Avon Rubber p.l.c.

STRONG FOUNDATIONS FOR GROWTH

ANNUAL REPORT AND ACCOUNTS

2018

STRONG FOUNDATIONS FOR GROWTH

Avon Rubber is an innovative technology group which designs and produces specialist products and services to maximise the performance and capabilities of its customers.

Pages 14–15

AVON
Avon Rubber p.l.c.

Pages 16–17

We specialise in Chemical, Biological, Radiological and Nuclear ('CBRN') and respiratory protection systems, as well as milking point solutions through our two businesses Avon Protection and milkrite | InterPuls.

2018 Strategy in action

First deliveries of MCM100 underwater rebreather

Pages 8–9

Product readiness of UK MOD General Service Respirator for first deliveries in 2019

Page 33

Expansion of powered air range

Pages 84–85

Group highlights

Orders received

2018	£173.3m
2017[1]	£166.0m
2016[1]	£137.9m

£173.3m

Closing book order

2018	£37.8m
2017[1]	£30.0m
2016[1]	£23.3m

£37.8m

Revenue

2018	£165.5m
2017[1]	£159.2m
2016[1]	£138.1m

£165.5m

Adjusted operating profit

2018	£27.3m
2017[1]	£26.1m
2016[1]	£20.5m

£27.3m

Operating profit

2018	£22.8m
2017[1]	£20.1m
2016[1]	£16.6m

£22.8m

Net cash

2018	£46.5m
2017	£24.7m
2016	£2.0m

£46.5m

Adjusted basic earnings per share

2018	77.1p
2017[1]	83.8p
2016[1]	71.8p

77.1p

Basic earnings per share

2018	64.9p
2017[1]	71.6p
2016[1]	58.0p

64.9p

Dividend per share

2018	16.02p
2017	12.32p
2016	9.48p

16.02p

2018 Strategy in action

Farm Services expansion

Pages 44–45

Precision, Control and Intelligence growth opportunity in North America

Page 22

Acquisition of Merrick's calf nurser product line

Page 32

[1] Restated to reflect the continuing operations of the Group following the sale of Avon Engineered Fabrications, Inc on 30 March 2018.

A full glossary of terms is available on page 138.

At a Glance

Geographic Overview

We are a global business operating from 10 sites around the world serving customers in over 90 countries.

Avon Protection

USA
- Cadillac
- Belcamp

UK
- Melksham
- Poole
- Chelmsford

milkrite | InterPuls

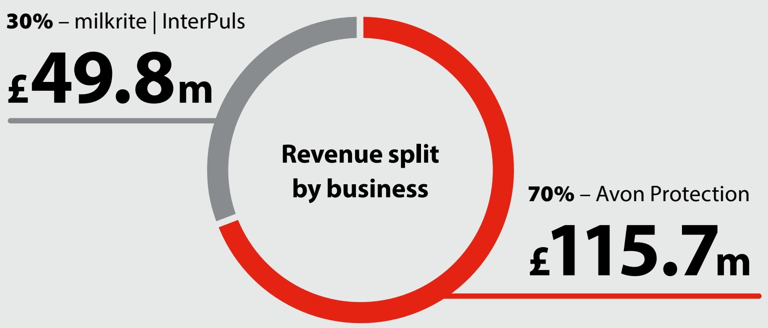
USA
- Johnson Creek
- Modesto

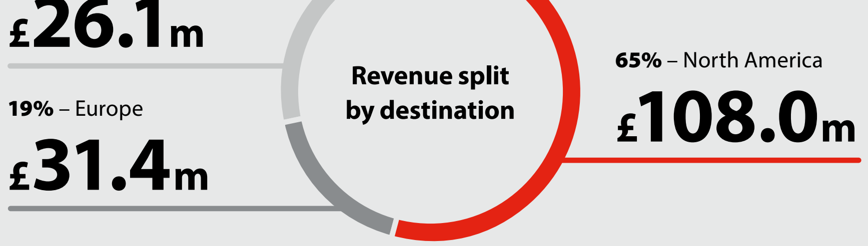
Italy
- Albinea

UK
- Melksham

Brazil
- Castro

China
- Shanghai





AVON PROTECTION

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

Agents & Distributors **283**

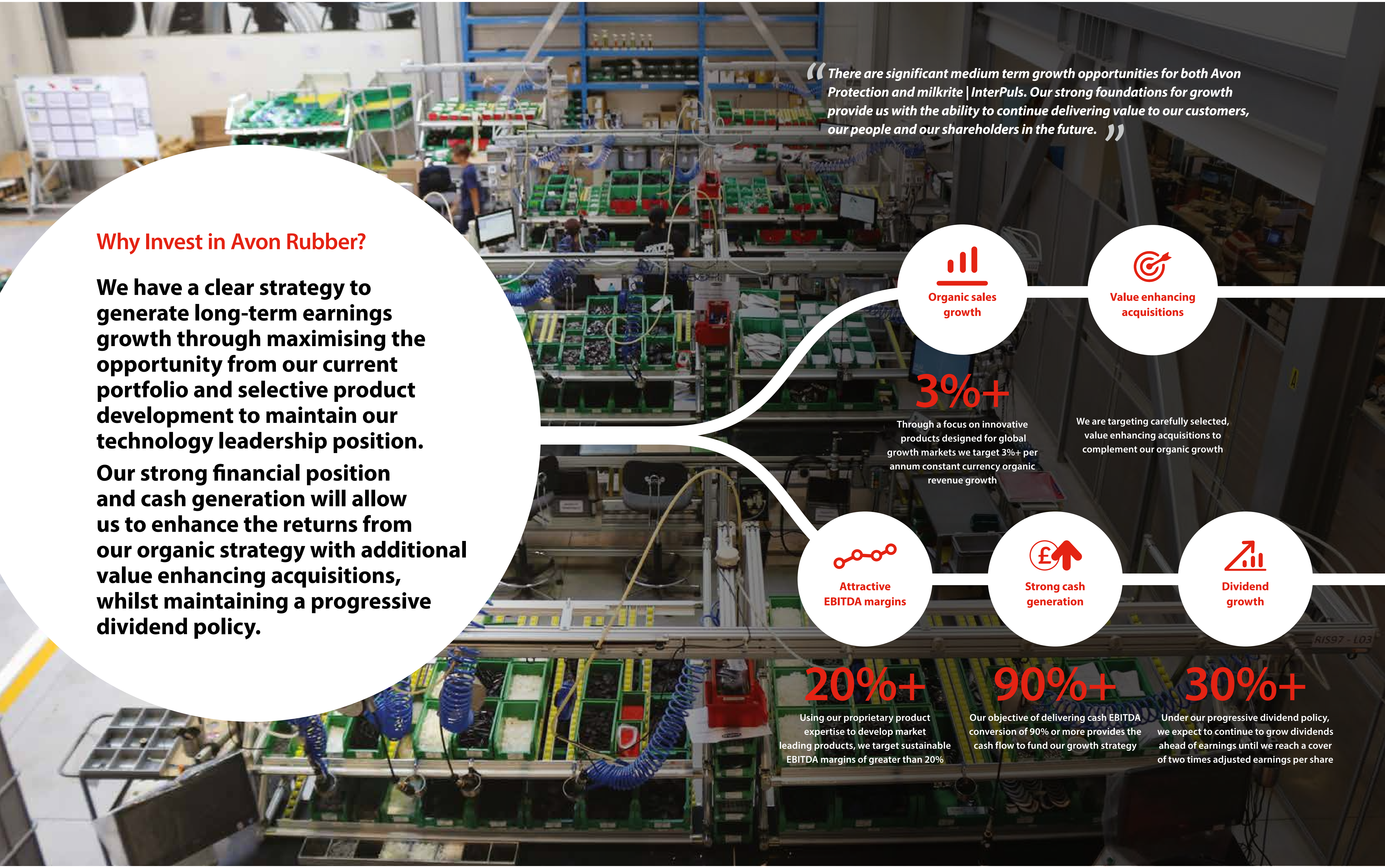
Pages 14–15

milkrite | InterPuls

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

Agents & Distributors **1,754**

Pages 16–17



"There are significant medium term growth opportunities for both Avon Protection and milkrite | InterPuls. Our strong foundations for growth provide us with the ability to continue delivering value to our customers, our people and our shareholders in the future."

Why Invest in Avon Rubber?

We have a clear strategy to generate long-term earnings growth through maximising the opportunity from our current portfolio and selective product development to maintain our technology leadership position.

Our strong financial position and cash generation will allow us to enhance the returns from our organic strategy with additional value enhancing acquisitions, whilst maintaining a progressive dividend policy.

Organic sales growth

3%+

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

Value enhancing acquisitions

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

Attractive EBITDA margins

20%+

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

Strong cash generation

90%+

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

Dividend growth

30%+

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

Chairman's Statement

"2018 has been another successful year. We have delivered a strong performance and have made good progress implementing our strategic objectives."

David Evans
Chairman

During 2018 we have continued to make excellent progress delivering our strategy to generate shareholder value. By continuing to maintain our focus on creating a healthy and sustainable business and by investing in and integrating technology in both businesses, we are creating exciting medium-term growth opportunities.

Our employees are fundamental to delivering our strategy for growth and our achievements would not have been possible without the commitment and dedication of all of our people. On behalf of the Board I would like to once more thank our employees, who have worked tirelessly to deliver these results.

Strategy

Last year the Board presented its strategy to deliver long-term sustainable growth. This strategy aims to deliver organic growth by maximising sales from our current product portfolio and selective product development. We aim to complement our organic growth through carefully selected value enhancing acquisitions.

I am pleased to report that the management team have made excellent progress in implementing the strategy. We are already seeing positive, tangible evidence of this strategy delivering results and I am confident it will continue to deliver future growth and sustainable value for all our stakeholders.

We have continued to broaden our product portfolio obtaining NIOSH safety approval for our powered air range in March and making the first shipments of the MCM100 underwater rebreather. In milkrite | InterPuls we obtained ICAR approval for our milk meter and launched our heavy duty range of PCI products in the US.

We continue to work with the US Department of Defence on a number of new platforms including the M69 aircrew mask and the M53A1 mask and powered air system, which will offset the expected reduction in M50 mask system volumes as we move into the sustainment phase of the contract as well as support the future growth of the business.

In February of this year we were delighted to announce that we had secured the UK Ministry of Defence as a customer and had entered into a five year contract to re-supply and support its General Service Respirator programme.

The strength of our technology offering and market reputation is helping us make significant strides in the Law Enforcement market both in the US and internationally.

Shareholder Returns

During 2018 we delivered a total shareholder return of 39.1%. The Company's share price rose from £9.37 at the start of October 2017 to £12.90 on 30 September 2018, and dividends totalling £4.1m were paid to shareholders.

The Board considers the dividend to be an important component of shareholder returns and as such has a policy to deliver a progressive dividend year on year. The Board is pleased to be recommending an increased final dividend of 10.68p per share, making a total dividend for the year of 16.02p, which is a 30% increase on the previous year and reflects our confidence in our outlook.

Governance and the Board

We have a strong and stable Board. There have been no changes to the membership of the Board during 2018 and I confirm that the Board has continued to set the right tone from the top during the year, visiting all the main sites and meeting regularly with senior management.

In order to strengthen the Board further and to facilitate succession planning we intend to add an additional non-executive director to the Board in 2019.

The Board is committed to the highest standards of corporate governance and compliance. We note the newly published Corporate Governance Code 2018 and will consider how to address the changes that it has introduced in the coming year.

Our internal Board evaluation in 2018 robustly challenged all aspects of the Board including my performance and that of each Director, the Board Committees and the Board as a whole.

I am pleased to report that the Board continues to function effectively as a cohesive body with a good balance of support and challenge.

This year a revised Remuneration Policy is being put to shareholders for approval at our AGM. The Board is firmly of the view that the proposed remuneration arrangements achieve the right balance in aligning management's interests with shareholders and will support sustainable value creation for our shareholders.

Delivering Strong Results

2018 was another strong year of delivery. I remain confident that we have the right strategy, the right product portfolio and the right management team to generate further value for shareholders in 2019.

D R Evans

David Evans
Chairman
14 November 2018

Orders received

2018	£173.3m
2017[1]	£166.0m
2016[1]	£137.9m

£173.3m

Dividend per share
16.02p
↑30%

[1] Restated to reflect the continuing operations of the Group following the sale of Avon Engineered Fabrications, Inc on 30 March 2018.

Strategic Report

AVON PROTECTION

The MCM100 is a high performance, deep diving, air and mixed gas, electronically controlled rebreather

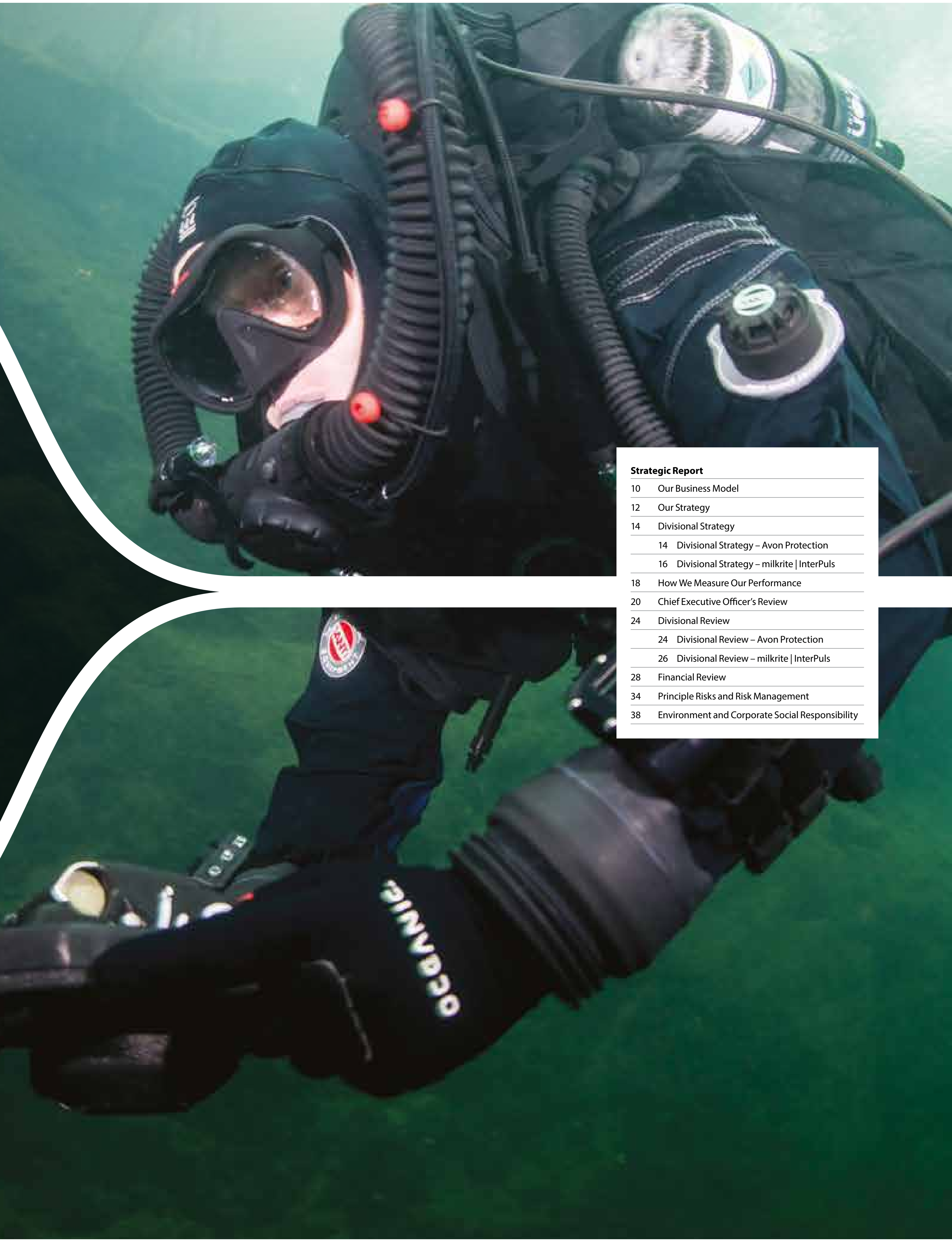
"We are extremely excited to have brought to market an underwater diving product with such high levels of innovation. Avon Protection continues to remain at the forefront of technology; we continue to meet the needs of our customers to ensure they remain protected against the continually evolving threat."

Building on its position at the forefront of diving rebreather designs, advanced data handling and decompression physiology, Avon Protection has launched its new mine counter measures rebreather.

The MCM100 is a high performance, deep diving, air and mixed gas, electronically controlled rebreather that is designed for explosive ordnance disposal and mine countermeasures diving operations. The MCM100 has been CE tested to 100m, which is suitable for a range of military or tactical diving disciplines such as Mine Countermeasure, Explosive Ordnance Disposal shallow or deep, Mine Investigation and Exploration and Special Operations Forces.

Avon Protection received their first significant order to supply the Norwegian Armed Forces with MCM100 underwater rebreathers together with in-service support. In selecting the MCM100, the Norwegian government has recognised the high level of innovation within the product and the technical expertise of Avon Protection.

Strong reference customer with Norwegian Military



Strategic Report

Our Business Model

We are committed to generating shareholder value through pushing the boundaries of innovation to maximise the capabilities of our customers through the use of our products and services.

What we do

We operate through two businesses, selling equipment, consumables and services to customers in over 90 countries:

Avon Protection

(70% of revenues)

Advanced respiratory protection systems for military, law enforcement and fire applications.

Read more on **page 14**

milkrite | InterPuls

(30% of revenues)

Milking point solutions for dairy farms.

Read more on **page 16**

How we create value

- Leading positions in attractive growth markets
- Differentiated technology
- Deep product expertise
- Skilled people
- Entrepreneurial culture
- Experienced management

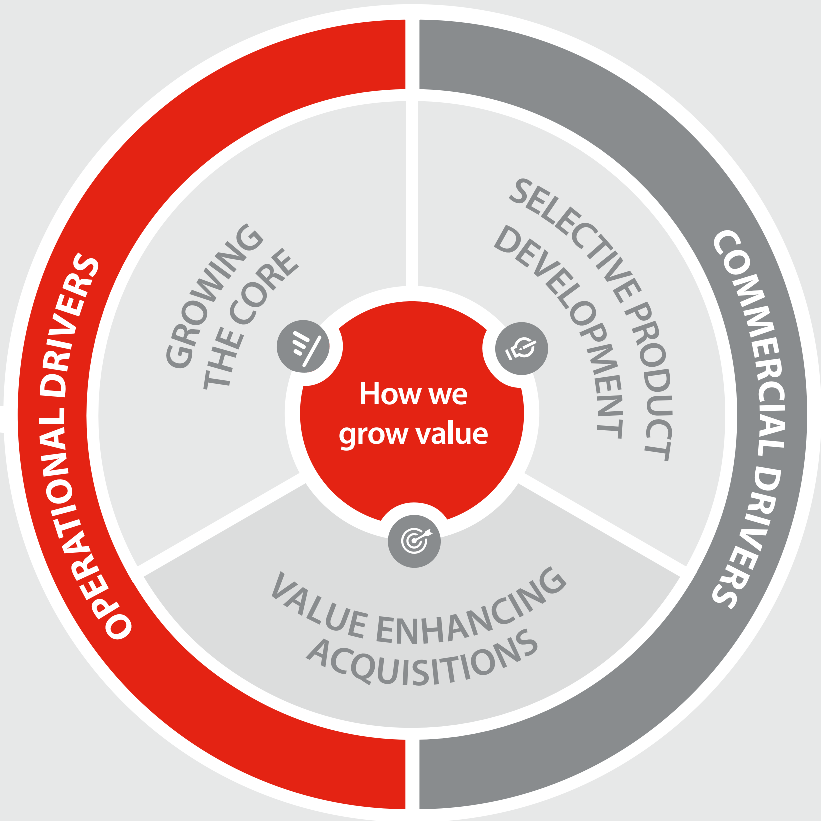
How we share value

- **Our people**
  73% employee engagement
- **Our agents and distributors**
  90+ distribution countries
- **Our shareholders**
  16.02p dividend
- **Our communities**
  £39,000 charitable contributions

How we operate

- Our values
  Read more on page 40
- Responsible approach to sustainability
  Read more on page 38
- Robust risk management
  Read more on page 34
- Effective governance
  Read more on page 48

Our Strategy



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

GROWING THE CORE

WE ARE RECOGNISED AS THE LEADER WITHIN OUR CHOSEN MARKET SEGMENTS. THERE ARE FURTHER OPPORTUNITIES TO MAXIMISE GROWTH FROM OUR PRODUCT AND SERVICE PORTFOLIO THROUGH:

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

Revenue growth
+8.7%
at constant currency

SELECTIVE PRODUCT DEVELOPMENT

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

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

Investment in R&D
£9.7m
(2017: £8.3m)

VALUE ENHANCING ACQUISITIONS

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

Commercial Criteria

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

Financial Criteria

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

Acquisition of Merrick's calf nurser product line

Divisional Strategy

AVON PROTECTION

Pages 24–25

Strategic imperatives

- Launch M69 aircrew mask and M53A1 mask and powered air system
- Maximise M50 mask systems revenue and ongoing spares supply
- Target the major Military customers with our world leading CBRN capabilities
- Target major Military diving teams with our MCM100 underwater rebreather
- Target global Military and Law Enforcement customers with our powered air solution
- Launch Magnum Self-Contained Breathing Apparatus (SCBA) with product upgrades and obtain 2019 NFPA SCBA approval
- Expand global distribution network for both Law Enforcement and Fire

Key Strengths

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

Markets

Military

Global leader within Military CBRN for masks and filters, with leading portfolio of respirators, filters, powered and supplied air and long term pedigree for military contracting and supply chain excellence. Avon Protection is the sole source supplier to the US DOD of the joint service general purpose mask (JSGPM), whilst expanding into wider respiratory technology applications in both air and sea.

Law Enforcement

Supplying a range of NIOSH and CE approved mask solutions for global law enforcement customers, whilst organically expanding a wider portfolio of filters, hoods and powered air offerings to complement the mask, to increase capability of the law enforcement community in responding to global threats.

Fire

Leading provider of thermal imaging camera technology and self-contained breathing apparatus suppliers.

Read more about our products
www.avon-rubber.com

Military, Law Enforcement and Fire

Military | Law Enforcement | Fire | New Product

MASKS


GSR


M50


FM54


M53A1

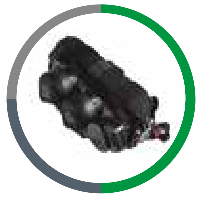

M69

With an unrivalled pedigree in mask design dating back to the 1920's we have developed an extensive range of mask systems for military and civil use. We have leveraged the design of the market leading M50 mask system to develop a range of masks for Law Enforcement and first responder use (PC50 and C50) and for Military special forces (FM53 and FM54). The latest offerings in our range include the M69 aircrew mask for use in the DOD's fixed wing aircraft and the M53A1 mask and powered air system. In addition, we have entered into a five year contract with the UK MOD for the resupply and in-service support of its General Service Respirator (GSR).

Product range:
- FM12
- PC50
- C50
- GSR
- M50
- FM53
- FM54
- HMK150
- M69
- M53A1

SUPPLIED & POWERED AIR


MP-PAPR


CS-PAPR


ST54


CS-Elite

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

Our PAPR range has received both NIOSH approval and CE European safety approvals enabling sales in both Europe and North America.

Product range:
- EZAir
- MP-PAPR
- ST53
- ST53SD
- CS-PAPR
- ST54
- CS-Elite

FIRE


Mi-TIC E L


Deltair


Magnum

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

During the year, we launched the NFPA certified Mi-TIC E L camera, which can now be sold into the US market. This model of the thermal imaging camera is the most cost effective entry-level solution for Fire services, without compromising on technology or quality.

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

ESCAPE HOODS


NH15


NH15 Combo

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

UNDERWATER


MCM100

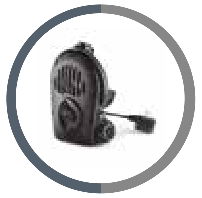

MDC150

MCM100 is a state of the art underwater rebreather range for military diving use which has the benefit of CE safety approval. During 2018 we have delivered the first orders for this product from military customers. Our underwater product range also includes the MDC150 dive computer designed for military use.

ACCESSORIES


Vision


Filters


Communications


Hydration systems

Divisional Strategy

milkrite | InterPuls

Pages 26–27

Key Strengths

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

Markets

Interface

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

Precision, Control & Intelligence (PCI)

Precision refers to the set up of the air system within the milking process to maximise the performance and efficiency of the system to provide the most efficient milking process.

Control is the physical control of the milking system to provide automation opportunities to minimise labour inputs.

Intelligence is the critical part of the dairy system which extracts data from the animal and integrates this within the farm herd management system or dairy management system when supplied as an integrated solution.

Farm Services

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

Strategic imperatives

- Continue to grow market share of own brand products in each region
- Market penetration of our PCI offering into North America
- Expand global distribution network
- Grow Pulsator and Tag Exchange

Read more about our products
www.avon-rubber.com

Precision, Control & Intelligence

milkrite | InterPuls | New Product

PRECISION

LO2Air

Precision refers to the set up of the air system within the milking process to maximise the performance and efficiency of the system to provide the most efficient milking process. We are the world-leading manufacturer of state of the art electronic pulsators designed to facilitate gentle, complete and uniform milking.

Products:

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

CONTROL

iMilk600 HD

Control is the physical control of the milking system to provide automation opportunities to minimise labour inputs. An example product in our Control range is the iMilk600 HD which is a state of the art milking point controller with advanced electronics and sensors. The user-friendly panel displays real time milk yield, temperature, milking time, animal number and conductivity.

Products:

- Milk meters
- Automatic cluster removal
- Power Units
- Cylinders
- Sorting gate

INTELLIGENCE

iFC myfarm.cloud

Intelligence is the critical part of the dairy system which extracts data from the animal and integrates this within the farm herd management system or dairy management system when supplied as an integrated solution. An example product in our Intelligence range is the iFC myfarm.cloud. This software consolidates and analyses data captured from neck and leg tags as well as the milking process to drive improved efficiency and farm performance.

Products:

- iFC myfarm.cloud
- Leg Tag
- Neck Tag
- Precision Farming

Interface

LINERS

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

TUBING

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

CLAWS

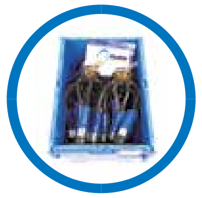
The Impulse Claw 300 with its durable, lightweight and ergonomic design makes the claw easier for the operator to handle and reduces the overall weight of the cluster, improving animal comfort.

CALF NURSER

For use in feeding newborn calves, the Merrick's calf nurser features a patented teat design which prevents milk leakage yet allows air to be released into the bottle as the calf Is nursing.

Farm Services

CLUSTER EXCHANGE



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

PULSATOR EXCHANGE

The Pulsator Exchange Service enables farmers to lease our market leading pulsators and we provide ongoing servicing and maintenance.

TAG EXCHANGE

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

How We Measure Our Performance

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

Closing order book

£37.8m

+26.0%

- 2018: £37.8m
- 2017: £30.0m
- 2016: £23.3m

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

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

Comments on results
Strong order intake in the second half of the year has resulted in a closing order book of £37.8m providing excellent revenue visibility for 2019.

Constant currency revenue growth[1]

8.7%

+4.2%

- 2018: 8.7%
- 2017: 4.5%
- 2016: -0.6%

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

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

Comments on results
Strong core revenue growth in milkrite | InterPuls and across Military and Law Enforcement has resulted in constant currency growth of 8.7%, significantly ahead of our 3%+ objective.

Adjusted EBITDA margin[1] %

21.3%

-1.1%

- 2018: 21.3%
- 2017: 22.4%
- 2016: 21.1%

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

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

Comments on results
The sales product mix, with the delivery of more M50 mask systems in the year has reduced our EBITDA margin by 110bps; this remains ahead of our 20%+ objective.

Product development % of revenue

5.9%

+0.8%

- 2018: 5.9%
- 2017: 5.2%
- 2016: 5.8%

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

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

Comments on results
5.9% of revenue has been spent on product development including investment in the UK GSR, MCM100 and next generation hoods programmes in Avon Protection. milkrite | InterPuls development expenditure included investment in the Milk Meter equipment upgrade and the PCI heavy duty range.

Cash conversion %

108.2%

+10.1%

- 2018: 108.2%
- 2017: 98.1%
- 2016: 110.7%

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

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

Comments on results
Our continued focus on cash management has resulted in 108.2% of EBITDA being converted into cash.

Adjusted earnings per share[1]

77.1p

-8.0%

- 2018: 77.1p
- 2017: 83.8p
- 2016: 71.8p

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

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

Comments on results
Strong core revenue and profit growth has been offset by lower tax provision releases in 2018 which resulted in a reduction in adjusted earnings per share of 8.0%.

Return on capital employed % (ROCE)

23.3%

-1.7%

- 2018: 23.3%
- 2017: 25.0%
- 2016: 23.2%

Reason for choice
Measures profitability and the efficiency with which capital is employed.

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

Comments on results
Our improved profitability has been offset by the strong net cash position throughout the year which has caused a reduction in our ROCE to 23.3%.

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

2016 and 2017 numbers have been restated to reflect the continuing operations of the Group following the sale of Avon Engineered Fabrications, Inc on 30 March 2018.

Chief Executive Officer's Review

"There are significant medium term growth opportunities for both Avon Protection and milkrite | InterPuls. I am confident that our strong foundations for growth provide us with the ability to continue delivering value to our customers, our people and our shareholders in the future."

Paul McDonald

Chief Executive Officer

I am delighted to report on another strong set of results which confirms the progress of our growth strategy. We have built momentum with a continued focus on growing the core revenue of the business to deliver sustainable and improving operating profits and cash flows.

