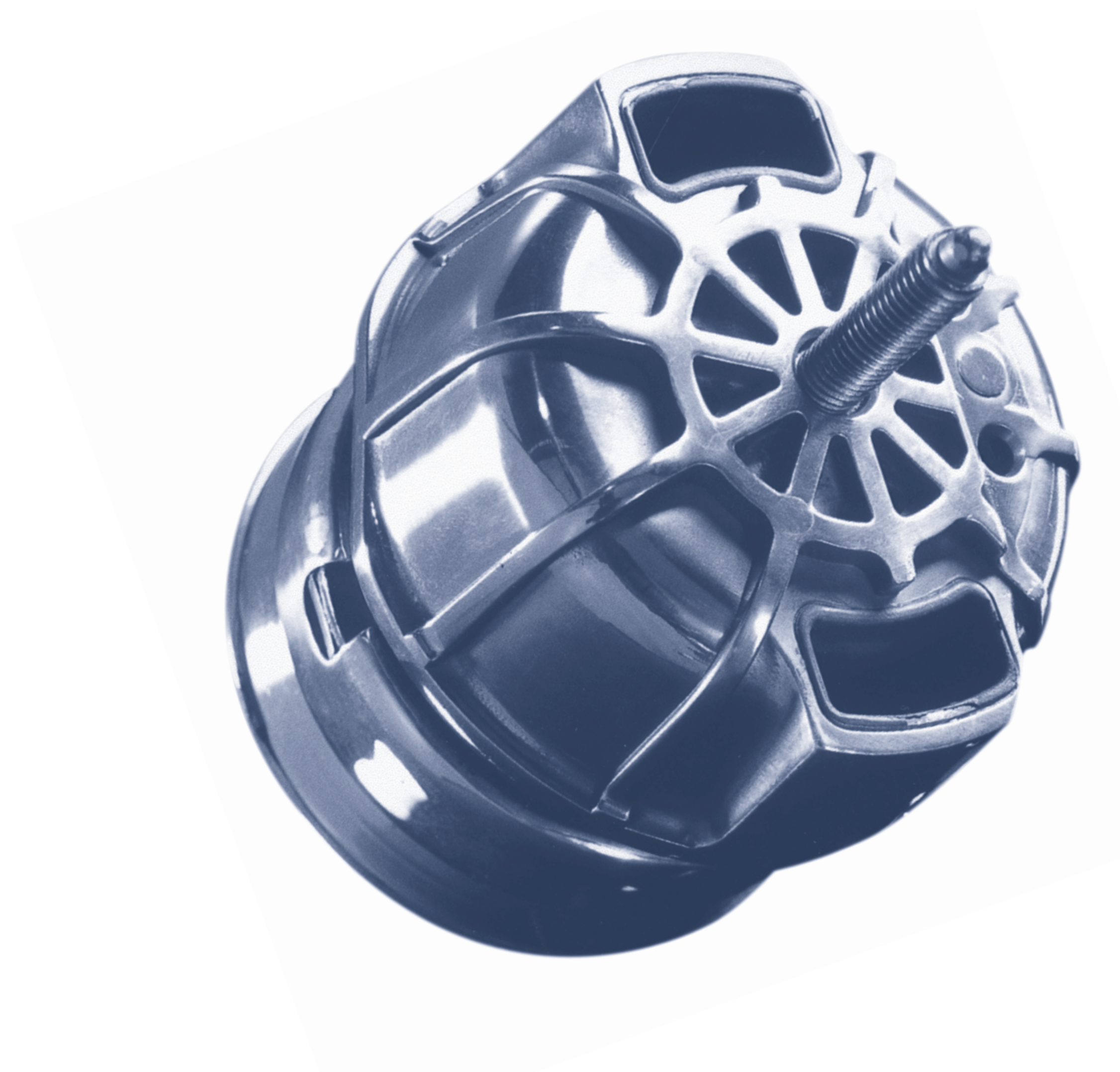
AVON RUBBER p.l.c.

ANNUAL REPORT 2004

# Annual Report 2004

## The Material Difference



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# Financial Summary

| | 2004 | 2003[1] (restated) |
|---|---|---|
| **TURNOVER** | **£239.2m** | £248.5m |
| **TOTAL OPERATING PROFIT** | **£10.1m** | £10.4m |
| **TOTAL OPERATING PROFIT BEFORE GOODWILL AMORTISATION**[2] | **£10.8m** | £11.0m |
| **PROFIT BEFORE TAXATION** | **£8.7m** | £7.4m |
| **BASIC EARNINGS PER SHARE** | **25.1p** | 20.0p |
| **EARNINGS PER SHARE BEFORE GOODWILL AMORTISATION**[2] | **27.6p** | 22.5p |
| **DIVIDENDS PER SHARE** | **8.5p** | 8.0p |

1 The 2004 results include the adoption of FRS17 (Retirement Benefits) and UITF Abstract 17 (revised) (Employee Share Schemes) and UITF Abstract 38 (Accounting for ESOP Trusts) and the 2003 results have been restated accordingly.

2 Management believes that reporting results before goodwill amortisation provides further information for an understanding of the Group's performance.

# Our Strategy

## Our strategy has been to deliver value for our shareholders which we have achieved through reducing debt and increasing dividends, supported by our focus on world class excellence throughout our well invested, modern factories.

Having established a sound base over recent years, we have examined how to move to the next phase of our strategy.

We have refocused the group by combining the automotive divisions into a single global unit and will exploit our renowned respiratory protection capabilities by establishing a new division dedicated to building a substantial business in this market area.

The Technical Products Division will concentrate on expanding into new sectors as well as continuing to generate value from existing niches.

These changes will result in a leaner, lower cost structure for mature products while providing resources to achieve growth in areas of significant value potential.

# Looking to the future

During the next year, the global Automotive division will see benefits from the new structure and from improved operational efficiencies. We anticipate that the creation of a new Vibration Management unit in Michigan, USA, will complement the already successful business in England. We will continue to use our materials expertise in advanced polymers to create differentiated products, explore new markets and further expand our coolant hose business in Mexico.

The Technical Products division is well known for the ability to solve engineering problems with bespoke products and this, combined with a sharper focus on customers and markets, will allow us to identify potential new business areas to further strengthen long-term prosperity.

The creation of the new Protection division will allow further development of world leading products which offer the highest level of respiratory protection and comfort. By expanding into non-military sectors, and widening the product range to include accessories and training, we anticipate an exciting future in this market. This will be further strengthened by a recently concluded joint venture agreement with Guild Associates which will allow us to develop and supply our own mask filters.

This patented engine mount produced by Avon Vibration Management Systems in Chippenham, UK, uses specialist expertise to provide optimum ride comfort and noise isolation – even at very high frequencies.

Our world leading expertise in the design of military respirators has led to the development of exciting new features. By widening supply to non-military customers, we have also identified a requirement for ancillary equipment and training.

# Chairman's Statement

TREVOR BONNER CBE Chairman

We have interspersed this year's annual report with many product photographs to give you a flavour of the product mix, engineering competence and materials technology which Avon offers to customers throughout the world.

## RESULTS

This year the Board has decided to adopt FRS17 to account for pensions and other retirement benefits instead of SSAP24. We feel that this better reflects the costs of providing these benefits and the actions taken to contain such costs. In addition, the Company has also adopted the changes to accounting for employee share schemes recommended under UITF38 and UITF17 (revised). The 2003 figures have been restated accordingly.

Total operating profit before goodwill amortisation of £0.7 million (2003: £0.7 million) was £10.8 million compared with £11.0 million in 2003. After a net interest charge of £2.2 million (2003: £2.8 million) and the finance credit arising under FRS17 of £0.8 million (2003: £0.1 million charge), Group profit before tax was £8.7 million (2003: £7.4 million) on a turnover of £239.2 million (2003: £248.5 million).

The profit after taxation and minority interests was £6.6 million (2003: £5.4 million) and earnings per share on this basis were 25.1p (2003: 20.0p).

Our focus on debt reduction has continued and net borrowings have been reduced in the year by £8.3 million to £29.7 million.

## OPERATIONS

The European automotive division has seen slightly weaker overall demand and ongoing price pressures continue to affect margins, resulting in reduced profit compared to last year. The costs of reorganisation and new product launch issues at some factories led to losses being made at some units in the first half. However, all operations are now profitable although not yet at satisfactory levels.

Sales in the North American automotive division were stronger in the first half than the second. The Automotive market in North America has remained steady with annual production of approximately 16 million vehicles. However, the "Big 3" (General Motors, Ford and DaimlerChrysler) have seen some market share lost to the "new domestics" and this trend is expected to be ongoing. Sales of water hose, principally from Orizaba increased substantially, which more than offset the impact in local currency, of the non-repetitive special customer project in 2003.

The Technical Products division has once again performed well, although sales are down on last year following the disposal of Avon Spencer Moulton in France. The high level of defence spending which we have seen over recent years eased in the second half, although some of the reduction in revenue has been replaced by new products. Our Mixing facility in Westbury, UK, has secured business from external customers and next year this will represent almost half of our sales revenue for this plant.

In September 2004, we purchased the remaining share of Bell Avon from Textron, Inc, for a total sum of US$1.4 million. Bell Avon is the company in the Avon group which specialises in flexible fabrications. These include temporary storage tanks for liquids such as fuel and water and hovercraft skirting for the US armed forces.

Despite a difficult marketplace, the existing long term supply agreements kept total Group expenditure on materials reasonably stable. However, as these agreements expire, we are faced with an environment that is dominated by high feedstock costs and supply shortages, resulting in price increases being imposed by suppliers. As a result we are renewing our efforts to further improve yields by more efficient use of materials and are also seeking increases in selling prices.

We continue to focus on process improvements through our 'Breakthrough' initiative which enables all employees to contribute to achieving the necessary progress in competitiveness.

Substantial capital expenditure will be required at various times in the near future as a result of expansion programmes. This will include investment for the US respirator programme (scheduled to begin manufacture in Michigan, USA, during late 2005), the expansion of the Mexican coolant hose facility and the development of our vibration management business in North America. However, we do not expect capital expenditure to exceed depreciation in total over the next few years.

## BOARD

Detlev Bartels resigned as a Director on 30 June 2004. We are grateful for his contribution to the Company's affairs since he joined us in September 2001.

Following the decision to establish a global Automotive Division, Lee Richards was promoted to head that division with effect from October 2004.

Neil Carson has announced his intention to resign as a Non-Executive Director with effect from the end of the Annual General Meeting on 20 January 2005. We would like to express our grateful thanks to Neil for his outstanding input since he joined the Board in May 2001 and to wish him every success for the future.

## DIVIDEND

The Board is pleased to recommend a final dividend of 4.8p per share (2003: 4.5p per share) which will be paid on 28 January 2005 to ordinary shareholders on the register on 14 January 2005. When added to the interim dividend of 3.7p per share (2003: 3.5p per share) the total dividend is 8.5p per share (2003: 8.0p per share), an increase of 6.3%.

## EMPLOYEES

I would like to thank all our employees once again for their ongoing support, where the additional training they have undertaken in our Kaizen, Lean and "Six Sigma Breakthrough" continuous improvement programmes has had a significant impact on operational efficiency.

Overall, we have been pleased with our health and safety performance worldwide, in particular in North America where every factory has experienced a reduction in recordable injuries. Avon Zatec in Massachusetts, USA, reported zero lost time due to accidents for the entire year.

## OUTLOOK

Most of our markets will remain challenging during this financial year, particularly in the first half. The high oil price and increasing commodity costs are likely to have some impact on our raw material and energy costs, and we continue to experience a weak US dollar. The high level of military related sales achieved in the first half of last year is unlikely to be repeated this year, but we are seeing encouraging progress in European Automotive. Our major task will be to ensure our cost base is adjusted to meet these market challenges.

We continue on plan with the development of the US military respirator programme and the financial benefits will be achieved from 2006 onwards.

We have a clear strategic direction to follow. We will develop our respiratory protection business, run Automotive as a single division and use Technical Products to manage and develop specialist business areas to grow a value creating business. To achieve this will require some restructuring, which will start during the first half of this financial year with the benefits starting in the second half. We shall maintain our focus on cost control and cash management to deliver enhanced shareholder value.

TREVOR BONNER CBE Chairman

# Chief Executive's Review

In support of our ongoing strategy to deliver shareholder value, we have recognised the need to continue to lower overheads (particularly in the cost-conscious automotive market) as well as to maintain a sharper focus on world class excellence and innovation.

In addition, we have examined the feasibility of new routes to market. In Technical Products this has meant moving further along the value chain to increase margins as well as focussing more on customer and market needs to develop future strategies. In Automotive, we have found ways to expand our existing customer base by exploring potential new markets as well as continuing to develop low cost manufacturing options.

## AUTOMOTIVE

The need for further expansion into low labour cost areas for commodity products has been highlighted by the success of our automotive facilities in Mexico, Czech Republic and Portugal. We continue to examine potential locations for reduced cost manufacturing, in particular in the growing automotive market in South Eastern Europe. Here we plan to establish a manufacturing base in Turkey.

Avon's Durabush is an hydraulic suspension bush which is one of the high technology anti-vibration products manufactured by Avon Vibration Management Systems in Chippenham, UK. Customers who use this product include Ford and Jaguar.

This complex coolant hose assembly will be fitted to a Ford Transit 2.0 litre diesel and is made by Avon Polímeros in Portugal. Other customers supplied from this plant include Bentley, Jaguar, Land Rover, BMW and Toyota.

Although we do not currently manufacture in South East Asia, we continue to make good progress with transplants (New Domestics) in North America who are eroding the market share of the 'Big 3'.

In addition to low cost commodity products, the success of our differentiated vibration management systems – currently manufactured in the UK – has prompted plans to set up production in North America. This will supply an existing contract with Lincoln and Jaguar – parts of the Ford Premier Automotive Group and open the opportunity with other customers who are already interested in our leading edge technologies.

Our long-standing relationship with Ford worldwide prompted us some years ago to set up a joint venture company in India. Although the business for our joint venture did not grow as quickly as forecast, we have developed strong relationships with all vehicle manufacturers producing in India and are beginning to see good returns at this plant.

We are also delighted with the success of the fuel hose business in North America where, despite increased competition, our CADbar® 9000 product is emerging as market leader. To build on this success, we are diversifying into applications for small engines such as lawn mowers and powerboats.

## TECHNICAL PRODUCTS

The strong defence market has shown signs of slowing during the second half of this year. The US Joint Services General Purpose Mask (JSGPM) project nonetheless continues on plan and the new manufacturing facility in Cadillac has already produced some 4,000 masks which are undergoing a year of intensive tests.

Since 1985, the Avon S10 respirator has been the mask of choice for many armed forces, and we have been delighted with the success of the mask both at home and with overseas military organisations. We were disappointed to hear that the contract to develop the next generation mask for the British armed forces has been given to an alternative supplier. Nonetheless, we anticipate that our new division will enable us to offer exciting respiratory protection concepts to a wider range of customers.

The respirator business has found successful new routes to market through distributors to police forces and other such organisations. These customers may not have access to the same facilities as the military, which has prompted us to extend our range to include ancillary equipment and training.

Progress following the launch of Milk-Rite products in Europe last year has been steady. As expected, there have been some reactions from original equipment manufacturers (OEMs), but the move has allowed us to reduce dependency on our big, dairy OEM customers. There are a number of advantages to moving further along the value chain and we anticipate that margins will improve as sales increase.

The purchase of the remaining share of Bell Avon in September brings to an end the excellent partnership which we have enjoyed with Textron for over 20 years. Changes in the business have meant that it was the right time for both parties to move on. There is strong demand for Bell Avon's flexible storage tanks and we plan to continue to capitalise on this growing market, in addition to supplying hovercraft skirt components for the US Navy.

STEVE WILLCOX Chief Executive

The launch of Milk-Rite in Europe gave Avon a chance to showcase some new products, in particular the "triangular liner" where the shape of the barrel results in a gentler milking action, helping to improve the health of the cow and the quality of the milk.

# Operational Review

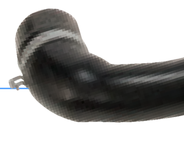
## AUTOMOTIVE

European automotive sales have been relatively flat compared to last year and continued pricedown pressures have eroded margins. These, plus internal reorganisation costs, have resulted in reduced profit. However, the new global structure will reduce overhead costs and improved operational performance is contributing to better results.

Our factories in France and Spain experienced some operational difficulties which have now been resolved and the focus in Europe is to continue to reduce cost through efficiency improvements. We continue to examine the possibility of further increasing the competitiveness of commodity products. This will be achieved through utilising lower labour cost areas in South Eastern Europe and China for the supply of components and possible manufacture for local customers.

Avon Vibration Management Systems in Chippenham, UK, has performed well, although the decision by MG Rover to source from China, coupled with reduced production at Jaguar and the Volkswagen/Audi Group, have affected short-term production schedules. However, the long-term order book is strong.

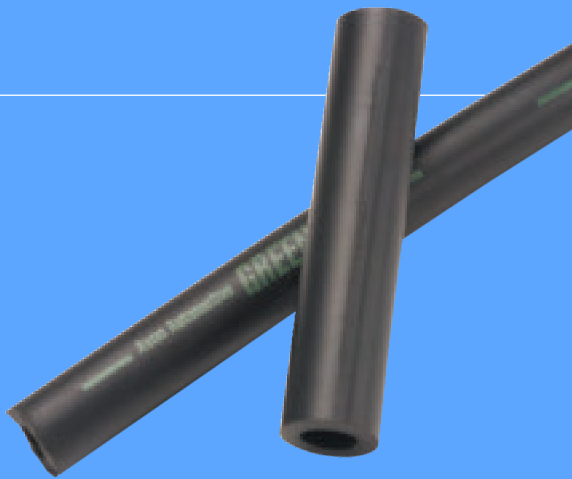
North America has continued to show overall steady growth by targeting new domestics and examining potential new markets such as motorcycle and marine engine components. There has been a decline in overall business with rubber air hose products as some customers prefer plastic ducts, however, the CADbar® 9000 fuel hose is becoming recognised in the industry as a market leader. In Mexico, the continued success of the coolant hose business in Orizaba is attracting new customers thanks to excellent quality, service and value for money and the Juarez facility is showing excellent performance.



Blow moulded plastic is a specialist expertise of Avon Polymères France which supplies many major customers. This plastic intercooler outlet is one of several Avon products which are fitted to Ford and Volvo engines.

This windscreen washer hose was manufactured for Ford by Cadimex in Juarez, Mexico. Cadimex has over 600 employees producing a range of complex vacuum emission and windscreen washer assemblies.

Industrial Flexo in Spain specialises in the development of hoses using advanced polymers.
This intercooler hose for a Volvo V40 is made from Silicone – just one of a wide variety of materials available to Avon's automotive customers.



The popularity of the CADbar® range of low emission fuel hoses produced in Cadillac, USA, has prompted diversification into the small engine market such as lawn mowers, snowmobiles and powerboats.

