2014 Interim Results

Avon Rubber p.l.c.

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News Release

Strictly embargoed until 07:00 30 April 2014

AVON RUBBER p.l.c.
("Avon", the "Group" or the "Company")
Unaudited interim results for the six months ended 31 March 2014

	31 March 2014 £Millions	31 March 2013 £Millions
REVENUE	**61.5**	59.6
ADJUSTED EBITDA (*)	**11.1**	8.4
ADJUSTED OPERATING PROFIT (*)	**8.2**	5.8
ADJUSTED PROFIT BEFORE TAX (*)	**8.0**	5.6
NET DEBT	**5.5**	9.9
EARNINGS PER SHARE:		
Adjusted basic (*)	**20.4p**	13.4p
Adjusted diluted (*)	**19.8p**	12.9p
INTERIM DIVIDEND	**1.87p**	1.44p

FINANCIAL HIGHLIGHTS

- Operating profit growth of 41% and profit before tax up 45%
- Return on sales (EBITDA divided by revenue) improved 4% from 14% to 18%
- Diluted earnings per share up 53%
- 137% conversion of operating profit to operating cash inflow; debt reduced to £5.5m
- Interim dividend of 1.87p per share up 30% reflecting both the excellent current year operating results, confidence in the future and a wish to raise the level of dividend payment relative to earnings progressively over time

OPERATIONAL HIGHLIGHTS

- Order intake in Protection & Defence up 15% to £46m. Closing order book of £33m with £26m for delivery in H2 2014
- Growth in non-DOD sales from strong opening order book; the second half will benefit from delivery against our largest ever individual US homeland security order
- Dairy market conditions are improving as animal feed costs start to reduce following the improved 2013 harvest
- Cluster exchange service successfully launched in both Europe and North America
- Announced the consolidation of Protection & Defence operations from four US sites into three ahead of the expiry of the lease on the Lawrenceville, GA facility in 2015

Peter Slabbert, Chief Executive commented:

"Our strategy of diversifying into broader protection and non-US defence markets has resulted in growth. The improvement in the dairy market reported earlier this year has been maintained. Together these have produced strong growth in the first half of the year and support the Board's confidence that the Group can continue to make progress in the second half of the financial year.

The Board believes that it is building a sound and robust business with good long-term growth potential."

(*) Note:

The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, defined benefit pension scheme costs and the amortisation of acquired intangibles. The term adjusted is not defined under IFRS and may not be comparable with similarly-titled measures used by other companies.

All profit and earnings per share figures in these interim results relate to adjusted business performance (as defined above) unless otherwise stated. A reconciliation of adjusted measures to non-adjusted measures is provided below:

	Non-Adjusted	Adjustments	Adjusted
Group EBITDA (£m)	8.9	2.2	11.1
Group operating profit (£m)	5.9	2.3	8.2
Other finance expense (£m)	0.1	-	0.1
Group profit before taxation (£m)	5.7	2.3	8.0
Taxation (£m)	1.6	0.3	1.9
Group profit for the year (£m)	4.1	2.0	6.1
Basic earnings per share (pence)	13.8	6.6	20.4
Diluted earnings per share (pence)	13.3	6.5	19.8
Protection & Defence EBITDA (£m)	7.2	2.0	9.2
Protection & Defence operating profit (£m)	4.7	2.1	6.8

The adjustments comprise:

- amortisation of acquired intangibles of £0.1m
- defined benefit pension scheme costs of £0.2m, which relate to a scheme closed to future accrual and therefore do not relate to current operations
- exceptional item of £2.0m relating to the consolidation of Protection & Defence sites
- tax effect of exceptional item of £0.3m.

Further details are provided in note 5.

Avon Rubber p.l.c.

Peter Slabbert, Chief Executive	Today:	020 7067 0000
	Thereafter:	01225 896 870
Andrew Lewis, Group Finance Director		01225 896 830
Sarah Matthews-DeMers, Group Financial Controller		01225 896 835
Sophie Williams, Public Relations Manager		01225 896 563

Weber Shandwick Financial

Nick Oborne	020 7067 0000
Stephanie Badjonat	

An analyst meeting will be held at 9.30am this morning at the offices of Weber Shandwick Financial, 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE.

NOTES TO EDITORS:

The Group is an innovative design and engineering group specialising in two core markets, Protection & Defence and Dairy. With a strong emphasis on research and development we design, test and manufacture specialist products from a number of sites in the US and UK, serving markets around the world. We achieve this through nurturing the talent and aspirations of our employees to realise their highest potential.

Avon Protection is the recognised global market leader in advanced Chemical, Biological, Radiological and Nuclear (CBRN) respiratory protection systems technology for the world's military, homeland security, first responder, fire and industrial markets. With an unrivalled pedigree in mask design dating back to the 1920's, Avon Protection's advanced products are the first choice for Personal Protective Equipment (PPE) users worldwide and are placed at the heart of many international defence and tactical PPE deployment strategies. Our expanding global customer base now includes military forces, civil and first line defence troops, emergency service teams and industrial, marine, mineral and oil extraction site personnel. All put their trust in Avon's advanced respiratory solutions to shield them from every possible threat.