Our ability to generate cash has allowed us to increase our investment in product development to support future growth. Investing in our product portfolio enables us to maintain the competitive advantage of our existing range and to develop new products that meet the future needs of our widening customer base.

We have made a conscious effort to enhance the predictability and sustainability of our business. This has resulted in us growing our order book in 2018 to establish strong visibility that will enable us to target new contract opportunities whilst retaining the flexibility to manage scheduling and timing effectively.

We continue to explore acquisition opportunities where we see the potential to complement our existing businesses and to deliver additional growth opportunities to create further value for our shareholders. Our strong balance sheet will enable us to execute on acquisition opportunities meeting our clear investment criteria.

There are significant medium and long-term growth opportunities for both Avon Protection and milkrite | InterPuls. I am confident that our strong foundations for growth provide us with the ability to continue delivering value to our customers, our people and our shareholders in the future.

Strategy

The updated strategy, launched last year, is based upon creating shareholder value through three key elements:

- growing the core by maximising organic sales growth from our current product portfolio and maximising the operational efficiency of our existing facilities;
- pursuing selective product development to maintain our innovation leadership position; and
- targeting value enhancing acquisitions to complement our existing businesses and add additional growth opportunities for the Group.

Closing order book

2018	£37.8m
2017	£30.0m
2016	£23.3m

£37.8m

Net cash

£46.5m

(2017: £24.7m)

Grow the Core

Avon Protection

Strong growth in Military and Law Enforcement has resulted in Avon Protection delivering another record year through our continued focus on expanding our customer base and product offering to provide a broader portfolio of products and extracting more value from our existing customers.

Expanding our global Military customer base

Our world leading expertise and reputation for quality in respiratory protection systems has been recognised by the UK Ministry of Defence ('MOD') through the signing in February of a five year contract for the resupply and in-service support of its General Service Respirator ('GSR').

Since re-establishing our relationship with the UK MOD through the GSR contract, we have been able to demonstrate to them our technical capabilities and track record of service and delivery that meets the most exacting quality standards of our Military customers. We anticipate that in time this will generate further opportunities to deepen our relationship with the UK MOD.

The launch of our MCM100 underwater rebreather has provided further opportunities to establish and strengthen relationships with a number of European and Rest of World Militaries and demonstrate our innovation and delivery capabilities.

Our strong relationship with the US Military has enabled us to develop a broad product portfolio ranging from our general service respiratory systems through to complex integrated and modular powered and supplied air systems. As a result of the modularity of our product offering, we can offer a bespoke solution to meet the budgets and differing usage requirements of potential Military customers.

With a breadth of product offering, and ongoing investment in research and development, we are in a strong position to deepen our existing customer relationships and pursue the new opportunities that our world leading reputation is creating.

Growing the Law Enforcement market

This year has seen a greatly expanded market demand for our protection products as the needs of the Law Enforcement community to meet the diverse CBRN threats has increased. This has been reflected in the significant sales momentum in the US market for our range of supplied and powered air products, following NIOSH safety approval in March of this year, and the strong sales performance of hoods and mask systems in Europe, the Middle East and Asia.

We have seen good market penetration with US Law Enforcement municipalities, where we have been able to leverage our differentiated modular product range to grow our market share. In the medium term, we expect our share of the law enforcement market to grow in both the US and other jurisdictions as we take advantage of our product innovation leadership position.

Reshaping our Fire strategy

The Fire market has seen tougher trading conditions through the year as customers have delayed purchasing commitments on older legacy ranges in advance of the arrival of the new 2019 National Fire Protection Association ('NFPA') compliant products. The launch of products compliant with the 2019 NFPA standards is later than expected due to delays at the NFPA in finalising the standards.

The market for self-contained breathing apparatus ('SCBA') in the Fire sector remains highly competitive and includes a fragmented customer base. We continue to see opportunities in this segment with our upgraded Magnum SCBA range, designed to comply with the new 2019 NFPA standards, which we expect to launch in the spring of 2019 and we have revised our sales strategy for the Fire market to ensure we return to growth in the short-term.

The argus thermal imaging camera technology has made a significant cumulative contribution to Fire market sales. During the year, we launched the NFPA certified Mi-TIC E L camera, which can now be sold into the US market. This model of the thermal imaging camera is the most cost effective entry-level solution for Fire services, without compromising on technology or quality. The argus range is a trusted brand for firefighters and this latest approval adds more options and variety for our customers and will help to maintain Avon Protection's position as a leading global supplier of certified thermal imaging cameras.

Strategy in action:

Stronger underlying M50 mask system demand

- 179,000 M50 mask systems delivered in the year with an FY19 opening order book of 89,000
- Product life cycle anticipated for a further 20 years
- Ongoing demand of minimum 50,000 per annum volumes from FY20 with further upside potential from allied RoW militaries
- M50 mask system is designed to last up to 10 years dependent on use requirements
- Follow on sustainment contract anticipated during 2019
- Growing spares and filter demand for in service requirements

Chief Executive Officer's Review continued

Continuous focus on operational efficiency

Building on our existing manufacturing and service operation is a constant focus for Avon Protection to maximise the service delivery for our expanding customer base and widening product portfolio. Our well established and efficient manufacturing operation has enabled us to maintain excellent product quality control and reliability across our product range. As we move up the value chain in respiratory protection, with greater focus on more technical solutions for mask systems and supplied and powered air products, we are focused on ensuring that we maintain high productivity levels whilst being able to meet all of our customers' requirements.

To achieve a greater level of production efficiency, during the year we relocated our West Palm Beach, Florida electronics assembly facility to our main US manufacturing facility in Cadillac, Michigan. This is part of our commitment to continually improve our production processes and to deliver scale efficiencies.

During the year, working with a local partner, we installed a production assembly line in Kazakhstan for the production of escape hoods primarily for the oil and gas sector. We will continue to explore additional opportunities, where appropriate, to deploy flexible manufacturing solutions, including local assembly operations to support regional customers, and optimise our production cost base to meet our future growth aspirations.

milkrite | InterPuls

We have maintained our focus on expanding our position as milking point experts across each line of business for milkrite | InterPuls. The growing demand for dairy foodstuffs underpins medium and long-term opportunities for broadening the geographic reach of our products through the enhancement of our dealer network and the growth of Farm Services.

Retaining our Interface leadership

We have a global market-leading position in Interface, with our Impulse and Impulse Air ranges designed to maximise animal health and milking efficiency. Our innovation in Interface products ensures that we maximise our competitive advantage and counter competitor challenge. In addition, we remain committed to expanding the global dealer network to maximise our market coverage and access new customers.

Expanding Precision, Control & Intelligence (PCI) distribution

We have an advanced range of PCI products and our emphasis is on the technical dealer network to provide an upgraded sale and support capability to our customer base across all geographies. During the year, we have added technical sales specialists to our North American team to leverage our Interface platform and align the more technical solution the PCI products can deliver to the benefits they can bring to our customers in the performance and efficiency of milk production.

Growing the Farm Services lease ownership model

We have once again seen very strong growth in Farm Services as a wider base of our customers sees the benefit of accessing our product range on a lease hire basis. The Cluster Exchange Service ('CES') in both US and European markets has performed strongly and the sales strategy is focused on delivering on the opportunities to grow Pulsator Exchange Service ('PES') and Tag Exchange Service ('TES').

This ultimately provides us with the future delivery platform for ever increasingly advanced products, which provides a direct contact for service and support with our customers.

Selective Product Development

Continued investment to expand our product range

We have made a substantial investment this year in enhancing the technical capability of our existing portfolio and developing new products that will deliver future growth for the business. The majority of our development pipeline is designed in partnership with our customers to ensure that their performance requirements are met whilst ensuring the highest commercial returns on our investment are delivered.

Strategy in action:

PCI growth opportunity in North America

- Significant growth opportunity in North America to leverage our market leading Interface platform
- Heavy duty PCI farm range launched in 2018 to meet usage requirements of larger industrial farms
- Multi-site reference farms established in 2018 to demonstrate technical product solution to distribution network
- Plug and play compatibility with legacy OEM dairy systems provides flexibility for dealers to choose best equipment solution
- Technical sales specialists added to North American team to support significant growth opportunity

The development expenditure in the year has predominantly focused on Avon Protection, with significant investment in the UK GSR, MCM100 and next generation hood programmes. We also invested in obtaining NIOSH safety approval for our supplied and powered air range and preparing our upgraded Magnum SCBA for NFPA verification. Development expenditure for milkrite | InterPuls included the upgraded Milk Meter equipment and subsequent ICAR approval together with the PCI heavy duty equipment for North America to meet the needs of our larger industrial farm customers.

In 2018 we invested a total of £9.7m, representing 5.9% of revenue, in research and development. Over the medium-term we expect to maintain the current level of funding for product development. This reflects our confidence in our ability to innovate to meet the future technical needs of our customers thereby generating profitable revenue growth.

Building on our long-term partnership with the DOD

We have continued to work with the DOD on a number of potentially significant new platform programmes including the M69 aircrew mask, the M53A1 mask and powered air system and a follow on M50 mask system contract.

We currently expect to enter into multi-year contracts with the DOD for the M69 aircrew mask and the M53A1 mask and powered air system in the new financial year with production commencing in the second half of the year. We are also in discussions with the DOD to put in place a follow on contract for the M50 mask system following the conclusion of the initial 10 year contract in July.

Value Enhancing Acquisitions

We intend to complement the organic growth strategy described above with carefully selected value enhancing acquisitions within both Avon Protection and milkrite | InterPuls. Acquisitions are intended to complement and extend the reach of our existing businesses. This will have the effect of building a more robust and diversified business, whilst retaining the benefits of our technology expertise and strong customer relationships.

As part of our acquisition strategy, we also review our existing market segments to ensure that they still meet our core strategic objectives. The divestment of AEF, the US based manufacturer of hovercraft skirts and bulk liquid storage tanks, reflects this focus on growing the core business in our chosen market segments.

milkrite | InterPuls acquired the Merrick's calf nurser product line for a total cost of $2.1m in June this year. milkrite | InterPuls has been the long-standing manufacturer of the rubber component of the calf nurser product and the acquisition enables us to take full control of the distribution of this product.

We continue to explore other acquisition opportunities where we see the potential to deliver significant strategic and financial value. We have a strong balance sheet, including net cash of £46.5m, together with undrawn bank facilities of $40m, and a cash generative business. This financial position, as well as our willingness to extend leverage up to two times EBITDA, means we are well positioned to pursue potential acquisitions that meet our criteria and act decisively where we find them.

People

Last year saw a significant transition of leadership within the Executive leadership teams of both businesses, and I have been very pleased that these changes have resulted in a clearer strategic direction and alignment for the Group.

In recognition of the extensive Military growth opportunities within Avon Protection, I am delighted to welcome James Wilcox to the Executive leadership team to lead our global Military business. James is an internal appointment from within the Avon Protection business and has many years of experience developing and marketing products to our Military customers. I believe that having specific sector leadership for Military, with Leon Klapwijk continuing to lead Law Enforcement and Fire, will greatly enhance our strategic delivery in Avon Protection to support our ambitious and exciting growth strategy for the future.

Outlook

Our opening order book of £37.8m provides good visibility as we enter the new financial year, and we are well positioned to continue our strong momentum into 2019.

Within Avon Protection, first deliveries of the M69 aircrew masks, the M53A1 mask and powered air system and the UK General Service Respirator to the UK MOD will be made in 2019. The revenue opportunities from new products and customers is expected to offset the impact of the anticipated reduction in M50 mask system volumes. Alongside this, we expect continued sustainable growth from the widening customer and product base in Law Enforcement and, following the launch of our upgraded Magnum SCBA, we expect a stronger performance in the Fire business. There also remains a healthy pipeline of potential further contract opportunities.

Dairy market conditions have remained stable, although there has been some recent market caution around expectations for future feed prices. In this environment, we currently anticipate that the growth trends experienced by milkrite | InterPuls in 2018 will continue in the new financial year.

We have created a strong foundation to deliver further growth in 2019 through delivering against our three strategic priorities of growing the core, selective product development and value enhancing acquisitions.

Paul McDonald
Chief Executive Officer

14 November 2018

Divisional Review

AVON PROTECTION

"Momentum in Military order intake and international growth in Law Enforcement underpins confidence in 2019."

Growth in orders received to £124.6m (2017: £116.0m) delivered an increase in revenue of 5.4% to £115.7m (2017: £109.8m). On a constant currency basis, revenue grew by 10.6% with Military revenue growing by 8.0%, strong 28.1% growth in Law Enforcement and Fire declining by 10.0%, reflecting a more challenging Fire market.

Adjusted operating profit grew by 7.0% to £21.5m (2017: £20.1m). Eliminating the impact of currency movements, adjusted operating profit grew by 13.4% on a constant currency basis.

Our adjusted EBITDA margin softened to 23.0% (2017: 24.4%), being a reduction of 1.1% on a constant currency basis, primarily reflecting product mix with a higher volume of M50 mask systems shipped in 2018 compared to last year. Adjusted EBITDA was £26.6m (2017: £26.8m); eliminating the impact of currency movements, adjusted EBITDA grew by 5.3% at constant currency.

Military

Military revenue of £66.1m (2017: £64.2m) was up 3.0%. Excluding the impact of unfavourable currency movements Military revenues were up 8.0% on a constant currency basis.

DOD revenue totalled £52.7m versus £50.5m in 2017, reflecting higher M50 mask system volumes and increased volumes of spares and accessories more than offsetting unfavourable currency movements.

We delivered 179,000 M50 mask systems and 150,000 filter pairs, compared with 150,000 mask systems and 144,000 pairs of filter spares in 2017. DOD spares and development costs revenue decreased to £12.0m (2017: £15.6m) due to 2017 including higher development costs relating to the M69 air crew mask.

Having received orders for 219,000 M50 mask systems during the year, we enter the new financial year with an order book of 89,000 systems.

Revenue from our Rest of World Military business totalled £13.4m (2017: £13.7m). Initial revenue from Military sales of our powered and supplied air range and the MCM100 underwater rebreather largely offset the non-repeat revenue in 2017 from the 37,000 FM50 general purpose masks delivery.

James Wilcox
President, Military

Law Enforcement

Law Enforcement revenue grew 22.1% to £35.4m (2017: £29.0m) reflecting strong growth of 28.1% on a constant currency basis offset by adverse currency movements. This was driven by strong performances in hoods and mask systems across all regions as we continue to make progress in converting police forces to our products. In North America, we also benefited from increased sales of filters and spares to our expanding customer base. Initial sales of our supplied and powered air ranges also contributed to the growth in the year and our expanded product range provides an exciting foundation for future growth.

Fire

Fire revenue dropped by 14.5% to £14.2m (2017: £16.6m) including the impact of unfavourable currency movements, or a smaller reduction of 10.0% on a constant currency basis, due to tougher market conditions experienced in North America. The NFPA approval of Magnum later in the financial year will offer greater opportunity for growth in Fire as we expect Fire services to return to the market to procure the updated and compliant SCBA range.

Outlook

Our closing order book of £35.3m provides good visibility as we enter the new financial year, and we are well positioned to continue our strong growth momentum into 2019.

In Military, we expect the first deliveries of the M69 aircrew mask, M53A1 mask and powered air system and the UK General Service Respirator to the UK MOD to be made in 2019. The revenue opportunities from new products and customers is expected to offset the impact of the reduction in anticipated M50 mask system volumes.

We expect continued sustainable growth at a more normalised rate from the widening customer and product base in Law Enforcement. We anticipate a stronger performance in Fire in 2019 following the launch of our upgraded Magnum SCBA, once NFPA safety approval has been obtained.

Leon Klapwijk
President, Protection

	2018	2017 (restated)	% Change	% Change at constant currency
Orders received	£124.6m	£116.0m	7.4%	11.4%
Closing order book	£35.3m	£26.5m	33.2%	30.6%
Revenue	£115.7m	£109.8m	5.4%	10.6%
Adjusted EBITDA	£26.6m	£26.8m	(0.7%)	5.3%
Adjusted EBITDA margin	23.0%	24.4%	(1.4%)	(1.1%)
Adjusted operating profit	£21.5m	£20.1m	7.0%	13.4%
Operating profit	£19.5m	£16.2m	20.4%	26.7%

Divisional Review

milkrite | InterPuls

"milkrite | InterPuls growth momentum across all lines of business following a strong Interface recovery in the second half of the year."

Craig Sage
Managing Director, milkrite | InterPuls

Revenue increased by 0.8% to £49.8m (2017: £49.4m); excluding the impact of unfavourable currency movements revenue grew 4.3% on a constant currency basis.

On a constant currency basis, Interface grew revenue by 2.9%, PCI by 1.9% and Farm Services by 19.8%. The growth trends reflect the current stable global dairy market conditions and the improved trading conditions in North America in the second half of the year.

Adjusted operating profit and adjusted EBITDA were both flat at £8.0m (2017: £8.0m) and £10.9m (2017: £10.9m) respectively, with constant currency growth of 6.7% and 5.2% respectively being offset by unfavourable currency movements. The adjusted EBITDA margin of 21.9% (2017: 22.1%) increased by 0.2% on a constant currency basis.

Interface

Interface revenue reduced by 0.8% to £35.6m (2017: £35.9m), including the impact of unfavourable currency movements. On a constant currency basis, Interface revenues grew by 2.9% driven by a stronger performance in North America in the second half of the year and strong growth in Latin America, Europe, the Middle East and Asia Pacific.

North America revenues of £17.8m (2017: £19.2m) declined by 1.7% on a constant currency basis, reflecting the weaker market conditions in the first half of the year. Improved market conditions in the second half of the year and the acquisition of the Merrick's calf nurser product line in June, resulted in second half constant currency growth of 3.9%.

In Europe, revenue grew by 7.2% to £10.4m at constant currency. Latin America grew liner revenues by 11.5% on a constant currency basis reflecting market share gains in Brazil. Asia Pacific liner revenues increased by 8.2%, at constant currency, as a result of stronger market conditions experienced in the important market of China during 2018.

Precision, Control & Intelligence

The sales of our PCI range and sales have continued to perform well across our key markets. Revenue was flat at £9.0m (2017: £9.0m), but grew 1.9% at a constant currency rate as dairy farmers continue to invest in our PCI products to drive farm efficiency. Constant currency growth was driven by growth in Europe of 3.6% and of 10.5% in the Middle East, and as with our Interface products, we gained market share in Latin America with PCI growth of 17.6%.

Farm Services

Farm Services has continued to show exceptional growth with revenue of £5.2m (2017: £4.5m), up 19.8% at constant currency, reflecting the ongoing success of Cluster Exchange which saw a 14% growth in cluster points in the period. The constant currency growth was driven by growth in North America of 20.9% and 18.5% in Europe. The extension of Farm Services to include Pulsator Exchange and Tag Exchange provides opportunities for growth in future years.

At the end of the year, Cluster Exchange had grown by 14.0% to 40,000 cluster points (2017: 35,000) serving 637,000 cows on 2,100 farms, up from 624,000 cows and 1,900 farms at the same time last year.

Outlook

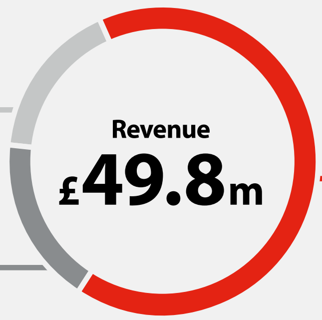
Dairy market conditions have remained stable, although there has been some recent market caution around expectations for future feed prices. In this environment, we currently anticipate that the growth trends experienced by milkrite | InterPuls in 2018 will continue in the new financial year.

Farm Services creates the future direct to farm delivery platform

Heavy duty PCI farm range launched in 2018 to meet usage requirements of larger industrial farms

10% – Farm Services
£5.2m

18% – PCI
£9.0m



72% – Interface
£35.6m

	2018	2017	% Change	% Change at constant currency
Orders received	£48.7m	£50.0m	(2.6%)	0.6%
Closing order book	£2.5m	£3.5m	(28.6%)	(31.1%)
Revenue	£49.8m	£49.4m	0.8%	4.3%
Adjusted EBITDA	£10.9m	£10.9m	0.0%	5.2%
Adjusted EBITDA margin	21.9%	22.1%	(0.2%)	0.2%
Adjusted operating profit	£8.0m	£8.0m	0.0%	6.7%
Operating profit	£6.0m	£6.3m	(4.8%)	3.6%

Financial Review

"We have delivered yet another strong set of results in 2018."

Nick Keveth
Chief Financial Officer

The Group has delivered a strong financial performance during the year with revenue and adjusted operating profit increasing at constant currency by 8.7% and 11.8% respectively. Given our US businesses constitute over 70% of the Group, the stronger pound experienced during the year resulted in reported revenue increasing by 4.0% to £165.5m and reported adjusted operating profit by 4.6% to £27.3m (2017: £26.1m) at actual currency.

As a result of product mix, with the delivery of more M50 mask systems, our adjusted EBITDA margin of 21.3% was 0.8% lower than last year on a constant currency basis.

After a tax charge of £3.7m (2017: £0.4m), an adjusted effective rate of 13.6% (2017: 1.6%), the Group recorded an adjusted profit for the year after tax of £23.5m (2017: £25.5m). The increased tax rate resulted in adjusted basic earnings per share decreasing by 8.0% to 77.1p (2017: 83.8p).

On a reported basis, after taking account of the amortisation of acquired intangibles, defined pension and administration costs and the effect of the relocation of the West Palm Beach manufacturing facility, operating profit before tax grew by 13.4% to £22.8m (2017: £20.1m) or 23.4% on a constant currency basis. Profit before tax was £21.6m (2017: £18.9m) and, after a tax charge of £1.8m (2017: £2.9m tax credit), profit from continuing operations was £19.8m (2017: £21.8m). Basic earnings per share from continuing operations were 64.9p (2017: 71.6p).

The disposal of AEF on 30 March 2018 resulted in a profit from discontinued operations of £1.6m (2017: £0.3m loss) to give an overall profit for the year of £21.4m (2017: £21.5m).

Operational cash generation has continued to be strong with EBITDA cash conversion of 108.2%. The operational cash performance, taking into consideration the divestment of AEF and investment in the Merrick's calf nurser product line, resulted in a £21.8m increase in net cash during the year and a closing net cash balance of £46.5m. This strong cash position provides funding to support our organic growth strategy, investment in new product development and value enhancing acquisitions.

Against this strong backdrop, the Board has increased the final dividend by 30% to 10.68p resulting in total dividends for the year of 16.02p, also up 30% on 2017. This level of dividend increase is in line with our policy, and reflects our ongoing confidence in future performance of the Group.

The closing order book of £37.8m is 23.4% higher than at the end of 2017 on a constant currency basis, reflecting strong performances across the markets in which we operate. On an actual currency basis, the closing order book grew by 26.0%. The opening order book for 2019 provides good visibility heading into the new financial year.

Net Cash

2018	£46.5m
2017	£24.7m
2016	£2.0m

£46.5m

Final dividend
10.68p
↑30%

Segmental Information

	2018 £m	2017[1] (restated) £m	Growth %	Growth at constant currency %
Orders received				
Avon Protection	124.6	116.0	7.4%	11.4%
milkrite | InterPuls	48.7	50.0	(2.6%)	0.6%
Total	173.3	166.0	4.4%	8.1%
Closing order book				
Avon Protection	35.3	26.5	33.2%	30.6%
milkrite | InterPuls	2.5	3.5	(28.6%)	(31.1%)
Total	37.8	30.0	26.0%	23.4%
Revenue				
Avon Protection	115.7	109.8	5.4%	10.6%
milkrite | InterPuls	49.8	49.4	0.8%	4.3%
Total	165.5	159.2	4.0%	8.7%
Adjusted EBITDA				
Avon Protection	26.6	26.8	(0.7%)	5.3%
milkrite | InterPuls	10.9	10.9	0.0%	5.2%
Unallocated corporate costs	(2.2)	(2.0)	10.0%	12.4%
Total	35.3	35.7	(1.1%)	5.1%
Adjusted EBITDA margin				
Avon Protection	23.0%	24.4%	(1.4%)	(1.1%)
milkrite | InterPuls	21.9%	22.1%	(0.2%)	0.2%
Total	21.3%	22.4%	(1.1%)	(0.8%)
Operating profit				
Avon Protection	19.5	16.2	20.4%	26.7%
milkrite | InterPuls	6.0	6.3	(4.8%)	3.6%
Unallocated corporate costs	(2.7)	(2.4)	12.5%	12.8%
Total	22.8	20.1	13.4%	23.4%
Adjusted operating profit				
Avon Protection	21.5	20.1	7.0%	13.4%
milkrite | InterPuls	8.0	8.0	0.0%	6.7%
Unallocated corporate costs	(2.2)	(2.0)	10.0%	12.4%
Total	27.3	26.1	4.6%	11.8%

(1) 2017 has been restated to reflect the continuing operations of the Group following the sale of AEF on 30 March 2018.

Financial Review continued

Profit for the Year

	2018 £m	2017 (restated) £m
Adjusted operating profit	27.3	26.1
Adjustments	(4.5)	(6.0)
Operating profit	22.8	20.1
Net finance costs	(1.2)	(1.2)
Profit before taxation	21.6	18.9
Taxation	(1.8)	2.9
Profit from continuing operations	19.8	21.8
Discontinued operations	1.6	(0.3)
Profit for the year	21.4	21.5

Adjustments

Adjustments of £4.5m (2017: £6.0m) excluded from adjusted operating profit comprise the £0.9m costs for the relocation of the West Palm Beach manufacturing facility to Cadillac, amortisation of acquired intangible assets of £3.1m (2017: £3.0m) and pension administration costs of £0.5m (2017: £0.4m). Adjustments in 2017 included an exceptional write down of costs of £2.9m in developing the EEBD product and included an exceptional credit of £0.3m for a post-acquisition working capital adjustment relating to the acquisition of InterPuls.

Finance costs

Net interest costs were nil (2017: £0.2m). Other finance expenses of £1.2m (2017: £1.0m) primarily represent the unwind of the discount on the net pension liability and, as in previous years, have been excluded from adjusted profit for the year.

Taxation

Taxation was a charge of £1.8m (2017: credit of £2.9m) which consists of a £3.7m charge relating to the current year and a £1.9m credit in respect of previous periods. The £1.9m credit in respect of previous periods includes a £0.7m credit in connection with the release of provisions following an updated assessment of uncertain tax positions.

Profit from Discontinued Operations

The profit from discontinued operations of £1.6m (2017: (£0.3m)) is comprised of the profit after tax of AEF up to the date of disposal on 30 March 2018 of £0.5m (2017: (£0.3m)) and the post tax gain on disposal of £1.1m (see note 2.2 for further details).

Net Cash and Cash Flow

Adjusted cash generated from operations was £37.9m, up 6.5% on 2017. Operating cash conversion from adjusted EBITDA continued to be strong at 108.2% (2017: 98.1%) and operating cash conversion from adjusted operating profit was 139.9% (2017: 134.1%).

	2018 £m	2017 (restated) £m
Cash flows from continuing operations before the impact of exceptional items	38.2	35.0
Cash impact of exceptional items and discontinued operations	(0.3)	0.6
Cash flows from operations	37.9	35.6
Net interest	–	(0.1)
Payments to pension plan	(1.5)	(1.0)
Tax	(5.0)	(2.0)
Purchase of property, plant and equipment	(3.3)	(2.6)
Capitalised development costs and purchased software	(5.6)	(2.9)
Acquisitions	(1.4)	–
Divestments	6.5	–
Purchase of own shares	(1.1)	(1.0)
Dividends to shareholders	(4.1)	(3.2)
Foreign exchange and other items	(0.6)	(0.8)
Increase in net cash	21.8	22.0

At the year end, the Group had net cash of £46.5m (2017: £24.7m) and an undrawn US Dollar denominated bank facility of $40m (£30.7m), which is committed to 28 June 2021 with options to extend for a further two years.

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

Merrick's calf nurser acquisition

The acquisition of the Merrick's calf nurser product line in June was for a total cost of $2.1m. The cost included $1.8m (£1.4m) in cash consideration, associated acquisition costs of $0.1m, and the impact of a write-down of $0.2m in relation to a trade receivable balance due from Merrick's at the time of the acquisition.

Case Study:
Relocation of West Palm Beach manufacturing site

- West Palm Beach, FL was the location of the assembly line for electronic components used in the Deltair SCBA, MCM100 underwater rebreather and argus thermal imaging cameras
- The manufacturing facility was relocated to Cadillac, MI in September at a cost of £0.9m
- This aligns our electronics assembly with the other production processes in Cadillac
- Relocation will improve production efficiency and deliver product margin improvements, with benefits already being realised

Strategy in action:
AEF non-core divestment provides better focus

- Avon Engineering Fabrications, Inc (AEF) divested for $9.25m in March 2018
- Manufactured non-core product line focused on hovercraft skirts and bulk liquid storage tanks
- Market segment was not a strategic priority for the business with growth opportunities limited
- AEF's portfolio had a more uncertain DOD procurement cycle which contributed to unpredictable revenue and margin inefficiencies
- Sale delivered value for money and capital contribution to the strong balance sheet for future acquisition opportunities

Financial Review continued

Research and Development Expenditure

We continue to invest for the future and our total investment in research and development (capitalised and expensed) amounted to £9.7m (2017: £8.3m) as shown below. Total research and development as a percentage of revenue was 5.9% (2017: 5.2%).