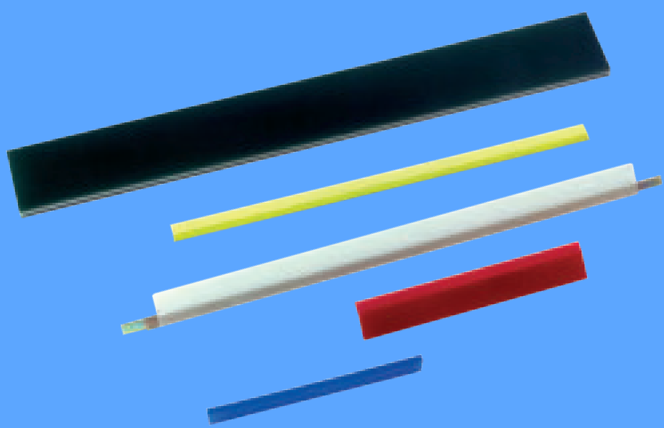
Land Rover are the largest customer of Avon Automotive, Rudnik, in the Czech Republic. This radiator hose is fitted to all Land Rover V8 petrol vehicles, some 46,000 of which are supplied per annum.

Cadillac Rubber & Plastics de Mexico in Orizaba, manufactures products such as this heater hose destined for Ford's assembly plant in Chicago. This particular hose fits the Ford 500 and Freestyle as well as the Mercury Montego.

For four years now, Avon-Ames has produced developer rollers for black and white laser printer cartridges from the Avon Automotive plant in Rudnik, Czech Republic. The high quality of the product, competitive pricing and proximity of the plant to the customer has resulted in significantly increased volumes year on year.

The approval of the FM12 respirator by NIOSH (the National Institute for Occupational Safety and Health) has helped to increase demand from non-military customers – in particular the police and homeland security.

The US Joint Services General Purpose mask contract saw the opening of a new manufacturing facility in Cadillac, USA which delivered 4,000 mask systems and accessories to the US Government during May and June this year for evaluation and testing.



Avon Zatec in Massachusetts, USA, has already seen the benefits of moving labour intensive assembly of blades to Avon's Automotive facility in Juarez, Mexico. As the customer is also in Juarez, significant savings have been made in both labour and transportation costs.

These robust flexible tanks, made by Bell Avon in Mississippi, USA, provide a temporary store for liquids such as fuel or water in climate extremes ranging from +125° to -25° Fahrenheit. The largest tanks can hold up to 300,000 gallons making them popular with military customers.

# Operational Review

## TECHNICAL PRODUCTS

The technical products businesses have developed much stronger customer focus, reflecting the shift towards selling further along the value chain.

Avon-Ames, which manufactures rollers for the printer and photocopier markets, has achieved improved performance this year, due in part to the reorganisation of the UK production lines and outstanding performance at the plant in the Czech Republic where the major customer has been delighted with the quality, location and on-time delivery of products. In addition, the launch of the Colourdiamond™ range of fuser rollers for colour photocopiers has sparked much interest as the products last twice as long as traditional rollers.

Our other business machine components manufacturer, Avon Zatec in Massachusetts, USA has benefited from lower labour costs of moving assembly work to Juarez in Mexico and is in the process of examining the potential for expansion through identifying new markets.

The US military M50 mask program remains on plan. During April to June of this year, 4,000 mask systems were assembled at the new production facility in Cadillac, USA and are now undergoing a full user assessment. The next key milestone is expected in early 2005 when the US Government will consider the information gathered from these trials when planning transition to the production phase.

Avon Hi-Life in Wisconsin, USA, has continued to perform well where the Milk-Rite brand enjoys a market leading position. Following the launch in Europe in 2003 the brand is becoming well known in the dairy farming industry and sales are rising steadily.

Sales of aerosol gaskets have increased significantly this year following the launch of the Purerseal™ range which is being specified by companies producing deodorants, anti-perspirants and other personal care products.



# Financial Review

TERRY STEAD Finance Director

**This was a year of consolidation. Despite reduced demand for military related products in the second half of the year, Technical Products slightly increased profits compared to last year. In North American Automotive, the significant currency effect of the weaker dollar offset the continuing growth of our water hose business, particularly in Orizaba, Mexico, resulting in only marginally lower sales but improved profit. With the traditional "Big 3" domestic automotive producers recording reduced market shares, it is encouraging that we are starting to see some progress in our efforts to develop business with the "new domestic" producers.**

In Europe we saw some improvement in the second half of the year, in particular our French operation converted a first half operating loss to a second half profit. Whilst the improvement in European Automotive is encouraging, the profitability is not yet at an acceptable level.

We have maintained our focus on cash generation and this is reflected in a reduction of borrowings of £8.3 million in the full year and £5.0 million in the second half.

## CHANGES IN ACCOUNTING POLICIES

Early adoption of FRS17 is encouraged by the Accounting Standards Board and we have therefore decided to account for pensions and other post retirement benefits in accordance with this standard instead of SSAP24. We feel this better represents the costs of providing these benefits, gives a more predictable charge and reflects actions taken to contain the costs of the provision of post retirement benefits. We have also adopted the changes to accounting for employee share schemes recommended under UITF 38 and UITF 17 (revised).

Under FRS17 and the changed accounting for employee share schemes the operating profit for 2003 would have been £10.4 million compared to a published operating profit of £10.5 million and the profit before tax would have been £7.4 million compared to a published figure of £7.7 million.

## TURNOVER

Group turnover was down £9.3 million in 2004 at £239.2 million (2003: £248.5 million).

We saw a small decrease in turnover in both our automotive divisions. In North America sales were down £3.2 million at £73.1 million (2003: £76.3 million). However, the reduction in turnover due to exchange rate movement was £7.8 million. As a result, sales were up by £4.6 million at constant exchange rates mainly due to the growth of sales of water hoses. We expect to see continued growth in this area.
In European Automotive sales were relatively flat at £102.2 million (2003: £103.9 million). The majority of our European sales now originate from Continental Europe with only £31.1 million (2003: £33.0 million) from the UK.

In Technical Products sales were down by £4.4 million at £63.9 million (2003: £68.3 million). We saw a significant reduction in sales of military related products. In addition, the 2003 sales included sales of £8.2 million from Avon Spencer Moulton which was sold with effect from October 2003.
In North America sales increased by £1.6 million to £31.1 million (2003: £29.5 million) despite a negative impact due to the weaker dollar of £3.0 million. This was mainly due to a continuing strong performance at Hi-Life and increased development income in the area of respiratory protection.

In the following summaries, 2003 figures have been restated at 2004 rates of exchange for comparative purpose.

By business sector, the turnover is analysed as follows:

| £ Million | 2004 | 2003* | % Change |
|---|---|---|---|
| Automotive | 175.3 | 172.4 | 1.7 |
| Technical Products | 63.9 | 65.3 | (2.0) |
| Total | 239.2 | 237.7 | 0.6 |

*Restated at 2004 rates of exchange

By origin the analysis is as follows:

| £ Million | 2004 | 2003* | % Change |
|---|---|---|---|
| Europe | 135.1 | 142.7 | (5.3) |
| North America | 104.1 | 95.0 | 9.6 |
| Total | 239.2 | 237.7 | 0.6 |

*Restated at 2004 rates of exchange

## OPERATING PROFIT

Overall, total operating profit decreased by £0.3 million to £10.1 million (2003: £10.4 million). However, if the 2003 operating profit is translated at 2004 exchange rates ("constant exchange rates"), operating profit increased by £0.7 million.

Gross profit was down by £5.5 million to £39.1 million (2003: £44.6 million). Part of this was due to reduced sales, but in addition gross profit as a percentage of sales fell from 17.9% in 2003 to 16.3% in 2004. This reflected both the price down pressures in our automotive businesses and cost increases in our raw materials. We were able to offset the reduced gross profit by reductions in operating expenses of £5.1 million. We continue to face the challenge of reducing our cost base, particularly in the fiercely competitive automotive businesses.

In Automotive we have a good international footprint with strong operations in low labour cost areas such as the Czech Republic and Mexico. We target these businesses to run at world class standards to achieve the benefits from our lower labour costs, whilst producing higher technology products in our higher labour cost areas.

In Technical Products there has been a lot of work developing new products and new routes to market. European Milk-Rite, launched in September 2003, has shown steady growth. We now have business machine products aimed directly at the aftermarket and we see exciting opportunities in the area of respiratory protection.

By origin, the total operating profit is analysed as follows:

| £ Million | 2004 | 2003* | % Change |
|---|---|---|---|
| Europe | 1.9 | 1.9 | - |
| North America | 8.2 | 7.5 | 9.3 |
| Total | 10.1 | 9.4 | 7.4 |

*Restated at 2004 rates of exchange

By business sector the analysis of total operating profit is as follows.

| £ Million | 2004 | 2003* | % Change |
|---|---|---|---|
| Automotive | 3.0 | 2.9 | 3.4 |
| Technical Products | 7.1 | 6.5 | 9.2 |
| Total | 10.1 | 9.4 | 7.4 |

*Restated at 2004 rates of exchange

## PROFIT BEFORE TAXATION

The Group profit before taxation has increased to £8.7 million (2003: £7.4 million) and represents a return on sales of 3.6% compared with 3.0% in 2003 on a published basis.

## TAXATION

The taxation charge of £1.7 million (2003: £2.0 million) represents an effective rate of 19% compared with 27% in 2003. The effective tax rate reflects the benefit of recognising the deferred tax asset on taxation losses, principally in respect of our business in Orizaba. Following the operational progress in Orizaba during the year, we have reasonable expectations that these taxation losses will be recovered from future profitability.

# Financial Review

## TREASURY POLICY AND EXCHANGE RATES

The Group uses various types of financial instruments to manage its exposure to market risks which arise from its business operations. The main risks continue to be movements in foreign currency and interest rates.

The Group's exposure to these risks is managed by the Finance Director who reports directly to the Board.

The Group faces currency exposure on its overseas subsidiaries and is exposed in particular to changes in the US Dollar, the Euro and the Czech Crown.

Each subsidiary company hedges significant transactional exposure by entering into forward exchange contracts for known sales and purchases.

The Group reports trading results of overseas companies based on average rates of exchange compared with sterling over the year. The profit and loss translation exposure is not hedged as this is an accounting rather than a cash exposure.

The balance sheets of overseas companies are included in the consolidated balance sheet based on the local currencies being translated at the closing rates of exchange. The balance sheet translation exposure has been partially hedged by matching either with foreign currency borrowings within the subsidiaries or with foreign currency borrowings which are held centrally.

At the year-end the operating asset exposure was 60% hedged (2003: 72%).

As a result of the remaining balance sheet exposure after hedging the Group was exposed to the following:

- **1% movement in the US Dollar: impact £0.05 million**
- **1% movement in the Euro: impact £0.14 million**
- **1% movement in the Czech Crown: impact £0.07 million**

The exposure to interest rate fluctuations is protected by obtaining fixed rates of interest. The Group's policy is to keep between 25% and 75% of its borrowings at a fixed rate of interest. The level is intended to lower the impact of a 1% change in interest rate to less than 0.2% of Group turnover.

The Group had 24% of its borrowings fixed at the year-end (2003: 26%). The impact of a 1% shift in interest in the various currencies is summarised below (at year-end exchange rates).

| | |
|---|---|
| **Sterling:** | **£0.01 million** |
| **Euro:** | **£0.12 million** |
| **US Dollar:** | **£0.14 million** |
| **Czech Crown:** | **£0.03 million** |

The combined impact would represent less than 0.13% of Group turnover.

## PENSIONS

Following the adoption of FRS17 we are recording a net pension fund deficit of £15.0 million (2003: £15.4 million) and a total net liability for all post retirement benefits of £19.7 million (2003: £19.9 million).

Marking assets to market and using a variable long-term bond rate for discounting results gives a volatility in the pension fund deficit or surplus that was not common under the previous accounting standard SSAP 24. It is worth noting that by mid November the value of the pension fund assets had increased by approximately £5.0 million reflecting a stronger equity performance. As a result the gross deficit will have reduced by a similar amount and the net deficit by approximately £3.5 million.

Small movements in the underlying drivers of both the liabilities and assets can have a significant impact on the overall deficit or surplus. We estimate that a 1% movement in equity values will have an impact of about £1.4 million on the fund's assets, whilst a 1% movement in the long-term discount rate will have an impact of approximately £30 million on the valuation of the liabilities.

## CASH FLOW & FINANCING

The main features in the cash flow this year were as follows:

| | £ Million |
|---|---|
| Net debt at end of 2003 | (38.0) |
| Net cash inflow from operating activities | 21.7 |
| Capital expenditure & financial investment | (9.1) |
| Interest and dividends | (4.5) |
| Taxation | (2.0) |
| Exchange difference and other cash flows | 2.2 |
| Net debt at end of 2004 | (29.7) |

Capital investment in 2004 totalled £6.8 million (2003: £8.3 million). Capital expenditure represented 76% (2003: 87%) of the depreciation charge for 2004 of £8.9 million (2003: £9.5 million).

Other than routine replacement, capital expenditure is primarily investment in our growing water hose facility in Orizaba, Mexico, initial preparation for the JSGPM program and improvements to our IT systems.

Minority interests in our Bell Avon and CT Rubber & Plastics subsidiaries were acquired during the year for a consideration of £1.2 million while Avon Spencer Moulton, our French Technical Products operation was sold.

The ratio of trading working capital as a percentage of turnover reduced to 12.1% in 2004 compared with 13.0% in 2003. This reverses the planned short-term increase explained last year and continues our emphasis on cash management.

Overall, net debt reduced by £8.3 million (2003: £3.0 million) reducing gearing to 46.1% (2003: 61.4%). Our net interest charge also reduced by £0.6 million to £2.2 million (2003: £2.8 million) reflecting lower average borrowings, a reduction in higher rate private placement debt and continued low short-term dollar, euro and sterling rates. The implementation of FRS17 has also resulted in an other finance income credit of £0.8 million (2003: £0.1 million charge).

With all of the Group's term debt maturing within the next 24 months (including the high fixed interest rate private placement), we have agreed with our principal bankers to extend the amount and term of our debt facilities. Group facilities will then total approximately £70 million with the term portion having an amortisation schedule through to 2009.

## IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

We have been planning the steps required to ensure that we will be able to comply with the introduction of IFRS which will be mandatory to the Group's financial statements for the year ended 30 September 2006.

The primary areas of impact to the Group will be in the accounting for share based payments in respect of the Performance Share Plan and Sharesave Scheme and the accounting for development costs. The other significant area of accounting for post retirement benefits has already largely been covered with the early adoption of FRS17. Changes in presentation will also be substantial. Whilst the planning and implementation work is ongoing, we are confident of a successful transition to IFRS compliance.

TERRY STEAD Finance Director

# Board of Directors








| | | | |
|---|---|---|---|
| 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 |

1 **TREVOR BONNER CBE**
**Chairman**

Aged 61. A chartered accountant, he was appointed to the Board in 1994 and became Chairman in February 2001. A former Executive Director of GKN plc, and a former President of both the Society of Motor Manufacturers and Traders and CLEPA (the European Association of Automotive Suppliers) he is also Chairman of the Advisory Board of TMD Friction Verwaltungs GmbH. He was made a CBE in the 1996 Birthday Honours List.

2 **STEVE WILLCOX**
**Chief Executive**

Aged 58. He was appointed to the Board in 1991 as the Director responsible for Avon's polymer interests in Europe, becoming Chief Executive on 1 January 1995. An honours graduate of Durham University, he first joined Avon in 1968 as a graduate trainee, moving in 1973 to a personnel and training role in the pharmaceutical industry. He returned to Avon in 1977 as Personnel Director of our Melksham operations. From May 2000 until May 2002 he was President of The British Rubber Manufacturers' Association.

3 **TERRY STEAD**
**Finance Director**

Aged 55. He joined the company in 1998 and was appointed to the Board in October 1998. An honours graduate from Bristol University, he qualified as a chartered accountant with KPMG. He was Group Finance Director of How Group plc until the takeover of that company by Tilbury Douglas in June 1998 having previously worked for several years with Lucas Industries plc in a number of senior finance roles.

4 **BRIAN DUCKWORTH OBE**
**Non-Executive Director**

Aged 55. An accountant, Mr Duckworth was appointed to the Board in May 2002. Until his retirement in August 2004, he was Managing Director of Severn Trent Water Limited and a Director of Severn Trent plc. Mr Duckworth had been with Severn Trent since 1974. His experience has covered asset management, customer relations, engineering sales, marketing and communications, health and safety and environmental issues. Brian was awarded the OBE in 2004.

5 **STEVE STONE**
**Executive Director**

Aged 54. He was appointed to the Board in 1995 having previously been Managing Director of Avon Automotive Components. He is now responsible for Avon's Technical Products Division, the European Mixing Unit and the Materials Development Centre in Westbury, Wiltshire. A graduate chemist and a fellow of the Institute of Materials, he is Vice Chairman of the Wiltshire and Swindon Learning and Skills Council.

6 **ERIC PRIESTLEY**
**Deputy Chairman &**
**Senior Independent Director**

Aged 62. He was appointed to the Board in 1998 and became Deputy Chairman and Senior Independent Director in 2001. He was based in the United States as Chief Operating Officer of Jefferson Smurfit Corporation and was previously the President and Chief Executive of Rexam Inc. He was formerly a Director of Redland PLC and of Rexam PLC. Currently he is the Chairman of Operating Partners at Duke Street Capital, Lynx Express Limited and Wastelink Group and a non-executive director of the Southwire Company, USA.

7 **LEE RICHARDS**
**Executive Director**

Aged 40. He was appointed to the Board in September 2001 and is responsible for Avon's Global Automotive Operations. He joined Avon in 1987 in Cadillac, Michigan and had appointments in both sales and operations management in Detroit and New York State. In 1996 he returned to Cadillac as Vice President of Operations and in 1998, became President of Avon Automotive North America and was appointed Managing Director, Avon Automotive in October 2004. He holds a BS in Marketing and an MBA. Lee recently completed the Senior Executive Programme at London Business School.

8 **NEIL CARSON**
**Non-Executive Director**

Aged 47. He was appointed to the Board in 2001. He is Chief Executive of Johnson Matthey plc having been appointed in July 2004. Previously he was Managing Director of the Catalysts and Chemicals Precious Metals Divisions. He has been with Johnson Matthey since 1980.

## COMMITTEES OF THE BOARD

The Chairman and the Non-Executive Directors are the members of the Remuneration Committee, the Audit Committee and the Nominations Committee. Mr T.C. Bonner is the Chairman of all the Committees except for the Senior Executive Remuneration and Benefits Committee, of which Mr G.T.E. Priestley is Chairman.

1 The Directors submit the one hundred and fourteenth annual report and audited financial statements of the Company and Group for the year ended 30 September 2004.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**
The principal activities of the Group are the design and manufacture of:

- Components for the automotive industry

- Respirators for defence, police and other emergency services and a range of polymer based products for a variety of markets including dairy, defence, business machines and the aerosol industry.

The business review, including commentary on future developments is covered on pages 2 to 15.

