedded customer relationships and innovation capability across a broadening range of life critical personal protection equipment.

Contract Highlights



First Responder Market

We are a trusted supplier of respiratory and ballistic protection and have a robust network of distributors and agents selling to U.S. Law Enforcement agencies and U.S. correctional facilities, in addition to a strong relationship with other global SWAT, tactical police and law enforcement units.

Increased social unrest and acts of terrorism

Following social unrest, protests and police reform debates, the incidence of crime rates has increased over the last decade including increased violence directed towards first responders.

All of this has contributed to the changing equipment requirements by first responders, particularly the expansion and demand for tactical equipment.

"96 countries experienced at least one violent demonstration in 2019."

Peace Index

Increased purchasing of personal protective equipment

First responders are involved in more demanding and threatening scenarios than ever before, requiring agencies to maintain or upgrade their equipment to keep pace with heightened and changing threats.

In the U.S., the movement to defund the police has instigated greater interest in the allocation spending. However, this is being dealt with on a city and state level with many seeing budget increases following reforms being implemented.

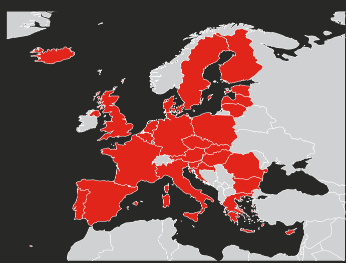
255 Active shooter incidents in U.S. between 2000–2019

Modernisation

Expanded responsibilities and increased threat levels, as well as new technologies available in personal protection, are driving national law enforcement modernisation programs in line with military advancements.

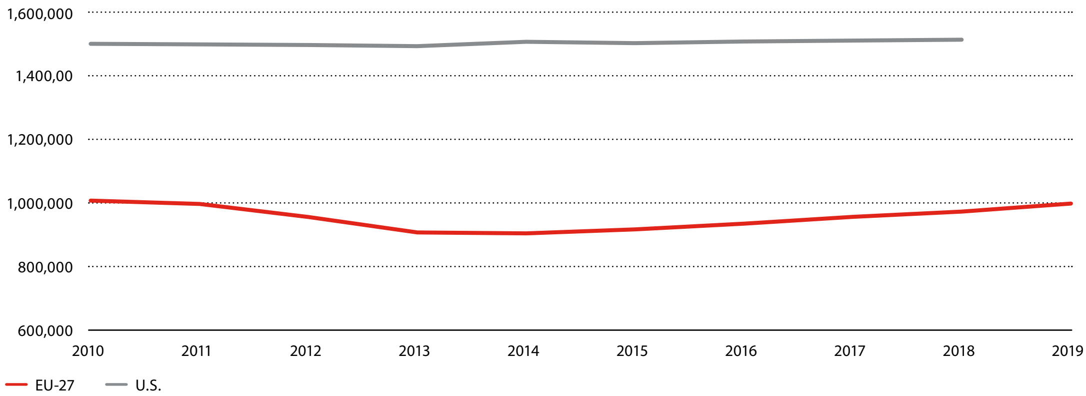
Increased counterterrorism coordination at state and international level has formed platforms for sharing best practice.

The ATLAS Network, an association of police tactical units set up for knowledge sharing and assistance upon request to another Member State, is made up of 35 special police units from 27 EU countries.



Market opportunity

Number of full-time law enforcement personnel



EU Budget of
€122bn
in 2018

U.S. Budget of
$115bn
in 2017

LINK TO OUR STRATEGY

Growing the core

Further market penetration

Increased social unrest has resulted in increased demand for our life critical personal protection products. We are utilising this opportunity to further penetrate our target markets and explore new geographies. For example, in July we officially launched our helmet product range to all our North American First Responder customers and have secured a pipeline of opportunities as a result.

Flexible product portfolio

With modernisation programmes in place, our expanded and modular product portfolio gives us the flexibility to target specialist user groups who have the ability to move up the respiratory and ballistic protection value chain as their requirements increase.

Sustainment of installed user base

We have seen an increase in demand for both original mask equipment and for replacement filters, accessories and spares as a result of increased social unrest, particularly in the U.S. With the need to protect our first responders increasing, this trend of maintenance will continue to provide sustainable revenues for the future.

Selective product development

Continued investment in product development

We continue to expand the portfolio of respiratory and ballistic protection to cater for the specific needs of particular customers or applications and we are actively developing more advanced systems targeted at more specialist customer groups.

Value enhancing acquisitions

Enhanced routes to market

With the acquisition of Team Wendy, the enlarged helmet business will have better scale and an enhanced route to market, with Team Wendy's complementary First Responder customer base and well-established global footprint expected to provide significant business development opportunities over the medium-term.

Moving up the value chain

Respirators

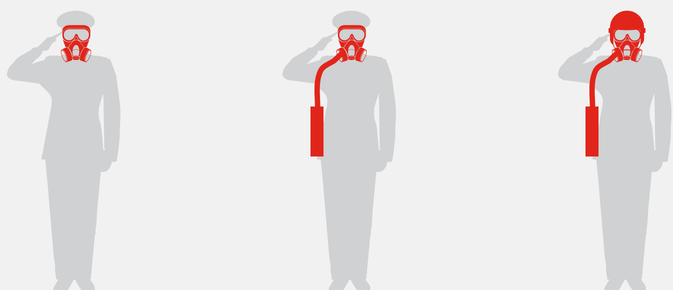
Our mask and filter range is the basis for our modular respiratory platform.

Powered & supplied air

Our powered and supplied air range is built around four flexible and adaptable modules and integrates with our respirators to provide adaptable protection.

Helmets

Our helmets are customisable and lightweight offering optimal flexibility in providing significant levels of protection including ballistic and impact scenarios.



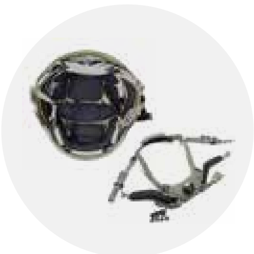
Product Portfolio

We offer a range of life critical personal protection systems to Military and First Responder customers, supported by best in-class training services and through life support.

BALLISTIC PROTECTION

Helmets

Our helmets set industry standards in protection-to-weight ratios. They are modular, lightweight, and customisable, which offers customers optimal flexibility in providing desired protection in a form appropriate for specific units and objectives. We are at the forefront of helmet technology and are currently delivering next generation IHPS helmets to the U.S. DOD's Soldier Protection System. We also offer a full range of bump and ballistic helmets for Military and First Responder customers.



Liner and retention systems

Advanced proprietary technology focused on impact protection capabilities. The Team Wendy brand is widely recognised internationally for its high-quality products, commitment to safety and advanced technology capabilities with an established customer base including the U.S. DOD and Rest of World militaries and first responders.

+5% average R&D spend of revenue over the last 10 years…

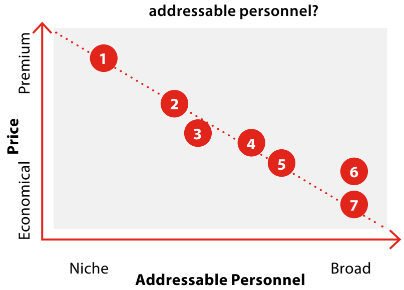
Body armor

Body armor solutions consisting of ceramic and composite components that provide torso protection designed specifically for customers' requirements. In recent years we have worked with the U.S. Army on their Solider Protection System to develop Vital Torso Protection body armor which offers the highest level of armor-piercing bullet protection available.

OPPORTUNITY

We remain a market leader in respiratory protection. The acquisition of Helmets & Armor adds ballistic protection to the portfolio. We continue to work with the U.S. DOD and other key customers to develop specialised respiratory and ballistic protection equipment as well as looking at complementary M&A opportunities.

How does our current product portfolio align with addressable personnel?



Key
1 MCM100
2 SCBA
3 MP-PAPR
4 Body Armor
5 Helmet
6 Respirator
7 Escape Hoods

RESPIRATORY PROTECTION

Respirators

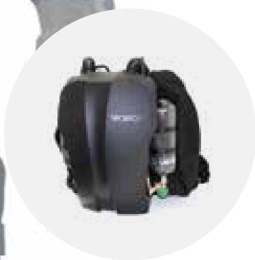
We are a global supplier of respirators specifically designed to meet the latest military user requirements. Leveraging this military pedigree, we have developed respirators for first responders that also require a range of CBRN and riot control protection.

Powered and Supplied Air

Designed for specialist capabilities, our complementary value-added sub systems extend operational capability. Our range of Powered Air Purifying Respirators (PAPR), Self-Contained Breathing Apparatus (SCBA) or a combination of the two (CS-PAPR) can be deployed with our respirators to provide clean breathable air.

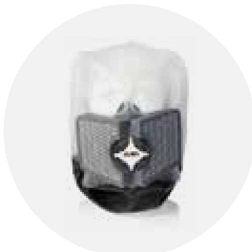
Spares and accessories

We offer service support to global customers through spares and accessories, providing through-life support to our range of respirators and other life sustaining equipment. We have won a contract with the U.S. DOD to supply replacement M61 filters.



Underwater

Our MCM100 is a fully closed circuit, electronically controlled, mixed gas rebreather suitable for a range of specialist military or tactical diving disciplines, such as mine clearance or explosives disposal.



Escape hoods

Our range of escape hoods, including the new CH15 escape hood, provide portable protection. The ultra-low profile makes them more convenient and enhances the range of respiratory protection available to escape a hostile situation. The U.S. DOD is our first significant customer of CH15's.

Meeting the needs of our markets

MILITARY

Global leader within respiratory and ballistic protection, with a leading portfolio and long-term pedigree for military contracting and supply chain excellence. Our long-term contracts for the M50 mask, M69 aircrew mask and M53A1 mask and powered air system, as well as ballistic protection products under the Soldier Protection System, confirm our position as the leading supplier of both respiratory and ballistic protection for the U.S. DOD.

FIRST RESPONDER

Supplying a range of NIOSH and CE approved respirator solutions for global First Responder customers, whilst organically expanding a wider portfolio of filters, hoods, powered air and supplied air offerings to complement the mask, to increase capability of the first responder community in responding to global threats such as riots and terrorist attacks.

Delivering Our Strategy

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

How we grow value

OPERATIONAL DRIVERS

Growing the core

Selective product development

Value enhancing acquisitions

COMMERCIAL DRIVERS

Growing the core

We are recognised as the leader within our chosen market segments. There are further opportunities to maximise growth from our product portfolio.

How we achieve this

- **Leveraging the product and customer base.** There is considerable scope to cross-sell the wider product portfolio to our existing customers and further improve margins.
- **Responding to customers' growing needs.** Through our focus on innovation, we are constantly enhancing the functionality and capability of our product range. As the demands of our customers grow, we see a clear opportunity to migrate them to our premium product offerings as their requirements increase.
- **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.
- **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.

More information **on page 04**

Selective product development

We have a reputation for technological excellence and innovation, with a strong tradition of new product development.

How we achieve this

- **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 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, to allow greater integration of respiratory and ballistic protection systems data and communications technology.

More information **on page 06**

Value enhancing acquisitions

We are targeting carefully selected, value enhancing acquisitions to complement our organic growth and enable us to enter adjacent product and market segments.

How we achieve this

We have maintained a very clear focus on capital discipline and ensuring that any opportunity meets our clear financial and commercial criteria.

Commercial criteria:

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

Financial criteria:

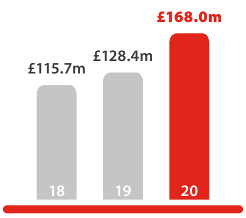
- EPS enhancement.
- Organic revenue growth, margins and cash conversion potential in line with our strategic growth objectives.
- Returns exceeding our WACC.
- Post-acquisition net debt to EBITDA less than two times.

More information **on page 08**

Chief Executive Officer's Review

2020 has been a year of both significant strategic evolution and strong organic execution for Avon Rubber.

"We have again delivered strong results ahead of expectations and continued to make significant steps transforming the business into a leading provider of life critical personal protection systems."



Revenue

£168.0m

COVID-19 UPDATE

Development of HCH-40 CPAP Hood

The HCH-40 has been rapidly developed in response to the COVID-19 pandemic and resulting shortfall in availability of critical care patient treatment devices.

University College London approached us at the beginning of April to understand if we were able to provide a patient interface hood solution to work in conjunction with a new ventilator device to provide CPAP treatment (Continuous Positive Airway Pressure). Realisation of the final product leveraged aspects of our CH15 Escape Hood including moulded neck seal and polyurethane hood material.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

I am delighted to report another year of significant progress for Avon Rubber. The consistent execution of our strategy has transformed the Group into a focused provider of life critical personal protection systems with leading positions in respiratory and ballistic protection for the world's militaries and first responders.

Our strategy has focused on sustainable growth through diversifying the revenue we generate by delivering more products to our existing customers, as well as broadening our global customer base.

Organically we have continued to focus on maximising sales from our current product portfolio and actively developing next generation technologies to enhance our products and systems to better protect our customers from life critical risks. During 2020 we have secured new multi-year sustainment contracts to supply the U.S. DOD with the M50 mask system, M61 filters and associated spares and accessories, and we further broadened our respiratory protection customer base through a 10-year contract with the NATO Support and Procurement Agency to supply FM50 mask systems, powered and supplied air systems, filters, spares and accessories. We have also delivered a strong year in First Responders following increased demand for respiratory protection related to COVID-19.

To complement our organic growth, we have continued to target carefully selected, value enhancing acquisitions. The acquisition of Helmets & Armor, which we completed in January, was a milestone acquisition for Avon Rubber and has significantly expanded our portfolio through the addition of ballistic helmets and armor. The business has made excellent progress since completion, securing multi-year contracts with the U.S. DOD for next generation ballistic helmets and body armor, as well as the ongoing supply of legacy body armor products. The integration of this business continues to progress well and is on track for completion by the end of 2020.

The divestment of milkrite | InterPuls at the end of the financial year was a natural but important step in our strategic development, focusing the Group on our Avon Protection business and providing funding capacity for future M&A.

The acquisition of Team Wendy on 2 November 2020 represents another important strategic step for the Group, creating a global leader in helmets. The combination of Team Wendy, a leading provider of helmets, helmet liners and retention systems for Military and First Responder markets, with Helmets & Armor provides increased growth opportunities from a broader product range and enhanced helmet customer base globally.

Throughout the unprecedented COVID-19 pandemic we have continued to prioritise the safety and wellbeing of our people. It is thanks to their dedication and resilience that we have been able to operate with only minor disruption throughout the year.

I am delighted with the significant strategic progress we have made this year, repositioning the business as a leading provider of life critical personal protection to Military and First Responder markets. Our strategic actions are delivering a broader range of opportunities and adding value for both our existing and new customers, as well as our people and our shareholders. All of which leaves us well positioned to deliver further growth in 2021 and beyond.

Strategy

Our strategy is based upon creating shareholder value through three key elements:

- Growing the core by maximising organic revenue growth from within the current product portfolio and improving our operational efficiency;
- Pursuing selective product development to maintain our innovative leadership position; and
- Targeting value enhancing acquisitions to complement our existing business and further accelerate growth.

Chief Executive Officer's Review continued

Growing the core

Expanding our Military product portfolio and customer base

Strong Military order momentum in the year has been delivered through the strategic focus on our core Military markets with both the U.S. DOD and our Rest of World customers. Our ability to consistently deliver strong results reflects our innovation and technology leadership position. As a result, we continue to add to our contract pipeline by securing new long-term contracts with both the U.S. DOD and our Rest of World customers which provides us with significant visibility over revenues and earnings together with a diversified platform from which to deliver sustainable growth over the medium-term.

The landmark $340m five-year contract awards in 2019 for the M69 aircrew mask and the M53A1 mask and powered air system confirmed our position as the sole source provider of General Purpose Masks, Tactical Masks, Powered Air Systems and Tactical SCBA across the entire U.S. DOD. We have followed the first orders and deliveries last year with receipt of the second order for $21.2m in February 2020 under the M69 contract and have good visibility of the next order under this contract which is expected in the first half of 2021.

The M53A1 contract is to supply all branches of the U.S. DOD and other national and federal agencies with the M53A1 tactical mask, the MP-PAPR powered air system, the ST54 self-contained breathing apparatus and other spares and accessories. As expected, during the year we have received multiple follow-on orders under this contract and the diversity of the customer order profile is demonstrating the reach of our portfolio across this broader and increasingly visible customer base.

We secured two multi-year sustainment contracts during 2020 worth up to $177m to continue supplying the U.S. DOD with the M50 mask system, M61 filter and related spares and accessories. These two awards highlight the benefit of the installed base of over two million M50 mask systems which continues to support strong sustainable revenues from original mask sales and the associated consumable products of filters, spares and accessories.

Alongside the diversified and growing order pipeline with the U.S. DOD, we have seen continued success with the broader respiratory portfolio in meeting a wider range of needs for our Rest of World customers. We continue to leverage our technology leadership position to attract growth from new and existing Rest of World customers and as a result continue to build a strong pipeline of customers for our respiratory protection products. We were delighted to announce a new 10-year framework contract with the NATO Support and Procurement Agency which provides a purchasing route for NATO and NATO affiliated nations to purchase from across our broad respiratory portfolio with the FM50 mask system, powered and supplied air systems and the full suite of spares and accessories included in the contract vehicle.

We have also successfully re-established our relationship with the U.K. Ministry of Defence ('U.K. MOD'). Following the success of our customer acceptance testing of the U.K. General Service Respirator ('U.K. GSR'), we moved into full production during the year. We are excited about the longer-term future of this relationship with the U.K. MOD and our demonstrable progress building our contract pipeline with our Rest of World customers.

Growing our First Responder business

The First Responder line of business has delivered an excellent year and has benefitted from the increased demand related to COVID-19, which offset our exit from the Fire SCBA market and increased margins. We have seen a strong increase in demand in the U.S. for both original mask equipment and for replacement filters, accessories and spares, across the second half of the year and into the new financial year.

Continuous focus on operational efficiency

Ensuring we deliver maximum operational efficiency alongside focusing on maintaining excellent customer service is an ongoing strategic focus across our global operations.

As we continue to expand our personal protection product portfolio and deliver ever more technical solutions for our Military and First Responder customers, we are focused on ensuring that we maintain high productivity and efficiency levels whilst being able to meet all of our customers' requirements. Maintaining our excellent product quality and reliability across our product range is critical to the success of our business given we operate in life critical personal protection products.

The acquisition of Helmets & Armor added three well invested manufacturing facilities to operate alongside our existing manufacturing footprint. In order to continue focusing on operational efficiency and to drive a common set of process across all locations we have brought all of our manufacturing and supply chain activities together into an integrated global operations team under the leadership of Keyana Hughes who has joined the Group's Executive Leadership team. Keyana joined the Group as part of the Helmets & Armor acquisition and brings extensive manufacturing experience which will support us in maximising the operational efficiency of our global operations.

Selective product development

Continued investment to maintain our innovative technology leadership position

We have continued to invest in the year to maintain our innovative technology leadership position across our existing portfolio as well as focusing on developing the next generation of new products that will deliver future growth for the business. We continue to ensure our development pipeline is designed in partnership with our customers to ensure that their exacting performance requirements are met whilst ensuring we have a committed and commercial route to market to maximise our return on investment.

During the year we have made a significant investment in our respiratory protection portfolio through the next generation of supplied air products and the next generation hoods programme, continuing to develop our filter technology and ramping up production on the U.K. GSR and MCM100, following a full dive test with the U.S. Navy. In our ballistic protection portfolio, development expenditure has been focused on continuing the investment in our next generation IHPS and VTP body armor programmes ahead of the expected first deliveries in 2021.

In 2020, we invested a total of £9.0m (2019: £7.3m), representing 5.4% of revenue (2019: 5.7%), in research and development. We expect to continue to invest at this level over the medium-term, reflecting our confidence in our expanded research and development capability to innovate across our broader personal protection portfolio to meet more of the integrated future technical needs of our customers for the benefit of further revenue and profit growth.

Value enhancing acquisitions

Milestone acquisition of Helmets & Armor

The acquisition of Helmets & Armor in January 2020 was an important strategic step, enhancing the growth prospects for Avon Protection. The Helmets & Armor business is high-quality, with a strong management team, backed by leading proprietary technology, established contract platforms and well invested manufacturing operations.

Our initial focus in 2020 has been on the smooth transition to Avon Protection ownership and maintaining business continuity. This has included ongoing fulfilment of the Integrated Head Protection System ('IHPS') Low Rate Initial Production contract, completion of the Vital Torso Protection Low Rate Initial Production body armor contract and securing follow on contracts of these next generation helmets and body armor systems.

Since completion the business has secured three very significant long-term body armor and helmet contracts with the U.S. DOD.

- The Next Generation Integrated Head Protection System ('NG IHPS') ballistic helmet contract, part of the U.S. Army's Soldier Protection System, is a sole source contract with a maximum value of $93m. This new contract award will follow on from the existing low-rate initial production contract for the IHPS which is due to end in 2021.
- The Vital Torso Protection X-Side Ballistic Insert ('VTP XSBI') body armor framework contract, which is part of the U.S. Army's Soldier Protection System, is a dual source contract and has a maximum value of $265m, over a four-year duration. This adds to the multi-source four-year framework contract with a maximum value of $704m awarded in 2019 to supply Enhanced Small Arms Protective Insert ('VTP ESAPI') and X-Small Arms Protective Insert ('VTP XSAPI'). Deliveries under both contracts are expected to commence in the second half of our new financial year following completion of first article testing.

Helmets & Armor transition programme

Understanding our employees' needs

To ensure a smooth transition for all Helmets & Armor employees, surveys were conducted at the beginning of the year to gain an understanding of how the new employees felt about any changes that were occurring. We wanted to understand how the employees were feeling during the transition and what could be done to further support them throughout the integration.

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Chief Executive Officer's Review continued

- The Enhanced Small Arms Protective Inserts ('ESAPI') body armor framework contract is an award to supply the Defense Logistics Agency ('DLA') with legacy body armor inserts to support existing operational requirements during the transition to the next generation VTP body armor. The ESAPI contract was a competitively tendered award which has a maximum value of $333m over a maximum three-and-a-half-year duration. The first order, worth $20m, was received in March 2020, with deliveries expected to commence in our 2021 financial year following completion of first article testing.

Having secured a smooth transition to Avon Protection ownership and maintained business continuity, we have continued to make significant progress integrating Helmets & Armor into Avon Protection. Our first priority was on the back office support functions across IT, Finance and HR to ensure business continuity. We established a project plan to align the IT systems and system architecture with Avon Protection and have also embedded support into Helmets & Armor across Finance and HR functions. This project is on track to complete in December ahead of the expiry of the transitional service arrangements with 3M at the end of the calendar year.

As reported at the half year, we migrated our existing Helmets & Armor First Responder customers to Avon Protection in the Spring to provide those customers with a single point of contact. In July we officially launched our helmet product range to all our North American First Responder customers. We are pleased with the initial progress achieved and the pipeline of opportunities secured following this launch.

In the second half we combined the manufacturing and supply chain operations of the business across our global footprint under the leadership of a single integrated global operations team. Our global operations will drive standard ways of working, processes and systems across the footprint to drive operational efficiency, product quality and customer service.

In the first quarter of the new financial year we have completed the operational integration of Helmets & Armor into Avon Protection by combining responsibility for the Helmets & Armor Military customers into our Military line of business.

Following completion of the integration with Avon Protection, from the start of our 2021 financial year we will no longer report Helmets & Armor as a separate line of business, we will instead include the results of the business within our Military and First Responder lines of business.

As a result of the progress we have made in integrating Helmets & Armor, we are on track to deliver in 2021 the $5m of annualised cost synergies identified at the time of the acquisition and see the potential for further operational efficiencies and revenue synergies to be realised over the long-term.

Divestment of milkrite | InterPuls supports strategic focus on Avon Protection

On 25 September 2020 we completed the divestment of milkrite | InterPuls for a cash consideration of £178.5m after customary closing adjustments. This transaction represents an important step in the strategic development of Avon Rubber. milkrite | InterPuls had been an important part of the growth of the Group over many years, but having achieved our valuation expectations for the business we believed that it was the right time to divest the business and use the proceeds to provide additional capacity for investment in the Avon Protection business.

Acquisition of Team Wendy creating a global leader in helmets

We completed the acquisition of Team Wendy on 2 November 2020, marking another important strategic step in the development of Avon Protection as a leading provider of life critical personal protection systems to Military and First Responder customers. Consistent with the wider Avon Protection model, Team Wendy is a high-quality business, backed by leading proprietary technology, an existing diversified customer base and with strong R&D development capabilities which will enhance the pipeline of opportunities and accelerate the growth of the Group.

Team Wendy is a leading supplier of helmets and helmet liner and retention systems for Military and First Responder markets. Combining Team Wendy with our existing Helmets & Armor business will create a global leader in Military and First Responder helmets with a broader product portfolio and stronger capabilities and routes to market.

Team Wendy adds leading helmet liner and retention systems used by the U.S. DOD and established positions in Rest of World Military and First Responder helmet markets to our existing Helmet & Armor business which is focused in next generation ballistic helmets and body armor for the U.S. DOD. The enlarged helmet business will be better positioned for investment in next generation products and establishes a broader platform into which other technologies can be incorporated. The enlarged helmet business will also have better scale and an enhanced route to market, with Team Wendy's complementary customer base and well-established global footprint expected to provide significant business development opportunities over the medium-term.

Given the complementary nature of Team Wendy to our existing helmets business, Team Wendy will continue to operate from its Cleveland, Ohio base on a stand-alone basis. Team Wendy will continue to be led by Jose Rizo-Patron alongside his existing strong management team. Following completion Jose has joined the Group's Executive Leadership team.

Well positioned to pursue further acquisitions

The successful integration of Helmets & Armor and the recent acquisition of Team Wendy illustrate the potential for the Group to leverage its leading market position, deeply embedded customer relationships and innovation capability across a broadening range of life critical protective equipment. The Group's customers are faced with evolving threats and operational challenges that increasingly require integrated and technology-enabled solutions and Avon Protection, as the market leader in respiratory and ballistic protection, is ideally placed to act as both a technology innovator and integrator. As such, there remains significant scope to extend our capability into adjacent product areas and we believe that further value enhancing acquisition opportunities will be actionable to supplement our continued organic growth over the medium-term. Following the acquisition of Team Wendy we will retain a strong balance sheet, with a small net cash position. The Group recently entered a medium-term bank facility of $200m, which means we are well positioned to pursue other potential acquisitions that meet our criteria over the medium-term.

Outlook

The consistent execution of our strategy has transformed the Group into a focused provider of life critical personal protection systems with leading positions in respiratory and ballistic protection for the world's militaries and first responders.

Our medium-term outlook is underpinned by multi-year military contracts across the product portfolio. Together with a strong opening order book of $101.7m (£79.8m) and continuing strong demand from First Responder customers, these contracts provide excellent visibility as we enter the new financial year. We are well positioned to deliver further organic growth in 2021 and beyond.

The 2021 financial year will also benefit from a full year contribution from Helmets & Armor, versus the nine months contribution in 2020. We expect revenues from helmet and armor products to continue at the current level in the first half of the year, with growth in the second half driven by deliveries under the new U.S. DOD body armor contracts following completion of first article testing.

Following the acquisition of Team Wendy, our 2021 financial year will benefit from 11 months of contribution. We expect Team Wendy to grow revenue in line with our investor proposition of 3%+p.a. in 2021.

We will continue to monitor the impact of COVID-19 on our business and to prioritise the safety and wellbeing of our employees and their families. Whilst the operating environment of COVID-19 remains challenging, customer demand for our products remains robust and we have continued to operate with only minor disruption to date. We will continue to closely manage our supplier base to ensure the continued delivery of our customers' ongoing requirements. We have transformed the business over the last three years and positioned it for future growth through our consistent focus on delivering against our strategic priorities of growing the core, selective product development and value enhancing acquisitions. This leaves us well positioned to deliver further progress in 2021 and beyond.

Paul McDonald

Paul McDonald
Chief Executive Officer

2 December 2020

COVID-19
UPDATE

Managing COVID-19 for all our stakeholders

The wellbeing of our employees and customers has remained our top priority throughout the unprecedented COVID-19 pandemic. We have adapted our working practices and facilities to ensure our people are kept safe and well throughout this crisis and as a result we have continued to operate with only minor disruption, playing a crucial role in supporting our customers ongoing requirements. We continue to manage the situation closely and follow Government and health authority advice to help prevent the spread of the virus.

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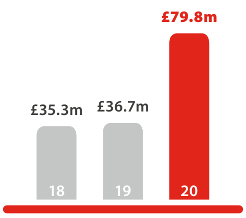
Financial Review

The results reflect our ongoing initiatives to grow our core revenue and selected product development to create a business that is more sustainable for the future, complemented by value enhancing acquisitions.

"The closing order book of £79.8m reflects the continued strong performances across all the markets in which we operate and provides excellent visibility heading into the new financial year."



Closing Order Book

£79.8m

M50 mask system and M61 filter contract award

Ongoing strong relationship with the U.S. DOD

Earlier this year we were awarded a sole-source sustainment contract to supply the M50 mask system, as well as a dual source contract to supply replacement M61 filters. These awards further underpin our ongoing sustainable revenues from the U.S. DOD's installed base of over two million M50 mask systems. We look forward to continuing to deliver the highest performing and highest quality respiratory protection to the U.S. DOD.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

We have delivered a strong financial performance during the year benefitting from both organic growth and the acquisition of Helmets & Armor. Revenue and adjusted operating profit grew by 30.8% and 33.6% respectively; an increase of 0.1% and 8.9% on an organic continuing operations basis.

	2020	2019 (Restated)[1]	% Change	% Change at organic constant currency
Orders received	£160.8m	£129.8m	23.9%	4.5%
Closing order book	£79.8m	£36.7m	117.4%	19.3%
Revenue	£168.0m	£128.4m	30.8%	0.1%
Adjusted EBITDA	£38.4m	£28.4m	35.2%	6.8%
Adjusted EBITDA margin	22.9%	22.1%	0.8%	1.4%
Adjusted operating profit	£30.2m	£22.6m	33.6%	8.9%
Operating profit	£5.9m	£9.9m	–	–
Adjusted profit after tax	£23.4m	£20.5m	14.1%	(2.8%)
Profit after tax	£1.6m	£10.2m	–	–
Adjusted basic earnings per share	76.5p	67.2p	13.8%	(2.9%)
Basic earnings per share	447.4p	46.2p	–	–

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020 and to reflect the impact of adopting IFRS 16 Lease accounting which came into effect on 1 October 2019.

Orders received of £160.8m (2019: £129.8m) supported an increase in revenue to £168.0m (2019: £128.4m) reflecting the benefit of the inclusion of nine months of performance from Helmets & Armor. On an organic constant currency basis, revenue grew by 0.1% with Military revenue reducing by 3.6% given the strong comparator in 2019, offset by First Responder which grew strongly by 7.7% notwithstanding our exit from the Fire SCBA market.

Our adjusted EBITDA margin of 22.9% (2019: 22.1%), increased by 1.4% on an organic constant currency basis excluding the impact of Helmets & Armor. This primarily reflected the benefits of the commercial pricing of the new M50 and M53A1 DOD contracts and the strong performance from higher margin First Responder revenues. Adjusted EBITDA was £38.4m (2019: £28.4m); eliminating the effect of the Helmets & Armor acquisition and currency movements organic adjusted EBITDA grew by 6.8%.

Adjusted operating profit grew very strongly to £30.2m (2019: £22.6m). Eliminating the small benefit of currency movements and the Helmets & Armor acquisition, adjusted operating profit grew by 8.9% on a constant currency basis.

Financial Review continued

Reported operating profit of £5.9m (2019: £9.9m) reflects £6.5m (2019: £0.9m) of amortisation of acquired intangibles, an increase of £5.6m following the acquisition of Helmets & Armor, and exceptional costs of £17.8m (2019: £11.8m). In 2020, the exceptional costs related to the acquisition of Helmets & Armor and Team Wendy including acquisition costs of £9.6m, transition costs of £2.3m and acquisition accounting adjustments of £5.9m to account for acquired inventory at our underlying cost. In 2019, the exceptional costs included acquisition costs of £2.9m, a charge to equalise the pension benefits for men and women and past service costs of £3.5m and the one-off costs of £5.4m relating to our exit from the Fire SCBA market.

After an adjusted tax charge of £4.8m (2019: £1.7m), the Group recorded an adjusted profit for the period after tax of £23.4m (2019: £20.5m). The strong growth in adjusted operating profit more than offset the increased adjusted tax rate of 17% (2019: 8%), which has increased following the Helmets & Armor acquisition due to the greater proportion of U.S. profits and the prior period benefiting from the resolution of a number of uncertain tax positions in 2019. Adjusted basic earnings per share increased by 13.8% to 76.5p (2019: 67.2p).

On a reported basis, the profit before tax was £0.5m (2019: £8.7m) and, after a tax credit of £1.1m (2019: £1.5m), profit for the period was £1.6m (2019: £10.2m). Basic earnings per share from continuing operations were 5.2p (2019: 33.4p), with basic earnings per share including discontinued operations of 447.4p (2019: 46.2p), benefiting from the proceeds from the divestment of milkrite | InterPuls.

Cash from continuing operations was £32.6m (2019: £18.4m) benefiting from the receipt of cash relating to the 2019 $16.6m Rest of World Military mask system contract which offset a Helmets & Armor working capital out flow due to the timing of receipts from 3M under the terms of the transitional service agreement. Operating cash conversion from adjusted EBITDA increased to 84.9% (2019: 64.8%) and excluding Helmets & Armor cash conversion was 123.3%.

Revenue

	2020 £m	**2019 £m**
Military	82.8	87.2
Helmets & Armor	40.8	–
First Responder	44.4	41.2
Total	168.0	128.4

Military

Military revenue of £82.8m (2019: £87.2m) was down 3.6% at constant currency given the strong comparator in 2019. Order in-take of £88.5m (2019: £83.9m) was up 5.5% on a constant currency basis, contributing to a strong closing order book of £36.8m (2019: £29.4m) which gives us excellent visibility as we enter 2021.

U.S. DOD revenue totalled £58.9m versus £54.8m in 2019, reflecting the diversification of the respiratory protection portfolio with the benefit of a full year of deliveries of the M69 aircrew masks and M53A1 mask and powered air system products. This was offset, as expected, by lower volumes of the M50 mask system with first deliveries under the new sustainment contract. Volumes of M50 mask system spares and accessories grew in the year, highlighting the importance of the installed base of two million M50 mask systems in generating sustainable revenues. As a result, U.S. DOD spares and development costs revenue increased to £24.8m (2019: £12.2m).

Rest of World Military revenues of £23.9m (2019: £32.4m) declined as a result of the inclusion in 2019 of the $16.6m Rest of World mask system contract. During the year we have made excellent progress in delivering a more sustainable Rest of World Military business with a more visible contract pipeline. We delivered the first orders under the five-year U.K. General Service Respirator contract and secured a 10-year framework contract with the NATO Support and Procurement Agency to supply our FM50 mask system, together with filters, spares and accessories with the first deliveries under this contract expected in our 2021 financial year.

Helmets & Armor

We completed the acquisition of Helmets & Armor on 2 January 2020, so the performance this year includes the first nine months of our ownership. Over the period we have benefitted from revenue of £40.8m, being £38.4m from Military customers and £2.4m from First Responder. Military revenues comprise ongoing deliveries to the U.S. DOD of the IHPS helmet, completion of the low rate production volumes for VTP ESAPI body armor, as well as sales of flat armor to original equipment manufacturers of rotary wing aircraft.

Helmets & Armor delivered an EBITDA margin of 17.9% reflecting the initial cost synergy delivery. This resulted in an adjusted operating profit contribution of £5.1m.

R&D expenditure
£9.0m
(2019: £7.3m)

R&D spend as % of revenue
5.4%
(2019 5.7%)

We have made good progress integrating the Helmets & Armor business into Avon Protection and we remain on track to deliver the full targeted synergies of $5m in our 2021 financial year. The one-off costs expected to be incurred to complete the integration of $12.7m, are ahead of our initial estimates of $10m due to additional resources and costs required to deliver the back office integration during the COVID-19 pandemic. Going forward, we see the potential for further operational efficiencies and revenue synergies to be realised over the long-term.

First Responder

The First Responder business had an exceptional year with revenues increasing by 7.8% on a constant currency basis to £44.4m (2019: £41.2m), with increased demand related to COVID-19 having more than offset the prior year Fire SCBA revenues. Excluding the impact of our exit from the Fire SCBA market, underlying revenue increased by 23.0% on a constant currency basis.

We have seen a strong increase in demand from first responders for both original mask equipment and for replacement filters, accessories and spares, across the second half of the year, as a result of the COVID-19 pandemic. This momentum has resulted in a strong opening order book of £5.5m which gives us a confident outlook into the next financial year. We have continued to see strong demand in the new financial year from first responders for both original equipment and importantly for spares and accessories.

Research and development expenditure

We continue to invest for the future and our total investment in research and development (capitalised and expensed) amounted to £9.0m (2019: £7.3m) as shown below. Total research and development as a percentage of revenue was 5.4% (2019: 5.7%).

	2020 £m	2019[1] £m
Total expenditure	9.0	7.3
Less customer funded	(2.2)	(2.5)
Group expenditure	6.8	4.8
Capitalised	(5.1)	(3.2)
Income statement impact of current year expenditure	1.7	1.6
Amortisation	2.8	3.0
Total income statement impact before exceptionals	4.5	4.6
Revenue	168.0	128.4
R&D spend as % of revenue	5.4%	5.7%

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020.

In the respiratory protection product portfolio, the most significant investments have been in the development of our next generation of supplied air and escape hoods products, further development of our filter technology, ramping up production on the U.K. GSR programme and ongoing improvements in the capabilities of the MCM100 underwater rebreather following a full dive test programme with the U.S. Navy.

In Helmets & Armor, investment expenditure has been focused on continuing the development of the next generation IHPS helmet and VTP body armor programmes ahead of first deliveries expected in the 2021 financial year.

Financial Review continued

Profit for the year

	2020			2019		
	Adjusted £m	**Adjustments £m**	**Total £m**	**Adjusted (Restated)[5] £m**	**Adjustments (Restated)[5] £m**	**Total (Restated)[5] £m**
Continuing operations						
Operating profit	30.2	(24.3)	5.9	22.6	(12.7)	9.9
Operating profit						
Before depreciation, amortisation and impairment	38.4	(17.8)	20.6	28.4	(8.0)	20.4
Impairment	–	–	–	–	(3.8)	(3.8)
Depreciation and amortisation	(8.2)	(6.5)	(14.7)	(5.8)	(0.9)	(6.7)
Operating profit	30.2	(24.3)[1]	5.9	22.6	(12.7)[1]	9.9
Net finance costs	(2.0)	(3.4)[2]	(5.4)	(0.4)	(0.8)[2]	(1.2)
Profit before taxation	28.2	(27.7)	0.5	22.2	(13.5)	8.7
Taxation	(4.8)	5.9[3]	1.1	(1.7)	3.2[3]	1.5
Profit for the year from continuing operations	23.4	(21.8)	1.6	20.5	(10.3)	10.2
Discontinued operations – gain on disposal	–	129.8[4]	129.8	–	–[4]	–
Discontinued operations – profit from discontinued operations	–	5.4[4]	5.4	–	3.9[4]	3.9
Profit for the year	23.4	113.4	136.8	20.5	(6.4)	14.1
Basic earnings per share	76.5p	370.9p	447.4p	67.2p	(21.0p)	46.2p
Diluted earnings per share	75.5p	365.8p	441.3p	66.6p	(20.8p)	45.8p

1 Adjustments

Adjustments of £24.3m (2019: £12.7m) excluded from adjusted operating profit comprise amortisation of acquired intangible assets of £6.5m (2019: £0.9m) and exceptional costs of £17.8m (2019: £11.8m). In 2020, the exceptional costs related to the acquisition of Helmets & Armor and Team Wendy including acquisition costs of £9.6m, transition costs of £2.3m and acquisition accounting adjustments of £5.9m to account for acquired inventory at our underlying cost. In 2019, the exceptional costs included acquisition costs of £2.9m, a charge to equalise the pension benefits for men and women and past service costs of £3.5m and the one-off costs of £5.4m relating to our exit from the Fire SCBA market.