	2018			2017 (restated)		
	Avon Protection £m	milkrite | InterPuls £m	Group £m	Avon Protection £m	milkrite | InterPuls £m	Group £m
Total expenditure	8.6	1.1	9.7	7.5	0.8	8.3
Less customer funded	(3.0)	–	(3.0)	(4.6)	–	(4.6)
Group expenditure	5.6	1.1	6.7	2.9	0.8	3.7
Capitalised	(5.0)	(0.5)	(5.5)	(1.8)	(0.8)	(2.6)
Income statement impact of current year expenditure	0.6	0.6	1.2	1.1	–	1.1
Amortisation	2.2	0.3	2.5	3.0	0.2	3.2
Impairment	–	–	–	2.6	–	2.6
Total income statement impact	2.8	0.9	3.7	6.7	0.2	6.9
Revenue	115.7	49.8	165.5	109.8	49.4	159.2
R&D spend as % of revenue	7.4%	2.2%	5.9%	6.8%	1.6%	5.2%

In Avon Protection, the most significant investments have been in the production preparation for the General Service Respirator for the UK MOD and development of the MCM100 and the next generation hood programmes. We have also invested in obtaining approval for Magnum SCBA and the supplied and powered air range, with the NFPA and NIOSH respectively. In milkrite | InterPuls, investment expenditure has been focussed on the heavy duty PCI equipment range and an upgrade to our Milk Meter equipment.

The reduced charges in the year for amortisation and impairments reflects the non-recurrence of the one-off impacts in 2017 of the termination of the EEBD programme.

Pensions

The Group has a UK pension scheme which is closed to future accrual. The net pension liability, as measured under IAS 19 (revised), is £30.5m (2017: £44.1m). The £13.6m decrease in the deficit over the last year is due to the increase in discount rates reflecting the higher corporate bond return outlook and the lower actuarial mortality assumptions which are being reflected in the market.

On October 26, 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. We are working with our actuarial advisers, to understand the extent to which the judgment crystallises any additional liabilities for the Group UK defined benefit pension scheme.

We are early in the evaluation process, but we estimate that the additional liability could be in the region of £3.0m. Subsequent to further assessment with our advisors, any necessary adjustment is expected to be recognised in the first half of our 2019 financial year.

The results of the triennial funding valuation, as at 31 March 2016, showed the plan to be 90% funded on a continuing basis with a deficit of £33.8m. As part of the deficit recovery plan contributions of £1.5m were paid to the pension fund during the year (2017: £1.0m). The level of contributions will be reassessed next following the March 2019 triennial funding valuation.

Financial Risk Management

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

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

Currency Effect

The Group has translational exposure arising on the consolidation of overseas company results into Sterling. Based on the current mix of currency denominated profit, a one cent appreciation of the US Dollar increases revenue by approximately £0.9m and operating profit by approximately £0.2m. A one cent appreciation of the Euro increases revenue by approximately £0.1m and has nil impact on operating profit.

Dividends

The Board is recommending a final dividend of 10.68p per share (2017: 8.21p) which together with the 5.34p per share interim dividend gives a total dividend of 16.02p (2017: 12.32p), up 30% on last year. The final dividend will be paid on 15 March 2019 to shareholders on the register at 15 February 2019 with an ex-dividend date of 14 February 2019.

Our policy is to maintain a progressive dividend policy balancing dividend increases with the rates of adjusted earnings per share growth achieved, taking into account potential acquisition spend and the Group's financing position. Over recent years, we have grown the dividend per share by 30% per annum and we expect to continue to grow dividends ahead of earnings over the medium-term. Our policy is to maintain dividend cover (the ratio of dividend per share to adjusted earnings per share) above two times. This year dividend cover was 4.8 times (2017: 6.7 times). Once dividend cover has reduced to two times we intend to increase dividends in line with the growth in adjusted earnings per share.

Nick Kevett

Nick Keveth
Chief Financial Officer

14 November 2018

Strategy in action:
Acquisition of Merrick's calf nurser product line

- Acquisition of distribution rights for Merrick's calf nurser product line assets for $2.1m
- Strong brand recognition and long sales history in North America
- Smooth integration with milkrite | InterPuls having been the exclusive rubber component manufacturer for over 25 years
- Control of the distribution rights will contribute to revenue growth and margin efficiency in Interface
- Strong order pipeline with wider RoW opportunities

Strategy in action:
Production readiness of UK GSR for first deliveries in 2019

- Entered into a five year contract with the UK MOD in February 2018 for up to £16.0m
- Contract to resupply and provide in-service support for the UK General Service Respirator
- MOD retains rights over the intellectual property in the GSR
- Capital expenditure of £3.0m to prepare for production readiness and product approvals with the MOD
- Full production is expected to commence in the second half of FY19
- Key reference customer and provides further opportunities for expanding the Avon portfolio with UK MOD

Principal Risks and Risk Management

The Group has an established process for the identification and management of risk, working within the governance framework set out in our corporate governance statement (see pages 48 to 52). Ultimately the management of risk is the responsibility of the Board of Directors, and our system of risk management, which is intended to be comprehensive and robust, continues to evolve as the Group and the environment in which it operates increases in size and complexity.

The Board's role in risk management includes promoting a culture that emphasises integrity at all levels of business operations and setting the overall policies for risk management and control.

During the year the principal risks affecting the Group were comprehensively reviewed and re-categorised by the Group Executive team and approved by the Board.

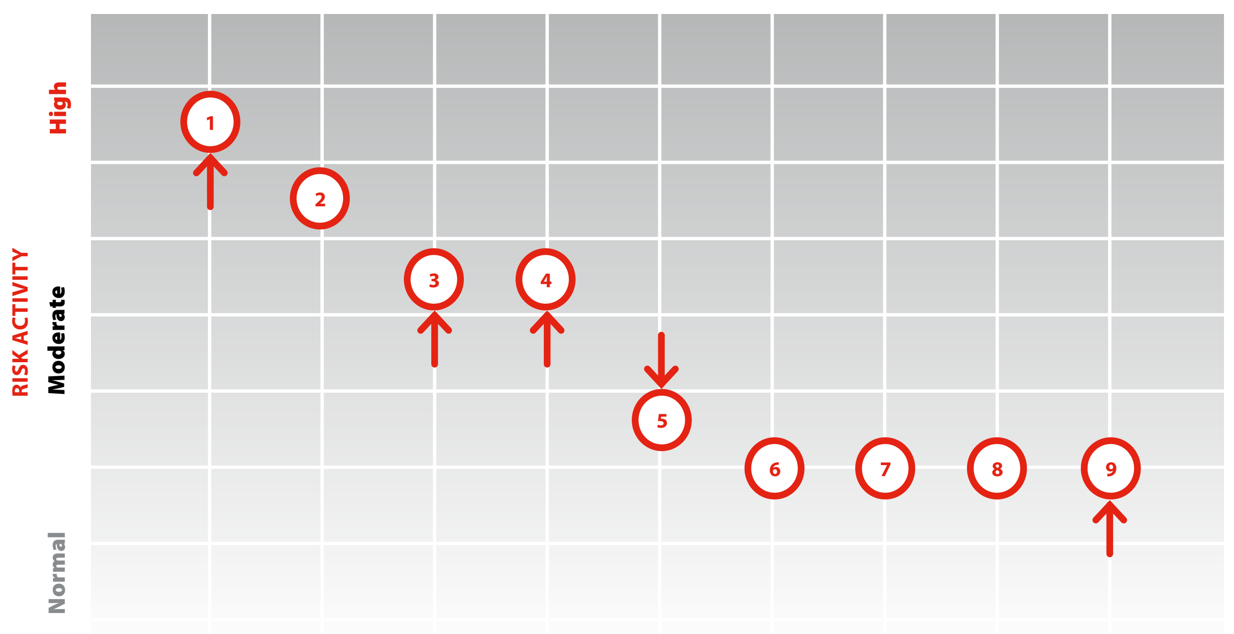
Each risk area continues to have priority tasks allocated to it that are the responsibility of the members of the Group Executive to deliver during the financial year. This process inherently manages risk by ensuring the principal risks are being mitigated by prioritised business activity.

As we move into 2019 increased focus is being given to how effectively risk is also being mitigated by the control structures embedded throughout the Group. Both divisional executive teams have provided feedback on this to a newly formed risk management steering group. This group is in the process of implementing a quarterly review of the effectiveness of these control structures by reference to a set of key risk indicators. We will report on this enhancement to the risk management process in more detail in next year's report.

In the meantime, the following pages include an insight into what happened in 2018 and areas of focus for 2019.

The principal risks are listed on the following pages in order of significance. We have made this assessment by reference to the volume and intensity of activity in each area and not by assessing potential severity of impact, as there are examples of severe impacts across all risk areas and these are all mitigated to a high degree. The recategorised risk themes within the principal risk areas are shown alongside. Available mitigations in the form of control structures are shown next to each identified risk area.

Risk Rating and Movement in 2018



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

There are three main risk categories:

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

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

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

1. STRATEGIC INITIATIVES

Business Risk	What happened in 2018	Mitigation	Focus for 2019
• Failure to identify correct strategic projects or to deliver them • Failure to identify and implement new products • Failure to identify, complete and integrate acquisitions **Impact on** • Strategy delivery • Sales, costs and profitability • Employee morale	• AEF divestment and the acquisition of Merrick's product line reflects the strategic focus on operating in our core markets • Relocation of West Palm Beach electronics production demonstrates focus on operational efficiency • Increased capital investment to deliver enhanced product range to meet customer requirements • First orders for key new products; MCM100 and NIOSH approved supplied and powered air SCBAs	• Board oversight of clear strategy definition and communication combined with effective management • Product development linked to Group strategy and customer requirements • Intellectual property protection considered and implemented • Clear acquisition strategy and alignment with divisional structures	• Delivering new product programmes to meet customer requirements within capital allocated budget • Continued focus on operational efficiency and value enhancing acquisitions

2. MARKET THREAT TO CORE BUSINESS

Business Risk	What happened in 2018	Mitigation	Focus for 2019
• Lack of sales growth/threat to current sales • Loss of major bids/tenders • Threat from competitors **Impact on** • Sales volume and profitability	• Sustainable growth achieved in core lines of business • Product sales base expanded with strong growth in hoods and masks in LE and the first orders for MCM100 • Enhanced dealer and distribution network focused on core markets • Focused Military leadership team to support key customer relationships and sales strategy • Unique lease model in Farm Services continues to provide wider access to product range	• Customer relationships prioritised and managed through dedicated leadership channels • Product differentiation/innovation and diversification and protection of intellectual property • Diversified sales channels with comprehensive distribution/ intermediary network • Effective and up to date competitor monitoring and analysis to maintain competitive advantage	• Sustainable growth in all lines of business and order growth in new products

3. TALENT MANAGEMENT

Business Risk	What happened in 2018	Mitigation	Focus for 2019
• Poor employee competence and failure to train and develop • Inability to recruit and retain talent • Dysfunctional organisational structures **Impact on** • Strategy delivery • Sales, costs and profitability • Employee morale	• Improved employee satisfaction scores • Continuing commitment to graduate and internal leadership training programmes to develop talent base • Focus on separate leadership for Military and Law Enforcement combined with extensive succession planning for key roles in the organisation • Alignment of annual bonus scheme targets across all employees	• Robust succession planning and effective performance management process • Effective training and development strategy and activities • Appropriate organisational structure with clear lines of authority and communication • Maintaining positive Avon culture - Great Place to Work	• Continued focus on people and culture including launch of new training and development strategy

Principal Risks and Risk Management continued

4. CYBERSECURITY AND INFORMATION TECHNOLOGY

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

Impact on
- Ability to ship products
- Financial loss
- Reputational damage

What happened in 2018
- Third party cybersecurity review
- Transition to cloud based servers to reduce infrastructure risk and deliver enhanced security
- Employee wide cybersecurity training and development programme
- Completion of full GDPR assessment and policy implementation
- DOD and MOD cybersecurity assessments completed

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

Focus for 2019
- Continued focus on infrastructure stability and IT operating efficiency

5. CUSTOMER DEPENDENCY

Business Risk
- Over reliance on customers, e.g. the US DOD, and its funding and contract process
- Failure to diversify customer base
- Negative impact of Dairy market cycle on customer buying behaviour

Impact on
- Sales and profitability

What happened in 2018
- First orders expected for M69 and M53A1 underpin strong relationship with the DOD
- MCM100 product/market differentiation bringing new Military customers
- UK GSR contract win re-establishes relationship with UK MOD
- Growth in Farm Services model provides customers access to product base through lease hire
- Expansion of Law Enforcement customer base

Mitigation
- Strong customer relationship management with an appropriate team structure, communication and customer service
- Understanding our Military customer requirements and forthcoming procurement requirements
- Strategy provides for diversification of customer base
- Regular tracking of Dairy market cycle indicators and mitigation plan for market downturn

Focus for 2019
- Continued focus on customer relationships and strong dealer/distribution network

6. FINANCIAL MANAGEMENT

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

Impact on
- Costs and profitability
- Reputational damage

What happened in 2018
- Net cash of £46.5m at the year end provides capital allocation flexibility
- Operating cash conversion of 108.2% delivers sustainable cash flows
- Renewal of undrawn $40m revolving credit facility on more favourable terms
- West Palm Beach facility relocation to support operational efficiency

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

Focus for 2019
- Continued focus on strong cash generation and working capital management

7. MANUFACTURING RISK

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

Impact on
- Costs, sales and profitability

What happened in 2018
- West Palm Beach facility consolidation supports manufacturing efficiency
- No product recalls or significant warranty claims in the year highlights quality product control
- Very low rate of health and safety incidents

Mitigation
- Robust supplier audit and quality management
- Written supply agreements in place including dual source where necessary
- Robust manufacturing/operational disciplines and fully functioning and effective systems
- Strong site leadership and engaged, motivated manufacturing workforce
- Insurance and effective business continuity planning

Focus for 2019
- Continued focus on operational efficiency and better business approach

8. COMPLIANCE AND LEGAL MATTERS

Business Risk
- Failure to comply with export controls slows or removes ability to ship abroad
- Prosecution, fines and negative publicity resulting from bribery and corruption
- Litigation drains cost and management time negatively impacting other areas
- Failure to comply with government contract obligations results in loss of contract

Impact on
- Ability to ship products
- Financial loss
- Reputational damage

What happened in 2018
- UK Export Control audit passed
- No US voluntary disclosures or export control breaches
- Code of Conduct reviewed and communicated
- US Government audit at Cadillac passed

Mitigation
- Effective export control policy supported by training
- Effective anti-bribery and corruption policy supported by training
- Embedded and effective Code of Conduct
- Effective internal legal and finance function
- Effective Government contract specialist knowledge reporting at a senior level

Focus for 2019
- Maintain high standards and integration of compliance teams within the businesses

9. POLITICAL AND ECONOMIC INSTABILITY

Business Risk
- Unpredictable timing/amount of Federal funding for Fire and Law Enforcement customers
- DOD budgets/funding withdrawn
- Negative impact from Brexit on: trade, regulation, people, contracts and IP

Impact on
- Sales and profitability
- Ability to ship products
- Financial loss
- Reputational damage

What happened in 2018
- Continual monitoring of potential Brexit implications and wider global trading conditions
- US DOD budget agreed for the next two years to provide funding certainty
- Wider proliferation of chemical weapons use raising awareness of commercial and Military customers readiness assessment and product effectiveness
- Close monitoring of the milk to feed price ratio to forecast changes in farmer confidence

Mitigation
- Close monitoring of Federal funding and budget position
- Lobbyist/Government advisers and key influencers aligned to Avon's interests
- Brexit risk assessment and identified mitigations ready for implementation

Focus for 2019
- Readiness and planning for all potential changes in global trading conditions
- We are less exposed to the political instability and impact on trading of Brexit with our US-based businesses constituting around seventy percent of the Group and a facility located in continental Europe (Italy).

Environment and Corporate Social Responsibility

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

The Group's Approach

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

Health and Safety (H&S)

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

During the year, monthly global H&S meetings are held where information, knowledge and ideas are shared to implement best practice across our sites and create positive safety attitudes. In addition, our management teams put considerable focus on potential hazard reporting, to ensure the appropriate action is taken before they can cause an incident or an accident.

Environment

We are committed to minimising the impact of our operations on the environment and this is reflected in the beliefs of our employees.

Our staff actively engage in waste material separation with focus on the re-use, where possible, and recycling of paper, metal, plastic, cardboard and used products. Employees attend environmental presentations on our energy efficiency, during which all employees are encouraged to make suggestions to improve our energy efficiency.

In addition, we monitor our electricity, gas and water usage frequently to establish progress against our annual targets. We aim, where possible, to make improvements to reduce energy consumption and to reduce waste going to landfill.

With evolving environmental legislation within Europe and the USA, we ensure compliance through regular environmental updates from our membership of the Institute of Environmental Management and Assessment. Our UK operations also conform to ISO14001:2015, which reinforces how we manage our environmental responsibilities.

Some of the highlights during the year, which supports the reduction of energy usage and increased commitment to recycling were:

- Albinea operated using 100% green energy
- Cadillac have reduced their energy usage through a compressed workweek, this has also reduced employee travel by approximately 20%
- the replacement of outdated air conditioning units at Melksham and Cadillac with higher efficiency units
- Melksham has managed to secure an agreement with Grist recycling that ensures our rubber waste is now classed as recovered waste and will be used as fuel in a local power plant
- the introduction of dried mixed recycling bins at our Melksham facility to increase our recycling obligation
- we continue to install low energy consumption LED lighting across our sites
- Albinea have started the collection and recycling of bottle caps

There have been no external environmental incidents or concerns throughout the 2018 financial year at any of our locations.

Sustainable Materials Group

Our in-house laboratory, Artis, provides research and development capabilities in a wide range of rubbers and polymers. Their extensive knowledge and innovative research into rubber recycling has delivered ground breaking solutions that broaden the markets for rubber recycled products.

In 2017 Artis launched the Sustainable Materials Group which is focused on bringing together key players across the rubber industry into one community, with the goal of accelerating the development and adoption of 'green' alternatives. To date we have 22 members. milkrite | InterPuls is one of these members and presented at the 2018 SMG meeting.

Carbon Emissions – Disclosure

The Companies Act 2006 Regulations 2013 require quoted companies to include within their annual report details of greenhouse gas emissions for which they are responsible and other environmental matters for which key performance indicators are selected.

We have employees in each of our facilities who are responsible for collecting and acting on the data.

The collected data allows the organisation to monitor and examine carbon emission trends.

Greenhouse Gas (GHG) Emissions

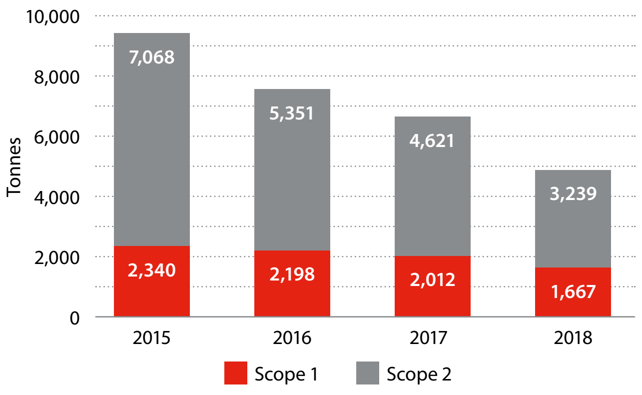
The chart below (left) illustrates the Group's greenhouse gas emissions in tonnes, between 2015 and 2018.

The chart below (right) illustrates the Group's emissions intensity per £million of revenue between 2015 and 2018.

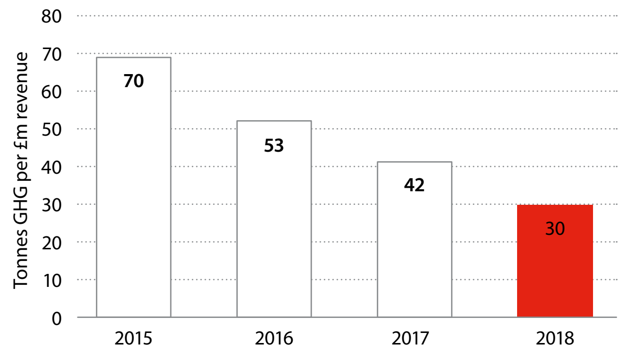
A number of factors have contributed to the Group's energy performance during the year including reduction in electricity and energy use due to management activities. For example changing to LEDs throughout the Melksham facility has saved 343,700Kwh per year on lighting.

With revenue for the year at £165.5 million and the total emissions of carbon dioxide equivalent to 4,906 tonnes, this gives an intensity ratio as follows of 30 tonnes GHG per £million revenue.

Scope 1 and 2 GHG emissions



Emissions intensity (Tonnes GHG per £m revenue)



Data collection methodology

We have followed the Defra 'Guidance on how to measure and report your greenhouse gas emissions'. Defra/DECC 'Conversion Factors for Company Reporting'.

Scope 1 emissions are from those direct sources that are owned by the Group (e.g. from direct combustion of natural gases within our facilities and company-owned transport).

Scope 2 emissions comprise those emissions for which the group is indirectly responsible excluding transmissions and distribution losses (e.g. from the electricity we purchase to operate machinery and equipment).

Our Cadillac site has reduced its utility usage by
10%

Tonnes GHG per £m revenue
30
(2017: 42)

Environment and Corporate Social Responsibility continued

Responsible Business

Our Code of Conduct ('the Code') sets out the values and standards of behaviour expected from all those working for or on behalf of Avon Rubber and the 2018 version is available on the Group's website. The Code requires all representatives of the Group to comply with the laws and regulations in the countries in which we operate. It also contains guidance on avoiding conflicts of interest, confidentiality, adherence to export controls, our approach to gifts and hospitality, bribery and corruption and managing relationships with third parties.

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

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

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

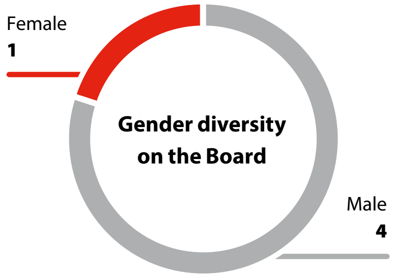
We have a zero-tolerance approach to modern slavery and are committed to acting with integrity in all business dealings and relationships and to implementing and enforcing effective measures to ensure modern slavery is not taking place in the business or its supply chains. Our Modern Slavery Act statement is available on our website for further details.

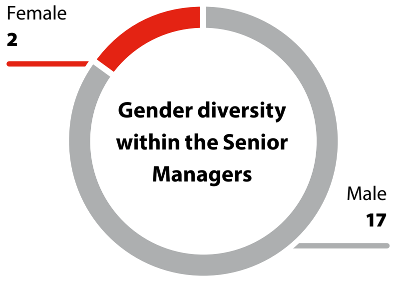
Employees

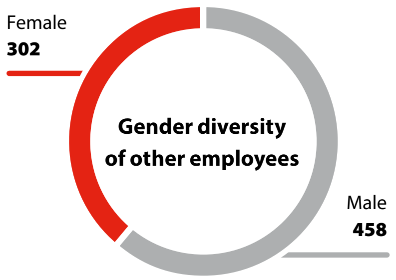
Our success depends on our people. The Group aims to support all employees to develop their potential and we are committed to recognising, encouraging and nurturing talent across our business.

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

The gender of our staff at 30 September 2018 is illustrated opposite.







Year end total: **Female: 305** **Male: 479**

Great Place to Work

Understanding and acting on the concerns of our employees is the key to our future and we encourage active engagement across our sites throughout the year.

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

Read more on **pages 42 and 43**

Great Place to Work

Graduate Scheme

Avon Rubber has now entered the fourth cycle of its Graduate Scheme. The scheme is based on a two year 'work & learn' programme designed to bring new talent to our organisation.

Two new graduates were accepted onto the scheme in September and have both entered into their operations placement.

Both graduates who have reached the end of the two year programme have accepted permanent roles within the company and will be based at the company's headquarters in Melksham.

Our core values

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

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

R — **Motivating our people through appropriate recognition and reward programmes.**

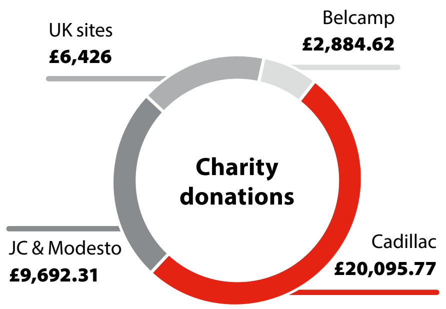
E — **Providing responsibility through meaningful employee empowerment.**

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

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

Environment and Corporate Social Responsibility continued

Great Place to Work continued

Values	What We Do	Highlights	What have we done
RECOGNITION			
Motivate our employees through appropriate recognition and reward programmes. Recognise loyal employees. Celebrate the achievements of staff and teams.	• Employees can nominate colleagues whom they believe embody CREED values. • Monthly recognition awards from the Group. • Quarterly and annual winners selected from those nominated. • Long service awards are a way for us to demonstrate our appreciation to those that have reached significant milestones. • Site level activities.	• Our 2018 annual site winners were announced in September. • In total we have celebrated 90 members of staff who have achieved a long service milestone. • Melksham celebrated the huge achievement of shipping the first MCM100 order with a BBQ. • Belcamp employee picnic.	 Mollai Dolan was nominated the 2018 Belcamp Annual Site winner and was presented with the award by James Wilcox, President, Military. Mollai, as well as others across the Group, show exemplary commitment to the business and have been awarded with a cash prize.
COMMUNICATION			
Employee engagement is important to us and effective communication throughout the business is vital in achieving this. We listen to employees and strive for continuing improvement and we encourage employees to provide feedback to the business.	• Strategy, performance and business priorities are communicated via our intranet sites, email, quarterly newsletters and regular employee meetings at all levels of the organisation. • Face to face feedback and discussion boards on our intranet. • Employee opinion survey aids anonymous feedback to management. • A CEO Roadshow takes place each year where the CEO and CFO visit each site to present the progress we have made against the strategy and the results of the employee opinion survey.	• This year's employee opinion survey response rate achieved the 70% goal set for 2018. • We have introduced changes such as a new charitable giving policy and an improved bonus scheme in response to the 2017 EOS results.	**81%** **of employees believe the current vision of the company has been well communicated** **Employee Opinion Survey** This year we have achieved the company goal of 70% employee response rate. This is a 4% increase from the 2017 survey. A big part of this was the increased participation from our Johnson Creek site, who increased their participation by 30%.
WELLBEING			
Offer healthy lifestyle and financial support as a way of safeguarding the health and wellbeing of employees.	• Global wellness challenges for all employees. • Support employees to get active outside of working hours by providing changing room facilities and gym discounts. • All UK employees are entitled to the Share incentive Plan whilst US employees can join the Employee Stock Purchase plan.	• 2018 Global wellness challenges included healthy food options in the canteen, free fruit and health quizzes. • A group of Melksham employees have been attending weekly circuit training sessions run by staff members. • The launch of Medicash at UK sites which helps employees pay for everyday healthcare bills. • Weekly wellness tips on our intranet.	 Wednesday Circuit training at Melksham has been successfully running with a high turnout since November 2017. The sessions are 40 minutes long and run by members of staff in their own time. The session is intended to develop an enthusiasm towards healthy activities and is open to all abilities. ***"Circuit training is a great initiative; it's free to take part in, you go at your own pace and there's a group of regulars to ensure it takes place every week making it totally inclusive."***
COMMUNITY			
We aim to work with and for the communities in which we operate, recognising our role as a major employer. We seek to contribute to our local economic, social and environmental sustainability. Support our employees, their friends, families and charitable organisations. We recognise and support our employees that are serving and those from service families.	• During the year, our charitable giving policy was released enabling the Group to support via three different methods: match funding, grant support and one off donations. • Opportunities for employees to establish relationships with each other outside of their day to day job. • Our #thinkSTEM campaign is committed to addressing the issue of skills shortage in science, technology, engineering and maths careers.	• This year we have had 54 requests for funding and donated £39,000 across our sites to charities between September 2017 and September 2018. • Creating a community at work through cake bakes, food bank donations and charity runs. • Our STEM ambassadors attended several local events. • A #thinkSTEM event was held at HPW and hosted 30 girls from local schools. • Cadillac employees raised £8,172 for United Way which was match funded by Avon.	 In Cadillac, our employees started a challenge to donate to United Way via payroll deduction over a one year period. A massive 90% of employees participated in the challenge which was a 15% increase from 2017. United Way supports a range of local charities who can apply for funds for specific programs. Thanks to the generous contributions from our employees, the United Way Challenge ended with a total of £8,172 which Avon match funded taking the total donation to £16,344.
TRAINING & DEVELOPMENT			
We want to attract, retain and develop talented individuals to safeguard our business. We strive to provide an environment that offers the right training and development by providing a combination of formal training opportunities and on the job experiences.	• Global Leadership Programme for individuals identified as having the potential to be future leaders. • Our Global Professional Development Programme provides a launch platform for career development. • Employees can apply for training grants for qualifications they wish to work towards. • Placement students within our US and UK engineering teams help us tackle real-world engineering problems. • Graduate recruitment scheme which is based on a two year 'work and learn' programme.	• The Global Professional Development Programme was held in March. • Albinea's team leaders had the opportunity to take part in a team building experience. • A number of placement students have taken up full-time employment with the Group. • The Graduate scheme is now in its fourth year and two new graduates started in September. • A range of training courses have taken place across the sites including Level 3 Leadership, Excel, Word and Train the Trainer.	 The Group Leadership Programme (GLP) was held in 2018 with a mixed group of participants from across the business being invited to participate. Four GLP programmes have been ran to date and the number of GLP graduates who now occupy senior leadership roles is a testimony to the value added to the business.