**2 RESULTS AND DIVIDEND**
The group profit for the year before taxation amounts to £8,685,000 (2003: £7,435,000 restated). The Group profit for the year after taxation and minority interests amounts to £6,638,000 (2003: £5,351,000 restated). An interim dividend of 3.7p per share (2003: 3.5p) was paid on 2 July 2004.
The Directors recommend a final dividend of 4.8p per share (2003: 4.5p) making a total of 8.5p per share for the year to 30 September 2004 (2003: 8.0p). Full details are set out in the profit and loss account on page 29.
The total distribution of dividends for the year to 30 September 2004 is £2,245,000 (2003: £2,131,000).

**3 DIRECTORS**
The names of the Directors as at 17 December 2004 are set out on page 16. None of the Directors have a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of Directors, their families and trusts in ordinary shares of the Company can be found on page 24. The Board is satisfied that Mr. G.T.E. Priestley, Mr. N.A.P. Carson and Mr. B. Duckworth are independent Non-Executive Directors.

Mr. L.J. Richards and Mr. B. Duckworth retire by rotation and being eligible, offer themselves for re-election.

As announced on 20 October 2004 Mr. N.A.P. Carson will resign as a Director with effect from the end of the annual general meeting on 20 January 2005.

In accordance with governance requirements with regard to the re-election of Non-Executive Directors, the Chairman draws shareholders' attention to the Directors' profile relating to Mr. B. Duckworth on page 16 of this report. Mr. B. Duckworth possesses skills, experience and commitment which contribute substantially to the performance of the Board and its committees and the Chairman gives his full support to his offer of re-election.

Mr. L.J. Richards has a service contract with the Company requiring one year's notice of termination, subject to retirement at age 60.

None of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group.

**4 SUBSTANTIAL SHAREHOLDINGS**
At 26 November 2004, the following shareholders held 3% or more of the Company's issued ordinary share capital:-

| | |
|---|---|
| Schroder Investment Management Limited | 15.88% |
| Deutsche Asset Management Limited | 13.07% |
| Platinum Fund Managers Limited | 5.75% |
| Avon Rubber Employee Share Ownership Trust | 4.85% |
| M&G Investment Management Limited | 4.60% |
| SG Asset Management | 4.12% |

**5 ACQUISITION OF OWN SHARES**
The Company funded the purchase of 200,000 of its own ordinary shares of £1 each through an Employee Share Ownership Trust for a consideration of £449,000 to enable it to meet awards made under the Performance Share Plan, subject to the performance criteria being met. This brought the total holding to 1,350,000 shares which represents 4.85% of the current issued share capital. As approved at the last annual general meeting the Company has authority to purchase up to 4,173,591 shares subject to certain terms and conditions.

**6 POLITICAL AND CHARITABLE CONTRIBUTIONS**
No political contributions were made during the year. Contributions for charitable purposes amounted to £31,000 (2003: £22,000) consisting exclusively of numerous small charitable donations.

**7 CREDITOR PAYMENT POLICY**
Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

For the year ended 30 September 2004, the number of days purchases outstanding at the end of the financial year for the Group was 60 days (2003: 59 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days purchases outstanding for the parent company was 24 days (2003: 21 days).

**8 RESEARCH AND DEVELOPMENT**
The Group continues to strengthen its technology base and expertise in materials, processes and product design utilising the latest developments in science and engineering to meet the increasing performance requirements of our customers. The Materials Development Centre in the UK and Product Development Centre in North America provide strong scientific support to our global manufacturing operations and maintain close links with the Group's suppliers and customers. Collaborative work with universities and other research organisations has led to significant advances in material performance and in our understanding of how our products interface with their working environment. As a result of such activities Avon continues to be recognised as a world leader in the understanding of the use of rubber products in its key markets.

**9 EMPLOYEE INVOLVEMENT**

Employee consultation, communication and involvement have long been recognised as being of great value and these practices will be maintained as a vital element in our drive to achieve the highest standards of training and development. Consultation enables employees' views to be taken into account in matters which may affect their interests and, as part of our continuous improvement activity, managers and employees meet regularly to tackle problems together in a teamwork atmosphere.

In its UK operations the Company has been recognised as an Investor in People (IIP).

**10 DISABLED PERSONS**

It is the policy of the Group to encourage the employment and development of suitable disabled persons. No unnecessary limitations are placed on the type of work that they perform and the policy ensures that in appropriate cases consideration is given to modifications to equipment or premises and to adjustments in working practices. Full and fair consideration is given to disabled applicants for employment and existing employees who become disabled have the opportunity to retrain and continue in employment.

**11 HEALTH, SAFETY AND THE ENVIRONMENT**

The Directors consider the health, safety and environmental protection aspects of our business to be of great importance, as the prevention of personal injury, the avoidance of damage to health and the protection of the environment contribute to the running of an efficient business.

Management practices within the Group are designed to ensure, so far as is reasonably practicable, the health, safety and welfare at work of our employees, contractors and visitors, the health and safety of all other persons affected by our business activities and the effective planning and implementation of environmental controls, in line with appropriate legislation, standards and best practice.

During the year the Group introduced a new health and safety management system which will be progressively applied across all operations worldwide. The system is designed to enable application of a consistent approach to health and safety based on the assessment and control of risk and will complement the current system for environmental protection.

All operating sites are required by the Group to become certified to the Environmental Management Systems Standard ISO 14001. Currently, only two sites remain to complete certification.

**12 AUDITORS**

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the Board

P.J. Fairbairn, Secretary
Bradford on Avon, Wiltshire
17 December 2004

The Company believes in high standards of corporate governance and the Board is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of the Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the Financial Services Authority.

Revised provisions of the Combined Code were published in July 2003 ("the Revised Code"). The Revised Code applies to listed companies with effect from reporting years beginning on or after 1 November 2003 and hence is not applicable to the Company during the reporting year. The Company is a "Smaller Company" for the purposes of the Revised Code and in consequence certain provisions of the Revised Code either do not apply to the Company or may be judged to be disproportionate or less relevant in its case.

The Company has complied throughout the year with the applicable provisions of the Combined Code and has adopted from 1 January 2004 certain provisions of the Revised Code as are referred to below.

This statement will address separately three main subject areas of the Combined Code namely The Board, Relations with shareholders and Accountability and audit. Directors' remuneration is dealt with in the Remuneration Report on pages 21 to 26.

The Board confirms that it has been applying the procedures necessary to implement the "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Report").

## 1 THE BOARD

The Avon Board currently comprises a Chairman, three independent Non-Executive Directors ("the Non-Executive Directors"), the Chief Executive and, since the resignation of Mr. D. Bartels on 30 June 2004, three other Executive Directors. Biographies of the directors appear on page 16 and these illustrate the range of business, financial and global experience which the Board is able to call upon. The intention of the Board is that its membership should be well balanced between executives and non-executives and have the appropriate skills and experience. The special position and role of the Chairman under the Revised Code is recognised by the Board which has agreed a written statement of the division of responsibilities of the Chairman and Chief Executive.

One of the roles of the Non-Executive Directors under the leadership of the Chairman is to undertake detailed examination and discussion of strategies proposed by the Executive Directors, so as to ensure that decisions are in the best long-term interests of shareholders and take proper account of the interests of the Group's other stakeholders. The Board has agreed a procedure for meetings of the Non-Executive Directors with and without the Chairman. A procedure for formal performance evaluation will be adopted by the Board during 2005.

The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its control, reserved a list of important powers solely to itself; this list is regularly reviewed and updated.

All directors have full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings. All Directors receive induction on joining the Board. 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.

All Directors, whether Executive or Non-Executive, are subject to re-election by shareholders at the first annual general meeting after their appointment and are obliged to retire and, if appropriate, seek re-election by the shareholders at least every three years. Additionally, the Non-Executive Directors are appointed by the Board, for specific terms, and reappointment is not automatic.

Of particular importance in a governance context are three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee. The members of the committees comprise the Chairman and all the Non-Executive Directors. In the light of the Revised Code, the Non-Executive Directors have expressed a strong wish that the Chairman should remain a member of each of the Audit and Remuneration Committees and that he also should remain Chairman of the Audit Committee, at least for the foreseeable future. The Non-Executive Directors regard the Chairman as adding significant value to the deliberations of these Committees. The Nominations Committee is chaired by Mr. T.C. Bonner and the Remuneration Committee is chaired by Mr. G.T.E. Priestley.

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 Executive Directors and other senior executives. The Chief Executive attends meetings of the Committee by invitation, but is absent when issues relating to himself are discussed.

The Nominations Committee, to which the Chief Executive is normally invited, reviews the Board structure, identifies candidates to fill vacancies on the Board and addresses board level succession planning. In identifying potential candidates for positions as non-executive directors, the Committee has full regard to the principles of the Revised Code regarding the independence of non-executive directors.

The Audit Committee meets at least three times a year. The meetings are also attended by representatives of the Group's external auditors and such of the Executive Directors as are appropriate to the items under discussion. The Group Internal Auditor attends at least two meetings a year. At all meetings time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present. As well as reviewing draft preliminary and interim statements, the Committee considers reports prepared by the internal and external auditors and monitors all services provided by, and fees payable to, the external auditors to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained. As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control. The Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process. The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

In addition to the meetings of the principal committees a meeting of a Strategy Committee took place to consider the strategic direction of the Group. This Committee consisted of the Chairman, the Non-Executive Directors, the Chief Executive and the Finance Director.

### Meetings during year ended 30 September 2004

| | Full Board | Audit Committee | Nominations Committee | Reuneration Committee | Strategy Committee |
|---|---|---|---|---|---|
| **Total number of meetings in 12 months to 30/9/04** | **8** | **4** | **1** | **6** | **1** |
| S.J. Willcox | 8 | *4 | *1 | *6 | 1 |
| T.K.P. Stead | 8 | *4 | n/a | *2 | 1 |
| S.J. Stone | 8 | n/a | n/a | n/a | n/a |
| T.C. Bonner | 8 | 4 | 1 | 6 | 1 |
| G.T.E. Priestley | 8 | 3 | 1 | 5 | n/a |
| L.J. Richards | 8 | n/a | n/a | n/a | n/a |
| N.A.P. Carson | 6 | 4 | 1 | 5 | 1 |
| B. Duckworth | 6 | 4 | 1 | 5 | 1 |
| D. Bartels** | 5 | n/a | n/a | n/a | n/a |

* Attendance by invitation.
** Mr. D. Bartels resigned on 30 June 2004.

Copies of the terms of reference of the Nominations, Remuneration and Audit Committees and the terms and conditions of appointment of the Non-Executive Directors are available from the Company Secretary on request.

### 2 RELATIONS WITH SHAREHOLDERS

We regard communications with shareholders as extremely important. In terms of published materials the Company issues detailed annual report and accounts and, at the half year, an interim report. Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results. Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the responses of the Directors. Directors meet informally with shareholders after the annual general meeting and respond throughout the year to correspondence from individual shareholders on a wide range of issues. Annual general meetings provide a venue for the shareholders to meet new Non-Executive Directors in addition to any other meetings shareholders may request.

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

At the annual general meeting on 20 January 2005, the Board will be following the recommendations in the Revised Code regarding the constructive use of annual general meetings; in particular, the agenda will again include a presentation by the Chief Executive on aspects of the Group's business.

### 3 ACCOUNTABILITY AND AUDIT

The Combined Code requires that directors review the effectiveness of the Group's system of internal controls. The scope of this review covers all controls including financial, operational and compliance controls as well as risk management. As indicated earlier, the Board has put in place the procedures necessary to implement the guidance contained within the Turnbull Report and the Audit Committee has responsibility to review, monitor and make policy and recommendations to the Board upon all such matters.

The Directors acknowledge their responsibility for the Group's system of internal control. The Board 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 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.

- An internal audit function is in place with staff covering the Group's worldwide operations from a base in the U.K. The function adopts a risk based approach to the review of internal controls throughout the Group. Key areas of risk are covered on a pre-determined cycle agreed with the Audit Committee. Recommendations and action plans are provided, together with key findings, to senior management. Summary reports are presented to and discussed with the Audit Committee.

- Procedures are in place to identify any major business risks and to evaluate their potential impact on the Group. The Board carries out an annual review of the key risks facing the Group. In the year under review, the risk assessments carried out both at business level and at main board level continued to be reviewed and strengthened as part of the Board's ongoing response to the guidance contained within the Turnbull Report.

- A Risk Management Steering Group is in place which includes in its membership two Executive Directors. Its remit is to apply an 'Enterprise Risk Management' approach to the Group's analysis of risk to ensure that risks identified by the Board or by the business units are being analysed and actions introduced to eliminate, minimise, control or transfer the risk (or the effect thereof) as appropriate.

- There is a clearly defined delegation of authority from the Board to the operating companies, with appropriate reporting lines from business managers 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 Board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal control framework within the Group. The Policy and Code includes a whistle-blowing procedure whereby individuals may raise concerns in matters of financial reporting or other matters with the Audit Committee which will ensure independent investigation and follow up action. The Policy and Code 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, and at least twice a year with the internal auditor. 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.

### 4 GOING CONCERN

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

Part 1 of this Report sets out the Company's remuneration policies for the Directors for the year ending 30 September 2004. These policies are likely to continue to apply in future years, unless there are specific reasons for change, in which case shareholders will be informed in future reports. Part 2 sets out audited details of the remuneration received by Directors during the year ended 30 September 2004.

## PART 1. REMUNERATION POLICIES (NOT SUBJECT TO AUDIT)

## EXECUTIVE DIRECTORS

### Remuneration Committee

The Remuneration Committee is responsible for developing remuneration policy for the Executive Directors and for determining their individual packages and terms of service. To ensure consistency with the arrangements for other management levels, the Remuneration Committee is also responsible for the remuneration packages of key senior executives and for monitoring salary scales and incentive arrangements across all management levels.

The Committee met six times during the year and currently comprises Mr. G.T.E. Priestley (Chairman), Mr. T.C. Bonner, Mr. B. Duckworth and Mr. N.A.P. Carson who each served throughout the year. The Chief Executive and the Group Human Resources Director, Mr. S.D. Wright, are invited to attend meetings except when matters relating to their own remuneration arrangements are discussed. The Committee also uses external professional advisers. Towers Perrin are the Committee's remuneration consultants and provide advice primarily on competitive market levels and on the performance-related elements of the Executive Directors' arrangements. Towers Perrin also provide administration services to the Company's employee share trust. Hewitt Bacon & Woodrow, the Company's pension scheme actuaries, provide the Committee with information on executive pension arrangements when required. Linklaters, the Company's appointed legal advisers, provide legal advice when required.

### Guiding Policy

The Remuneration Committee's aim is to ensure that the structure of the Executive Directors' remuneration supports the achievement of the Company's performance objectives and, in turn, increased shareholder value.

The Company's guiding policy on Executive Directors' remuneration, is that:

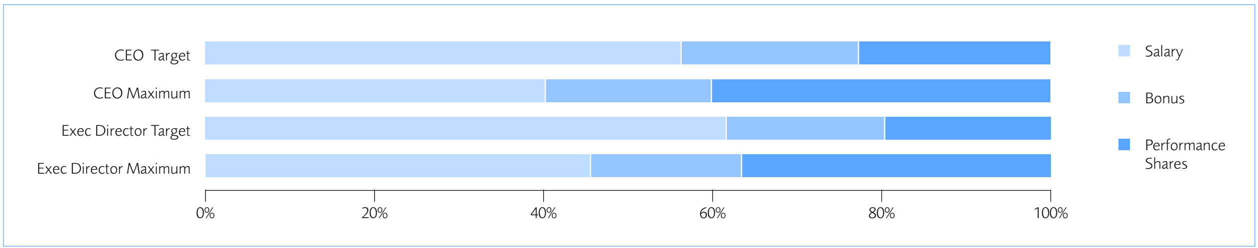
- the Executive Directors' remuneration packages should take into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the setting of incentives, whether in the shorter or the longer term; and

- the overall level of salary, incentives, pension and other benefits should be competitive when compared with other manufacturing companies of a similar size and global spread.

### Remuneration Elements

The Executive Directors' remuneration comprises four elements: annual salary; short-term bonus; longer-term performance shares and benefits (including pension). In line with the Company's emphasis on performance-related pay, bonus payments are dependent on the Company's annual financial performance, while the receipt of performance shares is dependent on enhanced relative returns to shareholders over a three-year period. The arrangements are similar for other senior executive team members. The following table illustrates the proportion of variable pay to base salary for the Chief Executive and other Executive Directors assuming target or maximum performance related pay.

### Proportion of Performance Related Pay to Salary




### Salary

In setting salary levels, the Remuneration Committee considers the experience and responsibility of the Executive Directors and their personal performance during the previous year. The Committee also takes account of salary levels within other companies of a similar size and global spread, as well as the rates of increases for other employees within the Company. The Remuneration Committee reviews salaries with effect from January each year.

### Annual Bonus

The Executive Directors' annual bonus arrangements are focused on the achievement of the Company's short-term financial objectives. Before the start of each year, the Remuneration Committee sets financial performance targets for the year. These are designed to be stretching and are normally based on two measures, profit before tax and cash flow. The maximum bonus potential is 50% of salary for the Chief Executive and 40% of salary for the other Executive Directors. Bonus payments are not pensionable.

**Performance Share Plan**
The Remuneration Committee introduced this Plan, with shareholder approval at the AGM in 2002 with effect from 1 October 2001, to motivate Executive Directors and other senior executives to achieve performance superior to the Company's peers and to deliver sustainable improvements in shareholder returns. This is reflected in the Plan's performance condition which compares the total return received by the Company's shareholders in terms of share price growth and dividends (total shareholder return or "TSR") over a period of time with the total returns received by shareholders in companies within a pre-determined and appropriate comparator group.

Under the Plan, Executive Directors and a limited number of other senior executives receive conditional share awards (which may be in the form of nil-cost options) in respect of the Company's shares. The actual number of shares that each participant receives depends on the Company's TSR performance over a three-year period compared to the TSR performance within a comparator group comprising the FTSE SmallCap index, excluding investment trusts.

- If the Company delivers a total return to shareholders over the three-year period that is below the median TSR of the comparator group, no shares will vest.

- If the Company's TSR performance is equal to the median TSR of the group, 40% of the shares may vest.

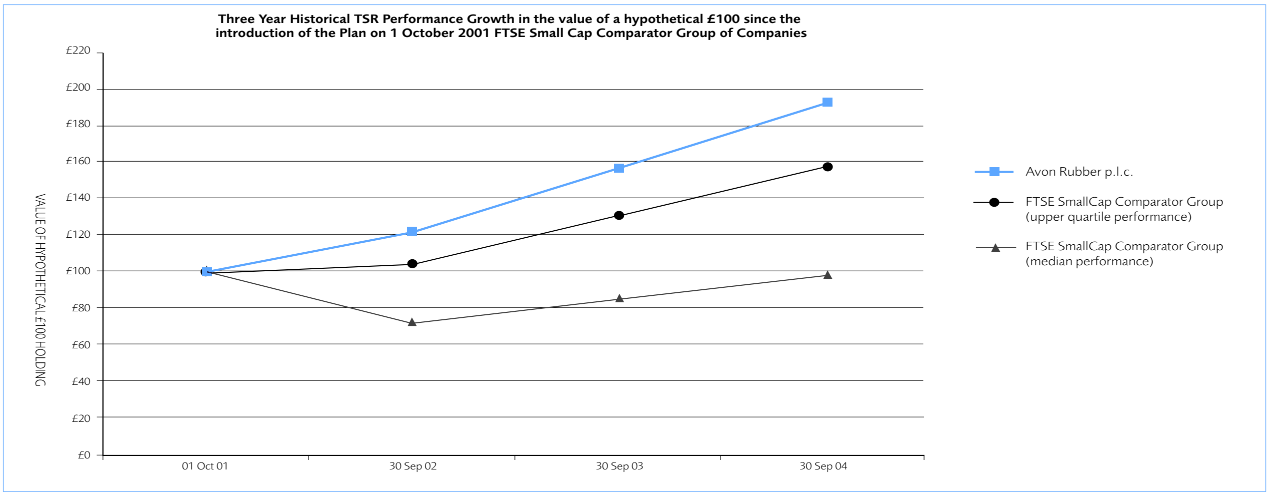
- 100% of the shares may vest if the Company delivers a total return to shareholders that is equal to, or exceeds, the upper quartile TSR of the group.