Our world-leading Dairy business and its Milkrite brand have a global market presence. With a long history of manufacturing liners and tubing for the dairy industry, Milkrite has become the leading innovator and designer for products and services right at the heart of milking. Our goal is always to improve and maintain animal health. Working with the leading scientists and health specialists in the global dairy industry we continue to invest in technology to further improve the milking process and animal welfare. Our products provide exceptional results for both the animal and the milker, making the milk extraction process run smoothly. As our market share and milking experience continue to grow, so does our global presence.

For further information please visit the Group's website: www.avon-rubber.com

Interim Management Report

INTRODUCTION

The investments we have made in new products, technologies, systems and people have positioned the Group to deliver continuing strong growth.

First half trading in the Protection & Defence business benefitted from our strategy of balancing our business by adding increasing levels of higher-margin non-DOD sales. We have completed shipment of export orders brought forward into this financial year and trading in the second half of the year will benefit from delivery against our largest ever individual US commercial order for Homeland Security products (£4m) which was received in the second quarter, the positive order intake from the South American market and sales of our new Deltair fire SCBA, which has now received regulatory approval.

Counterbalancing this, the mix of sales in the second half of the financial year is likely to include proportionately more lower-margin DOD sales as we fulfill the 85,000 mask systems order received in the second quarter and further US government budgets are released. We therefore expect a first half bias in the results of this business for the year as a whole.

In the Dairy sector, higher milk prices and lower animal feed prices have returned markets to historical buying patterns for our consumable products. The cluster exchange service, which was launched at the end of 2013, has been well received by US and EU markets and this should provide additional growth opportunities through the remainder of our financial year. The proprietary Milkrite ImpulseAir mouthpiece vented liner has continued to sell well in the US and made reasonable progress in Europe.

GROUP RESULTS

Group revenue at £61.5m (2013: £59.6m) rose by 3%.

The Group returned an operating profit of £8.2m (2013: £5.8m), an increase of 41%. Earnings before interest, tax, depreciation and amortisation ('EBITDA') were £11.1m (2013: £8.4m) representing a return on sales (defined as EBITDA divided by revenue) of 18% (2013: 14%).

The impact of foreign exchange translation was a slight headwind as the $/£ average rate of $1.633 was higher than the $1.567 prevailing in the same period last year. If the currently stronger US dollar were to prevail throughout the remainder of the financial year, it would create further headwinds for the full year. Our sensitivity analysis on the full year 2013 results showed that a 5c movement in the $/£ exchange rate would result in a £0.4m impact on annual operating profit.

Net finance costs reduced to £0.1m (2013: £0.2m), and non-cash other finance expenses were flat at £0.1m (2013: £0.1m).

Profit before tax was £8.0m (2013: £5.6m) and after a tax charge of £1.9m (2013: £1.6m), an effective rate of 24% (2013: 29%), the Group recorded a profit for the period after tax of £6.1m (2013: £4.0m). The reduced tax rate reflects the geographical split of taxable profits. Basic earnings per share were up 52% at 20.4p (2013: 13.4p) and fully diluted earnings per share were up 53% at 19.8p (2013: 12.9p).

NET DEBT AND CASHFLOW

Operating cash conversion remained strong at 137% of operating profit. Turning profits into cash has enabled us to continue to invest in the future of the business with £3.1m of capital investment, while, at the same time, increasing the interim dividend to shareholders by 30% and reducing our debt.

Net debt decreased from £10.9m at the 2013 year end to £5.5m at 31 March 2014. The decrease was attributable to strong operating cash conversion and the weakening US dollar, which reduced the reported number by £0.2m due to the translation of dollar debt.

Total bank facilities at 31 March 2014 were £23.3m, the majority of which are US dollar denominated and provide a partial hedge against the Group's US dollar assets. These facilities are committed until 30 March 2015.

PROTECTION & DEFENCE

Performance

Revenue for the division was £45.6m (2013: £43.5m). The increase arose from the shipment of export orders brought forward into this financial year and growth in sales of other DOD spares as the installed base of M50 masks grows, offset by the deferral to the second half of sales of mask systems to the DOD as production scheduling was flexed to accommodate the higher level of non-DOD activity.

Operating profit was 57% higher at £6.8m (2013: £4.3m) and EBITDA was up 40% at £9.2m (2013: £6.6m) due to the change in mix to non-DOD sales and the operational gearing effect of the higher revenues. Return on sales, as defined above, was 20% (2013: 15%). On a constant currency basis, operating profit increased by £2.7m or 66%.