Governance

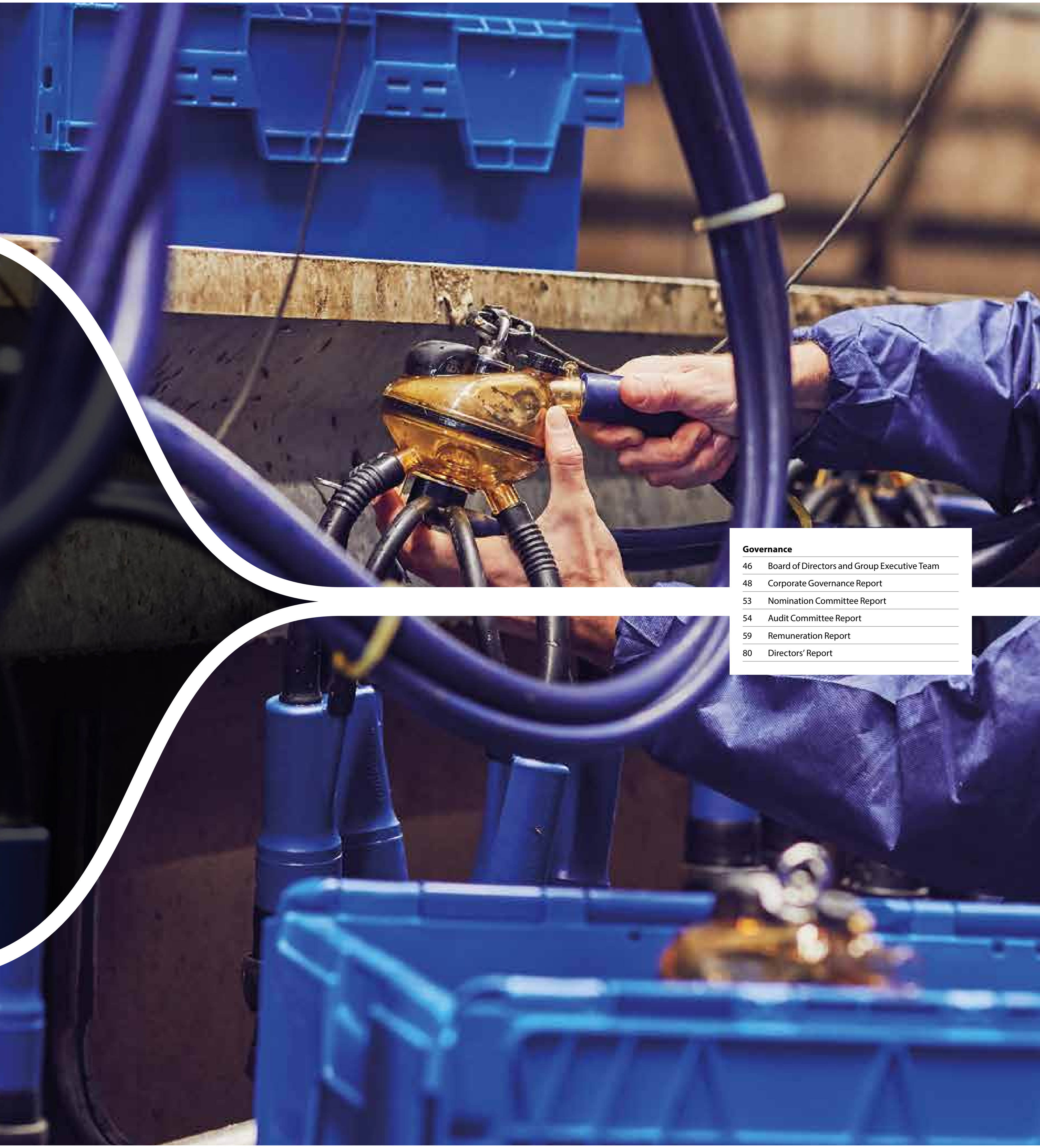
milkrite | InterPuls

Farm Services momentum continues to grow

"We see significant opportunity within Farm Services. Its unique lease model includes value added services and provides us with access direct to the farmer in line with our mission of improving every farm we touch"

40,000
Cluster points serviced with Cluster Exchange

- Farm Services provides a lease rental option for Interface, Precision and Intelligence equipment.
- Cluster Exchange Service was the first to be launched under the Farm Services umbrella. This service allows farmers to lease complete milking clusters and outsource their liner change process to us. This is managed through service centres established in our existing facilities, with the support of our dealers and third-party logistics specialists.
- Since its launch, Cluster Exchange has continued to build momentum with excellent growth and now has an established customer base in North America and Europe servicing 2,100 farms with 637,000 cows and 40,000 cluster points.
- The extension of Farm Services in 2017 to include Pulsator Exchange and Tag Exchange continues to progress well with our pilot schemes being oversubscribed and receiving positive farmer feedback.
- The opportunity within Farm Services is significant. It's unique leasing model also creates the future direct to farm delivery platform for increasingly complex technical offerings.



Governance

Board of Directors

David Evans
Chairman
First Appointment: June 2007
Appointed Chairman: February 2012

Skills and Experience:

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

Committee Membership:

Audit
Nomination (Chair)
Remuneration

Paul McDonald
Chief Executive Officer
First Appointment: February 2017

Skills and Experience:

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

Nick Keveth
Chief Financial Officer
First Appointment: June 2017

Skills and Experience:

Nick was appointed as Chief Financial Officer in June 2017. Prior to joining Avon, Nick was Director of Finance, Planning & Reporting at Imperial Brands, the FTSE 20 tobacco group. He was with Imperial for 12 years and held a variety of senior finance roles during this period. Nick also served as a Non-Executive Director of the Spanish listed group Compania de Distribucion Integral Logista Holdings, S.A., a leading distributor of products and services to convenience retailers in Southern Europe, from 2014 until 2017. Prior to joining Imperial Nick worked for PricewaterhouseCoopers for 14 years in both audit and advisory roles.

Chloe Ponsonby
Non-Executive Director
First Appointment: March 2016

Skills and Experience:

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

Committee Membership:

Audit
Nomination
Remuneration (Chair)

Pim Vervaat
Non-Executive Director
First Appointment: March 2015

Skills and Experience:

Pim joined the Board in March 2015. Pim is Chief Executive of RPC Group Plc, the leading design and engineering group for plastic products, for both packaging and non-packaging markets and a FTSE 250 listed company. Pim was appointed RPC's CEO in 2013, having previously been their Finance Director since 2007. Prior to this, Pim worked for Dutch metals producer, Hoogovens Groep, before joining Dutch ship propulsion producer Lips Group as Chief Financial Officer in 1996. In 1999 he returned to Hoogovens Groep (acquired by Corus) and in 2004 became divisional Finance Director of the £3bn turnover Corus Distribution and Building Systems Division.

Committee Membership:

Audit (Chair)
Nomination
Remuneration

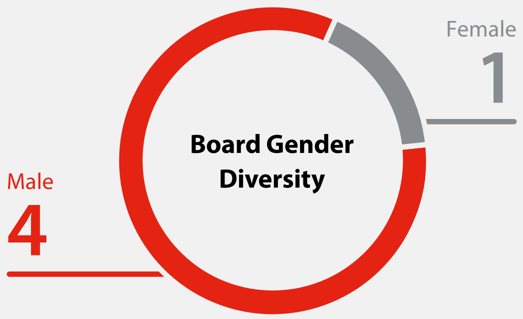
Miles Ingrey-Counter
Group Counsel and Company Secretary
First Appointment: October 2007

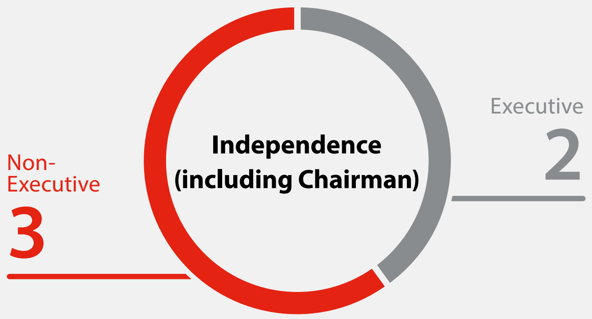
Skills and Experience:

Miles is a qualified solicitor, he joined the group in January 2004 and has been a member of the Group Executive management team since 2008. Miles also has responsibility for all Group HR matters and is Chairman of the Avon Rubber Retirement and Death Benefits Plan. Prior to joining Avon, Miles was a solicitor with Osborne Clarke LLP.

Secretary to:

Audit
Nomination
Remuneration





An experienced management team with over 142 years' combined experience

Corporate Governance Report

Statement of compliance with the UK Corporate Governance Code

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

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

The Board considers that throughout 2018, Avon complied with the Code, save that the Senior Independent Director does not attend meetings with the major shareholders to listen to their views (which is explained further below).

This statement will address the main subject areas of the Code, namely leadership, effectiveness, accountability and relations with shareholders.

Remuneration is dealt with in the Remuneration Report on pages 59 to 79.

The Board

The Board currently comprises two Executive Directors and three Non-Executive Directors (including the Chairman). The biographical details of individual directors are set out on page 46. The Board considers all of the current Non-Executive Directors to be independent in judgement and character, and considered David Evans to be independent on his appointment as Chairman.

The special position and role of the Chairman under the Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and Chief Executive Officer has been agreed. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chief Executive Officer manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

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

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

Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles, all Directors are subject to election by shareholders at the first annual general meeting following their appointment, and to re-election thereafter at intervals of no more than three years. In line with best practice reflected in the Code, however, all current Directors will be standing for reappointment at the forthcoming AGM to be held on 31 January 2019.

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

How the Board operates

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

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

Examples of strategic and management issues include the following:

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

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

The Company Secretary is responsible to the Board for ensuring that all Board procedures and governance requirements are complied with. The removal of the Company Secretary is a decision for the Board as a whole.

Committees of the Board

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

The members of the Committees comprise the Chairman and all the Non-Executive Directors. The Company Secretary advises and acts as a secretary to the Committees.

The Non-Executive Directors continue to regard the Chairman as adding significant value to the deliberations of the Audit Committee and his membership is ratified by Provision C.3.1. of the Code, which permits listed companies outside the FTSE 350 to allow the Chairman to sit on the Audit Committee where he or she was considered independent on appointment as Chairman. Pim Vervaat is Chairman of the Audit Committee. The Board is satisfied that Mr Vervaat has recent relevant financial experience and his profile appears on page 46.

David Evans is Chairman of the Nomination Committee but, in accordance with the Committee's terms of reference, is not permitted to chair meetings when the Committee is dealing with matters relating to the Board Chairman position.

Chloe Ponsonby is Chair of the Remuneration Committee. The Remuneration Committee's principal responsibilities are to decide on remuneration policy on behalf of the Board and to determine remuneration packages and other terms and conditions of employment, including appropriate performance related benefits for the Executive Directors and other senior executives. The Remuneration Committee also has regard to the remuneration of the wider workforce. More details of the activities of the Remuneration Committee are set out in the Remuneration Report on pages 59 to 79.

Attendance at meetings

All Committee and Board meetings held in the year were quorate. Directors' attendance during the year ended 30 September 2018 was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul McDonald	8/8	3/3*	4/5*	1/1*
Nick Keveth	8/8	3/3*	4/5*	1/1*
David Evans	8/8	3/3	5/5	1/1
Pim Vervaat	8/8	3/3	5/5	1/1
Chloe Ponsonby	8/8	3/3	5/5	1/1

* Attended by invitation

Corporate Governance Report continued

Performance evaluation

The Board continually strives to improve its effectiveness and conducts an annual review of its performance and that of its Committees and the individual Directors to enhance overall Board effectiveness. The 2018 Board evaluation process was conducted internally using questionnaires and interviews, led by the Chairman and facilitated by the Company Secretary. The questionnaire completed by all Board members and the Company Secretary was structured to provide Directors with the opportunity to express views on a variety of topics including: Board remit and responsibilities, skills and dynamics of the Board, meetings and content, group strategy, internal control and risk management, decision making and communication.

The findings of the evaluation were very positive with strategic decisions and the communication of strategy being highlighted as significant areas of improvement during the past 12 months. A detailed discussion of the findings from the performance evaluation were reviewed at the July Board meeting. The following areas have been identified by the Board as areas of focus for 2019 and beyond: succession planning, interaction between the Board and senior management and the Group's risk framework.

The results of the evaluation concluded that the Board, its Committees and individual Directors performed effectively during 2018, both individually and as a collective unit. The composition of the Board is considered well balanced with appropriate experience, independence and knowledge to carry out its duties effectively.

Accountability and audit

The Board has an established framework of internal controls covering both financial and non-financial controls. In addition, there is an ongoing process for identifying, evaluating and managing significant business risks faced by the Group. This process was in place throughout the 2018 financial year and accords with the FRC's Guidance for Directors on Internal Control.

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

The Board, through the Audit Committee, keeps this system under continuous review and formally considers its content and its effectiveness on an annual basis. Such a system can provide only reasonable, and not absolute, assurance against material misstatements or losses. The section on internal control in the Audit Committee Report on pages 54 to 56 and the following paragraphs describe relevant key procedures within the Group's systems of internal control and the process by which the Directors have reviewed their effectiveness.

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

Procedures are in place to identify all major business risks and to evaluate their potential impact on the Group. These risks are described within the Strategic Report on pages 34 to 37.

Risk management

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

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

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

Internal control

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

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

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

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

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

Relations with shareholders

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

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

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

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

At the AGM on 31 January 2019, the Board will be following the recommendations in the Code regarding the constructive use of annual general meetings; as usual, the agenda will include a presentation by the Chief Executive Officer on aspects of the Group's business and an opportunity for shareholders to ask questions. The level of proxies received for each AGM resolution is declared after the resolution has been dealt with on a show of hands, providing no poll has been called for. The Board has no plans to introduce poll voting on all business at general meetings as a substitute for using proxy votes, as this is not a requirement of the Code.

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

Disclosure and Transparency Rules ('DTR')

Disclosures in respect of the DTR requirements under DTR 7.2.6 are given in the Directors' Report on pages 80 to 83 and have been included by reference.

Going concern

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

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

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

Corporate Governance Report continued

Viability statement

The Directors have assessed the viability of the Group over a three year period to September 2021, taking account of the Group's current position and the potential impact of the principal risks documented in the Strategic Report. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to September 2021.

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

This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period. In making their assessment, the Directors have taken account of the Group's strong net cash position and the renewal, during the year, of the Group's revolving credit facility which covers the three year lookout period. During the year the Group has complied with all covenant requirements attached to its financing facilities.

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

D R Evans

David Evans
Chairman

14 November 2018

Nomination Committee Report

The Nomination Committee comprises all the Non-Executive Directors, under the chairmanship of the Chairman of the Board.

Main responsibilities

The main responsibilities of the Committee are as follows:

- To lead the process for Board appointments and make recommendations to the Board
- To put in place plans for succession
- To regularly review the Board's structure, size and composition taking into account the challenges and opportunities facing the Group and the skills, knowledge and experience needed by the Board and make recommendations to the Board with regard to any changes

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

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

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

Further information, including the number of women in senior management and within the organisation is shown in the Environmental and Corporate Social Responsibility Report on pages 38 to 43.

Activities during 2018

During the year the Committee focused on the work that had been carried out within the business on succession planning, talent development and leadership at the senior management level. In addition, the Board discussed succession plans for the Executive and Non-Executive Directors including the Chairman.

The Committee agreed that all Directors should be put forward for re-appointment by shareholders each year at the AGM. Taking into account the performance and value that each Director has brought to the Board, the Committee has considered whether each Non-Executive and Executive Director appointments should be renewed for a further year and has confirmed that this is indeed the case. Accordingly, resolutions to re-appoint each Director will be put to shareholders at the forthcoming AGM.

The effectiveness of the Committee is monitored and assessed by David Evans as Chairman of the Committee and as part of the Board performance evaluation. The outcome of the 2018 review was positive. Following discussion of the results of the evaluation it was agreed for 2019 that the Committee would hold two formal Nomination Committee meetings per year (and continue to conduct ad hoc meetings as necessary).

In addition, following a detailed discussion on Board succession planning and taking into account the Group's aspirations for growth, the Committee has recommended to the Board that an additional independent Non-Executive Director be added to the Board during 2019.

D R Evans

David Evans
Chairman of the Nomination Committee

14 November 2018

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

Audit Committee Report

Overview

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

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

During the 2018 financial year, the Committee has continued to monitor the integrity of the Group's financial statements and supported the Board with its ongoing monitoring of the Group's risk management and internal control systems. The Committee also determined the focus of the Group's internal audit activity and reviewed its findings and verified that recommendations were being appropriately implemented.

In recognition of the importance of an effective whistleblowing channel, the Committee also reviewed the arrangements for the Group's employees to raise concerns in confidence.

During 2018 the Audit Committee undertook a full evaluation exercise of the PwC audit approach to ensure the effectiveness of the external audit function. Reviewing the results of the evaluation of the external audit process, we are satisfied with both the auditor's independence and audit approach. The Audit Committee recommended to the Board in November 2017 that the external audit be tendered in 2018, which is discussed in more detail below. Following the tender process, the Board accepted the Audit Committee's recommendation to appoint KPMG and a resolution for their appointment will be put to shareholders at the 2019 AGM.

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

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

Main responsibilities of the Audit Committee

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

The key objectives of the Audit Committee are:

- To provide effective governance and control over the integrity of the Group's financial reporting and review the significant financial reporting judgements
- To support the Board with its ongoing monitoring of the effectiveness of the Group's system of internal controls and risk management systems
- To monitor the effectiveness of the Group's internal audit function and review its material findings
- To oversee the relationship with the external auditor, including managing the tender process, and making recommendations to the Board in relation to the appointment of the external auditor and monitoring the external auditor's objectivity and independence
- Reviewing the adequacy of the Company's whistleblowing arrangements and the provision of appropriate investigation of any matters raised
- Advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Composition of the Audit Committee

The members of the Committee are set out on pages 46 and 47.

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

Meetings are attended by invitation by the Chief Executive Officer, Chief Financial Officer and the Deputy Chief Financial Officer.

I also invite our external auditors, PwC, to each meeting. The Committee also regularly meets separately with PwC without management being present.

Committee meetings

The Committee met three times during the year and attendance at those meetings is highlighted on page 49 of this Corporate Governance Report.

Main activities of the Committee during the year

Meetings of the Committee generally take place prior to a Board meeting. The Committee has a rolling annual agenda developed from its terms of reference, with recurrent items considered at each meeting in addition to any specific matters arising and topical business or financial items on which the Committee has chosen to focus.

The Committee reviewed the half year and annual financial statements and the significant financial reporting judgements. As part of this review, the Committee supported the Board by reviewing the financial viability and the basis for preparing the accounts on a going concern basis. The Committee also reviewed and challenged the external auditor's report on these financial statements.

As discussed above, the effectiveness of the external audit function was considered during 2018. During the evaluation process the Committee considered the independence and objectivity of the external auditor, the make-up and quality of the audit team, the proposed audit approach and the scope of the audit, the execution of the audit and the quality of the audit report to the shareholders as well as the fee structure.

The Committee also reviewed and proposed areas of focus for the internal audit programme including the approach to ensure that internal audit activity is aligned to the principal Group risks.

The main areas of focus considered by the Committee during 2018 were as follows:

- The presentation of the financial statements and the quality and acceptability of accounting policies and practices, in particular, the presentation of adjusted performance and the adjusting items. The Committee reviewed a paper prepared by management and reviewed the disclosure of adjusted items within the Group's half year and full year results, agreeing that the position taken in the financial statements is appropriate
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements
- Material areas in which significant judgements have been applied, discussed separately in more detail below
- The external audit tender process as described further below
- A full review and comprehensive update of the auditor independence policy, which was conducted alongside the tender process, with policy changes applied during the year
- At the request of the Board, the Committee considered whether the 2018 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. Having taken account of the other information provided to the Board throughout the year, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable

Audit Committee Report continued

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

Significant judgements considered by the Committee

After discussions with management and the external auditor, the Committee determined that the key risk of material misstatement of the Group's 2018 financial statements was concentrated in the following key judgement areas:

- Valuation of intangible assets
- The funding level of the defined benefit pension scheme
- Calculation of the Group tax charge

Intangible assets valuation

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

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

- The Group assesses whether goodwill is impaired on an annual basis and this requires an estimation of the value in use by the segmental division to which the intangible assets is allocated. This involves estimation of future cash flows, a growth rate for extrapolation purposes and a suitable discount rate
- Acquisitions may result in the recognition of acquired intangibles which include customer relationships, brands and trademarks, patents and order books. Valuation estimates are used to determine the fair value of these intangible assets. This includes estimation of future cash flows, weighted average cost of capital and useful lives
- The Group capitalises the development of new products and processes as intangible assets or property, plant and equipment. Initial capitalisation and any subsequent impairment is based on the Group's judgement that technological and economic feasibility is demonstrated. In determining the amounts to be capitalised the Group makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits

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

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

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

The funding level of the defined benefit pension scheme

The Group operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed before 31 January 2003.

The plan was closed to future accrual of benefits on 1 October 2009. Calculating the funding level of the pension scheme involves significant judgements concerning the future performance and valuation of the pension fund's assets and liabilities and, as such, changes in the core assumptions could have a significant impact on those requirements.

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

An independent actuary regularly reviews the costs of administering the pension scheme, and undertakes a valuation of the pension scheme assets and an assessment of current and future pension liabilities.

The Committee reviewed a report from the independent actuary on the appropriateness of the assumptions used in assessing the assets and liabilities of the scheme and agreed that this was being managed appropriately with reasonable judgements applied.

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

Further analysis and detail on the Group's defined benefit pension scheme is set out in note 6.2 of the financial statements.

Calculation of the Group tax charge

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

At the start of the year the Internal Revenue Service ('IRS') started a scheduled tax audit in the United States where the majority of the provisions for uncertain tax positions are located. This audit is ongoing at the balance sheet date, but we expect the levels of judgment in relation to the uncertain tax provisions to reduce in the medium term as the IRS conclude their review work.

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

At 30 September 2018 there is a provision of £5.8m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgments are challenged, resulting in a different amount of tax being payable or recoverable to the amounts provided for. Management estimates that a reasonable possible range of outcomes is between an additional liability of up to £0.7m and a reduction in liabilities of up to £5.8m.

Following a review of the Group's tax charge, which included a conversation and an update on the current position and the status of discussions with the relevant tax authorities, the Committee agreed that the position taken in the financial statements is appropriate.

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

External auditors

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

The Audit Committee has kept the assessment of the requirement to tender the audit mandate under continual review. As reported in last year's annual report, PwC have been the Company's external auditors for over 20 years and the Committee decided in 2017 to undertake a tender process for the external auditor role in 2018.

The Committee approved and oversaw the competitive tender process, including agreeing the timetable and the request for proposal tender document, which was prepared in accordance with the relevant requirements. A description of the process undertaken during the audit tender is below.

External audit tender process

The Audit Committee recommended to the Board in November 2017 that in view of the forthcoming mandatory audit re-tendering in 2019, the external audit be tendered in 2018. The Audit Committee agreed the timetable for the tender, the tender document, the tender shortlist and the key decision criteria it would use in deciding to make a recommendation to the Board.

Three firms were invited to tender for the external audit. Each firm was sent a list of proposal requirements, given access to a secure data room containing information on the Group and offered the opportunity to meet with key business contacts to deepen their understanding of the business. All three firms submitted an extensive written proposal to the Company in January 2018 and met with members of the senior management team.

Based on a review of each proposal and the meetings with senior management, two of the firms were invited to present to the Audit Committee in February 2018. This was an interactive session with questions and answers.

The Audit Committee met to evaluate each firm using the agreed selection criteria and at the conclusion of the process recommended to the Board that KPMG be appointed as external auditors. The selection criteria included areas that allowed the Committee to conclude the new auditors would be independent and objective and would be able to carry out an effective and high quality audit.

The Board accepted the Audit Committee's recommendation to appoint KPMG and a resolution for their appointment is being put to shareholders at the 2019 AGM. The Audit Committee confirms this recommendation is free from influence by any third party and that no contractual term has been imposed on the Company limiting the choice of auditor.

The Audit Committee has reviewed plans for the transition to the new auditors during 2018 and will receive regular reports on the transition at future Audit Committee meetings.

Audit Committee Report continued

Review of the effectiveness and the independence of the external auditor

At its April meeting the Committee reviewed an evaluation report of the previous year's audit process prepared including obtaining feedback from employees who had interaction with PwC during the 2017 audit. The report concluded that the audit was conducted to a good standard with appropriate focus and challenge on the key audit risks. The members of the Committee have declared themselves satisfied with the performance of PwC as the Company's auditor in the last financial year.

PwC confirmed to the Committee that it maintained appropriate internal safeguards to ensure its independence and objectivity. As part of the Committee's assessment of the on-going independence of the auditor, the Committee receives details of any relationships between the Group and PwC that may have a bearing on their independence and receives confirmation that they are independent of the Group.

Policy on auditor independence and non-audit fees

In order to ensure the independence and objectivity of the external auditors and avoid a situation where the auditor's familiarity with the Group's affairs results in excessive trust, the Committee maintains a formal Auditor Independence Policy. The policy sets out that non-audit work may only be undertaken by the External Auditor in limited circumstances where these services do not conflict with the auditor's independence. All permissible non-audit services need the specific approval of the Audit Committee.

The policy also establishes guidelines for the recruitment of employees or former employees of the external auditor. To ensure compliance with this policy the Audit Committee carried out a review during the year of the remuneration received by PwC for audit services, audit-related services and non-audit work. The breakdown of the fees paid to the external auditor, including the split between audit and non-audit is included in note 2.5 on page 108 of the financial statements. No non-audit services were carried out by PwC during the year. These reviews ensure a balance of objectivity, value for money and compliance with this policy. The outcome of these reviews was that no conflicts of interest existed between such audit and non-audit work.

Internal control

The Committee regularly reviews the effectiveness of the Group's system of internal controls and risk management. This involves the monitoring and review of the effectiveness of internal audit activities, which included a review of the audits carried out and the results thereof, the management response and the programme and resourcing for 2018 and 2019. The Committee believes it is appropriate that the internal audit process is primarily undertaken by members of the finance team who conduct financial reviews of the sites on a rotational basis. As appropriate, the Committee recommends working with independent experts to support and facilitate the internal audit programme. During the year a full review of the Group's foreign currency and treasury management processes was undertaken by a third party independent consultant who confirmed that the controls in place were appropriate and in line with the Group's treasury risk management approach.

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

No significant failings or weaknesses were identified by the internal audit process but several minor improvements were identified and implemented.

As part of its work, and in line with its terms of reference, the Committee also considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the Code and the FRC guidance on Risk Management, Internal Control and Related Financial Business Reporting.

Risk management activities are dealt with in more detail in the Corporate Governance Report on page 50.

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review, information on which is provided in the Corporate Governance report on page 50. The effectiveness of the Committee continued to be rated highly. It was agreed that one of the key areas of focus for the Committee over the following year would be ensuring a successful transition to the new external auditor, KPMG.

Pim Vervaat
Chairman of the Audit Committee

14 November 2018

Remuneration Report

LETTER FROM THE CHAIR OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 30 September 2018.

The Remuneration Report is split into three sections:

- This Annual Statement summarising the work of the Remuneration Committee (the 'Committee') in 2018
- The Directors' Remuneration Policy (the 'Policy') which is intended to take effect from the date of our 2019 AGM, subject to shareholder approval
- The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in the year ended 30 September 2018 under the Remuneration Policy that was approved at the 2016 AGM and how we intend to implement the new Policy in 2019. This will be the subject of an advisory vote at the forthcoming AGM

Strategic remuneration review

The Company's Remuneration Policy was last approved by shareholders at the AGM on 26 January 2016 and therefore, as required, we are submitting a new policy for shareholder approval at the 2019 AGM. Throughout 2018 the Committee have reviewed all aspects of Executive Director remuneration to ensure the proposed new Remuneration Policy is aligned with the new strategy communicated to shareholders last and this year, reflects best practice expectations of investors and is appropriately positioned relative to the market. In doing so, the Committee engaged with institutional shareholders as well as the leading shareholder advisory organisations, who were broadly positive about the changes we are proposing.

Our executive remuneration framework consists of a base salary, modest benefits and pension provision, and annual and long-term incentive arrangements. The Committee seeks to support the delivery of the Group's strategy through establishing simple remuneration arrangements which support sustainable value creation for our shareholders, incentivising Executive Directors to meet the Company's financial and strategic objectives by making a significant proportion of remuneration performance-related. The Group's financial and strategic objectives are set out in the Strategic Report on pages 8 to 43. Our arrangements are also structured to provide strong risk mitigation and alignment between the interests of Executives and shareholders by incorporating elements of bonus deferral, recovery and withholding provisions, post-vesting holding periods and share ownership guidelines.

As such we are not proposing fundamental changes to the overarching structure but changes designed to (i) simplify our arrangements where possible, (ii) bring the Policy further into line with the best practice expectations of investors, (iii) ensure the Policy is sufficiently flexible to operate effectively over the next three year period, (iv) ensure packages are sufficiently competitive and drive performance and (v) further strengthen the alignment between shareholders and Executives. We outline these changes below:

1. Rebalancing of salaries and variable pay opportunity

The Committee has taken a prudent approach to setting salaries historically. In 2013 we set out our intention to align salaries to the market but sought to be able to recognise exceptional future performance by setting a policy under which the maximum variable pay opportunity that could be earned was 250% of salary (350% of salary exceptionally). In recognition that this quantum of variable pay opportunity exceeds market practice, we are proposing to change that balance by repositioning salaries to take account of the growth and performance of the business, whilst reducing the variable pay opportunity to 225% of salary.

The Committee seeks to support the delivery of the Group's strategy through establishing simple remuneration arrangements which support sustainable value creation for our shareholders

Remuneration Report continued

Reference salaries of £330,000 and £240,000 for the CEO and CFO respectively have remained in place since 2013 and we believe it is now appropriate to reposition these, particularly since the Group is now significantly larger, more profitable and cash generative than it was in 2013. Furthermore, since their appointment in 2017, Paul McDonald and Nick Keveth have more than proved themselves in their current roles, successfully defining, communicating and implementing our new strategy and delivering organic sales growth. This is also reflected in increases in orders received (4.4%), revenue (4%) and adjusted operating profit (4.6%) over 2018 as well as a 22.7% growth in market capitalisation as at 30 September 2018 since their appointment.