- For TSR performance between the median and upper quartile, shares may vest on a pro-rata basis.

This schedule reflects the Remuneration Committee's intention to reward only TSR performance which outperforms the comparator group. In addition, the Committee may reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting.

The maximum value that can be granted under the Plan in any year is 100% of salary. It is the Remuneration Committee's current intention that, as before, only the Chief Executive should receive the maximum conditional grant, with the other Executive Directors receiving lower levels.

The graph below shows the Company's relative performance over the three-year performance period commencing on 1 October 2001. The Company's TSR performance exceeded the upper quartile performance of the comparator group. Taking account of this and the general performance of the Company over the three year performance period the Committee determined that it was appropriate that only 90% of the award should vest on 8 December 2004.




During the year the Committee approved new shareholding guidelines for the Executive Directors and other senior executives participating in the Performance Share Plan. Under these guidelines Executive Directors are required to build up and retain a shareholding equivalent to 1.5 times base salary and the senior executives a shareholding of 1.0 times base salary. To achieve this the Directors and senior executives will be required to retain a portion of awards that vest under the Plan.

Details of outstanding awards held by Executive Directors under the Executive share option scheme operated by the Company before the introduction of the Performance Share Plan are set out on page 26.

## Pension and other benefits

The Executive Directors who are based in the UK (Mr. S.J. Willcox, Mr. T.K.P. Stead and Mr. S.J. Stone) are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefits Plan. This provides members with a defined level of benefit on retirement depending on length of service and earnings. Subject to Inland Revenue limits, members can receive a pension of up to two-thirds of pensionable salary on retirement at 60, provided the minimum service requirement of 20 years has been met. Directors' basic salaries are the only pensionable element of their remuneration packages. In respect of pay received above Inland Revenue limits, Mr. T.K.P. Stead receives an annual payment of 58% of salary above the earnings cap. UK-based Executive Directors, like all members, are required to make contributions to the scheme. Non-UK based Executive Directors have payments made by the Company on their behalf to defined contribution pension schemes.

In line with Company policy for new employees in the UK, any UK-based Executive Directors joining the Company with effect from 1 February 2003 will be offered defined contribution arrangements.

Executive Directors are entitled to participate in employee healthcare plans. Directors are also entitled to receive a car allowance and related expenses and UK-based Directors are entitled to participate in the Company's Sharesave Option Scheme, which is open to all UK employees with continuous service of at least three months.

None of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group. The Remuneration Committee will establish a policy on the treatment of any fees received by Executive Directors in respect of such non-executive roles when required.

## Contracts

The Company's policy is that Executive Directors should normally be employed on a contract which may be terminated either by the Company or the Executive giving 12 months notice and which otherwise expires on retirement (currently at age 60). The Company may terminate the contract early without cause by making a payment in lieu of notice by monthly instalments of salary and benefits to a maximum of 12 months, with reductions for any amounts received from providing services to others during this period.

The Remuneration Committee may vary these terms if the particular circumstances surrounding the appointment of a new Executive Director demand it. 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 UK-based Directors' contracts contain early termination provisions consistent with the policy outlined above. Mr. L.J. Richards has a US contract which provides that, on involuntary termination, he is entitled to continuation of salary and benefits for 12 months, with reductions to take account of salary and benefits earned from new employment. Mr. D. Bartels resigned as a Director on 30 June 2004. His employment with the Company ceased on 30 November 2004. The Company continued to pay Mr Bartels' monthly salary and pension during this period along with a lump sum equivalent to approximately nine months' salary and pension contribution on 30 November 2004. Mr Bartels has agreed that his right to participate in the 2003/4 annual bonus scheme should lapse along with all his awards under the Performance Share Plan.

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

| | Contract date | Years to normal retirement | Company notice period | Executive notice period |
|---|---|---|---|---|
| S.J. Willcox | 26 September 2003 | 2 | 12 months | 12 months |
| D. Bartels* | 4 September 2001 | – | 12 months | 12 months |
| L.J. Richards | 2 November 2001 as amended 30 September 2003 | 20 | 12 months | 12 months |
| T.K.P. Stead | 26 September 2003 | 5 | 12 months | 12 months |
| S.J. Stone | 26 September 2003 | 6 | 12 months | 12 months |

* Mr. D. Bartels resigned as a Director on 30 June 2004.

## CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and Non-Executive Directors receive a fixed fee for their services. Fee levels are determined by the Board in light of market research and advice provided by Hanson Green, which also provides services in connection with the proposed recruitment of new Non-Executive Directors. Fee levels are reviewed from time to time. The Chairman and the Non-Executive Directors do not participate in any Board discussions or vote on their own remuneration.

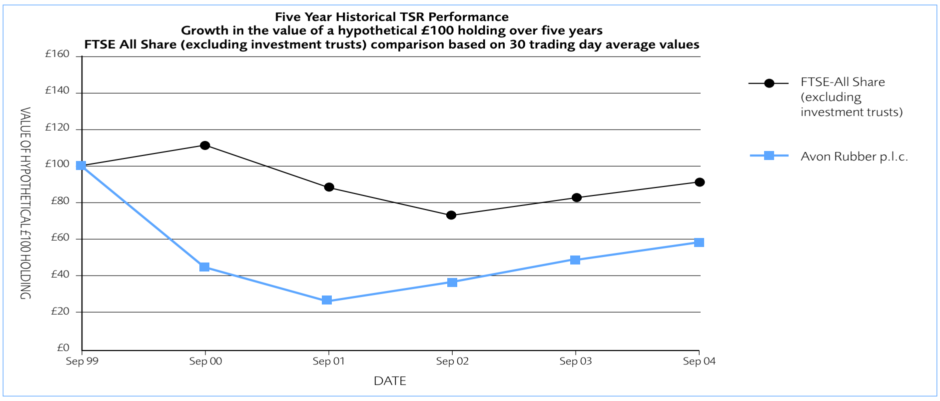
The Chairman and the Non-Executive Directors each have a letter of appointment which specifies an initial appointment of five years. Their appointment is subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years. There are no provisions for compensation payments on early termination in the Chairman's and the Non-Executive Directors' letters of appointment. The date of each appointment is set out below, together with the date of their last re-election.

| | Date of initial appointment | Date of last re-election |
|---|---|---|
| T.C. Bonner CBE (Appointed Chairman 8 Feb 2001) | 5 September 1994 | 23 January 2003 |
| N.A.P. Carson* | 15 May 2001 | 22 January 2004 |
| B. Duckworth OBE | 14 May 2002 | 23 January 2003 |
| G.T.E. Priestley | 1 February 1998 | 22 January 2004 |

* Mr. N.A.P. Carson will resign as a Director with effect from the end of the annual general meeting on 20 January 2005.

### Performance Graph

As required by regulations on directors' remuneration, the following graph illustrates the total return, in terms of share price growth and dividends, on a notional investment of £100 in the Company over the last five years relative to the FTSE All Share Index (excluding investment trusts). This index was chosen by the Remuneration Committee as a competitive indicator of general UK market performance.




### Directors' interests

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

| | At the end of the year | At the beginning of the year |
|---|---|---|
| T.C. Bonner CBE | 7,500 | 7,500 |
| D. Bartels* | – | – |
| N.A.P. Carson | 2,000 | 2,000 |
| B. Duckworth OBE | 6,000 | 6,000 |
| G.T.E. Priestley | 12,000 | 12,000 |
| L.J. Richards | 2,609 | 2,609 |
| T.K.P. Stead | 8,383 | 8,383 |
| S.J. Stone | 14,005 | 14,005 |
| S.J. Willcox | 46,741 | 46,108 |

* Mr. D. Bartels resigned as a Director on 30 June 2004.

Additionally, the Company operates a Qualifying Employee Share Ownership Trust ("Quest") which is used to deliver shares to employees exercising their options under the Savings Related Share Option Scheme. By virtue of their participation, or potential participation, in that Scheme, Mr. S.J. Willcox, Mr. S.J. Stone and Mr. T.K.P. Stead had an interest in the shares held by the Quest at 30 September 2004. At that date 55,836 shares were held in the Quest (2003: 127,578 shares).

The register of Directors' interests contains details of Directors' shareholdings and share options.

There were no movements in Directors' shareholdings between the end of the financial year and 3 December 2004.

## PART 2. DETAILS OF REMUNERATION (AUDITABLE INFORMATION)

The following information has been audited by the Company's auditors PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

### Directors' emoluments

| | Basic salary & fees £'000 | Other * benefits £'000 | Annual bonus £'000 | Total emoluments excluding pensions **2004 £'000** | Total emoluments excluding pensions 2003 £'000 | Pension ** contributions **2004 £'000** | Pension ** contributions 2003 £'000 | Total emoluments including pensions **2004 £'000** | Total emoluments including pensions 2003 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Directors holding office throughout 2003 and 2004** | | | | | | | | | |
| S.J. Willcox (highest paid director) | 232 | 21 | 29 | **282** | 269 | **–** | – | **282** | 269 |
| T.K.P. Stead | 142 | 44 | 14 | **200** | 190 | **–** | – | **200** | 190 |
| S.J. Stone | 150 | 18 | 23 | **191** | 199 | **–** | – | **191** | 199 |
| T.C. Bonner CBE (Chairman) | 50 | – | – | **50** | 50 | **–** | – | **50** | 50 |
| G.T.E. Priestley (Deputy Chairman) | 35 | – | – | **35** | 25 | **–** | – | **35** | 25 |
| L.J. Richards | 114 | 11 | 12 | **137** | 151 | **52** | 56 | **189** | 207 |
| N.A.P. Carson (Non-Executive) | 25 | – | – | **25** | 25 | **–** | – | **25** | 25 |
| B. Duckworth OBE (Non-Executive) | 25 | – | – | **25** | 25 | **–** | – | **25** | 25 |
| Total 2004 | 773 | 94 | 78 | **945** | – | **52** | – | **997** | – |
| Total 2003 | 753 | 90 | 91 | **–** | 934 | **–** | 56 | **–** | 990 |
| **Appointments & resignations** | | | | | | | | | |
| R. Hunt (retired 29.11.02) | – | – | – | **–** | 82 | **–** | – | **–** | 82 |
| D. Bartels (resigned as a Director 30.06.04)*** | 123 | 8 | – | **131** | 176 | **15** | 20 | **146** | 196 |
| **Total 2004** | 896 | 102 | 78 | **1,076** | – | **67** | – | **1,143** | – |
| Total 2003 | 933 | 115 | 144 | **–** | 1,192 | **–** | 76 | **–** | 1,268 |

* Other benefits are described in Part 1 on page 23.
** Pension contributions represent the company's contribution to defined contribution schemes.
*** Mr. D. Bartels' salary, benefits and pension contributions include amounts paid to 30 June 2004. After his resignation as a Director the Company continued to pay Mr. Bartels monthly salary, benefits and pension of €22,795, and paid a lump sum of €203,820 upon termination of his employment on 30 November 2004, as explained on page 23.
Mr. L.J. Richards is paid for his services to the Group through Avon Rubber & Plastics Inc., a company registered in the United States of America.
Mr. D. Bartels was paid through Avon Automotive Deutschland GmbH, the Group's German subsidiary.
No Director waived emoluments in respect of the year ended 30 September 2004 (2003: Nil).

### Executive Directors' pensions

The Stock Exchange Listing Rules require the disclosure of certain additional information relating to the pensions of Executive Directors under defined benefit schemes. This information is set out below.

| | S.J. Willcox | S.J. Stone | T.K.P. Stead |
|---|---|---|---|
| Accrued entitlement as at 30 September 2004 | £141,059p.a. | £90,504p.a. | £20,375p.a. |
| Increase in accrued entitlement over the period | £8,677p.a. | £4,725p.a. | £3,753p.a. |
| Contributions paid by each Director over the period | £17,438 | £11,224 | £7,538 |
| Transfer value at 30 September 2003 | £2,015,592 | £1,072,250 | £212,668 |
| Transfer value at 30 September 2004 | £2,189,823 | £1,162,601 | £262,415 |
| Increase in the transfer value over the year (net of Director's contributions) | £156,794 | £79,127 | £42,210 |
| Increase in accrued entitlement over the period (excluding inflation of 2.8%) | £4,970p.a. | £2,323p.a. | £3,288p.a. |
| Transfer value of increase in accrued pension (net of Director's contributions) | £59,722 | £18,620 | £34,804 |

The accrued entitlement shown is the amount that would be paid each year at normal retirement age, based on service to the end of the current year. The accrued lump sum, under the defined benefit scheme, for the highest paid director at 30 September 2004 was £94,573 (2003: £82,973).

**Performance Share Plan 2002 ("the 2002 Scheme")**
For grants of options or conditional awards made during the first 3 years of operation of the 2002 Scheme, the performance condition has been based on the Company's TSR relative to the TSR of a comparator group, comprising the FTSE SmallCap companies (excluding investment trusts).

A list of the number of shares under option granted at nil cost, to Executive Directors and senior employees, prior to 30 September 2004 and following approval of the 2002 Scheme by shareholders, is set out below:-

| | Granted 2001/2 (for the qualifying period ending 30 Sep 2004) ** | Granted 2002/3 (for the qualifying period ending 30 Sep 2005) | Total option awards outstanding at 1 Oct 2003 | Granted 2003/4 (for the qualifying period ending 30 Sep 2006) | Lapsed 2003/4 | **Total option awards outstanding at 30 Sep 2004** |
|---|---|---|---|---|---|---|
| D. Bartels* | 114,900 | 77,131 | 192,031 | 54,943 | (246,974) | **–** |
| L.J. Richards | 101,185 | 62,018 | 163,203 | 46,365 | – | **209,568** |
| T.K.P. Stead | 98,894 | 67,368 | 166,262 | 50,759 | – | **217,021** |
| S.J. Stone | 114,572 | 75,000 | 189,572 | 53,995 | – | **243,567** |
| S.J. Willcox | 219,597 | 143,750 | 363,347 | 104,828 | – | **468,175** |
| Other senior employees | 225,224 | 147,435 | 372,659 | 129,242 | – | **501,901** |

* Mr. D. Bartels resigned as a Director on 30 June 2004. All his awards lapsed on that date. See note on page 23.
** 90% of the awards granted under the 2001/2 cycle vested on 8 December 2004. See note on page 22.

The market price at the award date for the 2003/4 award was 217.5 pence, for the 2002/3 award was 154.5 pence and the 2001/2 award 99.5 pence.

**Executive share option scheme**

| | Number of options at 30 Sep 03 | Granted during the year | Lapsed during the year | **Number of options at 30 Sep 04** | Exercise price (£) | Exercisable at any time up to |
|---|---|---|---|---|---|---|
| S.J. Willcox | 24,000 | – | (24,000) | **–** | – | – |
| | 60,000 | – | – | **60,000** | 5.10 | Jun 2005 |
| S.J. Stone | 15,000 | – | (15,000) | **–** | – | – |
| | 24,000 | – | – | **24,000** | 5.10 | Jun 2005 |

**Sharesave option schemes**

| | Number of options at 30 Sep 03 | Granted during the year | Lapsed during the year | **Number of options at 30 Sep 04** | Exercise price (£) | Exercisable during 6 months commencing |
|---|---|---|---|---|---|---|
| S.J. Willcox | 8,474 | – | – | **8,474** | 1.00 | April 2005 |
| | 751 | – | – | **751** | 1.33 | July 2006 |
| S.J. Stone | 1,060 | – | (1,060) | – | – | – |
| | 5,092 | – | – | **5,092** | 1.00 | April 2005 |
| | 2,781 | – | – | **2,781** | 1.33 | July 2006 |
| T.K.P. Stead | 8,474 | – | – | **8,474** | 1.00 | April 2005 |
| | 751 | – | – | **751** | 1.33 | July 2006 |

No Directors' options were exercised during the year.

As at 30 September 2004, other employees held options over 1,072,138 ordinary shares, exercisable between 2004 and 2011, at option prices ranging from £1.00 to £5.79.

All options are over ordinary shares of £1 each.

As at 30 September 2004, the market price of Avon Rubber p.l.c. shares was £2.34 (2003: £1.94). During the year the highest and lowest market prices were £2.47 and £1.95 respectively.

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

G.T.E. Priestley
Chairman of the Remuneration Committee
17 December 2004.

# Statement of Directors' Responsibilities

for the year ended 30 September 2004



Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

P.J. Fairbairn, Secretary
Bradford on Avon, Wiltshire
17 December 2004.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p.l.c.**
We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and the accounting policies set out in the notes to the accounts. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable parts of the directors' remuneration report in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable parts of the directors' remuneration report have been properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the chief executive's review, the operational review, the financial review and the corporate governance statement.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code (issued in June 1998) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

**BASIS OF AUDIT OPINION**
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**OPINION**
In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2004 and of the profit and cash flows of the Group for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol
17 December 2004

# Consolidated Profit and Loss Account

for the year ended 30 September 2004

| | Note | 2004 £'000 | 2003 (restated see note 26) £'000 |
|---|---|---|---|
| **Turnover** | 2 | **239,212** | 248,507 |
| Cost of sales | | **(200,110)** | (203,922) |
| **Gross profit** | | **39,102** | 44,585 |
| Net operating expenses (including £681,000 (2003: £681,000) goodwill amortisation) | 3 | **(29,124)** | (34,270) |
| **Operating profit** | | **9,978** | 10,315 |
| Share of profits of joint venture and associate | 4 | **138** | 45 |
| **Profit on ordinary activities before interest** | 2 | **10,116** | 10,360 |
| Interest receivable | 5 | **138** | 181 |
| Interest payable | 5 | **(2,345)** | (3,003) |
| Other finance income/(costs) | 10 | **776** | (103) |
| **Profit on ordinary activities before taxation** | 6 | **8,685** | 7,435 |
| Taxation | 7 | **(1,658)** | (1,976) |
| **Profit on ordinary activities after taxation** | | **7,027** | 5,459 |
| Minority interests | | **(389)** | (108) |
| **Profit for the financial year** | | **6,638** | 5,351 |
| Dividends | 8 | **(2,245)** | (2,131) |
| **Retained profit for the financial year** | 26 | **4,393** | 3,220 |
| **Earnings per ordinary share** | 9 | | |
| Basic | | **25.1p** | 20.0p |
| Before goodwill amortisation | | **27.6p** | 22.5p |
| Diluted | | **23.5p** | 18.9p |

All of the Group's turnover and operating profit was generated from continuing activities.