2 Net finance costs

Net finance costs were £5.4m (2019: £1.2m) comprising £1.0m of bank interest due to drawing on the Group bank facility to partially fund the acquisition of Helmets & Armor in January (2019: £0.4m of finance income), £0.9m (2019: £0.7m) of interest in respect of leases, and other finance expenses of £3.5m (2019: £0.9m) which primarily represents the unwind of the discount on the net pension liability and contingent consideration of £3.1m and £0.3m of finance fees written off following the bank refinancing during the year. Other finance expenses have been excluded from adjusted profit for the year.

3 Taxation

Taxation was a credit of £1.1m (2019: £1.5m credit) comprising an adjusted tax charge of £4.8m (2019: £1.7m), at an adjusted effective rate of 17% (2019: 8%), offset by the tax effects of the impact of the acquisition costs, amortisation of acquired intangibles and the defined benefit pension scheme of £5.9m (2019: £3.2m). Included within this is a £1.2m credit in respect of previous periods which includes a £0.8m credit in connection with the release of provisions following the successful resolution of a number of prior year uncertain tax positions.

4 Profit from Discontinued Operations

The profit from discontinued operations of £135.2m in the year was comprised of the profit after tax of milkrite | InterPuls up to the date of disposal on 25 September 2020 of £5.4m and the post tax gain on disposal of £129.8m.

5 Restatements

The previously reported prior year comparatives for the adjusted measures have been restated for the following items: to reflect the impact of the new lease standard, to present milkrite | InterPuls as a discontinued operation following the disposal in September 2020 and to include the pension administration costs within the adjusted performance measures as these were previously excluded.

The table below shows the reconciliation of the previously reported key measures to the restated prior year comparatives:

	Note	As reported 30 September 2019 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2019 £m
Adjusted Earnings		28.0	(0.1)	(7.0)	(0.4)	20.5
Adjusted Earnings per share (pence)	2.3	91.7p	(0.3p)	(22.9p)	(1.3p)	67.2p
Adjusted operating profit	2.1	31.3	0.4	(8.6)	(0.5)	22.6
Adjusted EBITDA	2.1	39.5	1.0	(11.6)	(0.5)	28.4

Reconciliation of restated reported measures is available in note 7.7 of the financial statements.

Net cash and cash flow

Cash generated from continuing operations was £32.6m, compared to £18.4m in 2019 benefiting from the cash receipt relating to the 2019 $16.6m Rest of World Military mask system contract which offset a Helmets & Armor working capital out flow due to the timing of receipts from 3M under the terms of the transitional service agreement. Operating cash conversion from adjusted EBITDA increased to 84.9% (2019: 64.8%), and excluding Helmets & Armor was 123.3% on an organic continuing operations basis.

	2020 £m	2019[1] £m
Cash flows from continuing operations before the impact of exceptional items	32.6	18.4
Cash impact of exceptional items and discontinued operations	(4.8)	6.6
Cash flows from operations	27.8	25.0
Net interest	(3.3)	(0.9)
Payments to pension plan	(21.8)	(1.5)
Tax	(2.7)	(6.1)
Purchase of property, plant and equipment	(6.1)	(2.2)
Capitalised development costs and purchased software	(9.5)	(3.5)
Acquisitions	(71.8)	–
Divestments	167.7	–
Investing and financing activities used in divestments	(4.8)	(2.9)
Purchase of own shares	–	(1.3)
Dividends to shareholders	(7.0)	(5.4)
Net proceeds from loan drawdowns	29.3	–
Foreign exchange and other items	0.8	0.6
Increase in net cash	98.6	1.8

1 2019 has been restated to reflect the continuing operations of the Group following the divestment of milkrite | InterPuls on 25 September 2020.

Financial Review continued

At the year-end, the Group had net cash of £93.2m (2019: £35.4m), being cash of £147.0m less bank debt of £31.0m and lease liabilities of £22.8m (2019: £12.9m). The increase in lease liabilities is due to £8.8m acquired as part of the Helmets & Armor acquisition, £6.4m as a result of new leases entered into during the year, offset by £3.3m divested with milkrite | InterPuls and £2.0m of rent payments.

During the year we entered into a new U.S. Dollar denominated bank facility of $200.0m (£157.0m) (2019: $85.0m (£66.7m)), which is committed to 8 September 2023, with a further two one-year extension options.

Our net cash position and strong balance sheet provided us with the capacity to complete the acquisition of Team Wendy in November as well as providing capacity to deliver our growth strategy and make further value enhancing acquisitions. Our policy is to maintain a strong financial position and keep the ratio of net debt to adjusted EBITDA under two times.

Acquisition and integration of Helmets & Armor

We completed the acquisition of the Helmets & Armor business for a total cash consideration in the year of $90.6m, made up of $87.2m of initial consideration after adjusting for the level of working capital at completion and contingent consideration of $3.4m. Further total potential contingent consideration of up to $21.7m (£15.2m) is payable depending on the value of orders received under the DLA ESAPI contract. We incurred cash acquisition costs in the year of £2.9m, bringing total acquisition costs to £5.7m.

Divestment of milkrite | InterPuls

We completed the divestment of the milkrite | InterPuls business for a total consideration of £178.5m after customary closing adjustments. As part of the proceeds from the divestment the Group agreed with the trustees of its U.K. pension scheme to make a one-time contribution of £20.0m to strengthen the scheme's funding position. We incurred associated transaction costs in the year of £8.8m.

Accounting standards changes

From the start of the financial year the way that leases are accounted for changed for the Group with the underlying principle being that all leases are now reported on the balance sheet. As a result of these changes, the Group has recognised a right of use asset for all the current operating leases above 12 months in length and excluding those of low value and a lease liability representing the present value of the lease payments to the end of the lease life.

The impact of the changes on the financial statements are that from the start of the year £9.2m of leasehold assets and £12.9m of leasehold liabilities, together with £1.7m to reflect the unwind of rent free periods and deferred tax movements, have been added to the balance sheet with the £2.0m net balancing figure reflected as an opening reserves adjustment. Following the completion of the acquisition of Helmets & Armor an additional £8.8m of leasehold assets and £8.8m of leasehold liabilities were added to the balance sheet and subsequent to the divestment of milkrite | InterPuls £2.3m of leasehold assets and £3.3m of leasehold liabilities have been removed from the balance sheet. £6.4m of new lease liabilities have been entered into during the year.

The changes have also impacted the presentation of the income statement as the lease payments are now included within finance costs. As a result of these changes the results from the 2019 financial year have been restated to reflect the impact of IFRS 16 and to allow comparison to the current financial year performance. There are no changes to the cash flow metrics as these are all non-cash presentational changes.

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 initial consideration of $91m for the agreement to acquire Helmets & Armor exposed the Group to foreign exchange risk on the U.S. dollar equivalent of the Sterling net cash held on the balance sheet and to match this risk the Group entered into a deal contingent forward contract to hedge £35m of cash held at the start of the year which was settled on completion of the acquisition at the beginning of January.

Given the change in reporting currency for our 2021 financial year, the agreement to divest milkrite | InterPuls for £178.5m created an exposure from 1 October 2020 to foreign exchange risk on the U.S. dollar equivalent of the Sterling cash proceeds. To manage this risk the Group entered into a second deal contingent forward contract to hedge £140m of the cash proceeds, which were not matched against Sterling costs, which was settled at the point of completion of the acquisition on 25 September. 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 or two months. Borrowings and overdrafts are at floating interest rates. The Group does not carry out any interest rate hedging.

Currency effect and change of reporting currency

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 one cent appreciation of the U.S. dollar increases revenue by approximately £1.1m and operating profit by approximately £0.2m.

Subsequent to the acquisition of Team Wendy, and following the completion of the divestment of milkrite | InterPuls, the Group's activities will be predominantly conducted in U.S. dollars, with approximately 90% of revenues and the majority of Group's net cash and net assets denominated in U.S. dollars. As such, from 1 October 2020 the Group will change its reporting currency to U.S. dollars for our 2021 financial year. Following the change in reporting currency, dividends for the 2021 financial year and beyond will be set in U.S. dollars and converted into pounds sterling for payment at the prevailing exchange rate immediately prior to payment.

Dividends

The Board is recommending a final dividend of 18.06p per share (2019: 13.89p) which together with the 9.02p per share interim dividend gives a total dividend of 27.08p (2019: 20.83p), up 30% on last year. The final dividend will be paid on 12 March 2021 to shareholders on the register at 12 February 2021 with an ex-dividend date of 11 February 2021.

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%p.a. 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 2.8 times (2019: 4.4 times). Once dividend cover approaches two times we intend to increase dividends in line with the growth in adjusted earnings per share.

Nick Keveth

Nick Keveth
Chief Financial Officer

2 December 2020

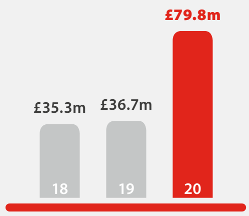
Introduction of Helmets & Armor product range to First Responder Customers

During the year we introduced the Helmets & Armor product range to our North American First Responder customers, allowing us to take advantage of our strong distribution network. The product range is widely recognised for world-class protection and comfort and, as a result, we have secured a pipeline of opportunities, with plans for a full launch to our Rest of World First Responder customers underway.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

How We Measure Our Performance

The Group uses a variety of key performance indicators which are in line with our strategy and investor proposition.



Closing order book[1]

£79.8m

+117.4%

Reason for choice

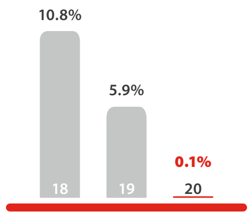
Provides an indication of revenue to be recognised in the next financial period.

How we calculate

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

Comments on results

Strong closing order book of £79.8m provides excellent revenue visibility and confidence for 2021.



Organic constant currency revenue growth[1] (%)

0.1%

(5.8%)

Reason for choice

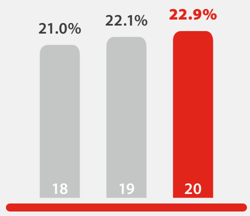
Indicates the rate at which the Group's business activity is changing over time.

How we calculate

The growth in revenue comparing current year revenue with prior year revenue retranslated at current year exchange rates. This calculation excludes the impact of acquisitions.

Comments on results

Revenue grew by 0.1% with Military revenue reducing by 3.6% given the strong comparator in 2019, being offset by First Responder, which grew strongly by 7.7% notwithstanding our exit from the Fire SCBA market.



Adjusted EBITDA margin[1,2] (%)

22.9%

+0.8%

Reason for choice

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

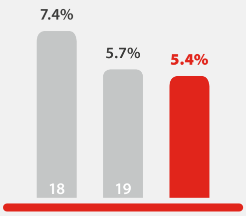
How we calculate

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

There was a full year of deliveries of both the M69 aircrew mask and M53A1 mask and powered air systems and first deliveries of the commercial priced sustainment volumes of M50 mask systems which, combined with very strong spares and accessories orders, all contributed to strong EBITDA margin growth.

1 The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. The metrics are also used internally to measure and manage the business.



Product development % of revenue[1]

5.4%

(0.3%)

Reason for choice

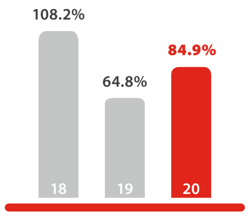
Provides a measure of the Group's investment in new products and processes. Investment provides a foundation for the Group's future growth.

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

We invested a total of £9.0m, representing 5.4% of revenue, in research and development. We expect to continue to invest at this level over the medium-term, reflecting our confidence in our expanded research and development capability to innovate across our broader personal protection portfolio to meet more of the integrated future technical needs of our customers for the benefit of further revenue and profit growth.



Cash conversion[1] (%)

84.9%

+20.1%

Reason for choice

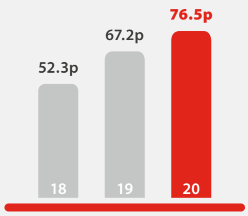
Provides a measure of the management of working capital and the ability of the Group to convert profits to cash.

How we calculate

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

Comments on results

Operating cash conversion from adjusted EBITDA increased to 84.9%, and excluding Helmets & Armor, cash conversion was 123.3% on an organic continuing operations basis.



Adjusted earnings per share[1,2] (%)

76.5p

+13.8%

Reason for choice

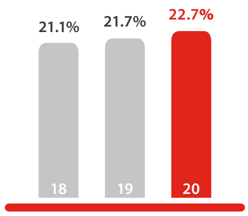
Measures the ability to generate a return to shareholders. It takes into account our success in growing our business organically and by acquisition coupled with management of the Group's financing and tax.

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

Strong core revenue, and profit growth together with the first nine months of contribution from Helmets & Armor resulted in a significant increase in adjusted earnings per share.



Return on capital employed[1] (%) (ROCE)

22.7%

1.0%

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. Adjusted operating profit and average capital employed includes the profit and capital for Avon Protection, milkrite | InterPuls and Helmets & Armor. Capital employed is the sum of shareholders' funds, non-current liabilities and current borrowings.

Comments on results

Our strong improvement in profit and utilising our balance sheet for the value enhancing acquisition of Helmets & Armor has increased our ROCE to 22.7%.

2 A reconciliation of adjusted performance measures are available on page 34.

A full glossary of terms is available on page 162.

Principal Risks and Risk Management

The Group has an established process for the identification and management of risk, working within the governance framework set out in our corporate governance statement.

Ultimately the management of risk is the responsibility of the Board of Directors, and our system of risk management, which is intended to be comprehensive and robust, continues to evolve as the Group and the environment in which it operates increases in size and complexity. The Board's role in risk management includes promoting a culture that emphasises integrity at all levels of business operations and setting the overall policies for risk management and control. The acquisitions of Helmets & Armor and Team Wendy have, alongside the divestment of the milkrite | InterPuls business, significantly changed the size and composition of the Group during the year. This has prompted further evolution of our system of risk management to adjust to the changed risk profile of the Group, but our core approach to managing risk has served us well during the year and provided a useful tool by which to assess the acquired businesses.

During the year the principal risks affecting the Group were fully reviewed and categorised by the Group Executive team and approved by the Board. This included the new risk profiles of each of the acquired businesses and a standalone assessment of the operations by the new President of Operations. Each risk area continues to have priority tasks allocated to it that are the responsibility of the members of the Group Executive to deliver during the financial year.

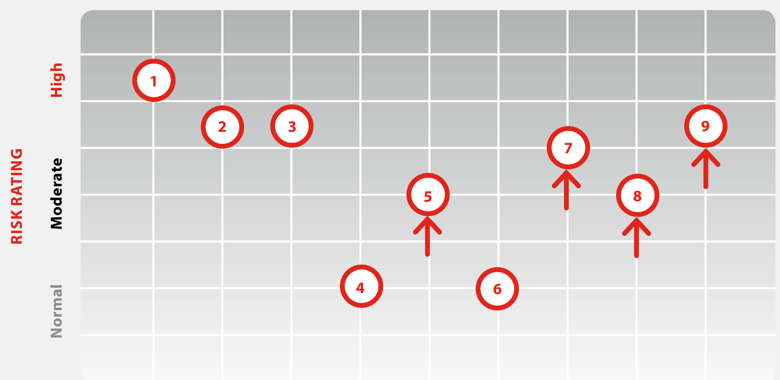
This process inherently manages risk by ensuring the principal risks are being mitigated by prioritised business activity.

As we move into 2021 increased focus is being given to how effectively risk is being mitigated, in line with risk appetite, by the control structures and processes embedded throughout the Group. All executive teams provided feedback on this during the year. The Risk Committee has continued the process of holding quarterly reviews of the effectiveness of these control structures and has assessed the results according to a set of supporting key risk indicators.

The following pages include an insight into what happened in 2020 and the key areas of focus for 2021.

The principal risks are listed on the following pages in order of significance and potential financial impact on the Group. We have made this assessment with reference to the assessment of the potential severity of impact alongside both the volume and intensity of activity in each risk area during the year. The categorised risk themes within the principal risk areas are shown alongside. Available mitigations in the form of control structures are shown next to each identified risk area.

Risk rating and movement in 2021



1. Strategic initiatives
2. Market threat to core business
3. Talent management
4. Cyber security and information technology
5. Customer dependency
6. Financial management
7. Manufacturing risk
8. Compliance and legal matters
9. Political and economic stability

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.

1. Strategic initiatives

Business risk	What happened in 2020	Mitigation	Focus for 2021
• Failure to identify correct strategic projects or to deliver them • Failure to identify and implement new products • Failure to identify, complete and integrate acquisitions **Impact on** • Strategy delivery • Sales, costs and profitability • Employee morale	• Acquisition of the Helmets & Armor business completed with integration progressing as planned • Divestment of milkrite | InterPuls focused the business on becoming a leading provider of life critical personal protection systems • Acquisition of Team Wendy, creating a global leader in helmets, helmet liners and retention systems • Long-term contracts secured across our enhanced product portfolio • £9.0m invested in new product development	• Board oversight of clear strategy definition and communication combined with effective management • Product development linked to Group strategy and customer requirements • Intellectual property protection considered and implemented • Clear acquisition strategy and alignment with divisional structures • Well-resourced acquisition team with appropriate external advisors retained	• Delivering new product programmes to meet customer requirements within capital allocated budget • Continued focus on operational efficiency and further value enhancing acquisition opportunities • Continued integration of the Helmets & Armor business • Transition of Team Wendy to a functioning business unit following completion on 2 November. Regular Board oversight of this activity

2. Market threat to core business

Business risk	What happened in 2020	Mitigation	Focus for 2021
• Lack of sales growth/ threat to current sales • Loss of major bids/tenders • Threat from competitors **Impact on** • Sales and profitability • Strategy delivery	• Sustainable order intake growth achieved across all lines of business • New five-year contracts secured to supply the U.S. DOD with M50 mask system, filter spares and accessories • 10-year NSPA contract to supply FM50 mask systems, powered and supplied air systems, filters, spare parts and accessories • New medium-term contracts secured to supply the U.S. DOD with Next Generation IHPS ballistic helmet, VTP XSBI, and legacy ESAPI body armor	• Customer relationships prioritised and managed through dedicated leadership channels • Product differentiation/ innovation/diversification and protection of intellectual property • Diversified sales channels with comprehensive distribution/intermediary network • Effective and up-to-date competitor monitoring and analysis to maintain competitive advantage	• Continued sustainable growth in all lines of business and order growth in new products • Focus on integrating the ballistic helmet lines from Helmets & Armor with the helmets, helmet liners and retention systems from Team Wendy • Focus on continuing to grow our market share with our Rest of World and First Responder customers

Principal Risks and Risk Management continued

3. Talent management

Business risk	What happened in 2020	Mitigation	Focus for 2021
• Inability to recruit and retain talent • Poor employee competence and failure to train and develop • Dysfunctional organisational structures **Impact on** • Strategy delivery • Sales, costs and profitability • Employee morale	• Successfully relaunched employee opinion survey including regular pulse reviews to monitor and respond to employee feedback • Continuing commitment to graduate and internal leadership training programmes to develop talent base • Focus on integrating Helmets & Armor leadership with extensive succession planning for key roles in the organisation • Recruitment of North America HR leadership position • Continued alignment of annual bonus scheme targets across all employees • Prioritisation of employee safety and wellbeing while keeping our facilities open during the COVID-19 pandemic	• Robust succession planning and effective performance management process • Effective training and development strategy and activities • Appropriate organisational structure with clear lines of authority and communication • Maintaining positive Avon Rubber culture – Great Place to Work • Well invested and structured HR team	• Continued focus on people and culture and prioritisation of actioning employee satisfaction results • Supporting the successful transition of our new people following the completion of the acquisition of Team Wendy • Ongoing focus on respectful workplace and career progression initiatives • Focus on improving and aligning skillsets within operational functions to support more efficient and consistent delivery • Investment in global HR system capability and structures across the enlarged Group • Continued focus on employee safety through the COVID-19 pandemic

4. Cyber security and Information technology

Business risk

- Business interruption/cash cost of cybercrime and fraud
- IT system or communications failure could lead to business continuity event
- Military security requirements result in excess cost and management time
- Failure to comply results in loss of contract

Impact on

- Ability to ship products
- Financial loss
- Reputational damage

What happened in 2020

- Continued to grow the capacity and capability of the IT team
- Continued focus and monitoring of IT system resilience following the introduction of the new third party cloud platform
- Successful migration to Microsoft 365 to support IT operations and security and to accelerate remote working capability during the COVID-19 pandemic
- Continued to use third party provider to monitor and provide broad cyber security coverage and fully encrypted remote access using the industry leading ZScaler service
- Appointed an outsourced third party provider to manage the desktop services provision

Mitigation

- IT strategy anticipates forthcoming requirements
- IT sufficiently resourced with specialists to ensure compliance
- Robust network/IT controls and security protocols/policy
- Cyber insurance and IT disaster recovery plan and backup

Focus for 2021

- Continued maturing of the IT operating model, focused on infrastructure and systems improvements and IT operating efficiency across enlarged Group
- Support the transition of Helmets & Armor away from 3M IT systems being provided under the transitional service agreement
- Support the transition of Team Wendy into the Group IT infrastructure and systems
- Appointed an outsourced third party provider to manage the move to outsourced desktop managed services

5. Customer dependency

Business risk

- Overreliance on customers, e.g. the U.S. DOD, and its funding and contract process
- Failure to diversify customer base

Impact on

- Sales and profitability

What happened in 2020

- New contract awards for next generation body armor and ballistic helmets underpin existing strong Helmets & Armor relationship with the U.S. DOD
- New 10-year NSPA contract provides NATO and affiliated nations access to broad range of respiratory personal protection portfolio
- Strengthening relationship with U.K. MOD following first deliveries of U.K. GSR
- Significant increase in sales to First Responder customers and strong visible pipeline of future opportunities
- Acquisition of Helmets & Armor and divestment of milkrite | InterPuls makes us more dependent on U.S. DOD business

Mitigation

- Strong customer relationship management with an appropriate team structure, communication and customer service
- Understanding our Military customer requirements and forthcoming procurement requirements
- Strategy provides for diversification of customer base with particular focus on Rest of World and First Responder customers

Focus for 2021

- Continued focus on prioritising customer relationships and strong global dealer/distribution network
- Cross-selling broader life critical personal protection portfolio to Rest of World and First Responder customers through existing sales channels and leveraging from Team Wendy's diversified customer network

Principal Risks and Risk Management continued

6. Financial management

Business risk

- Insufficient management of risks related to tax, cash flows and foreign currency exposure
- Insufficient funding capacity to meet strategic objectives
- Insufficient overhead control and working capital management erode margins or impair investment ability
- Poor quality financial reporting and business information impacts decision making

Impact on

- Costs and profitability
- Reputational damage

What happened in 2020

- Net cash of £93.2m at the year end provided funding for Team Wendy acquisition and further capital allocation flexibility
- Strong operating cash conversion across both lines of business delivered sustainable cash flows
- New and undrawn $200m revolving credit facility to support further value enhancing acquisitions
- Divestment of milkrite | InterPuls supports capital allocation focus on personal protection portfolio and more focused working capital management and financial reporting

Mitigation

- Robust and professional corporate finance function sufficiently well resourced and supported by network of professional advisors
- Full compliance with bank facility covenant requirements
- Robust internal financial control and reporting procedures supported by the external and internal audit process
- Effective currency hedging strategy

Focus for 2021

- Continued focus on strong cash generation and working capital management
- Aligning and consolidating reporting following the Helmets & Armor and Team Wendy acquisitions
- With 90% of revenue and profit generated in U.S. dollars, post year end move to U.S. dollar reporting reduces foreign currency exposure

7. Manufacturing risk

Business risk

- Poorly functioning supply chain impacts production and cost of manufacture
- Quality control process failure leads to product recall
- Environmental or health and safety incident results in plant closure and prosecution/fines
- Poorly managed distribution or logistics network impacts delivery and reputation
- Delays in new product introductions

Impact on

- Costs, sales and profitability

What happened in 2020

- We acquired three new U.S. manufacturing facilities with the Helmets & Armor acquisition and sold three sites, two in the U.S. and one in Italy, with the disposal of the milkrite | InterPuls business.
- Thanks to the dedication of our people we maintained our operations to support our customers throughout the COVID-19 pandemic
- No product recalls or significant warranty claims in the year highlights strength of quality product control
- New President of Operations supports integration and alignment of Helmets & Armor with Avon Protection
- Very low rate of health and safety incidents
- Supply chain and inventory management quarterly steering group to focus on improving efficiency and supply chain cost downs

Mitigation

- Robust supplier audit and quality management
- Written supply agreements in place including dual source where necessary
- Robust manufacturing/operational disciplines and fully functioning and effective systems
- Strong site leadership and engaged, motivated manufacturing workforce
- Insurance and effective business continuity planning
- Prioritisation of workforce safety and wellbeing through the COVID-19 pandemic

Focus for 2021

- Continued focus on operational efficiency, business integration and programme of continuous improvement
- Focus on successful transition of the new facility and the operations team following Team Wendy acquisition
- Following the appointment of the new operations leadership focus on continued maturing of the operations structures and growth of capability and capacity of the team
- Focus on contingency planning for our plants to mitigate environmental impacts from natural disasters such as climate change and earthquakes

8. Compliance and legal matters

Business risk	What happened in 2020	Mitigation	Focus for 2021
• Failure to comply with export controls slows or removes ability to ship abroad • Prosecution, fines and negative publicity resulting from bribery and corruption • Litigation drains cost and management time negatively impacting other areas • Failure to comply with government contract obligations results in loss of contract **Impact on** • Ability to ship products • Financial loss • Reputational damage	• Implementation of U.S. security clearance to support Helmets & Armor U.S. DOD contracts • No U.S. voluntary disclosures or export control breaches • Onboarded Helmets & Armor into legal and compliance process • Supported successful antitrust receipt and clearance for Team Wendy acquisition and milkrite | InterPuls divestment • Supported FCA Class 1 transaction process for shareholder approval of Team Wendy acquisition	• Effective export control policy supported by training • Effective anti-bribery and corruption policy supported by training • Embedded and effective Code of Conduct • Effective internal legal and finance function • Effective Government contract specialist knowledge reporting at a senior level	• Maintain high standards and integration of compliance teams within the businesses • Finalise U.S. security clearance to support Helmets & Armor U.S. DOD contracts and finalise Special Security Arrangement for Avon Protection Ceradyne • Onboarding of Team Wendy to Avon Rubber's legal and compliance processes

9. Political and economic stability

Business risk	What happened in 2020	Mitigation	Focus for 2021
• Unpredictable timing/ amount of Federal funding for First Responder customers • U.S. DOD budgets/ funding withdrawn • Negative impact from COVID-19 and Brexit on: trade, regulation, people, contracts and Intellectual Property **Impact on** • Sales and profitability • Ability to ship products • Financial loss • Reputational damage	• Responded to and continued to monitor COVID-19 implications and wider global trading conditions • COVID-19 and higher instances of civil disorder raising awareness of First Responder and Military customers readiness assessment and product effectiveness • Continual monitoring of any potential Brexit implications and wider global trading conditions	• Close monitoring of Federal funding and budget position • Lobbyist/Government advisers and key influencers aligned to Avon Rubber's interests • Brexit risk assessment and identified mitigations ready for implementation	• Readiness and planning for potential changes in global trading conditions from ongoing COVID-19 pandemic and U.S. Presidential elections and other political/ economic events • We are less exposed to the political instability and impact on trading of Brexit with our U.S. based businesses constituting around 90% of the Group

Environmental, Social and Governance

Sustainable Commitments

A forward-thinking approach to health and safety and our environmental impact is of paramount importance. We endeavour to maintain a culture of continuous improvement to build upon our excellent record.

We are driven by the beliefs of our employees and our responsibility to minimise our impact on the environment. Our commitment stems from the clear benefits of sustainable practices.

2020 OBJECTIVES

Health and Safety

Objective
Continue towards our goal of zero harm and actively promote a strong safety culture.

Progress
Employees report all observations, engage in safety audits, assessments and attend regular training sessions.

Waste Recycled

Objective
Limit the environmental impacts of our business by reducing overall quantity of waste generated.

Progress
Our staff actively engage in waste material separation with a focus on re-use where possible and recycling.

Certification

Objective
All sites to establish management systems to ensure consistency and quality.

Progress
Four of our seven sites are certified to ISO standards with the remaining three in transition.

Energy use and Greenhouse gas (GHG) emissions

		2020				2019			
		U.K.		Global		U.K.		Global	
	Units		**% of total**		**% of total**		**% of total**		**% of total**
Direct (Scope 1)	kWh ('000)	5,507	49%	5,709	51%	5,319	77%	1,561	23%
Indirect (Scope 2)	kWh ('000)	6,648	35%	12,493	65%	5,782	64%	3,284	36%
Subtotal	kWh ('000)	12,155	40%	18,202	60%	11,101	70%	4,845	30%
Direct GHG Emissions (Scope 1)	tCO_2e	1,122	49%	1,163	51%	1,084	77%	318	23%
Indirect GHG Emissions (Scope 2)	tCO_2e	1,550	35%	2,913	65%	1,478	64%	839	36%
Subtotal	tCO_2e	2,672	40%	4,076	60%	2,562	69%	1,157	31%
Intensity ratio U.K. and Global: Tonnes of GHG per £million revenue		40				29			

Ergonomic Stretching

Promoting wellbeing in the workplace

Our Irvine facility has rolled out a daily ergonomic stretching programme to reduce muscle tension and discomfort when performing repetitive tasks. Participants have enjoyed the programme and the benefits it provides.

Environmental incidents

There have been no internal or external environmental incidents or concerns throughout the 2020 financial year at any of our locations.

ISO14001

With evolving environmental legislation globally, we ensure compliance through regular updates to our processes demonstrated by our continued membership of the Institute of Environmental Management and Assessment. Four of our seven sites are certified with the other three in transition. Our U.K. operations is also certified to conform to ISO14001:2015, which reinforces how we manage our environmental responsibilities.

Waste and recycling

Our staff actively engage in waste material separation with a focus on re-use where possible, and recycling of paper, metal, plastic, cardboard and used products. We monitor our electricity, gas and water usage frequently to establish progress against our annual targets.

Health and safety

We safeguard the health and safety of everyone working on site. All employees are encouraged to take an active role in ensuring that our working environment is a safe place to work and visit. Employees report all observations, engage in safety audits, assessments and attend regular training sessions. During the year, we held monthly global Health and Safety meetings where information, knowledge and ideas are shared to implement best practice across our sites and create a positive attitude towards safety. In addition, our management teams put considerable focus on potential hazard reporting, to ensure the appropriate action is taken before any incident or an accident can occur.

Carbon emissions

We have employees based in each of our facilities who are responsible for collecting, monitoring and acting on data regarding our greenhouse gas emissions. The collected data allows us to monitor and examine carbon emission trends and track progress against our internal sustainability goals.

GHG emissions

As required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, we have disclosed the details of our greenhouse gas emissions for which we are responsible. We have followed the Government's Environmental Reporting Guidelines (2019) in our methodology. For the 2020 reporting cycle, the 2020 emissions factors have been utilised as opposed to 2019 factors.

A number of factors have contributed to the Group's energy performance during the year including the acquisition of two additional manufacturing sites. With revenue for the year at £168m and the total emissions of carbon dioxide equivalent to 6,748 tonnes, this gives an intensity ratio of 40 tonnes GHG per £million revenue.

Further disclosures, such as presentation of usage in kWh, emissions and consumption split between U.K. and offshore areas are impractical with the data available.

Energy efficiency

Throughout our activities, we look to reduce the energy we use through resource saving solutions. For example, at our U.K. facility we have completed our LED Project, replacing all lighting both internally and externally with energy saving LEDs. We have also begun the process of monitoring the energy output of our manufacturing equipment. We will be continuing to make steps towards using less energy throughout 2021.

COVID-19 SAFETY MEASURES

Throughout COVID-19, our top priority has continued to be the safety and wellbeing of our employees. As part of the protocols and practices implemented across all sites, improved cleaning regimes and additional cleaning staff have ensured employees remain safe at work. Washing hands upon entry, reduced visitor access and one-way systems have been, and continue to be followed. A mandatory temperature check was also introduced, preventing anyone with a high temperature from entering the premises.

In addition to this, where social distancing has not been possible on the floor, Perspex screens have been installed and the engineering team in the U.K. created an innovative half mask out of our escape hoods.

Looking forward

We will continue to drive towards a world-class level of safety performance, focusing on the management and reduction of risk. This forms part of our continuing efforts to build a culture of responsible behaviour and ethical decision-making.

In 2021 we aim to make improvements to reduce energy consumption and to further reduce waste going to landfill. We will drive strong environmental performance through enhanced practices and visible leadership and we will also focus on developing environmental contingency plans for our facilities.

Environmental, Social and Governance continued

Responsible Business

We continue to build a culture where our people are empowered to make the right decisions and know where to go to seek help or guidance.

2020 OBJECTIVES

Ethics

Objective

Ensure all representatives of our business act in accordance with our business principles and values.

Progress

We have issued a new supplier code of conduct which sets out our expectations.

Respectful Workplace

Objective

We are committed to providing a working environment where everyone feels respected and valued.

Progress

We rolled out a new policy in the year as well as actively encourage the use of our confidential whistle blowing system.

Diversity and Inclusion

Objective

Provide an environment where all employees have the opportunity to fulfil their potential.

Progress

We launched the Balance@Avon steering group to set goals and lead on our diversity and inclusion agenda.

SPEAK UP!

Speak up process

Our employees are the heartbeat of our Company and are at the core of our collective success. We are committed to ensuring that Avon Rubber is a supportive work environment, where everyone has the opportunity to reach their fullest potential. We are committed to providing a workplace culture that is free of harassment, intimidation, bias and discrimination and a working environment where every employee is treated with dignity and respect. We have continued to make significant developments towards a diverse and inclusive culture throughout the year. The 'Speak Up' platform was relaunched last year with the employee voice in mind, designed for all employees to anonymously report any behaviour which may be a breach of the Code, or is unethical or illegal.

Code of conduct

The Code sets out the values and standards of behaviour expected from all those working for or on behalf of Avon Rubber and the current version 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. We understand that implementing this Code across all the markets we do business in can be challenging given the potentially complex differences. We therefore assess and manage any risks and the processes behind these to ensure we maintain the highest ethical standards. The Code 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 through our confidential 'Speak Up' system.

Bribery and corruption

We have implemented effective systems to uphold our zero tolerance approach to bribery and corruption. As part of our commitment to this, we have created a new Supplier Code of Conduct, that sets out our expectations and reflects our own Group-wide standards. 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 our standards.

Modern slavery

We are 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.

We have a zero-tolerance approach to modern slavery and are committed to acting with integrity in all 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 Modern Slavery Act Statement is available on our website for further details.

Diversity and inclusion

We are committed to increasing the number of women in senior executive positions by developing our recruitment processes and retaining more women within the Company. A formal Board Diversity Policy is in place, a copy of which can be found in the Corporate Governance section of our website.

UWE project

We are committed to providing an environment where all employees have the opportunity to fulfil their potential. Having carried out an Employee Opinion Survey, improving career progression opportunities was identified as an area in need of additional focus. Since this, the Group have worked closely with the University of the West of England, Bristol (UWE) in order to help examine the career pathways at Avon Rubber. This will help us to achieve our goal of improving career progression opportunities for everyone.

Balance@Avon

As part of addressing the recommendations from the UWE project, a women's network has been launched with the aim of increasing the number of women in senior leadership and to ensure that all women at Avon Rubber thrive. The initiative has been launched as a Yammer community with a steering group consisting of women in management roles, who have been setting out the goals of the Group and the corresponding activities.

Diversity, respectful workplace policy and training Group-wide

We are committed to providing a working environment where everyone feels respected and valued. Inclusivity is key to our culture 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. We employ people with disabilities and make considerable efforts to offer suitable alternative employment and retraining to employees who become disabled and can no longer perform their regular duties. Following the launch of the 'Respectful Workplace' Policy last year, most of our U.K. employees have undertaken training, including our U.K. based senior executives. We also provide a LinkedIn Learning path relating to our 'Respectful Workplace' Policy for all employees to view, which is incorporated into the induction process for new starters.

Looking forward

We will continue our proactive approach, striving towards a supportive and positive work environment across all our sites

We will continue to train and roll out our 'Respectful Workplace' Policy to all employees.

We are constantly looking at reviewing and updating our policies. Next year we will be reviewing our approach to diversity and updating our diversity policy accordingly.

Environmental, Social and Governance continued

Our people

Our people drive our culture. Motivated and empowered employees representing our values, ensure we deliver market leading customer service and products.

2020 OBJECTIVES

Employee Engagement

Objective

Maintain high levels of employee engagement across the business.

Progress

We continue to survey employees to monitor engagement levels and recently rolled out change surveys for our newly acquired businesses.

Community Engagement

Objective

Work with and for the communities in which we operate, recognising our role as a major employer.

Progress

We continued with our programme to support the causes most valued by our employees and their friends and family.

People Development

Objective

Invest in developing the knowledge and skills of our people.

Progress

We held the third Professional Development Programme as well as additional IT training as part of our IT transformation project.

Developing & retaining talent

The Board maintains succession planning as a key priority, and it is noted as a principal risk. The Group continues to strengthen its commitment to developing home-grown talent. We strive to provide an environment that offers the right training and development by providing a combination of formal training opportunities and on-the-job experiences. We offer a range of apprenticeships, graduate programme and training, and development opportunities.

Professional Development Programme

We have continued with our Professional Development Programme (PDP), a year-long talent development programme that we launched in 2013. The aim of the programme is to identify, encourage and support the next generation of internal talent to contribute to the business beyond the scope of their current roles. The beginning of the course sees participants set personal development targets. These are then worked on for the year of the programme with internal mentor support.

Mentors are executive team members who provide a source of advice and support for the participants in addition to their line manager.

Helmets & Armor transition – change surveys

To ensure a smooth transition for all Helmets & Armor employees, surveys were conducted at the beginning of the year to gain an understanding of how the new employees felt about any changes that occurred over the first month of Avon Rubber ownership. We wanted to understand how the employees felt during the transition and what could be done to further support them throughout the integration. Actions from this survey now mean all sites are using a communication cascade document to improve communication to the shop floor. Branding plans have also been accelerated to help employees feel more connected to the business.