Taking all of the above into account, we intend to increase the CEO's salary from £330,000 to £390,000 (+18.2%) and the CFO's salary from £240,000 to £270,000 (+12.5%) – both effective 1 October 2018. The current salaries of the CEO and CFO roles are at the October 2013 benchmark levels which have not increased, even to reflect inflation. An adjustment is therefore now necessary to ensure salaries remain competitive and help us retain our talent. These new salary levels are at or below current mid-market levels for businesses of similar market size relative to the Company.

Following this repositioning, we will be moving away from the concept of fixing salaries for set periods to an annual review, with future increases in normal circumstances in-line with the level of the workforce.

2. Rebalancing of the short- and long-term incentive opportunities and enhanced shareholder alignment

The current Policy caps bonus at 150% of salary (with bonus normally limited to 100% of salary) and awards under the long-term incentive plan, the Performance Share Plan ('PSP') at 100% of salary (with an additional 100% of salary in exceptional circumstances).

We are proposing to reduce the bonus cap from 150% to 100% of salary and increase the new Long Term Incentive Plan ('LTIP') grant limit from 100% to 150% of salary (removing the exceptional award limit completely), with the current intention that grants would normally be at 125% of salary.

We are also increasing the proportion of the bonus delivered in shares from 25% of bonus awarded based on the financial objectives only to 25% of the whole of the bonus (including personal objectives) and are extending the two year post-vesting holding period provisions to all LTIP awards (which previously applied to exceptional awards only).

Furthermore, we are extending the recovery and withholding provisions, which currently only apply to the annual bonus and only in circumstances where there has been a misstatement of the accounts, to cover both the bonus and LTIP in circumstances of misstatement, corporate failure, error in the calculation of awards or gross misconduct by the individual.

The current Policy limits the Committee's flexibility with respect to the selection and balance of performance metrics and targets that can be used. The new Policy will provide the Committee more flexibility to ensure we can select the right performance measures and targets annually for the annual bonus and LTIP, taking account of the Company's evolving strategy and any other relevant factors, over the life of the three year Policy.

The Committee believes these changes will result in a higher proportion of our variable pay being linked to the Group's longer-term strategic objectives and greater alignment between the Executives and shareholder interests.

3. Other key changes

Other changes include further amendments designed to bring the Policy more in line with the best practice expectations of investors and to maximise the clarity and simplicity of our remuneration arrangements, including:

- Removing the scope to make one-off retention bonuses and pay a joining incentive to new recruits
- Reducing the pension contribution for future appointments to be consistent with that for the general workforce, as recommended by the new UK Corporate Governance Code.

In light of the proposed changes, we will also be asking shareholders to approve the rules of the new 2019 Long Term Incentive Plan, to replace the PSP at the forthcoming AGM.

Implementation of the policy in 2019

In 2019, as outlined above, under the new Policy the maximum annual bonus opportunity will be 100% of salary, with 25% of any bonus earned deferred into shares for two years. In order to provide a more balanced assessment of financial performance with greater alignment to the Group's communicated investor proposition, bonuses for 2019 will be based on Group revenue growth on previous year (20%), operating profit growth on previous year (40%) and Group cash conversion (40%). Targets will be set on a sliding scale with 20% payable at threshold and 50% at target. The 2019 bonus will not include any personal performance objectives. The targets and outcomes will be disclosed retrospectively in next year's Annual Report on Remuneration.

The 2019 LTIP awards will be granted after the AGM at 125% of salary and subject to relative Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') growth measures as in previous years (weighted 50% and 50% respectively). Given the increased grant quantum the performance conditions have been reviewed to ensure they remain stretching. In doing so the Committee has reviewed, amongst other things, the impact on EPS of the expected normalisation, during the performance period, of the Group's effective rate of corporate tax. The EPS targets will range from 5 to 10%, and the threshold level of vesting under the TSR element has been reduced to 20% from 25%.

In addition, the Committee must be satisfied with the level of ROCE performance during the performance period taking account of a range of factors. If the Committee is not satisfied with the level of ROCE performance it may reduce (potentially to zero) the outturn against the EPS performance measure.

Implementation of the policy in 2018

2018 performance

Paul McDonald and Nick Keveth, both appointed in the last financial year, have settled well into their roles and have made excellent progress to date. As set out in the Strategic Report, they have overseen the delivery of sustained strong financial performance for the year ended 30 September 2018, confirming the progress the Group has made over the past 12 months in delivering growth. Increases were seen in orders received (4.4%), revenue (4.0%) and adjusted operating profit (4.6%). Strong financial management has produced good cash conversion, meaning the Group ended the year with net cash of £46.5m.

Basic salary

As detailed in last year's report, the annual salaries of both Paul McDonald and Nick Keveth were reviewed during the year with the Committee increasing these to the market level on the anniversary of their appointments, with Paul and Nick having more than proved themselves in their current roles.

Performance related pay

The annual bonus measures incentivise and reward delivery of our business strategy and annual plan. The bonus outcomes for the Executive Directors were determined by reference to performance against the agreed financial business targets of Group profit budget achievement (25%), profit growth on previous year (25%), Group cash generation (20%), as well as the Committee's assessment of their individual performance and delivery of personal objectives (30%). The Company's financial performance for the year, together with the assessment of individual performance and contribution, resulted in bonus awards for the Executive Directors at 80% of maximum for Paul McDonald and 83% of maximum for Nick Keveth. Full details can be found on page 73.

Vesting of the 2010 PSP awards made on 1 December 2014 took place in December 2017, based on the agreed measures of relative Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') growth over the three years to 30 September 2017. The Group's three year TSR was 61.6% which placed it just outside the upper quartile and the EPS growth was RPI +23% compared to the maximum target of RPI + 8%. The overall vesting level achieved for these awards was therefore 99%.

The Committee considers that within the broader context of the overall performance of the Company and the individual performance of Executive Directors, the payouts achieved under the bonus and PSP are justified and has not applied any discretionary adjustment to these outcomes, nor in any other area of remuneration throughout the year.

PSP awards were granted in December 2017 at 100% of salary and are subject to the same equally weighted TSR and EPS conditions as previous awards, over the three year period to 30 September 2020.

Agenda for 2019

As the primary focus of the Committee's work throughout the past year has been the review of the Remuneration Policy, accounting for changes to best practice in the wider market and the views of our shareholders in the consultation process, we are confident that the new Policy will continue to encourage a keen focus on the delivery of superior financial and operational performance which will, in turn, support the long-term success of the Group. During 2019, we will continue to keep the remuneration arrangements under review, although no material changes in how the Policy is implemented are currently expected. We remain mindful of the developing remuneration landscape and a key priority for 2019 will be to continue to monitor the executive pay environment, governance developments and market practice, particularly in light of the new UK Corporate Governance Code.

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

Chloë Ponsonby

Chloe Ponsonby
Chair of the Remuneration Committee

14 November 2018

Remuneration at a glance

The Company's Remuneration Policy was last approved by shareholders at the AGM on 26 January 2016 and therefore, as required, a new policy will be submitted for shareholder approval at the 2019 AGM. The key elements of the Directors' Remuneration Policy, as it applied in 2018 and how it is proposed to apply in 2019 are summarised below:

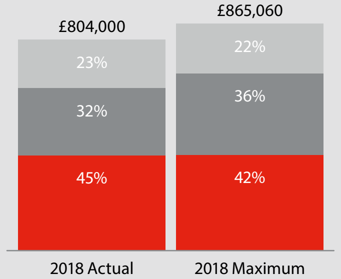
		Current Policy 2018	Proposed Policy 2019
FIXED PAY	**Salary (annual base)**	CEO: £330,000 CFO: £240,000	CEO: £390,000 CFO: £270,000
	Pension	15% of salary	15% of salary
	Benefits	Includes private health insurance and life assurance	Includes private health insurance and life assurance
ANNUAL BONUS	**Maximum opportunity**	150% of salary	100% of salary
	Opportunity applied	100% of salary	100% of salary
	Operation	• Performance measures: range of financial and strategic business targets and personal objectives • Paid annually in cash, except 25% which is deferred into shares. Deferral does not apply to the percentage award relating to achievement of personal objectives • Malus and clawback provisions apply	• Performance measures: range of financial and strategic business targets and personal objectives • Paid annually in cash, except 25% of the overall amount which is deferred into shares • Malus and clawback provisions apply
LONG TERM INCENTIVE	**Maximum opportunity**	100% and an additional 100% in exceptional circumstances	150%
	Opportunity applied	100%	125%
	Operation	• Subject to three year performance conditions (TSR and EPS)	• Subject to three year performance conditions (TSR and EPS with a ROCE underpin) • Two year additional holding period applies to vested awards • Malus and clawback provisions apply

Executive remuneration

Actual vs maximum under policy

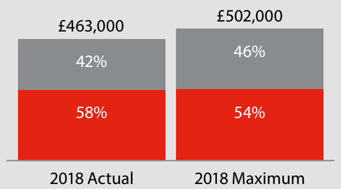
Paul McDonald

£804,000



Nick Keveth

£463,000



Remuneration Report continued

REMUNERATION POLICY REPORT

The Company's Remuneration Policy (the 'Policy') was last approved by shareholders at the AGM on 26 January 2016 and took effect from that date. The policy in this report will be put to a binding shareholder vote at the 2019 AGM and will take formal effect from that date, subject to shareholder approval. It is intended that the Policy will formally apply for the three years beginning on the date of approval.

Guiding policy

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

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

Considerations when determining remuneration policy

As described in the Annual Statement, the Remuneration Committee (the 'Committee') undertook a review of the current Executive Directors' Remuneration Policy during the year to ensure that it is aligned with the business strategy and culture, reflects best practice expectations of investors and is appropriately positioned relative to the market.

The experience of Committee members and advice from independent experts have been relied upon in setting the remuneration packages for the Executive Directors and this Remuneration Policy. The Committee also engages pro-actively with the Company's major shareholders and in reviewing the Policy engaged with institutional shareholders as well as the leading shareholder advisory organisations, who were broadly positive about the changes we are proposing.

In line with other small to mid-sized companies, there is no works council and therefore there is currently no established process or platform to consult employees in relation to executive remuneration. The Company does hold an annual Employee Opinion Survey that is shared with the Board and the Committee is kept informed of pay and conditions applying to the general population across the Group. The Committee and indeed the Board are considering the appropriate method to facilitate more direct engagement with its workforce in light of the new UK Corporate Governance Code. Chloe Ponsonby has been appointed as the Non-Executive Director with designated responsibility and will report on the steps taken in future reports.

The Committee monitors the remuneration of the wider workforce and considers this, where appropriate, when setting Executive remuneration. As for the Executive Directors, general practice across the Group is to recruit employees at competitive market levels of remuneration, incentives and benefits to attract and retain employees, accounting for national and regional talent pools. When considering salary increases for Directors, the Company will be sensitive to pay and employment conditions across the wider workforce and the pension contribution for future Executive Director appointments will be consistent with that for the general workforce. All employees are able to earn annual bonuses for delivering exceptional performance, with corporate performance measures aligned to those set for the Executive Directors. All employees, including the Executive Directors, have the opportunity to participate in the tax-approved share incentive plans.

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

We set out below the changes proposed in the new Remuneration Policy below.

Changes to the Remuneration Policy

As outlined in the Chair's Annual Statement, the changes proposed are designed to (i) simplify our arrangements where possible, (ii) bring the Policy further into line with the best practice expectations of investors, (iii) ensure the Policy is appropriately flexible to operate effectively over the next three year period, (iv) ensure packages are sufficiently competitive and drive performance and (v) further strengthen the alignment between shareholders and Executives. In summary, the key proposed changes include:

- Moving away from the concept of fixing salaries for three years to an annual review; future increases in normal circumstances will be in-line with the level of the workforce
- Rebalancing the short- and long-term incentive opportunities by reducing the cap for the former from 150% to 100% of basic salary and increasing the cap for the latter from 100% to 150% of basic salary (with the current intention to make grants at 125%)

Remuneration Report continued

- Increasing the proportion of the bonus delivered with shares from 25% of bonus awarded based on the financial objectives to 25% of the whole of the bonus, with deferred shares subject to risk of forfeiture
- Extending post-vesting holding period provisions to all LTIP awards (previously this applied to exceptional awards only)
- Providing more flexibility to ensure the Committee can select the right performance measures and targets annually for the annual bonus and LTIP, taking account of the Company's evolving strategy and any other relevant factors, over the life of the three year Policy
- Extending the recovery and withholding provisions, which currently only apply to the annual bonus and only in circumstances where there has been a misstatement of the accounts, to cover both the bonus and LTIP in circumstances of misstatement, corporate failure, error in the calculation of awards or gross misconduct by the individual
- Removing the scope to make one-off retention bonuses, pay a joining incentive to new recruits and to make exceptional awards of 100% of basic salary under the LTIP
- Reducing the pension contribution for future appointments to be consistent with that for the general workforce

Policy table

Set out on the following pages is a summary of the main components of the proposed Remuneration Policy for Directors, together with further information on how these aspects of remuneration operate, subject to approval by shareholders at the 2019 AGM. The existing policy approved at the AGM on 26 January 2016 and set out in the 2015 Annual Report will remain in effect until shareholders approve the new Policy. The Remuneration Committee has discretion to amend remuneration and benefits to the extent described in the table and the written sections that follow it.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Basic Salary	To provide competitive fixed remuneration. To attract and retain Executive Directors of superior calibre in order to deliver growth for the business. Intended to reflect that paid to senior management of comparable companies. Reflects individual experience and role.	Normally reviewed annually by the Remuneration Committee. Individual salary adjustments take into account each Executive Director's performance against agreed challenging objectives and the Group's financial circumstances, with significant adjustments infrequent and normally reserved for material changes in role, a significant increase in the size/complexity of the Group, or where an individual has been appointed on a low salary with an intention to bring them to market levels over time and subject to performance.	No prescribed maximum or maximum increase. The normal approach will be to limit increases to the average level across the wider workforce, though increases above this level may be awarded subject to Committee discretion to take account of certain circumstances, as stated under 'Operation'. On recruitment or promotion, the Committee will consider previous remuneration and pay levels for comparable companies (for example, companies of a similar size and complexity, industry sector or location), when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Not applicable.
Benefits	As above.	Executive Directors are entitled to benefits such as medicals every two years, private health insurance and life assurance. Any reasonable business-related expenses (and any tax thereon) can be reimbursed if determined to be a taxable benefit. Executive Directors will be eligible to participate in any all-employee share plan operated by the Company, on the same terms as other eligible employees. For external and internal appointments or relocations, the Company may pay certain relocation and/or incidental expenses as appropriate. Executives will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms and additional benefits might be provided from time to time if the Committee decides payment of such benefits is appropriate and in line with emerging market practice.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not pre-determined. The maximum level of participation in all-employee share plans is subject to the limits imposed by the relevant tax authority from time to time.	Not applicable.
Pension	To reward sustained contribution by providing retirement benefits.	The Company funds contributions to a Director's pension as appropriate, through contribution to the Company's money purchase scheme or through the provision of salary supplements.	Company contribution up to 15% of salary. Future appointments will be in line with the general workforce contribution level at the time.	Not applicable.
Annual Bonus	Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives. Maximum bonus only payable for achieving demanding targets. Deferred element encourages long-term shareholding and discourages excessive risk taking.	Paid annually in cash, except 25% which is deferred into shares for two years. Not pensionable. Recovery and withholding provisions apply in cases of gross misconduct, corporate failure, error in calculation of award and if the financial results which led to the bonus being paid are restated due to an error within the subsequent two years. Dividends will be paid on deferred shares which vest.	Capped at 100% of salary.	The Committee will review performance measures and targets each year. Any payment is discretionary and will be subject to the achievement of stretching performance targets. Financial measures will normally determine at least 75% of the bonus opportunity.

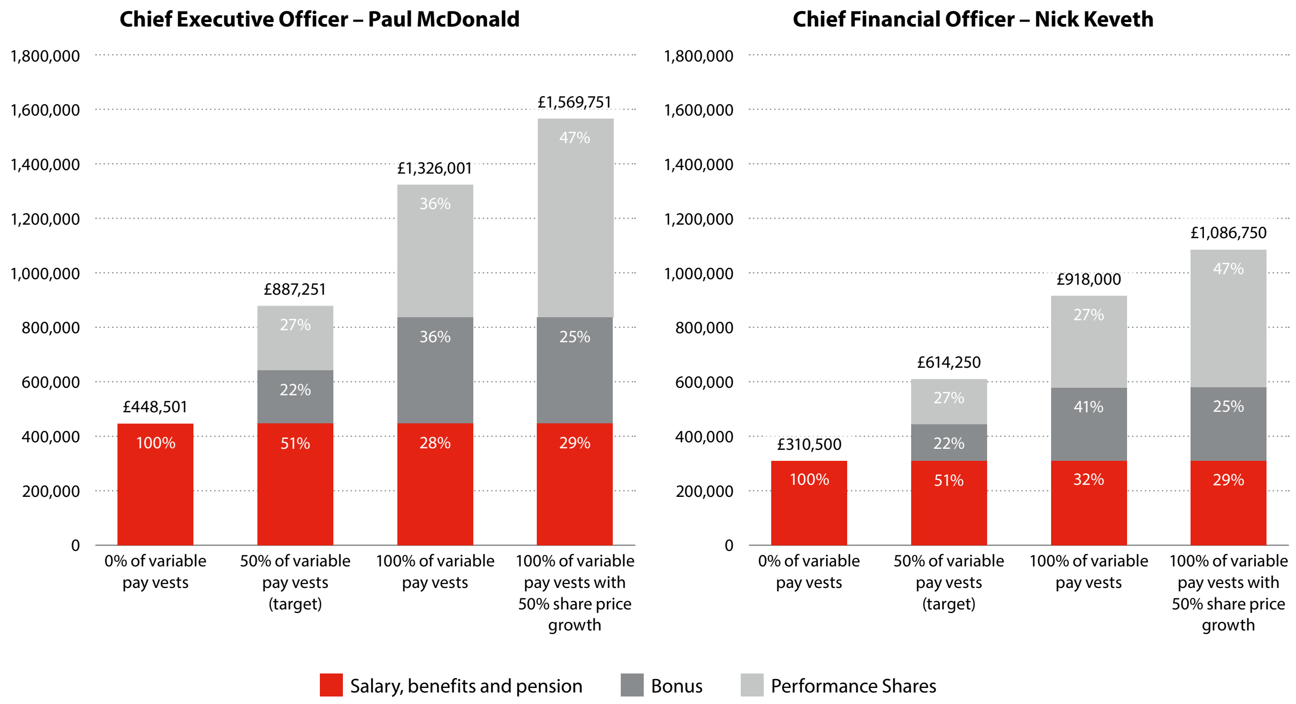
Remuneration Report continued

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value	Performance targets
Long Term Incentive Plan	Designed to align Executive Directors' interests with both the strategic objectives of delivering sustainable earnings growth and the interests of shareholders.	Annual grants of conditional share or nil-cost option awards which vest after a three year performance period, subject to achievement of performance targets and continued service. An additional two year holding period applies after the end of the three year vesting period. Recovery and withholding provisions apply in cases of gross misconduct, corporate failure, error in calculation of award and if the financial results which led to the bonus being paid are restated due to an error within the subsequent two years. Dividend equivalents may be paid on shares which vest.	Executive Directors may receive an award of up to 150% of basic salary per annum although the current intention is to grant 125%. Any such increase on an ongoing basis will be subject to prior consultation with major shareholders. 100% of awards vest for stretch performance, up to 20% of an award vests for threshold performance and no awards vest below this.	Current performance measures are relative TSR and EPS growth, each with a 50% weighting. The Committee may reweight the measures for each performance period. The Committee retains discretion to set alternative performance measures for future awards but will consult with major shareholders before making any changes to the currently applied measures. The Committee has discretion to reduce the number of shares which will vest or decide that no shares will vest if it considers that the underlying business performance of the Company or the performance of the participant does not justify vesting.
Share ownership guidelines	To increase alignment between Executives and shareholders.	Executive Directors are required to retain a proportion of their net of tax vested awards until the guideline is met.	Executive Directors are required to build up and maintain a shareholding worth 200% of salary (100% for other senior management).	Not applicable.
Chairman and Non-Executive Directors' fees and benefits	To provide compensation in line with the demands of the roles at a level that attracts high calibre individuals and reflects their experience and knowledge.	Base fee for Chairman and Non-Executive Directors. Normally reviewed annually. Additional fees are paid to Non- Executive Directors for additional responsibilities or services undertaken, such as chairing a Board Committee and/or fulfilling a Senior Independent role. The Company repays any reasonable expenses that a Non-Executive Director incurs in carrying out their duties as a Director, including travel, hospitality-related and other modest benefits and any tax liabilities thereon, if appropriate. If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.	No maximum fee or maximum fee increase. Fees are set taking into account internal benchmarks such as the salary increase for the general workforce and external benchmarks of fees paid by companies of a similar size and complexity.	Not applicable.

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

Illustration of the application of the Policy

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



Assumptions for charts above:

1) Salary levels are based on those applying from 1 October 2018. The pension cost is 15% of annual basic salary. Other benefits relate to private health insurance and executive medical.

2) The on-target level of bonus is 50% of the maximum opportunity, i.e. 50% of salary. The on-target level of vesting under the LTIP is taken to be 50% of the face value of the award at grant, i.e. 62.5% of salary.

3) The maximum level of bonus is 100% of the maximum opportunity, i.e. 100% of salary. The maximum level of vesting under the LTIP is taken to be 100% of the face value of the award at grant, i.e. 125% of salary.

4) Share price appreciation of 50% has been assumed for the LTIP awards under the final scenario (but excluded for the first three).

5) Amounts relating to all-employee share schemes have, for simplicity, been excluded from the charts.

Remuneration Report continued

Selection of performance measures and targets

Annual bonus

The Executives' annual bonus arrangements are focused on the achievement of the Company's short and medium-term financial objectives, selected to closely align the performance of the Executive Directors with the strategy of the Company's business and shareholder value creation. If personal performance targets are set, these will consist of non-financial personal targets which also support the delivery of the longer-term strategic milestones and non-financial KPIs relevant to each Director's responsibilities.

Before the start of each year, the Remuneration Committee confirms performance targets for the year. 'Target' performance is typically set in line with the budget for the year, following thorough debate and approval by the Board. Threshold to stretch targets are then set based on a sliding scale. Payout at stretch requires substantial outperformance, whilst only modest payouts are available for delivering threshold performance levels. Details of the measures used for the annual bonus are given in the Annual Report on Remuneration.

Long Term Incentive Plan

The aim of the Plan is to motivate Executive Directors and other senior executives to achieve performance superior to the Company's peers and to maintain and increase earnings levels whilst at the same time ensuring that it is not at the expense of longer-term shareholder returns. This is reflected in the Plan's performance conditions which for the first year of the new Policy will be based on TSR and EPS.

The current performance conditions remain appropriate for a growing business and the expectations of shareholders. The Committee will review the choice of performance measures and the appropriateness of the performance targets prior to each LTIP grant. Non-financial performance conditions are not considered appropriate at the current stage in the development of the Group, although this will be kept under review.

The TSR measure takes the total return received by the Company's shareholders in terms of share price growth and dividends over a three year period and compares it with the total returns received by shareholders in companies within a predetermined and appropriate comparator group. The Remuneration Committee's intention is to reward only TSR performance which outperforms the comparator group.

The EPS measure is based on growth in adjusted earnings per share over the performance period. The target range is a sliding scale set at the time of award taking account of internal and external forecasts, to encourage continuous improvement and incentivise the delivery of stretch performance. For the 2019 awards, the Committee will also assess the Group's ROCE when approving the vesting outcome under the EPS element of awards.

Legacy arrangements

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

Flexibility, discretion and judgement

The Committee will operate the Group's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include making awards and setting performance criteria each year, dealing with leavers, granting and/or settling an award in cash and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The Committee also retains discretion within the Policy to adjust the targets, set different measures and/or alter weightings between measures, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the LTIP to adjust targets to ensure that the awards fulfil their original purposes. All assessments of performance are ultimately subject to the Committee's judgement and discretion is retained to adjust payments in appropriate circumstances as outlined in this Policy.

Any discretion exercised (and the rationale) will be disclosed.

Approach to recruitment remuneration

New Executive Directors will be offered a basic salary in line with the Policy. Where the Committee has set the salary of a new appointment at a discount to the market level initially until proven, they may receive an uplift or a series of planned increases to bring the salary to the appropriate market position. For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

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

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

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

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

Executive Directors

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

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

The Group may pay outplacement and professional legal fees incurred by Executives in finalising their termination arrangements, where considered appropriate, and may pay any statutory entitlements or settle compromise claims in connection with a termination of employment, where considered in the best interests of the Company. Outstanding savings/shares under all-employee share plans would be transferred in accordance with the terms of the plans.

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

Under the LTIP, the default treatment is also that any outstanding awards will lapse, however the Committee has discretion to allow good leaver status on a case-by-case basis for which the default treatment is that awards will vest subject to the original performance condition and time proration. For added flexibility, the rules allow for the Committee to decide not to pro-rate in exceptional circumstances if it decides it is appropriate to do so, as well as a clean break when an Executive leaves. This permits vesting to be triggered at the point of leaving by reference to performance at that date, rather than waiting until the end of the performance period if the Committee so decides. On a change of control, any vesting of awards will normally be pro-rated by reference to time and performance.

Chairman and Non-Executive Directors

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

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

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

Other appointments

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

Remuneration Report continued

ANNUAL REPORT ON REMUNERATION

Role and composition of the Remuneration Committee

The Remuneration Committee is responsible for developing and implementing remuneration policy and for determining the Executive Directors' individual packages and terms of service together with those of the other members of the Group Executive management team. When setting the remuneration policy for Directors, the Committee reviews and has regard to the remuneration trends across the Group.

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

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

The Committee comprises Chloe Ponsonby, David Evans and Pim Vervaat. By invitation of the Committee, meetings are also attended by the CEO, CFO and the Company Secretary (who acts as secretary to the Committee), who are consulted on matters discussed by the Committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the Committee feels that such additional contributions will assist the decision-making process.

The Committee uses external independent professional advisers when needed. During 2018, the Committee was assisted in its work by external advisors, appointing Aon as its independent advisors, previously EY. Aon provided advice for the review and amendment of the Executive Directors' Remuneration Policy, including remuneration benchmarking of the reward packages received by the Executive Directors, assistance with the shareholder consultation process, implementation advice with respect to the new LTIP as well as more general advice on executive remuneration. Aon also provided annual performance monitoring data for review by the Committee in relation to the PSP. During the year to 30 September 2018 the Company incurred costs of £0.2m (2017: £nil) in respect of fees for Aon's services, charged on a time/cost basis. Aon are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice they received is objective and independent. The Company's solicitors, TLT LLP, provided advice on share plans in the year for which fees of £7,166 were incurred, charged on a time cost basis.

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

- Reviewed and amended the Remuneration Policy, consulting with major shareholders
- Reviewed and approved all remuneration packages paid to current Directors
- Approved the annual bonus payments to the Executive Directors in November 2017
- Approved the annual bonus plan for the Executive Directors for the 2018 financial year
- Reviewed and confirmed the vesting of the 2015 PSP awards granted in December 2014
- Reviewed and approved the 2018 PSP awards granted in December 2017 and monitored the performance of the outstanding awards against their performance targets

Since the end of the 2018 financial year, the Committee has:

- Approved annual bonus payments to the Executive Directors and the Group Executive management team, following completion of the external audit in November 2018
- Approved the rules for the new LTIP and made preparations for the 2019 LTIP awards to be granted after the 2019 AGM

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

Directors' remuneration for the year ended 30 September 2018 was as follows:

Single total figure of remuneration for Directors for the year ended 30 September 2018:

		Fixed Pay				Pay for performance			
	Year	Basic salary and fees £'000	Pension/other supplements £'000	Other Benefits £'000	Subtotal £'000	Annual Bonus £'000	PSP[3] £'000	Subtotal £'000	Total Remuneration £'000
Executive Directors									
Paul McDonald[1]	2018	314	47	1	362	255	187	442	804
	2017	261	33	1	295	181	208	389	684
Nick Keveth[2]	2018	233	35	1	269	194	–	194	463
	2017	77	12	–	89	48	–	48	137
Non–Executive Directors									
David Evans	2018	125	–	4	129	–	–	–	129
	2017	125	–	4	129	–	–	–	129
Pim Vervaat	2018	51	–	–	51	–	–	–	51
	2017	51	–	–	51	–	–	–	51
Chloe Ponsonby	2018	51	–	–	51	–	–	–	51
	2017	51	–	–	51	–	–	–	51
Total	2018	774	82	6	862	449	187	636	1,498
	2017	565	45	5	615	229	208	437	1052

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

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

3 The three year performance period for EPS in respect of these awards finished on 30 September 2017 but vesting was not determined until the end of November 2017, with TSR performance measured following the release of the Group results.

Basic salary

As detailed in last year's report, the salaries of Paul McDonald and Nick Keveth were set at £300,000 and £230,000 respectively on appointment, below the respective market reference levels of £330,000 and £240,000 previously established for their roles in 2013, with a view to increasing to the market level on the anniversary of their appointment upon proving themselves in their roles. As such, their salaries were increased in the year to £330,000 and £240,000 respectively. However, as explained in the Chair's Annual Statement, the Committee believe it is now appropriate to reposition the salaries, particularly since the Group is now significantly more complex, profitable and cash generative than when previously set and as the variable pay opportunity is being reduced from 250% of salary (350% exceptionally) to 225% of salary. The Committee therefore intends to undertake a one-off repositioning of their salaries, as set out below:

	2018	2019	% Increase
Paul McDonald	£330,000	£390,000	+18.2
Nick Keveth	£240,000	£270,000	+12.5

Subject to the approval of the new Policy, these changes will be effective from 1 October 2018.