There is no material difference between the profit as stated above and that calculated on an historical cost basis.

# Consolidated Statement of Total Recognised Gains and Losses

for the year ended 30 September 2004

| | Note | 2004<br>£'000 | 2003<br>(restated see note 26)<br>£'000 |
|---|---|---|---|
| **Profit for the year** | | **6,638** | 5,351 |
| Actuarial (loss)/gain recognised in retirement benefit schemes (net of tax) | | **(753)** | 6,680 |
| Net exchange differences on overseas investments | 26 | **(672)** | 1,402 |
| **Total gains for the year** | | **5,213** | 13,433 |
| Prior year adjustment | 26 | **(19,360)** | |
| **Total losses since last annual report** | | **(14,147)** | |

# Reconciliation of Movements in Shareholders' Funds

for the year ended 30 September 2004

| | Note | 2004<br>£'000 | 2003<br>(restated see note 26)<br>£'000 |
|---|---|---|---|
| Opening shareholders' funds as previously stated | | **80,728** | 76,083 |
| Prior year adjustment | 26 | **(20,318)** | (26,847) |
| Opening shareholders' funds restated | | **60,410** | 49,236 |
| Profit for the year | | **6,638** | 5,351 |
| Dividends | | **(2,245)** | (2,131) |
| Actuarial (loss)/gain recognised in retirement benefit schemes (net of tax) | | **(753)** | 6,680 |
| Movement in respect of employee share scheme | | **(19)** | (128) |
| Goodwill resurrected on disposal of subsidiary | | **392** | – |
| Net exchange difference on overseas investments | | **(672)** | 1,402 |
| **Closing shareholders' funds** | | **63,751** | 60,410 |

# Consolidated Balance Sheet

as at 30 September 2004

| | Note | 2004 £'000 | 2004 £'000 | 2003 £'000 | 2003 (restated see note 26) £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 12 | | **14,595** | | 14,375 |
| Tangible assets | 13 | | **85,330** | | 92,208 |
| Investments | 15 | | **68** | | 11 |
| | | | **99,993** | | 106,594 |
| **Current assets** | | | | | |
| Stocks | 18 | **20,983** | | 20,611 | |
| Debtors – amounts falling due within one year | 19 | **44,137** | | 47,538 | |
| Debtors – amounts falling due after more than one year | 19 | **617** | | 583 | |
| Investments | | **4,118** | | 3,986 | |
| Cash at bank and in hand | | **5,767** | | 7,563 | |
| | | **75,622** | | 80,281 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 20 | **74,278** | | 80,292 | |
| **Net current assets/(liabilities)** | | | **1,344** | | (11) |
| **Total assets less current liabilities** | | | **101,337** | | 106,583 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 21 | **15,332** | | 22,766 | |
| Provisions for liabilities and charges | 23 | **1,950** | | 1,957 | |
| | | | **17,282** | | 24,723 |
| **Net assets excluding pension liability** | | | **84,055** | | 81,860 |
| Pension liability | 10 | | **19,654** | | 19,930 |
| **Net assets** | | | **64,401** | | 61,930 |
| **Capital and reserves** | | | | | |
| Share capital | 25 | | **27,824** | | 27,824 |
| Share premium account | 26 | | **34,070** | | 34,070 |
| Revaluation reserve | 26 | | **2,213** | | 2,518 |
| Capital redemption reserve | 26 | | **500** | | 500 |
| Other reserve | 26 | | **(977)** | | (958) |
| Profit and loss account | 26 | | **121** | | (3,544) |
| **Equity shareholders' funds** | | | **63,751** | | 60,410 |
| Minority interests (equity interests) | | | **650** | | 1,520 |
| | | | **64,401** | | 61,930 |

These financial statements were approved by the board of directors on 17 December 2004 and were signed on its behalf by:

T.C. Bonner CBE
S.J. Willcox

# Parent Company Balance Sheet

at 30 September 2004

| | Note | 2004 £'000 | 2004 £'000 | 2003 (restated see note 27) £'000 | 2003 (restated see note 27) £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 14 | | **25,985** | | 26,403 |
| Investments | 16 | | **72,885** | | 72,885 |
| | | | **98,870** | | 99,288 |
| **Current assets** | | | | | |
| Debtors - amounts falling due within one year | 19 | **5,295** | | 36,062 | |
| Debtors - amounts falling due after more than one year | 19 | **27,618** | | – | |
| Cash at bank and in hand | | **8,969** | | 34,299 | |
| | | **41,882** | | 70,361 | |
| **Creditors** | | | | | |
| Amounts falling due within one year | 20 | **29,562** | | 51,919 | |
| **Net current assets** | | | **12,320** | | 18,442 |
| **Total assets less current liabilities** | | | **111,190** | | 117,730 |
| **Creditors** | | | | | |
| Amounts falling due after more than one year | 21 | **7,840** | | 12,105 | |
| Provisions for liabilities and charges | 23 | **1,356** | | – | |
| | | | **9,196** | | 12,105 |
| **Net assets** | | | **101,994** | | 105,625 |
| **Capital and reserves** | | | | | |
| Share capital | 25 | | **27,824** | | 27,824 |
| Share premium account | 27 | | **34,070** | | 34,070 |
| Merger reserve | 27 | | **16,439** | | 16,439 |
| Revaluation reserve | 27 | | **462** | | 481 |
| Capital redemption reserve | 27 | | **500** | | 500 |
| Other reserve | 27 | | **(977)** | | (958) |
| Profit and loss account | 27 | | **23,676** | | 27,269 |
| **Equity shareholders' funds** | | | **101,994** | | 105,625 |

These financial statements were approved by the board of directors on 17 December 2004 and were signed on its behalf by:

T.C. Bonner CBE
S.J. Willcox

# Consolidated Cash Flow Statement

for the year ended 30 September 2004



| | Note | 2004 £'000 | 2004 £'000 | 2003 (restated see note 26) £'000 | 2003 (restated see note 26) £'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 28 | | **21,728** | | 19,611 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | **70** | | 169 | |
| Interest paid | | **(2,437)** | | (2,758) | |
| | | | **(2,367)** | | (2,589) |
| **Taxation** | | | | | |
| Corporation tax paid | | | **(1,994)** | | (1,776) |
| **Capital expenditure and financial investment** | | | | | |
| Purchase of tangible fixed assets | | **(7,086)** | | (7,971) | |
| Receipts from sales or disposals of property, plant or equipment | | **116** | | 646 | |
| Capitalised development expenditure | | **(2,384)** | | (1,519) | |
| Sale of fixed asset investments | | **–** | | 197 | |
| | | | **(9,354)** | | (8,647) |
| **Acquisitions and disposals** | | | | | |
| Sale of operations | 29 | | **1,884** | | – |
| Purchase of shares in subsidiary undertakings | 29 | | **(1,189)** | | – |
| **Equity dividends paid** | | | **(2,172)** | | (2,013) |
| **Net cash inflow before management of liquid resources and financing** | | | **6,536** | | 4,586 |
| **Management of liquid resources** | | | | | |
| Increase in investments treated as liquid resources | | | **(270)** | | (544) |
| **Financing** | | | | | |
| Repayment of loans | | **(7,667)** | | (10,880) | |
| New loans | | **–** | | 7,738 | |
| Principal payments under finance leases | | **(23)** | | (41) | |
| Purchase of own shares | | **(449)** | | (708) | |
| | | | **(8,139)** | | (3,891) |
| **(Decrease)/increase in cash in the period** | | | **(1,873)** | | 151 |

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Reconciliation of net cash flow to movement in net debt** | | | |
| (Decrease)/increase in cash | | **(1,873)** | 151 |
| Net movements in loans and finance leases | | **7,690** | 3,183 |
| Movement in liquid resources | | **270** | 544 |
| Amortisation of loan issue costs | | **(92)** | (68) |
| Exchange differences | | **2,340** | (811) |
| Movement in net debt in the period | | **8,335** | 2,999 |
| Net debt at the beginning of the year | | **(38,022)** | (41,021) |
| **Net debt at the end of the year** | 30 | **(29,687)** | (38,022) |

**ACCOUNTING POLICIES**
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards in the United Kingdom. A summary of the more important Group policies, which have been applied on a consistent basis (with the exception of the new financial reporting standard and UITF abstracts adoption), is set out below.

**NEW FINANCIAL REPORTING STANDARD AND UITF ABSTRACTS ADOPTION**
Financial Reporting Standard (FRS) 17 "Retirement Benefits" has been adopted in full in these statements as have UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts". The adoption of these represent changes in accounting policies and the comparative figures have been restated accordingly.

**CONSOLIDATION**
Subsidiaries acquired have been dealt with in the consolidated accounts using acquisition accounting. Upon the acquisition of a subsidiary, the fair values that reflect the condition at the date of acquisition are attributed to the identifiable asset and liabilities acquired. Adjustments are made to bring the accounting policies of subsidiaries acquired into alignment with those of the Group. Where the fair value of the consideration paid exceeds the fair value of the acquired assets and liabilities, the difference is treated as goodwill.

In accordance with the FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions made on or after 3 October 1998 is capitalised and amortised on a straight line basis over its useful economic life. Previously, all goodwill was written off against reserves in the year of acquisition. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off directly to reserves. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

**CURRENT ASSET INVESTMENTS**
Current asset investments are stated at the lower of cost and net realisable value.

**DEFERRED TAXATION**
Full provision (on an undiscounted basis) is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the respective tax computations. Deferred tax assets are recognised only to the extent that they are more likely than not to be recovered.

**DERIVATIVE FINANCIAL INSTRUMENTS**
Derivative financial instruments are used to reduce the exposure to foreign exchange and interest rate risks. Instruments qualify for hedge accounting where the underlying asset or liability has characteristics which can be directly related to the instrument transacted. The gains and losses on those instruments qualifying for hedge accounting are recognised in the financial statements over the life of the transaction.

Where a derivative financial instrument no longer meets the criteria for a hedge, the instrument is restated at market value and any gains or losses are taken direct to the profit and loss account. The Group excludes all short-term debtors and creditors from the derivatives and financial instruments disclosures (other than those on currency risk relating to monetary assets and liabilities).

**EXCHANGE RATES**
Profit and loss accounts of foreign Group undertakings are translated at average rates of exchange. Balance sheets are translated at year-end rates. Exchange gains and losses arising from these translations and on foreign currency borrowings relating to overseas investments are taken to reserves and reported in the consolidated statement of total recognised gains and losses. Assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange at the balance sheet date or the rate of exchange at which the transaction is contracted to be settled in the future. Exchange differences arising on transactions are taken to the profit and loss account.

**FIXED ASSET INVESTMENTS**
Investments in associated undertakings are stated at the Group's share of net assets at cost. The Group's share of the profits of associated undertakings is included in the profit and loss account.

For investments in joint ventures, the Group's share of the aggregate gross assets and liabilities of the investment is included in the balance sheet and the Group's share of the profit or loss of the joint venture is included in the profit and loss account.

Investments in Group undertakings are stated at cost less amounts written off to reflect any permanent diminution in value.

**IMPAIRMENT OF FIXED ASSETS AND GOODWILL**
Impairment reviews are undertaken if events or changes in circumstances indicate that the carrying amount of the tangible fixed assets or goodwill may not be recoverable. If the carrying amount exceeds its recoverable amount (being the higher of the value in use and the net realisable value) then the fixed asset or goodwill is written down accordingly.

**INTEREST PAYABLE**
Interest is capitalised gross during the period of construction where it relates either to the financing of major projects with long periods of development or to dedicated financing of other projects. All other interest is charged against income.

**LEASED ASSETS**
Assets which are the subject of finance lease agreements and which transfer to the Group substantially all the benefits and risks of ownership of the assets, are dealt with as tangible assets and equivalent liabilities at the cost of outright purchase. Rentals are apportioned between reduction of the liabilities and finance charges, calculated on a reducing balance basis over the primary lease period. Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

## LONG TERM INCENTIVE PLAN

Details on the Group's Performance Share Plan are set out in the Remuneration Report. Briefly, the scheme participants are eligible for conditional share awards (which may be in the form of nil-cost options) in the Company subject to the Company's Total Shareholder Return ("TSR") over a three year period relative to the TSR of a comparator group. The Group acquires its own shares in the open market in order to meet its obligations under this plan.

UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" have been adopted. Shares held by the Employee Share Ownership Trust previously shown in the balance sheet as fixed asset investments are now required to be shown as a deduction from shareholders' funds. The cost of employee share schemes is charged to the profit and loss account using the quoted market price of shares at the date of grant. The charge is accrued over the vesting period of the shares. There is an exemption from making such a charge for Inland Revenue approved SAYE schemes.

## PENSIONS AND OTHER POST RETIREMENT BENEFITS

Financial Reporting Standard (FRS)17 "Retirement Benefits" has been adopted in full. Previously the Group has accounted for pension and other post retirement benefits in accordance with the Statement of Standard Accounting Practice No. 24 (SSAP 24) "Accounting for pension costs". Under FRS17, scheme assets are measured using market values while liabilities are measured using the projected unit method. The net scheme surplus or deficit is reflected in the balance sheet (net of deferred tax). A charge to operating profit is made to reflect the current and any past service cost; the expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Also included are post retirement obligations in respect of overseas' subsidiaries where different arrangements are adopted to provide post retirement benefits. These obligations (previously shown as liabilities and provisions for charges) are included in the surplus or deficit reflected in the balance sheet. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The Group also provide pensions and post retirement benefits 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.

## RESEARCH AND DEVELOPMENT

All research and development costs are written off in the year in which they are incurred, with the exception of certain major product development projects where reasonable certainty exists as regards technical and commercial viability. Such expenditure is capitalised and amortised over the expected product life, commencing in the year when sales of the product are made for the first time.

## STOCKS

Stocks and work in progress are stated at the lower of cost and net realisable value. In the case of manufactured products, cost includes all direct expenditure and production overheads based on a normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

## TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost with the exception of previously revalued tangible fixed assets, which are now held at their book value at the date of implementation of FRS 15 (Tangible Fixed Assets), as permitted under the transitional rules of that standard, less amounts provided for depreciation and any provision for impairment. No depreciation is provided on freehold land where its value can be separately ascertained. In all other cases freehold properties are depreciated on a straight line method at 2% per annum. Leasehold properties are amortised by equal annual instalments over 50 years or the life of the lease, if shorter. Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum.

## TURNOVER

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied.

## 1 PARENT COMPANY

As permitted by S230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's retained loss for the financial year was £3,612,000 (2003: £886,000). As permitted by FRS17, no provision has been reflected in the parent company's balance sheet for any deficit arising in respect of pension obligations.

## 2 SEGMENTAL INFORMATION

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **(a) External sales by destination** | | |
| Europe | **127,562** | 134,256 |
| North America | **105,471** | 108,150 |
| Rest of World | **6,179** | 6,101 |
| | **239,212** | 248,507 |

| | | **2004** | | | | 2003 |
|---|---|---|---|---|---|---|
| | **External sales £'000** | **Total operating profit £'000** | **Operating net assets £'000** | External sales £'000 | Total operating profit (restated) £'000 | Operating net assets (restated) £'000 |
| **(b) By origin:** | | | | | | |
| Europe | **135,067** | **1,903** | **65,489** | 142,695 | 1,936 | 73,953 |
| North America | **104,145** | **8,213** | **30,479** | 105,812 | 8,424 | 28,687 |
| | **239,212** | **10,116** | **95,968** | 248,507 | 10,360 | 102,640 |

Inter segmental sales are not material.

| | | **2004** | | | | 2003 |
|---|---|---|---|---|---|---|
| | **External sales £'000** | **Total operating profit £'000** | **Operating net assets £'000** | External sales £'000 | Total operating profit (restated) £'000 | Operating net assets (restated) £'000 |
| **(c) By business sector:** | | | | | | |
| Automotive components | **175,308** | **2,996** | **66,289** | 180,240 | 3,388 | 65,014 |
| Technical products | **63,904** | **7,120** | **29,679** | 68,267 | 6,972 | 37,626 |
| | **239,212** | **10,116** | **95,968** | 248,507 | 10,360 | 102,640 |

Inter segmental sales are not material.

| | **2004 £'000** | 2003 (restated) £'000 |
|---|---|---|
| **(d) Reconciliation of operating net asset analysis** | | |
| Consolidated balance sheet | **64,401** | 61,930 |
| Borrowings | **39,572** | 49,571 |
| Interest bearing bank deposits and investments | **(8,005)** | (8,861) |
| Operating net assets | **95,968** | 102,640 |

| | **2004 Year-end** | **2004 Average** | 2003 Year-end | 2003 Average |
|---|---|---|---|---|
| **(e) Directors and employees** | | | | |
| The number of employees (including Executive Directors) during the year was: | | | | |
| Automotive components | **3,558** | **3,576** | 3,455 | 3,551 |
| Technical products | **723** | **758** | 950 | 828 |
| **Total** | **4,281** | **4,334** | 4,405 | 4,379 |

# Group Undertakings and Participating Interests

at 30 September 2004



| | Group interest | Country in which incorporated |
|---|---|---|
| **Held by parent company** | | |
| Avon Polymer Products Limited | | UK |
| Avon Rubber Overseas Limited | | UK |
| Avon Rubber Pension Trust Limited | | UK |
| **Held by group undertakings** | | |
| Avon Automotive Deutschland GmbH | | Germany |
| Avon Caoutchouc S.A.S. | | France |
| Avon Hi-Life Inc. | | USA |
| Avon Injected Rubber & Plastics Inc. | | USA |
| Avon Milk-Rite Inc. | | USA |
| Avon Polymères France S.A.S. | | France |
| Avon Protection Systems Inc. | | USA |
| Avon Rubber & Plastics Inc. | | USA |
| Avon Rubber Polimeros L.D.A. | | Portugal |
| Avon Automotive a.s. | | Czech Republic |
| Avon Vibration Management Systems Limited | | UK |
| Avon Zatec LLC. | | USA |
| Avon-Ames Limited | 51% | UK |
| Bell Avon Inc. | | USA |
| Cadillac Rubber & Plastics Inc. | | USA |
| Cadillac Rubber & Plastics de Mexico SA de CV* | | Mexico |
| Cadimex SA de CV* | | Mexico |
| CT Rubber & Plastics Inc. | | USA |
| Industrial Flexo S.A. | | Spain |
| Nova Insurance Limited | | Guernsey |
| Proflex S.A. | | Spain |
| **Undertakings in which the Group has a participating interest** | | |
| Gold Seal-Avon Polymers PVT*† | 50% | India |
| Longbore Inc. | 9% | USA |

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned by the group and operate primarily in their country of incorporation.

Except where indicated by * all companies have a year ending in September. Companies marked by * have December year ends, except Gold Seal-Avon Polymers PVT which has a March year end.