IT training

As part of our IT transformation project to launch Microsoft 365 across the business we have held multiple training programmes. Live events, interactive workshops and a suite of training materials were available to help employees develop good practice and confidence in using the new software.

We have continued with our IT Cyber Security Training throughout the year. Emails are received by all employees, designed to strengthen awareness and reduce our vulnerabilities against cyber threats across the business.

Looking forward

Our aim is to grow a diverse culture and support all employees to give their best. In 2021, we will continue with both our Professional Development Programme and Global Leadership Programme, continuing to recognise, encourage and nurture talent across our business.

We will continue with our surveys to ensure we stay connected to all our employees.

Our IT transformation project will continue further, with plans for the final phase of the rollout to complete next year.

The Great Way To Work Programme

The Great Way to Work Programme is an IT transformation project to launch Microsoft 365 across the business. With the ever-increasing complexity of our IT requirements and our data, Microsoft 365 will enable greater security and the ability to maintain our growth. The change in the way we work will enable us to become better connected, have greater collaboration and offer smarter working.

Although COVID-19 has presented challenges to the programme due to the unprecedented numbers of remote workers, the reasons for carrying on with our migration journey to Microsoft 365 has never been stronger. It was decided the official launch of Microsoft Teams was to be brought forward to help users work more intelligently, collaborate effectively and stay connected. During this time, Yammer has also been introduced, offering employees a tool to share information or news in their department or business function with ease. These platforms have allowed users to be more flexible in the way they work, co-authoring live documents and enabling global communication, bridging the gap remote working can accentuate.

Professional Development Programme

Charlotte Handscombe-Buckley was one of the 13 employees from across our sites who completed their year on the Professional Development Programme (PDP). During this time, she also undertook work base learning, completing her Master's in Professional Engineering and becoming a fully chartered Engineer. Initially, Charlotte began her career at Avon Rubber as a Design Engineer and in more recent years she has been working as a Continuous Improvement Engineer. Hear what Charlotte had to say about the programme:

"At the beginning of the programme I created a development plan to identify areas of growth. Since then, I have immersed myself in a variety of work and different projects, helping to develop further by building upon areas identified in the plan.

PDP has allowed me to get involved in projects I wouldn't usually get the opportunity to cover in my usual working life. One of the projects I worked on over the course of this programme was an Introductory Rubber Technology course with Artis, which I subsequently delivered in the U.S.

Getting involved in PDP has been extremely worthwhile. Not only have I been able to get a much wider business understanding, I've also had a boost in self-confidence, allowing me to execute tasks more effectively."

Environmental, Social and Governance continued

Our people continued

We encourage active engagement across all of our sites throughout the year and we give every employee an opportunity to contribute towards a culture that truly makes Avon Rubber a great place to work.

RECOGNITION

We look to motivate our employees through appropriate recognition and reward programmes. We believe everyone deserves to be recognised when they achieve something special, we always strive to show our support and appreciation for employee achievements.

What we have done:

- Employees can nominate colleagues whom they believe embody our CREED values
- Quarterly and annual winners are selected from the monthly nominations
- Long service awards are a way for us to demonstrate our appreciation to those that have reached significant milestones
- An employee bonus scheme is provided to all employees

WELLBEING

Monthly wellbeing topics are promoted to raise awareness of health issues, supported by ad hoc events and challenges. Our goal has been to raise awareness of the benefits of physical and mental health in the workplace.

What we have done:

- Mental health has been a key focus in recent months due to the COVID-19 pandemic. Additional information and guidance for all our people has been promoted and distributed
- Weekly #WorkoutWednesday posts are circulated on our Yammer platform, encouraging an active and healthy lifestyle for all
- Our U.S. employees have also had a new wellness programme launched which includes quarterly step challenges and online wellness coaching and guidance

TRAINING & DEVELOPMENT

We want to attract, retain and develop talented individuals to safeguard our business. We strive to provide an environment that offers the right training and development by providing a combination of formal training opportunities and on the job experiences.

What we have done:

- Global e-learning platform for all employees
- IT training for our Great Way To Work framework
- The sixth cycle of our Graduate Programme begun in September, and our first IT graduate was also welcomed earlier in the year, further expanding the programme
- Our Professional Development Programme (PDP) provides a launch platform for career development
- Global Leadership Programme (GLP) for individuals identified as having the potential to be future leaders

We strive to offer a work environment where individual talents can grow in an exciting and dynamic business.

COMMUNICATION

Employee engagement is critical to our success and effective communication throughout the business is vital in achieving this. We listen to employees and strive for continuous improvement; through frequent events, we encourage communication and innovation.

Our strategy, performance and business priorities are communicated via the annual CEO Roadshow, as well as our intranet sites, emails, and quarterly newsletters. TV screens at each site are also used as a tool for regular communication and our recently launched global business reviews enhance more of a cascade communication approach from leaders.

The recent addition of Yammer has further bridged the gap between employees throughout the pandemic, enabling all employees to share information of news in their department or business function with ease.

What we have done:

Our quarterly pulse surveys provide all employees the opportunity to anonymously provide their feedback to executive and senior management regarding the business. Following each of these surveys, feedback is given to employees and initiatives based upon these results are formed.

COMMUNITY

We aim to work with and for the communities in which we operate, recognising our role as a major employer. We strive to contribute to our local economic, social and environmental sustainability. This year we continued with our charitable giving programme which aims to support our employees, their friends and families, alongside charitable organisations important to our communities. 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 the charities and organisations that our employees care about most.

What we have done:

Cadillac completed the 2020 United Way plant wide challenge with 88% participation and raised $14,083.94 for our local communities. This challenge aims to support local communities to improve education, financial stability and health.

Looking forward

A review of our recognition programme will be carried out to ensure the programme remains aligned with what our employees deem valuable.

We will continue to provide training and development opportunities to our employees through our e-learning platform and numerous bespoke training courses.

The importance of clear communication has been highlighted in recent months and we will continue to keep all our employees up to date with relevant information and news. With people working from home now more than ever, our intranet site and updated IT infrastructure will help ensure this remains possible.

Section 172(1) Statement

Engaging with our stakeholders

The Board acknowledges that positive interaction with all stakeholders is key to underpinning positive engagement and fully informed decision-making on material issues. As part of ensuring that the requirements of section 172 are met, stakeholder engagement by the Board and the wider business takes place across the Group at all levels.

OUR PEOPLE

How we engage:

This year we introduced pulse surveys in addition to the annual Employee Opinion Survey (EOS). Pulse surveys have enabled more agile action planning in addressing concerns and capitalising on opportunities. The pulse surveys also allow us to track employee engagement throughout the year. In addition we hold an annual CEO Roadshow in which the CEO visits all sites and provides employees with an update on the business and details of progress against the strategy. This is a chance for all employees to hear directly from the CEO and an opportunity to raise questions and issues. Due to COVID-19, this year the roadshow was held virtually and a Q&A session was hosted by the CEO to answer employee questions. There is also a direct 'ask the CEO' feature on our intranet for employees to ask the CEO questions directly throughout the year.

What did we talk to them about?

The pulse surveys have been used to focus on key improvement areas identified in the EOS and included communication, recognition and values. Through a range of questions, we seek our employees' honest opinions about what works well at Avon Rubber and what needs to be improved. The CEO roadshow is a platform to update our employees on the year in review and the business strategy.

Outcomes

Pulse surveys have allowed for more detailed feedback in key focus areas and, as a result of these surveys, we look to redesign our employee recognition programme and have introduced 'Coffee Talks' for employees to bring their questions to management in an informal setting. Our people understand the goals and strategy of the Group and engage in open discussion around this.

SHAREHOLDERS

How we engage:

We consult with our shareholders through open and frequent communications. There are open channels of communication during the AGM and through the Company Secretary where shareholders can raise questions with the Directors. Regular dialogue takes place with institutional shareholders, including presentations after the Company's half and full year results and other milestone announcements.

What did we talk to them about?

The Group regards regular communications with shareholders as extremely important to understand their views and concerns. Recently an in-depth consultation with our major shareholders took place to discuss the proposed Remuneration Policy.

Outcomes

The engagement with and responses from our shareholders helped to shape the Remuneration Policy being put forward for approval at our 2021 AGM as disclosed on pages 77 to 85.

The Board recognises that in order to ensure the continued success of the Group, all decisions must be taken with regard to the long-term outcome of any course of action and its impact on all stakeholders. In accordance with section 172 of the Act, each of our Directors acts in the way that he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. Throughout the year, our Directors have had regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term
- interests of the Company's employees
- need to foster the Company's business relationships with suppliers, customers and other key stakeholders
- impact of the Company's operations on the community and the environment
- desirability of the Company maintaining a reputation for high standards of business conduct and
- need to act fairly as between members of the Company.

In addition, it is important to recognise that Directors fulfil their duties, in part, through the Group's robust governance framework where day-to-day decision making is delegated to management. Certain financial and strategic thresholds have been determined to identify matters requiring Board consideration and approval. Key decisions relating to strategy and its implementation are taken by the Board. The Board has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees.

The Strategic Report on pages 16 to 55 was approved by the Board of Directors on 2 December 2020 and signed on its behalf by:

Paul McDonald
Paul McDonald
Chief Executive Officer

Nick Keveth
Nick Keveth
Chief Financial Officer

CUSTOMERS

How we engage:

We partner closely with our customers to design products which enhance their capability. Throughout product development we engage with our customers to ensure we are responding to their growing needs. We have dedicated leadership channels to manage and prioritise our customer relationships. Our 'Customer' core value is at the forefront of our employees' minds and they are proud of the products we create for our customers and end users.

What did we talk to them about?

The majority of our development pipeline is designed in partnership with our customers to ensure we are in active dialogue and that their performance requirements and on-going needs are met.

Outcomes

We have developed long-standing relationships with our customers and opportunities to ensure their growing needs are proactively pursued.

SUPPLIERS

How we engage:

Through site visits and a programme of supplier audits, we ensure suppliers adhere to our code of conduct and quality expectations. Prompt and fair payments help to build the long-term relationships we strive for with all our suppliers and we have committed teams to continue building these relationships. We continue to work with new and existing suppliers to develop our knowledge and product range.

What did we talk to them about?

We set out our expectations on the standards of behaviour of our suppliers and business partners which reflects our own Group-wide standards and we have a Supplier Code of Conduct to support this. We engage with our suppliers on how to better build long-term relationships.

Outcomes

Consistent delivery of quality materials and services from our long-term suppliers and a clear understanding of our expectations.

COMMUNITIES

How we engage:

We have an established community initiative to contribute to our community's economic, social and environmental sustainability. Our STEM Ambassadors visit local schools and host programmes to encourage and promote STEM subjects and related careers. Within our community initiative is our Charitable Giving Programme. Our employees have close ties with the local charities and organisations and we provide match funding and donations, in addition to taking external requests for donations to local charitable causes.

What did we talk to them about?

We talked to the students in our local communities about what it's like to have a career in STEM, the career paths they can take and how to get there.

Outcomes

We continue to encourage our employees to use the charitable giving options Avon Rubber provides and continue to engage with our communities to foster close relationships.

The Board acknowledges that positive interaction with all stakeholders is key to underpinning positive engagement and fully informed decision-making on material issues. As part of ensuring that the requirements of section 172 are met, stakeholder engagement by the Board and the wider business, takes place across the Group, at all levels. This includes engagement with the Group's employees, shareholders, customers, suppliers and the communities within which we operate.

The Board gains oversight of engagement with the wider business through reports from the executive management team and through the attendance of the executive management at its meetings where relevant. This interaction also provides an opportunity for any stakeholder issues to be escalated by management to the Board.

Evidence of how the Board has discharged its duties and considered the factors relating to section 172 are found throughout our Annual Report. Specific examples of how the Board has discharged its duties in relation to stakeholder engagement can be found above. In addition to the summary of stakeholder engagement, further detail of how the Board has discharged its duties in 2020 are included in the Governance sections of this report.

"Our purpose is to create sustainable value for all our stakeholders. Our purpose unites us, guides our decisions and inspires us wherever we operate."

Governance

Board of Directors

Our business is led by our experienced Board of Directors who focus on developing the Group's strategy and supporting management to execute against it.

David Evans

Chair

First appointment: June 2007

Appointed Chair: February 2012

Skills and experience:

David has been working in the defence sector for over 30 years with extensive knowledge of the U.S. 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 Chair of Avon Rubber p.l.c. As previously announced David will be standing down from this role on 2 December 2020.

Paul McDonald

Chief Executive Officer

First appointment: February 2017

Skills and experience:

Prior to his appointment as Chief Executive Officer in 2017, Paul was Managing Director of milkrite | InterPuls, and since 2007, a key member of the Group Executive management team. Paul joined the Group in 2003 and spent the early part of his career at Avon Rubber in commercial and operational roles which included responsibility for all U.K. operations and the European divisional business units.

Nick Keveth

Chief Financial Officer

First appointment: June 2017

Skills and experience:

Nick was appointed as Chief Financial Officer in June 2017. Prior to joining Avon Rubber, Nick was Director of Finance, Planning & Reporting at Imperial Brands. He was with Imperial for 12 years and held a variety of senior finance roles during this period. Nick also served as a Non-Executive Director of the Spanish listed group Compania de Distribucion Integral Logista Holdings, S.A., a leading distributor of products and services to convenience retailers in Southern Europe, from 2014 until 2017. Prior to joining Imperial Nick worked for PricewaterhouseCoopers for 14 years in both audit and advisory roles.

Bruce Thompson

Non-Executive Director and Chair Designate

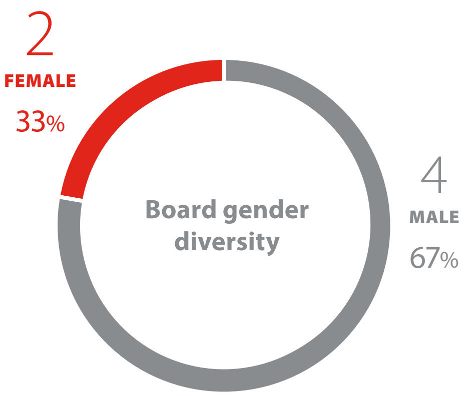
First appointment: March 2020

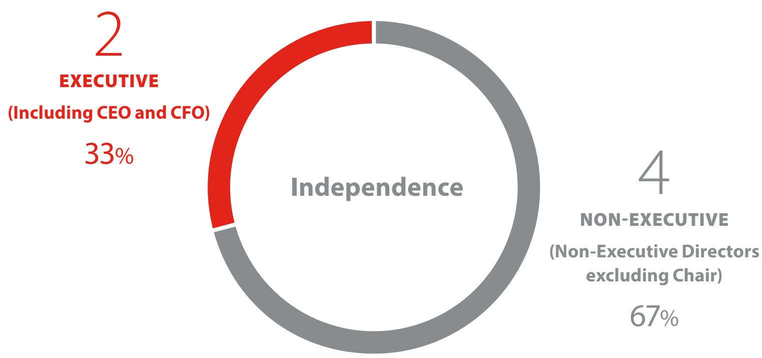
Skills and experience:

Bruce joined the Board in March 2020. During his executive career, Bruce was Chief Executive Officer of Diploma PLC, the FTSE 250 specialised technical products and services business, for over 20 years. Prior to joining Diploma, Bruce was a director with the technology and management consulting firm Arthur D. Little Inc., both in the U.K. and the U.S. He is currently the Senior Independent Non-Executive Director of discoverIE Group plc. Bruce will succeed David Evans as Chair on 2 December 2020.

Board membership key

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Chair
- Independent Director





The above graphs reflect the Board composition post retirements.

Chloe Ponsonby

Non-Executive Director

First appointment:
March 2016

Skills and experience:

Chloe has spent her 20-year career in financial services, first in equity fund management at Jupiter; and then in investment banking at Altium, Oriel Securities (now owned by Stifel) and currently at Panmure Gordon where she is a Senior Managing Director. She is a Chartered Financial Analyst and has a first class Economics degree from the University of Manchester.

Pim Vervaat

Non-Executive Director

First appointment:
March 2015

Skills and experience:

Pim has been CEO of Constantia Flexibles, the global leader in consumer and pharmaceutical flexible packaging, since July 2020 and is currently the Senior Independent Non-Executive Director of Luceco Plc. Prior to this, Pim was the CEO of RPC Group Plc, a FTSE 250 listed company. As previously announced, Pim will step down from the Board at the forthcoming AGM.

Bindi Foyle

Non-Executive Director

First appointment:
May 2020

Skills and experience:

Bindi has been Group Finance Director of Senior plc, a manufacturer for the aerospace, defence, land vehicle and power & energy markets, since July 2017, having served as an executive Director since May 2017. Bindi joined Senior in 2006 as Group Financial Controller before becoming Director of Investor Relations and Corporate Communications in 2014. Prior to joining Senior, she held senior finance roles at Amersham plc and General Electric, having previously worked with BDO Stoy Hayward.

Victor Chavez CBE

Non-Executive Director

First appointment:
December 2020

Skills and experience:

Victor has over 30 years of experience in the defence and security sectors. His early career focused on telecommunications and software before joining Thales U.K. in 1999. He was appointed Chief Executive in 2011, retiring in 2020 having successfully integrated and grown the business during this period. In recognition of his services to defence and security for the U.K. and France, Victor was appointed a CBE in 2015 and a Chevalier of the Legion d'Honneur in 2020.

Miles Ingrey-Counter

Group Counsel and Company Secretary

First appointment:
October 2007

Skills and experience:

Miles is a qualified solicitor, he 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 Chair of the Avon Rubber Retirement and Death Benefits Plan. Prior to joining Avon Rubber, Miles was a solicitor with Osborne Clarke LLP.

Corporate Governance Report

Introduction

This Corporate Governance Report, along with information in the Strategic and Remuneration Reports, explains how the principles and provisions of the U.K. Corporate Governance Code 2018 ('the Code') have been applied. A copy of the Code can found on frc.org.uk.

STATEMENT OF COMPLIANCE WITH THE CODE

We are pleased to confirm that the Board has complied with all provisions of the Code throughout 2020, with the exception of the following:

- Provision 19: David Evans has been appointed Chair for over nine years, the maximum tenure permitted under the Code. However, this period can be extended for a limited period of time to facilitate effective succession planning or a diverse board, particularly where the Chair was an existing Non-Executive Director when appointed, as David was. During the last year, two Non-Executive Directors have been appointed, resulting in Avon Rubber's most diverse board to date. David is stepping down from the Board on 2 December 2020.
- Provision 24: The Chair of the Board was a member of the Audit Committee, which is not permitted under the Code. It was considered that the Chair should remain a member of the Committee for a further limited period, in order to ensure continuity and facilitate a smooth transition following the appointment of two new Non-Executive Directors. On Bruce Thompson's appointment as Chair of the Board, he will step down from the Audit Committee.
- Provision 36: The Code states that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. Post-cessation shareholding requirements have been introduced for Executive Directors this year. Our approach to this is further detailed on page 73 of the 2021 Remuneration Policy.
- Provision 38: The Code stipulates that pension contribution rates for Executive Directors should be aligned with those available to the workforce. Pension contributions for new Executive Directors are aligned with the rate available to the workforce and current Executive Directors will be aligned by the start of the 2023/24 financial year.

Board leadership

Following the retirement of David Evans from the Board, the Board will comprise two Executive Directors and five Non-Executive Directors (including the new Chair, Bruce Thompson). The Board regularly reviews its composition to ensure it has the necessary breadth and depth of skills to support the ongoing development of the Group. We believe that the Board continues to have a strong mix of experienced individuals who provide a unique perspective on Company matters and bring specific skills to the Board. Biographical details for each member of the Board can be found on pages 58 and 59 of this Annual Report. With the exception of Pim Vervaat, who will step down from the Board, all Directors will stand for reappointment by shareholders at the 2021 AGM.

Company purpose

The Board has determined that the Company's purpose is to create sustainable value for all our stakeholders and holds itself accountable to this in all its decision making. Our purpose unites us, guides our decisions and inspires us wherever we operate.

Our culture

The Board clearly recognises the importance of culture and its link to delivering our purpose and strategy. Assessing and monitoring our culture is important to ensure we retain a successful culture as we grow. Through our employee engagement initiatives, explained further on page 54, the Board have sought to achieve greater engagement with the workforce. Chloe Ponsonby is the Board Director responsible for Employee Engagement and regular reports are made to the Board in this regard. The ongoing challenges of COVID-19 have impacted our planned employee engagement agenda for 2020 and the Group continues to adjust to maintain engagement in the safest way possible for all employees.

Division of responsibilities

There is a clear division of responsibility between the running of the Board by the Chair and the running of the Group's business by the Chief Executive Officer. The Chair is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chief Executive Officer manages the Group and has the primary role, with the assistance of the Board, of developing and implementing business strategy. The Chair ensures that meetings of Non-Executive Directors take place without the presence of Executive Directors. 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. One of the roles of the Non-Executive Directors, under the leadership of the Chair, 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 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.

How the Board operates

The Chair ensures, through the Company Secretary, that the Board agenda and all relevant information is provided 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 Chair 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 Chair 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, the Annual Report and Accounts and certain strategic and management issues, which include:

- Approval of the annual operating budget and the three-year strategic plan.
- The extension of the Group's activities into new areas of business and/or geographical 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 and governance requirements are complied with. The removal of the Company Secretary is a decision for the Board as a whole.

Attendance at meetings

All Committee and Board meetings held in the year were quorate. Directors' attendance during the year ended 30 September 2020 was as follows:

	Board (7 scheduled and 4 ad hoc meetings)[1]	Audit Committee (3 scheduled meetings)	Remuneration Committee (3 scheduled meetings and 1 ad hoc meeting)	Nomination Committee (2 scheduled meetings)
Paul McDonald	11 (11)	–	–	–
Nick Keveth	11 (11)	–	–	–
David Evans	11 (11)	3 (3)	4 (4)	2 (2)
Pim Vervaat	11 (11)	3 (3)	4 (4)	2 (2)
Chloe Ponsonby	11 (11)	3 (3)	4 (4)	2 (2)
Bruce Thompson[2]	7 (7)	2 (2)	3 (3)	2 (2)
Bindi Foyle[3]	5 (6)	2 (2)	3 (3)	1 (1)

The maximum number of meetings which each Director could have attended is shown in brackets.

1 In addition to the scheduled meetings, four ad hoc Board meetings were convened to deal with matters arising between the scheduled meetings. Following the COVID-19 outbreak, the Board met on a weekly basis by telephone for eight weeks from March with all members present, these meetings are not included in the above figures.

2 Joined the Board on 1 March 2020.

3 Joined the Board on 1 May 2020.

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 are provided within the relevant Committee report.

Pim Vervaat is Chair of the Audit Committee. The Board is satisfied that Mr Vervaat has recent relevant financial experience and his profile appears on page 59. Following the appointment of Bruce Thompson as Chair of the Board, he will step down from the Audit Committee. Bindi Foyle will succeed Pim as Chair of the Audit Committee following the 2021 AGM.

Bruce Thompson is Chair 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 Chair's 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. The Remuneration Committee also has regard to the remuneration of the wider workforce. More details of the activities of the Remuneration Committee are set out in the Remuneration Report on pages 71 to 97.

Corporate Governance Report continued

Composition, succession and evaluation

The Nomination Committee is responsible for leading the process for Board appointments and making recommendations to the Board, putting in place plans for succession and regularly reviewing 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 to make recommendations to the Board with regard to any changes. Further information and the activities of the Nomination Committee during the year are detailed on pages 64 to 65.

Performance evaluation

The Board continually strives to improve its effectiveness and conducts an annual review of its performance and that of its Committees and the individual Directors to enhance overall Board effectiveness. The 2020 Board evaluation process was conducted internally using questionnaires and interviews, led by the Chair and facilitated by the Company Secretary. The questionnaire, completed by all Board members and the Company Secretary, was structured to provide Directors with the opportunity to express views on a variety of topics including: Board remit and responsibilities, skills and dynamics of the Board, meetings and content, Group strategy, internal control and risk management, decision-making and communication.

A detailed discussion of the findings from the performance evaluation took place at the September Board meeting. Overall, the evaluation concluded that the Board, its Committees and individual Directors performed effectively during 2020, both individually and as a collective unit. The following areas have been identified by the Board as areas of focus for 2021 and beyond: increasing opportunities for interaction between the Board and the wider management team, succession planning to support the Group's growth and increased focus on risk management. It was also agreed that the Board evaluation for the 2021 financial year would be externally facilitated.

Audit, risk and internal control

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, including emerging risks, faced by the Group. This process was in place throughout the 2020 financial year.

The Code requires that Directors establish procedures to manage risk, oversee the internal control framework and determine the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.

The Board, through the Audit Committee, 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. The Audit Committee has responsibility to review, monitor and make policy recommendations to the Board upon all such matters.

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 66 to 70 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 and emerging business risks and to evaluate their potential impact on the Group. These risks are described within the Strategic Report on pages 40 to 45.

Risk management

Risk is managed by the Group Executive team during the year, led by the Company Secretary and the Deputy Chief Financial 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 and emerging risks, are assessed and analysed effectively and that the priorities eliminate, minimise, control or transfer risk (or the effect thereof) as appropriate. There is also a review of the continuing effectiveness of other aspects of the control environment by the Group and Divisional Executive teams to ensure these controls are mitigating risk to the fullest extent in practice.

The Board carried out quarterly reviews of the key risks facing the Group and risk management activities undertaken during the year, following the quarterly reviews conducted by the Group Executive management team. The Board also carried out a robust annual assessment of the major business risks and emerging risks affecting the Group, including macro risks. In the year under review, the risk assessments carried out both at business level and at Board level continued 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 financial managers throughout the Group, who have responsibility for providing information in keeping with the policies, procedures and internal best practices as documented in the internal control manual, and are accountable under these.

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 or directly with the Chair of the Audit Committee, or anonymously through our 'Speak Up' process, 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.

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 via regulatory news announcements, press releases, 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. The AGM includes a presentation by the Chief Executive Officer on aspects of the Group's business and shareholders have the opportunity to both ask questions and to leave written questions with the Company Secretary for the response of the Directors. Under normal circumstances, 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. This will not be possible for the 2021 AGM, which will be held as a closed meeting in light of the COVID-19 pandemic.

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 96 to 99 and have been included by reference.

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons.

The Directors have prepared a going concern assessment covering a period of three years from the balance sheet date which indicates that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group will have sufficient funds to meet its liabilities as they fall due for that period. On this basis, and on their assessment of the Group's financial position, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the approval of these financial statements. Accordingly the Group continues to adopt the going concern basis preparing its financial statements.

Viability statement

The Directors have assessed the viability of the Group over a three-year period to September 2023, 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 Group will be able to continue in operation and meet its liabilities as they fall due over the period to September 2023.

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 plausible downside 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. In making their assessment, the Directors have taken account of the Group's strong net cash position and the increase during the year of the Group's revolving credit facility which covers the three-year lookout period. During the year the Group has complied with all covenant requirements attached to its financing facilities.

The Directors consider the three-year lookout period to be the most appropriate as this aligns with the Group's own strategic planning period. The Group has developed an annual business planning process, which comprises a Strategic Plan, a financial forecast for the current year and a financial projection for the forthcoming three years. This plan is reviewed each year by the Board as part of its strategy setting process. Once approved by the Board, the plan provides a basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance. The forecast performance outlook is also used by the Remuneration Committee to establish the targets for both the annual and longer-term incentive schemes.

D R Evans

David Evans
Chair

2 December 2020

Nomination Committee Report

The Committee regularly reviews the Board's structure and gives full consideration to succession planning for Directors and other senior executives, to ensure we are best resourced to deliver the Group's strategy.

LETTER FROM THE CHAIR OF THE NOMINATION COMMITTEE

The Nomination Committee comprises all the Non-Executive Directors. David Evans was Chair of the Nomination Committee until 1 April 2020, when I took over as Chair.

Main responsibilities

The main responsibilities of the Committee are as follows:

- 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 to make recommendations to the Board with regard to any change.
- To put in place and periodically review plans for succession.
- To lead the process for Board appointments and make recommendations to the Board.

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

All Directors are appointed by the Board following a rigorous selection process and subsequent recommendation by the Committee.

The Board recognises the benefits of diversity and the Nomination Committee is responsible for the Board's policy in this area. 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, Social and Governance Report on pages 46 to 53.

Balance@Avon

Our commitment to creating a balanced and fair workplace continues

The new Balance@Avon initiative aims to help develop and promote our female leadership, create a forum where we can identify, nurture and develop the female leaders of the future and ensure that all women at Avon Rubber thrive in their careers. The initiative is driven by a steering group which collaborates on long-term ideas to help shape the future face of Avon Rubber and create an agenda/platform to help build our future female talent.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

Activities during 2020

2020 was a busy year for the Committee with the appointment of three additional Non-Executive Directors. I was appointed as Chair Designate on 1 March 2020 and took over Chair of the Nomination Committee on 1 April 2020. I will succeed David Evans as Chair of the Board when he steps down from the Board on the 2 December. Bindi Foyle was appointed as a Non-Executive Director on 1 May 2020 and Victor Chavez CBE was appointed on 1 December 2020.

The recruitment process for the first two appointments was led by our Senior Independent Director, Pim Vervaat, with the most recent process being led by myself. Candidates were also interviewed by the Chief Executive Officer and Chief Financial Officer. Korn Ferry were engaged to lead the search to identify suitable candidates for all three appointments, having acted for the Company on previous searches. Korn Ferry had not provided any other services to and had no other connection with the Company.

The recruitment process followed for each role involved the preparation of a detailed role specification against which potential candidates were considered. Korn Ferry conducted initial interviews to compile a long list of potential candidates from which a shortlist of candidates was then selected for interview by the Non-Executive Directors.

The Committee subsequently made recommendations to the Board to appoint me as Chair Designate and Bindi Foyle as a Non-Executive Director and successor to the role of Audit Committee Chair, which the Board approved. As announced, after six years, Pim Vervaat will be standing down from the Board after the AGM in January 2021 and will be replaced as Audit Committee Chair by Bindi Foyle.

In addition, I have led a further recruitment process with Korn Ferry to recruit an additional Non-Executive Director to strengthen the Board's defence industry experience at a time when David Evans is stepping down from the Board. This process has culminated in the appointment of Victor Chavez CBE as a Non-Executive Director. We have included Victor's biography on page 59.

The Committee have previously agreed that all Directors should be put forward for re-appointment by shareholders each year at the AGM. Taking into account the performance and value that each Director has brought to the Board, the Committee has considered whether the appointment of each Non-Executive and Executive Director should be renewed for a further year and has confirmed that this is indeed the case. Accordingly, resolutions to re-appoint each Director, with the exception of Pim Vervaat who is standing down, are being put to shareholders at the forthcoming AGM.

The Committee also reviewed the leadership needs of the Group during the year and progress was made on the longer-term succession planning of the Executive Management Team and their direct reports and this will remain a priority for the coming year.

Committee evaluation

The evaluation of the effectiveness of the Committee was conducted as part of this year's Board performance evaluation. The outcome of the 2020 review was positive and again highlighted the need to retain focus on succession planning for the Board, Executive Director roles and certain senior management roles. Further detail on the result of the Board evaluation exercise is included on page 62 of the Corporate Governance Report.

Bruce Thompson
Chair of the Nomination Committee

2 December 2020

Audit Committee Report

During the year, the Audit Committee continued its key oversight role for the Board of the Group's financial management and reporting to reassure shareholders that their interests are properly protected.

LETTER FROM THE CHAIR OF THE AUDIT COMMITTEE

Audit Committee Chair's Overview

During the year, the Audit Committee continued its key oversight role for the Board of the Group's financial management and reporting to reassure shareholders that their interests are properly protected.

The Audit Committee works to a set programme of activities, with agenda items established to coincide with the annual financial reporting calendar. The Committee reports regularly to the Board on its work.

During the 2020 financial year, the Committee has continued to monitor the integrity of the Group's financial statements and supported the Board with its ongoing monitoring of the Group's risk management and internal control systems. The Committee also determined the focus of the Group's internal audit activity, reviewed its findings and verified that recommendations were being appropriately implemented. In recognition of both the importance of an effective whistleblowing channel and the enhanced scope under the revised U.K. Corporate Governance Code ('the Code'), which applied to Avon Rubber from 1 October 2019, the Committee also continued the oversight of the Group's whistleblowing policies and procedures. In 2019 the Committee had noted that there were appropriate whistleblowing mechanisms in place but that the employee's awareness of the policies and procedures could be improved. During 2020 there was a refreshed communications strategy launched to raise awareness of the whistleblowing mechanisms together with new Board reporting established to monitor employee responses. The Committee has been able to recommend to the Board that the whistleblowing procedures and policies are adequate and well-embedded in the business.

During 2020 the Audit Committee undertook a full evaluation exercise of KPMG's audit approach, in their first year as auditors, to ensure the effectiveness of the external audit function. Reviewing the results of the evaluation of the external audit process, we are satisfied with both the auditor's independence and audit approach. Following their first year as auditors, the Board accepted the Audit Committee's recommendation to reappoint KPMG and a resolution for their appointment was put to shareholders and passed at the 2020 Annual General Meeting.

The Audit Committee acts on behalf of the full Board, and the matters reviewed and managed by the Committee remain the responsibility of the Directors as a whole.

FTSE 250 Milestone

A significant achievement for the business

In March, we entered the FTSE 250, an index consisting of the 101st to 350th largest companies listed on the London Stock Exchange, which was a significant milestone and a proud moment for everyone in the business.

This confirms the progress we are making against our strategy as we continue to invest in the business and deliver against our promises, which is reflected in our share price and total value of the business.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

Main responsibilities of the Audit Committee

The Audit Committee has delegated authority from the Board set out in its written terms of reference. The terms of reference for the Audit Committee are available for inspection at the Company's registered office and on our website.

The key objectives of the Audit Committee are:

- To provide effective governance and control over the integrity of the Group's financial reporting and review the significant financial reporting judgements.
- To support the Board with its ongoing monitoring of the effectiveness of the Group's system of internal controls and risk management systems.
- To monitor the effectiveness of the Group's internal audit function and review its material findings.
- To oversee the relationship with the external auditor and make recommendations to the Board in relation to the re-appointment of the external auditor and monitor the external auditor's objectivity and independence.
- To review the adequacy of the Company's whistleblowing arrangements and the provision of appropriate investigation of any matters raised.
- To advise 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 position and performance, business model and strategy.

Composition of the Audit Committee

The members of the Committee are set out on page 61 of the Corporate Governance Report.

The Committee members are all independent Non-Executive Directors and have the appropriate range of financial and commercial expertise necessary to fulfil the Committee's terms of reference. The Board considers that as a recently serving Chief Executive Officer, and before that a Finance Director of a FTSE 250 company, I have both the current and relevant financial experience required to Chair this Committee.

The main areas of focus considered by the Committee during 2020 were as follows:

- The presentation of the financial statements and the quality and acceptability of accounting policies and practices, in particular, the presentation of adjusted performance and the adjusting items. The Committee reviewed papers 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.
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements.
- Material areas in which significant judgements have been applied, discussed separately in more detail below.
- A review of the Auditor Independence Policy, following the Financial Reporting Council Guidance issued in December 2019 on the governance and ethics of audits.
- At the request of the Board, the Committee considered whether the 2020 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's position and 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.

Audit Committee Report continued

Significant judgements and estimates considered by the Committee

After discussions with management and the external auditor, the Committee determined that the key risk of material misstatement of the Group's 2020 financial statements depended on the following key areas of estimation:

- Identification and valuation of intangible assets.
- The defined benefit pension obligation.

During 2020 the following risks are no longer considered to require significant judgement by the committee:

- Calculation of the Group tax charge.
- Estimation of variable consideration.

Identification and valuation of intangible assets

The Group's principal assets are intangible assets, which are either the result of acquisitions, or have been capitalised through the internal development of new products. The valuation of intangible assets and assets acquired as a result of acquisitions involves significant judgement and changes in the underlying assumptions could have a significant impact on the carrying value of these assets.

The classification of intangible assets represents three asset classes: goodwill, acquired intangibles and development expenditure:

- The Group assesses whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the segmental division to which the intangible assets are allocated. This involves estimation of future cash flows, estimating a growth rate for extrapolation purposes and choosing a suitable discount rate.
- Acquisitions may result in the recognition of acquired intangibles which include customer relationships, brands and trademarks, patents and order books. The fair value of assets acquired is determined using complex valuation techniques including the forecasting and discounting of future cash flows. This includes assumptions such as discount rates and estimates for growth rates, weighted average cost of capital and useful lives which are inherently judgemental.
- 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.

Following a review of a report summarising the key issues in relation to the valuation of the Group's intangible assets, the Committee concurred with management that the carrying value of the intangible assets was appropriate.

The auditor explained their audit procedures to test the carrying value of intangible assets and, on the basis of the work undertaken, reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

Further analysis and detail on the Group's intangible assets is set out in note 3.1 of the financial statements on page 126.

The defined benefit pension obligation

The Group operated a contributory defined benefit plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the U.K. employed before 31 January 2003; the plan was closed to future accrual of benefit on 1 October 2009. The funding level of the pension scheme involves significant judgements concerning the future performance and valuation of the pension funds' assets and liabilities and as such changes in the core assumptions could have a significant impact on those requirements.

The defined benefit plan exposes the Group to actuarial judgements of the defined benefit pension obligations that requires estimation of future changes in inflation, mortality rates, and the selection of a suitable discount rate.

An independent actuary regularly reviews the costs of administering the pension scheme, together with undertaking a valuation of the scheme's assets and assessment of current and future pension liabilities. The assets held by the pension scheme include both quoted and unquoted securities, the latter which by their nature involve assumptions and estimates to determine their fair value. The Committee reviews a report from the independent actuary on the appropriateness of the assumptions used in assessing the assets and liabilities of the scheme and agreed that this was being managed appropriately with reasonable judgements applied.

The auditor explained their audit procedures to test the carrying value of net pension liabilities and, based on the work undertaken and assessment of the actuarial judgements used, the auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

Further analysis and detail on the Group's defined benefit pension scheme is set out in note 6.2 of the financial statements on page 142. During the year a prior period adjustment has be recognised in relation to Barber equalisation ruling of May 1990, see note 7.7 on page 150.

Calculation of the Group tax charge

The Group operates in a number of countries around the world where 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 2020 there is a provision of £1.0m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgements are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that a reasonable possible range of outcomes is between an additional liability of up to £0.5m and a reduction in liabilities of up to £1.0m.

Following a review of the Group's tax charge, which included a conversation and 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 and that for the next financial year the judgement in the calculation of the Group tax charge would no longer constitute a key area of judgement.

Further analysis and detail on the Group's tax charge is set out in note 2.6 of the financial statements on page 124.

Estimation of variable consideration

The estimation of variable consideration in relation to certain U.S. contracts in the Avon Protection business involves assumptions and judgements.

Following a review of a report in 2019, summarising the contracts and the approach taken in assessing the revenue being deferred as a contract liability, the Committee concurred with management that the value of the outstanding contract liability was appropriate. During 2020, the level of judgement being applied to deferred revenue in relation to certain U.S. contracts was significantly reduced following contractual clarifications received during the year and as such the Committee agreed with management that recognising a contract liability was no longer appropriate and it was released during the year. The Committee agreed that for the next financial year the judgement in the estimation of variable consideration would no longer constitute a key area of judgement.