Markets

M50 respirator sales to the DOD were in line with forecast in the first half of the year, at 58,000 mask systems. During the period we received a further order for 85,000 mask systems which means we exit the half year with mask order coverage well into the second half of our financial year, providing good visibility of revenue under this 10 year sole source contract.

We delivered 162,000 pairs of M61 filters during the period. Having entered the year with 80,000 pairs on order, we have won further orders for 82,000 pairs from one of two contract vehicles in place which allow the DOD to procure spare filters. We remain the sole source supplier until a second source is successfully qualified and believe the end user demand for this consumable product will grow as fielding of the mask accelerates. We continue to recognise that in the current US DOD procurement environment, obtaining short-term visibility of future filter orders remains challenging.

Given the large brought forward order book, sales to foreign military, law enforcement and first responder customers grew strongly, as expected, supported by deliveries under the two large contracts previously announced. During the period we secured another large order to supply our escape products (valued at £4m) to a new US Homeland Security customer.

Sales to the fire market remained flat as purchasers put procurement decisions on hold pending release of the new NFPA standard. Our new Deltair SCBA, designed to meet these new US regulations and to enhance operational performance, has now been approved. It is one of only three units to receive approval to date and this represents an opportunity for the second half of the year and beyond.

AEF has seen a continuation of the high level of order intake experienced last year and has contributed at a similar level to 2013. Other DOD spares sales also reflected higher demand. These sales are at lower margins and hence at a divisional level are margin-dilutive in percentage terms.

Order intake for the first half totalled £46m, up 15% on the prior period. Of the closing order book of £33m, £26m is for delivery in the second half of our financial year giving good visibility for the remainder of the year.

Facilities

In March 2014 we announced the consolidation of our US operations from four existing sites into three ahead of the expiry of the lease of the Lawrenceville, GA facility in June 2015. The relocation and subsequent closure of the Lawrenceville facility will take place during the current calendar year and will yield annualised cost savings of approximately £1m, commencing in the 2015 financial year. The cost of the relocation is expected to be £2m and has been accounted for as an exceptional item in the income statement.

DAIRY

Performance

Revenue for the Dairy business was 2% lower at £15.9m (2013: £16.1m) due to the negative translation effect of the weaker dollar. An increasing proportion of higher-margin Milkrite product sales contributed to an increased operating profit of £2.7m (2013: £2.6m). Return on sales, as defined above, increased to 20% (2013: 18%). On a constant currency basis, revenue increased by £0.3m or 2% and operating profit increased by £0.2m or 8%.

Markets

The difficult market conditions experienced during the latter part of the previous financial year began to improve as a result of the better 2013 harvest which resulted in lower animal feed costs. This, together with higher milk prices reduced the pressure on farmer revenues and margins and led to a return of more normal levels of demand for our consumable products.

In Europe, Milkrite's market share has increased, delivering returns on our investment in the sales force, enhanced technical support and a larger distributor network. In the US, the Milkrite ImpulseAir mouthpiece vented liner continued to perform well, with its market share increasing to 20% (31 March 2013: 18%, 30 September 2013: 19%).

Our cluster exchange service was launched in the US and Europe and gained momentum as the reporting period developed. This add-on service increases the value of each direct liner sale we make and should lead to a more robust business model.

In China, the dairy industry is being restructured following a number of issues, including contaminated milk, contaminated feed and an outbreak of foot and mouth disease. This resulted in a temporary reduction in sales opportunities. We remain committed to this market, which has excellent long-term potential.

In many other emerging markets, including Brazil and India, the number of dairy cows being milked using automated milking processes is growing strongly. This is adding to the market potential for the consumable products we sell. We plan to harness this potential by establishing sales and distribution functions in these markets as they develop.

RETIREMENT BENEFIT OBLIGATIONS

The IAS 19R valuation of the Group's UK retirement benefit obligations has moved from a deficit of £11.3m at 30 September 2013 to a deficit of £5.8m at 31 March 2014. The movement arose from strong asset performance from our return seeking assets, with little change to the liabilities.

During the period the Company made cash contributions in respect of deficit recovery payments and administration costs of £237,000 (2013: £338,000).

An actuarial valuation was undertaken as at 31 March 2013 which showed the scheme to be 98.0% funded. This has given rise to a new deficit recovery plan under which the payments for the Company financial years ending 30 September will be as follows: 2014: £513,000, 2015: £550,000, 2016: £675,000, 2017: £700,000 and 2018: £700,000.

DIVIDENDS

The final dividend for the 2013 financial year of 2.88p per ordinary share was paid to shareholders on 21 March 2014 and absorbed £862,000 of shareholders' funds.

Following the period end, the Board has declared an interim dividend of 1.87p per ordinary share for 2014, an increase of 30% on the 2013 interim dividend. This will be paid on 5 September 2014 to shareholders on the register on 8 August 2014. It is expected to absorb £560,000 of shareholders' funds and there are no corporation tax consequences.