Remuneration Report continued

Non-Executive Director Fees

The fees of Non-Executive Directors were reviewed and benchmarked in 2017 which concluded that current fees remained appropriate and therefore no increases were made for 2018. In order to align with the Executive Directors, the Non-Executive Director fees were again benchmarked during the year. For 2019 it was decided that the Chairman's fee would increase to £140,000 and an additional fee would be paid to the Senior Independent Director. The Committee attendance fee would be included within the Non-Executive Director fee, all changes to be effective from 1 October 2018, subject to the approval of the new Policy.

Current fees for Non-Executive Director fees are:

	2018	2019	% Increase
Chairman	£125,000	£140,000	+12%
Non-Executive Director	£38,500	£40,500*	+5.2%
Committee Chairman	£10,000	£10,000	–
Committee attendance	£2,000	–	+100%
Senior Independent Director	–	£5,000	–100%

* Includes Committee attendance fee, previously separated out.

Benefits and pension

These will be paid and provided in accordance with the approved Policy. Benefits include the cost of private health insurance and executive medical. No Director waived emoluments in respect of the year ended 30 September 2018 (2017: £nil). For 2019 benefits will be in line with those received in 2018. All employees including the Executive Directors are entitled to life insurance which pays out a lump sum of six times salary on death.

As confirmed under the Policy, the Executive Directors are currently entitled to receive a contribution towards pension of 15% of basic salary, paid either as a non-pensionable salary supplement or delivered though the Group's money purchase scheme. Under the Company's money purchase scheme, members receive a pension based upon the size of their retirement account on retirement from age 65.

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

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

The employer pension contribution is shown in the table below.

Executive Director	Salary supplement £'000	Contribution into the Plan £'000
Paul McDonald	42	5
Nick Keveth	35	–

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

Annual bonus

The Remuneration Committee determined at its meeting on 8 November 2018 that certain criteria for making an award under the annual bonus scheme had been met. No discretion was exercised by the Committee to reduce or increase payments. The breakdown is as follows:

						Paul McDonald		Nick Keveth	
						CEO		CFO	
	Threshold (0% payable)	Target (50% payable)	Stretch (100% payable)	Actual/ Reported	Applied	Bonus payable	Max	Bonus payable	Max
1. Financial Targets									
(a) Group profit budget achievement (Group PBITE)	£25.3m	£28.1m	£30.9m	£28.0m	48%	12%	25%	12%	25%
Less than 90% of budget pays nothing. Bonus is earned from 90% of budget pro-rata up to 110% of budget on a straight line basis. Measured (for foreign exchange translation) at budget exchange rates									
(b) Profit growth on previous year (year on year PBITE growth)	£26.1m	£27.4m	£28.7m	£28.5m	92%	23%	25%	23%	25%
Bonus will be earned for growth on the previous year between 0% and 10% on a straight line basis. Measured (for foreign exchange translation) at prior year exchange rates (i.e. constant currency measure).									
(c) Group cash generation (ratio of operating cash flow to operating profit)	80%	90%	100%	139.9%	100%	20%	20%	20%	20%
As reported in the Annual Report and Accounts each year. Pays on a straight line basis where the ratio exceeds 80% up to a maximum of 100%. Excludes exceptional items and other adjustments from both measures.									
2. Personal Performance Targets									
See below						25%	30%	28%	30%
Based on an individual reviewer's assessment of personal performance against personal performance targets set at the beginning of the financial year.									
Total bonus 2018 as a percentage of basic salary						80%	100%	83%	100%

Detail of achievement against personal objectives for the year ended 30 September 2018

The personal objectives for the Executive Directors are set out in the table below

Paul McDonald	Nick Keveth
Personal objectives related to:	**Personal objectives related to:**
• Developing the Military business strategy and organisation • Creating and maintaining dialogue with potential acquisition targets • Continuing the review of key executive positions and refining succession planning • Reviewing and refreshing the current investor relations strategy and holding a capital markets day	• Re-engineering the strategic planning and forecasting process • Overhauling the management reporting • Supporting the Chief Executive Officer in reviewing and refreshing the current investor relations strategy and holding a capital markets day • Defining a pension liability management strategy.

The Committee was pleased with the significant progress and outcomes achieved during the year by both Paul and Nick regarding their personal objectives and assessed that a payout of 83% for Paul McDonald and 93% for Nick Keveth in relation to their personal objectives was warranted.

Remuneration Report continued

In accordance with the Policy in force in the year, of the bonus payable for meeting the financial targets, 75% will be paid in cash and the remaining 25% will be deferred into shares to be held for two years.

For the year ending 30 September 2019, the maximum opportunity under the annual bonus plan will be 100% of base salary for both Executive Directors. 25% of the total bonus payment will now be deferred into shares for two years.

Bonuses will be based on Group revenue growth on previous year (20%), operating profit growth on previous year (40%) and Group cash conversion (40%), with 20% of the maximum bonus payable at threshold levels of performance and 50% for on-target performance.

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

Performance Share Plan

The Committee determined in November 2017 that 99% of the 2015 award granted on 1 December 2014 vested on the basis of TSR and EPS performance over the three years from 1 October 2014 to 30 September 2017. The Company's TSR of 61.6% compared to the upper quartile of the comparator group at 63%. The Company's EPS growth was 95% compared to the threshold and maximum targets of 16% and 34% (RPI +3% to RPI +8%) respectively. The Committee considers that the financial performance of the Company and Paul McDonald's performance fully justifies this level of vesting.

As a consequence, and as announced to shareholders in November 2017, 16,221 shares were awarded to Paul McDonald, which at the market share price on the day of vesting of 11.50p were worth £186,542. The amount of this figure attributable to share price appreciation is £67,751. The Committee did not consider it necessary to apply any discretion to adjust the outcome for these awards.

The Directors' contingent interests in ordinary shares under the Plan at 30 September 2018 were as follows:

	30 September 2017	Granted in the year*	Exercised in the year	Lapsed in the year	30 September 2018**
Paul McDonald	42,161	26,511	(16,221)	(219)	52,232
Nick Keveth	–	20,325	–	–	20,325
Other senior employees***	370,920	127,511	(138,419)	(5,407)	354,605

* The award price at the date of grant (6 December 2017) was 1132 pence based which was the average price of the Company's shares over the five days following announcement of the Company's annual results for the year ended 30 September 2017 and which was used make face value awards of nil-cost options at 100% of salary.

** The weighted average remaining life of the awards outstanding at the year end is 1.6 years (2017: 1.2 years).

*** This figure includes 107,747 (2017: 129,310) in respect of key management as defined in note 6.1 of the financial statements.

Outstanding awards granted annually under the Plan were as follows:

	2016	2017	2018	Total*
Paul McDonald[1]	10,912	14,809	26,511	52,232
Nick Keveth[2]	–	–	20,325	20,325
Other senior employees	97,026	130,068	127,511	354,605
	107,938	144,877	174,347	427,162

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

2 Nick Keveth was appointed as a Director on 1 June 2017.

* In relation to the awards outstanding at 30 September 2018, deferred loan payments for the awards granted in 2016, 2017 and 2018 will become due to the Company as follows: Paul McDonald £5,839.79, Nick Keveth nil.

The award price for the 2018 awards was 1132 pence, for the 2017 awards it was 1053 pence and for the 2016 awards it was 1085 pence.

PSP performance conditions

PSP	30 September 2017	30 September 2018	30 September 2019	30 September 2020
Performance Period years ending	(Cycle G)	(Cycle H)[3]	(Cycle I)[4]	(Cycle J)[4]
TSR element[1]	50%	50%	50%	50%
EPS element[2]	50%	50%	50%	50%
Total exercisable rate (% grant)	100%	100%	100%	100%

1 Based on Avon Rubber p.l.c.'s TSR ranked relative to companies in the FTSE SmallCap Index at the start of the period. For awards after 1 October 2015 the FTSE All-Share index (excluding investment trusts) is used. Over the three year period the Company's TSR performance is compared with a scale which provides for 25% vesting if TSR is equal to median of the comparator group and maximum vesting if TSR is equal to, or exceeds, the upper quartile, with vesting on a pro-rata basis for performance between these two figures (and nil vesting below median).

2 For the EPS measure, adjusted earnings per share over the performance period are compared with a scale which provides for nil vesting at RPI +3% and maximum vesting at RPI +8%, with vesting on a pro-rata basis for performance between these two figures. For all awards from 1 October 2015, the Committee amended the calculation of the EPS performance condition to CPI instead of RPI.

3 The three year performance period for EPS in respect of these awards is complete but vesting is not determined until the end of November 2018, with TSR performance measured following the release of the Group results.

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

2019 Long Term Incentive Plan Awards

The Remuneration Committee has decided that the 2019 LTIP awards will take the form of nil-cost options with a market value at grant of 125% of salary for the Executive Directors. Vesting will be subject to the following performance conditions over three years to 30 September 2021:

- 50% will be based on relative TSR performance with 20% vesting at median increasing to 100% for upper quartile performance. The comparator group will be the FTSE All-Share index (excluding investment trusts)
- 50% will be based on EPS growth. EPS growth will be compared on a scale which provides for nil vesting at 5% and maximum vesting at 10%, with vesting on a pro-rata basis between these two figures. In addition, the Committee must be satisfied with the level of ROCE performance during the period taking account of a range of factors. If the Committee is not satisfied with the level of ROCE performance it may reduce (potentially to zero) the outturn against the performance measure

Given the increased grant quantum, the performance conditions have been reviewed to ensure they remain stretching. In doing so the Committee has reviewed, amongst other things, the impact on EPS of the expected normalisation, during the performance period, of the Group's effective rate of corporate tax. It was agreed that the threshold level of vesting under the TSR element be reduced to 20% from 25%.

Subject to approval of the new Policy, any shares which vest from this award will be subject to a compulsory two year post-vesting holding period.

Remuneration Report continued

Directors' shareholdings and share interests and position under shareholding guidelines

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

	At the beginning of the year	At the end of the year	Actual value** £'000	Target value*** £'000	Achievement ****	Shares held voluntarily in excess of guideline Number of shares
Paul McDonald	26,531*	28,346	366	780	110%	–
Nick Keveth	4,260	11,581	149	540	62%	–
David Evans	40,000	25,000	387	n/a	n/a	n/a
Pim Vervaat	2,000	3,000	39	n/a	n/a	n/a
Chloe Ponsonby	2,000	3,400	44	n/a	n/a	n/a

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

** Using the closing share price on 30 September 2018 of 12.90 pence.

*** 200% of current salary for Executive Directors. Salaries used are those effective 1 October 2018.

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

Interests in jointly owned shares held by the Executive Directors under the PSP are excluded from the above.

The only change in the interests set out above between 30 September 2018 and 14 November 2018 were the additional 23 shares bought by Nick Keveth under the Share Incentive Plan, which increased his total shareholding to 11,604.

Dilution

The Company reviews the awards of shares made under the all employee and executive share plans in terms of their effect on dilution limits in any rolling 10 year period. In respect of the 5% and 10% limits recommended by the Investment Association, the relevant percentages were 7.73% and 7.73% respectively based on the issued share capital at 30 September 2018 and no change to this is proposed. In 2011 shareholders approved a 15% dilution limit for all employee schemes which is in excess of the 10% recommended by the Investment Association, and a 10% dilution limit for discretionary (executive) schemes which is in excess of the 5% recommended by the Investment Association. At the time the Company committed to consult with certain institutional shareholders before exceeding the 10% limit but has never had cause to do this and has no plans to exceed 10% in future. In practice there is therefore a 10% dilution limit on all schemes which the Company will continue to operate within.

It remains the Company's practice to use Employee Share Ownership Trusts ('ESOTs') in order to meet its liability for shares awarded under the LTIP. Two trusts have been established in connection with the jointly owned equity awards. At 30 September 2018 there were 499,264 shares held in the ESOTs which will either be used to satisfy awards granted under the PSP to date, or in connection with future awards. A hedging committee ensures that the ESOTs hold sufficient shares to satisfy existing and future awards made under the PSP and LTIP by buying shares in the market or causing the Company to issue new shares. Shares held in the ESOTs do not receive dividends.

As at 30 September 2018, the market price of Avon Rubber p.l.c. shares was £12.90 (2017: £9.40). During the year the highest and lowest market prices were £9.27 and £14.75 respectively.

Share incentive plan

The Company currently operates the Avon Rubber p.l.c. Share Incentive Plan (the 'SIP'), approved by shareholders at the AGM in February 2012. All UK tax resident employees of the Company and its subsidiaries are entitled to participate. Under the SIP, participants purchase shares in the Company monthly using deductions from their pre-tax pay. Paul McDonald is not a member of the SIP. Nick Keveth is a member and as at 30 September 2018 had purchased 145 shares through this scheme. The maximum contribution each month under the SIP is currently £150, a sum which is set by the Government. Nick Keveth has participated in the SIP at the maximum level since July 2017.

Payments to past Directors and payments for loss of office

The Committee's approach when exercising its discretion under the Policy is to be mindful of the particular circumstance of the departure and the contribution the individual made to the Group. There were no payments for loss of office during the year and the payments made to Rob Rennie as a past director were as set out in last year's report.

Service contracts and letters of appointment (unaudited)

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

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

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

	Date of initial appointment	Date of last re-election
David Evans	1 June 2007	1 February 2018
Chloe Ponsonby	1 March 2016	2 February 2017
Pim Vervaat	1 March 2015	26 January 2016

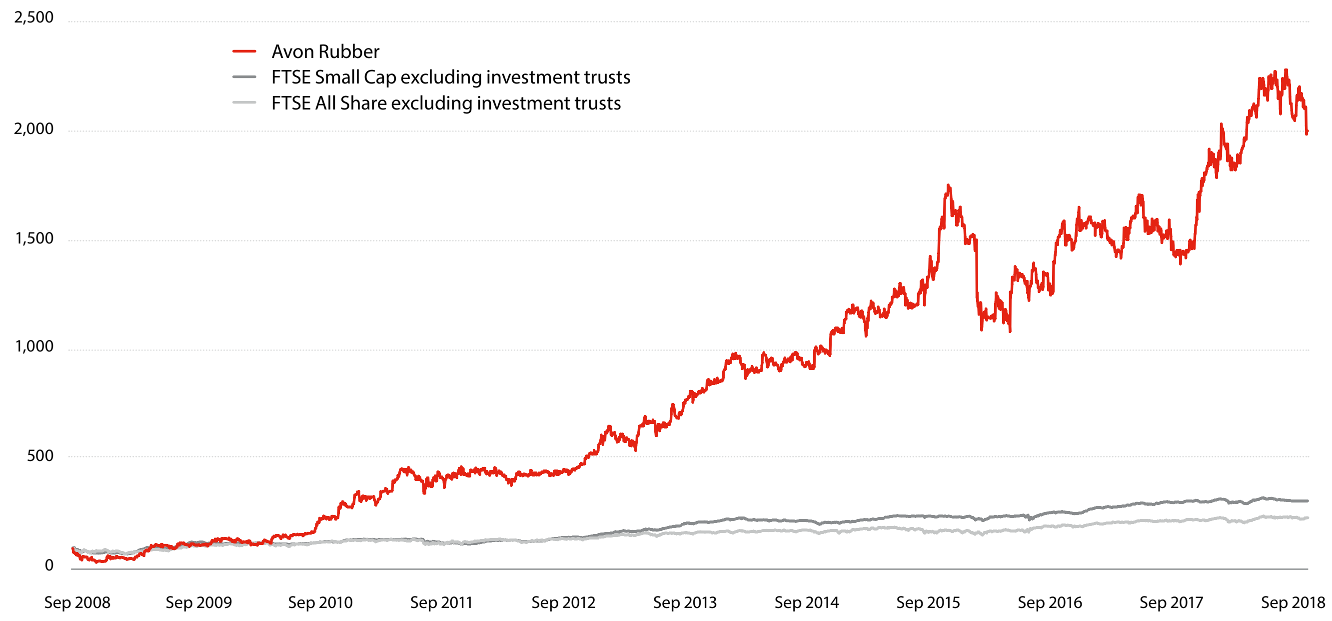
All service contracts and letters of appointment are available for inspection at the Company's registered office.

Other appointments (unaudited)

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

Total shareholder return performance graph (unaudited)

The following graph illustrates the total return, in terms of share price growth and dividends on a notional investment of £100 in the Company over the last 10 years relative to the FTSE SmallCap Index (excluding investment trusts) and the FTSE All Share Index (excluding investment trusts). These indices were chosen by the Remuneration Committee as a competitive indicator of general UK market performance for companies of a similar size.



Remuneration Report continued

Chief Executive Officer's remuneration (unaudited)

The total remuneration figures, including annual bonus and vested PSP awards (shown as a percentage of the maximum that could have been achieved) for the Chief Executive Officer for each of the last 11 financial years are shown in the table below.

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

Year	CEO	CEO single figure of total remuneration £'000	Annual bonus pay out against maximum opportunity	Long-term incentive vesting rates
2018	Paul McDonald	804	80%	99%
2017	Paul McDonald	684 [1]	81%	100%
2017	Rob Rennie	213	57%	–
2016	Rob Rennie	484	52%	–
2015	Peter Slabbert	1,435	91%	96%
2014	Peter Slabbert	1,538	91%	100%
2013	Peter Slabbert	1,374	86%	100%
2012	Peter Slabbert	1,864	40%	100%
2011	Peter Slabbert	404	74%	nil
2010	Peter Slabbert	395	90%	nil
2009	Peter Slabbert	366	91%	nil

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

Percentage change in remuneration of the CEO compared with other employees (unaudited)

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

	CEO			All employees		
	2016	2017	2018	2016	2017	2018
Salary	-9%	0%	+18.2%	+2%	+2%	+2.5%
Benefits	0%	0%	0%	0%	0%	0%
Annual Bonus	-61%	+4%	+41%	-51%	+109%	+77.2%

We note that requirements for CEO pay ratio disclosures from 2020 have been published. We will be seeking to comply with these in due course but have decided not to publish a ratio this year whilst we prepare for the new requirements.

Relative importance of spend on pay (unaudited)

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

	Global remuneration spend	Other expenditure as a percentage of global remuneration spend							
		Dividends to shareholders		Profit retained		Research and development expenditure		Expenditure on property, plant and machinery	
	£'000	£'000	%	£'000	%	£'000	%	£'000	%
2018	44,616	4,136	9.3%	17,297	38.8%	9,692	21.7%	3,494	7.8%
2017	43,673	3,176	7.3%	18,311	41.9%	8,394	19.2%	2,644	6.1%
2016	38,211	2,430	6.4%	15,849	41.5%	8,341	21.8%	3,689	9.7%

Statement of shareholder voting on the remuneration report (unaudited)

The shareholder vote on the Remuneration Report for the year ended 30 September 2017 at the AGM which took place on 1 February 2018 was as follows:

Resolution	Votes For (including discretionary)	% For	Votes Against (excluding withheld)	% Against	Total (excluding withheld and third party discretionary)	Withheld
Approval of Remuneration Report	19,134,112	96.97	598,550	3.03	19,732,662	1,729,130

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

Chloe Ponsonby
Chair of the Remuneration Committee

14 November 2018

Directors' Report

The Directors submit the Annual Report and audited financial statements of Avon Rubber p.l.c. ('the Company') and the Avon Rubber group of companies, ('the Group') for the year ended 30 September 2018. The Company is a public limited company incorporated and domiciled in England and Wales with company registration number 32965. The Company's subsidiary undertakings, including those located outside the UK, are listed in note 7.4 to the financial statements.

Strategic Report

The Strategic Report, which contains a review of the Group's business (including by reference to key performance indicators), a description of the principal risks and uncertainties facing the Group, and commentary on likely future developments is set out on pages 34 to 37 and is incorporated into this Directors' Report by reference.

Financial results and dividend

The Group statutory profit for the year after taxation amounts to £21.4m (2017: £21.5m). Full details are set out in the Consolidated Statement of Comprehensive Income on page 92.

An interim dividend of 5.34p per share was paid in respect of the year ended 30 September 2018 (2017: 4.11p).

The Directors recommend a final dividend of 10.68p per share (2017: 8.21p) resulting in a total dividend distribution per share for the year to 30 September 2018 of 16.02p (2017: 12.32p).

Share capital

As at 14 November 2018, the issued share capital of the Company was 31,023,292 ordinary shares of £1 each. Details of the shares in issue during the financial year are set out in note 5.5 of the financial statements.

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

The 499,264 shares held in the names of the two Employee Share Ownership Trusts on a jointly owned basis or as a hedge against awards previously made or to be made pursuant to the Performance Share Plan are held on terms which provide voting rights to the Trustee and, in certain circumstances under the terms of joint ownership awards, to the recipient of the awards.

During the year the trust acquired 100,000 shares (2017: 100,000) at a cost of £1.1m (2017: £1.0m).

154,641 (2017: 247,099) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

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

At the Company's last AGM held on 1 February 2018, shareholders authorised the Company to make market purchases of up to 3,102,329 of the Company's issued ordinary shares. No shares were purchased under this authority during the year. A resolution will be put to shareholders at the forthcoming AGM to renew this authority.

The Directors require authority to allot unissued share capital of the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2018 AGM and resolutions to renew these authorities will be proposed at the 2019 AGM, see explanatory notes on pages 141 to 143. No shares were allotted under this authority during the year.

Substantial shareholdings

As at 30 October 2018, the following shareholders held 3% or more of the Company's issued share capital.

Capital Group Co's Inc	8.12%
Schroder Investment Management	6.22%
JPMorgan Asset Management (UK)	5.88%
Kempen Capital Management	5.64%
BlackRock Investment Management	5.19%
Threadneedle Asset Management	5.01%
Janus Henderson Investors	4.16%
Hargreave Hale & Co	3.42%
Fidelity Management & Research	3.11%

Significant agreements – change of control

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

- the Company's revolving credit facility agreement
- the Performance Share Plan / proposed Long Term Incentive Plan ('the Plans')

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

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

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

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

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

Directors

There were no changes to the Board of Directors during 2018. The Directors of the Company who were in office during the year and up to 14 November 2018 are set out on pages 46 and 47 along with their photographs and biographies.

According to the Articles of Association, all Directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years. In line with best practice reflected in the UK Corporate Governance Code, however, all current Directors will be standing for reappointment at the forthcoming AGM to be held on 31 January 2019. The remuneration of the Directors including their respective shareholdings in the Company is set out in the Remuneration Report on pages 59 to 79.

The Company's rules about the appointment and replacement of Directors, together with the powers of Directors, are contained in the Articles. Changes to the Articles must be approved by special resolution of the shareholders. An amendment to the Articles will be put before shareholders for approval at the 2019 AGM, details of which are set out in the Notice of AGM on pages 139 to 148.

Directors' and officers' indemnity insurance

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

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

Directors' Report continued

Conflicts of interest

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

Research and development

The Group continues to utilise its technical and materials expertise to further advance its products and remain at the forefront of technology in the fields of respiratory protection, dairy milking technology and polymer engineering. The Group maintains its links to key universities in the US and UK and continues to work with new and existing customers and suppliers to develop its knowledge and product range. Total Group expenditure on research and development in the year was £9.7m (2017: £8.3m) further details of which are contained in the Strategic Report on page 32.

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

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 48 to 52. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Environmental and corporate social responsibility

Matters relating to Environmental and Corporate Social Responsibility including reference to our policy on diversity are set out on pages 38 to 43.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Environment and Corporate Social Responsibility Report on page 39.

Political and charitable contributions

No political contributions were made during the year or the prior year. Contributions for charitable purposes amounted to £39,098 (2017: £10,915) consisting exclusively of numerous small donations to various community charities in Wiltshire, Albinea, Maryland, Michigan and Wisconsin.

Post balance sheet events

On October 26, 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that pension scheme benefits should be amended to equalise guaranteed minimum pension benefits for men and women. We are working with our actuarial advisers, to understand the extent to which the judgment crystallises any additional liabilities for the Group's UK defined benefit pension scheme. We are early in the evaluation process, but we estimate that the additional liability could be in the region of £3m. Subsequent to further assessment with our advisors, any necessary adjustment is expected to be recognised in the first half of our 2019 financial year.

Financial instruments

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

Independent auditors

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

Auditor

PwC will not be standing for reappointment at the 2019 AGM and 2018 will be the last year that PwC will carry out the external audit. Following completion of a tender process during the year, the Board is recommending the appointment of KPMG LLP as auditor and a resolution concerning their appointment is being put to the 2019 AGM. A separate resolution will also be put to the AGM authorising the Board to agree the auditor's remuneration.

Annual General Meeting

The Company's Annual General Meeting will be held at our Hampton Park West facility, Semington Road, Melksham, Wiltshire SN12 6NB on 31 January 2019 at 10.30am. Registration will be from 10.00am. The Notice of the AGM and an explanation of the resolutions to be put to the meeting are set out in the Notice of Meeting and can be found on pages 139 to 148.

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Parent Company and of the profit or loss of the group and Parent Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and Parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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

Directors' confirmations

Each of the Directors, whose names and functions are listed on pages 46 and 47, confirms that to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report/Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors' Report and responsibility statement was approved by the Board of Directors on 14 November 2018 and is signed on its behalf by:

Paul McDonald
Chief Executive Officer

14 November 2018

Financial Statements

AVON PROTECTION

NIOSH Approval of powered air Range

"After five years of development, working alongside the end-user community, Avon has produced the next generation of modular powered CBRN respiratory protection. With their NIOSH CBRN approval, these products now provide the wearer with lighter, modular and fully integrated solutions. In addition, the ability for customers to configure systems depending on operational needs dramatically lowers their ownership and maintenance costs."

Avon Protection has received NIOSH CBRN approval on its AvonAir™ modular powered air range. The EZAir, MP-PAPR and CS-PAPR usher in a new era of multipurpose and adaptable respiratory protection.

The single filter EZAir is the smallest and lightest CBRN breathe assist device available with cost of ownership per use at nearly half that of PAPRs. The low profile MP-PAPR provides supreme user comfort through its unique flexible construction and hydration integration capability. The market leading in-mission response flexibility of the CS-PAPR provides the tools necessary to keep pace with rapidly changing threats. These three modular CBRN hardened systems provide the level of protection needed to meet ever-changing mission demands.

An intelligent CBRN blower with its flow control technology and alarm systems is used in all AvonAir systems. The modularity even extends as far as the mask and filters with owners of Avon masks able to connect to their new powered air system and meet NIOSH CBRN requirements using the Avon CBRN canister.

The patented design approach delivers maximum operational flexibility – interchangeable performance modules allow for multiple protection level configurations that can be rapidly assembled to accommodate changing threats. With reduced breathing burden and greater integration with legacy equipment, enhanced protection against toxic industrial chemicals, ease of weapon sighting, and integrated communications, the AvonAir™ range enables the wearer to stay comfortable and effective in physically taxing scenarios.

Financial Statements

Other Information

Independent Auditors' Report

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Avon Rubber p.l.c.'s Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Consolidated and Parent Company Balance Sheets as at 30 September 2018; the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement, and the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

BASIS FOR OPINION

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

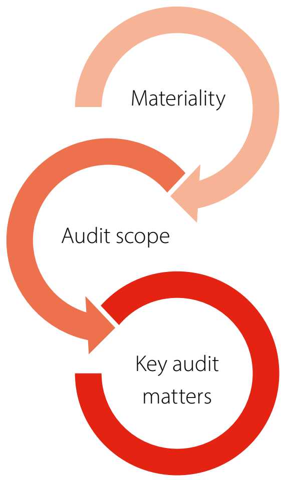
Independence

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

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

We have provided no non-audit services to the Group or the Parent Company in the period from 1 October 2017 to 30 September 2018.

OUR AUDIT APPROACH



Overview

- Overall Group materiality: £1.1m (2017: £0.9m), based on 5% of profit before tax
- Overall Parent Company materiality: £1.0m (2017: £0.7m), based on 1% of total assets

- The UK audit team performed an audit of the complete financial information of the two main operating units in the USA (Avon Protection NA and milkrite|InterPuls NA) and the two main operating units in the UK (Avon Polymer Products Ltd (comprising of Avon Protection UK and milkrite|InterPuls Europe)) and Avon Rubber p.l.c.
- Taken together, these four reporting units account for 90% of Group revenue and in excess of 85% of the total Group profit before tax
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions at the remaining six reporting units

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and parent company financial statements, including, but not limited to, IFRS, the Companies Act 2006 and the Listing Rules. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Provisions for uncertain tax positions (Group)	
As noted in the significant accounting judgements and estimates section on page 101, and included within note 2.6, there are a number of significant judgements involved in the determination of taxation balances. The Group also has material uncertain taxation positions resulting from the interpretation of the impact of the application of tax regulations in certain jurisdictions. Management have applied judgement in estimating the magnitude of the risk and probability of a future outflow in each case to derive the level of provisions held. In total the provision for uncertain tax provisions was £5.8m at 30 September 2018. Given the number of judgements involved and the complexities of dealing with taxation rules and regulations in different countries and states within the US, this was an area of focus for us.	We assessed the adequacy of the level of provision established in relation to a number of uncertain taxation positions primarily in respect of risks in the US. The judgements made by management took account of the level and nature of the risks giving rise to the uncertain tax positions, together with advice from their external advisors and management's assessment of the likely outcome. We evaluated the competence of management's experts. We considered the judgements made by management to be reasonable based on our understanding of the relevant tax regulations. We also obtained the filing positions for each jurisdiction which we read, considered in light of our understanding of the business and reconciled to the underlying taxation calculations used to prepare the taxation balances in the financial statements, noting no material differences. We also obtained and reviewed correspondence with the relevant tax authorities, noting no circumstances not factored into management's assessment of the likely outcome.