The auditor explained their audit procedures in relation to revenue recognition, and on the basis of the work undertaken, reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

External auditors

The Audit Committee considers the appointment of the external auditor each year. As reported in last year's Annual Report, KPMG were appointed as the Company's external auditors following a tender of the external audit in 2018, which was subsequently approved at the 2019 AGM.

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 a detailed audit plan from the auditors, 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.

Review of the effectiveness and the independence of the external auditor

At its May meeting the Committee reviewed an evaluation report of the previous year's audit process, which included obtaining feedback from employees who had interaction with KPMG during the 2019 audit. This was the first review of KPMG as the new external auditor and the report concluded that the audit was conducted to a good standard with appropriate new focus and challenge on the key audit risks. The members of the Committee have declared themselves satisfied with the performance of KPMG as the Company's auditor in the last financial year.

In the first year as the Company's auditor, KPMG confirmed to the Committee that it maintained appropriate internal safeguards to ensure its independence and objectivity. As part of the Committee's assessment of the ongoing independence of the transitioning auditor, the Committee receives details of any relationships between the Group and KPMG that may have a bearing on their independence and receives confirmation that they are independent of the Group.

Audit Committee Report continued

Policy on auditor independence and non-audit fees

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. Following the guidance issued by the FRC in December 2019 on the governance of ethics standards of audits, the policy was reviewed during the year to ensure it remained appropriate. Following the review, the policy was simplified from a previous list of non-audit work that may only be undertaken by the External Auditor in limited circumstances where these services did not conflict with the auditor's independence to become a short list of permitted services. All permissible, non-audit services still require the specific approval of the Audit Committee.

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 KPMG 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 2.5 on page 123 of the financial statements. No non-audit services were provided by KPMG 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 2020 and 2021.

Following the acquisition of Helmets & Armor in January 2020 the Committee reviewed the overall risk assurance arrangements, including internal audit, and believed it was the appropriate time to move to a co-sourced model to fulfil the internal audit activities of the Group. As a result, during the year Deloitte were engaged to perform internal audit activity to supplement the internal audit process, which in previous years has been undertaken by members of the finance team who conduct financial reviews of the sites on a rotational basis. Deloitte report directly to the Audit Committee who considered and approved the scope of the internal audit activity to be undertaken during 2020 and looking forward on a twelve month basis to ensure that the internal audit approach is more adaptable to the Group risk environment. During the year, Deloitte focused their internal audit work on IT strategy, the Helmets & Armor transition and a review of assurance mapping activity and reporting. All areas of internal audit were being reviewed for the first time in 2020 and Deloitte's overall conclusion was that there were no significant issues and controls were well designed, but noted there were some areas of improvement to be made in the control environment which management is in the process of implementing.

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 improvements were identified and are in the process of being 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 60 to 63.

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review, information on which is provided in the Corporate Governance report on page 62. The effectiveness of the Committee continued to be rated highly.

Pim Vervaat
Chair of the Audit Committee

2 December 2020

Remuneration Report

The Committee seeks to support the delivery of the Group's strategy through establishing remuneration arrangements which support sustainable value creation for our shareholders and incentivise and retain management.

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 2020. This includes the following three sections:

- This Annual Statement which summarises the work of the Remuneration Committee (the 'Committee') in 2020.
- The revised Directors' Remuneration Policy (the 'Policy') which sets the parameters for how our Directors will be remunerated going forward and which will take effect from the date of our 2021 AGM, subject to shareholder approval.
- The Annual Report on Remuneration which provides (i) details of the remuneration earned by Directors and the link between Company performance and pay in the year ended 30 September 2020 and (ii) how we intend to implement the new Policy in 2021.

The Annual Statement and the Annual Report on Remuneration will, together, be subject to the usual advisory shareholder vote at the AGM on 29 January 2021. The revised Policy, which follows an extensive consultation exercise, will be subject to a binding shareholder vote at the same meeting.

Remuneration Policy review

Our current Policy was approved by shareholders at the 2019 AGM with over 99% of votes cast in favour. The Committee is seeking approval for a revised Policy in order to ensure our remuneration arrangements remain fully aligned with the strategic objectives of the Company – which have evolved over the period since the current Policy was approved – and to respond to recent remuneration-related governance developments and investor guidance.

As part of this process, during the year we undertook a comprehensive review of senior executive pay arrangements, including a full consultation exercise with our major shareholders and with the leading investor representative bodies. We were pleased to have received responses from 18 of our top 20 shareholders (covering over 65% of shares in issue at the time) and I would like to thank all respondees for their constructive comments which have helped shape the proposed Policy being put forward for approval.

Business context

Under the strong leadership of the current CEO and CFO, both appointed to their positions in the first half of 2017, Avon Rubber has been transformed from a company positioned around the middle of the FTSE Small Cap, to one now firmly established in the FTSE 250. Over the last three years, Avon Rubber's market capitalisation has more than tripled from c. £300 million in 2017 to over £1 billion and Total Shareholder Return (TSR) has increased by more than 50%p.a. compound.

This exceptional increase in shareholder value has been achieved through consistently strong organic growth in our Avon Protection business and in milkrite | InterPuls (which we divested at the end of the financial year to DeLaval Holding BV) and through the acquisition of the Helmets & Armor business which completed in January 2020. Since acquisition, the medium-term potential has been validated by the new framework contracts which have been signed within the U.S. DOD as described on page 17.

Remuneration Report continued

In September 2020, we announced the acquisition of Team Wendy, using the proceeds from the milkrite | InterPuls sale which we believe will be significantly value enhancing for shareholders. Team Wendy provides a complementary fit with our existing Helmets & Armor business and provides the enlarged Group with a broader product offering, an enhanced route to market and significant business opportunities over the medium-term. The Helmets & Armor and Team Wendy acquisitions have been self-financed through strong cash generation and without raising equity or debt capital. Furthermore, even after the acquisitions, the Group continues to have a healthy balance sheet, placing it in a good position for exploring further M&A opportunities over the medium-term.

Over recent years the Group has become steadily more complex and U.S-focused. Following the Team Wendy and milkrite | InterPuls transactions, the Group's activities will be predominantly conducted across six U.S. sites, with approximately 90% of revenues and 100% of borrowings in U.S. dollars. As such, our reporting currency will change to U.S. dollars for the 2021 financial year and we will set our dividends in U.S. dollars. Our staff headcount has grown from around 800 to 1,000 over the last three years and, reflecting our geographic expansion, Directors' roles have evolved with both the CEO and CFO spending a considerable amount of time outside of the U.K..

The ongoing strength and resilience of the business has been clearly demonstrated during the COVID-19 crisis, with demand for our products remaining strong and manufacturing capabilities and the supply chain proving robust. Business has continued largely as usual and there have been no employee pay cuts, layoffs or furloughs across the Group, no claims for government wage or credit support and shareholder dividends have continued to be paid, with dividend growth maintained at 30%.

Further details of how this exceptional level of sustained performance has been achieved, and of our growth trajectory going forward, are set out in the Chair's Statement on pages 12 and 13.

Remuneration context

The Committee believes that the current overarching remuneration framework continues to be effective. As a reminder, we operate a simple and transparent structure comprising salary, benefits and pension and, subject to stretching performance conditions, an annual bonus and a single long-term incentive plan. Incentive pay is subject to withholding and recovery provisions, part of any annual bonus payment is deferred into shares for a period of time, a post-vesting holding period operates for the long-term incentive plan and significant share ownership guidelines apply. These features enhance the alignment of interest between our executive Directors and shareholders and contribute to an appropriate level of risk mitigation.

Though the Committee is of the view that the current framework is the right one for Avon Rubber, we believe there is scope to optimise some of the moving parts within the structure. In particular, it is the Committee's firm view that the remuneration delivered to executives has not matched the exceptional performance of the Company over recent years. This is, in part, because traditionally the Committee has taken a conservative approach to pay, with compensation set at and delivering below market levels despite the exceptional year-on-year growth in the business. While the Committee is not proposing to address what has been paid in the past, we are of the view that it is vital to ensure that, going forward, the CEO and CFO are rewarded appropriately for future delivery. The primary aims of the changes to the policy are therefore to ensure that:

- the management team is fairly incentivised;
- both Executive Directors and the wider executive team are retained to deliver the next stage of our strategy;
- there is greater focus on long-term sustainable returns under the LTIP with full vesting only in the event of exceptional performance;
- packages remain competitive against companies of our size and geographical complexity (particularly given our fast growth to date and our future trajectory), and for a company with a U.S.-centric customer base and operations; and
- our remuneration policies and how we implement them are in line with good practice and take account of market developments, particularly in light of the publication of the U.K. Corporate Governance Code in 2018 and the latest institutional investor best practice guidance.

Proposed changes to the Policy

In light of the context set out above, and taking close account of the feedback received from shareholders during the consultation process, I set out below the key policy changes for which approval will be sought:

1. **Increase in incentive opportunity** – An increase to the annual bonus opportunity from 100% to 125% of salary and the LTIP grant level from 150% to 175% of salary for both Executive Directors. In line with the existing policy, one quarter of the annual bonus will be deferred in shares and a two-year holding period will apply to vested LTIP awards.

   These changes are aimed at ensuring that the packages sufficiently incentivise the delivery of stretching financial and shareholder return performance, and that they are set at levels which are commensurate with companies of our size and scale. The Committee has historically been scrupulous in ensuring bonus targets are appropriately stretching (note the annual bonus has not paid out in full in any of the last 10 years, including the latest year, despite recent exceptional levels of performance) and will continue to make this a priority. In addition, in light of the increase in the LTIP opportunity, vesting will be subject to more stretching targets, as described below. The revised incentive opportunities are in line with, and not ahead of, those in pan-sector and industrials companies of a similar size and scale.

Divestment of milkrite | InterPuls

Confirming our position as a leading provider of life critical personal protection systems

In September 2020 we completed the divestment of milkrite | InterPuls. As a solely focused protection business, there is opportunity to leverage our leading position in respiratory and ballistic protection and expand our capability into the wider personal protection market, thereby accelerating the long-term growth prospects for the business.

For the latest investor relations information, go to our website at: **www.avon-rubber.com/investors**

2. **Bolstering of shareholder protections** – The Committee is sensitive to the fact that greater incentive quantum comes with increased risk and we are therefore proposing a number of mitigating features in order to bolster the shareholder protections built into our arrangements. These will include:

   (i) a consideration of the prevailing share price and the number of shares under award in advance of the grant of any LTIP awards, to ensure that award levels appropriately reflect the shareholder experience;

   (ii) the shareholding guidelines will be toughened so that executives, as a minimum, will be required to retain at least 50% of the net of tax share awards which vest until the 200% of salary shareholding guideline has been met (no minimum proportion is currently defined); and

   (iii) a formal 10% in 10 years dilution cap will be introduced covering all share schemes operated by the Company (currently an overall 15% dilution limit covering all schemes is in operation).

3. **Introduction of a post-cessation shareholding requirement** – The U.K. Corporate Governance Code asks companies to include a formal policy on post-cessation shareholdings. We are supportive of what the Code provisions are trying to achieve in this regard, i.e. to ensure that executives are focused on taking decisions that are in the long-term interests of the Company. We are therefore proposing to introduce a requirement in line with The Investment Association's guidance (i.e. executive Directors to hold the lower of the value of their shareholding at cessation and 200% of salary for two years post employment).

4. **Alignment of pension contributions with the workforce** – The Committee supports the principle that pension alignment will promote fairness across the workforce. Incumbents' current contribution rates will therefore be reduced to the U.K. workforce rate of 7.5% of salary from 1 October 2023, which aligns with our reporting year end and salary review date. This policy already applies to any new executive Director appointments irrespective of the time of joining.

These changes are subject to the approval of the new Policy by shareholders at the AGM on 29 January 2021.

Application of Policy in 2021

The Committee will seek to implement the Policy as follows:

Base salaries

Paul McDonald's base salary will be increased from £410,000 to £500,000 and Nick Keveth's from £285,000 to £350,000, effective 1 October 2020.

The primary reasons for these increases are to (i) appropriately reward a proven management team who were deliberately appointed on relatively modest salaries, (ii) to retain both Directors over the long-term and to mitigate an identified retention risk, and (iii) to recognise the increasingly complex nature of the Avon Rubber business.

The Committee's view is that pay has simply not kept up with the outstanding year-on-year performance of the Company and the increasingly complex nature of the business and, against this backdrop, feels that it is imperative to reposition the remuneration packages in order to retain and fully motivate the team. The salary increases are a key element in shoring up the effectiveness of the packages and will place us on a more stable footing going forward. In addition, in the CFO's case, the uplift also takes into account the additional M&A and IT responsibilities he has taken on.

The revised Executive Director salaries also provide the business with the scope to progress pay below the Board, particularly for U.S. employees where pay levels tend to be significantly higher.

The Committee is acutely aware of the dangers of justifying salary increases on the basis of benchmarking data and, in coming up with our proposals, we wish to assure shareholders that benchmarking analysis has only been used as a secondary reference point in order to provide the Committee with an additional sense check. The Committee takes comfort that the salary positionings remain modestly positioned when compared with other U.K.-listed businesses of our size, scale and complexity.

Remuneration Report continued

Annual bonus

Subject to approval of the new Policy, the maximum annual bonus opportunity will be 125% of salary, with 25% of any bonus earned deferred into shares for two years. The bonuses for 2021 will be based on operating profit (40%), cash conversion (20%), revenue (20%) and strategic objectives (20%). The targets are commercially sensitive but will be disclosed in full on a retrospective basis in next year's report.

LTIP

Subject to approval of the new Policy, the 2021 LTIP awards will be granted after the AGM at 175% of salary. A consideration will be made of the prevailing share price and the number of shares under the award in advance of the grant of this award to ensure that the award level appropriately reflects the shareholder experience.

As part of the consultation, some shareholders wished to see ROCE feature as an additional discrete long-term incentive measure. The redeployment of the proceeds from the disposal of milkrite | InterPuls into the higher growth and margin Team Wendy business at a lower EBITDA multiple than the disposal, demonstrates that return on capital, alongside EPS growth and shareholder returns, are key metrics for us. We believe Team Wendy will be value enhancing for shareholders, having met all of our strategic and financial criteria and that the Company will be able to deliver a higher ROCE than prior to both transactions.

For 2021, the Committee believes the current EPS and TSR measures remain appropriate as they provide the right balance between financial delivery and future expectations and provide for a straightforward approach. Importantly though, ROCE will continue to feature as an underpin, requiring the Committee to consider the Group's ROCE performance prior to determining vesting under the EPS measure. We will keep the inclusion of ROCE as a headline LTIP measure under review over the life of the policy and major investors will be consulted, if necessary, prior to any material changes being made.

The targets set for the 2020/21 LTIP will be very stretching (see below) and will recognise the expected accretive earnings from Team Wendy. Further, in addition to the ROCE underpin that will apply to the EPS measure, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting.

Reflecting the increased incentive opportunity being proposed, the Committee believes that the additional LTIP grant should vest only if there is truly exceptional performance and therefore tougher targets will apply than has previously been the case.

- The relative TSR condition will now require upper quintile performance rather than upper quartile in order to achieve full vesting. Executive Directors will only benefit from the additional quantum therefore if tougher targets are achieved. The TSR comparator group will be disclosed at the time of grant.
- Given the significant level of M&A in the last financial year and the completion of Team Wendy in November 2020, the Committee wishes to ensure that three-year targets take full account of the restructured business. Therefore, the EPS targets will be set and disclosed at the time of grant, expected to be shortly after the AGM in January 2021. The upper stretch target will be higher than the 12%p.a. stretch target applying to the 2019/20 award.

Outcomes for 2020

The bonuses for 2020 were dependent on financial targets only, namely organic revenue, operating profit growth, cash conversion and operating profit for the Helmets & Armor business. The Company's financial performance for the year resulted in bonus awards for the executive Directors at 65.5% of maximum. Full details can be found on page 88.

The Committee considers that within the broader context of the overall performance of the Company, and taking into account the individual performance of the Executive Directors, the pay-out achieved under the bonus is justified and has not applied any discretionary adjustment to this outcome.

Vesting of the PSP awards made on 6 December 2017 will be based on the agreed measures of relative TSR and EPS growth over the three-year performance period. The Group's three-year TSR was 247% which ranked the Company near the top of the peer group. The Group's EPS for 2020 (including milkrite | InterPuls) gave 11%p.a. growth which was ahead of the maximum growth target of CPI + 8%p.a. It is intended that the award will vest in full. Around 70% of the LTIP figures in the single figure table is due to share price appreciation measured at 30 September 2020.

Regulatory and governance changes

In carrying out the remuneration review, the Committee has considered the various changes to the regulatory environment, in particular the revised U.K. Corporate Governance Code. The Committee has sought to align practice and disclosures to the provisions of the new Code and has been careful to ensure that the new Policy is consistent with the six factors set out in Provision 40 (i.e. clarity, simplicity, risk, predictability, proportionality and alignment to culture), details of which can be found in the Policy Report.

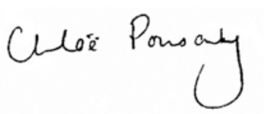
In 2021 we will continue to be alive to any further governance changes, developments in market practice and to the evolving views of institutional investors and the shareholder protection bodies.

Shareholder views and voting outcomes

As mentioned above, we have sought to undertake a comprehensive review of our Policy to include a wide-reaching consultation exercise. Making adjustments and corrections to pay levels is difficult in the current environment and we were comforted by the general level of support provided by shareholders to our approach to ensuring that the CEO and CFO are rewarded appropriately for future delivery. I would like to take this opportunity to again reiterate my thanks to all shareholders and proxy voting agencies that participated in this process and for the constructive feedback that has contributed to the design of the new Policy.

The Committee was pleased with the level of support received for the advisory vote on the Annual Report on Remuneration at the 2020 AGM, with over 96% of votes cast in favour. I hope we will again receive your support for the resolutions relating to remuneration at the forthcoming AGM.

I am always happy to hear from the Company's shareholders and you can contact me via the Company Secretary if you have any questions on this report or more generally in relation to the Company's remuneration.



Chloe Ponsonby
Chair of the Remuneration Committee

2 December 2020

Remuneration Report continued

Remuneration at a Glance

The Company is seeking shareholder approval for a revised Policy at the AGM on 29 January 2021. The key elements of the Directors' Remuneration Policy, as it applied in 2020 and how it is proposed to apply in 2021 are summarised below:

		Remuneration 2020	Remuneration 2021
FIXED PAY	**Salary (annual base)**	CEO £410,000 CFO £285,000	CEO £500,000 CFO £350,000
	Pension	15% of salary for current Executive Directors (new hires aligned with workforce contribution rate)	15% of salary for current Executive Directors – reducing to workforce contribution rate from 1 October 2023 (new hires aligned with workforce contribution rate of 7.5% of salary)
	Benefits	Includes car allowance, private health insurance and life assurance	Includes car allowance, private health insurance and life assurance
ANNUAL BONUS	**Maximum opportunity**	100% of salary	125% of salary
	Operation	• Performance measures: revenue (16%), operating profit (32%), cash conversion (32%), Helmets & Armor operating profit (20%) • 25% of the overall amount deferred into shares which vest after two years • Malus and clawback provisions apply	• Performance measures: revenue (20%), operating profit (40%), cash conversion (20%), strategic objectives (20%) • 25% of the overall amount deferred into shares which vest after two years • Malus and clawback provisions apply
LONG-TERM INCENTIVE	**Award level**	150% of salary	175% of salary
	Operation	• Performance measures: relative TSR (50% of award) and EPS with a ROCE underpin (50% of award) • Performance measured over three years • Two-year additional holding period applies to vested awards • Malus and clawback provisions apply	• Performance measures: relative TSR (50% of award) and EPS with a ROCE underpin (50% of award) • Performance measured over three years • Two-year additional holding period applies to vested awards • Malus and clawback provisions apply
SHAREHOLDING GUIDELINES	**In employment**	200% of salary	200% of salary
	Post employment	N/A	200% of salary to be held for two years post employment

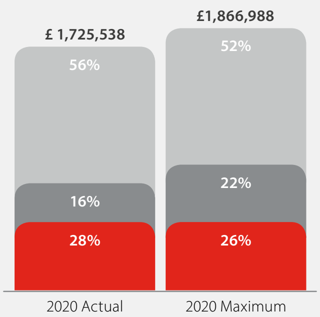
Executive remuneration

Actual vs maximum under policy

Paul McDonald

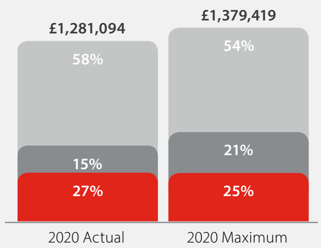
£1,725,538

LTIP
Annual Bonus
Fixed Pay, Pension and Benefits



Nick Keveth

£1,281,094



REMUNERATION POLICY REPORT

This section of the report sets out our Directors' Remuneration Policy which will be put forward for shareholder approval at the 2021 AGM on 29 January 2021 and will take formal effect from that date, subject to shareholder approval.

Guiding policy

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

- Executive remuneration packages should be clear and simple, taking 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 (but not excessive) when compared with other companies of a similar size and global spread and should be sufficient to attract, retain and motivate Executive Directors of superior calibre in order to deliver long-term success.
- 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 are linked to the Company's KPIs and to the best interests of shareholders.

Considerations when determining remuneration policy

As described in the Annual Statement, the Remuneration Committee (the 'Committee') undertook a comprehensive review of the current Directors' Remuneration Policy during the year to ensure, primarily, that it continues to: (i) support the strategy and promote the long-term sustainable success of the Group, (ii) align executive remuneration with company culture, purpose and values and clearly provide linkage to the successful delivery of the Company's long-term strategy, (iii) attract, retain and motivate executive management of the quality required to run the Company successfully (without paying more than is necessary), and (iv) have regard to the views of our shareholders and other stakeholders and appropriately reflect the best practice expectations of institutional investors.

In reviewing our Policy during the course of 2020, and in planning for its implementation, the U.K. Corporate Governance Code has been a key touchstone and we have been careful to take full account of the remuneration-related provisions in our design considerations. With regard to how we have sought to comply with the six factors outlined in Provision 40 of the Code for example, we believe the following are worth noting in particular:

- **Clarity** – Our remuneration framework is structured to support financial delivery and the achievement of strategic objectives, aligning the interests of Executive Directors with those of our shareholders. Our proposed Policy is transparent and well understood by our senior executive team. It has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).
- **Simplicity** – Our remuneration framework is straightforward to communicate and operate. We have operated the same simple and transparent overarching structure for many years and applied it on a consistent basis across all employees.
- **Risk** – Our incentives have been structured to ensure that they are aligned with the Board's system of risk management and risk appetite. Inappropriate risk-taking is discouraged and mitigated through, for example (i) the operation of arrangements that provide an appropriate balance of fixed pay to short- and long-term incentive pay and through multiple performance measures based on a blend of financial, non-financial and shareholder return targets, (ii) the deferral of a proportion of annual bonus into shares and the operation of a post-vesting holding period for the LTIP, (iii) the operation of significant in-employment and post-employment shareholding guidelines, and (iv) the operation of robust recovery and withholding provisions.
- **Predictability** – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The Committee has full discretion to alter the pay-out level or vesting outcome to ensure payments are appropriately aligned with the underlying performance of the Company.
- **Proportionality** – Ensuring Executive Directors are not rewarded for failure underscores our approach to remuneration (e.g. the significant proportion of our packages is based on long-term performance targets linked to the KPIs of the Company, through our ability and openness to the use of discretion to ensure appropriate outcomes, and through the structure of our Executive Directors' contracts). There is a clear link between individual awards, delivery of strategy and our long-term performance. As mentioned above, formulaic incentive outcomes are reviewed by the Committee and may be adjusted having consideration to overall Group performance and wider workforce remuneration policies and practices.
- **Alignment to culture** – Our Policy is aligned to Avon Rubber's culture and values. The Committee strives to instil a sustainable performance and continuous improvement culture at the management level that can cascade down throughout the Company. The Board sets the framework of KPIs against which we monitor the performance of the Company and the Committee links the performance metrics of our incentive arrangements to those KPIs. We are also keen to foster a culture of share ownership throughout the Company and operate all-employee share arrangements in pursuit of this objective.

Further details of the role of the Committee and its decision-making process can be found in the Annual Report on Remuneration on page 86.

Remuneration Report continued

Changes to the Remuneration Policy

Details of the substantive changes proposed in the new Policy, along with the rationale for each, are provided in the Annual Statement on page 71. We set out below a summary of these changes:

- **Increase in incentive opportunity** – An increase to the annual bonus opportunity from 100% to 125% of salary and the maximum LTIP grant level from 150% to 175% of salary for both Executive Directors.
- **Additional incentive safeguards** – Addition of a formal commitment to ensuring the prevailing share price is considered in advance when deciding on the number of shares to be awarded as part of any LTIP grant and ensuring the policy allows full flexibility for the Committee to adjust formulaic outcomes in light of overall Group performance.
- **Shareholding guidelines toughened** – Executives, as a minimum, will be explicitly required to retain at least 50% of the net of tax share awards which vest until the 200% of salary shareholding guideline has been met.
- **Introduction of a post-cessation shareholding requirement** – Executive Directors will ordinarily be required to hold the lower of the value of their shareholding at cessation (excluding shares purchased with own funds and any shares from share plan awards made before the approval of this Policy) and 200% of salary for two years after ceasing to be a Director.
- **Alignment of pension contributions with the workforce** – Incumbents' contribution rates will be reduced from 15% of salary to the U.K. workforce rate from 1 October 2023. This workforce-aligned policy already applies to any new executive Director appointments irrespective of the time of joining.

Policy table

The table below sets out the main components of the proposed Remuneration Policy for Directors, together with further information on how these aspects of remuneration operate, subject to approval by shareholders at the 2021 AGM. The existing policy approved at the AGM on 21 January 2019 and set out in the 2018 Annual Report will remain in effect until shareholders approve the new Policy. The Remuneration Committee has discretion to amend remuneration and benefits 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
Basic salary	To provide competitive fixed remuneration. To attract and retain Executive Directors of superior calibre in order to deliver long-term business success. Reflects individual experience and role. The Committee's aim is to position salaries around the mid-market level of companies of a similar size, scale and complexity.	Normally reviewed annually by the Remuneration Committee with increases typically effective 1 October. Individual salary adjustments take into account each Executive Director's role, competence and performance. Significant adjustments are infrequent and normally reserved for material changes in role, a significant increase in the size/complexity of the Group, or where an individual has been appointed on a low salary with an intention to bring them to market levels over time and subject to performance. Other factors which will be taken into account will include pay and conditions elsewhere in the Group, progression within the role, and competitive salary levels in companies of a broadly similar size and complexity.	No prescribed maximum or maximum increase. The normal approach will be to limit increases to the average level across the wider workforce, though increases above this level may be awarded subject to Committee discretion to take account of certain circumstances, such as those stated under 'Operation'. On recruitment or promotion, the Committee will consider previous remuneration and pay levels for comparable companies (for example, companies of a similar size and complexity, industry sector or location), when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of individual contribution and performance and having due regard to the factors set out in the 'Operation' column of this table.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Benefits	To provide competitive fixed remuneration. To attract and retain Executive Directors of superior calibre in order to deliver long-term business success.	Executive Directors are entitled to benefits such as travel-related benefits including a car or car allowance, medical assessments every two years, private health insurance and life assurance. Executives will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms. Any reasonable business-related expenses (and any tax thereon) can be reimbursed if determined to be a taxable benefit. Executive Directors will be eligible to participate in any all-employee share plan operated by the Company, on the same terms as other eligible employees. For external and internal appointments or relocations, the Company may pay certain relocation and/or incidental expenses as appropriate.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not pre-determined. The maximum level of participation in all-employee share plans is subject to the limits imposed by the relevant tax authority from time to time.	Not applicable.
Pension	To reward sustained contributions 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 or a combination of these.	Company contribution up to 15% of salary (to reduce to no higher than the general workforce contribution level from 1 October 2023). Future appointments to the Board will receive contributions in line with the prevailing rate offered to the general workforce (currently 7.5% of salary in the U.K.) in the country where they are based at the time.	Not applicable.

Remuneration Report continued

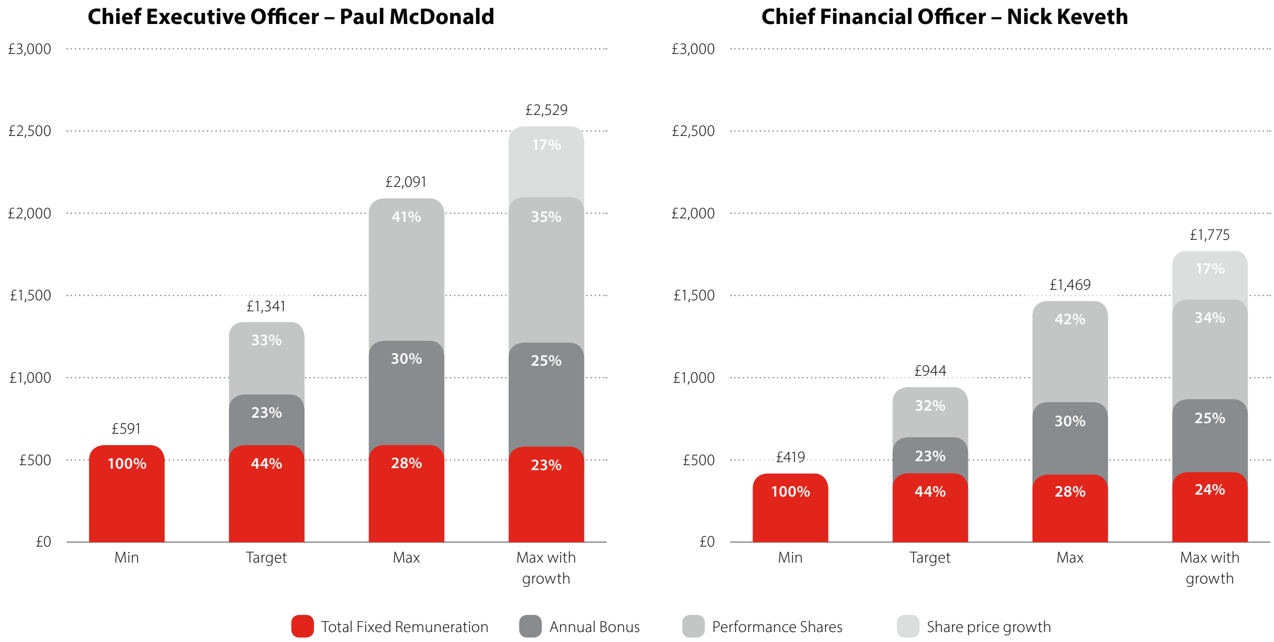
Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Annual Bonus	Rewards the achievement of annual financial and business targets aligned with the Group's KPIs. Maximum bonus only payable for achieving demanding targets. Deferred element encourages long-term shareholdings and discourages excessive risk taking.	Bonus is based on performance in the relevant financial year. Any payment is discretionary and will be subject to the achievement of stretching performance targets. Bonus is normally paid in cash, except 25% of any bonus which is deferred into shares for two years. Bonuses are not contractual and are not eligible for inclusion in the calculation of pension arrangements. Recovery and withholding provisions apply in cases of misconduct, corporate failure, reputational damage, error in calculation of a bonus and material misstatement of financial results. Dividends or dividend equivalents may accrue on deferred shares.	Capped at 125% of salary.	The Committee sets performance measures and targets that are appropriately stretching each year, taking into account key strategic and financial priorities and ensuring there is an appropriate balance between incentivising Executive Directors to meet targets, while ensuring they do not drive unacceptable levels of risk or inappropriate behaviours. Financial measures will normally determine at least 75% of the bonus opportunity and the balance may be based on non-financial, strategic, personal and/or ESG-related objectives. A graduated scale of targets is normally set for each measure, with no payout for performance below a threshold level of performance. The Committee has discretion to amend the pay-out should any formulaic outcome not reflect the Committee's assessment of overall business performance.
Long-Term Incentive Plan	Designed to align Executive Directors' interests with those of shareholders and to incentivise the delivery of sustainable earnings growth and superior shareholder returns.	Awards of conditional shares or nil cost option awards which normally vest after three years subject to the achievement of performance targets and continued service. An additional two-year holding period applies after the end of the three-year vesting period. Recovery and withholding provisions apply in cases of misconduct, corporate failure, reputational damage, error in calculation of award and material misstatement of financial results. Dividend equivalents may be paid for awards to the extent they vest. The Committee retains discretion to adjust vesting levels in exceptional circumstances, including but not limited to regard of the overall performance of the Company or the grantee's personal performance.	Executive Directors may receive an award of up to 175% of basic salary per annum. The Committee will consider the prevailing share price when deciding on the number of shares to be awarded as part of any LTIP grant. A 10% in 10 years' dilution limit governing the issue of new shares to satisfy all share scheme operated by the Company will apply.	Performance measures may include, and are not limited to, relative TSR, EPS, strategic measures and ESG-related objectives. The Committee retains discretion to set alternative weightings or performance measures for awards over the life of the policy. 100% of awards vest for stretch performance, up to 20% of an award vests for threshold performance and no awards vest below this. Underpins may apply.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Share Ownership Guidelines	To increase alignment between Executives and shareholders.	Executive Directors are required to retain at least 50% of their net of tax vested awards until the in-employment shareholding guideline is met. Nil cost options which have vested but are yet to be exercised and deferred bonus awards subject to a time condition only may be considered to count towards the in-employment shareholding on a notional post-tax basis.	Executive Directors are required to build up and maintain an in-employment shareholding worth 200% of salary (100% for other senior management). Executive Directors are normally required to hold shares at a level equal to the lower of their shareholding at cessation and 200% of salary for two years post employment (excluding shares purchased with own funds and any shares from share plan awards made before the approval of this policy).	Not applicable
Chair and Non-Executive Directors' fees and benefits	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.	Fees are normally reviewed annually taking into account factors such as the time commitment and contribution of the role and market levels in companies of comparable size and complexity. The Chair is paid an all-inclusive fee for all Board responsibilities. Fees for the other Non-Executive Directors may include a base fee and additional fees for further responsibilities (for example, chairship of Board committees or holding the office of Senior Independent Director). The Company repays any reasonable expenses that a Non-Executive Director incurs in carrying out their duties as a Director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate. If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.	No prescribed maximum fee or maximum fee increase. Increases will be informed by taking into account internal benchmarks such as the salary increase for the general workforce and will have due regard to the factors set out in the 'Operation' column of this table.	Not applicable

Remuneration Report continued

Illustration of the application of the Policy

The balance between fixed and variable 'at risk' elements of remuneration changes with performance. Our policy results in a significant proportion of remuneration received by Executive Directors being dependent on performance. The charts below illustrate how the Policy would function for minimum, on target and maximum performance for each Executive Director in 2020/21 assuming the Remuneration Policy is approved at the 2021 AGM.



Assumptions for the charts above:

- Minimum: Comprises fixed pay made up of base salary levels (applying from 1 October 2020), the value of pension at 15% of annual basic salary and other benefits estimated at the value shown in the single total figure of remuneration table for 2020.
- On-target: bonus achieved at 50% of the maximum opportunity, i.e. 62.5% of salary and with the on-target level of vesting under the LTIP taken to be 50% of the face value of the award at grant, i.e. 87.5% of salary.
- Maximum: full bonus achieved and LTIP vesting in full i.e. 125% of salary bonus payout and LTIP awards to the value of 175% of salary vesting.
- Share price appreciation of 50% has been assumed for the LTIP awards under the final 'Max with growth' scenario (but no share price appreciation has been assumed for the first three sections).
- Amounts relating to all-employee share schemes have, for simplicity, been excluded from the charts.

Selection of performance measures and targets

Annual bonus

The Executives' annual bonus arrangements are focused on the achievement of the Company's short- and medium-term financial objectives, with financial measures selected to closely align the performance of the Executive Directors with the strategy of the business and with shareholder value creation. Where non-financial objectives are set, these are chosen to support the delivery of the longer-term strategic milestones and which link to those KPIs of most relevance to each Director's individual responsibilities.

Details of the measures used for the annual bonus are given in the Annual Report on Remuneration.

Long-Term Incentive Plan

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 for the first year of the new Policy will be based on relative TSR and EPS growth.

The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each LTIP grant.

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 Remuneration Committee's intention is to reward only TSR performance which outperforms the comparator group.

The EPS measure is based on growth in adjusted earnings per share over the performance period. The target range is a sliding scale set at the time of award taking account of internal and external forecasts, to encourage continuous improvement and incentivise the delivery of stretch performance. For the 2021 awards, the Committee will also assess the Group's ROCE performance when approving the vesting outcome under the EPS element of awards.

Flexibility, discretion and judgement

The Remuneration Committee operates the annual bonus and LTIP according to the rules of each respective plan which, consistent with market practice, include discretion in a number of respects in relation to the operation of each plan. Discretions include:

- who participates in the plan, the quantum of an award and/or payment and the timing of awards and/or payments
- determining the extent of vesting
- treatment of awards and/or payments on a change of control or restructuring of the Group
- whether an Executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether the proportion of awards that vest do so at the time of leaving or at the normal vesting date(s)
- how and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends)
- what the weighting, measures and targets should be for the annual bonus plan and LTIP awards from year to year
- the Committee also retains the ability, within the policy, if events occur that cause it to determine that the conditions set in relation to an annual bonus plan or a granted LTIP award are no longer appropriate or unable to fulfil their original intended purpose, to adjust targets and/or set different measures or weightings for the applicable annual bonus plan and LTIP awards with, in the case of LTIP awards held by Executive Directors, adjusted performance conditions being not materially less difficult to satisfy than the original conditions would have been but for the relevant event(s))
- the ability to override formulaic outcomes in line with policy

All assessments of performance are ultimately subject to the Committee's judgement and discretion is retained to adjust payments in appropriate circumstances as outlined in this Policy. Any discretion exercised (and the rationale) will be disclosed.

Remuneration Report continued

Legacy arrangements

For the avoidance of doubt, in approving this Remuneration Policy, authority is given to the Company to honour any previous commitments entered into with current or former Directors (such as the payment of a pension or the unwinding of legacy share schemes or historic share awards granted before the approval of this policy) that remain outstanding.

Approach to recruitment remuneration

New Executive Directors will be offered a basic salary in line with the Policy. This will take into consideration a number of factors including, external market forces, the expertise, experience and calibre of the individual and current level of pay. Where the Committee has set the salary of a new appointment at a discount to the market level initially until proven, they may receive an uplift or a series of planned increases to bring the salary to the appropriate market position over time. For external and internal appointments, the Committee may agree that the Company will meet appropriate relocation and/or incidental expenses as appropriate.

Annual bonus awards, LTIP awards and pension contributions would not be in excess of the levels stated in the Policy.

Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions for the first performance year of appointment. An LTIP award can be made shortly following an appointment (assuming the Company is not in a close period). In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment.

In addition, the Committee may offer additional cash and/or share-based buyout awards when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration given up at the individual's former employer. This includes the use of awards made under 9.4.2 of the Listing Rules. Such awards would be capped at a reasonable estimate of the value foregone and would reflect, as far as possible, the delivery mechanism, time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment and/or in the next published Annual Report.