OUTLOOK

Our strategy of diversifying into broader protection and non-US defence markets has resulted in growth and supports the Board's confidence that the Group can continue to make progress in the second half of the financial year.

The Protection & Defence business is expected to continue to benefit from the security of the long-term DOD contract, to increase its market share in law enforcement and foreign military markets and to improve its position in the North American fire market.

The Dairy business is well positioned in markets with long-term growth potential. There remain opportunities to enhance profitability through increasing sales of our proprietary Milkrite technology, by enhancing and diversifying our distribution capability and through the expansion of the cluster exchange service.

As a result, the Board believes that it is building a sound and robust business with long-term growth potential.

Peter Slabbert
Chief Executive
30 April 2014

Andrew Lewis
Group Finance Director
30 April 2014

Statement of Directors' Responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

• an indication of important events that have occurred during the first six months and their impact on the condensed consolidated interim financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

• material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report

The Directors are as listed on page 39 of the 2013 Annual Report.

Forward-looking statements
Certain statements in this half year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Company website
The interim statement is available on the Company's website at http://interim.avon-rubber.com. The maintenance and integrity of the website is the responsibility of the Directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Miles Ingrey-Counter

Miles Ingrey-Counter
Company Secretary
30 April 2014

Consolidated Statement of Comprehensive Income

		Half year to 31 March 2014			Half year to 31 March 2013			Year to 30 Sept 2013		
		Statutory	**Adjustments**	**Adjusted**	Statutory (restated**)	Adjustments	Adjusted	Statutory (restated**)	Adjustments	Adjusted
	Note	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4	**61,491**	**-**	**61,491**	59,590	-	59,590	124,851	-	124,851
Cost of sales		**(41,368)**	**-**	**(41,368)**	(43,658)	-	(43,658)	(91,140)	-	(91,140)
Gross profit		**20,123**	**-**	**20,123**	15,932	-	15,932	33,711	-	33,711
Distribution costs		**(2,729)**	**-**	**(2,729)**	(2,707)	-	(2,707)	(5,433)	-	(5,433)
Administrative expenses		**(11,498)**	**2,330**	**(9,168)**	(7,615)	210	(7,405)	(15,275)	1,220	(14,055)
Operating profit	4	**5,896**	**2,330**	**8,226**	5,610	210	5,820	13,003	1,220	14,223
Operating profit is analysed as:										
Before depreciation and amortisation		**8,933**	**2,200**	**11,133**	8,182	210	8,392	19,220	803	20,023
Depreciation and amortisation		**(3,037)**	**130**	**(2,907)**	(2,572)	-	(2,572)	(6,217)	417	(5,800)
Operating profit		**5,896**	**2,330**	**8,226**	5,610	210	5,820	13,003	1,220	14,223
Finance income	6	**-**	**-**	**-**	-	-	-	1	-	1
Finance costs	6	**(103)**	**-**	**(103)**	(152)	-	(152)	(348)	-	(348)
Other finance expense	6	**(97)**	**6**	**(91)**	(127)	17	(110)	(253)	33	(220)
Profit before taxation		**5,696**	**2,336**	**8,032**	5,331	227	5,558	12,403	1,253	13,656
Taxation	7	**(1,590)**	**(350)**	**(1,940)**	(1,602)	-	(1,602)	(3,566)	(122)	(3,688)
Profit for the period		**4,106**	**1,986**	**6,092**	3,729	227	3,956	8,837	1,131	9,968

Consolidated Statement of Comprehensive Income (continued)

	Note	**Half year to 31 March 2014**			Half year to 31 March 2013			Year to 30 Sept 2013		
		Statutory	**Adjustments**	**Adjusted**	Statutory (restated**)	Adjustments	Adjusted	Statutory (restated**)	Adjustments	Adjusted
		£'000	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000	£'000
Other comprehensive income/(expense)										
Actuarial gain/(loss) recognised in retirement benefit schemes (***)		**5,446**	-	**5,446**	3,900	-	3,900	(9,180)	-	(9,180)
Net exchange differences offset in reserves (****)		**(1,147)**	-	**(1,147)**	1,924	-	1,924	(74)	-	(74)
Other comprehensive income/(expense) for the period, net of taxation		**4,299**	-	**4,299**	5,824	-	5,824	(9,254)	-	(9,254)
Total comprehensive income for the period		**8,405**	**1,986**	**10,391**	9,553	227	9,780	(417)	1,131	714
Earnings per share										
Basic	9	**13.8p**		**20.4p**	12.7p		13.4p	30.0p		33.8p
Diluted	9	**13.3p**		**19.8p**	12.1p		12.9p	28.8p		32.5p