Avon Rubber Pension Trust Limited, Nova Insurance Limited and Longbore Inc. are, respectively, a pension fund trustee, an insurer and a pollution remediation contractor. Avon Rubber Overseas Limited, Avon Caoutchouc S.A.S. and Avon Rubber & Plastics Inc. are investment holding companies. The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer-based products.

A number of non-trading and small Group undertakings have been omitted on the grounds of immateriality.

† Gold Seal-Avon Polymers PVT is a joint venture within the meaning of Financial Reporting Standard Number 9.

## 6 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Profit on ordinary activities before taxation is stated after crediting:** | | | |
| Rent receivable | | **205** | 124 |
| Gain on foreign exchange | | **–** | 354 |
| **and after charging:** | | | |
| Depreciation on tangible fixed assets: | | | |
| owned assets | | **8,763** | 9,320 |
| leased assets | | **171** | 207 |
| Loss on disposal of tangible fixed assets | | **163** | 119 |
| Amortisation of goodwill | | **681** | 681 |
| Amortisation of deferred development costs | | **1,200** | 741 |
| Auditors' remuneration for: | | | |
| audit (Company £98,000; 2003: £92,000) | | **414** | 380 |
| other services: | tax compliance UK | **96** | 68 |
| | tax consultancy UK | **69** | 249 |
| | tax compliance overseas | **55** | 62 |
| | tax consultancy overseas | **42** | 68 |
| Loss on foreign exchange | | **216** | – |
| Research and development | | **4,566** | 4,003 |
| Operating leases: | | | |
| plant and machinery | | **957** | 917 |
| other assets | | **1,410** | 1,685 |

## 7 TAXATION

### (a) Analysis of charge in the year

| | 2004 £'000 | 2003 (restated) £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax on profits of the year at 30% (2003: 30%) | **(128)** | 306 |
| Overseas taxes | **2,713** | 2,470 |
| Over provision in previous years | **(434)** | (324) |
| | **2,151** | 2,452 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | **(493)** | (476) |
| Total tax charge | **1,658** | 1,976 |

### (b) Factors affecting current tax charge for the year

| | 2004 £'000 | 2003 (restated) £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **8,685** | 7,435 |
| Profit on ordinary activities before taxation at the standard rate of UK corporation tax of 30% (2003: 30%) | **2,605** | 2,230 |
| Permanent differences | **(144)** | (732) |
| Depreciation charge in excess of capital allowances and other timing differences - current year movement on amounts provided | **(790)** | 507 |
| Depreciation charge in excess of capital allowances and other timing differences - current year movement on amounts unprovided | **1,110** | 639 |
| Differences between UK and overseas tax rates on overseas earnings | **(196)** | 132 |
| Adjustments to current tax charge in respect of previous periods | **(434)** | (324) |
| Current tax charge for the year | **2,151** | 2,452 |

## 7 TAXATION (continued)

### (c) Deferred taxation

Provision/(asset) for deferred tax comprises

| | 2004 Provided £'000 | 2004 Unprovided £'000 | 2003 (restated) Provided £'000 | 2003 (restated) Unprovided £'000 |
|---|---|---|---|---|
| Accelerated capital allowances | **6,008** | **(243)** | 4,649 | – |
| Short term timing differences | **(1,281)** | **(39)** | 87 | – |
| Losses | **(4,022)** | **(288)** | (3,320) | (2,109) |
| Deferred tax provision | **705** | **(570)** | 1,416 | (2,109) |
| Deferred tax asset on pension liability | **(8,489)** | **–** | (8,745) | – |
| | **(7,784)** | **(570)** | (7,329) | (2,109) |

| | 2004 Provided £'000 |
|---|---|
| At 30 September 2003 as previously reported | **1,386** |
| Prior year adjustment | **(8,715)** |
| At 30 September 2003 as restated | **(7,329)** |
| Exchange differences taken to reserves | **38** |
| Credit to profit and loss account | **(493)** |
| Provision at end of year including deferred tax on pension liability | **(7,784)** |

### (d) Future tax charges

Future tax charges will continue to benefit from the permanent differences reflected in the above table. These are expected to continue in the short and medium term. Additional benefit may be obtained if the Group is able to utilise tax losses for which no deferred tax asset has been recognised.

## 8 DIVIDENDS

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Dividends on equity shares: | | |
| Ordinary - Interim paid of 3.7p per share (2003: 3.5p per share) | **977** | 936 |
| Ordinary - Final proposed of 4.8p per share (2003: 4.5p per share) | **1,268** | 1,195 |
| | **2,245** | 2,131 |

Dividends payable in respect of 1,350,000 (2003: 1,150,000) shares held by an Employee Share Ownership Trust (see note 25) and 55,836 (2003: 127,578) shares held by the QUEST (see note 25) have been waived.

## 9 EARNINGS PER SHARE

Basic earnings per share amounts to 25.1p (2003: 20.0p) and is based on profit after taxation, and deduction of minority interests of £6,638,000 (2003: £5,351,000) and 26,472,000 ordinary shares (2003: 26,779,000) being the weighted average of the shares in issue during the year.

Earnings per share before goodwill amortisation amounts to 27.6p (2003: 22.5p) and is based on profit for the year (adjusted to add back goodwill amortisation) of £7,319,000 (2003: £6,032,000).

The Company has dilutive potential ordinary shares in respect of the Sharesave Option Scheme (see page 26) and the Performance Share Plan (see page 26). The diluted earnings per share amounts to 23.5p (2003: 18.9p) and is based on profit after taxation and deduction of minority interests of £6,638,000 (2003: £5,351,000) and 28,253,000 ordinary shares (2003: 28,377,000) being the weighted average of the shares in issue during the year adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted earnings per share figures have been calculated in addition to basic and diluted figures since, in the opinion of the directors, these provide further information for an understanding of the Group's performance. A reconciliation of the different earnings per share figures is shown below.

| | **2004**<br>**pence** | 2003<br>(restated)<br>pence |
|---|---|---|
| Basic earnings per share | **25.1** | 20.0 |
| Adjustment for goodwill amortisation | **2.5** | 2.5 |
| Earnings per share before goodwill amortisation | **27.6** | 22.5 |

## 10 PENSIONS AND OTHER RETIREMENT BENEFITS

The group has adopted Financial Reporting Standard (FRS) 17 "Retirement Benefits" having previously accounted for pension and other post retirement benefits in accordance with Statement of Standard Accounting Practice No. 24 (SSAP 24) "Accounting for pension costs". The disclosures given below are those required by the new standard.

The provision for pension liabilities can be analysed as follows:

| | U.K.<br>£'000 | Other European<br>£'000 | USA<br>£'000 | **2004 Total**<br>**£'000** | 2003 Total<br>£'000 |
|---|---|---|---|---|---|
| Pension deficit | 21,398 | 839 | 5,906 | **28,143** | 28,675 |
| Deferred tax asset | (6,419) | – | (2,070) | **(8,489)** | (8,745) |
| Net pension liability | 14,979 | 839 | 3,836 | **19,654** | 19,930 |

### UK

The Group operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is now closed to new entrants. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The trustee is Avon Rubber Pension Trust Limited, the directors of which are members of the plan. Four of the directors are appointed by the Company and two are elected by the members.

Pension costs are assessed on the advice of an independent consulting actuary using the projected unit method. The funding of the plan is based on regular actuarial valuations. The most recent actuarial valuation of the plan was carried out as at 1 April 2003 when the market value of the plan's assets was £174.0 million. The actuarial value of those assets represented 86% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

Employer contributions to the plan were 10.3% of salaries throughout the year.

An updated actuarial valuation for FRS 17 purposes was carried out by an independent actuary at 30 September 2004 using the projected unit method.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

| Valuation Method | **2004**<br>**Projected Unit** | 2003<br>Projected Unit | 2002<br>Projected Unit |
|---|---|---|---|
| Discount rate | **5.75%** | 5.75% | 5.75% |
| Inflation rate | **2.90%** | 2.65% | 2.25% |
| Increases to pensions in payment and deferred | **2.80%** | 2.65% | 2.25% |
| Salary increases | **3.65%** | 3.40% | 3.00% |

**10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)**

The assets in the scheme and the expected rate of return were:

| | **Long-term rate of return expected at 30 September 2004** | **Value at 30 September 2004 £'000** | Long-term rate of return expected at 30 September 2003 | Value at 30 September 2003 £'000 | Long-term rate of return expected at 30 September 2002 | Value at 30 September 2002 £'000 |
|---|---|---|---|---|---|---|
| Equities | **8.0%** | **145,408** | 8.0% | 137,222 | 8.0% | 118,888 |
| Bonds | **4.7%** | **52,530** | 4.7% | 49,291 | 4.7% | 55,930 |
| Other | **3.5%** | **5,910** | 3.5% | 6,170 | 3.5% | 4,088 |
| Total market value of assets | **7.0%** | **203,848** | 6.9% | 192,683 | 6.9% | 178,906 |
| Present value of scheme liabilities | | **(225,246)** | | (214,622) | | (209,882) |
| Deficit in scheme | | **(21,398)** | | (21,939) | | (30,976) |
| Related deferred tax asset | | **6,419** | | 6,582 | | 9,293 |
| Net pension liability | | **(14,979)** | | (15,357) | | (21,683) |

## Analysis of amount charged to operating profit in respect of defined benefit schemes

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Current service | **1,544** | 2,147 |
| Past service cost | **58** | 396 |
| Total operating charge | **1,602** | 2,543 |

## Movement in deficit during the year

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Deficit in the scheme at the beginning of the year | **(21,939)** | (30,976) |
| Movement: | | |
| Current service cost | **(1,544)** | (2,147) |
| Contributions | **2,014** | 1,290 |
| Past service cost | **(58)** | (396) |
| Other finance income | **1,129** | 263 |
| Actuarial (loss)/gain | **(1,000)** | 10,027 |
| Deficit in the scheme at the end of the year | **(21,398)** | (21,939) |

## Analysis of the amount credited to other finance income

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Expected return on pension scheme assets | **13,199** | 12,048 |
| Interest on pension scheme liabilities | **(12,070)** | (11,785) |
| Net return | **1,129** | 263 |

## 10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

### Analysis of the amount recognised in statement of total recognised gains and losses

| | 2004 £'000 | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| Actual return less expected return on pension scheme assets | **6,198** | 10,313 | (31,629) |
| Experience gains and losses arising on the scheme liabilities | **(2,507)** | 6,371 | 1,017 |
| Changes in the assumptions underlying the present value of the scheme liabilities | **(4,691)** | (6,657) | (9,283) |
| Actuarial (loss)/gain recognised in statement of total recognised gains and losses | **(1,000)** | 10,027 | (39,895) |

### History of experience gains and losses

| | 2004 £'000 | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| Difference between the actual and expected return on scheme assets: | | | |
| Amount | **6,198** | 10,313 | (31,629) |
| Percentage of scheme assets | **3.0%** | 5.4% | 17.7% |
| Experience gains and losses on scheme liabilities: | | | |
| Amount | **(2,507)** | 6,371 | 1,017 |
| Percentage of scheme liabilities | **1.1%** | 3.0% | 0.5% |
| Total amount recognised in statement of total recognised gains and losses: | | | |
| Amount | **(1,000)** | 10,027 | (39,895) |
| Percentage of scheme liabilities | **0.4%** | 4.7% | 19.0% |

In addition, commencing 1 February 2003, a defined contribution scheme has been introduced for new employees within the UK. The cost to the Group in respect of this scheme for the year ended 30 September 2004 was £63,000 (2003: £3,000).

### Overseas

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 30 September 2004 in respect of overseas employees was £1,210,000 (2003: £1,716,000).

The Group's German subsidiary operates a fully re-insured defined benefit plan. The scheme's assets at 30 September 2004 were £601,000 (2003: £575,000) and the accrued liabilities £601,000 (2003: £575,000).

In addition, a one off payment is made to retiring employees in the Group's French operations. The accrued liability based on earnings and length of service at 30 September 2004 amounts to £839,000 (2003: £1,049,000). The amount charged to the Group profit and loss account in the year ended 30 September 2004 is £142,000 (2003: £179,000).

### USA post retirement benefits

The Group's USA subsidiaries operate a medical cover scheme under the terms of which retiring employees who have ten years service and their dependants are entitled to medical cover from the date of their retirement for a period of three years, or until they reach the age of 65, whichever is the earlier.

The liabilities of this unfunded benefit scheme were valued by an independent actuary at 1 October 2004, based on the following principal assumptions:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Discount rate | **5.75%** | 6.00% | 6.75% |
| Healthcare cost trend rate | **10.00% reducing to 5.5% by 2009** | 11.00% reducing to 5.5% by 2009 | 12.00% reducing to 5.5% by 2009 |

### Analysis of amount charged to operating profit in respect of post retirement benefits

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Current service | **242** | 163 |
| Past service cost | **101** | 2 |
| Total operating charge | **343** | 165 |

## 10 PENSIONS AND OTHER RETIREMENT BENEFITS (continued)

### Movement in provision during the year

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Provision at the beginning of the year | **(5,875)** | (5,507) |
| Movement: | | |
| Current service cost | **(242)** | (163) |
| Contributions | **251** | 363 |
| Past service cost | **(101)** | (2) |
| Other finance costs | **(353)** | (366) |
| Actuarial loss | **(83)** | (521) |
| Exchange difference | **497** | 321 |
| Provision at the end of the year | **(5,906)** | (5,875) |
| Related deferred tax asset | **2,070** | 2,163 |
| Net post retirement liability | **(3,836)** | (3,712) |

## 11 DIRECTORS AND EMPLOYEES

Detailed disclosures of directors' remuneration and share options are given on pages 21 to 26.

| | **2004 £'000** | 2003 (restated) £'000 |
|---|---|---|
| Staff costs (including directors) during the year were: | | |
| Wages and salaries | **64,628** | 68,233 |
| Social security costs | **8,811** | 9,101 |
| Other pension costs | **2,875** | 4,262 |
| | **76,314** | 81,596 |

## 12 INTANGIBLE FIXED ASSETS – GROUP

| | Cost £'000 | Amortisation £'000 | Net book value £'000 |
|---|---|---|---|
| **Goodwill** | | | |
| At 1 October 2003 | 14,047 | (2,985) | 11,062 |
| Amortisation | – | (681) | (681) |
| Exchange differences | (293) | 56 | (237) |
| **At 30 September 2004** | **13,754** | **(3,610)** | **10,144** |
| **Development expenditure** | | | |
| At 1 October 2003 | 5,049 | (1,736) | 3,313 |
| Incurred during the year | 2,384 | (1,200) | 1,184 |
| Exchange differences | (51) | 5 | (46) |
| **At 30 September 2004** | **7,382** | **(2,931)** | **4,451** |
| **Total intangible fixed assets** | | | |
| **At 30 September 2004** | **21,136** | **(6,541)** | **14,595** |
| At 30 September 2003 | 19,096 | (4,721) | 14,375 |

The goodwill arising on acquisitions since October 1998 is being amortised on a straight line basis over 20 years. This period is the period over which the directors estimate that the value of the business acquired is expected to exceed the value of the underlying assets.

The cumulative goodwill resulting from acquisitions, which has been written off to reserves at 30 September 2004, is £74,260,000 (2003: £74,652,000).

The development expenditure is being amortised over its estimated life of 5 years on a straight line basis.

## 13 TANGIBLE FIXED ASSETS – GROUP

| | Freeholds £'000 | Long leaseholds £'000 | Short leaseholds £'000 | Plant and machinery £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or Valuation:** | | | | | |
| At 1 October 2003 | 47,797 | 1,235 | 76 | 135,182 | 184,290 |
| Exchange differences | (1,145) | (24) | (4) | (4,034) | (5,207) |
| Additions at cost | 411 | – | – | 6,356 | 6,767 |
| Disposals | (4) | – | – | (1,917) | (1,921) |
| Disposal of subsidiary | (1,395) | – | – | (5,942) | (7,337) |
| Reclassifications | 218 | – | – | (218) | – |
| **At 30 September 2004** | **45,882** | **1,211** | **72** | **129,427** | **176,592** |
| At cost | 37,500 | 411 | 72 | 129,427 | 167,410 |
| At valuation | 8,382 | 800 | – | – | 9,182 |
| | **45,882** | **1,211** | **72** | **129,427** | **176,592** |
| **Depreciation:** | | | | | |
| At 1 October 2003 | 5,522 | 309 | 71 | 86,180 | 92,082 |
| Exchange differences | (439) | (12) | (4) | (2,484) | (2,939) |
| Charge for the year | 1,017 | 50 | 1 | 7,866 | 8,934 |
| On disposals | (3) | – | – | (1,639) | (1,642) |
| On disposal of subsidiary | (354) | – | – | (4,819) | (5,173) |
| **At 30 September 2004** | **5,743** | **347** | **68** | **85,104** | **91,262** |
| **Net book value at 30 September 2004** | **40,139** | **864** | **4** | **44,323** | **85,330** |
| Net book value at 30 September 2003 | 42,275 | 926 | 5 | 49,002 | 92,208 |
| **Net book value includes the following leased assets** | | | | | |
| **At 30 September 2004** | **–** | **864** | **4** | **616** | **1,484** |
| At 30 September 2003 | – | 926 | 5 | 737 | 1,668 |

The accumulated cost of freeholds includes £1,873,000 (2003: £1,873,000) in respect of capitalised interest, the net book value of which is £1,699,000 (2003: £1,736,000).

Group properties were valued independently as at 28 September 1996 on the basis of existing use value or open market value as deemed appropriate. These valuations were undertaken in the United Kingdom by Knight Frank and overseas by DTZ Debenham Thorpe, both firms of independent chartered surveyors.

If land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

| | Freeholds £'000 | Long leaseholds £'000 | Short leaseholds £'000 |
|---|---|---|---|
| Cost | 47,307 | 738 | 72 |
| Depreciation | 8,853 | 382 | 68 |
| **Net book value at 30 September 2004** | **38,454** | **356** | **4** |
| Net book value at 30 September 2003 | 40,304 | 401 | 5 |

## 14 TANGIBLE FIXED ASSETS – PARENT

| | Freeholds £'000 | Long leaseholds £'000 | Plant and machinery £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or Valuation:** | | | | |
| At 1 October 2003 | 27,023 | 800 | 2,047 | 29,870 |
| Transfers from group companies | – | – | 69 | 69 |
| Additions at cost | – | – | 409 | 409 |
| Disposals | – | – | (295) | (295) |
| **At 30 September 2004** | **27,023** | **800** | **2,230** | **30,053** |
| At cost | 27,023 | – | 2,230 | 29,253 |
| At valuation | – | 800 | – | 800 |
| | **27,023** | **800** | **2,230** | **30,053** |
| **Depreciation:** | | | | |
| At 1 October 2003 | 1,843 | 169 | 1,455 | 3,467 |
| Transfers from group companies | – | – | 22 | 22 |
| Charge for the year | 540 | 24 | 256 | 820 |
| On disposals | – | – | (241) | (241) |
| **At 30 September 2004** | **2,383** | **193** | **1,492** | **4,068** |
| **Net book value at 30 September 2004** | **24,640** | **607** | **738** | **25,985** |
| Net book value at 30 September 2003 | 25,180 | 631 | 592 | 26,403 |
| **Net book value includes the following leased assets:** | | | | |
| **At 30 September 2004** | **–** | **607** | **–** | **607** |
| At 30 September 2003 | – | 631 | – | 631 |

The accumulated cost of freeholds includes £1,873,000 (2003: £1,873,000) in respect of capitalised interest, the net book value of which is £1,699,000 (2003: £1,736,000).