For the appointment of a new Chair or Non-Executive Director, the fee arrangement would be set in accordance with the approved Remuneration Policy.

Service contracts, letters of appointment and policy on payments for loss of office

Executive Directors

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 no more than 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, 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 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 Group may pay outplacement and professional legal fees incurred by Executives in finalising their termination arrangements, where considered appropriate, and may pay any statutory entitlements or settle compromise claims in connection with a termination of employment, where considered in the best interests of the Company. Outstanding savings/shares under all-employee share plans would be transferred in accordance with the terms of the plans.

A pro-rated bonus may be paid subject to performance, for the period of active service only. Outstanding share awards may (if at all) vest in accordance with the provisions of the various scheme rules. Under the Deferred Bonus Plan, the default treatment is that any outstanding awards will continue on the normal timetable, save for forfeiture for serious misconduct. Clawback and malus provisions will also apply. On a change of control, awards will generally vest on the date of a change of control, unless the Committee permits (or requires) awards to roll over into equivalent shares in the acquirer.

Under the LTIP, any outstanding awards will ordinarily lapse, however in 'good leaver' cases the default treatment is that awards will vest subject to the original performance condition and time proration and the holding period will normally continue to apply. For added flexibility, the rules allow for the Committee to decide not to pro-rate (or pro-rate to a lesser extent) if it decides it is appropriate to do so, and to allow vesting to be triggered at the point of leaving by reference to performance to that date, rather than waiting until the end of the performance period if the Committee so decides. On a change of control, any vesting of awards will be subject to assessment of performance against the performance conditions and normally be pro-rated.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

Chair and Non-Executive Directors

All Non-Executive Directors have letters of appointment rather than service contracts and are appointed on a rolling annual basis, which may be terminated on giving three months' notice at any time by either party.

Chair and Non-Executive Director appointments are subject to Board approval and election by shareholders at each annual general meeting.

All service contracts and letters of appointment are available for inspection at the Company's registered office.

External appointments

The Company recognises that its Executive Directors may be invited to become Non-Executive Directors of other companies. Such Non-Executive duties can broaden a Director's experience and knowledge which can benefit Avon Rubber. Subject to approval by the Board, Executive Directors are allowed to accept Non-Executive appointments, provided that these appointments are not likely to lead to conflicts of interest, and the Committee will consider its approach to the treatment of any fees received by Executive Directors in respect of Non-Executive roles as they arise.

Consideration of shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Directors' remuneration. The Committee seeks to engage directly with major shareholders and their representative bodies on changes to the Policy. The Committee also considers shareholder feedback received in relation to the remuneration-related resolutions each year following the AGM. This, plus any additional feedback received from time to time (including any updates to shareholders' remuneration guidelines), is then considered as part of the Committee's annual review of remuneration policy and its implementation.

In its review of current remuneration and the proposed Policy being put forward, the Committee conducted a comprehensive consultation exercise which elicited feedback from shareholders holding over 65% of shares in issue, as well as from the main shareholder representative bodies. The Committee was very grateful for the views received. The feedback, which was largely positive, was used constructively to shape our final proposals. Further details regarding the consultation exercise can be found in the Annual Statement on page 71.

Consideration of employment conditions elsewhere in the Group

The Committee closely monitors the pay and conditions of the wider workforce and the design of the Directors' Remuneration Policy is informed by the policy for employees across the Group.

While employees are not formally consulted on the design of the Directors' Remuneration Policy, the Board has appointed a Non-Executive Director, Chloe Ponsonby, who has designated responsibility for workforce engagement, in line with the provisions of the U.K. Corporate Governance Code. One of the ways in which the Board engages with employees across the Group on remuneration is through the Employee Opinion Survey, which includes a section dedicated to pay and benefits. The results of this are shared with the Board.

Differences in pay policy for Executive Directors compared to employees more generally

As for the Executive Directors, general practice across the Group is to recruit employees at competitive market levels of remuneration, incentives and benefits to attract and retain employees, accounting for national and regional talent pools. When considering salary increases for Directors, the Committee will take into account salary increases and pay and employment conditions across the wider workforce. The pension contribution for future Executive Director appointments will be consistent with that for the general workforce and the contributions for the current CEO and CFO will transition to the workforce level by 1 October 2023. All employees are able to earn annual bonuses for delivering exceptional performance, with corporate performance measures aligned to those set for the Executive Directors. All employees, including the Executive Directors, have the opportunity to participate in the tax-approved share incentive plans.

There are some differences in the structure of the Remuneration Policy for the Executive Directors compared to that for other employees within the organisation, which the Committee believes are necessary to reflect the differing levels of seniority and responsibility. At senior levels, remuneration is increasingly long-term, and 'at risk' with an increased emphasis on performance-related pay and share-based remuneration. This ensures the remuneration of the Executives is aligned with both the long-term performance of the Company and the interests of shareholders.

Remuneration Report continued

ANNUAL REPORT ON REMUNERATION

Role and composition of the Remuneration Committee

The Board is ultimately accountable for executive remuneration and delegates this responsibility to the Remuneration Committee. The Remuneration Committee is responsible for developing and implementing a remuneration policy that supports the Group's strategy 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. When setting the remuneration terms for Executive Directors, the Committee reviews and has regard to workforce remuneration and related policies and takes close account of the U.K. Corporate Governance Code requirements for clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture.

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, Chair, 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
- Putting in place a remuneration structure that supports strategy and promotes long-term sustainable success – with executive remuneration aligned to company purpose and values and clearly linked to the successful delivery of the Company's long-term strategy – and which attracts, retains and motivates executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders
- Reviewing the pay arrangements put in place for the broader workforce
- 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
- 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 currently comprises Chloe Ponsonby (Chair), Pim Vervaat, Bruce Thompson, Bindi Foyle and Victor Chavez (joined on 1 December 2020). Chloe, Pim and David Evans (who stepped down from the Board on 2 December 2020) were members throughout the year. Bruce joined the Committee on 1 March 2020 and Bindi on 1 May 2020. By invitation of the Committee, meetings are also attended by the CEO, CFO and the Company Secretary (who acts as secretary to the Committee), who are consulted on matters discussed by the Committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the Committee feels that such additional contributions will assist the decision-making process.

The Committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisers. During the year, the Committee was assisted in its work by FIT Remuneration Consultants LLP. FIT was appointed in December 2019 and has provided advice in relation to general remuneration matters and the review of the remuneration policy. Fees paid to FIT in relation to advice provided to the Committee during the year to 30 September 2020 were £76,258 (excluding VAT), charged on a time/cost basis. FIT also provided advice in relation to Non-Executive Directors' fees during the year but other than this did not provide any other services to the Company. FIT is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the U.K.. The Committee is satisfied that the advice they received from FIT was objective and independent.

Prior to FIT's appointment, the Remuneration Committee sought advice from Aon. Fees paid to Aon in relation to this advice during the year to 30 September 2020 were £42,058 (excluding VAT).

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

- Undertook a comprehensive review of Executive Directors' remuneration which culminated in the preparation of a revised remuneration policy. This policy is to be put to shareholders for approval at the 2021 AGM
- Seeking the views of and meeting with our major shareholders and the main voting agencies as part of a comprehensive investor consultation exercise to inform the design process for the revised policy. Views were received from shareholders holding over 65% of our issued share capital and these have helped shape the new policy
- Reviewed guidance from investor bodies and institutional shareholders
- Assessed whether our remuneration framework is appropriately aligned with our culture and values and motivates our leaders to achieve the Group's strategic objectives

- Reviewed and approved the remuneration packages for our current Executive Directors
- Approved the annual bonus payments to the Executive Directors in November 2019 and the annual bonus plan for the 2020 financial year. This included amending the annual bonus plan for the CEO and CFO to include an operating profit measure related to the acquired Helmets & Armor business
- Reviewed and confirmed the vesting of the LTIP awards granted in December 2016
- Reviewed and approved the terms of the 2020 LTIP awards and monitored the performance of the outstanding awards against their performance targets

Since the end of the 2020 financial year, the Committee has:

- Written to our largest shareholders with the outcome of the consultation exercise undertaken during June to August 2020
- Approved annual bonus payments to the Executive Directors and the Group Executive management team, following completion of the external audit in November 2020 and undertaken a final assessment of the TSR and EPS performance conditions attached to the December 2017 LTIP awards
- Made preparations for the new 2021 LTIP awards to be granted shortly after the AGM in January 2021 and for the vesting of the LTIP awards granted in December 2017
- Agreed the annual bonus structure for the year ending 30 September 2021

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

Directors' remuneration for the year ended 30 September 2020 was as follows:

Single total figure of remuneration for Directors for the year ended 30 September 2020 (audited):

		FIXED PAY				PAY FOR PERFORMANCE			
	Year	Basic salary & fees £'000	Pension/other supplements[2] £'000	Other benefits[3] £'000	Sub-total £'000	Annual bonus £'000	LTIP[1] £'000	Sub-total £'000	Total Remuneration £'000
Executive Directors									
Paul McDonald	2020	410	52	17	479	269	979	1,248	1,727
	2019	390	49	2	441	214	273	487	928
Nick Keveth	2020	285	43	16	344	187	750	937	1,281
	2019	270	41	2	313	148	–	148	461
Non-Executive Directors									
David Evans	2020	140	–	–	140	–	–	–	140
	2019	140	–	4	144	–	–	–	144
Pim Vervaat	2020	56	–	–	56	–	–	–	56
	2019	56			56				56
Chloe Ponsonby	2020	56	–	–	56	–	–	–	56
	2019	51	–	–	51	–	–	–	51
Bruce Thompson[4]	2020	24	–	–	24	–	–	–	24
	2019	–	–	–	–	–	–	–	–
Bindi Foyle[5]	2020	17	–	–	17	–	–	–	17
	2019	–	–	–	–	–	–	–	–
Total	2020	988	95	33	1,116	456	1,729	2,185	3,301
	2019	907	90	8	1,005	362	273	635	1,640

Remuneration Report continued

Note to total figure of remuneration table

1 The LTIP amount for 2020 relates to the long-term incentive award granted in December 2017 for which the outcome was based on performance over the three-year period to 30 September 2020. For the purposes of this table and in line with disclosure requirements, the 2020 LTIP values have been calculated using an average share price over the three-month period from 1 July 2020 to 30 September 2020 of 3,691 pence per share. This is higher than the share price at the time these awards were made to participants and accordingly around 70% of the value shown is attributable to share price appreciation (£678k for Paul McDonald and £520k for Nick Keveth).

The LTIP amount for 2019 relates to the long-term incentive award which was granted in December 2016. This 2019 figure has been updated from the figure shown in last year's table to reflect a transition to incorporating the value of awards vesting shortly after the year end for performance ending (or substantially ending) during the financial year into the single figure (rather than showing the value of what vested during the year as was the case previously). This is also in line with disclosure requirements.

2 Paul McDonald is a member of the Group's money purchase scheme and part of his pension contribution is paid into the pension scheme (2020: £10k) with the remainder paid as a salary supplement (2020: £52k). Nick Keveth's contribution is paid entirely as a salary supplement (2020: £43k).

3 Benefits for 2020 include a car allowance, the cost of private health insurance, critical illness cover and executive medical.

4 Bruce Thompson was appointed to the Board as Non-Executive Director and Chair Designate with effect from 1 March 2020.

5 Bindi Foyle was appointed to the Board as Non-Executive Director with effect from 1 May 2020.

Annual bonus for the year ending 30 September 2020

The annual bonus opportunity for Executive Directors for 2020 was 100% of salary and this was originally based on targets relating to Group organic revenue growth (20%), Group organic operating profit growth (40%) and Group cash conversion (40%).

Following the completion of the acquisition of 3M's ballistic protection business on 2 January 2020, the Remuneration Committee amended the bonus measures and weightings to incorporate an assessment of the profit performance of the newly acquired business for a minority of the bonus (20%). Accordingly, the three other Group financial measures were pro-rated down by 20%. Therefore, the measures and weightings applying to the 2020 bonus were as follows:

- Group revenue (16%)
- Group operating profit (32%)
- Group cash conversion (32%)
- Acquired Helmets & Armor business operating profit (20%)

The targets applying to each measure and performance against them is set out in the table below[1]:

	Threshold (0% payable)	Stretch (100% payable)	Actual/Reported	% achievement	Bonus payable (% of salary)
Organic revenue (16%)	£180.5m	£185.8m	£181m	9.4%	1.5%
Organic profit (PBITE) (32%)	£31.5m	£34m	£34.8m	100%	32%
Cash conversion) (ratio of operating cash flow to operating profit) (32%)	85%	105%	123.3%	100%	32%
Helmets & Armor PBIT (20%)	$7.1m	$8.3m	$6.5m	0.0%	0.0%
				TOTAL	65.5%

1 The organic Revenue, organic Profit and Cash Conversion measures are based on the achievements of Avon Protection and milkrite | InterPuls, and exclude contribution from the Helmets & Armor acquisition.

While the Group Profit and Cash Conversion targets were met in full, the Revenue threshold was only marginally exceeded and the Helmets & Armor operating profit measure was not achieved. This has resulted in a 65.5% of maximum payout under the annual bonus scheme. The payout would have been significantly higher had the bonus weightings not been adjusted earlier in the year (as described above). Given the excellent performance of the business over the last year, the Remuneration Committee would have expected a higher bonus outturn for the year, however, it did not feel that any discretionary adjustment was appropriate following the year end.

This resulted in bonus payments of £269k for Paul McDonald and £187k for Nick Keveth. In accordance with the Policy, 75% of the Director's bonus will be paid in cash and the remaining 25% will be deferred into shares to be held for two years.

Long-term incentive awards vesting

Awards were granted on 6 December 2017 under the Performance Share Plan to the CEO and CFO and these are based on three-year performance targets. Half of the award is subject to a relative TSR condition (measuring performance against the constituents of the FTSE All-Share excluding investment trusts) and the other half subject to EPS growth targets.

The TSR measurement period ended on 8 December 2020. The Company's TSR over this period was confirmed as 259% which was significantly above the upper quartile TSR and in the top 1% of the comparator group and therefore it is intended that this part of the award will vest in full. The Company delivered an EPS of 99.1p, including milkrite | Interpuls and excluding the benefits of the release of tax provisions at the beginning and end of the performance period. This performance resulted in growth of 11%p.a. compared to the threshold and maximum targets of 4.8% and 9.8% (CPI + 3%p.a. to CPI + 8%p.a.) respectively. It is intended therefore that this element of the award will also vest in full, with 26,511 shares vesting to Paul McDonald and 20,325 shares vesting to Nick Keveth.

As these awards will vest after this report is signed off, the values of these awards as shown in the single figure table are based on an average share price over the last quarter of the financial year ending 30 September 2020.

In relation to the award vesting during the year ended 30 September 2020, the Committee determined in November 2019 that 80% of the 2017 award granted on 8 December 2016 vested on the basis of TSR and EPS performance over the three years from 1 October 2016 to 30 September 2019. The Company's TSR of 90.8% compared to the upper quartile of the comparator group at 57.7%. The Company's EPS growth was 8.5% compared to the threshold and maximum targets of 5.5% and 10.5% (CPI + 3%p.a. to CPI + 8%p.a.) respectively. The Committee considered that the financial performance of the Company and the performance of Paul McDonald fully justified this level of vesting. The Committee did not consider it necessary to apply any discretion to adjust the outcome for these awards. As a consequence, 11,888 shares vested to Paul McDonald.

LTIP awards granted in the 2019/20 year

The table below provides details of share awards made to Executive Directors during the 2019/20 financial year:

	Type of award	**Basis of award**	**Number of shares under award**	**Face value of award (£'000)[1]**	**% vesting at threshold**	**End of performance period**
Paul McDonald	Nil cost option	150% of salary	31,734	£615	10%	30 September 2022
Nick Keveth	Nil cost option	150% of salary	22,059	£428	10%	30 September 2022

1 The number of awards was based on a share price of £19.38 which was the Company's four-day average share price over 13 to 18 November 2019.

The performance conditions for this award will be measured over a three-year period beginning on 1 October 2019 and are as follows:

- 50% is based on relative TSR performance measured against the FTSE All-Share index (excluding investment trusts) with 20% vesting at median increasing to 100% for upper quartile performance (with vesting on a pro-rata basis between these two points)
- 50% will be based on adjusted EPS with 0% vesting at 5%p.a. growth and maximum vesting at 12%p.a growth (with vesting on a pro-rata basis between these two points)

Remuneration Report continued

Directors' shareholdings and share interests and position under shareholding guidelines (audited)

Beneficial interests of Directors, their families and trusts in ordinary shares of the Company at 30 September 2020 were:

	Number of shares owned outright (including connected persons)	Unvested shares subject to performance conditions[3]	Shareholding as a % of salary at 30 September 2020	Shareholding guideline (200% of salary) met?
Paul McDonald	35,922[1]	96,844	372%	Yes
Nick Keveth	14,065[2]	69,106	210%	Yes
David Evans	25,019	–	N/A	N/A
Pim Vervaat	7,500	–	N/A	N/A
Chloe Ponsonby	4,550	–	N/A	N/A
Bruce Thompson	3,000	–	N/A	N/A
Bindi Foyle	–	–	N/A	N/A

1 This figures includes 3,188 deferred bonus shares.

2 This figure includes 2,279 deferred bonus shares and 401 SIP shares.

3 Unvested LTIP shares.

The only change in the interests set out above between 30 September 2019 and 2 December 2020 were the additional six shares purchased by Nick Keveth under the Share Incentive Plan, which increased his total shareholding to 14,071.

Outstanding LTIP awards

Outstanding awards are as follows:

	Award date	Awards held at 1 October 2019	Granted in the year	Vested in the year	Lapsed in the year	Outstanding awards at 30 September 2020
Paul McDonald	17.03.20	–	31,734	–	–	31,734
	20.03.19	38,599	–	–	–	38,599
	06.12.17	26,511	–	–	–	26,511
	08.12.16	14,809	–	11,888	2,921	–
Nick Keveth	17.03.20	–	22,059	–	–	22,059
	20.03.19	26,722	–	–	–	26,722
	06.12.17	20,325	–	–	–	20,325

Other than the 2020 awards (details of which are set out above), the performance conditions for the outstanding awards are as follows:

- 50% of awards are based on Avon Rubber's TSR ranked relative to companies in the FTSE All-Share Index (excluding investment trusts) at the start of the period. Over the three-year period the Company's TSR performance is compared with a scale which provides for 25% vesting if TSR is equal to median of the comparator group and maximum vesting if TSR is equal to, or exceeds, the upper quartile, with vesting on a pro-rata basis for performance between these two figures (and nil vesting below median). For awards made after 1 October 2018 the threshold level of vesting under the TSR element was reduced to 20% from 25%.
- 50% of awards are based on earnings per share growth targets over the performance period compared with a scale which provides for nil vesting at CPI +3%p.a. and maximum vesting at CPI +8%p.a., with vesting on a pro-rata basis for performance between these two figures. For awards after 1 October 2018, the EPS targets provide for nil vesting at 5%p.a. and maximum vesting at 10%p.a., with vesting on a pro-rata basis between these two figures.

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 10 -year period. In respect of the 5% and 10% limits recommended by the Investment Association, the relevant percentages were 8.22% and 8.22% respectively based on the issued share capital at 30 September 2020.

In 2011 shareholders approved a 15% dilution limit for all employee schemes which is in excess of the 10% recommended by the Investment Association. As part of the renewal of this policy, the 15% limit has been reduced to 10% of issued share capital.

It remains the Company's practice to use Employee Share Ownership Trusts ('ESOTs') in order to meet its liability for shares awarded under the LTIP. Two trusts have been established in connection with this. At 30 September 2020 there were 398,560 shares held in the ESOTs which will either be used to satisfy awards granted under the LTIP 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 LTIP by buying shares in the market or causing the Company to issue new shares. Shares held in the ESOTs do not receive dividends.

As at 30 September 2020, the market price of Avon Rubber p.l.c. shares was £42.50 (2019: £16.62). During the year the highest and lowest market prices were £42.70 and £16.20 respectively.

Share Incentive Plan

The Company currently operates the Avon Rubber p.l.c. Share Incentive Plan (the 'SIP'), approved by shareholders at the AGM in February 2012. All U.K. 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. Paul McDonald is not a member of the SIP. Nick Keveth is a member and as at 30 September 2020 had purchased 401 shares through this scheme. 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.

Payments to past Directors and payments for loss of office (audited)

There were no payments for loss of office or to past Directors during the year.

Service contracts and letters of appointment

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

The date of each Non-Executive 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]	1 June 2007	30 January 2020
Chloe Ponsonby	1 March 2016	30 January 2020
Pim Vervaat	1 March 2015	30 January 2020
Bruce Thompson	1 March 2020	N/A
Bindi Foyle	1 May 2020	N/A
Victor Chavez CBE	1 December 2020	N/A

1 David Evans will stand down from the Board on 2 December 2020.

All service contracts and letters of appointment are available for inspection at the Company's registered office.

Other appointments

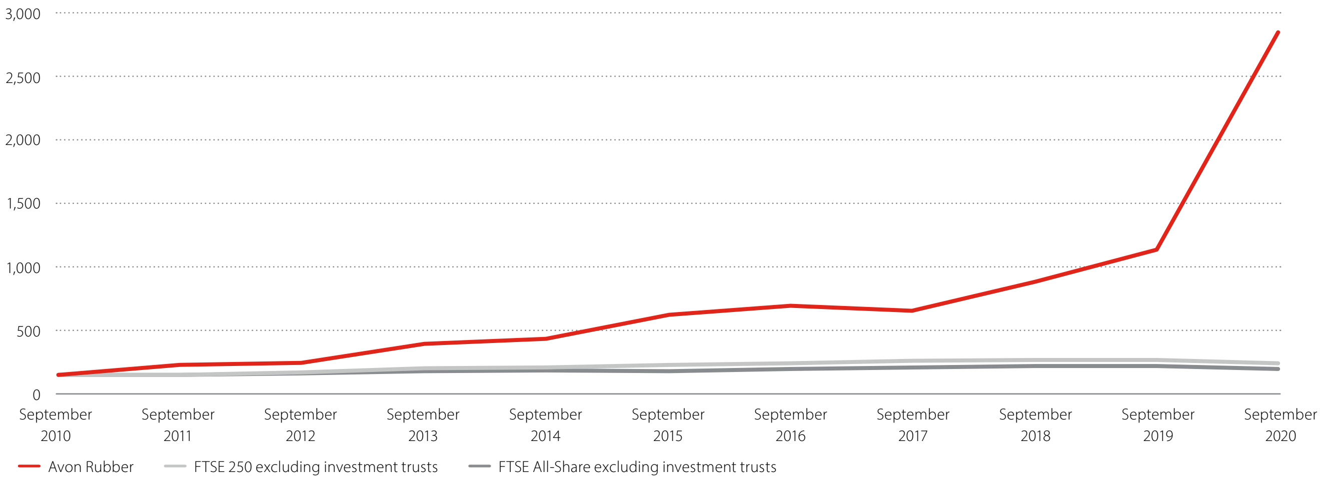
Neither Paul McDonald nor Nick Keveth are currently appointed as a Non-Executive Director of any company outside the Group.

Remuneration Report continued

Total shareholder return performance graph

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 10 years relative to the FTSE 250 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 U.K. market performance for companies of a similar size.

Total shareholder return performance graph



Source: Thomson Reuters Datastream.

Chief Executive Officer's remuneration

The total remuneration figures, including annual bonus and vested LTIP awards (shown as a percentage of the maximum that could have been achieved) for the Chief Executive Officer for each of the last 10 financial years are shown in the table below.

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

Years	CEO	CEO single figure of total remuneration £'000	Annual bonus pay out against maximum opportunity	Long-term incentive vesting rates
2020	Paul McDonald	1,726	66%	100%
2019	Paul McDonald	928	55%	80%
2018	Paul McDonald	734	80%	84%
2017	Paul McDonald[1]	663	81%	99%
2017	Rob Rennie	213	57%	–
2016	Rob Rennie	484	52%	–
2015	Peter Slabbert	1,676	91%	100%
2014	Peter Slabbert	1,529	91%	96%
2013	Peter Slabbert	1,269	86%	100%
2012	Peter Slabbert	1,244	40%	100%
2011	Peter Slabbert	1,832	74%	100%

1 Includes remuneration received in the period prior to his appointment as Director during the year.

The figures have been updated from those shown in last year's table to reflect a transition to incorporating the value of LTIP awards vesting shortly after the year end for performance ending (or substantially ending) during the financial year into the single figure (rather than showing the value of what vested during the year as was the case previously).

Percentage change in remuneration of Directors compared with other employees

The following table shows the percentage change in each Executive and Non-Executive Directors' remuneration compared with the average change for all employees of the Company for the year ended 30 September 2020. Going forward, this disclosure will build up over time to cover a rolling five-year period.

	Change from 2019 to 2020		
	Salary/fee	Benefits	Annual bonus
Paul McDonald	5.1%	750%[4]	25.2%
Nick Keveth	5.6%	700%	26.4%
David Evans	–	(100%)	N/A
Pim Vervaat	–	–	N/A
Chloe Ponsonby	8.8%[5]	–	N/A
Bruce Thompson[1]	N/A	N/A	N/A
Bindi Foyle[2]	N/A	N/A	N/A
All employees[3]	6.0%	6.9%	38.2%

1 Bruce Thompson was appointed to the Board as Non-Executive Director and Chair Designate with effect from 1 March 2020.

2 Bindi Foyle was appointed to the Board as Non-Executive Director with effect from 1 May 2020.

3 Paul McDonald and Nick Keveth are the only employees of the Parent Company, Avon Rubber p.l.c. and therefore figures for all U.K. employees of the Group have instead been set out on a voluntary basis. To aid comparison, the group of employees selected are those who were employed over the complete two-year period.

4 The change in benefits during the year reflects the provision of a business-related car allowance.

5 The change in salary reflects Chloe Ponsonby's responsibility for workforce engagement.

CEO to employee pay ratio

The table below sets out the ratio between the total pay of the CEO and the total pay of the employees at the 25th, 50th (median) and 75th percentiles of the U.K. workforce.

Year	Method	25th percentile	Median	75th percentile
2020	A	74:1	62:1	38:1

The 25th, 50th and 75th percentile ranked individuals have been identified using Option A in accordance with the reporting regulations, selected on the basis that this provides the most robust and statistically accurate means of identifying the relevant employees. The day by reference to which the 25th, 50th and 75th percentile employees were determined was 30 September 2020. The CEO pay figure is the total remuneration figure as set out in the single figure table and equivalent figures (on a full-time equivalent basis) have been calculated for the relevant 25th, 50th and 75th percentile employees.

The total pay and benefits figures used to calculate the ratios for each of the 25th percentile, median and 75th percentile employees are £23,255, £27,789 and £44,980 respectively. The salary element for each of these figures are £21,759, £26,488 and £41,948 respectively.

The Committee is satisfied that CEO remuneration is reasonable and consistent with Company's wider policies on employee pay, reward and progression, see page 85 for further details.

Remuneration Report continued

Relative importance of spend on pay

The following table shows actual expenditure of the Group and the change in expenditure between the 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:

	2020 (£'000)	2019 (£'000)	Change (%)
Overall expenditure on pay	53,832	45,544	18.2
Dividends	7,000	5,400	29.6
Profit retained	129,801	8,848	1,467.0
R&D expenditure	8,979	7,300	23.0
Expenditure on property, plant and machinery	7,884	3,846	105.0

Implementation of policy for the year ending 30 September 2021

Basic salary

When reviewing salary levels, the Committee takes into account a number of internal and external factors, primarily the salary review principles applied to the rest of the organisation, but also Company performance during the year and external market data.

As part of the wholesale review of the remuneration policy, the salaries of the CEO and CFO have been repositioned and increased by 22% and 23% respectively effective 1 October 2020. Rationale for these increases is set out in detail in the Annual Statement on page 73.

	2020	2021
Paul McDonald	£410,000	£500,000
Nick Keveth	£285,000	£350,000

Non-Executive Director fees

As announced during the year, Bruce Thompson joined the Board as Chair Designate on 1 March 2020 and will succeed David Evans as Chair of the Board when David steps down from the Board on 2 December 2020.

Bruce's fee as Chair has been set at £175,000 which is below relevant market comparators but is above his predecessor's rate. The Non-Executive Director base fee will be increased to £50,000. These increases take account of the sustained growth in the size and complexity of the Group over recent years, and the time commitment expected of the Directors, particularly given the significant U.S. exposure and associated time and travel. No increases were made to any of the fees in either of the previous two years (other than to introduce a supplementary Employee Engagement Director fee).

	2020	2021
Chair	£140,000	£175,000
Non-Executive Director	£40,500	£50,000
Committee Chair	£10,000	£10,000
Senior Independent Director	£5,000	£10,000*
Employee Engagement Director	£5,000	£5,000

* There is a maximum additional fee of £15,000 if the SID also chairs a committee.

Benefits

Benefits remain unchanged and will include a car allowance, the cost of private health insurance, life insurance, critical illness insurance and executive medical.

Pension

The Executive Directors receive a contribution towards pension of 15% of basic salary, paid either as a non-pensionable salary supplement or delivered through the Group's money purchase scheme. The current contribution rates for the incumbents will be reduced to the U.K. workforce rate of 7.5% of salary from 1 October 2023. The contribution rate for any new Executive Director appointment will be limited to the workforce rate.

Annual bonus

For the year ending 30 September 2021, subject to the approval of the revised policy at the 2021 AGM, the maximum opportunity under the annual bonus plan will be 125% of base salary for both Executive Directors. 25% of the total bonus payment will be deferred into shares for two years.

Bonuses will be based on Group Revenue (20%), Group Operating Profit (40%), Cash Conversion (20%) and the achievement of strategic objectives (20%).

The Committee has chosen not to disclose, in advance, the detailed 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.

2021 LTIP awards

For the year ended 30 September 2021, subject to the approval of the revised policy at the 2021 AGM, LTIP awards will be made with a market value at grant of 175% of salary for the Executive Directors. Vesting will be subject to the following performance conditions measured over the three years to 30 September 2023:

- 50% will be based on relative TSR performance with 20% vesting at median increasing to 100% for upper quintile performance. The stretch required for full vesting has been increased to reflect the increase in proposed quantum. The TSR comparator group will be disclosed at the time of grant.
- 50% will be based on EPS growth. Given the significant level of M&A during the last financial year and the completion of Team Wendy in November 2020, the Committee has decided to set the EPS targets at the time of grant, shortly after the January 2021 AGM. The exact targets will be disclosed in the RNS statement at the time of grant. The upper stretch target will be higher than the 12%p.a. stretch target applying to the 2019/20 award. The Committee will also assess the Group's ROCE performance when approving the vesting outcome under the EPS element of awards.

Vesting will be on a pro-rata basis between the threshold and maximum vesting figures. In addition, the Committee retains discretion to reduce the overall LTIP vesting level if it considers that the underlying business performance of the Company does not justify vesting. If the Committee is not satisfied that the formulaic vesting outcome is aligned with underlying Group performance then it may reduce (potentially to zero) the vesting outcome.

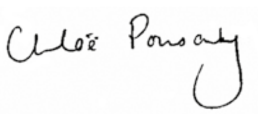
Any shares which vest from this award will be subject to a two-year post-vesting holding period.

Statement of shareholder voting on the remuneration report

The shareholder vote on the Remuneration Report for the year ended 30 September 2019 at the AGM which took place on 30 January 2020 was as follows:

Resolution	Votes for (including discretionary)	% For	Votes against (excluding withheld)	% Against	Total (excluding withheld and third party discretionary)	Withheld
Approval of the Remuneration Report	22,798,029	96.41%	849,081	3.59%	23,647,110	1,420

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



Chloe Ponsonby
Chair of the Remuneration Committee

2 December 2020

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 2020. The Company is a public limited company incorporated and domiciled in England and Wales with company registration number 32965. The Company's subsidiary undertakings, including those located outside the U.K., are listed in note 7.4 of 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 16 to 55 and is incorporated into this Directors' Report by reference.

Financial results and dividend

The Group statutory profit for the year after taxation amounts to £136.8m (2019: £14.1m). Full details are set out in the Consolidated Statement of Comprehensive Income on page 110.

An interim dividend of 9.02p per share was paid in respect of the year ended 30 September 2020 (2019: 6.94p).

The Directors recommend a final dividend of 18.06p per share (2019: 13.89p) resulting in a total dividend distribution per share for the year to 30 September 2020 of 27.08p (2019: 20.83p).

Share capital

As at 2 December 2020, 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 5.5 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 398,560 shares held in the names of the two Employee Share Ownership Trusts are held as a hedge against awards previously made or to be made pursuant to the Performance Share Plan/Long-Term Incentive 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 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 31 January 2020, shareholders authorised the Company to make market purchases of up to 3,102,329 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.

The Directors require authority to allot unissued share capital of the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2019 AGM and resolutions to renew these authorities will be proposed at the 2020 AGM, see explanatory notes on pages 166 to 169. No shares were allotted under this authority during the year.

Substantial shareholdings

As at 30 October 2020, the following shareholders held 3% or more of the Company's issued share capital

Capital Research and Management Company	8.99%
Fidelity Management & Research Company (FMR)	8.34%
BlackRock Investment Management	4.97%
JPMorgan Asset Management (U.K.)	4.29%
Threadneedle Asset Management	3.34%
Kempen Capital Management	4.27%
Schroder Investment Management	4.27%
Standard Life Investments	4.11%
Wasatch Advisors	3.44%
Vanguard Group	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
- Performance Share Plan/Long-Term Incentive Plan ('the Plans')

The unsecured revolving credit facility of $200m provided by Barclays Bank PLC, Comerica Bank Inc., Fifth Third Bank NA, National Westminster Bank plc, CIC and Bank of Ireland contains a provision which, in the event of a change of control of the Company, gives each lending bank the right to cancel its commitments to the Company and to declare all the outstanding amounts and accrued interest owed to such lending bank immediately due and payable. If a lending bank does not exercise this right within 15 business days of being notified of the change of control, it shall not be able to cancel its commitments or require repayment of its share of the amounts outstanding under the facility in respect of such change of control.

A change of control will be deemed to have occurred if any person or group of 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 Plans, 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.

It is also possible that the trustee of the pension plan would seek to review the current funding arrangements and deficit recovery plan as part of or following a change of control, particularly if that resulted in a weakening of the employer covenant.

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

Two Non-Executive Directors were appointed to the Board during the year. Bruce Thompson joined the Board as Chair Designate, Non-Executive Director and a member of the Board, Audit and Nomination Committees on 1 March 2020. He became Chair of the Nomination Committee on 1 April 2020. Bruce was previously Chief Executive Officer of Diploma PLC and is currently the Senior Independent Non-Executive Director of discoverIE Group plc. Bruce will succeed David Evans as Chair of the Board on 2 December 2020 and following his appointment as Chair will no longer be a member of the Audit Committee. Bindi Foyle was appointed as a Non-Executive Director and a member of the Board, Audit and Nomination Committees on 1 May 2020. Bindi has been Group Finance Director of Senior plc since July 2017, having served as an Executive Director since May 2017.

On 19 February 2020 it was announced that David Evans would retire from the Board no later than the conclusion of the Company's 2021 AGM. David was appointed to the Board in June 2007 and was appointed Chair in February 2012. On 20 November 2020, it was confirmed that David would stand down from the Board on 2 December 2020 and that Victor Chavez CBE would be appointed as an Independent Non-Executive Director and member of the Audit, Nomination and Remuneration Committees with effect from 1 December 2020.

The Directors of the Company who were in office during the year and up to 2 December 2020 are set out on pages 58 and 59 along with their photographs and biographies.

According to the Articles of Association, all Directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years. In line with best practice reflected in the U.K. Corporate Governance Code, however, all current Directors will be standing for reappointment at the forthcoming AGM to be held on 29 January 2021. The remuneration of the Directors including their respective shareholdings in the Company is set out in the Remuneration Report on pages 71 to 95.

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.

Directors' Report continued

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, Director's and Officer's 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 remain at the forefront of innovative technology and produce specialist products and services to maximise the performance and capabilities of its customers. The Group maintains its links to key universities in the U.S. and U.K. 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 £9.0m (2019: £7.3m) further details of which are contained in the Strategic Report on page 33.

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 60 to 63. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Employee Engagement

The Board factors stakeholder opinions and feedback into their decisions to ensure the impact on key stakeholders' needs and concerns are considered. More information on how the Board engages with stakeholders can be found on pages 54 and 55.

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 46 to 53.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Environment and Corporate Social Responsibility Report on pages 46 and 47.

Political and charitable contributions

No political contributions were made during the year or the prior year. Contributions for charitable purposes amounted to £36,127 (2019: £38,421) consisting exclusively of numerous small donations to various community charities in Wiltshire, Albinea, Maryland, Michigan and Wisconsin.

Financial instruments

An explanation of the Group policies on the use of financial instruments and financial risk management objectives are contained in note 5.4 of the financial statements.

Independent auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

KPMG LLP has expressed its willingness to continue in office as independent auditor and a resolution to re-appoint them and authorising the Board to agree their remuneration will be proposed at the AGM.

Annual General Meeting

The Company's AGM will be held at our Hampton Park West facility, Semington Road, Melksham, Wiltshire SN12 6NB on 29 January 2021 at 10.30am. Registration will be from 10.00am. The Notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting and can be found on pages 164 to 169.

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. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with U.K. accounting standards and applicable law (U.K. Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company financial statements, state whether applicable U.K. accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 complies 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 U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed on pages 58 and 59, confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; the Strategic Report/Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- 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 position and performance, business model and strategy.

The Directors' Report and responsibility statement was approved by the Board of Directors on 2 December 2020 and is signed on its behalf by:

Paul McDonald

Paul McDonald
Chief Executive Officer

2 December 2020

> “Delivery against our strategy has enabled us to build a broader and more visible portfolio of long-term contracts positioning the business to deliver further growth in 2021 and beyond.”

Financial Statements

Other Information

Independent Auditor's Report

to the Members of Avon Rubber p.l.c.