**Restated for the change in accounting for pension costs. See note 3.

*** Items that are not subsequently reclassified to the income statement

****Items that may be subsequently reclassified to the income statement

Consolidated Balance Sheet

	Note	As at 31 Mar 14 £'000	As at 31 Mar 13 £'000	As at 30 Sep 13 £'000
Assets				
Non-current assets				
Intangible assets		**16,317**	15,593	16,541
Property, plant and equipment		**19,832**	19,582	20,387
Retirement benefit asset		**-**	1,774	-
		36,149	36,949	36,928
Current assets				
Inventories		**15,431**	15,328	13,374
Trade and other receivables		**16,276**	20,666	20,677
Derivative financial instruments		**137**	-	214
Cash and cash equivalents	13	**217**	1,521	184
		32,061	37,515	34,449
Liabilities				
Current liabilities				
Trade and other payables		**15,236**	20,543	16,680
Derivative financial instruments		**-**	150	-
Provisions for liabilities and charges	10	**1,830**	586	616
Current tax liabilities		**6,158**	5,787	6,073
		23,224	27,066	23,369
Net current assets		**8,837**	10,449	11,080
Non-current liabilities				
Borrowings	13	**5,755**	11,391	11,059
Deferred tax liabilities		**2,481**	2,749	2,977
Retirement benefit obligations		**5,802**	-	11,279
Provisions for liabilities and charges	10	**2,659**	2,225	1,997
		16,697	16,365	27,312
Net assets		**28,289**	31,033	20,696
Shareholders' equity				
Ordinary shares	11	**31,023**	30,723	30,723
Share premium account	11	**34,708**	34,708	34,708
Capital redemption reserve		**500**	500	500
Translation reserve		**(1,773)**	1,372	(626)
Accumulated losses		**(36,169)**	(36,270)	(44,609)
Total equity		**28,289**	31,033	20,696

Consolidated Cash Flow Statement

	Note	**Half year to 31 Mar 14 £'000**	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
Cash generated from operations	12	**11,302**	7,680	15,300
Finance income received		**-**	-	1
Finance costs paid		**(101)**	(137)	(365)
Retirement benefit deficit recovery contributions		**(237)**	(338)	(592)
Tax paid		**(1,778)**	(932)	(2,229)
Net cash generated from operating activities		**9,186**	6,273	12,115
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**17**	-	2
Purchase of property, plant and equipment		**(1,893)**	(2,353)	(6,339)
Capitalised development costs and software		**(1,265)**	(2,121)	(4,715)
Acquisition of VR Technology Holdings		**-**	-	(439)
Net cash used in investing activities		**(3,141)**	(4,474)	(11,491)
Cash flows from financing activities				
Net movements in loans		**(5,149)**	2,012	2,281
Dividends paid to shareholders		**(862)**	(708)	(1,132)
Purchase of own shares		**-**	(1,765)	(1,765)
Net cash used in financing activities		**(6,011)**	(461)	(616)
Net increase in cash, cash equivalents and bank overdrafts		**34**	1,338	8
Cash, cash equivalents and bank overdrafts at beginning of the year		**184**	176	176
Effects of exchange rate changes		**(1)**	7	-
Cash, cash equivalents and bank overdrafts at end of the period	13	**217**	1,521	184

Consolidated Statement of Changes in Equity

	Note	Share capital £'000	Share Premium £'000	Other reserves £'000	Accumulated losses £'000	Total £'000
At 1 October 2012		30,723	34,708	(52)	(41,482)	23,897
Profit for the period**		-	-	-	3,729	3,729
Unrealised exchange differences on overseas investments		-	-	1,924	-	1,924
Actuarial gain recognised in retirement benefit scheme**		-	-	-	3,900	3,900
Total comprehensive income for the period		-	-	1,924	7,629	9,553
Dividends paid		-	-	-	(708)	(708)
Purchase of shares by the employee benefit trust		-	-	-	(1,765)	(1,765)
Movement in respect of employee share schemes		-	-	-	56	56
At 31 March 2013		30,723	34,708	1,872	(36,270)	31,033
Profit for the period **		-	-	-	5,108	5,108
Unrealised exchange differences on overseas investments		-	-	(1,998)	-	(1,998)
Actuarial loss recognised in retirement benefit scheme **		-	-	-	(13,080)	(13,080)
Total comprehensive expense for the period		-	-	(1,998)	(7,972)	(9,970)
Dividends paid		-	-	-	(424)	(424)
Movement in respect of employee share schemes		-	-	-	57	57
At 30 September 2013		30,723	34,708	(126)	(44,609)	20,696
Profit for the period		**-**	**-**	**-**	**4,106**	**4,106**
Unrealised exchange differences on overseas investments		**-**	**-**	**(1,147)**	**-**	**(1,147)**
Actuarial gain recognised in retirement benefit scheme		**-**	**-**	**-**	**5,446**	**5,446**
Total comprehensive income for the period		**-**	**-**	**(1,147)**	**9,552**	**8,405**
Dividends paid	8	**-**	**-**	**-**	**(862)**	**(862)**
Issue of shares	11	**300**	**-**	**-**	**-**	**300**
Purchase of shares by Employee Benefit Trust	11	**-**	**-**	**-**	**(300)**	**(300)**
Movement in respect of employee share schemes		**-**	**-**	**-**	**50**	**50**
At 31 March 2014		**31,023**	**34,708**	**(1,273)**	**(36,169)**	**28,289**

**Restated for the change in accounting for pension costs. See note 3.

Notes to the Interim Financial Statements

1. General information

The company is a limited liability company incorporated in England and domiciled in the UK. The address of its registered office is Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB. The company has its primary listing on the London Stock Exchange.