Independent Auditors' Report continued

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

Key audit matter	How our audit addressed the key audit matter
Valuation of the Group's net pension deficit (Group)	
We focused on this area because of the magnitude of the defined benefit pension deficit of £30.5m and the material judgements involved in determining the actuarial assumptions which are set out in note 6.2. The net pension deficit is subject to the Directors' judgements regarding the selection of appropriate actuarial assumptions based on the nature of the scheme, including the discount rate, inflation rate and mortality rate, being the assumptions to which the deficit is most sensitive A change in each of these assumptions by 0.25% can cause a material change in the value of the underlying pension deficit (as highlighted on page 125). The Directors employed an independent actuary to assist them with the valuation of the deficit.	We used our actuarial experts to assess the methodology adopted by the Directors and their actuary to determine the net pension deficit. We concluded that the requirements of IAS 19 'Employee benefits' had been applied. We also used our actuarial experts to assess the reasonableness of the key actuarial assumptions selected, by comparing these to our own independent benchmark ranges based on our assessment of current market conditions and available actuarial data. We noted that the discount rate, inflation rate and mortality rate were within our acceptable range. We considered the competence and objectivity of the Directors' independent actuary including the experience and reputation of the firm together with the length of service. We were satisfied that the actuary was competent and objective. We evaluated whether the Directors' judgements and assumptions had been made on a consistent basis including in comparison to prior financial years. We also assessed the actuary's valuation by obtaining supporting evidence for each of the key inputs into the overall pension deficit calculation including independently agreeing changes in membership census data to pension scheme records and agreeing the scheme asset values to independent sources, such as fund manager confirmations and/or quoted market prices where available, noting no exceptions. We reviewed the disclosure of the High Court judgement over the equalisation of pension benefits for men and women in defined benefit pension schemes as a post balance sheet event and agreed the potential liability to correspondence from the directors' independent actuary.
Risk of fraud in revenue recognition (Group)	
We focused on this area as judgements are made by the Directors in determining whether provisions should be made against revenue on certain contractual arrangements in the US Avon Protection business. The Directors made an estimate of amounts which could be due back to customers reflecting the risks inherent within the performance of the contracts over a number of years.	We obtained the calculations of contractual revenue provisions and evaluated the Directors' assessment of the risk of claw back based on our independent reading of the relevant contractual terms and the revenue recognised. In doing so, we concluded that the Group recognised revenue in line with their contractual obligations and their revenue recognition accounting policy.
Intangible assets (development expenditure) impairment assessment (Group)	
We focused on this area because of the magnitude of capitalised development expenditure of £18.7m and the risk that amounts may not be recoverable if estimated future sales orders cannot be delivered or regulatory approvals are not obtained. This risk is set out in the significant accounting judgments and estimates on page 101 and the amounts capitalised are included in note 3.1. In particular we focused on the capitalised development costs relating to the PAPR, Deltair, Magnum, MCM100 and General Service Respirator Avon Protection products, given the amounts held in the balance sheet and the stage of their development. These products are described on page 15.	We tested a sample of capitalised development costs against the criteria set out in IAS38 'Intangible assets' including the technical feasibility and the viability of the completion of the projects and the ability for the projects to generate future economic benefits and gain necessary regulatory approvals. We met with key operational personnel to update our understanding of the status of major projects and assessed the process and governance which have been put in place around project approval, authorisation and ongoing monitoring. We considered that these processes were appropriate. We assessed individually each of the major projects for indicators of impairment, such as an inability to obtain regulatory approval or not achieving forecast sales orders. As a result of our work we determined that it was reasonable that no impairment was required for PAPR, Deltair, Magnum, MCM100, General Service Respirator or other major development projects.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

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

Taken together, these four operating units where we performed audit work accounted for approximately 90% of Group revenues and in excess of 85% of Group profit before taxation.

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

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£1.1m (2017: £0.9m).	£1.0m (2017: £0.7m).
How we determined it	5% of profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	We believe that total assets is the most suitable measure as the parent entity is not a trading company, and is a generally accepted auditing benchmark. Overall materiality applied is limited to £1m, which is lower than 1% of total assets, due to being restricted for Group reporting for the purposes of the audit of the consolidated financial statements of the Group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.7m and £1.0m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.06m (Group audit) (2017: £0.05m) and £0.06m (Parent company audit) (2017: £0.04m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent Auditors' Report continued

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

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 50 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 52 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 83, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.
- The section of the Annual Report on page 54 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 83, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

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

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

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the members prior to 1955 which is as far back as records have been located, and therefore the length of uninterrupted engagement is at least 63 years.

Colin Bates (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Bristol

14 November 2018

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2018

	Note	2018 Adjusted £m	2018 Adjustments* £m	2018 Total £m	2017 Adjusted (restated)** £m	2017 Adjustments* £m	2017 Total (restated)** £m
Continuing operations							
Revenue	2.1	165.5	–	165.5	159.2	–	159.2
Cost of sales		(99.9)	–	(99.9)	(97.6)	–	(97.6)
Gross profit		65.6	–	65.6	61.6	–	61.6
Selling and distribution costs		(20.3)	–	(20.3)	(19.9)	–	(19.9)
General and administrative expenses		(18.0)	(4.5)	(22.5)	(15.6)	(6.0)	(21.6)
Operating profit	2.1	27.3	(4.5)	22.8	26.1	(6.0)	20.1
Operating profit is analysed as:							
Before depreciation and amortisation		35.3	(1.4)	33.9	35.7	(0.1)	35.6
Depreciation and amortisation	3.1, 3.2	(8.0)	(3.1)	(11.1)	(9.6)	(5.9)	(15.5)
Operating profit		27.3	(4.5)	22.8	26.1	(6.0)	20.1
Interest income	5.2	0.2	–	0.2	0.1	–	0.1
Finance costs	5.2	(0.2)	–	(0.2)	(0.3)	–	(0.3)
Other finance expense	5.2	(0.1)	(1.1)	(1.2)	–	(1.0)	(1.0)
Profit before taxation	2.5	27.2	(5.6)	21.6	25.9	(7.0)	18.9
Taxation	2.6	(3.7)	1.9	(1.8)	(0.4)	3.3	2.9
Profit for the year from continuing operations		23.5	(3.7)	19.8	25.5	(3.7)	21.8
Discontinued operations – gain/(loss) for the year	2.2	–	1.6	1.6	–	(0.3)	(0.3)
Profit for the year		23.5	(2.1)	21.4	25.5	(4.0)	21.5
Other comprehensive income/(expense)							
Items that are not subsequently reclassified to the income statement							
Actuarial gain/(loss) recognised on retirement benefit scheme	6.2	–	13.7	13.7	–	(3.8)	(3.8)
Deferred tax relating to retirement benefit scheme	2.6	–	(2.3)	(2.3)	–	0.6	0.6
Items that may be subsequently reclassified to the income statement							
Net exchange differences offset in reserves		1.3	–	1.3	(2.3)	–	(2.3)
Cash flow hedges	5.4	(0.6)	–	(0.6)	1.1	–	1.1
Tax relating to exchange differences offset in reserves		(0.3)	–	(0.3)	0.2	–	0.2
Other comprehensive income/(expense) for the year, net of taxation		0.4	11.4	11.8	(1.0)	(3.2)	(4.2)
Total comprehensive income for the year		23.9	9.3	33.2	24.5	(7.2)	17.3
Earnings per share	2.3						
Basic		77.1p	(7.0p)	70.1p	83.8p	(13.2p)	70.6p
Diluted		76.6p	(7.0p)	69.6p	83.3p	(13.1p)	70.2p
Earnings per share from continuing operations	2.3						
Basic		77.1p	(12.2p)	64.9p	83.8p	(12.2p)	71.6p
Diluted		76.6p	(12.2p)	64.4p	83.3p	(12.1p)	71.2p

* See note 2.2 for further details of adjustments.

** Restated to reflect the continuing operations of the Group following the sale of Avon Engineered Fabrications, Inc.

Consolidated Balance Sheet

At 30 September 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	3.1	41.5	40.4
Property, plant and equipment	3.2	22.6	26.3
Deferred tax assets	2.6	8.2	8.2
		72.3	74.9
Current assets			
Inventories	4.1	23.0	21.8
Trade and other receivables	4.2	24.2	23.8
Derivative financial instruments	5.4	–	0.2
Cash and cash equivalents	4.3	46.6	26.5
		93.8	72.3
Liabilities			
Current liabilities			
Borrowings	5.1	0.1	1.8
Trade and other payables	4.4	34.5	30.1
Derivative financial instruments	5.4	0.4	–
Provisions for liabilities and charges	7.1	0.3	0.3
Current tax liabilities		6.1	6.8
		41.4	39.0
Net current assets		52.4	33.3
Non-current liabilities			
Deferred tax liabilities	2.6	6.9	6.8
Retirement benefit obligations	6.2	30.5	44.1
Provisions for liabilities and charges	7.1	2.5	1.7
		39.9	52.6
Net assets		84.8	55.6
Shareholders' equity			
Ordinary shares	5.5	31.0	31.0
Share premium account	5.5	34.7	34.7
Capital redemption reserve		0.5	0.5
Translation reserve		7.5	6.5
Retained earnings/(deficit)		11.1	(17.1)
Total equity		84.8	55.6

These financial statements on pages 92 to 128 were approved by the Board of Directors on 14 November 2018 and signed on its behalf by:

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 30 September 2018

	Note	2018 £m	2017 (restated) £m
Cash flows from operating activities			
Cash flows from continuing operating activities before the impact of exceptional items	4.3	38.2	35.0
Cash impact of exceptional items		(0.1)	0.3
Cash flows from continuing operations		38.1	35.3
Cash flows from/(used in) discontinued operations		(0.2)	0.3
Cash flows from operations	4.3	37.9	35.6
Interest income received		0.2	0.1
Finance costs paid		(0.2)	(0.2)
Retirement benefit deficit recovery contributions		(1.5)	(1.0)
Tax paid		(5.0)	(2.0)
Net cash flows from operating activities		31.4	32.5
Cash flows used in investing activities			
Proceeds from disposal of discontinued operations	7.2	6.5	–
Purchase of property, plant and equipment		(3.3)	(2.6)
Capitalised development costs and purchased software		(5.6)	(2.9)
Acquisition	7.2	(1.4)	–
Net cash used in investing activities		(3.8)	(5.5)
Cash flows used in financing activities			
Net movements in loans	5.3	(1.7)	(0.8)
Dividends paid to shareholders	5.6	(4.1)	(3.2)
Purchase of own shares	5.5	(1.1)	(1.0)
Net cash used in financing activities		(6.9)	(5.0)
Net increase in cash, cash equivalents and bank overdrafts		20.7	22.0
Cash, cash equivalents, and bank overdrafts at beginning of the year		26.5	4.5
Effects of exchange rate changes		(0.6)	–
Cash, cash equivalents, and bank overdrafts at end of the year	5.3	46.6	26.5

Consolidated Statement of Changes in Equity

For the year ended 30 September 2018

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings/ deficit £m	Total equity £m
At 30 September 2016		31.0	34.7	9.1	(32.8)	42.0
Profit for the year		–	–	–	21.5	21.5
Net exchange differences offset in reserves		–	–	(2.3)	–	(2.3)
Tax relating to exchange differences offset in reserves	2.6	–	–	0.2	–	0.2
Cash flow hedges	5.4	–	–	–	1.1	1.1
Actuarial loss recognised on retirement benefit scheme	6.2	–	–	–	(3.8)	(3.8)
Deferred tax relating to retirement benefit scheme	2.6	–	–	–	0.6	0.6
Total comprehensive income for the year		–	–	(2.1)	19.4	17.3
Dividends paid	5.6	–	–	–	(3.2)	(3.2)
Own shares acquired	5.5	–	–	–	(1.0)	(1.0)
Fair value of share based payments	6.3	–	–	–	0.9	0.9
Deferred tax relating to employee share schemes	2.6	–	–	–	(0.4)	(0.4)
At 30 September 2017		31.0	34.7	7.0	(17.1)	55.6
Profit for the year		–	–	–	21.4	21.4
Net exchange differences offset in reserves		–	–	1.3	–	1.3
Tax relating to exchange differences offset in reserves	2.6	–	–	(0.3)	–	(0.3)
Cash flow hedges	5.4	–	–	–	(0.6)	(0.6)
Actuarial gain recognised on retirement benefit scheme	6.2	–	–	–	13.7	13.7
Deferred tax relating to retirement benefit scheme	2.6	–	–	–	(2.3)	(2.3)
Total comprehensive income for the year		–	–	1.0	32.2	33.2
Dividends paid	5.6	–	–	–	(4.1)	(4.1)
Own shares acquired	5.5	–	–	–	(1.1)	(1.1)
Fair value of share based payments	6.3	–	–	–	1.2	1.2
Deferred tax relating to employee share schemes	2.6	–	–	–	–	–
At 30 September 2018		31.0	34.7	8.0	11.1	84.8

Other reserves consist of the capital redemption reserve of £0.5m (2017: £0.5m) and the translation reserve of £7.5m (2017: £6.5m).

All movements in other reserves relate to the translation reserve.

Accounting Policies and Critical Accounting Judgements

For the year ended 30 September 2018

ACCOUNTING POLICIES

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

BASIS OF PREPARATION

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

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

RECENT ACCOUNTING DEVELOPMENTS

At the balance sheet date there are a number of new standards, and amendments to existing standards in issue, but not yet effective. The Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers – applicable from year ending 30 September 2019

IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers, replacing IAS 18 Revenue. The new standard is more detailed and prescriptive than existing guidance, in particular it requires that different performance obligations in a contract should be unbundled and revenue is recognised when control of the asset is passed to the customer.

It is not expected that the transition to the new revenue standard will have an impact on revenue recognition.

IFRS 9 Financial Instruments – applicable from year ending 30 September 2019

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It sets out the rules for valuing financial instruments and method for adopting hedge accounting.

It is not expected that the transition will have any impact on the carrying value of the following assets and liabilities within the consolidated financial statements of the Avon Group:

- Trade receivables
- Forward exchange contracts
- Trade payables
- Loans

The Group believes that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9.

IFRS 16 Leases – applicable from year ending 30 September 2020

The International Accounting Standards Board issued the new lease standard, IFRS 16, to replace the existing lease standard (IAS 17).

The underlying principle of IFRS 16 is that all leased assets should be reported on the balance sheet of the lessee, although exemptions are available for leases of less than 12 months or where the underlying asset has a low value when new.

Under IFRS 16, a lessee will be required to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments for all leases currently treated as operating leases.

The change in treatment will impact the balance sheet, the income statement and related performance measures.

An initial assessment of the impact of IFRS 16 has been carried out and a number of leases currently in operation within the Group will fall under the scope of IFRS 16.

The Group continues to assess the full impact of IFRS 16, which will depend on the transition approach adopted and the lease contracts in effect at the time of adoption. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

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

BASIS OF CONSOLIDATION

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

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

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

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

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

FOREIGN CURRENCIES

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

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

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

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

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

REVENUE

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

SEGMENT REPORTING

Segments are identified based on how management monitors the business.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The segments reported for the years ended 30 September 2018 and 30 September 2017 are Avon Protection and milkrite | InterPuls.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The geographic segments reported for the years ended 30 September 2018 and 30 September 2017 are North America, Europe and Other.

The Group Executive team assesses the performance of the operating segments based on the measures of revenue, EBIT and EBITDA.

EXCEPTIONAL ITEMS

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

EMPLOYEE BENEFITS

Pension obligations and post-retirement benefits

The Group has both defined benefit and defined contribution plans.

The defined benefit plan's asset or liability as recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur, as part of other comprehensive income. Costs associated with investment management are deducted from the return on plan assets. Other expenses are recognised in the income statement as incurred.

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

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2018

Share based compensation

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

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

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

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

INTANGIBLE ASSETS

Goodwill

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

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

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

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

Development expenditure

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

Computer software

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

Other intangible assets

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

The lives used are:

- Brands and trademarks – four–10 years
- Customer relationships – seven–10 years
- Order backlog – three months to 1 year

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

In general, the lives used are:

- Freehold – 40 years
- Short leasehold property – over the period of the lease
- Plant and machinery
  - Computer hardware and motor vehicles – three years
  - Presses – 15 years
  - Other plant and machinery – five–10 years

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

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

LEASES

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

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

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

INVENTORIES

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

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

TRADE PAYABLES

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

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

Accounting Policies and Critical Accounting Judgements continued

For the year ended 30 September 2018

PROVISIONS

Provisions are recognised when:

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

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

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

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

BORROWINGS

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

TAXATION

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

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

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

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

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

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

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

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

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

DIVIDENDS

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

SHARE CAPITAL

Ordinary shares are classified as equity.

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Estimating the defined benefits pension scheme obligations

Measurement of defined benefit pension obligations requires estimation of future changes in inflation and mortality rates, and the selection of a suitable discount rate (see note 6.2).

Valuation of intangible assets

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

Valuation of acquired intangible assets

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

Taxation

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

At the start of the year the Internal Revenue Service ('IRS') started a scheduled tax audit in the United States where the majority of the provisions for uncertain tax positions are located. This audit is ongoing at the balance sheet date, but we expect the levels of judgment in relation to the uncertain tax provisions to reduce in the medium term as the IRS conclude their review work.

At 30 September 2018 there is a provision of £5.8m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgements are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that the reasonably possible range of outcomes is between an additional liability of up to £0.7m and a reduction in liabilities of up to £5.8m.

Notes to the Group Financial Statements

For the year ended 30 September 2018

SECTION 2 – RESULTS FOR THE YEAR

This section presents the results for the year using both IFRS and 'adjusted' measures and includes a reconciliation between the primary statements and the 'adjusted' performance measures. The 'adjusted' measures reflect how the Directors monitor the business and are intended to aid the comparison of business trends and performance.

Within this section you will find disclosures explaining the Group's results for the year, segmental information, earnings per share and taxation, as well as details of the 'adjustments' and discontinued operations.

Performance measures*

	Note	2018 £m	2017 (restated) £m
Earnings basic		19.8	21.8
Basic earnings per share (pence)	2.3	64.9	71.6
Diluted earnings per share (pence)	2.3	64.4	71.2
Operating profit	2.1	22.8	20.1
EBITDA		33.9	35.6

Adjusted performance measures*

	Note	2018 £m	2017 £m
Adjusted earnings	2.2	23.5	25.5
Adjusted earnings per share (pence)	2.3	77.1	83.8
Adjusted operating profit	2.1	27.3	26.1
Adjusted EBITDA		35.3	35.7

* All performance measures are stated based on continuing operations.

2.1 Operating segments

The Group Executive team is responsible for allocating resources and assessing performance of the operating segments. Operating segments are therefore reported in a manner consistent with the internal reporting provided to the Group Executive team.

The Group has two clearly defined business segments, Avon Protection and milkrite | InterPuls, and operates primarily out of Europe and the US.

Business segments

Year ended 30 September 2018	Avon Protection £m	milkrite | InterPuls £m	Unallocated £m	Total £m
Revenue	115.7	49.8	–	165.5
Earnings before interest, taxation, depreciation and amortisation	26.6	10.9	(2.2)	35.3
Depreciation of property, plant and equipment	(2.5)	(2.4)	–	(4.9)
Amortisation of development costs and software	(2.6)	(0.5)	–	(3.1)
Operating profit before adjustments	21.5	8.0	(2.2)	27.3
Amortisation of acquired intangibles	(1.1)	(2.0)	–	(3.1)
Restructuring costs	(0.9)	–	–	(0.9)
Defined benefit pension scheme costs	–	–	(0.5)	(0.5)
Operating profit	19.5	6.0	(2.7)	22.8
Interest income				0.2
Finance costs				(0.2)
Other finance expense				(1.2)
Profit before taxation				21.6
Taxation				(1.8)
Profit for the year from continuing operations				19.8
Discontinued operations – profit for the year				1.6
Profit for the year				21.4
Segment assets	57.4	49.5	59.2	166.1
Segment liabilities	18.0	13.8	49.5	81.3
Other segment items				
Capital expenditure				
– intangible assets	5.1	0.5	–	5.6
– property, plant and equipment	1.7	1.8	–	3.5

Avon Protection includes £52.7m (2017: £50.5m) of revenues from the US DOD, the only customer which individually contributes more than 10% to Group revenues.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 2 – RESULTS FOR THE YEAR CONTINUED

Year ended 30 September 2017	Avon Protection (restated) £m	milkrite | InterPuls £m	Unallocated £m	Total (restated) £m
Revenue	109.8	49.4	–	159.2
Earnings before interest, taxation, depreciation and amortisation	26.8	10.9	(2.0)	35.7
Depreciation of property, plant and equipment	(3.4)	(2.3)	–	(5.7)
Amortisation of development costs and software	(3.3)	(0.6)	–	(3.9)
Operating profit before adjustments	20.1	8.0	(2.0)	26.1
Amortisation of acquired intangibles	(1.0)	(2.0)	–	(3.0)
Exceptional items	(2.9)	0.3	–	(2.6)
Defined benefit pension scheme costs	–	–	(0.4)	(0.4)
Operating profit	16.2	6.3	(2.4)	20.1
Interest income				0.1
Finance costs				(0.3)
Other finance expense				(1.0)
Profit before taxation				18.9
Taxation				2.9
Profit for the year from continuing operations				21.8
Discontinued operations – loss for the year				(0.3)
Profit for the year				21.5
Segment assets	62.3	50.2	34.7	147.2
Segment liabilities	15.6	15.3	60.7	91.6
Other segment items				
Capital expenditure				
– intangible assets	2.2	0.7	–	2.9
– property, plant and equipment	1.1	1.5	–	2.6

Geographical segments by origin

Year ended 30 September 2018	Europe £m	US £m	RoW £m	Total £m
Revenue	41.2	120.4	3.9	165.5
Non-current assets	45.6	26.4	0.3	72.3

Year ended 30 September 2017	Europe £m	US £m	RoW £m	Total £m
Revenue	36.8	119.0	3.4	159.2
Non-current assets	46.7	27.8	0.4	74.9

2.2 Adjustments and Discontinued Operations

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

The following table shows the adjustments made to arrive at adjusted operating profit and adjusted profit for the year.

	2018 £m	2017 (Restated) £m
Operating profit	22.8	20.1
Amortisation of acquired intangibles (note 3.1)	3.1	3.0
Exceptional restructuring costs	0.9	–
Defined benefit pension administration costs	0.5	0.4
Exceptional impairment of capitalised development expenditure	–	2.6
Exceptional impairment of plant and machinery	–	0.3
Exceptional post-acquisition working capital adjustment	–	(0.3)
Adjusted operating profit	27.3	26.1

	2018 £m	2017 (Restated) £m
Profit for the year	21.4	21.5
Amortisation of acquired intangibles (note 3.1)	3.1	3.0
Exceptional restructuring costs	0.9	–
Defined benefit pension administration costs	0.5	0.4
Exceptional impairment of capitalised development expenditure	–	2.6
Exceptional impairment of plant and machinery	–	0.3
Exceptional post-acquisition working capital adjustment	–	(0.3)
Defined benefit pension net interest cost	1.1	1.0
Tax on exceptional items	(1.9)	(3.3)
(Profit) / loss from discontinued operations	(1.6)	0.3
Adjusted profit for the year	23.5	25.5

The restructuring costs in 2018 represent an exceptional charge in respect of the relocation of the West Palm Beach facility.

The impairment of capitalised development expenditure and plant and machinery in 2017 represents the write-off of costs of developing the Emergency Escape Breathing Device (EEBD) product. Further development of this product was terminated as there were limited commercial opportunities for this technology.

Defined benefit pension scheme costs relate to administrative expenses of the scheme which is closed to future accrual.

The impact on the cash flow statement of the exceptional items was £0.1m (2017: £0.3m).

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 2 – RESULTS FOR THE YEAR CONTINUED

Discontinued operations

In March 2018, the Group disposed of Avon Engineered Fabrications, Inc. its US based hovercraft skirt and bulk liquid storage tank business. This non-core business was included in Avon Protection. The business has been classified as discontinued and prior periods have been restated to reflect this. The results of discontinued operations are as follows:

	2018 £m	2017 £m
Revenue	4.9	4.0
Total cost of sales, selling and distribution costs and general administrative expenses	(4.2)	(4.3)
Profit before taxation	0.7	(0.3)
Taxation	(0.2)	–
Profit/(loss) for the period	0.5	(0.3)
Gain on disposal (note 7.2)	1.4	–
Tax on gain on disposal	(0.3)	–
Profit/(loss) from discontinued operations	1.6	(0.3)
Basic earnings/(loss) per share	5.2p	(0.1)p
Diluted earnings/(loss) per share	5.2p	(0.1)p

Further details in relation to the discontinued operations can be found in note 7.2.

Cash flows from discontinued operations included in the cash flow statement are as follows:

	2018 £m	2017 £m
Net cash flows (used in)/from operating activities	(0.2)	0.3
Net cash flows from investing activities	6.5	–
Net cash flows from discontinued operations	6.3	0.3

2.3 Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trust. The Company has dilutive potential ordinary shares in respect of the Performance Share Plan. Adjusted earnings per share removes the effect of the amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs, reflecting the basis on which the business is managed and measured on a day to day basis.

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

Weighted average number of shares	2018	2017
Weighted average number of ordinary shares in issue used in basic calculations (thousands)	30,511	30,434
Potentially dilutive shares (weighted average) (thousands)	218	186
Fully diluted number of ordinary shares (weighted average) (thousands)	30,729	30,620

Earnings	2018 £m	2017 (restated) £m
Basic	21.4	21.5
Basic – continuing operations	19.8	21.8
Adjusted	23.5	25.5
Adjusted – continuing operations	23.5	25.5

Earnings per share (pence)	2018	2017 (restated)
Basic	70.1	70.6
Basic – continuing operations	64.9	71.6
Diluted	69.6	70.2
Diluted – continuing operations	64.4	71.2
Adjusted	77.1	83.8
Adjusted – continuing operations	77.1	83.8
Adjusted Diluted	76.6	83.3
Adjusted Diluted – continuing operations	76.6	83.3

2.4 Expenses by Nature

	2018 £m	2017 (restated) £m
Changes in inventories of finished goods and work in progress	(0.1)	1.3
Raw materials and consumables used	64.5	59.7
Employee benefit expense (note 6.1)	44.6	42.2
Depreciation and amortisation charges (notes 3.1 and 3.2)	11.1	12.6
Transportation expenses	2.5	2.3
Operating lease payments	1.7	2.3
Travelling costs	3.4	3.0
Legal and professional fees	2.1	1.5
Impairment of intangibles	–	2.9
Other expenses	12.9	11.3
Total cost of sales, selling and distribution costs and general and administrative expenses	142.7	139.1

Other expenses include £2.6m of capitalised staff costs and overheads in relation to development expenditure.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 2 – RESULTS FOR THE YEAR CONTINUED

2.5 Profit Before Taxation

	2018 £m	2017 (restated) £m
Profit before taxation is shown after charging/(crediting):		
(Gain)/Loss on foreign exchange	(0.5)	1.1
Loss on disposal of property, plant and equipment	0.1	–
Depreciation of property, plant and equipment	4.9	5.7
Impairment of plant and machinery	–	0.3
Repairs and maintenance of property, plant and equipment	0.9	0.8
Amortisation of development expenditure and software	3.1	3.9
Impairment of development expenditure	–	2.6
Amortisation of acquired intangibles	3.1	3.0
Research and development	0.2	1.2
Impairment of inventories	(0.1)	(0.7)
Impairment of trade receivables	0.2	0.1
Operating leases	1.7	2.3
Services provided to the Group (including its overseas subsidiaries) by the Company's auditors:		
Audit fees in respect of the audit of the accounts of the Parent Company and consolidation	0.1	–
Audit fees in respect of the audit of the accounts of subsidiaries of the Company	0.1	0.2
Total fees	0.2	0.2

2.6 Taxation

	2018 £m	2017 £m
UK current tax	1.1	2.2
UK adjustment in respect of previous periods	–	(0.3)
Overseas current tax	4.1	1.5
Overseas adjustment in respect of previous periods	(1.2)	(2.6)
Total current tax charge	4.0	0.8
Deferred tax – current year	(1.5)	0.6
Deferred tax – adjustment in respect of previous periods	(0.7)	(4.3)
Total deferred tax credit	(2.2)	(3.7)
Total tax charge/(credit)	1.8	(2.9)

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

	2018 £m	2017 (restated) £m
Profit before taxation	21.6	18.9
Profit before taxation at the average standard rate of 19.0% (2017: 19.5%)	4.1	3.7
Permanent differences	(1.4)	(0.1)
Differences in overseas tax rates	1.0	0.7
Adjustment in respect of previous periods	(1.9)	(7.2)
Tax (credit)/charge	1.8	(2.9)

The income tax charged directly to equity during the year was £0.3m (2017: £0.2m credit).

The deferred tax charged directly to equity during the year was £2.3m (2017: £0.2m credit).

Deferred tax liabilities

	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 October 2016	2.5	7.5	10.0
Charged against profit for the year	(0.7)	(2.8)	(3.5)
Exchange differences	0.1	0.2	0.3
At 30 September 2017	1.9	4.9	6.8
Charged/(credited) to profit for the year	(0.6)	0.7	0.1
At 30 September 2018	1.3	5.6	6.9

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

Deferred tax assets

	Retirement benefit obligation £m	Share options £m	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 30 September 2016	6.8	0.6	0.4	–	7.8
Credited/(charged) to profit for the year	0.1	0.2	(0.1)	–	0.2
Credited/(charged) to equity on recognition	0.6	(0.4)	–	–	0.2
At 30 September 2017	7.5	0.4	0.3	–	8.2
Credited/(charged) against profit for the year	–	0.2	–	2.1	2.3
Charged to equity	(2.3)	–	–	–	(2.3)
At 30 September 2018	5.2	0.6	0.3	2.1	8.2

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

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

The Group has no unrecognised deferred tax assets (2017: £0.7m).

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 3 – NON CURRENT ASSETS

The Group holds both Intangible and Tangible assets for long term within the business. The following notes provide information regarding the carrying value of these assets, their expected useful economic lives and movements in these balances during the year.