1. Our opinion is unmodified

We have audited the financial statements of Avon Rubber p.l.c. ('the Company') for the year ended 30 September 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, and the Consolidated and Parent Company Statements of Changes in Equity, and the related notes, including the accounting policies sections in both the Group and Parent Company financial statements. In our opinion:

- 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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with U.K. accounting standards, including FRS 101 Reduced Disclosure Framework; 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (U.K.) ('ISAs (U.K.)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 1 February 2019. The period of total uninterrupted engagement is for the two financial years ended 30 September 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, U.K. ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£1.4m (2019: £1.1m) 0.8% (2019: 5%) of revenue (2019: normalised Group profit before tax)	
Coverage	100% (2019: 89% of total profits including all operations now classified as continuing and discontinued) of Group profit before tax	
Key audit matters	**2020 vs 2019**	
Recurring risks	Development costs	◀▶
	Pension obligation	◀▶
Event driven	Business combination accounting	▲
Parent Company	Recoverability of Parent Company's investment in subsidiaries	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Development costs (£16.2m; 2019: £16.3m) Refer to page 68 (Audit Committee Report), page 116 (accounting policy) and pages 119, 126, and 127 (financial disclosures).	**Subjective estimate:** • The estimated recoverable amount of these intangible assets is supported by forecasting and discounting future cash flows (based on assumptions such as discount rates and growth rates), which are inherently highly judgemental. These uncertainties, combined with the quantum of the intangibles balance, means that the recoverable amount of development costs is subject to significant estimation uncertainty. • The critical issue is to establish whether there is sufficient demand for the products which generate these cash flows and the application of accounting standards to determine the criteria which is inherently subjective as this involves an assessment of the probability of future outcomes. • The effect of these matters is that, as part of our risk assessment, we determined that the estimated recoverable amount of these assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (page 119) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Historical comparison and our sector knowledge:** We challenged the detailed forecasts which support the estimated recoverable amount by reference to historical accuracy of previous forecasts, discussions with operational management on the timing of when new products are expected to receive regulatory clearance as compared to what was assumed in the forecasts and the size of the potential market. • **Benchmarking assumptions:** We compared the Group's assumptions to externally derived data in relation to key inputs such as projected economic growth beyond the detailed forecast period and discount rates. • **Sensitivity analysis:** We performed sensitivity analysis to determine if reasonably possible reductions in cashflows would result in an impairment. • **Assess transparency:** We assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the estimation of the recoverable amount of the development costs. **Our results** • We found the carrying amount of developments costs to be acceptable (2019: acceptable).
Business combination accounting Refer to page 68 (Audit Committee Report), page 119 (accounting policy) and pages 126, 127, 147 and 148 (financial disclosures).	**Subjective estimate** • The acquisition of Helmets & Armor on 2 January 2020 required the net assets acquired to be recorded at fair value and for intangible assets to be separately identified from goodwill. • The determination of the consideration paid involved judgement as part of the consideration was contingent on the award of a contract after the acquisition date. • The fair value of intangible and tangible assets acquired is determined using complex valuation techniques. For intangible assets this includes the forecasting and discounting of future cash flows (based on assumptions such as discount rates and growth rates), which are inherently highly judgemental. • The effect of these matters is that, as part of our risk assessment, we determined that the valuation of intangible and tangible assets acquired on acquisition of the Helmets & Armor business contains a high degree of estimation uncertainty, with a potential range of reasonably possible outcomes greater than our materiality as a whole, and possibly many times that amount.	**Our procedures included:** • **Assessing the valuer's credentials:** We evaluated the competence and independence of the expert engaged by the Directors and whether they had been appropriately instructed and were provided with complete, accurate data on which to base their valuations. • **Our corporate finance expertise and our sector knowledge:** We evaluated the basis upon which the Directors identified the intangible assets acquired and the methods used to value tangible assets. We assessed whether the measurement basis used to estimate the fair values of the intangible and tangible assets were reasonable, taking account of our experience of similar assets in other comparable situations and our assessment of the work performed by the third party expert. • **Test of details:** We challenged the appropriateness of assumptions in forecast cash flows which have been used to value acquired assets with reference to the due diligence providers report and post acquisition trading; • **Assessing transparency:** We assessed whether the appropriate disclosures have been provided on the judgements and estimates applied in arriving at the fair values. **Our results** • We found the fair value adopted for the intangible and tangible assets acquired to be acceptable.

Independent Auditor's Report continued

to the Members of Avon Rubber p.l.c.

2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Pension obligation (£413.2m; 2018: £403.2m) Refer to page 68 (Audit Committee Report), pages 115 and 116 (accounting policy) and pages 119, 142, 143, 144 and 145 (financial disclosures).	**Subjective estimate:** • Small changes in the assumptions and estimates used to value the Group's defined benefit pension obligation (before deducting scheme assets) would have a significant effect on the Group's net pension deficit. • The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 6.2) disclose the sensitivity estimated by the Group.	**Our procedures included:** • **Benchmark assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate, mortality/life expectancy, and equalisation assumptions against externally derived data. • **Assess transparency:** we considered the adequacy of the Group's disclosures in respect of the sensitivity of the obligation to these assumptions and the explanations of the prior period error identified. **Our results** • We found the carrying amount of the pension obligation (before deducting scheme assets) to be acceptable (2019: acceptable).
Recoverability of Parent Company's investments in subsidiaries (£113.7m; 2019: £87.8m) Refer to page 155 (accounting policy) and page 158 (financial disclosures).	**Low risk, high value** • The carrying amount of the Parent Company's investments in subsidiaries represents 43% (2019: 51%) of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	**Our procedures included:** • **Tests of detail:** We compared the carrying amount of 100% of investments with the relevant subsidiaries' balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. • **Assessing subsidiary audits:** We assessed the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Our results** • We found the carrying amount of the investments in subsidiaries to be acceptable (2019: acceptable).

We continue to perform procedures over uncertain tax positions (which was presented as a key audit matter in the prior year). However, following the sale of the milkrite | InterPuls business and actions taken by the Group to mitigate certain tax risks, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over contract liabilities (which was presented as a key audit matter in the prior year). However, following a contract close out exercise, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.4m (2019: £1.1m), determined with reference to a benchmark of revenue, of which it represents 0.8% (2019: 5% of Group profit before tax for that year, normalised to exclude the pension past service cost in that year). We consider total revenue to be the most appropriate benchmark and have changed as a result of the significant transactions in the year as our assessment is revenue provides a more stable measure year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £1.1m (2019: £1.0m), determined with reference to a benchmark of Parent Company total assets, of which it represents 0.4% (2019: 0.7%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £70,000 (2019: £56,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's six (2019: 10 at that time) continuing reporting components, we subjected three (2019: four) to full scope audits for Group purposes and one (2019: nil) to specified risk-focused audit procedures over revenue and development costs. The latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

Of the Group's six (2019: none at that time) discontinued reporting components, we subjected two components to specific work other than audits for Group reporting purposes. These were included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

The components within the scope of our work accounted for the percentages illustrated below.

The remaining 0.4% of Group profit (both continuing and discontinued) is represented by six reporting components (two of which are continuing and four of which are discontinued), none of which individually represented more than 0.4% of Group profit.

In 2019 the six reporting components not subject to full scope audits, represented for that year 12% of total Group revenue, 11% of Group profit before tax and 10% of total Group assets. None of them were individually more than 10% of any of total Group revenue, Group profit before tax or total Group assets.

For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.4m to £1.1m (2019: £0.4m to £1.0m), having regard to the mix of size and risk profile of the Group across the components. The work on one of the components (2019: None of the components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team. The Group team performed virtual visits (2019: in person visits) to four component locations in the U.S. and U.K. (2019: four locations in U.S., Italy and U.K.) to assess the audit risk and strategy.

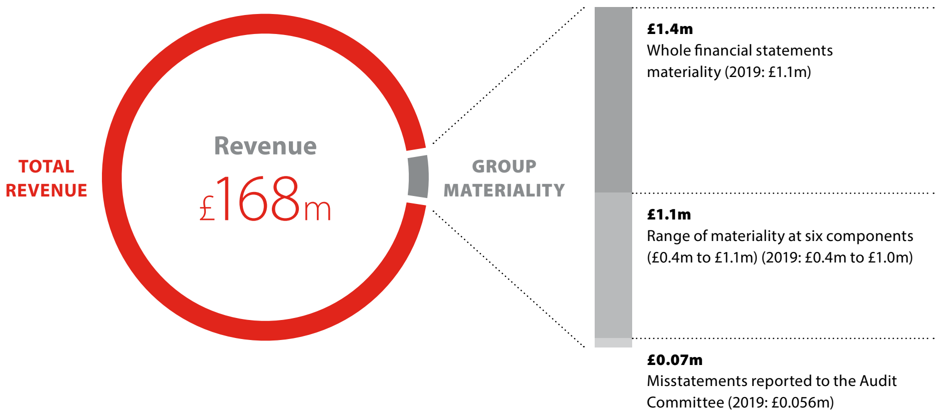
The Group audit team had planned to visit four component locations in U.S. and U.K. (2019: four locations in U.S., Italy and U.K.). However, these visits were prevented by movement restrictions relating to the COVID-19 pandemic. Instead virtual visits were performed to assess audit risk and strategy, including virtual conference calls with key members of staff.

Revenue

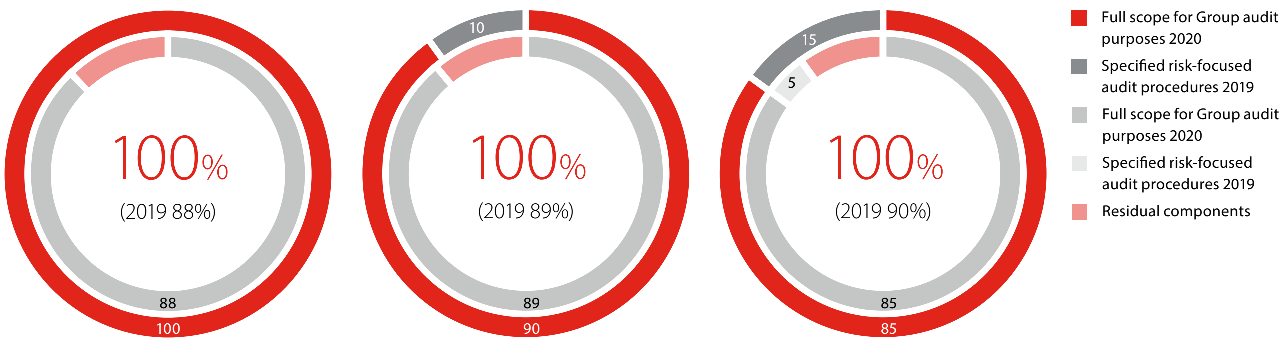
£168m (2019: £22.6m normalised profit before tax)

Group Materiality

£1.4m (2019: £1.1m)



Group revenue* **Group profit before tax*** **Group total assets**



* In 2020 audit coverage has been calculated on the above measures including only continuing operations. In 2019 audit coverage has been calculated on the above measures, including all operations classed as continuing and discontinuing.

Independent Auditor's Report continued

to the Members of Avon Rubber p.l.c.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Parent Company or the Group or to cease their operations, and as they have concluded that the Parent Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Parent Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Parent Company's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and the Parent Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement on page 114 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the Parent Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 63 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

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

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability statement page 63 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Parent Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the U.K. Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Independent Auditor's Report continued

to the Members of Avon Rubber p.l.c.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 99, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Group and 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (U.K.) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption, recognising the Governmental nature of many of the Group's customers. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

3 December 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2020

	Note	2020 £m	2019 Restated[1] £m
Continuing operations			
Revenue	2.1	168.0	128.4
Cost of sales		(100.2)	(78.6)
Gross profit		67.8	49.8
Selling and distribution costs		(13.7)	(11.1)
General and administrative expenses		(48.2)	(28.8)
Operating profit	2.1	5.9	9.9
Finance income	5.2	–	0.4
Finance costs	5.2	(1.9)	(0.7)
Other finance expense	5.2	(3.5)	(0.9)
Net finance costs		(5.4)	(1.2)
Profit before taxation	2.5	0.5	8.7
Taxation	2.6	1.1	1.5
Profit for the year from continuing operations		1.6	10.2
Discontinued operations – gain on divestment	7.2	129.8	–
Discontinued operations – profit from discontinued operations	2.2	5.4	3.9
Profit for the year		136.8	14.1
Other comprehensive income/(expense)			
Items that are not subsequently reclassified to the income statement			
Remeasurement (loss) recognised on retirement benefit scheme	6.2	(28.7)	(10.3)
Deferred tax relating to retirement benefit scheme	2.6	5.4	1.6
Deferred tax relating to change in tax rates	2.6	1.1	–
Items that may be subsequently reclassified to the income statement			
Net exchange differences offset in reserves		(0.8)	0.4
Tax relating to exchange differences offset in reserves		(0.1)	(0.5)
Cash flow hedges	5.4	1.3	(0.9)
Deferred tax relating to cash flow hedges	2.6	(0.2)	0.2
Other comprehensive income/(expense) for the year, net of taxation from continuing operations		(22.0)	(9.5)
Items that may be subsequently reclassified to the income statement			
Net exchange differences offset in reserves		(1.5)	1.9
Tax relating to exchange differences offset in reserves	7.2	(0.1)	–
Translation reserve recycled on divestment	7.2	(4.2)	–
Other comprehensive income/(expense) for the year, net of taxation from discontinued operations		(5.8)	1.9
Total comprehensive income for the year		109.0	6.5
Earnings per share	2.3		
Basic		447.4p	46.2p
Diluted		441.3p	45.8p
Earnings per share from continuing operations	2.3		
Basic		5.2p	33.4p
Diluted		5.2p	33.1p

1 See note 7.7 for further details of restatement.

Consolidated Balance Sheet

At 30 September 2020

	Note	2020 £m	2019 Restated[1] £m	2018 Restated[1] £m
Assets				
Non-current assets				
Intangible assets	3.1	70.2	35.3	41.5
Property, plant and equipment	3.2	51.7	30.6	31.1
Deferred tax assets	2.6	23.3	14.9	10.5
		145.2	80.8	83.1
Current assets				
Inventories	4.1	28.5	20.7	23.0
Trade and other receivables	4.2	36.1	35.4	24.2
Cash and cash equivalents	4.3	147.0	48.4	46.6
		211.6	104.5	93.8
Liabilities				
Current liabilities				
Borrowings	5.1	33.5	1.4	1.2
Trade and other payables	4.4	31.0	29.9	33.1
Derivative financial instruments	5.4	–	1.3	0.4
Provisions for liabilities and charges	7.1	7.6	–	0.3
Current tax liabilities		7.5	4.1	6.1
		79.6	36.7	41.1
Net current assets		132.0	67.8	52.7
Non-current liabilities				
Borrowings	5.1	20.3	11.6	11.1
Deferred tax liabilities	2.6	4.4	5.4	6.9
Retirement benefit obligations	6.2	62.5	54.1	40.5
Provisions for liabilities and charges	7.1	9.9	2.3	2.5
		97.1	73.4	61.0
Net assets		180.1	75.2	74.8
Shareholders' equity				
Ordinary shares	5.5	31.0	31.0	31.0
Share premium account	5.5	34.7	34.7	34.7
Other reserves		3.1	9.8	8.0
Retained earnings		111.3	(0.3)	1.1
Total equity		180.1	75.2	74.8

1 See note 7.7 for further details of restatement.

These financial statements on pages 110 to 151 were approved by the Board of Directors on 2 December 2020 and signed on its behalf by:

Paul McDonald Nick Keveth

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 30 September 2020

	Note	2020 £m	2019 Restated[1] £m
Cash flows from operating activities			
Cash flows from continuing operations	4.3	22.8	16.3
Cash flows from discontinued operations	4.3	5.0	8.7
Cash flows from operations	4.3	27.8	25.0
Interest income received		–	0.4
Retirement benefit deficit recovery contributions	6.2	(21.8)	(1.5)
Tax paid		(2.7)	(6.1)
Net cash flows from operating activities		3.3	17.8
Cash flows used in investing activities			
Proceeds from disposal of discontinued operations	7.2	172.9	–
Costs of divestment	7.2	(7.9)	–
Purchase of property, plant and equipment	3.2	(6.1)	(2.2)
Capitalised development costs and purchased software	3.1	(9.5)	(3.5)
Acquisition of business	7.2	(71.8)	–
Investing cashflows used in discontinued operations		(1.4)	(2.2)
Net cash used in investing activities		76.2	(7.9)
Cash flows used in financing activities			
Proceeds from loan drawdowns	5.3	50.5	–
Loan repayments	5.3	(21.2)	–
Finance costs paid in respect of bank loans and overdrafts		(0.9)	(0.2)
Finance costs paid in respect of leases		(0.9)	(0.5)
Repayment of lease liability		(1.5)	(0.6)
Dividends paid to shareholders	5.6	(7.0)	(5.4)
Purchase of own shares	5.5	–	(1.3)
Financing cashflows used in discontinued operations		(0.7)	(0.7)
Net cash used in financing activities		18.3	(8.7)
Net increase in cash, cash equivalents and bank overdrafts		97.8	1.2
Cash, cash equivalents, and bank overdrafts at beginning of the year		48.4	46.6
Effects of exchange rate changes		0.8	0.6
Cash, cash equivalents and bank overdrafts at end of the year	4.3	147.0	48.4

1 See note 7.7 for further details of restatement.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2020

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 30 September 2018 as (previously stated)		31.0	34.7	8.0	11.1	84.8
Change in accounting policy	7.6	–	–	–	(1.8)	(1.8)
Prior year adjustment	7.7	–	–	–	(8.2)	(8.2)
At 30 September 2018 as (restated)[1]	7.7	31.0	34.7	8.0	1.1	74.8
Profit for the year (restated)		–	–	–	14.1	14.1
Net exchange differences offset in reserves		–	–	2.3	–	2.3
Tax relating to exchange differences offset in reserves	2.6	–	–	(0.5)	–	(0.5)
Cash flow hedges	5.4	–	–	–	(0.9)	(0.9)
Deferred tax relating to cash flow hedges	2.6	–	–	–	0.2	0.2
Remeasurement loss recognised on retirement benefit scheme	6.2	–	–	–	(10.3)	(10.3)
Deferred tax relating to retirement benefit scheme	2.6	–	–	–	1.6	1.6
Total comprehensive income for the year (restated)		–	–	1.8	4.7	6.5
Dividends paid	5.6	–	–	–	(5.4)	(5.4)
Own shares acquired	5.5	–	–	–	(1.3)	(1.3)
Fair value of share-based payments	6.3	–	–	–	0.4	0.4
Deferred tax relating to employee share schemes	2.6	–	–	–	0.2	0.2
At 30 September 2019 (restated)		31.0	34.7	9.8	(0.3)	75.2
Profit for the year		–	–	–	136.8	136.8
Net exchange differences offset in reserves		–	–	(2.3)	–	(2.3)
Translation reserve recycled to P&L on divestment		–	–	(4.2)	–	(4.2)
Tax relating to exchange differences offset in reserves	2.6	–	–	(0.2)	–	(0.2)
Cash flow hedges	5.4	–	–	–	1.3	1.3
Deferred tax relating to cash flow hedges	2.6	–	–	–	(0.2)	(0.2)
Remeasurement loss recognised on retirement benefit scheme	6.2	–	–	–	(28.7)	(28.7)
Deferred tax relating to retirement benefit scheme	2.6	–	–	–	6.5	6.5
Total comprehensive income for the year		–	–	(6.7)	115.7	109.0
Dividends paid	5.6	–	–	–	(7.0)	(7.0)
Own shares acquired	5.5	–	–	–	–	–
Fair value of share-based payments	6.3	–	–	–	1.8	1.8
Deferred tax relating to employee share schemes	2.6	–	–	–	1.1	1.1
At 30 September 2020		31.0	34.7	3.1	111.3	180.1

1 See note 7.7 for further details of restatement.

Other reserves consist of the capital redemption reserve of £0.5m (2019: £0.5m) and the translation reserve of £2.6m (2019: £9.3m).

All movements in other reserves relate to the translation reserve.

Accounting Policies and Critical Accounting Judgements

For the year ended 30 September 2020

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 (IFRS) and IFRS Interpretations Committee interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been under the historical cost convention except for derivative instruments which are held at fair value through profit or loss.

These financial statements are presented in GBP with figures rounded to the nearest £0.1m.

Going concern

The financial statements have been prepared on a going concern basis, which the Directors believe to be appropriate for the following reasons:

The Directors have prepared a going concern assessment covering a period of three years from the balance sheet date which indicates that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Group will have sufficient funds to meet its liabilities as they fall due for that period.

On this basis, and on their assessment of the Group's financial position, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the approval of these financial statements. Accordingly the Group continues to adopt the going concern basis in preparing its financial statements.

Recent accounting developments

IFRS 16 Leases and IFRIC 23 Accounting for uncertain tax positions both became applicable for the Group from 1 October 2019.

IFRS 16 Leases

IFRS 16 represents a significant change to lessee accounting by introducing the principle that all leased assets should be reported on the balance sheet of the lessee, recognising an asset for the right to use the leased item and a liability for the present value of its future lease payments.

The change in treatment became applicable for the Group from 1 October 2019 and impacts the balance sheet, the income statement and related performance measures.

Details of the Group's transition approach is set out below with further details of the impact of adopting IFRS 16 presented in note 7.6.

The Group's accounting policy in relation to Leases has been updated to reflect the new standard as outlined in the Leases section below.

Approach to transition

The Group has applied IFRS 16 using the full retrospective approach. As a result the date of the initial application for the Group is 1 October 2018 and comparative information has been restated.

Applying IFRS 16 the Group now recognises right of use assets and lease liabilities in the Consolidated Balance Sheet in relation to property leases previously treated as operating leases – see note 7.6 for further details.

IFRIC 23 Accounting for uncertain tax positions

IFRC 23 is a new interpretation applying to both current and deferred taxes.

Under the new regulation accounting for uncertain tax positions is only permitted where the likelihood of a tax treatment being challenged is greater than 50%, with new guidance around how a value should be assigned to the uncertainty.

The application of this interpretation has not had a significant impact on the level of provisions held in relation to uncertain tax positions.

Basis of consolidation

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

Subsidiaries are those 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 until 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 recognition

Revenue is measured at the fair value of the consideration which is expected to be received in exchange for goods and services provided, net of trade discounts and sales-related taxes.

Revenue is recognised when all of the following conditions are satisfied:

- A contract exists with a customer.
- The performance obligations within the contract have been identified.
- The transaction price has been determined.
- The transaction price has been allocated to the performance obligations within the contract.
- Revenue is recognised as or when a performance obligation is satisfied.

Sale of goods

Revenue from the sale of goods is recognised when control of the goods has transferred to the customer, usually being when the goods have been shipped to the customer in accordance with the contracted shipping terms.

The Group holds contracts which are accounted for in line with the sale of goods policy, but where the consideration for fulfilment of the performance obligation is variable as it is dependent on the level of allowable costs for the contract. The Directors make estimates as to the probable level of variable consideration earned, recognising revenue only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Any amounts received in excess of this amount are deferred and treated as a contract liability until closure of the contract.

Provision of services

Revenue from a contract to provide services, including customer funded research and development and training, is recognised over time as those services are provided. Under IFRS 15 the Group recognises the amount of revenue from the services provided under a contract with reference to the costs incurred as a proportion of total expected costs.

Contract assets and liabilities

Assets and liabilities arising from contracts with customers are separately identified in line with the requirements of IFRS 15. Contract assets relate to consideration recognised for work completed but not billed at the balance sheet date. Contract liabilities relate to consideration received but not recognised as revenue at the balance sheet date. See notes 4.2 and 4.4 for further details.

Segment reporting

Segments are identified based on how management monitors the business.

An operating 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.

Operating segments are aggregated into a single reportable segment only when the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- The nature of the products and services; the nature of the production processes.
- The type or class of customer for their products and services; the methods used to distribute their products or provide their services.
- The nature of the regulatory environment.

The Group Executive team assesses the performance of the operating segment based on the measures of revenue, EBIT and EBITDA.

Following the divestment of milkrite | InterPuls in September 2020 Avon Protection is the sole reportable segment.

Exceptional items

Transactions are classified as exceptional where they relate to an event that falls outside of the normal 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.

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2020

Employee benefits continued

Pension obligations and post-retirement benefits continued

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.

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 U.K. 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 for sale. Development costs capitalised are tested for impairment annually or 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.

U.K. development costs have not been treated as a realised loss by the Directors as they relate to specific R&D projects from which the Group is expected to obtain significant economic benefit in the future.

Computer software

Computer software is included in intangible assets at cost and amortised over its estimated life of three to seven years.

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 10 years

- Customer relationships – three to 10 years
- Order backlog – three months to one year
- Technology and licence agreements – two to 10 years

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 10 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

Right of use assets and lease liabilities are recognised at the commencement date of the contract for all leases conveying the right to control the associated asset for a period of time.

The right of use assets are initially measured at cost, which comprises the initial measurement of the lease liability plus certain direct costs incurred. Subsequently the right of use assets are measured at cost less accumulated depreciation, any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

Depreciation is calculated on a straight-line basis over the life of the lease. In general the lives used are:

- Leasehold property – three to 15 years

The lease liability is initially measured at the present value of the lease payments due over the life of the lease. The lease payments are discounted at the rate implicit in the lease or if that is not readily determined using the Group's incremental borrowing rate.

The lease term is determined with reference to any non-cancellable period of lease contracts plus any periods covered by an option to extend/terminate the lease if it is considered reasonably certain that the option will/will not be exercised. In concluding whether or not it is reasonably certain an option will be exercised for new leases management has considered the three-year strategic outlook for the Group and other operational factors.

Subsequently the lease liability is measured by increasing the carrying value to reflect interest on the liability and reducing the carrying value to reflect lease payments made.

The carrying value of lease liabilities and associated assets will be re-measured to reflect any changes to the lease or other assumptions applied.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO). 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.

Financial instruments

Recognition and initial measurement

Trade receivables are initially recognised when they are originated and measured at the transaction price.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are initially recognised at fair value. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument and measured at fair value.

Classification and subsequent measurement

Trade and other receivables and Trade and other payables are classified as measured at amortised cost.

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL, see note 5.4 for more details.

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.

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.

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2020

Financial instruments continued

Derivative financial instruments and hedging

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. Any ineffective portion of the hedge is recognised immediately in the income statement. See note 5.4 for more details.

Impairment

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. See note 5.4 for details.

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.

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.

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.

Significant accounting judgements and estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The key areas where assumptions and estimates are significant to the financial statements are disclosed below.

Judgements

Capitalisation of development costs

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. Economic feasibility is considered by the Group the more important judgement as to whether a project is progressed. If either technological or economic feasibility is not demonstrated then the capitalised costs will be written off to the income statement. See note 3.1.

Identification and valuation of acquired intangibles

Acquisitions may result in the recognition of acquired intangibles which include customer relationships, brands and trademarks, patents and order books. The fair value of assets acquired is determined using complex valuation techniques including forecasting and discounting of future cashflows. This includes assumptions such as discount rates and estimates for growth rates, weighted average cost of capital and useful lives which are inherently judgemental.

Revenue recognition on close out of contracts

During the year £1.7m of additional revenue has been recognised following the close out of certain U.S. contracts. This balance was previously deferred and held as a contract liability. Following the close out of these contracts it is the Directors view that the risk of a significant reversal of the revenue recognised is very low and therefore full recognition of the balance is appropriate.

Estimates

Carrying amount of development costs

The Group's principal assets are intangible assets, which are either the result of acquisitions, or have been capitalised through the internal development of new products. The estimate of the carrying value of intangible assets involves significant judgements and changes in the underlying assumptions could have a significant impact on the carrying value of these assets.

In determining whether development costs are impaired the Group makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

At the year end 47% of the development costs on the balance sheet relate to either technology that remains under development and subject to final feasibility tests or where the future cashflows are reliant on key customers. Consequently if final feasibility tests are unsuccessful or delayed such that the projected economic benefit will not be achieved in the assets' lifetime they may be impaired. Where reliant on key customers if those customers choose not to renew contracts, and there is no alternative use for the developed technology, then the associated assets would be impaired.

Acquisitions have resulted 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.

Estimating the defined benefits pension scheme assets and 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.

The investments held by the pension scheme include both quoted and unquoted securities, the latter which by their nature involve assumptions and estimates to determine their fair value. Where there isn't an active market for the unquoted securities the fair value of these assets are estimated by the pension trustees based on advice received from the investment manager whilst also using any available market evidence of any recent transactions for an identical asset. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.

See note 6.2 for further details.

Notes to the Group Financial Statements

For the year ended 30 September 2020

Section 2 – Results for the year

Within this section you will find disclosures explaining the Group's results for the year, segmental information, earnings per share and taxation, as well as details of the discontinued operations.

2.1 Operating segments

The Group Executive team is responsible for allocating resources and assessing performance of the operating segments. Operating segments are therefore reported in a manner consistent with the internal reporting provided to the Group Executive team.

Following the divestment of milkrite | InterPuls the Group has one clearly defined reportable segment, Avon Protection which is made up of two aggregated operating segments organic Avon Protection and Helmets & Armor, and operates primarily out of Europe and the U.S. The presentation of the two operating segments as a single reportable segment is considered appropriate due to the very close alignment of customers, markets manufacturing processes, distribution methods and regulatory environment across the underlying lines of business.

Business segments

Year ended 30 September 2020	Avon Protection 2020 £m	Avon Protection 2019 £m
Revenue	168.0	128.4
Operating profit	5.9	9.9
Finance income	–	0.4
Finance costs	(1.9)	(0.7)
Other finance expense	(3.5)	(0.9)
Net finance costs	(5.4)	(1.2)
Profit before taxation	0.5	8.7
Taxation	1.1	1.5
Profit for the year from continuing operations	1.6	10.2
Discontinued operations – profit for the year	135.2	3.9
Profit for the year	136.8	14.1
Segment assets	356.8	138.6
Segment liabilities	(176.7)	(99.9)
Other segment items		
Capital expenditure		
– Intangible assets	9.5	3.3
– Property, plant and equipment	6.1	2.2

The Avon Protection segment includes £95.3m (2019: £54.8m) of revenues from the U.S. DOD, the only customer which individually contributes more than 10% to Group revenues.

Revenue analysed by geographic origin

Year ended 30 September 2020	Europe £m	U.S. £m	Total £m
Revenue	15.1	152.9	168.0

Year ended 30 September 2019	Europe Restated £m	U.S. Restated £m	Total Restated £m
Revenue	16.1	112.3	128.4

Revenue by line of business and nature of performance obligation

	Year ended 30 September 2020				Year ended 30 September 2019			
Avon Protection	Military £m	First Responder[3] £m	Helmets & Armor £m	Total £m	Military £m	First Responder[3] £m	Helmets & Armor £m	Total £m
Sale of goods[1]	81.3	44.1	39.7	165.0	84.2	40.9	–	125.1
Provision of services[2]	1.5	0.3	1.1	3.0	3.0	0.3	–	3.3
	82.8	44.4	40.8	168.0	87.2	41.2	–	128.4

1 Products transferred to the customer and therefore revenue recognised at a point in time.

2 Products and services transferred over time and therefore revenue recognised over that period of time.

3 Law Enforcement and Fire lines of business, previously reported separately, have been combined and presented as First Responder line of business.

2.2 Discontinued operations

Discontinued operations

In September 2020 the Group disposed of the entire milkrite | InterPuls business. As a result of the divestment the milkrite | InterPuls business has been classified as discontinued and prior periods have been restated to reflect this. The results of discontinued operations are as follows:

	2020 £m	2019 £m
Revenue	53.8	50.9
Cost of Sales	(28.0)	(28.2)
Gross profit	25.8	22.7
Selling and distribution costs	(9.4)	(9.3)
General and administrative expenses	(10.1)	(8.5)
Operating profit	6.3	4.9
Finance costs	(0.1)	–
Profit before taxation	6.2	4.9
Taxation	(0.8)	(1.0)
Profit for the period	5.4	3.9
Gain on divestment (note 7.2)	139.0	–
Tax on gain on divestment	(9.2)	–
Gain on divestment	129.8	–
Profit from discontinued operations	135.2	3.9
Basic earnings per share	442.2	12.8
Diluted earnings per share	436.1	12.7

Further details in relation to the discontinued operations can be found in note 7.2.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 2 – Results for the year continued

2.2 Discontinued operations continued

Discontinued operations continued

Cash flows from discontinued operations included in the cash flow statement are as follows:

	2020 £m	2019 Restated £m
Net cash flows from operating activities	5.0	8.7
Net cash flows from investing activities	163.6	(2.2)
Net cash flows from financing activities	(0.7)	(0.7)
Net cash flows from discontinued operations	167.9	5.8

2.3 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. Adjusted earnings per share removes the effect of the amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs, reflecting the basis on which the business is managed and measured on a day to day basis.

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

Weighted average number of shares	2020	2019
Weighted average number of ordinary shares in issue used in basic calculations (thousands)	30,576	30,516
Potentially dilutive shares (weighted average) (thousands)	423	260
Diluted number of ordinary shares (weighted average) (thousands)	30,999	30,776

Earnings	2020	2019 Restated
Basic	136.8	14.1
Basic – continuing operations	1.6	10.2

Earnings per share (pence)	2020	2019 Restated
Basic	447.4	46.2
Basic – continuing operations	5.2	33.4
Basic – discontinued operations	442.2	12.8
Diluted	441.3	45.8
Diluted – continuing operations	5.2	33.1
Diluted – discontinued operations	436.1	12.7

2.4 Expenses by nature

	2020 £m	2019 Restated £m
Changes in inventories of finished goods and work in progress	(1.4)	(0.8)
Raw materials and consumables used	65.3	39.8
Employee benefit expense (note 6.1)*	52.4	31.8
Depreciation and amortisation charges (notes 3.1 and 3.2)	14.7	7.1
Development costs impairment (note 3.1)	–	3.8
Transportation expenses	1.9	1.3
Travelling costs	1.2	2.4
Legal and professional fees	3.1	2.3
Acquisition costs – Helmets & Armor	2.9	2.9
Acquisition costs – Team Wendy	6.7	–
Exceptional transition costs	2.4	–
Defined benefit scheme past service costs	–	3.5
Impairment of inventory and receivables re: exit Fire SCBA market	–	1.6
Other expenses	12.9	23.2
Total cost of sales, selling and distribution costs and general and administrative expenses	162.1	118.5

* Note 2.4 is presented on a continuing basis whilst note 6.1 is presented on a total basis, the reconciling item being employee benefit expense in relation to discontinued operations.

Other expenses include £1.7m (2019: £1.6m) of staff costs and overheads in relation to expensed research and development expenditure.

2.5 Profit before taxation

	2020 £m	2019 Restated £m
Profit before taxation is shown after charging/(crediting):		
Loss on foreign exchange	0.3	0.6
Loss on disposal of property, plant and equipment	0.1	–
Depreciation of property, plant and equipment	7.7	5.3
Property impairment	–	1.1
Repairs and maintenance of property, plant and equipment	1.5	1.1
Amortisation of development expenditure and software	3.8	3.9
Amortisation of acquired intangibles	8.8	3.5
Impairment development costs	–	3.8
Research and development	0.2	0.1
Impairment/(Write back) of inventories	0.5	1.1
Impairment of trade receivables	(0.1)	0.1
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	0.4	0.1
Audit fees in respect of the audit of the accounts of subsidiaries of the Company	0.1	0.1
Total fees	0.5	0.2

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 2 – Results for the year continued

2.6 Taxation

	2020 £m	2019 Restated £m
U.K. current tax	(0.4)	0.1
U.K. adjustment in respect of previous periods	–	0.1
Overseas current tax	(1.4)	4.5
Overseas adjustment in respect of previous periods	(1.2)	(3.1)
Total current tax (credit)/charge	(3.0)	1.6
Deferred tax – current year	2.2	(3.0)
Deferred tax – adjustment in respect of previous periods	(0.3)	(0.1)
Total deferred tax charge/(credit)	1.9	(3.1)
Total tax (credit)	(1.1)	(1.5)

The overseas adjustment in respect of the prior period of £1.2m (2019: £3.1m) includes a £0.8m (2019: £2.9m) credit in connection with the resolution of a number of prior year uncertain tax positions.

In the 11 March 2020 Budget it was announced that the U.K. tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. The impact of this re-measurement is reflected in these financial statements for all U.K. deferred tax assets.

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

	2020 £m	2019 Restated £m
Profit before taxation	0.5	8.7
Profit before taxation at the average standard rate of 19.0% (2019: 19.0%)	0.1	1.7
Tax allowances (U.K. and U.S.)	(0.6)	(0.4)
Non deductible expenses	0.2	0.1
Differences in overseas tax rates	0.7	0.2
Adjustment in respect of previous periods	(1.5)	(3.1)
Tax (credit)/charge	(1.1)	(1.5)

The income tax charged directly to Other Comprehensive Income during the year was £nil (2019: £0.3m).
The deferred tax credited directly to Other Comprehensive Income during the year was £6.1m (2019: £1.3m).
The deferred tax credited directly to equity during the year was £1.1m (2019: £0.2m).

Deferred tax liabilities

	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 October 2018	1.3	5.6	6.9
Charged/(credited) to profit for the year	0.1	(1.8)	(1.7)
Charged to Other Comprehensive Income	–	0.2	0.2
At 30 September 2019	1.4	4.0	5.4
Charged/(credited) to profit for the year	3.0	(1.2)	1.8
Charged to Other Comprehensive Income	–	0.1	0.1
Removed on divestment	–	(2.9)	(2.9)
At 30 September 2020	4.4	–	4.4

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 £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 30 September 2018 as previously reported	5.2	0.6	0.3	2.1	8.2
Change in accounting policy (See note 7.7)	–	–	–	0.5	0.5
Prior year adjustment (See note 7.7)	1.8	–	–	–	1.8
At 30 September 2018 restated	7.0	0.6	0.3	2.6	10.5
Credited/(charged) against profit for the year	0.6	0.1	(0.2)	1.9	2.4
Credited to Other Comprehensive Income	1.6	–	–	0.2	1.8
Credited to equity	–	0.2	–	–	0.2
At 30 September 2019	9.2	0.9	0.1	4.7	14.9
Provided on acquisition	–	–	–	0.3	0.3
Credited/(charged) against profit for the year	(3.8)	0.3	–	4.3	0.8
Credited/(charged) to Other Comprehensive Income	5.4	–	–	(0.3)	5.1
Impact of change in tax rates credited to Other Comprehensive Income	1.1	–	–	–	1.1
Credited to equity	–	1.1	–	–	1.1
At 30 September 2020	11.9	2.3	0.1	9.0	23.3

The standard rate of corporation tax in the U.K. is 19%. The Group has unrecognised deferred tax assets of £2.6m (2019: £2.6m) in respect of capital losses where it is not considered that there will be sufficient available future profits to utilise these losses.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 3 – Non-current assets

The Group holds both Intangible and Tangible assets for long-term within the business. The following notes provide information regarding the carrying value of these assets, their expected useful economic lives and movements in these balances during the year.

3.1 Intangible assets

	Goodwill £m	Acquired intangibles £m	Development expenditure £m	Computer software £m	Total £m
At 1 October 2018					
Cost	3.3	29.1	34.5	4.9	71.8
Accumulated amortisation and impairment	–	(10.7)	(15.8)	(3.8)	(30.3)
Net book amount	3.3	18.4	18.7	1.1	41.5
Year ended 30 September 2019					
Opening net book amount	3.3	18.4	18.7	1.1	41.5
Exchange differences	–	–	1.0	0.2	1.2
Additions	–	–	3.7	0.1	3.8
Impairment	–	–	(3.8)	–	(3.8)
Amortisation	–	(3.5)	(3.3)	(0.6)	(7.4) [1]
Closing net book amount	3.3	14.9	16.3	0.8	35.3
At 30 September 2019					
Cost	3.3	23.9	38.2	5.3	70.7
Accumulated amortisation and impairment	–	(9.0)	(21.9)	(4.5)	(35.4)
Net book amount	3.3	14.9	16.3	0.8	35.3
Year ended 30 September 2020					
Opening net book amount	3.3	14.9	16.3	0.8	35.3
Exchange differences	0.5	0.8	–	0.1	1.4
Additions	–	–	5.2	4.5	9.7
Acquisitions	21.4	29.3	–	–	50.7
Divestment of milkrite | InterPuls	(1.4)	(10.5)	(2.3)	(0.1)	(14.3)
Amortisation	–	(8.8)	(3.2)	(0.6)	(12.6) [1]
Closing net book amount	23.8	25.7	16.0	4.7	70.2
At 30 September 2020					
Cost	23.8	36.5	38.8	8.0	107.1
Accumulated amortisation and impairment	–	(10.8)	(22.8)	(3.3)	(36.9)
Net book amount	23.8	25.7	16.0	4.7	70.2

1 £3.0m (2019:£3.2m) of the amortisation charge in the year relates to discontinued operation.