This condensed consolidated interim financial information was approved for issue on 30 April 2014.

These interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2013 were approved by the Board of Directors on 20 November 2013 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed consolidated interim financial information for the half year ended 31 March 2014 has been prepared in accordance with the Disclosure and Transparency rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. These interim financial results should be read in conjunction with the annual financial statements for the year ended 30 September 2013, which have been prepared in accordance with IFRSs as adopted by the European Union.

Whilst the bank debt expires on 30 March 2015, the Company is currently negotiating the renewal of the facilities and having considered the Group's funding position, budgets for 2014 and three year plan, the Directors have formed a judgment that there is a reasonable expectation that the refinancing will be completed prior to the year end and that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial information.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2013, as described in those financial statements, except as described below.

Recent accounting developments

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the International Financial Reporting Interpretations Committee (IFRIC). The Group's approach to these is as follows:

a) Standards, amendments and interpretations effective in 2014

The following amendment has been adopted in preparing the condensed consolidated half-yearly financial information and will be adopted for the year ending 30 September 2014:

- IAS 19 (revised), 'Employee benefits'

The main changes affecting the Group are as follows:

- Interest income or expense has been calculated by applying the discount rate to the net defined benefit liability or asset as at the previous year end. Previously interest cost was calculated on the defined benefit obligation and expected return calculated on plan assets.
- Costs associated with investment management are deducted from the return on plan assets, (which is unchanged from the previous standard). Other expenses are recognised in the consolidated statement of comprehensive income as incurred.

This resulted in an increase in the amounts charged to the income statement of £0.4m for the period ended 31 March 2014 over the cost under the previous standard and a 1.3p reduction in earnings per share, with a similar impact on the comparatives for the period ended 31 March 2013, as shown below:

	Half year to 31 March 2013			Year to 30 Sept 2013		
	Reported	Restate	Restated	Reported	Restate	Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Operating profit	5,820	(210)	5,610	13,423	(420)	13,003
Finance income	-	-	-	1	-	1
Finance costs	(152)	-	(152)	(348)	-	(348)
Other finance income/(expense)	58	(185)	(127)	118	(371)	(253)
Profit before taxation	5,726	(395)	5,331	13,194	(791)	12,403
Taxation	(1,602)	-	(1,602)	(3,566)	-	(3,566)
Profit for the period	4,124	(395)	3,729	9,628	(791)	8,837
Other comprehensive income/(expense)						
Actuarial gain/(loss) recognised in retirement benefit schemes	3,505	395	3,900	(9,971)	791	(9,180)
Net exchange differences offset in reserves	1,924	-	1,924	(74)	-	(74)
Other comprehensive income/(expense) for the period, net of taxation	5,429	395	5,824	(10,045)	791	(9,254)
Total comprehensive income/(expense) for the period	9,553	-	9,553	(417)	-	(417)
Earnings per share						
Basic	14.0p	(1.3p)	12.7p	32.7p	(2.7p)	30.0p
Diluted	13.4p	(1.3p)	12.1p	31.4p	(2.6p)	28.8p

In the analysis above, the discount rate has been applied to the net deficit. Administration costs have been charged against operating profit and investment management costs have been included in other comprehensive income.

On the face of the consolidated statement of comprehensive income, adjusted results have been disclosed which exclude defined benefit pension scheme costs as these relate to a scheme closed to future accrual and are not therefore relevant to current operations.

The following standards and amendments have also been adopted in preparing the condensed consolidated half-yearly financial information and will be adopted for the year ending 30 September 2014 but have no impact on the interim financial information:

- IFRS 10, 'Consolidated financial statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of interests in other entities'
- IFRS 13, 'Fair value measurement'
- IAS 27 (revised), 'Separate financial statements'
- IAS 28 (revised), 'Associates and joint ventures'
- Amendment to IAS 12, 'Income taxes'

b) Standards, amendments and interpretations to existing standards issued but not yet effective in 2014 and not adopted early:

- Amendment to IFRS 7, 'Financial instruments: disclosures'
- IFRS 9, 'Financial instruments'
- Amendment to IAS 32, 'Financial instruments: presentation'
- Amendment to IAS 36, 'Impairment of assets'
- Amendment to IAS 39,'Financial instruments: recognition and measurement'
- Annual improvements cycle 2009-2011

4. Segment information

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

The Group has two clearly defined business segments, Protection & Defence and Dairy, and operates out of the UK and the US.