Group properties were valued independently as at 28 September 1996 on the basis of existing use value or open market value as deemed appropriate. These valuations were undertaken in the United Kingdom by Knight Frank and overseas by DTZ Debenham Thorpe, both firms of independent chartered surveyors.

If land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

| | Freeholds £'000 | Long leaseholds £'000 |
|---|---|---|
| Cost | 27,023 | 327 |
| Depreciation | 2,383 | 228 |
| **Net book value at 30 September 2004** | **24,640** | **99** |
| Net book value at 30 September 2003 | 25,180 | 106 |

## 15 FIXED ASSETS INVESTMENTS – GROUP

| | 2004 £'000 | 2003 (restated see note 26) £'000 |
|---|---|---|
| Investment in joint venture: | | |
| share of joint assets | **552** | – |
| share of joint liabilities | **(484)** | – |
| Other investments | **–** | 11 |
| | **68** | 11 |

| | Investment in own shares £'000 | Joint Venture £'000 | Other investments other than loans £'000 | Total £'000 |
|---|---|---|---|---|
| **Shares at cost, less amount written off:** | | | | |
| At 30 September 2003 | 584 | 482 | 11 | 1,077 |
| Prior year adjustment | (584) | – | – | (584) |
| At 30 September 2003 as restated | – | 482 | 11 | 493 |
| Disposed of during the year | – | – | (11) | (11) |
| **At 30 September 2004** | **–** | **482** | **–** | **482** |
| **Group share of profits less losses:** | | | | |
| At 1 October 2003 | – | (511) | – | (511) |
| Exchange differences | – | 1 | – | 1 |
| Share of profits for the year | – | 96 | – | 96 |
| **At 30 September 2004** | **–** | **(414)** | **–** | **(414)** |
| **Net book value at 30 September 2004** | **–** | **68** | **–** | **68** |
| Net book value at 30 September 2003 as restated | – | (29) | 11 | (18) |
| Transfer to other creditors | – | 29 | – | 29 |
| Revised net book value at 30 September 2003 as restated | – | – | 11 | 11 |

## 16 FIXED ASSETS INVESTMENTS – PARENT

| | Investment in own shares £'000 | Investment in subsidiaries £'000 | Total (restated) £'000 |
|---|---|---|---|
| **Net book value** | | | |
| At 30 September 2003 | 584 | 72,885 | 73,469 |
| Prior year adjustment | (584) | – | (584) |
| **At 30 September 2003 and 30 September 2004** | **–** | **72,885** | **72,885** |

A list of Group undertakings appears on page 57.

## 17 OTHER FINANCIAL COMMITMENTS

| | | Group | | Parent |
|---|---|---|---|---|
| | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Capital expenditure committed | **230** | 332 | **13** | 14 |

Capital expenditure committed represents the amount contracted at the end of the financial year for which no provision has been made in the financial statements.

The annual commitments of the Group for non-cancellable operating leases are:

| | | **2004** | | 2003 |
|---|---|---|---|---|
| | **Land and buildings £'000** | **Other assets £'000** | Land and buildings £'000 | Other assets £'000 |
| **For leases expiring** | | | | |
| Within 1 year | **115** | **128** | 692 | 280 |
| In 2-5 years | **846** | **385** | 665 | 610 |
| Over 5 years | **361** | **–** | 547 | – |
| | **1,322** | **513** | 1,904 | 890 |

The majority of leases of land and buildings are subject to rent reviews.

The parent company has annual commitments for non-cancellable operating leases on land and buildings expiring in over 5 years of £169,000 (2003: £146,000).

## 18 STOCKS

| | | Group |
|---|---|---|
| | **2004 £'000** | 2003 £'000 |
| Raw materials | **7,258** | 8,077 |
| Work in progress | **4,762** | 4,393 |
| Finished goods | **8,963** | 8,141 |
| | **20,983** | 20,611 |

## 19 DEBTORS

| | Group | | Parent | |
|---|---|---|---|---|
| | **2004 £'000** | 2003 (restated) £'000 | **2004 £'000** | 2003 £'000 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | **35,788** | 40,614 | **5** | 28 |
| Group undertakings | **–** | – | **4,991** | 34,801 |
| Undertakings in which the Group has a participating interest | **–** | 226 | **–** | 107 |
| Deferred tax | **795** | – | **–** | 512 |
| Other debtors | **5,873** | 5,046 | **257** | 547 |
| Prepayments | **1,681** | 1,652 | **42** | 67 |
| | **44,137** | 47,538 | **5,295** | 36,062 |
| **Amounts falling due after more than one year:** | | | | |
| Group undertakings | **–** | – | **27,618** | – |
| Other debtors | **617** | 583 | **–** | – |
| | **617** | 583 | **27,618** | – |
| | **44,754** | 48,121 | **32,913** | 36,062 |

## 20 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Parent | |
|---|---|---|---|---|
| | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Bank loans | **21,017** | 23,590 | **18,339** | 19,415 |
| US dollar private placement | **2,344** | 2,554 | **–** | – |
| Bank overdrafts | **1,277** | 1,008 | **–** | – |
| Finance leases | **3** | 26 | **–** | – |
| Total borrowings falling due within 1 year | **24,641** | 27,178 | **18,339** | 19,415 |
| Trade creditors | **27,796** | 28,068 | **438** | 350 |
| Group undertakings | **–** | – | **5,456** | 26,689 |
| Bills of exchange | **–** | 910 | **–** | – |
| Corporation tax | **2,019** | 2,161 | **2,889** | 2,896 |
| Other taxation and social security | **2,996** | 4,260 | **171** | 183 |
| Other creditors | **8,812** | 7,641 | **453** | 727 |
| Accruals | **6,746** | 8,879 | **548** | 464 |
| Proposed dividend on ordinary shares | **1,268** | 1,195 | **1,268** | 1,195 |
| | **74,278** | 80,292 | **29,562** | 51,919 |

Other creditors in 2003 included £29,000 in respect of the company's investment in the joint venture Gold Seal-Avon Polymers PVT, this being the company's share of the assets of the joint venture totalling £621,000 less the company's share of the liabilities of the joint venture totalling  £650,000. In 2004 this investment is included within fixed asset investments.

## 21 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | | Group | | Parent |
|---|---|---|---|---|
| | **2004** <br> **£'000** | 2003 (restated) £'000 | **2004** <br> **£'000** | 2003 <br> £'000 |
| Bank loans | **7,840** | 12,159 | **7,840** | 12,105 |
| US dollar private placement | **7,091** | 10,234 | **–** | – |
| Total borrowings falling due after more than one year | **14,931** | 22,393 | **7,840** | 12,105 |
| Other creditors | **401** | 373 | **–** | – |
| | **15,332** | 22,766 | **7,840** | 12,105 |

Bank loans and overdrafts are denominated in a number of currencies and bear interest based on either bank base rates or national LIBOR equivalents.

The US dollar denominated private placement loan is stated net of unamortised issue costs of £39,000 (2003: £111,000).

## 22 FINANCIAL INSTRUMENTS

### Treasury Policy

Details of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities are discussed in the financial review on page 14. The financial review also discusses the objectives and policies for holding or issuing financial instruments and the strategies for achieving those objectives.

### Short term debtors and creditors

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosures.

### Interest rate risk of financial assets

| | | | **2004** | | | 2003 |
|---|---|---|---|---|---|---|
| Currency | **Cash at bank and in hand £'000** | **Investments £'000** | **Total £'000** | Cash at bank and in hand £'000 | Investments £'000 | Total £'000 |
| Sterling | **1,694** | **2,600** | **4,294** | 2,306 | 2,292 | 4,598 |
| US dollars | **806** | **1,518** | **2,324** | 1,471 | 1,705 | 3,176 |
| Euros | **2,465** | **–** | **2,465** | 2,861 | – | 2,861 |
| Other currencies | **802** | **–** | **802** | 925 | – | 925 |
| | **5,767** | **4,118** | **9,885** | 7,563 | 3,997 | 11,560 |

Cash at bank and in hand balances are denominated in a number of currencies and earn interest based on national base rates.

The US dollar investments include the net book value of a 9% equity holding in Longbore Inc. of $Nil (2003: $18,000). Other investments relate to holdings in sterling and US dollar money and bond funds, the returns on which relate to the performance of the underlying assets.

## 22 FINANCIAL INSTRUMENTS (continued)

### Interest rate risk of financial liabilities

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| Currency | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Total £'000 | Floating rate financial liabilities £'000 | Fixed rate financial liabilities £'000 | Total £'000 |
| Sterling | **866** | **3** | **869** | 978 | 26 | 1,004 |
| US dollars | **14,368** | **9,435** | **23,803** | 14,007 | 12,788 | 26,795 |
| Euros | **11,922** | **–** | **11,922** | 19,090 | – | 19,090 |
| Other currencies | **2,978** | **–** | **2,978** | 2,682 | – | 2,682 |
| | **30,134** | **9,438** | **39,572** | 36,757 | 12,814 | 49,571 |

Floating rate financial liabilities include loans, which bear interest at rates related to either bank base rates or national LIBOR equivalents. The interest on certain loans is fixed in advance for periods of between one and six months.

Fixed rate financial liabilities comprise finance leases and a dollar denominated loan of $17.1 million (2003: $21.4 million).

The above foreign currency liabilities provide a hedge against the Groups' investment in non-sterling denominated net assets.

### Fixed rate financial liabilities

| | 2004 | | 2003 | |
|---|---|---|---|---|
| Currency | Weighted average interest rate % | Weighted average period for which rate is fixed Years | Weighted average interest rate % | Weighted average period for which rate is fixed Years |
| Sterling | **–** | **–** | 7.2 | 1.0 |
| US dollars | **8.5** | **1.2** | 8.5 | 2.2 |

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at the end of the year was as follows:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Bank overdrafts and loans £'000 | Finance leases £'000 | Total £'000 | Bank overdrafts and loans £'000 | Finance leases £'000 | Total £'000 |
| In 1 year or less, or on demand | **24,638** | **3** | **24,641** | 27,152 | 26 | 27,178 |
| Between 1 and 2 years | **14,931** | **–** | **14,931** | 6,579 | – | 6,579 |
| Between 2 and 5 years | **–** | **–** | **–** | 15,814 | – | 15,814 |
| Over 5 years | **–** | **–** | **–** | – | – | – |
| | **39,569** | **3** | **39,572** | 49,545 | 26 | 49,571 |

Bank overdrafts and loans include the US dollar private placement.

## 22 FINANCIAL INSTRUMENTS (continued)

### Borrowing facilities

The Group has the following committed borrowing facilities which have been arranged to meet its expected medium term requirements:

| | 2004 Floating rate £'000 | 2004 Fixed rate £'000 | 2004 Total £'000 | 2003 Total £'000 |
|---|---|---|---|---|
| Expiring within 1 year | **13,048** | **–** | **13,048** | 9,873 |
| Between 1 and 2 years | **–** | **–** | **–** | – |
| Total undrawn committed borrowing facilities | **13,048** | **–** | **13,048** | 9,873 |
| Bank loans and overdrafts utilised | **30,134** | **9,435** | **39,569** | 49,545 |
| Utilised in respect of guarantees | **4,100** | **–** | **4,100** | 1,944 |
| Total Group facilities | **47,282** | **9,435** | **56,717** | 61,362 |

The facilities are subject to formal agreement with the providers of finance. With all of the Group's term debt maturing within the next 24 months, we have agreed with our principal bankers to extend the amount and term of our debt facilities. Group facilities will then total approximately £70 million with the term portion having an amortisation schedule through to 2009.

### Fair values of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates. Set out on the next page is a summary of the methods and assumptions used for each category of financial instrument.

| | 2004 Book value £'000 | 2004 Fair value £'000 | 2003 Book value £'000 | 2003 Fair value £'000 |
|---|---|---|---|---|
| **Primary financial instruments held or issued to finance the Group's operations:** | | | | |
| Bank loans and overdrafts under 1 year | **(22,294)** | **(22,294)** | (24,598) | (24,598) |
| US dollar denominated loan | **(9,474)** | **(9,904)** | (12,899) | (13,762) |
| Bank loans over 1 year | **(7,840)** | **(7,840)** | (12,159) | (12,159) |
| Finance leases | **(3)** | **(3)** | (26) | (26) |
| Cash at bank and in hand | **5,767** | **5,767** | 7,563 | 7,563 |
| Current asset investments | **4,118** | **4,118** | 3,986 | 3,986 |
| **Derivative financial instruments held to manage the interest rate and currency profile** | | | | |
| Forward foreign currency contracts | **(12)** | **(12)** | (56) | (56) |
| **Derivative financial instruments held or issued to hedge the currency exposure on expected future sales and purchases** | | | | |
| Forward foreign currency contracts | **–** | **(42)** | – | 199 |

The book value of the US dollar private placement is shown in the above table gross of unamortised issue costs of £39,000 (2003: £111,000).

## 22 FINANCIAL INSTRUMENTS (continued)

### Summary of methods and assumptions

| | |
|---|---|
| US dollar private placement and forward foreign currency contracts | Fair value is based on the market value of comparable instruments at the balance sheet date. |
| Bank loans | The fair value of bank loans approximates to their book values as these are floating rate facilities on which interest rates are reset to market rates typically on a one to six months basis. |
| Finance leases | The fair value of finance leases approximates to their book values as the interest rates inherent in these agreements are similar to the interest rates available on replacement facilities. |
| Current asset investments | The fair value of current asset investments is based on the market value of the investments at the balance sheet date. |

### Currency exposures

The carrying value of monetary assets and liabilities held by operating units in currencies other than their functional currency, which are not covered by forward exchange contracts, is €2,021,000.

### Hedges

In order to protect against the fluctuations in foreign currencies, borrowings are taken out in the functional currency of the subsidiary companies. The currency exposure in respect of overseas investments was as follows:

| | | | | 2004 | 2003 |
|---|---|---|---|---|---|
| Currency | Operating assets £'000 | Unamortised goodwill £'000 | Functional currency borrowings £'000 | Remaining functional currency exposure £'000 | Remaining functional currency exposure £'000 |
| US dollar | **29,151** | **–** | **23,803** | **5,348** | 5,001 |
| Euro | **15,325** | **10,144** | **11,922** | **13,547** | 6,268 |
| Other currencies | **10,212** | **–** | **2,978** | **7,234** | 7,206 |
| | **54,688** | **10,144** | **38,703** | **26,129** | 18,475 |

The unrecognised gains on forward foreign currency contracts at 30 September 2003 amounted to £199,000 which was recognised in the profit and loss account for the year ended 30 September 2004. The unrecognised losses on forward foreign currency contracts at 30 September 2004 amount to £42,000 which is expected to be recognised in the profit and loss account for the year ended 30 September 2005 as the transactions to which they relate occur.

## 23 PROVISIONS FOR LIABILITIES AND CHARGES

| | Group | | | Parent |
|---|---|---|---|---|
| | Deferred tax £'000 | Other £'000 | Total (restated) £'000 | Deferred tax £'000 |
| Balance at 30 September 2003 | 1,386 | 541 | 1,927 | – |
| Prior year adjustment | 30 | – | 30 | – |
| Balance at 30 September 2003 as restated | 1,416 | 541 | 1,957 | – |
| Transferred from debtors - amounts falling due within one year | – | – | – | (512) |
| Charged to profit and loss account | 17 | – | 17 | 1,868 |
| Payments in the year | – | (91) | (91) | – |
| Exchange differences | 67 | – | 67 | – |
| **Balance at 30 September 2004** | **1,500** | **450** | **1,950** | **1,356** |

The provision for deferred tax is detailed in note 7.
The other provision is in respect of the European rationalisation and reorganisation detailed in the 2002 report and accounts.

## 24 CONTINGENT LIABILITIES

| | Group | | Parent | |
|---|---|---|---|---|
| | **2004 £'000** | 2003 £'000 | **2004 £'000** | 2003 £'000 |
| Guarantees of overdraft facilities and loans of Group undertakings | **–** | – | **30,881** | 55,077 |
| Other guarantees | **5,581** | 4,819 | **–** | – |
| | **5,581** | 4,819 | **30,881** | 55,077 |

The company and certain subsidiaries have unconditionally guaranteed the liabilities of Avon Rubber & Plastics Inc. in respect of its US $17.1 million private debt placement.

HSBC Bank plc has the right to set off the bank accounts of the Parent and the UK subsidiaries.

Other guarantees are bank guarantees issued to cover normal trading requirements.

## 25 SHARE CAPITAL

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| **Authorised:** | | |
| 37,900,000 ordinary shares of £1 each | **37,900** | 37,900 |
| **Called up, allotted and fully paid:** | | |
| 27,824,000 ordinary shares of £1 each | **27,824** | 27,824 |

At 30 September 2004, a Qualifying Employee Share Ownership Trust ("QUEST"), held 55,836 (2003: 127,578) ordinary shares in the company at a market value of £2.34 per share, all of which were under option to employees. 1,350,000 (2003: 1,150,000) ordinary shares are also held by a trust in respect of obligations under the 2002 Performance Share Plan. Dividends on all of these shares have been waived.

Details of outstanding share options are given on page 26.

## 26 SHARE PREMIUM ACCOUNT AND RESERVES – GROUP

| | Share premium account £'000 | Revaluation reserve £'000 | Capital redemption reserve £'000 | Other reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 30 September 2003 | 34,070 | 2,518 | 500 | – | 15,816 | 52,904 |
| Prior year adjustment | – | – | – | (958) | (19,360) | (20,318) |
| At 30 September 2003 as restated | 34,070 | 2,518 | 500 | (958) | (3,544) | 32,586 |
| Transfer from revaluation reserve to profit and loss account | – | (305) | – | – | 305 | – |
| Unrealised exchange differences on overseas investments | – | – | – | – | (672) | (672) |
| Movement in respect of employee share scheme | – | – | – | (19) | – | (19) |
| Goodwill resurrected on disposal of subsidiary | – | – | – | – | 392 | 392 |
| Actuarial loss recognised in retirement benefit schemes | – | – | – | – | (753) | (753) |
| Current year retained profit | – | – | – | – | 4,393 | 4,393 |
| **At 30 September 2004** | **34,070** | **2,213** | **500** | **(977)** | **121** | **35,927** |
| Avon Rubber p.l.c. and subsidiaries | 34,070 | 2,213 | 500 | (977) | 535 | 36,341 |
| Joint venture | – | – | – | – | (414) | (414) |
| | **34,070** | **2,213** | **500** | **(977)** | **121** | **35,927** |

### Prior year adjustment

The prior year adjustment relates to the implementation of FRS17 (Retirement Benefits) and UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts". The impact on the financial statements is set out below:

| | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Decrease/(increase) in staff costs | | |
| – Impact of UITF Abstracts 17 and 38 | **30** | 231 |
| – Impact of FRS17 | **1,290** | (363) |
| | **1,320** | (132) |
| Increase/(decrease) in other finance income | | |
| – Impact of FRS17 | **776** | (103) |
| Increase/(decrease) in profit before tax | **2,096** | (235) |
| (Increase)/decrease in taxation | **(616)** | 140 |
| Increase/(decrease) in profit for the year | **1,480** | (95) |
| (Decrease)/increase in recognised gains and losses | | |
| – Impact of FRS17 | **(753)** | 6,752 |

### Balance sheet classification at 30 September 2003

As part of the implementation of FRS17 £4,523,000 of liabilities and provisions for charges and £1,319,000 of deferred tax have been reclassified and included in the net pension liability of £19,930,000. These liabilities are in respect of post retirement benefits included in overseas' subsidiaries.