The remaining useful economic life of the development expenditure is between five and 12 years. Acquired intangibles include brands, customer relationships and other intangibles:

	At 1 October 2018 Net book amount £m	Amortisation £m	At 30 September 2019 Net book amount £m	Additions £m	Divestments £m	Amortisation £m	Foreign Exchange Difference £m	At 30 September 2020 Net book amount £m
Brand	2.1	(0.4)	1.7	1.8	(1.2)	(0.6)	–	1.7
Customer relationships	11.9	(2.3)	9.6	19.8	(7.6)	(6.5)	0.7	16.0
Other intangibles	4.4	(0.8)	3.6	7.7	(1.7)	(1.7)	0.1	8.0
	18.4	(3.5)	14.9	29.3	(10.5)	(8.8)	0.8	25.7

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. During the year additional Goodwill of £21.4m was recognised on the acquisition of the assets of the Helmets & Armor business and £1.4m was derecognised on the divestment of the milkrite | InterPuls business. Subsequent to these transactions the full carrying value of Goodwill of £23.8m (2019: £1.9m) is held within the Avon Protection reportable segment.

The Group tests goodwill and intangibles 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, for the purposes of this exercise two CGUs have been identified within the over-arching Avon Protection reportable segment being the Helmets & Armor operating segment and the organic Avon Protection operating segment. The value in use calculations were based on projected cash flows for 2021 to 2023 derived from the latest three-year plan approved by the Board. Cash flows for 2024 onwards for both businesses were projected to grow by 2.0%p.a.. Cash flows were discounted to give a present value using a pre-tax discount rate of 11.83% (2019: 8.6%) for the organic Avon Protection business and 11.12% for the Helmets & Armor business.

Sensitivity analysis demonstrates that increasing the discount rate by 2% does not lead to any indications of impairment. It is not considered likely that any adjustment to the discount rate for additional risk factors would require an increase greater than 2%.

Sensitivity analysis suggests that a decrease in forecast revenue of more than 54% (2019: 60%) in relation to the organic Avon Protection business and 61% in relation to the Helmets & Armor business could be sustained before an impairment was required.

Management considers that there are no reasonably likely changes to the above key assumptions which would lead to an impairment being recognised.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 3 – Non-current assets continued

3.2 Property, Plant and Equipment

	Freeholds £m	Leasehold Property Restated £m	Plant and machinery £m	Total Restated £m
At 1 October 2018				
Cost	12.4	18.5	66.7	97.6
Accumulated depreciation and impairment	(3.0)	(10.0)	(53.5)	(66.5)
Net book amount	9.4	8.5	13.2	31.1
Year ended 30 September 2019				
Opening net book amount	9.4	8.5	13.2	31.1
Exchange differences	(0.1)	0.2	0.5	0.6
Additions	–	1.5	3.9	5.4
Impairment	(1.1)	–	–	(1.1)
Disposal	–	–	(0.1)	(0.1)
Depreciation charge	–	(1.0)	(4.3)	(5.3)[2]
Closing net book amount	8.2	9.2	13.2[1]	30.6
At 30 September 2019				
Cost	12.6	20.5	71.3	104.4
Accumulated depreciation and impairment	(4.4)	(11.3)	(58.1)	(73.8)
Net book amount	8.2	9.2	13.2[1]	30.6
Year ended 30 September 2020				
Opening net book amount	8.2	9.2	13.2	30.6
Exchange differences	–	(0.1)	0.4	0.3
Transfers	–	0.4	(0.4)	–
Additions	–	6.1	7.3	13.4
Acquisition	–	10.5	18.7	29.2
Disposal	–	–	(0.1)	(0.1)
Divestment milkrite | InterPuls	(6.6)	(2.3)	(5.1)	(14.0)
Depreciation charge	(0.3)	(2.6)	(4.8)	(7.7)[2]
Closing net book amount	1.3	21.2	29.2	51.7
At 30 September 2020				
Cost	2.2	30.5	65.8	98.5
Accumulated depreciation and impairment	(0.9)	(9.3)	(36.6)	(46.8)
Net book amount	1.3	21.2	29.2	51.7

1 The 2019 Plant and machinery carrying value includes £1.1m in relation to a production line under construction at the year end.

2 £2.6m 2019:£2.4m of the depreciation charge in the year relates to discontinued operations.

The Leasehold property category was introduced to present right of use property assets created on application of IFRS 16 Leases. See note 7.6 for further details. At the balance sheet date Leasehold property included right of use property assets with a carrying value of £20.2m (£2019: £9.2m).

During the year leasehold improvement assets with a carrying value of £0.4m were transferred from Plant & Machinery into Leasehold property. Additions to Leasehold property during the year comprise £6.1m in respect of right of use property assets.

Section 4 – Working capital

This section presents disclosures around the Groups working capital balances; Inventories, Trade receivables, Payables and Cash. You will also find information regarding cash generated from operating activity. The Group has a strong cash position but careful management of working capital remains a key focus of the business.

4.1 Inventories

	2020 £m	2019 £m
Raw materials	12.9	13.0
Work in progress	10.8	0.5
Finished goods	4.8	7.2
	28.5	20.7

Provisions for inventory write downs were £4.1m (2019: £4.9m).

The cost of inventories recognised as an expense and included in cost of sales amounted to £70.3m (2019: £42.5m). The amount of inventory carried as fair value less costs to sell is £2.7m (2019: nil).

4.2 Trade and other receivables

	2020 £m	2019 £m
Trade receivables	22.8	32.5
Less: provision for impairment of receivables	(0.5)	(0.6)
Trade receivables – net	22.3	31.9
Prepayments	2.9	1.7
Other receivables	10.9	1.8
	36.1	35.4

Other receivables include £3.0m due in relation to the divestment of milkrite | InterPuls which was settled shortly after the year end, £5.9m net receivable due from 3M under the transitional service agreement in relation to the Helmets & Armor business and £1m recoverable from HMRC in relation to VAT.

See note 5.4 (ii) Credit risk for further details in relation to the Group provision for impairment of receivables. The creation and release of provisions for impaired receivables have been included in general and administrative expenses in the Consolidated Statement of Comprehensive Income.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 4 – Working capital continued

4.3 Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	147.0	48.4

Cash at bank and in hand balances are denominated in a number of different currencies and earn interest based on national rates.

The Group generates cash from its operating activities as follows:

	2020 £m	2019 Restated £m
Continuing operations		
Profit for the year	1.6	10.2
Adjustments for:		
Taxation	(1.1)	(1.5)
Depreciation	5.1	2.5
Amortisation of intangible assets	9.6	4.2
Impairment of development costs	–	3.8
Defined benefit pension scheme cost	0.7	4.0
Finance income	–	(0.4)
Finance costs	1.9	0.7
Other finance expense	3.5	0.9
Fair value of share-based payments	1.4	0.4
Impairment of inventory and receivables re: exit Fire SCBA market	–	1.6
(Increase)/decrease in inventories	(0.1)	0.1
(Increase)/decrease in receivables	(5.6)	(8.6)
(Decrease)/increase in payables and provisions	5.8	(1.6)
Cash flows from continuing operations	22.8	16.3
Discontinued operations		
Profit for the year	135.2	3.9
Adjustments for:		
Taxation	10.1	1.1
Depreciation	2.6	2.8
Property impairment	–	1.1
Amortisation of intangible assets	3.0	3.2
Finance income	0.1	–
Finance costs	–	0.2
Gain on divestment	(139.0)	–
Fair value of share-based payments	0.4	–
(Increase)/decrease in inventories	(0.2)	0.7
(Increase)/decrease in receivables	(6.5)	(1.3)
(Decrease)/increase in payables and provisions	(0.7)	(3.0)
Cash flows from discontinued operations	5.0	8.7
Cash flows from operations	27.8	25.0

4.4 Trade and other payables

	2020 £m	2019 Restated £m
Trade payables	10.7	10.8
Contract liabilities	1.3	3.7
Other taxation and social security	0.5	0.5
Other payables	0.4	0.6
Accruals	18.1	14.3
	31.0	29.9

Contract liabilities represents amount invoiced under contracts with customers but not recognised as revenue at the balance sheet date and cash received in advance. £1.9m (2019: £1.2m) of the balance in contract liabilities at the start of the year is recognised in revenue in the current year.

Other payables comprise sundry items which are not individually significant for disclosure.

Section 5 – Funding

The Group has maintained a strong balance sheet in order to fund its growth strategy and make further acquisitions. Additional funding is available via undrawn committed facilities.

Forward exchange contracts are used to hedge material foreign risk arising on sales and purchases denominated in a currency other than sterling.

The following section provides disclosures about the Group's funding position, including borrowings, hedging instruments, its exposure to market risks and its capital management policies.

5.1 Borrowings

	2020 £m	2019 Restated £m
Current		
Bank loans	31.0	0.1
Lease liabilities	2.5	1.3
	33.5	1.4
Non Current		
Lease liabilities	20.3	11.6
Total Group facilities	53.8	13.0

The table below presents the maturity analysis in respect of lease liabilities:

	As at 30 September 2020 £m	As at 30 September 2019 £m
In one year or less, or on demand	2.5	1.2
Two to five years	11.0	6.2
More than five years	9.3	5.5
Total lease liabilities	22.8	12.9

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 5 – Funding continued

5.1 Borrowings continued

The Group has the following undrawn committed facilities:

	2020 £m	2019 £m
Expiring beyond one year	126.0	69.0
Total undrawn committed borrowing facilities	126.0	69.0
Bank loans and overdrafts utilised	31.0	0.1
Utilised in respect of guarantees	0.3	0.3
Total Group facilities	157.3	69.4

All facilities are at floating interest rates.

During the year the Group refinanced its revolving credit facility. The new facility has total commitments of $200m across six lenders with an accordion option of an additional $50m. The facility has a three-year term ending 8 September 2023 with two separate one-year extensions give a possible five-year duration in total. The facility is priced on the dollar LIBOR plus margin of 1.45–2.35% depending on leverage and includes financial covenants which are measured on a semi-annual basis. The Group was in compliance with its financial covenants during 2020 and 2019.

The Group has provided the lenders with a negative pledge in respect of certain shares in Group companies.

The effective interest rates at the balance sheet dates were as follows:

	2020			2019		
	Sterling %	Dollar %	Euro %	Sterling %	Dollar %	Euro %
Bank loans	–	1.85%	–	–	–	0.8%
Lease liabilities	6.5%	2.5%	–	6.5%	3.5%	3.5%

5.2 Net finance costs

	2020 £m	2019 Restated £m
Interest payable on bank loans and overdrafts	(1.0)	(0.2)
Interest payable in respect of leases	(0.9)	(0.5)
Interest income	–	0.4
	(1.9)	(0.3)

Other finance expense

	2020 £m	2019 £m
Net interest cost: U.K. defined benefit pension scheme (note 6.2)	(0.8)	(0.8)
Amortisation of finance fees	(0.1)	(0.1)
Unwinding of discount on contingent consideration (note 7.1)	(2.3)	–
Write off of unamortised finance costs on refinancing	(0.3)	–
	(3.5)	(0.9)

5.3 Analysis of net cash/debt

This note sets out the calculation of net cash/debt, a measure considered important in explaining our financial position.

	At 1 October 2019 Restated £m	Cash flow £m	Non cash movements £m	Exchange movements £m	At 30 September 2020 £m
Cash at bank and in hand	48.4	97.8	–	0.8	147.0
Bank loans due in less than one year	(0.1)	(29.2)	(1.2)	(0.5)	(31.0)
Interest due on bank loans	–	0.9	(0.9)	–	–
Cash net of bank loans	48.3	69.5	(2.1)	0.3	116.0
Lease Liabilities	(12.9)	3.1	(12.7)	(0.3)	(22.8)
Net cash/(debt)	35.4	72.6	(14.8)	–	93.2

	At 1 October 2018 Restated £m	Cash flow Restated £m	Non cash movements £m	Exchange movements Restated £m	At 30 September 2019 Restated £m
Cash at bank and in hand	46.6	1.2	–	0.6	48.4
Bank loans due in less than one year	(0.1)	–	–	–	(0.1)
Cash net of bank loans	46.5	1.2	–	0.6	48.3
Lease Liabilities	(12.2)	1.9	(1.5)	(1.1)	(12.9)
Net cash/(debt)	(34.3)	3.1	(1.5)	(0.5)	35.4

5.4 Financial instruments

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as 'financial assets'. 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.

Contingent consideration arising on the Helmets & Armor acquisition is accounted for at fair value.

Financial risk and treasury policies

The Group's finance 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 finance 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.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 5 – Funding continued

5.4 Financial instruments continued

Financial risk and treasury policies continued

(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 Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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	2020 £m	2019 £m
Trade receivables	22.3	31.9
Other receivables	10.9	1.8
Cash and cash equivalents	147.0	48.4
	180.2	82.1

The maximum exposure to credit risk for financial assets at the reporting date by currency was:

Carrying amount of financial assets	2020 £m	2019 £m
Sterling	166.5	43.4
U.S. dollar	13.7	32.0
Euro	–	5.3
Other currencies	–	1.4
	180.2	82.1

Provisions against trade receivables

The ageing of trade receivables and associated provision for impairment at the reporting date was:

	Gross 2020 £m	Provision 2020 £m	Net 2020 £m	Gross 2019 £m	Provision 2019 £m	Net 2019 £m
Not past due	17.8	–	17.8	27.6	–	27.6
Past due 0–30 days	3.6	–	3.6	2.8	–	2.8
Past due 31–60 days	0.4	–	0.4	1.1	(0.1)	1.0
Past due 61–90 days	0.1	–	0.1	0.3	(0.2)	0.1
Past due more than 91 days	0.9	(0.5)	0.3	0.7	(0.3)	0.4
	22.8	(0.5)	22.3	32.5	(0.6)	31.9

The total past due receivables, net of provisions is £4.4m (2019: £4.3m).

The individually impaired receivables mainly relate to a number of independent customers. Provisions for impairment are based on expected credit losses and are estimated based on knowledge of customers and historic experience of losses. A portion of these receivables is expected to be recovered.

Movements on the Group provision for impairment of Trade receivables are as follows:

	2020 £m	2019 £m
At 1 October	0.6	0.5
Provision for impairment of Trade receivables	0.1	0.1
Provision for impairment reversed in relation to divestment of milkrite | InterPuls	(0.2)	–
At 30 September	0.5	0.6

The U.S. Government through the Department of Defense is a major customer of the Group. At the balance sheet date there were no significant concentrations of credit risk, except in respect of the U.S. Government.

The credit risk in relation to Trade receivables is managed via credit evaluations for all non-Government customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. Where possible, letters of credit or payments in advance are received for significant export sales.

(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 net cash, before lease liabilities, of £116.0m (2019: £48.3m) and undrawn facilities of £126.0m (2019: £69.0m).

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 5 – Funding continued

5.4 Financial instruments continued

Financial risk and treasury policies continued

(ii) Liquidity risk continued

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	2–5 years £m	After 5 years £m
30 September 2020					
Bank loans and overdrafts	31.0	31.0	31.0	–	–
Trade and other payables	30.5	30.5	30.5	–	–
Lease liabilities	22.8	28.8	3.3	13.1	12.4
Contingent consideration	15.3	16.9	7.9	9.0	–
Forward exchange contracts used for hedging[1]					
– Outflow	–	–	–	–	–
– Inflow		–	–	–	–
	99.6	107.2	72.7	22.1	12.4

Analysis of contractual cash flow maturities	Carrying amount Restated £m	Contractual Cashflows Restated £m	Less than 12 months Restated £m	2–5 years £m	After 5 years £m
30 September 2019					
Bank loans and overdrafts	0.1	0.1	0.1	–	–
Trade and other payables	29.4	29.4	29.4	–	–
Lease liabilities	12.9	18.4	2.1	8.2	8.1
Forward exchange contracts used for hedging[1]					
– Outflow	1.3	42.9	42.9	–	–
– Inflow		(41.6)	(41.6)	–	–
	43.7	49.2	32.9	8.2	8.1

1 Presented as Derivative Financial Instruments within Current Liabilities.

(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 is primarily the U.S. dollar. The Group looks to hedge material forecast U.S. dollar using forward exchange contracts in line with the Group hedging policy.

The Group has designated 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.

At 30 September 2020 and 2019 the Group held the following instruments to hedge exposures to changes in foreign currency rates:

	Maturity			
Forward exchange contracts	**1–6 months 2020 £m**	**6–12 months 2020 £m**	**1–6 months 2019 £m**	**6–12 months 2019 £m**
Net exposure (£m)	–	–	0.3	0.1
Average GBP:USD forward contract rate	–	–	1.323	1.337
Average GBP:EUR forward contract rate	–	–	1.157	1.145

In these hedge relationships the main sources of ineffectiveness are changes in the timing of the hedged transactions, variances between forecast and actual hedged transactions and the effect of the counterparties' and the Group's own credit risk on the fair value of the forward exchange contracts, which is not reflected in the change in the fair value of the hedged cashflows attributable to the change in exchange rates.

There is an economic relationship between the value of the currency denominated assets and liabilities and the fair value of the forward exchange contracts, i.e. the fair value of the forward contracts, move in the opposite direction to the value of the hedged items because of the same risk which is the hedged risk.

Deal contingent forwards

On signing the agreement to acquire the Helmet & Armor business in 2019 the Group entered into a deal contingent forward to hedge the foreign exchange risk on the USD equivalent of the cash funded element of the purchase price. The contract was designated as a cash flow hedge in line with the Group's hedging policy with fair value movements recognised through the consolidated statement of comprehensive income.

The contract crystallised on completion of the acquisition in January 2020 at which point the fair value movements recognised to date (£2.7m) were reclassified to Goodwill as an adjustment to consideration paid.

During 2020 an additional deal contingent forward was entered into to hedge the foreign currency risk on the U.S. portion of the milkrite | InterPuls divestment proceeds. The contract crystallised on divestment in September 2020 at which point the fair value movements recognised to date £2.2m were reclassified to profit as an adjustment to the profit on divestment of the milkrite | InterPuls business.

	Change in value used for calculating hedge ineffectiveness 2020 £m	**Cash flow hedge reserve 2020 £m**	**Change in value used for calculating hedge ineffectiveness 2019 £m**	**Cash flow hedge reserve 2019 £m**
Working capital cashflows	–	–	0.4	0.4
Purchase of assets under APA	–	–	0.9	0.9

There are no balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applicable.

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cashflow hedge accounting.

Hedging reserve	**2020 £m**	**2019 £m**
Balance at 1 October	(1.1)	(0.4)
Cash flow hedges:		
Changes in fair value relating to foreign currency risk	0.4	(1.3)
Amount reclassified to profit or loss relating to foreign currency risk	(1.8)	0.4
Amount reclassified to goodwill	2.7	–
Tax on movements on reserves during the year	(0.2)	0.2
Balance at 30 September	–	(1.1)

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.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 5 – Funding continued

5.4 Financial instruments continued

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of one cent in the value of the U.S. dollar against sterling would have had a £0.3m (2019: £0.2m) impact on the Group's current year profit before interest and tax, a £0.3m (2019: £0.2m) impact on the Group's profit after tax and a £0.4m (2019: £0.3m) impact on shareholders' funds. The method of estimation, which has been applied consistently, involves assessing the translation impact of the U.S. dollar.

The following significant exchange rates applied during the year:

	Average rate 2020	Closing rate 2020	Average rate 2019	Closing rate 2019
U.S. dollar	1.2752	1.2737	1.276	1.232

(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 on bank loans. A 1% increase in interest rates would have £0.4m impact on interest costs (2019: 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, excluding lease liabilities, was:

	2020 £m	2019 £m
Bank loans	(31.0)	(0.1)
Cash and cash equivalents	147.0	48.4
Group net cash/(debt)	116.0	48.3
Market capitalisation of the Group at 30 September	1,318.5	515.6
Gearing ratio	0.5	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 2020 £m	Fair value 2020 £m	Carrying amount 2019 Restated £m	Fair value 2019 Restated £m
Trade receivables	22.3	22.3	31.9	31.9
Other receivables	10.9	10.9	1.8	1.8
Cash and cash equivalents	147.0	147.0	48.4	48.4
Forward exchange contracts	–	–	(1.3)	(1.3)
Bank loans and overdrafts	(31.0)	(31.0)	(0.1)	(0.1)
Lease liability	(22.8)	(22.8)	(12.9)	(12.9)
Trade and other payables	(30.5)	(30.5)	(29.4)	(29.4)
Contingent consideration	(15.3)	(15.3)	–	–
	80.6	80.6	38.4	38.4

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.

Contingent consideration

The estimated fair value is calculated as the present value of the future expected cashflows relating to the contract discounted using a risk-adjusted discount rate. Key unobservable inputs into the fair value calculation are the expected future cashflows and the risk-adjusted discount rate. The estimated fair value would change if the expected cashflows were lower than expected or the discount rate applied was higher or (lower). Further details on the contingent consideration can be found in note 7.1.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 5 – Funding continued

5.5 Equity

Share capital

	No. of shares 2020	Ordinary shares 2020 £m	Share premium 2020 £m	No. of shares 2019	Ordinary shares 2019 £m	Share premium 2019 £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 note 6.3 Share-based payments.

Ordinary shareholders are entitled to receive dividends and to vote at meetings of the Company.

Own shares held

	2020 No. of shares m	2019 No. of shares m
Balance at 1 October	0.5	0.5
Acquired in the period	–	0.1
Disposed of on exercise of options	(0.1)	(0.1)
At 30 September	0.4	0.5

At 30 September 2020 398,560 (2019: 506,274) 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 2020 was £16.9m (2019: £8.4m). These shares are held at cost as treasury shares and deducted from shareholders' equity.

No further shares were acquired by the trust during the period (2019: 100,000 at a cost of £1.3m).

107,714 (2019: 92,990) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

1,753 (2019: 3,364) ordinary shares of £1 each were awarded in relation to the annual incentive plan.

5.6 Dividends

On 30 January 2020, the shareholders approved a final dividend of 13.89p per qualifying ordinary share in respect of the year ended 30 September 2019. This was paid on 13 March 2020 utilising £4.2m of shareholders' funds (2019: £3.3m).

The Board of Directors declared an interim dividend of 9.02p (2019: 6.94p) per qualifying ordinary share in respect of the year ended 30 September 2020. This was paid on 4 September 2020 utilising £2.8m (2019: £2.1m) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 18.06p per qualifying ordinary share in respect of the year ended 30 September 2020, which will absorb an estimated £5.6m of shareholder's funds. Subject to shareholder approval the dividend will be paid on 12 March 2021 to shareholders on the register at the close of business on 12 February 2021. In accordance with accounting standards the dividend has not been provided for and there are no corporation tax consequences.

Section 6 – Key management & employee benefits

Recruiting and retaining the right people is key to the success of the business. The remuneration policies in place are aimed at ensuring this is possible and to celebrate and reward the contribution that the Group's employees make to the performance of the Group.

The following pages include disclosures on wages and salaries and share option schemes which allow employees of the Group to take an equity interest in the Group.

This section also includes full disclosures in relation to both the U.K. defined benefit scheme which was closed to future accrual of benefit in 2009, and the contributions made to current defined contribution schemes.

6.1 Employees

The total remuneration and associated costs incurred during the year, in relation to both continuing and discontinued operations, were:

	2020 £m	2019 £m
Wages and salaries	52.6	37.2
Social security costs	5.6	3.8
Other pension costs	2.1	1.1
U.S. healthcare costs	4.5	3.0
Share-based payments (note 6.3)	1.8	0.4
	66.6	45.5

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid Director, are given on page 87.

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

	2020 Number	2019 Number
By business segment		
Avon Protection	763	554
milkrite | InterPuls	273	271
Other	57	29
	1,093	854

At the end of the financial year, following the divestment of the milkrite | InterPuls business, the total number of employees in the Group was 870 (2019: 784).

Key management compensation

	2020 £m	2019 £m
Salaries and other employee benefits	2.9	2.4
Post employment benefits	0.1	0.1
Share-based payments	1.4	0.3
	4.4	2.8

The key management compensation above includes the Directors plus 11 (2019: seven) others who were members of the Group Executive during the year.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 6 – Key management & employee benefits continued

6.2 Pensions and other retirement benefits

Retirement benefit assets and liabilities can be analysed as follows:

	2020 £m	2019 £m
Net pension liability	62.5	54.1

Defined benefit pension scheme

Full disclosures are provided in respect of the U.K. 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 U.K. 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 13 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. Three 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 2019 when the market value of the plan's assets was £335.8m. The fair value of those assets represented 83% 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 £1.5m (2019: £1.5m) in respect of scheme expenses and deficit recovery plan payments. In accordance with the deficit recovery plan agreed following the 31 March 2019 actuarial valuation, the Group will make payments in 2021 of £1.4m and £2.8m in 2022 in respect of deficit recovery plan payments and scheme expenses.

The Group made two additional one-off payments to the fund during the year. A payment of £0.3m was made in relation to additional past service costs recognised in 2019 and a one-off additional funding contribution of £20.0m was made from the proceeds of the divestment of the milkrite | InterPuls business.

The defined benefit plan exposes the Group to actuarial risks such as longevity risk, inflation risk and investment risk.

The Directors have confirmed no additional liability is required to be recognised as a consequence of minimum funding requirements.

The trustees have no rights to wind up the scheme or improve benefits without Company consent.

An updated actuarial valuation for IAS 19 (revised) purposes was carried out by an independent actuary at 30 September 2020 using the projected unit method.

Movement in net defined benefit liability

	Defined benefit obligation		Defined benefit asset		Net defined benefit liability	
	2020 £m	2019 Restated £m	2020 £m	2019 £m	2020 £m	2019 Restated £m
At 1 October	(403.2)	(356.9)	349.1	316.4	(54.1)	(40.5)
Included in profit or loss						
Administrative expenses	(0.7)	(0.5)	–	–	(0.7)	(0.5)
Past service cost	–	(3.5)	–	–	–	(3.5)
Net interest cost	(6.9)	(9.4)	6.1	8.6	(0.8)	(0.8)
	(7.6)	(13.4)	6.1	8.6	(1.5)	(4.8)
Included in other comprehensive income						
Remeasurement (loss)/gain:						
– Actuarial (loss)/gain arising from:						
– Demographic assumptions	(4.7)	5.9	–	–	(4.7)	5.9
– Financial assumptions	(6.0)	(52.7)	–	–	(6.0)	(52.7)
– Experience adjustment	(8.9)	(3.2)	–	–	(8.9)	(3.2)
– Return on plan assets excluding interest income	–	–	(9.1)	39.7	(9.1)	39.7
	(19.6)	(50.0)	(9.1)	39.7	(28.7)	(10.3)
Other						
Contributions by the employer	–	–	21.8	1.5	21.8	1.5
Net benefits paid out	17.2	17.1	(17.2)	(17.1)	–	–
At 30 September	(413.2)	(403.2)	350.7	349.1	(62.5)	(54.1)

Plan assets

The fair value of the assets of the pension scheme analysed by asset category are shown below.

	2020 £m	2019 £m
Equities and other securities	124.5	182.2
Liability Driven Investment	96.2	132.8
Secured income fund	50.2	–
Infrastructure fund	52.4	–
Cash	27.4	34.1
Total fair value of assets	350.7	349.1

All equity securities and corporate bonds are valued using quoted prices in active markets.

The Liability Driven Investment (LDI) comprises an investment in a level 2 pooled investment vehicle which combines a series of LIBOR-earning cash deposits combined with contracts to hedge interest rate and inflation risk. The LDI is valued using a Net Asset Value published on the Irish Stock Exchange.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 6 – Key management & employee benefits continued

6.2 Pensions and other retirement benefits continued

Plan assets continued

The Secured Income fund and Infrastructure fund are classified as level 3 within the fair value hierarchy. Holdings in the secured income fund is valued at fair value which is typically the Net Asset Value provided by the fund administrator at the most recent quarter end. Holdings in the infrastructure fund are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach. The significant assumptions used in the valuation are the discount rate and the expected cashflows.

The Avon Rubber Defined Benefits Pension Scheme has an investment strategy which is targeted at maximising investment returns with a low risk strategy which still represents a prudent approach to meeting the Plan's liabilities and ensuring that members benefits are protected. The strategy considers the need for appropriate asset class diversification to balance the risks and rewards across a range of alternative asset classes. The investments held by the pension scheme include both quoted and unquoted securities, the latter which by their nature involve assumptions and estimates to determine their fair value. Where there isn't an active market for the unquoted securities the fair value of these assets are estimated by the pension trustees based on advice received from the investment manager whilst also using any available market evidence of any recent transactions for an identical asset. The target weightings under the current asset allocation strategy are 30% to growth assets, 35% to mid-risk assets and 45% 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:

	2020 **% p.a.**	**2019** **% p.a.**
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.10	2.20
Pension increases post August 2005	2.20	2.20
Pension increases pre August 2005	2.95	3.10
Discount rate for scheme liabilities	1.55	1.75

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:

	2020	**2019**
Male	21.7	21.6
Female	23.7	23.5

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2020	**2019**
Male	23.4	23.3
Female	25.5	25.4

Sensitivity analysis

	Defined benefit obligation Increase/(decrease) £m
Inflation (RPI) (0.1% increase)	5.4
Discount rate for scheme liabilities (0.1% increase)	(6.2)
Future mortality (one year increase)	17.4

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 £1.3m (2019: £1.1m).

6.3 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 71 to 95 and are incorporated by reference into these financial statements. An expense of £1.8m (2019: £0.4m) was recognised in the year.

The table below summarises the movements in the number of share options outstanding for the Group, all of which are nil cost options:

	Number of options (thousands) 2020	Number of options (thousands) 2019
Outstanding at 1 October	491	427
Forfeited during the year	(80)	(20)
Exercised during the year	(108)	(93)
Granted during the year	120	177
Outstanding at 30 September	423	491

The weighted average remaining contractual life of outstanding share options is 10 months. All the share options that vested in the year vested on 9 March 2020 at a share price of £23.00.

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:

	2020	2019
Weighted average fair value (£)	19.18	9.48
Key assumptions used:		
Closing share price at date of grant (£)	20.70	12.50
Expected volatility (%)	31.2	24
Risk-free interest rate (%)	0.3	0.7
Expected option term (yrs.)	2.7	2.7
Dividend yield (%)	–	–

Volatility is estimated based on actual experience over the last three years.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 7 – Other

7.1 Provisions for liabilities and charges

	Property obligations £m	Contingent consideration £m	Total £m
Balance at 30 September 2018	2.8	–	2.8
Provision reversed during the year	(0.4)	–	(0.4)
Payments in the year	(0.1)	–	(0.1)
Balance at 30 September 2019	2.3	–	2.3
Provision reversed during the year	(0.2)	–	(0.2)
Provision released during the year due to divestment	(0.6)	–	(0.6)
Provision created during the year	0.2	–	0.2
Property provision assumed on acquisition	0.6	–	0.6
Provision for contingent consideration created during the year	–	15.2	15.2
Unwind of discount on provisions	–	2.3	2.3
Payments in the year	–	(2.8)	(2.8)
Foreign exchange movements	(0.1)	0.6	0.5
Balance at 30 September 2020	2.2	15.3	17.5

Analysis of total provisions	2020 £m	2019 £m
Current	7.6	–
Non-current	9.9	2.3
	17.5	2.3

Property obligations relate to leased premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next 10 years. Movements in respect of dilapidations provisions during the year include release of provisions on exit of lease (£0.2m), provisions released as a result of the divestment of the milkrite | InterPuls business (£0.6m), and provisions created on the acquisition of the Helmets & Armor business (£0.6m), and in respect of other sites £0.2m. Property provisions are subject to uncertainty in respect of any final negotiated settlement of any dilapidation claims with landlords.

The purchase consideration in relation to the Helmets & Armor acquisition included contingent consideration up to a maximum of $25m depending on the outcome of certain tenders which were pending at the acquisition date and the level of sales which were generated on these contracts if secured. At acquisition the fair value of the contingent consideration was recognised as £15.2m ($20m) based on the expected value and timing of those payments after applying a discount rate of 12% to reflect the risk in the cashflows at that date.

The contract that triggered the contingent consideration was awarded shortly after the acquisition date and an initial order has subsequently been received resulting in the first payment of £2.8m ($3.4m) being made during the year.

At the balance sheet date, taking account of the change in fair value in relation to the contingent consideration of £2.3m ($2.9m), the remaining contingent consideration is presented as a provision with a fair value of £15.3m ($18.7m) being the present value of the future expected cashflows relating to the contract. Current expectations are that the contingent consideration will be settled in full over the next three years as the level of sales which triggers full payment of the consideration ($240.5m) is considered to be achievable and therefore highly probable. The range of possible outcomes is additional payments between nil and £17.0m ($21.6m), there has been no change in the range of expected outcomes during the period.

7.2 Acquisitions & divestments

Acquisition – Helmet & Armor business

The acquisition of the Helmets & Armor business and the rights to the Ceradyne brand completed on 2 January 2020. The acquisition took the form of a trade and assets purchase.

The acquisition is considered a further step in line with the Board's stated strategy; widening Avon Protection's product range in the personal protection equipment segment, deepening our presence in the U.S. and relationship with the U.S. DOD and enhancing the Group's research and development and manufacturing capability.

The total estimated acquisition consideration of $107.2m comprises initial consideration agreed of $91m less an initial closing adjustment of $1.6m, resulting in a payment on completion of $89.4m (£70.8m), a further post completion adjustment of $2.2m (£1.7m) resulting from the closing inventory being lower than the targeted level, plus fair value of contingent consideration of $20.0m (£15.2m).

Set out below is an analysis of the assigned fair values of the assets acquired and liabilities assumed relating to this acquisition:

	Fair value £m
Customer relationships	19.8
Brand	1.8
Other intangible assets	7.7
Property, plant and equipment	29.2
Inventories	14.1
Other assets	0.5
Lease liability	(8.8)
Accruals	(1.1)
Dilapidations provisions	(0.6)
Deferred tax	0.3
Net assets acquired	62.9
Goodwill	21.4
	84.3
Cash paid excluding acquisition expenses	70.8
Post completion inventory true up due from 3M	(1.7)
Deferred contingent consideration payable*	15.2
Total consideration	84.3

* £2.8m of the deferred contingent consideration payable was paid during the period subsequent to the acquisition. See note 7.1 for further details.

Goodwill of £21.4m is recognised on these acquisitions, representing the amount paid for future sales growth from both new customers and new products, operating cost synergies and employee know-how. The value of goodwill expected to be deductible for tax purposes is £17.0m. The value attributable to goodwill has changed from the value reported in the interim financial statements from £18.7m to £21.4m as a result of finalising the fair values attributed to certain other assets and liabilities.

A deferred tax asset of £0.3m was recognised on acquisition in relation to the accruals and dilapidations provisions assumed. Any further tax timing differences will be recognised in the period in which they arise.

No receivables or deferred revenue were acquired and no contingent liabilities were recognised on acquisition.

From the date of acquisition to 30 September 2020, the newly acquired business contributed £40.8m to revenue and reported an operating loss of £1.4m over the same period. As a trade and asset purchase it is not possible to assess what the impact of the acquisition would have been on revenues and profits on a full year basis.

A further £2.9m of deal costs and £2.4m of transition costs were recognised in the year to 30 September 2020 and included within general and administrative expenses.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 7 – Other continued

7.2 Acquisitions & divestments continued

Acquisition – Team Wendy

The signing of an agreement to acquire Team Wendy, LLC was announced on 9 September 2020. The acquisition was subject to U.S. regulatory approvals and closed on 2 November 2020. The results of the Team Wendy business are not consolidated within the 2020 financial statements as control did not transfer to the Group until after the balance sheet date and at the time of signing the financial statements the full business combinations exercise had not yet been completed due to the fact the transaction completed very recently after the balance sheet.

The acquisition ultimately completed on 2 November 2020 and control transferred with the Group acquiring 100% of the equity for a total consideration of $130m (£102m). The net assets acquired had a value of $22.4m (£17.6m) before any fair value adjustments.

The acquisition has a limited impact on the 2020 financial statements, however the acquisition related costs are expensed in the periods in which the services are received, in line with recognised accounting practices. £6.7m of such costs, including legal, due diligence and tax advisory fees, have been recognised during the year.

Divestment – milkrite | InterPuls business

In September 2020, the Group disposed of milkrite | InterPuls to DeLaval Holding BV for a cash consideration of £178.5m after customary closing adjustments. Further details are given in note 2.2.

	£m
Total consideration received	178.5
Net assets disposed	(34.8)
Costs of divestment	(8.9)
Translation reserve recycled to profit and loss on divestment	4.2
Gain on divestment	139.0
Tax on gain on divestment	(9.2)
Gain on divestment after tax	129.8

Consideration received at completion totalled £175.6m with the remaining £2.9m received shortly after the balance sheet date.

Assets and liabilities at the date of divestment were:

	£m
Intangible assets	14.3
Property, plant and equipment	14.0
Inventories	6.0
Cash	2.7
Receivables	7.9
Payables	(4.7)
Other liabilities	(5.4)
Total net assets disposed	34.8

7.3 Other financial commitments

	2020 £m	2019 £m
Capital expenditure committed	0.8	0.9

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.

7.4 Group undertakings

	Registered Office Address	Activity	Country in which incorporated
Held by Parent Company			
Avon Polymer Products Limited	Hampton Park West, Melksham, SN12 6NB, U.K.	The manufacture and distribution of respiratory protection systems	U.K.
Avon Rubber Overseas Limited	Hampton Park West, Melksham, SN12 6NB, U.K.	Investment holding company	U.K.
Avon Rubber Pension Trust Limited	Hampton Park West, Melksham, SN12 6NB, U.K.	Pension fund trustee	U.K.
Held by Group undertakings			
Avon Protection Systems, Inc.	503 8th St, Cadillac, MI 49601, United States	The manufacture and distribution of respiratory and ballistic protection systems	U.S.
Avon Rubber & Plastics, Inc.	503 8th St, Cadillac, MI 49601, United States	Investment holding company	U.S.
Avon Protection Ceradyne, LLC	4000 Barranca Parkway, Suite 100, Irvine, CA 92604, United States	The manufacture and distribution of ballistic protection systems	U.S.
Avon Group Limited	Hampton Park West, Melksham, SN12 6NB, U.K.	Dormant company	U.K.
Avon Protection Systems U.K. Limited	Hampton Park West, Melksham, SN12 6NB, U.K.	Dormant company	U.K.

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.

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 U.K. subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 480 of the Act.

7.5 Related party transactions

There were no related party transactions during the year or outstanding at the end of the year (2019: £nil). Key management compensation is disclosed in note 6.1. Transactions with the defined benefit pension scheme are disclosed in note 6.2.

7.6. New accounting standards

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with former operating leases, all of which come under the category of Leasehold property.

The new Standard has been applied using the full retrospective approach, with restatement of comparative information in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16 with no indication of any additional impairment required.