Business segments
Half year to 31 March 2014

	Protection & Defence £'000	Dairy £'000	Unallocated £'000	Group £'000
Revenue	**45,639**	**15,852**		**61,491**
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	**9,237**	**3,176**	**(1,280)**	**11,133**
Depreciation of property, plant and equipment	**(1,597)**	**(382)**	**(30)**	**(2,009)**
Amortisation of intangibles	**(837)**	**(57)**	**(4)**	**(898)**
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	**6,803**	**2,737**	**(1,314)**	**8,226**
Amortisation of acquired intangibles	**(130)**			**(130)**
Exceptional items	**(2,000)**			**(2,000)**
Defined benefit pension scheme costs			**(200)**	**(200)**
Segment result	**4,673**	**2,737**	**(1,514)**	**5,896**
Finance costs			**(103)**	**(103)**
Other finance expense			**(97)**	**(97)**
Profit before taxation	**4,673**	**2,737**	**(1,714)**	**5,696**
Taxation			**(1,590)**	**(1,590)**
Profit for the period	**4,673**	**2,737**	**(3,304)**	**4,106**

Half year to 31 March 2013

	Protection & Defence £'000	Dairy £'000	Unallocated £'000	Group £'000
Revenue	43,459	16,131		59,590
Segment result before depreciation, amortisation and defined benefit pension scheme costs	6,585	2,881	(1,074)	8,392
Depreciation of property, plant and equipment	(1,380)	(301)	(20)	(1,701)
Amortisation of intangibles	(861)	(8)	(2)	(871)
Segment result before defined benefit pension scheme costs	4,344	2,572	(1,096)	5,820
Defined benefit pension scheme costs			(210)	(210)
Segment result	4,344	2,572	(1,306)	5,610
Finance costs			(152)	(152)
Other finance expense			(127)	(127)
Profit before taxation	4,344	2,572	(1,585)	5,331
Taxation			(1,602)	(1,602)
Profit for the period	4,344	2,572	(3,187)	3,729

Year to 30 September 2013

	Protection & Defence £'000	Dairy £'000	Unallocated £'000	Group £'000
Revenue	93,137	31,714		124,851
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	16,136	5,835	(1,948)	20,023
Depreciation of property, plant and equipment	(3,221)	(623)	(52)	(3,896)
Amortisation of intangibles	(1,868)	(32)	(4)	(1,904)
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	11,047	5,180	(2,004)	14,223
Amortisation of acquired intangibles	(417)			(417)
Exceptional items	(383)			(383)
Defined benefit pension scheme costs			(420)	(420)
Segment result	10,247	5,180	(2,424)	13,003
Finance income			1	1
Finance costs			(348)	(348)
Other finance expense			(253)	(253)
Profit before taxation	10,247	5,180	(3,024)	12,403
Taxation			(3,566)	(3,566)
Profit for the year	10,247	5,180	(6,590)	8,837

Revenue by origin

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £’000
UK	**14,725**	10,784	24,028
US	**46,766**	48,806	100,823
	61,491	59,590	124,851

Segment assets in the UK and US were £12.9m and £55.3m respectively (30 September 2013: £12.6m and £58.8m, 31 March 2013: £13.4m and £61.1m).

5. Amortisation of acquired intangibles and exceptional items

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
Amortisation of acquired intangible assets	**130**	-	417
Exceptional items	**£'000**	£'000	£'000
Relocation of AEF facility	**-**	-	304
Relocation of Lawrenceville facility	**2,000**	-	-
Acquisition costs	**-**	-	79
	2,000	-	383

The tax impact of the above is a £0.35m reduction in overseas tax payable (31 March 2013: £nil, 30 September 2013: £0.12m).

6. Finance income and costs

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
Interest payable on bank loans and overdrafts	**(103)**	(152)	(348)
Finance income	**-**	-	1
	(103)	(152)	(347)

Other finance expense

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
Net interest cost: UK defined benefit pension scheme	**(6)**	(17)	(33)
Provisions: Unwinding of discount	**(91)**	(110)	(220)
	(97)	(127)	(253)

7. Taxation

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
United Kingdom	**-**	-	-
Overseas	**1,590**	1,602	3,566
	1,590	1,602	3,566
Effect of exceptional items	**350**	-	122
Adjusted tax charge	**1,940**	1,602	3,688

The effective tax rate for the period is 28% (31 March 2013: 30%, 30 September 2013: 29%).

The adjusted effective tax rate, where the tax charge and the profit before taxation are adjusted for exceptional items, the amortization of acquired intangibles and defined benefit pension scheme charges is 24% (31 March 2013: 29%, 30 September 2013: 27%).

8. Dividends

On 6 February 2014, the shareholders approved a final dividend of 2.88p per qualifying ordinary share in respect of the year ended 30 September 2013. This was paid on 21 March 2014 absorbing £862,000 of shareholders' funds.