As a result of the implementation of UITF Abstracts 17 and 38 own shares of £584,000 previously shown as an investment have been deducted from reserves.

The consolidated cash flow statement has been restated to reflect the reallocation of the cash payments relating to the purchase of own shares from capital expenditure and financial investment to financing.

### Analysis of prior year adjustment

| | £'000 |
|---|---|
| Adjustments to opening reserves at 1 October 2002 | (26,847) |
| Adjustments for the year ended 30 September 2003 | |
| – profit and loss account | (95) |
| – recognised gains and losses | 6,752 |
| – balance sheet reclassification | (128) |
| | (20,318) |

## 26 SHARE PREMIUM ACCOUNT AND RESERVES – GROUP (continued)

The cumulative prior year adjustment reflected in the reconciliation of movements in shareholders' funds comprises:

| | £'000 |
|---|---|
| Impact of UITF Abstracts 17 and 38 | (584) |
| Impact of FRS17 | (19,734) |
| Net movement | (20,318) |

## 27 SHARE PREMIUM ACCOUNT AND RESERVES – PARENT

| | Share premium account £'000 | Merger reserve £'000 | Revaluation reserve £'000 | Capital redemption reserve £'000 | Other reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 30 September 2003 | 34,070 | 16,439 | 481 | 500 | – | 26,895 | 78,385 |
| Prior year adjustment | – | – | – | – | (958) | 374 | (584) |
| At 30 September 2003 as restated | 34,070 | 16,439 | 481 | 500 | (958) | 27,269 | 77,801 |
| Transfer from revaluation reserve to profit and loss account | – | – | (19) | – | – | 19 | – |
| Movement in respect of employee share scheme | – | – | – | – | (19) | – | (19) |
| Current year retained loss | – | – | – | – | – | (3,612) | (3,612) |
| **At 30 September 2004** | **34,070** | **16,439** | **462** | **500** | **(977)** | **23,676** | **74,170** |

The prior year adjustment relates to the implementation of UITF Abstract 17 (Revised 2003) "Employee Share Schemes" and UITF Abstract 38 "Accounting for ESOP Trusts" as set out in note 26 above. The deficit arising in respect of FRS 17 has only been reflected in the Group's consolidated accounts as it is not possible to apportion this deficit between individual Group companies.

## 28 NET CASH INFLOW FROM OPERATING ACTIVITIES

| | **2004 £'000** | 2003 (restated) £'000 |
|---|---|---|
| **Continuing operations** | | |
| Total operating profit | **10,116** | 10,360 |
| Goodwill amortisation | **681** | 681 |
| Amortisation of development costs | **1,200** | 741 |
| Amortisation of loan issue costs | **92** | 68 |
| Depreciation of tangible fixed assets | **8,934** | 9,527 |
| Writedown of owned shares | **430** | 580 |
| Loss on sale of tangible fixed assets | **164** | 119 |
| Increase in stocks | **(2,475)** | (1,099) |
| Decrease/(increase) in debtors | **1,029** | (4,225) |
| Increase in creditors | **1,574** | 2,757 |
| Decrease in pension liability | **212** | 889 |
| Share of operating profits of joint venture and associate | **(138)** | (45) |
| Decrease in provisions | **(91)** | (742) |
| **Total net cash inflow from continuing operations** | **21,728** | 19,611 |

## 29 ACQUISITIONS AND DISPOSALS

### a) Disposal of Avon Spencer Moulton

On 20 November 2003, the group sold the entire share capital of a French based wholly owned subsidiary, Avon Spencer Moulton S.A. The result on disposal comprises:

| | £'000 |
|---|---|
| Cash received on sale | 2,635 |
| Less cash balance transferred | (506) |
| | 2,129 |
| Carrying value of net assets excluding cash | (1,496) |
| Goodwill previously written off to reserves | (388) |
| Costs incurred | (245) |
| Result on sale of subsidiary undertaking | – |

### b) Purchase of shares in subsidiary undertakings

During the year the group purchased the remaining shares in two of its United States subsidiaries, Bell Avon Inc. and CT Rubber & Plastics Inc., at their net book value at the relevant acquisition date.

## 30 ANALYSIS OF NET DEBT

| | At 1 Oct 2003 £'000 | Cash flow £'000 | Amortisation of loan issue costs £'000 | Exchange movements £'000 | **At 30 Sept 2004 £'000** |
|---|---|---|---|---|---|
| Cash at bank and in hand | 7,563 | (1,610) | – | (186) | **5,767** |
| Overdrafts | (1,008) | (263) | – | (6) | **(1,277)** |
| Debt due after 1 year | (22,393) | 6,461 | (92) | 1,093 | **(14,931)** |
| Debt due within 1 year | (26,144) | 1,206 | – | 1,577 | **(23,361)** |
| Finance leases | (26) | 23 | – | – | **(3)** |
| Current asset investments | 3,986 | 270 | – | (138) | **4,118** |
| | (38,022) | 6,087 | (92) | 2,340 | **(29,687)** |

## 31 RELATED PARTY TRANSACTIONS

At the end of the year the Group had loans outstanding due from Gold Seal-Avon Polymers PVT (a joint venture) totalling £Nil. (2003: £157,000).

There were no other material related party transactions during the year.

## 3 COST OF SALES AND OTHER OPERATING INCOME AND EXPENSES

| | 2004<br>£'000 | 2003<br>(restated)<br>£'000 |
|---|---|---|
| **Turnover** | **239,212** | 248,507 |
| Cost of sales | **(200,110)** | (203,922) |
| **Gross profit** | **39,102** | 44,585 |
| Distribution costs | **(8,323)** | (8,640) |
| Administrative expenses (including goodwill amortisation of £681,000 (2003: £681,000)) | **(23,753)** | (27,234) |
| Other operating income | **2,952** | 1,604 |
| **Net operating expenses** | **(29,124)** | (34,270) |
| **Share of profits of joint venture and associate** | **138** | 45 |
| **Total operating profit** | **10,116** | 10,360 |

## 4 JOINT VENTURE AND ASSOCIATE

| | 2004<br>£'000 | 2003<br>£'000 |
|---|---|---|
| Share of operating profit in joint venture | **138** | 49 |
| Share of operating loss in associate | – | (4) |
| | **138** | 45 |

The Group's share of the turnover of the joint venture was £532,000 (2003: £482,000).

| | Share Capital | Held by the Group | Accounting Date | Basis of Consolidation |
|---|---|---|---|---|
| **Joint Venture** | | | | |
| Gold Seal-Avon Polymers PVT India | 5,698,780 shares of 10 rupees each | 50% | 31 March | Audited accounts to 31 March 2004 Unaudited accounts to 30 September 2004 |
| **Associate** | | | | |
| Ames-Avon Industries USA | 2,000 shares of nil par value | Nil | 31 December | Audited accounts to 31 December 2002 |

The Group's 49% interest in this associate was redeemed at the book value of its share of net assets on 21 December 2002.

## 5 INTEREST AND SIMILAR CHARGES

| | 2004<br>£'000 | 2003<br>£'000 |
|---|---|---|
| Bank loans and overdrafts | **(1,184)** | (1,632) |
| US dollar private placement | **(989)** | (1,223) |
| Amortisation of loan issue costs | **(92)** | (68) |
| Other loans | **(38)** | (24) |
| Finance leases | **–** | (2) |
| | **(2,303)** | (2,949) |
| Share of interest cost in joint venture | **(42)** | (54) |
| Total interest payable | **(2,345)** | (3,003) |
| Interest receivable | **138** | 181 |
| | **(2,207)** | (2,822) |

# Five Year Record

| | 2004 £'000 | 2003 (restated) £'000 | 2002 £'000 | 2001 £'000 | 2000 £'000 |
|---|---|---|---|---|---|
| Turnover | **239,212** | 248,507 | 250,509 | 278,041 | 277,997 |
| Profit on trading | **19,593** | 20,523 | 21,493 | 21,177 | 27,798 |
| Share of profits of joint venture and associated company | **138** | 45 | 21 | 119 | 161 |
| | **19,731** | 20,568 | 21,514 | 21,296 | 27,959 |
| Goodwill amortisation | **(681)** | (681) | (626) | (617) | (623) |
| Depreciation | **(8,934)** | (9,527) | (10,446) | (11,945) | (11,911) |
| Operating profit before exceptional items | **10,116** | 10,360 | 10,442 | 8,734 | 15,425 |
| Reorganisation costs | **–** | – | (6,701) | (1,355) | (6,672) |
| Impairment of tangible fixed assets | **–** | – | – | (2,201) | – |
| (Loss)/profit on sale of fixed assets and investments | **–** | – | (1,205) | – | 25 |
| Loss on sale of operations | **–** | – | (568) | (8,916) | – |
| Profit/(loss) before interest | **10,116** | 10,360 | 1,968 | (3,738) | 8,778 |
| Net interest | **(1,431)** | (2,925) | (3,423) | (5,321) | (3,040) |
| Profit/(loss) before taxation | **8,685** | 7,435 | (1,455) | (9,059) | 5,738 |
| Taxation | **(1,658)** | (1,976) | (310) | 640 | (2,960) |
| Profit/(loss) after taxation | **7,027** | 5,459 | (1,765) | (8,419) | 2,778 |
| Minority interests | **(389)** | (108) | 194 | (30) | 717 |
| Profit/(loss) attributable to Avon shareholders | **6,638** | 5,351 | (1,571) | (8,449) | 3,495 |
| Preference dividends | **–** | – | – | (23) | (35) |
| Ordinary dividends | **(2,245)** | (2,131) | (2,031) | (1,938) | (6,700) |
| Retained profit/(loss) | **4,393** | 3,220 | (3,602) | (10,410) | (3,240) |
| Fixed assets and investments | **99,993** | 106,594 | 107,327 | 115,065 | 126,892 |
| Working capital | **15,699** | 15,245 | 17,702 | 24,719 | 36,142 |
| Provisions | **(1,950)** | (1,957) | (6,458) | (6,179) | (8,385) |
| Pension liability | **(19,654)** | (19,930) | – | – | – |
| Assets employed | **94,088** | 99,952 | 118,571 | 133,605 | 154,649 |
| Financed by: | | | | | |
| Ordinary share capital | **27,824** | 27,824 | 27,824 | 27,824 | 27,824 |
| Reserves attributable to Avon shareholders | **35,927** | 32,586 | 48,259 | 51,093 | 59,639 |
| Preference share capital | **–** | – | – | – | 500 |
| Minority shareholders' interests | **650** | 1,520 | 1,467 | 1,721 | 1,741 |
| Shareholders' capital employed | **64,401** | 61,930 | 77,550 | 80,638 | 89,704 |
| Net borrowings | **29,687** | 38,022 | 41,021 | 52,967 | 64,945 |
| Capital employed | **94,088** | 99,952 | 118,571 | 133,605 | 154,649 |
| Basic earnings/(loss) per share | **25.1p** | 20.0p | (5.7)p | (30.6)p | 12.4p |
| Dividends per share | **8.5p** | 8.0p | 7.5p | 7.0p | 24.2p |

The above includes the results of both continuing and discontinued activities.

Years' prior to 2001 have not been restated for the effects of FRS 19.

Years' prior to 2003 have not been restated for the effects of FRS 17 or UITF Abstracts 17 and 38.

Notice is hereby given that the annual general meeting of shareholders will be held at Melksham House, Market Place, Melksham, Wiltshire on 20 January 2005 at 10.30 a.m. for the following purposes:-

1. To receive a presentation by the Chief Executive on aspects of the Company's business.

2. To receive and consider the report of the Directors and the financial statements for the year ended 30 September 2004 (Resolution No.1).

3. To declare a dividend on the ordinary shares (Resolution No. 2).

4. To approve the remuneration report of the Directors (as set out on pages 21 to 26 of the annual report) for the year ended 30 September 2004 (Resolution No. 3).

5. To re-elect Directors:-

   Mr. B. Duckworth retires by rotation and, being eligible, offers himself for re-election (Resolution No. 4).

   Mr. L.J.Richards retires by rotation and, being eligible, offers himself for re-election (Resolution No. 5).

6. To approve the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors (Resolution No. 6).

7. To transact any other routine business.

8. As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No. 7):

   "That the authority conferred on the directors by Article 9.2 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2006 or on 20 April 2006, whichever is the earlier, and, for such period the section 80 amount shall be £9,274,648."

9. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 8):

   "That the power conferred on the directors by Article 9.3 of the Company's Articles of Association be renewed for the period ending on the date of the annual general meeting in 2006 or on 20 April 2006, whichever is the earlier, and for such period the section 89 amount shall be £1,391,197."

10. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 9):

    "That the Company be and is hereby unconditionally and generally authorised for the purpose of section 166 of the Company's Act 1985 to make market purchases (as defined in section 163 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 4,173,591;
    (b) the minimum price which may be paid for each share is 1p;
    (c) the maximum price which may be paid for a share is an amount equal to 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange London official list for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and
    (d) this authority shall expire at the conclusion of the annual general meeting of the Company held in 2006 or, if earlier, on 20 July 2006 (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".

A member entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

By order of the Board
P.J. Fairbairn, Secretary
Bradford on Avon
17 December 2004

A form of proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power of authority) must be deposited at the Company's registrar, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, not less than 48 hours before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting), for the taking of the poll at which it is to be used.

**Documents for inspection**

The following documents will be available for inspection from the date of this notice of annual general meeting until the close of the annual general meeting, at the registered office of the Company and at the place of the annual general meeting from at least 15 minutes prior to the meeting until the close of the meeting:-

(i) the Register of Directors' interest showing any transactions of Directors and their family interests in the share capital of the Company; and

(ii) copies of all Contracts of Service under which the Directors of the Company are employed by the Company or any of its subsidiaries.

**Explanation of Resolution Nos. 7 and 8.**

Article 9 of the Articles of Association of the Company both authorises your board to allot shares and disapplies shareholders' pre-emption rights, on an annual renewable basis. Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ("the Investment Committees").

The authorities referred to above were renewed at the annual general meeting in 2004 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authorisation for the allotment of shares and for the disapplication of pre-emption rights can be renewed by way of a relatively simple ordinary resolution and special resolution respectively. It is therefore proposed as Resolution No. 8 to renew the authority of the Directors to allot shares up to an aggregate nominal amount of £9,274,648 ("the section 80 amount"), being an amount equal to 33$^1/_3$% of the existing issued ordinary share capital, so that the Directors are empowered pursuant to and within that authority to issue shares (including in connection with a rights issue). It is additionally proposed as Resolution No. 8 to provide that the authority to issue shares for cash to persons other than existing shareholders (and not by way of a rights issue) will be limited to issues representing no more than £1,391,197 ("the section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

Since the issued ordinary share capital is the same as at the same time last year, the proposed section 80 amount and the proposed section 89 amount are the same as the amounts approved at the annual general meeting in 2004. In connection with the section 80 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to 33$^1/_3$% of the existing issued ordinary share capital; this year 33$^1/_3$% of the existing issued ordinary share capital is the lesser amount and the section 80 amount has been calculated accordingly.

The authorities sought in Resolution Nos. 7 and 8 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2006 or on 20 April 2006 if earlier.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or Directors under option schemes approved by shareholders, including the Avon Rubber p.l.c. Sharesave Option Scheme 1992, the Avon Rubber p.l.c. Executive Share Option Scheme 1986, The Avon Rubber Sharesave Option Scheme 2002 and the Avon Rubber p.l.c. Performance Share Plan 2002), is currently contemplated and none will be made which will effectively alter the control of the Company without the prior approval of the Company in general meeting.

**Explanation of Resolution No. 9.**

It is proposed, by way of Resolution No. 9, to renew the Company's power to buy back its own shares. Although the Company's Articles of Association give the Company the relevant power, the Company is only permitted to buy back its shares pursuant to that power if it is additionally authorised to do so by a relevant resolution of the Company.

Resolution No. 9 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,173,591 ordinary shares of £1 each of the Company, subject to the limitations on the minimum and maximum prices set out in the Resolution, for a period up to the conclusion of the annual general meeting of the Company held in 2006 or, if earlier, 20 July 2006. The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital.

As of 26 November 2004 there were options to subscribe outstanding over 1,392,121 ordinary shares, representing 5.00% of the Company's ordinary issued share capital. If the authority given by Resolution No. 9 were to be fully exercised, these options would represent 5.88% of the Company's ordinary issued share capital. As of 26 November 2004 there were no warrants outstanding over ordinary shares.

The Directors intend to exercise the power given by Resolution No. 9 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 underlying value per 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. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

Bonus and incentive scheme targets for Executive Directors would not be affected by any enhancement of earnings per share following a share re-purchase.

In the opinion of the Directors, Resolution No. 9 is in the best interests of the shareholders as a whole and the Directors intend to seek renewal of these powers at subsequent annual general meetings.

# **Avon Rubber p.l.c.** is an international manufacturer of rubber products whose knowledge, experience and innovative approach make a material difference



**SHAREHOLDERS**

On 26 November 2004 the company had 2,367 shareholders.

Of the shareholders 1,436 (60.7%) had holdings of 1,000 shares or less.

**FINANCIAL CALENDAR**

Interim figures announced in May and final results in December.

Interim ordinary dividend declared in May and paid in June.

Final ordinary dividend announced, together with the results for the year, in December and paid in January, Annual General Meeting held in January.

In respect of the year ended 30 September 2004 the Annual General Meeting will be held on 20 January 2005 and the final dividend will, if approved, be paid on 28 January 2005 to shareholders on the register on 14 January 2005.

**CORPORATE INFORMATION**

Registered office
Manvers House, Kingston Road
Bradford on Avon, Wiltshire
BA15 1AA England

**REGISTERED**
in England and Wales No 32965

**COMPANY SECRETARY**

P J Fairbairn

**AUDITORS**

PricewaterhouseCoopers LLP

**REGISTRARS & TRANSFER OFFICE**

Capita Registrars Limited
Northern House
Woodsome Park, Fenay Bridge
Huddersfield HD8 0LA

**BROKERS**

Cazenove & Co Ltd

**SOLICITORS**

Linklaters
TLT

**PRINCIPAL BANKERS**

Comerica Inc.
HSBC Bank plc

**CORPORATE FINANCIAL ADVISORS**

ING Bank N.V.

**CORPORATE WEB SITE**

www.avon-rubber.com

Share price information can be obtained on the Financial Times Cityline service by dialling 0906 843 1713.

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