The Group did not have any leases previously classified as finance leases.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.6%.
In determining an appropriate incremental borrowing rate a build up approach was applied, taking into account an appropriate risk free rate, the length of the lease, a country risk premium, a credit risk premium and any other asset specific adjustment considered necessary.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Notes to the Group Financial Statements continued

For the year ended 30 September 2020

Section 7 – Other continued

7.6. New accounting standards continued

The following is a reconciliation of total operating lease commitments at 30 September 2018 to the lease liabilities recognised at 1 October 2018:

	£m
Total operating lease commitments at 30 September 2018	18.9
Other minor adjustments relating to commitments disclosures	0.4
Operating lease liabilities before discounting	19.3
Discounted using incremental borrowing rate	(7.1)
Total lease liabilities recognised under IFRS 16 at 1 October 2018	12.2

The tables below set out the adjustments recognised at the date of initial application of IFRS 16 and the subsequent accounting periods.

Impact on Net Assets

	As at 1 October 2018 £m	As at 30 September 2019 £m
Right of use assets	8.5	9.2
Lease liabilities	(12.2)	(12.9)
Trade & other Payables	1.4	1.2
Deferred tax assets	0.5	0.5
Net assets	(1.8)	(2.0)

On 1 October 2018, £8.5m was recognised as right of use assets and £12.2m as lease liabilities in respect of property leases previously categorised as operating leases.

Operating lease incentives of £1.4m at the date of initial application, previously recognised as liabilities, have been derecognised and factored into the measurement of the right of use assets and lease liabilities.

The net difference of £1.8m has been recognised in retained earnings.

The impact of the change in accounting policy resulting from the application of IFRS 16 on Net Assets and key performance measures is set out in note 7.7 below.

7.7. Restatement

Prior year comparatives have been restated for the following items:

1. Change in accounting policy – IFRS 16 Leases has been applied using the full retrospective approach, with restatement of comparative information in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
2. To present the milkrite | InterPuls business as discontinued operations following the divestment in September 2020. See note 2.2 for further details of the divestment.
3. During the year the Directors identified that the retirement benefit obligation was understated in prior years due to it not including the cost of equalising the benefits between male and female pension scheme members under the Barber equalisation ruling of May 1990 in respect of years 1990–1992. The result of the prior period error has been an increase to the retirement benefit pension obligation as at 1 October 2018 of £10.0m and 30 September 2019 of £11.1m with the £1.1m increase recognised through the Statement of Total Comprehensive Income as an adjustment to remeasurement losses. The impact of these adjustments on net assets have been offset by increases in the associated deferred tax assets of £1.8m and £1.9m respectively.

A reconciliation of the previously reported figures to the restated figures for key measures is presented below:

Impact on performance measures

Performance measures

	Note	As reported 30 September 2019 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2019 £m
Profit for the year		14.3	(0.2)	–	–	14.1
Earnings per share (pence)	2.3	46.9p	(0.7p)	–	–	46.2p
Operating profit	2.1	14.4	0.4	(4.9)	–	9.9
EBITDA	2.1	31.0	1.0	(11.6)	–	20.4

Impact on Other comprehensive income

	As reported 30 September 2019 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2019 £m
Other comprehensive expense for the year net of taxation	(6.6)	–	–	(1.0)	(7.6)

Impact on Net Assets

	As reported 30 September 2019 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2019 £m
Net Assets	86.4	(2.0)	–	(9.2)	75.2

	As reported 30 September 2018 £m	Change in accounting policy £m	Discontinued operations £m	Pension adjustments £m	Restated 30 September 2018 £m
Net Assets	84.8	(1.8)	–	(8.2)	74.8

7.8 Post balance sheet events

The acquisition of Team Wendy completed on 2 November with the Group acquiring 100% of the equity for total consideration of $130m.

On 20 November 2020, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes on GMP equalisation for historic transfers. The judgment confirmed the obligation on scheme trustees to top up historic cash equivalent payments calculated on unequalised individual transfers out of the scheme since May 1990. We are working with our actuarial advisers, to understand the extent to which the judgment crystallises any additional liabilities for the Group's U.K. defined benefit pension scheme. We are early in the evaluation process, but we estimate that the additional liability could be in the range of £0.1m to £2.3m, with the upper end of the range dependent on the legal interpretation of the judgement regarding the liability for historic bulk transfers out of the scheme. Subsequent to further assessment with our advisors, any necessary adjustment is expected to be recognised in the first half of our 2021 financial year.

Parent Company Balance Sheet

At 30 September 2020

	Note	2020 £m	2019 Restated[1] £m	2018 Restated[1] £m
Assets				
Non-current assets				
Tangible assets	4	3.8	4.2	4.6
Intangible assets	5	0.8	0.1	0.1
Investments in subsidiaries	6	113.7	87.8	70.8
Deferred tax assets	7	2.8	1.4	1.0
		121.1	93.5	76.5
Current assets				
Trade and other receivables	8	58.3	45.8	69.6
Cash and cash equivalents		73.5	32.9	32.4
		131.8	78.7	102.0
Liabilities				
Current liabilities				
Borrowings	11	31.5	0.4	0.4
Trade and other payables	9	23.2	28.1	31.7
Provisions for liabilities and charges	10	–	–	0.3
		54.7	28.5	32.4
Net current assets		77.1	50.2	69.6
Non-current liabilities				
Borrowings	11	5.9	6.4	6.9
Provisions for liabilities and charges	10	1.5	1.6	1.7
		7.4	8.0	8.6
Net assets		190.6	135.7	137.5
Shareholders' equity				
Ordinary shares	13	31.0	31.0	31.0
Share premium account		34.7	34.7	34.7
Capital redemption reserve		0.5	0.5	0.5
Retained earnings		124.6	69.5	71.3
Total equity		190.8	135.7	137.5

1 Restated to reflect the change in accounting policy in relation to IFRS 16, see note 14 for further details.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company profit and loss account. The profit for the Company for the year was £58.5m (2019: £5.0m).

These financial statements on pages 152 to 161 were approved by the Board of Directors on 2 December 2020 and signed on its behalf by:

Paul McDonald   Nick Keveth

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 30 September 2020

	Note	Share capital £m	Share premium £m	Capital redemption reserves £m	Retained earnings £m	Total equity £m
At 30 September 2018 (as previously stated)		31.0	34.7	0.5	72.3	138.5
Change in accounting policy	14	–	–	–	(1.0)	(1.0)
At 30 September 2018 (restated)		31.0	34.7	0.5	71.3	137.5
Profit for the year	1	–	–	–	5.0	5.0
Dividends paid	2	–	–	–	(5.4)	(5.4)
Own shares acquired	13	–	–	–	(1.3)	(1.3)
Fair value of share-based payments	13	–	–	–	0.4	0.4
Deferred tax relating to employee share schemes	7	–	–	–	0.2	0.2
Cashflow hedges		–	–	–	(0.9)	(0.9)
Deferred tax relating on cash flow hedges	7	–	–	–	0.2	0.2
At 30 September 2019		31.0	34.7	0.5	69.5	135.7
Profit for the year	1	–	–	–	58.5	58.5
Dividends paid	2	–	–	–	(7.0)	(7.0)
Own shares acquired	13	–	–	–	–	–
Fair value of share-based payments	13	–	–	–	1.8	1.8
Deferred tax relating to employee share schemes	7	–	–	–	1.1	1.1
Cashflow hedges		–	–	–	0.9	0.9
Deferred tax relating to cash flow hedges	7	–	–	–	(0.2)	(0.2)
At 30 September 2020		31.0	34.7	0.5	124.6	190.8

Parent Company Accounting Policies

For the year ended 30 September 2020

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.

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 (IAS 7)
- comparative period reconciliations for share capital and intangible and tangible fixed assets (paragraph 38, IAS 1)
- transactions with wholly owned subsidiaries (IAS 24)
- capital management (paragraph 134–136, IAS 1)
- share-based payments (paragraph 45(b) and 46 to 52, IFRS 2)
- financial instruments (IFRS 7)
- compensation of key management personnel (paragraph 17, IAS 24)
- fair value measurement (paragraph 91–99, IFRS 13)
- leases (paragraph 90–93, IFRS 16)
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 18A of IAS 24 Related Party Disclosures

Where required, equivalent disclosures are given in the Group financial statements.

Recent accounting developments

IFRS 16 Leases became applicable for the Company from 1 October 2019.

IFRS 16 represents a significant change to lessee accounting by introducing the principle that all leased assets should be reported on the balance sheet of the lessee, recognising an asset for the right to use the leased item and a liability for the present value of its future lease payments.

The change in treatment became applicable for the Company from 1 October 2019 and impacts the balance sheet, the income statement and related performance measures.

Details of the Company's transition approach is set out below with further details of the impact of adopting IFRS 16 presented in note 14.

The Company's accounting policy in relation to Leases has been updated to reflect the new standard as outlined in the Leases section below.

Approach to transition

The Company has applied IFRS 16 using the full retrospective approach. As a result the date of the initial application for the Company is 1 October 2018 and comparative information has been restated.

Applying IFRS 16 the Company now recognises right of use assets and lease liabilities in the Consolidated Balance Sheet in relation to property leases previously treated as operating leases – see note 13 for further details.

Foreign currencies

The Group'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 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 U.K. 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 U.K. 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 10 years
- Leasehold property – three to 15 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.

Leases

Right of use assets and lease liabilities are recognised at the commencement date of the contract for all leases conveying the right to control the associated asset for a period of time.

The right of use assets are initially measured at cost, which comprises the initial measurement of the lease liability plus certain direct costs incurred. Subsequently the right of use assets are measured at cost less accumulated depreciation, any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

Depreciation is calculated on a straight-line basis over the life of the lease.

The lease liability is initially measured at the present value of the lease payments due over the life of the lease. The lease payments are discounted at the rate implicit in the lease, or if that cannot be readily determined using the Group's incremental borrowing rate.

The lease term is determined with reference to any non-cancellable period of lease contracts plus any periods covered by an option to extend/terminate the lease if it is considered reasonably certain that the option will/will not be exercised.

Subsequently the lease liability is measured by increasing the carrying value to reflect interest on the liability and reducing the carrying value to reflect lease payments made.

The carrying value of lease liabilities and associated assets will be re-measured to reflect any changes to the lease or other assumptions applied.

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 which 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.

Parent Company Accounting Policies continued

For the year ended 30 September 2020

Trade and other receivables

Trade and other receivables are classified as measured at amortised cost. The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised costs. Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

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.

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 2020

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 £58.5m (2019: £5.0m).

The audit fee in respect of the Parent Company is set out in note 2.5 to the Group financial statements.

2 Dividends

Details of the Company's dividends are set out in note 5.6 to the Group financial statements.

3 Employees

The total remuneration and associated costs during the year were:

	2020 £m	2019 £m
Wages and salaries	5.0	2.8
Social security costs	0.5	0.3
Other pension costs	0.2	0.1
Share-based payments	1.4	0.4
	7.1	3.6

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid Director, are given on pages 87.

The average monthly number of employees (including Executive Directors) during the year was 44 (2019: 23), all of whom were classified as administrative staff.

4 Tangible assets

	Leasehold Property £m
Cost	
At 1 October 2019	9.9
Additions	–
At 30 September 2020	9.9
Amortisation charge	
At 1 October 2019	5.7
Charge for the year	0.4
At 30 September 2020	6.1
Net book value	
At 30 September 2020	3.8
At 30 September 2019	4.2

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2020

5 Intangible assets

	Computer software £m
Cost	
At 1 October 2019	0.3
Additions	0.7
At 30 September 2020	1.0
Amortisation charge	
At 1 October 2018	0.2
Charge for the year	–
At 30 September 2020	0.2
Net book value	
At 30 September 2020	0.8
At 30 September 2019	0.1

6 Investments in subsidiaries

	£m
Cost and net book value	
At 1 October 2019	87.8
Additions	26.6
Disposals	(0.7)
At 30 September 2020	113.7

The Directors believe that the carrying value of the investments is supported by their underlying net assets. During the year the Company made an additional cash investment in Avon Rubber Overseas Limited of £26.2m to support the funding of the Helmets & Armor acquisition. During the year the Company waived £0.4m of loan interest in respect of the loan with Avon Rubber Italia S.r.l, this loan waiver was treated as an additional investment prior to being disposed of later in the same year as detailed below.

On divestment of the milkrite | InterPuls business in September 2020 the Company disposed of it's investments in milkrite | InterPuls (Shanghai) International Trading Company Ltd, Avon Rubber Italia S.r.l. and milkrite | InterPuls Solucoes Para Ordenha LTDA.

The investments consist of a 100% (unless indicated as otherwise) interest in the following subsidiaries:

	Principal activity	Registered office	Country in which incorporated
Avon Polymer Products Limited	The manufacture and distribution of respiratory protection systems	Hampton Park West, Melksham, SN12 6NB, U.K.	U.K.
Avon Rubber Overseas Limited	Investment company	Hampton Park West, Melksham, SN12 6NB, U.K.	U.K.
Avon Rubber Pension Trust Limited	Pension Fund Trustee	Hampton Park West, Melksham, SN12 6NB, U.K.	U.K.

Details of investments held by these subsidiaries are given in note 7.4 to the Group financial statements.

7 Deferred tax assets

	Share Options £m	Accelerated capital allowances £m	Other Temporary Differences Restated £m	Total Restated £m
At 30 September 2018 – as previously reported	0.6	0.1	–	0.7
Change in accounting policy	–	–	0.3	0.3
At 30 September 2018 – restated	0.6	0.1	0.3	1.0
(Charged)/credited to profit for the year	0.1	–	(0.1)	–
Charged to equity	0.2	–	0.2	0.4
At 30 September 2019	0.9	0.1	0.4	1.4
(Charged)/credited to profit for the year	0.3	–	0.2	0.5
Charged to Other Comprehensive Income	–	–	(0.2)	(0.2)
Charged to equity	1.1	–	–	1.1
At 30 September 2020	2.3	0.1	0.4	2.8

8 Trade and other receivables

	2020 £m	2019 £m
Other receivables	1.7	0.3
Prepayments	1.7	0.9
Amounts owed by Group undertakings	54.9	44.6
	58.3	45.8

Amounts due from Group undertakings are unsecured and interest bearing with interest rates priced on the relevant LIBOR plus a margin of 4.25–4.5%. The loans have no fixed date of repayment and are repayable on demand.

9 Trade and other payables

	2020 £m	2019 Restated £m
Trade payables	1.0	0.4
Accruals	6.5	2.8
Amounts due to Group undertakings	15.7	24.9
	23.2	28.1

Amounts due to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2020

10 Provisions for liabilities and charges

	Property obligations £m
Balance at 30 September 2018	2.0
Provision reversed during the year	(0.3)
Payments in the year	(0.1)
Balance at 30 September 2019	1.6
Provision reversed during the year	(0.1)
Balance at 30 September 2020	1.5

Analysis of total provisions	**2020 £m**	**2019 £m**
Non-current	1.5	1.6
	1.5	1.6

Provisions relate to property obligations arising in relation to leased premises of the Company which are subject to dilapidation risks and are expected to be utilised within the next 10 years. £0.1m of such provisions were released during the year on exit of the lease. Property provisions are subject to uncertainty in respect of any final negotiated settlement of any dilapidation claims with landlords.

11 Borrowings

During the year the Group replaced its revolving credit facility. The new facility has total commitments of $200m across six lenders with an accordion option of an additional $50m. The facility has a three-year term ending 8 September 2023 with two separate one-year extensions giving a possible five-year duration in total. The facility is priced on the dollar LIBOR plus margin of 1.45–2.35% depending on leverage and includes financial covenants which are measured on a semi-annual basis. The Company was in compliance with its financial covenants during 2020 and 2019.

The Company has provided the lenders with a negative pledge in respect of certain shares in Group companies.

	2020 £m	**2019 Restated £m**
Current		
Bank loans	31.0	–
Lease liabilities	0.5	0.4
Non Current		
Lease liabilities	5.9	6.4
Total borrowings	37.4	6.8

The table below presents the maturity analysis in respect of operating lease liabilities:

	As at 30 September 2020 £m	**As at 30 September 2019 £m**
In one year or less, or on demand	0.5	0.4
Two to five years	2.2	2.1
More than five years	3.7	4.3
Total lease liabilities	6.4	6.8

12 Share capital

Details of the Company's share capital are set out in note 5.5 to the Group financial statements.

13 Share-based payments

The Company operates an equity-settled share-based performance share plan (PSP), details of which are disclosed in note 6.3 to the Group financial statements.

14 New accounting standards

IFRS 16 Leases has become applicable for the Company, and the Group, with effect from 1 October 2018. See note 7.6 for full details of the transition approach adopted.

The following is a reconciliation of total operating lease commitments at 30 September 2018 to the lease liabilities recognised at 1 October 2018:

	£m
Total operating lease commitments at 30 September 2018	13.1
Other minor adjustments relating to commitments disclosures	(0.4)
Operating lease liabilities before discounting	12.7
Discounted using incremental borrowing rate	(5.4)
Total lease liabilities recognised under IFRS 16 at 1 October 2018	7.3

The tables below set out the adjustments recognised at the date of initial application of IFRS 16 and the subsequent accounting periods.

Impact on Net Assets

	As at 1 October 2018 £m	As at 30 September 2019 £m
Right of use assets	4.6	4.2
Lease liabilities	(7.3)	(6.8)
Trade & other Payables	1.4	1.2
Deferred tax assets	0.3	0.3
Net assets	(1.0)	(1.1)

On 1 October 2018 £4.6m was recognised as right of use assets and £7.3m as lease liabilities in respect of property leases previously categorised as operating leases.

Operating lease incentives of £1.4m at the date of initial application, previously recognised as liabilities, have been derecognised and factored into the measurement of the right of use assets and lease liabilities.

The net difference of £1.0m has been recognised in retained earnings.

The Group impact of the change in accounting policy resulting from the application of IFRS 16 on Net Assets and key performance measures is set out in note 7.7.

Glossary of Financial Terms

Term	Definition
Adjusted basic earnings per share	Adjusted profit for the year divided by the weighted average number of shares in issue
Adjusted EBITDA	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
Adjusted EBITDA margin	The ratio of Adjusted EBITDA to revenue
Adjusted operating profit	Operating profit adjusted to exclude amortisation of acquired intangibles, pension administration costs and any exceptional items
Cash conversion	The ratio of cash generated from operations before the effect of exceptional items, as a percentage of adjusted EBITDA
Closing order book	Orders held by the Group at the end of the year which are not yet fulfilled
Constant currency	Comparative performance measures are retranslated at current year exchange rates to present a comparison unaffected by currency movements. Current year exchange rates are disclosed in note 5.4
Continuing operations	The segments of the Group that are expected to still be operating in the future
Discontinued operations	The segments of the Group that no longer function within the core business and which are separately disclosed within the Income Statement
Dividend per share	Dividends paid/proposed, divided by the weighted average number of shares in issue
EBITDA	The Group's earnings before charging interest, tax, depreciation and amortisation
Exceptional Items	Significant non recurring items such as significant restructuring and project cancellation costs
Intellectual Property	Intangible property created by the Group through research and development, that is protected through patents, copyrights or trademarks
Net cash/debt	Net cash is the Group's cash net of any drawn debt or overdraft. Net debt is the Group's drawn debt and overdrafts net of any cash balance
Orders received	The orders received throughout the year and recognised as revenue together with orders in the closing order book
Organic cash conversion	The ratio of cash generated from operations before the effect of exceptional items, as a percentage of adjusted EBITDA, excluding the impact of acquisitions
Organic constant currency revenue growth	The growth in revenue comparing current year revenue with prior year revenue retranslated at current year exchange rates. This calculation excludes the impact of acquisitions
Organic adjusted operating profit	Operating profit adjusted to exclude amortisation of acquired intangibles, pension administration costs and any exceptional items and excluding the impact of acquisitions
Return on capital employed	Adjusted operating profit as a percentage of average capital employed. Capital employed is the sum of shareholders' funds adjusted for non-current liabilities and current borrowings. See below for current year calculation:
Product development as % of revenue	Total expenditure on research and development expressed as a percentage of revenue.

2020 return on capital employed calculation

	2020 £m	2019 Restated £m
Shareholders funds	57.5	75.1
Current borrowings	39.8	1.3
Non current liabilities	103.9	73.4
Capital employed	201.1	149.8
Average capital employed	175.5	143.6
Adjusted operating profit	39.9	31.3
Return on capital employed	22.7%	21.7%

The Return on capital employed (ROCE) calculation is presented on a total basis (adjusted to add back the impact of the milkrite | InterPuls divestment) for consistency.

Abbreviations

Term	Explanation
50 Series	Range of masks based on the proven technology of the M50 mask system
BPS	Basis Points
CBRN	Chemical, Biological, Radiological, Nuclear
CE	CE markings indicate conformity to health and safety standards sold within the European Economic Area
DOD	Department of Defense
FX	Foreign Exchange
FY	Financial Year
GSR	General Service Respirator
H1/H2	First half of the financial year (October – March)/Second half of financial year (April – September)
H&A	Helmets & Armor
IHPS	Integrated Head Protection System
MOD	Ministry of Defence
NATO	North Atlantic Treaty Organization
NIOSH	National Institute of Occupational Safety and Health. NIOSH approval indicates conformity to health and safety standards of products sold within North America
PAPR	Powered Air Purifying Respirator
RoW	Rest of World
SCBA	Self Contained Breathing Apparatus
SWOT	Special Weapons and Tactics
VTP	Vital Torso Protection
XSAPI	X-Small Arms Protective Insert
XSBI	X-Side Ballistic Insert

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 bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise 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 2020

Notice is hereby given that the AGM of shareholders of Avon Rubber p.l.c. (the 'Company') will be held as a closed meeting at Hampton Park West, Semington Road, Melksham, Wiltshire on 29 January 2021 at 10:30am for the purposes set out below.

In light of the COVID-19 pandemic and the U.K. Government legislation applicable to the AGM, the 2021 AGM will be held as a closed meeting and shareholders will not be permitted to attend in person. Please carefully read the Notice of Meeting Notes on page 169 for details of how the AGM will be conducted.

The Board will continue to closely monitor the situation and ask shareholders to be aware that the arrangements for the AGM may be subject to change. Shareholders should therefore continue to monitor the Company's website and announcements for any updates.

You will not receive a form of proxy for the AGM in the post. Instead, you will receive instructions to enable you to vote electronically and how to register to do so. You may request a hard copy proxy form directly from the registrars, Link Asset Services, 34 Beckenham Road, Beckenham, BR3 4TU (telephone number: 0371 664 0300 or +44 371 664 0300 if overseas). Voting on all resolutions at the AGM will be by way of poll.

Ordinary business

To consider and, if thought fit, pass resolutions 1–13 (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 2020.

Resolution 2

To approve the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) for the financial year ended 30 September 2020.

Resolution 3

To approve the Directors' Remuneration Policy set out on pages 76 to 85 of the 2020 Annual Report.

Resolution 4

To declare a final dividend of 18.06p per ordinary share as recommended by the Directors.

Resolution 5

To re-elect Chloe Ponsonby as a Director of the Company.

Resolution 6

To re-elect Paul McDonald as a Director of the Company.

Resolution 7

To re-elect Nicholas Keveth as a Director of the Company.

Resolution 8

To elect Bruce Thompson as a Director of the Company.

Resolution 9

To elect Bindi Foyle as a Director of the Company.

Resolution 10

To elect Victor Chavez CBE as a Director of the Company.

Resolution 11

To re-appoint KPMG LLP as auditor of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 12

To authorise the Directors to determine the auditors' remuneration.

Resolution 13

That, in accordance with sections 366 and 367 of the Companies Act 2006, the Company and all its subsidiaries during the period for which this resolution has effect be and are hereby authorised, in aggregate, to:

(a) make political donations to political parties or to independent election candidates not exceeding £100,000 in total;

(b) make political donations to political organisations (other than political parties) not exceeding £100,000 in total; and

(c) incur any political expenditure not exceeding £100,000 in total,

during the period beginning with the date of the passing of this resolution and ending at the close of business on 28 December 2021 or, if sooner, the conclusion of the next AGM of the Company. For the purpose of this resolution 'political donation', 'political party', 'political organisation', 'independent election candidate' and 'political expenditure' are to be construed in accordance with sections 363, 364 and 365 of the Companies Act 2006 (the 'Act').

Special business

To consider and if thought fit, pass resolutions 15 and 20 as Ordinary Resolutions and resolutions 14, 16–19 (inclusive) as Special Resolutions:

Resolution 14

That, with effect from the close of the AGM, the articles of association produced to the AGM and for the purpose of identification initialled by the Chair of the Meeting be adopted as the articles of association of the Company (the '**New Articles**') in substitution for, and to the exclusion of, the existing articles of association (the '**Existing Articles**').

Resolution 15

That in accordance with section 551 of 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 AGM 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 16

That, subject to the passing of resolution 15, 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 AGM 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 17

That, subject to the passing of resolution 15, the Directors be authorised, in addition to any authority granted under resolution 16, 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 AGM 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.

Notice of Annual General Meeting continued

Special business continued

Resolution 18

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 section 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 per cent) of the average of the middle market quotations of the Company's ordinary shares as derived from the Daily Official List of the London Stock Exchange for the 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 Daily 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 AGM 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 19

That a general meeting of the Company (other than an AGM), may be called on not less than 14 clear days' notice.

Resolution 20

That the proposed amendment to the rules of the Avon Rubber p.l.c. Long-Term Incentive Plan (the 'LTIP') in respect of its per participant per financial year awards limit, in the form presented to the AGM and as summarised in the explanatory notes section of this Notice of AGM, be approved and the Directors be authorised to adopt the amendment into the rules of the LTIP and to do all such other acts and things as they may consider appropriate to implement the amendment.

By order of the Board

Miles Ingrey-Counter

Miles Ingrey-Counter
Company Secretary

2 December 2020

Explanatory notes relating to the resolutions

The Board believes that the adoption of resolutions 1 to 20 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 2020. These are contained in the Company's 2020 Annual Report.

Resolution 2 – Directors' Remuneration Report

This resolution seeks shareholders' approval of the Directors' Remuneration Report for the year ended 30 September 2020 contained on pages 71 to 95 of the 2020 Annual Report. As in previous years, the vote is advisory only and the Directors' entitlement to remuneration is not conditional on it being passed.

Resolution 3 – Directors' Remuneration Policy

This resolution seeks shareholders' approval for the new Directors' Remuneration Policy which is contained on pages 76 to 85 of the 2020 Annual Report.

It is intended that the Directors' Remuneration Policy will take effect immediately after the AGM and will replace the existing policy that was approved by shareholders in 2019. The vote is a binding vote and, subject to limited exceptions, no remuneration payment or loss of office payment may be made to a prospective, current or former Director unless consistent with the approved remuneration policy (or otherwise specifically approved by shareholders). It is anticipated that the Directors' Remuneration Policy will be in force for three years although the Board will closely monitor regulatory changes and market trends and, if necessary, may present a revised policy within that three-year period.

The Directors' Remuneration Policy has been developed taking into account the principles of the U.K. Corporate Governance Code and the views of the Company's major shareholders.

Resolution 4 – Declaration of final 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 2020 of 18.06p be paid. Subject to approval, the final dividend will be paid on 12 March 2021 to eligible shareholders on the Company's register of members at close of business on 12 February 2021.

Resolutions 5 to 10 – Re-appointment of Directors

With the exception of Pim Vervaat, who will step down from the Board at the close of the AGM, each member of the Board has offered himself/herself for election or re-election in accordance with best practice corporate governance standards. The Board unanimously recommends that they each be elected or re-elected as Directors of the Company. The Chair confirms that each of the Non-Executive Directors who are seeking re-election at the AGM continues to be an effective member of the Board and to demonstrate their commitment to their role. Pim Vervaat in his capacity as Senior Independent Director, has confirmed that Bruce Thompson will be an effective Chair and demonstrates commitment to his role as Chair.

Biographical details for each Director are set out on pages 58 and 59 of the 2020 Annual Report.

Resolutions 11 & 12 – Re-appointment of auditor and authorisation for the Directors to set the auditor's remuneration

The Company is required to appoint an auditor at each general meeting at which its accounts are presented. The Board is recommending to shareholders the re-appointment of KPMG LLP as the Company's auditor for the financial year commencing on 1 October 2021.

Resolution 13 – Authority to make political donations

The Companies Act 2006 requires companies to obtain shareholders' authority before they can make donations to political organisations or incur political expenses. It is not proposed or intended to alter the Company's policy of not making political donations, within the normal meaning of that expression. However, this resolution is proposed to ensure that the Company and its subsidiaries do not, because of any uncertainty as to the bodies or activities covered by the Companies Act 2006, unintentionally commit any technical breach of the Companies Act 2006 by making political donations. Resolution 13, if passed, will give the Board authority to make political donations until the close of business on 28 December 2021 or, if sooner, the next AGM of the Company (when the Board intends to renew this authority), up to an aggregate of £100,000 for the Company and its subsidiary companies.

Resolution 14 – Adoption of New Articles of Association

The principal changes to the Existing Articles are summarised in this Notice. Other changes which are of a minor, technical, procedural or clarificatory nature have not been summarised here. The New Articles showing all the changes as compared to the Existing Articles will be available for inspection. Due to COVID-19, current U.K. Government guidance and the restrictions in place, we ask that any persons wishing to inspect these at the Company's registered office contact the Company Secretary in advance of their visit. Scanned copies will also be available on request from the Company Secretary.

Combined physical and electronic general meetings The New Articles give the Company greater flexibility to hold general meetings by allowing combined physical and electronic general meetings in accordance with the Companies (Shareholders' Rights Regulations) 2009 and the Companies Act 2006. These hybrid meetings would enable members to attend and participate in the business of the meeting by attending a physical location or by means of an electronic facility or facilities. The New Articles set out the procedures for attendance at, and participation in, hybrid meetings. This includes how attendance is determined and allow the Board to make arrangements to enable attendees to exercise their rights to speak or vote both physically and electronically. Persons participating via an electronic platform shall be responsible for ensuring they have the facilities to access the meeting. Unless a meeting is adjourned by the Chair of the meeting, the inability of a person to attend or participate via an electronic platform will not affect the validity of, or business conducted at, a general meeting. Nothing in the New Articles will preclude physical general meetings being held. Certain consequential changes to facilitate this amendment have been made throughout the New Articles.

It is not the current intention of the Board to routinely hold combined physical and electronic general meetings. Such meetings will be arranged in certain exceptional circumstances. These amendments are being made to provide the Board with the flexibility should they need to make alternative arrangements for participation in meetings (including where physical participation may be prevented or restricted).

Postponement of general meetings

The proposed amendment provides the Board with the flexibility to postpone, or move, a general meeting prior to the date on which the meeting is to be held except where such postponement or move would be contrary to applicable company law. This amendment is intended to provide flexibility to the Board to address certain circumstances, for example, where the business to be considered at a general meeting is (i) no longer relevant or required or (ii) whether unforeseen or extraordinary circumstances mean that the Board considers that it will be impractical, undesirable or unreasonable, to hold a general meeting at the place, time or on the date stated in the notice of meeting.

The Board currently intends for this power to be used only in exceptional circumstances. Without express authority in the Articles of Association, the Board does not have the flexibility to postpone a general meeting once notice has been given. If the Board exercise the proposed discretion, notice of the postponed meeting does not need to be given again and any proxy appointments made for such meeting will remain valid if otherwise in accordance with the New Articles and received by the Company at least 48 hours before the commencement of the postponed meeting to which the proxy appointment relates to.

Notice of Annual General Meeting continued

Explanatory notes relating to the Resolutions continued

Resolution 15 – 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 AGM 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 2 December 2020 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 AGM of the Company.

In this resolution, Relevant Securities means:

(a) 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

(b) 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 16 – General disapplication of pre-emption rights

This resolution will, if passed, give the Directors power, pursuant to the authority to allot granted by resolution 15, 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 2 December 2020 and renews the authority given at the AGM in 2020.

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 17.

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 AGM of the Company.

The Directors have no present intention to exercise the authority conferred by this resolution.

Resolution 17 – Additional disapplication of pre-emption rights

This resolution seeks a further power pursuant to the authority granted by resolution 15, 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 2 December 2020. This is in addition to the 5% referred to in resolution 16 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 AGM 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 18 – 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 approximately 10% of the Company's issued share capital as at 2 December 2020.

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 shares in the period from the last AGM to 2 December 2020 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.

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 2 December 2020, there were options to subscribe outstanding over 430,620 shares, representing 1.39% of the Company's issued share capital. If the authority given by resolution 15 were to be fully exercised, these options would represent 1.54% of the Company's issued share capital after cancellation of the re-purchased shares. As of 2 December 2020, there were no warrants outstanding over shares.

Resolution 19 – Notice of Meeting

Resolution 19 is a resolution to allow the Company to hold general meetings (other than AGMs) 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 AGMs) 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 AGMs) 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 19 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 AGMs. The approval will be effective until the Company's next AGM, 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.

Resolution 20 – Amendment to LTIP

The Avon Rubber p.l.c. Long-Term Incentive Plan is the Company's long-term incentive arrangement for the Company's Executive Directors and other selected employees. The current terms of the LTIP provide that participants may not receive awards under the LTIP in any financial year over shares having a market value in excess of 150% of their annual base salary in that financial year.

To align the LTIP to the limit for such purposes under the new Directors' Remuneration Policy proposed under Resolution 3, shareholder approval is sought under Resolution 20, to amend the rules of the LTIP to provide that participants may not receive awards under the LTIP in any financial year over shares having a market value in excess of 175% of their annual base salary in that financial year.

As per the current rules of the LTIP, market value for the purposes of the above limit shall ordinarily be based on the market value of shares on the dealing day immediately preceding the grant of an award or by reference to a short averaging period ending on such dealing day.

No other changes are proposed to the LTIP and subject to shareholder approval, the increased limit would become available in respect of awards granted on or after the date of the AGM.

A copy of the draft rules of the amended LTIP are available for inspection until the date of the AGM. Due to COVID-19, current U.K. Government guidance and the restrictions in place, we ask that any persons wishing to inspect these at the Company's registered office contact the Company Secretary in advance of their visit. Scanned copies will also be available on request from the Company Secretary.

Notice of meeting notes

The following notes explain your general rights as a shareholder and your right to attend and vote at this AGM or to appoint someone else to vote on your behalf.

1. Protecting the safety and wellbeing of our shareholders, our employees and the public is of paramount importance to the Board of Directors of the Company (the 'Board'). In order to achieve this, it is currently intended that the AGM will be held in accordance with the provisions of the Corporate Insolvency and Governance Act 2020 and will be run as a closed meeting, held at the Company's registered office. The AGM will proceed with only such attendees, employees and support staff as is strictly required to run the AGM and satisfy the quorum requirements. Shareholders (other than those forming the quorum, which will be facilitated by the Company) should not attempt to attend the AGM in person as they will not be admitted.

2. Despite the current exceptional circumstances, the Board is keen to maintain engagement with shareholders. The Company will be providing webcast facilities to enable shareholders to listen to, view and follow the proceedings of the AGM remotely. All shareholders are encouraged to use this facility and follow the proceedings of the AGM in real time.

3. Shareholders can put a question to the Board relating to the business to be conducted at the AGM by submitting a question in advance through the webcast facility or by emailing enquires@avon-rubber.com. Any such questions must be received before 10:30am (U.K. time) on 27 January 2021. The Board will respond to these questions during the AGM. Shareholders will also have the opportunity to ask questions in real time during the AGM, by submitting questions through the webcast facility. Answers not provided during the AGM will be provided as soon as practicable thereafter.

4. The Company reserves the right to consolidate questions of a similar nature. The Company is not required to answer questions if (i) doing so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information; (ii) the answer has already been given on the Company's website in the form of an answer to a question; or (iii) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

Notice of Annual General Meeting continued

Notice of meeting notes continued

5. Shareholders will receive details on the webcast facility separately or on the Company's website at www.avon-rubber.com/investors/. Shareholders with questions about the webcast facility should email enquiries@avon-rubber.com. Shareholders using the webcast facility will not be able to vote or ask questions using this service during the AGM.

6. To be entitled to vote on the business of the AGM (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of business on 27 January 2021. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to vote on the business of the AGM.

7. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the AGM. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company. Given the proposed AGM arrangements, unless you appoint the Chair of the AGM as your proxy, neither you nor your proxy will be able to attend and vote at the AGM in person. The Board strongly encourages you to exercise your vote on the business of the AGM and asks you to complete a proxy form to appoint the 'Chair of the Meeting' as your proxy.

8. 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).

9. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.

10. You can vote either:
    - by logging on to www.signalshares.com and following the instructions;
    - you may request a hard copy form of proxy directly from the registrars, Link Asset Services, on Tel: 0371 664 0300 (+44 371 664 0300 if overseas). Calls are charged at the standard geographical rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00–17:30, Monday to Friday excluding public holidays in England and Wales; and
    - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In order for a proxy appointment to be valid, a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 10:30am (GMT) on 27 January 2021.

11. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

12. 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 of the AGM) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a 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.

13. 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 U.K. & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 10:30am (U.K. time) on 27 January 2021. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

14. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear U.K. & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is 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 their 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

15. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

16. As at 2 December 2020 (being the latest practicable business day prior to the publication of this Notice), the Company's issued share capital consists of 31,023,292 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 2 December 2020 are 31,023,292.

17. Under Section 527 of the Companies Act 2006, shareholders 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 financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, 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 for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

18. The following documents are available for inspection from the date of this Notice until the conclusion of the AGM:

    - copies of the Directors' letters of appointment or service contracts;
    - a copy of the draft rules of the LTIP; and
    - a copy of the current Articles of Association of the Company.

    Due to COVID-19, current U.K. Government guidance and the restrictions in place, we ask that any persons wishing to inspect these at the Company's registered office contact the Company Secretary in advance of their visit.

    Scanned copies will also be available on request from the Company Secretary.

19. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Shareholder Information

Shareholder information

As at 30 November 2020 the Company had 1,421 shareholders, of which 838 had 1,000 shares or fewer.

Financial calendar

Half year results are usually announced in May and year end results in November.

In respect of the year ended 30 September 2020 the AGM will be held as a closed meeting on 29 January 2021 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 (Chair)
Bruce Thompson (Chair Designate and Non-Executive Director)
Paul McDonald (Chief Executive Officer)
Nick Keveth (Chief Financial Officer)
Pim Vervaat (Non-Executive Director)
Chloe Ponsonby (Non-Executive Director)
Bindi Foyle (Non-Executive Director)
Victor Chavez CBE (Non-Executive Director)

Company secretary

Miles Ingrey-Counter

Independent auditors

KPMG LLP
Chartered Accountants and Statutory Auditors

Registrars and transfer office

Link Asset Services, The Registry, 34 Beckenham Road,
Beckenham, BR3 4TU

Tel: 0371 664 0300 (+44 371 664 0300 if overseas)
(calls are charged at the standard geographical rate and will vary by provider, lines are open 9:00am–5:30pm, excluding public holidays in England and Wales)

Financial Advisor

Rothschild & Co

Brokers

Peel Hunt LLP
Jefferies Group LLC

Financial PR

MHP Communications

Lawyers

White & Case LLP

Principal bankers

Barclays Bank PLC
Comerica Inc.
NatWest
Fifth Third
Bank of Ireland
CIC

Website

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