The Board of Directors has declared an interim dividend of 1.87p (2013: 1.44p) per qualifying ordinary share in respect of the year ended 30 September 2014. This will be paid on 5 September 2014 to shareholders on the register at the close of business on 8 August 2014. In accordance with accounting standards this dividend has not been provided for and there are no corporation tax consequences. It will be recognised in shareholders' funds in the year to 30 September 2014 and is expected to absorb £560,000 (2013: £424,000) of shareholders' funds.

9. Earnings per share

Basic earnings per share is based on a profit attributable to ordinary shareholders of £4,106,000 (2013: £3,729,000) and 29,800,000 (2013: 29,420,000) ordinary shares being the weighted average number of shares in issue during the period.

Adjusted earnings per share is based on a profit attributable to ordinary shareholders of £6,092,000 (2013: £3,956,000) after adding back amortisation of acquired intangible assets, exceptional items and defined benefit pension scheme costs.

The Company has 953,000 (3.2%) (2013: 1,154,000 (3.9%)) potentially dilutive ordinary shares in respect of the Performance Share Plan.

10. Provisions for liabilities and charges

	Facility relocation £'000	Property obligations £'000	Total £'000
Balance at 30 September 2013	-	2,613	2,613
Payments in the period	-	(215)	(215)
Charged in the period	1,250	750	2,000
Unwinding of discount	-	91	91
Balance at 31 March 2014	**1,250**	**3,239**	**4,489**

11. Share capital

	Half year to 31 Mar 14	Half year to 31 Mar 13	Year to 30 Sep 13
Number of shares (thousands)	**31,023**	30,723	30,723
Ordinary shares (£'000)	**31,023**	30,723	30,723
Share premium (£'000)	**34,708**	34,708	34,708

During the period, 300,000 ordinary shares with a nominal value of £1 per share were issued at par to the Avon Rubber p.l.c. Employee Share Ownership Trust No. 1.

12. Cash generated from operations

	Half year to 31 Mar 14 £'000	Half year to 31 Mar 13 £'000	Year to 30 Sep 13 £'000
Profit for the period	**4,106**	3,729	8,837
Adjustments for:			
Taxation	**1,590**	1,602	3,566
Depreciation	**2,009**	1,701	3,896
Amortisation of intangible assets	**1,028**	871	2,321
Defined benefit pension scheme costs	**200**	210	420
Net finance expense	**103**	152	347
Other finance expense	**97**	127	253
Loss on disposal of intangible assets and property, plant and equipment	**-**	-	86
Movements in working capital and provisions	**2,119**	(768)	(4,539)
Other movements	**50**	56	113
	11,302	7,680	15,300

13. Analysis of net debt

	As at 30 Sep 13 £'000	Cash flow £'000	Exchange movements £'000	**As at 31 Mar 14 £'000**
Cash at bank and in hand	184	34	(1)	**217**
Net cash and cash equivalents	184	34	(1)	**217**
Debt due in more than 1 year	(11,059)	5,149	155	**(5,755)**
	(10,875)	5,183	154	**(5,538)**

Borrowing facilities	Total facility £'000	Utilised £'000	Undrawn £'000
United Kingdom	14,316	4,266	10,050
North America	8,686	1,489	7,197
Utilised in respect of guarantees	330	330	-
	23,332	**6,085**	**17,247**

The above facilities are with Barclays Bank and Comerica Bank. The Barclays facility comprises a revolving credit facility of £5m and $15.5m and expires on 30 March 2015. The Comerica facility is a $15m revolving credit facility and expires on 30 March 2015. These facilities are priced on average at the appropriate currency LIBOR plus a margin of 1.75% and include financial covenants, which are measured on a quarterly basis and were complied with during the period.

14. Exchange rates

The following significant exchange rates applied during the period.

	Average rate H1 2014	**Closing rate H1 2014**	Average rate H1 2013	Closing rate H1 2013	Average rate FY 2013	Closing rate FY 2013
US Dollar	**1.633**	**1.664**	1.567	1.519	1.559	1.612
Euro	**1.198**	**1.210**	1.208	1.183	1.188	1.191

Fair value of financial instruments

The fair value of forward exchange contracts is determined by using valuation techniques using period end spot rates, adjusted for the forward points to the value date of the contract.

15. Principal risks and uncertainties

The principal risks and uncertainties impacting the Group are described on pages 26-29 of our Annual Report 2013 and remain unchanged at 31 March 2014.

They include: product development, market threat, business interruption – supply chain, quality risks and product recall, customer dependency, talent management and non-compliance with legislation.

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Stella Pirie OBE (Non-Executive Director)
Richard Wood (Non-Executive Director)
Peter Slabbert (Chief Executive)
Andrew Lewis (Group Finance Director)

COMPANY SECRETARY
Miles Ingrey-Counter

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