3.1 Intangible Assets

	Goodwill £m	Acquired intangibles £m	Development expenditure £m	Computer software £m	Total £m
At 1 October 2016					
Cost	3.2	27.1	34.1	4.7	69.1
Accumulated amortisation and impairment	–	(4.3)	(14.9)	(2.6)	(21.8)
Net book amount	3.2	22.8	19.2	2.1	47.3
Year ended 30 September 2017					
Opening net book amount	3.2	22.8	19.2	2.1	47.3
Exchange differences	–	0.4	(0.4)	–	–
Additions	–	–	2.7	0.2	2.9
Impairment	–	–	(2.6)	–	(2.6)
Amortisation	–	(3.0)	(3.5)	(0.7)	(7.2)*
Closing net book amount	3.2	20.2	15.4	1.6	40.4
At 30 September 2017					
Cost	3.2	27.5	30.9	4.8	66.4
Accumulated amortisation and impairment	–	(7.3)	(15.5)	(3.2)	(26.0)
Net book amount	3.2	20.2	15.4	1.6	40.4
Year ended 30 September 2018					
Opening net book amount	3.2	20.2	15.4	1.6	40.4
Exchange differences	0.1	0.1	0.3	0.1	0.6
Additions	–	–	5.5	0.1	5.6
Acquisitions (note 7.2)	–	1.2	–	–	1.2
Discontinued	–	–	–	(0.1)	(0.1)
Amortisation	–	(3.1)	(2.5)	(0.6)	(6.2)
Closing net book amount	3.3	18.4	18.7	1.1	41.5
At 30 September 2018					
Cost	3.3	29.1	34.5	4.9	71.8
Accumulated amortisation and impairment	–	(10.7)	(15.8)	(3.8)	(30.3)
Net book amount	3.3	18.4	18.7	1.1	41.5

* Includes £0.3m of amortisation presented within discontinued operations

Development expenditure is amortised over a period between five and 15 years.

Computer software is amortised over a period between three and seven years.

The remaining useful economic life of the development expenditure is between five and 12 years.

Acquired intangibles include customer relationships, development costs, order book on acquisition and brands and are amortised over a period between three and 10 years.

Goodwill acquired in a business combination is allocated to the groups of cash generating units (CGUs) that are expected to benefit from that business combination. Goodwill of £1.8m (2017: £1.8m) is allocated to Avon Protection and £1.5m (2017: £1.4m) is allocated to milkrite | InterPuls.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Goodwill values are compared against the value in use of the relevant CGU groups. The value in use calculations were based on projected cash flows for 2019 to 2021 derived from the latest three year plan approved by the Board. Cash flows for 2022 onwards for both divisions were projected to grow by 2.0% per annum. Cash flows were discounted to give a present value using a pre-tax discount rate of 9.3%.

Sensitivity analysis suggests that a decrease in forecast revenue of more than 70% in relation to Avon Protection and 50% in relation to milkrite | InterPuls could be sustained before an impairment was required.

Management considers that there are no reasonably likely changes to the above key assumptions which would lead to an impairment being recognised.

3.2 Property, Plant and Equipment

	Freeholds £m	Plant and machinery £m	Total £m
At 1 October 2016			
Cost	14.3	65.8	80.1
Accumulated depreciation and impairment	(2.6)	(47.4)	(50.0)
Net book amount	11.7	18.4	30.1
Year ended 30 September 2017			
Opening net book amount	11.7	18.4	30.1
Exchange differences	0.1	(0.2)	(0.1)
Additions	0.2	2.4	2.6
Impairment	–	(0.3)	(0.3)
Depreciation charge	(0.5)	(5.5)	(6.0)*
Closing net book amount	11.5	14.8	26.3
At 30 September 2017			
Cost	14.6	66.2	80.8
Accumulated depreciation and impairment	(3.1)	(51.4)	(54.5)
Net book amount	11.5	14.8	26.3
Year ended 30 September 2018			
Opening net book amount	11.5	14.8	26.3
Exchange differences	(0.1)	(0.1)	(0.2)
Additions	0.1	3.4	3.5
Acquisitions (note 7.2)	–	0.4	0.4
Discontinued	(2.1)	(0.3)	(2.4)
Disposals	–	(0.1)	(0.1)
Depreciation charge	–	(4.9)	(4.9)
Closing net book amount	9.4	13.2	22.6
At 30 September 2018			
Cost	12.4	66.7	79.1
Accumulated depreciation and impairment	(3.0)	(53.5)	(56.5)
Net book amount	9.4	13.2	22.6

* Includes £0.3m of depreciation presented within discontinued operations

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 4 – WORKING CAPITAL

This section presents disclosures around the Group's working capital balances; inventories, trade receivables, payables and cash. You will also find information regarding cash generated from operating activity. The Group has a strong cash position but careful management of working capital remains a key focus of the business.

4.1 Inventories

	2018 £m	2017 £m
Raw materials	15.3	15.1
Work in progress	0.4	0.8
Finished goods	7.3	5.9
	23.0	21.8

Provisions for inventory write downs were £3.6m (2017: £3.7m).

The cost of inventories recognised as an expense and included in cost of sales amounted to £64.5m (2017: £59.7m (restated)).

4.2 Trade and Other Receivables

	2018 £m	2017 £m
Trade receivables	21.2	20.4
Less: provision for impairment of receivables	(0.5)	(0.3)
Trade receivables – net	20.7	20.1
Prepayments	1.1	0.8
Other receivables	2.4	2.9
	24.2	23.8

Other receivables comprise sundry items which are not individually significant for disclosure.

Movements on the Group provision for impairment of receivables are as follows:

	2018 £m	2017 £m
At 1 October	0.3	0.4
Provision for impairment of receivables	0.2	(0.1)
At 30 September	0.5	0.3

The creation and release of provisions for impaired receivables have been included in general and administrative expenses in the consolidated statement of comprehensive income.

4.3 Cash and Cash Equivalents

	2018 £m	2017 £m
Cash at bank and in hand	46.6	26.5

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

The Group generates cash from its operating activities as follows:

	2018 £m	2017 (restated) £m
Continuing operations		
Profit for the year	19.8	21.8
Adjustments for:		
Taxation	1.8	(2.9)
Depreciation	4.9	5.7
Amortisation of intangible assets	6.2	6.9
Impairment of intangible assets	–	2.9
Defined benefit pension scheme cost	0.5	0.4
Interest income	(0.2)	(0.1)
Finance costs	0.2	0.3
Other finance expense	1.2	1.0
Loss on disposal of property, plant and equipment	0.1	–
Fair value of share based payments	1.2	0.9
Increase in inventories	(2.1)	(1.7)
Increase in receivables	(1.8)	(4.7)
Increase in payables and provisions	6.3	4.8
Cash flows from continuing operations	38.1	35.3
Analysed as:		
Cash flows from continuing operations prior to the effect of exceptional operating items	38.2	35.0
Cash effect of exceptional operating items	(0.1)	0.3
Discontinued operations		
Profit/(loss) for the year	1.6	(0.3)
Gain on disposal and net effect of operating activities	(1.8)	0.6
Cash (used in)/from discontinued operations	(0.2)	0.3
Cash flows from operations	37.9	35.6

4.4 Trade and Other Payables

	2018 £m	2017 £m
Trade payables	13.2	12.0
Other taxation and social security	0.3	0.4
Other payables	1.2	0.8
Accruals	19.8	16.9
	34.5	30.1

Other payables comprise sundry items which are not individually significant for disclosure.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 5 – FUNDING

The Group has maintained a strong balance sheet in order to fund its growth strategy and make further acquisitions. Additional funding is available via undrawn committed facilities.

Forward exchange contracts are used to hedge material foreign currency risk arising on sales and purchases denominated in a currency other than Sterling.

The following section provides disclosures about the Group's funding position, including borrowings, hedging instruments, its exposure to market risks and its capital management policies.

5.1 Borrowings

	2018 £m	2017 £m
Current and total borrowings		
Bank loans	0.1	1.8

The Group has the following undrawn committed facilities:

	2018 £m	2017 £m
Expiring beyond one year	30.7	29.9
Total undrawn committed borrowing facilities	30.7	29.9
Bank loans and overdrafts utilised	0.1	1.8
Utilised in respect of guarantees	0.3	0.3
Total Group facilities	31.1	32.0

All facilities are at floating interest rates.

During the year the Group renewed its $40m revolving credit facility with Barclays Bank and Comerica Bank which expires on 28 June 2021 with an option to extend for a further two years. This facility is priced on the dollar LIBOR plus margin of 1–1.75% depending on leverage and includes financial covenants which are measured on a quarterly basis. The Group was in compliance with its financial covenants during 2018 and 2017.

During the year InterPuls S.p.A. renewed its loan facility which now expires on 31 October 2019. This facility is priced on Euribor plus margin of 1.15%

The Group has provided the lenders with a negative pledge in respect of certain shares in Group companies.

The effective interest rates at the balance sheet dates were as follows:

	2018			2017		
	Sterling %	Dollar %	Euro %	Sterling %	Dollar %	Euro %
Bank loans	–	–	0.8	–	–	0.8

5.2 Net Finance Costs

	2018 £m	2017 £m
Interest payable on bank loans and overdrafts	(0.2)	(0.3)
Interest income	0.2	0.1
	–	(0.2)

Other finance expense

	2018 £m	2017 £m
Net interest cost: UK defined benefit pension scheme (note 6.2)	(1.1)	(1.0)
Amortisation of finance fees	(0.1)	–
	(1.2)	(1.0)

5.3 Analysis of Net Cash/Debt

This note sets out the calculation of net cash/(debt), a measure considered important in explaining our financial position.

	At 1 October 2017 £m	Cash flow £m	Exchange movements £m	At 30 September 2018 £m
Cash at bank and in hand	26.5	20.7	(0.6)	46.6
Debt due in less than one year	(1.8)	1.7	–	(0.1)
Net cash	24.7	22.4	(0.6)	46.5

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 5 – FUNDING CONTINUED

5.4 Financial Instruments

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as 'loans and receivables'. Borrowings and trade and other payables are classified as 'other financial liabilities at amortised cost'. Both categories are initially measured at fair value and subsequently held at amortised cost.

Derivatives (forward exchange contracts) are classified as 'derivatives used for hedging' and accounted for at fair value with gains and losses taken to reserves through the consolidated statement of comprehensive income.

Financial risk and treasury policies

The Group's finance team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange rate risk. The Group finance team is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

The US Government through the Department of Defense is a major customer of the Group. Credit evaluations are carried out on all non-Government customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk, except in respect of the US Government noted above.

Counterparty risk arises from the use of derivative financial instruments. This is managed through credit limits, counterparty approvals and rigorous monitoring procedures.

Where possible, letters of credit or payments in advance are received for significant export sales.

The Group establishes an allowance for impairment in respect of receivables where recoverability is considered doubtful.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	2018 £m	2017 £m
Trade receivables	20.7	20.1
Other receivables	2.4	2.9
Cash and cash equivalents	46.6	26.5
Forward exchange contracts used for hedging	–	0.2
	69.7	49.7

The maximum exposure to credit risk for financial assets at the reporting date by currency was:

Carrying amount of financial assets	2018 £m	2017 £m
Sterling	38.2	18.1
US dollar	26.3	24.9
Euro	3.0	4.5
Other currencies	2.2	2.2
	69.7	49.7

Provisions against trade receivables

The ageing of trade receivables and associated provision for impairment at the reporting date was:

	Gross 2018 £m	Provision 2018 £m	Net 2018 £m	Gross 2017 £m	Provision 2017 £m	Net 2017 £m
Not past due	18.1	–	18.1	16.7	–	16.7
Past due 0–30 days	2.3	–	2.3	1.9	–	1.9
Past due 31–60 days	0.2	–	0.2	0.4	–	0.4
Past due 61–90 days	0.3	(0.3)	–	0.1	–	0.1
Past due more than 91 days	0.3	(0.2)	0.1	1.3	(0.3)	1.0
	21.2	(0.5)	20.7	20.4	(0.3)	20.1

The total past due receivables, net of provisions is £2.6m (2017: £3.4m).

The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 5 – FUNDING CONTINUED

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position. Typically the Group ensures that it has sufficient cash or borrowing facilities to meet foreseeable operational expenses and at the year end had net cash of £46.5m (2017: £24.7m) and undrawn facilities of £30.7m (2017: £29.9m).

The following shows the contractual maturities of financial liabilities, including interest payments, where applicable, and excluding the impact of netting agreements and on an undiscounted basis:

Analysis of contractual cash flow maturities	Carrying amount £m	Contractual cash flows £m	Less than 12 months £m
30 September 2018			
Bank loans and overdrafts	0.1	0.1	0.1
Finance lease liabilities	–	–	–
Trade and other payables	34.2	34.2	34.2
Forward exchange contracts used for hedging			
– Outflow	0.4	11.9	11.9
– Inflow	–	–	–
	34.7	46.2	46.2

Analysis of contractual cash flow maturities	Carrying amount £m	Contractual cash flows £m	Less than 12 months £m
30 September 2017			
Bank loans and overdrafts	1.8	1.8	1.8
Finance lease liabilities	–	–	–
Trade and other payables	29.7	29.7	29.7
Forward exchange contracts used for hedging			
– Outflow	–	–	–
– Inflow	0.2	8.9	8.9
	31.7	40.4	40.4

(iii) Market risks

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control risk within suitable parameters.

(a) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the US dollar and related currencies and the euro. The Group hedges material forecast US dollar or euro foreign currency transactional exposures using forward exchange contracts. In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value through the consolidated statement of comprehensive income. Fair value is assessed by reference to year end spot exchange rates, adjusted for forward points associated with contracts of similar duration. The fair value of forward exchange contracts used as hedges at 30 September 2018 was a £0.4m liability (2017: £0.2m asset).

All forward exchange contracts in place at 30 September 2018 mature within one year.

Sensitivity analysis

It is estimated that, with all other variables held equal (in particular other exchange rates), a general change of five cents in the value of the US dollar against sterling would have had a £0.8m (2017: £0.7m) impact on the Group's current year profit before interest and tax, a £0.7m (2017: £0.7m) impact on the Group's profit after tax and a £1.5m (2017: £1.7m) impact on shareholders' funds. The method of estimation, which has been applied consistently, involves assessing the translation impact of the US dollar.

A general change of 5 cents in the value of the euro against sterling would have had an £0.1m (2017: £0.1m) impact on the Group's current year profit before interest and tax, a £0.1m (2017: £0.1m) impact on the Group's profit after tax and a £1.0m (2017: £1.0m) impact on shareholders' funds. The method of estimation which has been applied consistently, involves assessing the translation impact of the euro.

The following significant exchange rates applied during the year:

	Average rate 2018	Closing rate 2018	Average rate 2017	Closing rate 2017
US dollar	1.346	1.305	1.267	1.339
Euro	1.132	1.127	1.147	1.134

(b) Interest rate risk

The Group does not undertake any hedging activity in this area. All foreign currency cash deposits are made at prevailing interest rates and where rates are fixed the period of the fix is generally not more than one month. The main element of interest rate risk concerns borrowings which are made on a floating LIBOR-based rate and short-term overdrafts in foreign currencies which are also on a floating rate.

The Group is exposed to interest rate fluctuations but with net cash of £46.5m (2017: £24.7m) a 1% increase in interest rates would have no impact on interest costs (2017: nil).

The floating rate financial liabilities comprised bank loans bearing floating interest rates fixed by reference to the relevant LIBOR or equivalent rate.

All cash deposits are on floating rates or overnight rates based on the relevant LIBOR or equivalent rate.

(iv) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio, calculated as net debt divided by capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is measured by the current market capitalisation of the Group, plus net debt.

The Group's net debt at the balance sheet date was:

	2018 £m	2017 £m
Total borrowings	(0.1)	(1.8)
Cash and cash equivalents	46.6	26.5
Group net cash/(debt)	46.5	24.7
Market capitalisation of the Group at 30 September	400.2	290.8
Gearing ratio	n/a	n/a

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 5 – FUNDING CONTINUED

(v) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Carrying amount 2018 £m	Fair value 2018 £m	Carrying amount 2017 £m	Fair value 2017 £m
Trade receivables	20.7	20.7	20.1	20.1
Other receivables	2.4	2.4	2.9	2.9
Cash and cash equivalents	46.6	46.6	26.5	26.5
Forward exchange contracts	(0.4)	(0.4)	0.2	0.2
Bank loans, overdrafts and finance leases	(0.1)	(0.1)	(1.8)	(1.8)
Trade and other payables	(34.2)	(34.2)	(29.7)	(29.7)
	35.0	35.0	18.2	18.2

Basis for determining fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives

The fair value of forward exchange contracts is determined by using valuation techniques using year-end spot rates, adjusted for the forward points to the contract's value date. No contract's value date is greater than one year from the year end. These instruments are included in level 2 in the fair value hierarchy as the valuation is based on inputs that are either directly or indirectly observable.

Secured loans

As the loans are floating rate borrowings, amortised cost is deemed to reflect fair value.

Trade and other receivables/payables

As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

5.5 Equity

Share Capital

	No. of shares 2018	Ordinary shares 2018 £m	Share premium 2018 £m	No. of shares 2017	Ordinary shares 2017 £m	Share premium 2017 £m
Called up allotted and fully paid ordinary shares of £1 each						
At the beginning of the year	31,023,292	31.0	34.7	31,023,292	31.0	34.7
At the end of the year	31,023,292	31.0	34.7	31,023,292	31.0	34.7

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report.

Ordinary shareholders are entitled to receive dividends and to vote at meetings of the Company.

Own shares held

	2018 No. of shares m	2017 No. of shares m
Balance at 1 October	0.6	0.8
Acquired in the year	0.1	0.1
Disposed of on exercise of options	(0.2)	(0.3)
At 30 September	0.5	0.6

At 30 September 2018, 499,264 (2017: 565,803) ordinary shares were held by a trust in respect of obligations under the 2010 Performance Share Plan. Dividends on these shares have been waived. The market value of the shares held in the trust at 30 September 2018 was £6.4m (2017: £5.3m). These shares are held at cost as treasury shares and deducted from shareholders' equity.

During 2018 the trust acquired 100,000 (2017: 100,000) shares at a cost of £1.1m (2017: £1.0m).

154,641 (2017: 247,099) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

3,031 (2017: 5,887) ordinary shares of £1 each were awarded in relation to the annual incentive plan.

5.6 Dividends

On 1 February 2018, the shareholders approved a final dividend of 8.21p per qualifying ordinary share in respect of the year ended 30 September 2017. This was paid on 16 March 2018 utilising £2.5m of shareholders' funds.

The Board of Directors declared an interim dividend of 5.34p (2017: 4.11p) per qualifying ordinary share in respect of the year ended 30 September 2018. This was paid on 7 September 2018 utilising £1.6m (2017: £1.3m) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 10.68p per qualifying ordinary share in respect of the year ended 30 September 2018, which will utilise an estimated £3.3m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 15 March 2019 to shareholders on the register at the close of business on 15 February 2019. In accordance with accounting standards, this dividend has not been provided for and there are no corporation tax consequences.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 6 – KEY MANAGEMENT & EMPLOYEE BENEFITS

Recruiting and retaining the right people is key to the success of the business. The remuneration policies in place are aimed at ensuring this is possible and to celebrate and reward the contribution that the Group's employees make to the performance of the Group.

The following pages include disclosures on wages and salaries and share option schemes which allow employees of the Group to take an equity interest in the Group.

This section also includes full disclosures in relation to both the UK defined benefit scheme which was closed to future accrual of benefit in 2009, and the contributions made to current defined contribution schemes.

6.1 Employees

The total remuneration and associated costs during the year were:

	2018 £m	2017 (restated) £m
Wages and salaries	36.5	33.7
Social security costs	3.6	3.7
Other pension costs	1.0	1.1
US healthcare costs	2.3	2.8
Share based payments (note 6.3)	1.2	0.9
	44.6	42.2

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid director, are given on pages 71 to 79.

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

	2018 Number	2017 (restated) Number
By business segment		
Avon Protection	493	462
milkrite | InterPuls	272	281
Other	16	12
	781	755

At the end of the financial year the total number of employees in the Group was 784 (2017: 750).

Key management compensation

	2018 £m	2017 (restated) £m
Salaries and other employee benefits	1.9	1.9
Post employment benefits	0.1	0.1
Share based payments	0.5	0.3
	2.5	2.3

The key management compensation above includes the Executive Directors plus six (2017: five) others who were members of the Board during the year.

6.2 Pensions and Other Retirement Benefits

Retirement benefit assets and liabilities can be analysed as follows:

	2018 £m	2017 £m
Net pension liability	30.5	44.1

Defined benefit pension scheme

The Group operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The plan was closed to future accrual of benefit on 1 October 2009 and has a weighted average maturity of approximately 14 years. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The Trustee is Avon Rubber Pension Trust Limited, the Directors of which are members of the plan. Four of the Directors are appointed by the Company and two are elected by the members.

The funding of the plan is based on regular actuarial valuations. The most recent finalised actuarial valuation of the plan was carried out at 31 March 2016 when the market value of the plan's assets was £298.6m. The fair value of those assets represented 90% of the value of the benefits which had accrued to members, after allowing for future increase in pensions.

During the year the Group made payments to the fund of £1.5m (2017: £1.0m) in respect of scheme expenses and deficit recovery plan payments. In accordance with the deficit recovery plan agreed following the 31 March 2016 actuarial valuation, the Group will make payments in 2019 of £1.5m in respect of deficit recovery plan payments and scheme expenses.

The defined benefit plan exposes the Group to actuarial risks such as longevity risk, inflation risk and investment risk.

An updated actuarial valuation for IAS 19 (revised) purposes was carried out by an independent actuary at 30 September 2018 using the projected unit method.

Movement in net defined benefit liability

	Defined benefit obligation		Defined benefit asset		Net defined benefit liability	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
At 1 October	(368.4)	(373.4)	324.3	333.5	(44.1)	(39.9)
Included in profit or loss						
Administrative expenses	(0.5)	(0.4)	–	–	(0.5)	(0.4)
Net interest cost	(9.2)	(9.0)	8.1	8.0	(1.1)	(1.0)
	(9.7)	(9.4)	8.1	8.0	(1.6)	(1.4)
Included in other comprehensive income						
Remeasurement (loss)/gain:						
– Actuarial (loss)/gain arising from:						
– demographic assumptions	2.2	(3.9)	–	–	2.2	(3.9)
– financial assumptions	9.1	(10.7)	–	–	9.1	(10.7)
– experience adjustment	0.8	13.2	–	–	0.8	13.2
– Return on plan assets excluding interest income	–	–	1.6	(2.4)	1.6	(2.4)
	12.1	(1.4)	1.6	(2.4)	13.7	(3.8)
Other						
Contributions by the employer	–	–	1.5	1.0	1.5	1.0
Net benefits paid out	19.1	15.8	(19.1)	(15.8)	–	–
At 30 September	(346.9)	(368.4)	316.4	324.3	(30.5)	(44.1)

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 6 – KEY MANAGEMENT & EMPLOYEE BENEFITS CONTINUED

Plan assets

	2018 £m	2017 £m
Equities	184.7	200.1
Liability Driven Investment	88.0	85.5
Corporate bonds	28.8	30.0
Cash	14.9	8.7
Total fair value of assets	316.4	324.3

The Liability Driven Investment (LDI) comprises a series of LIBOR-earning cash deposits which are combined with contracts to hedge interest rate and inflation rate risk over the expected life of the plan's liabilities.

All equity securities and corporate bonds have quoted prices in active markets.

The aim of the Trustee is to invest the assets of the plan to ensure that the benefits promised to members are provided. The target weightings under the current asset allocation strategy are 50% to growth assets, 20% to mid-risk assets and 30% to LDI.

Actuarial assumptions

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 (revised) are set out below:

	2018 % p.a.	2017 % p.a.
Inflation (RPI)	3.20	3.10
Inflation (CPI)	2.20	2.10
Pension increases post August 2005	2.20	2.15
Pension increases pre August 2005	3.10	3.05
Discount rate for scheme liabilities	2.80	2.55

Mortality rate

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:

	2018	2017
Male	22.1	22.2
Female	24.0	24.1

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2018	2017
Male	23.8	23.9
Female	25.8	25.9

Sensitivity analysis

	Defined benefit obligation Increase/(decrease) £m
Inflation (RPI) (0.25% increase)	9.5
Discount rate for scheme liabilities (0.25% increase)	(11.3)
Future mortality (one year increase)	12.5

The above sensitivity analysis shows the impact on the defined benefit obligation only, not the net pension liability as it does not take into account any impact on the asset valuation.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur.

Defined contribution pension scheme

The charge in respect of defined contribution pension schemes was £1.0m (2017: £0.9m).

6.3 Share Based Payments

The Group operates an equity-settled share-based performance share plan (PSP). Details of the Plan, awards granted and options outstanding are set out in the Remuneration Report and are incorporated by reference into these financial statements. An expense of £1.2m (2017: £0.9m) was recognised in the year.

The table below summarises the movements in the number of share options outstanding for the Group:

	Number of options (thousands) 2018	Number of options (thousands) 2017
Outstanding at 1 October	413	587
Forfeited during the year	(5)	(107)
Exercised during the year	(155)	(248)
Granted during the year	174	181
Outstanding at 30 September	427	413

A Monte Carlo simulation was used to calculate the fair value of awards granted that are subject to a Total Shareholder Return performance condition. The fair value of other awards was calculated as the market price of the shares at the date of grant reduced by the present value of the dividends expected to be paid over the vesting period. The principal assumptions used were:

	2018	2017
Weighted average fair value (£)	8.62	8.02
Key assumptions used:		
Weighted average share price (£)	11.94	10.40
Expected volatility (%)	29	28
Risk-free interest rate (%)	0.5	0.2
Expected option term (yrs.)	3.0	3.0
Dividend yield (%)	1.0	0.9

Volatility is estimated based on actual experience over the last three years.

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 7 – OTHER

7.1 Provisions for Liabilities and Charges

	Property obligations £m
Balance at 30 September 2016	2.5
Payments in the year	(0.5)
Balance at 30 September 2017	2.0
Reclassification from other payables	1.5
Provision utilised	(0.4)
Payments in the year	(0.3)
Balance at 30 September 2018	2.8

Analysis of total provisions	2018 £m	2017 £m
Non-current	2.5	1.7
Current	0.3	0.3
	2.8	2.0

Property obligations include an onerous lease provision of £0.9m in respect of unutilised space at the Group's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2019 and the remaining £0.6m over the following two years. Other property obligations relate to leased premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next 10 years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, subletting of surplus leasehold property and any final negotiated settlement of any dilapidations claims with landlords.

7.2 Acquisitions & Disposals

Disposal – Avon Engineered Fabrications

In March 2018, the Group disposed of Avon Engineered Fabrications, Inc. Further details are given in note 2.3.

	£m
Total consideration received	7.1
Net assets disposed	(5.1)
Disposal cost	(0.6)
Gain on disposal	1.4

Assets and liabilities at the date of disposal were:

	£m
Intangible assets	0.1
Property, plant and equipment	2.4
Inventories	1.2
Receivables	2.0
Payables	(0.6)
Total net assets disposed	5.1

Acquisition – Merricks Inc. calf nurser product line

In June 2018, the Group acquired the Merrick's Inc. calf nurser product line. The consideration was $1.8m in cash and associated costs of acquisition were $0.3m, giving a total cost of acquisition of $2.1m. The acquisition involved the purchase of both tangible assets – tooling equipment, and intangible assets comprising customer lists, order book and the Merrick's brand.

	£m
Intangible assets	1.2
Tangible assets	0.4
Total net assets acquired	1.6

7.3 Other Financial Commitments

	2018 £m	2017 £m
Capital expenditure committed	2.3	1.0

Capital expenditure committed represents the amount contracted in respect of property, plant and equipment at the end of the financial year for which no provision has been made in the financial statements.

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2018 £m	2017 £m
Within one year	2.2	1.5
Between one and five years	7.2	6.9
Later than five years	9.5	11.3
	18.9	19.7

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

Notes to the Group Financial Statements continued

For the year ended 30 September 2018

SECTION 7 – OTHER CONTINUED

7.4 Group Undertakings

	Registered Office Address	Activity	Country in which incorporated
Held by Parent Company			
Avon Polymer Products Limited	Hampton Park West, Melksham, SN12 6NB, UK	The manufacture and distribution of rubber and polymer based products	UK
Avon Rubber Overseas Limited	Hampton Park West, Melksham, SN12 6NB, UK	Investment company	UK
Avon Rubber Pension Trust Limited	Hampton Park West, Melksham, SN12 6NB, UK	Pension fund trustee	UK
Avon Dairy Solutions (Shanghai) International Trading Company Limited	Section B1, 1F, District D12C, 207 Taigu road, Waigaoqiao Free Trade Zone, Shanghai, PRC	Trading company	China
Avon Rubber Italia S.r.l.	Corso di Porta Vittoria 9, 20122, Milano, Italy	Investment company	Italy
Held by Group undertakings			
Avon Hi-Life, Inc.	110 Lincoln St, Johnson Creek, WI 53038, United States	The manufacture and distribution of rubber and polymer based products	US
Avon Protection Systems, Inc.	503 8th St, Cadillac, MI 49601, United States	The manufacture and distribution of respiratory protection systems	US
Avon Rubber & Plastics, Inc.	503 8th St, Cadillac, MI 49601, United States	Investment company	US
Avon Group Limited	Hampton Park West, Melksham, SN12 6NB, UK	Dormant company	UK
Avon Protection Systems UK Limited	Hampton Park West, Melksham, SN12 6NB, UK	Dormant company	UK
Avon-Dairy America do sul Solucoes Para Ordentia LTDA	City of Castro, State of Parana, at Rua José Antonio de Oliveira, 80, Jardim das Araucárias, Zip Code 84174620	Trading company	Brazil
Interpuls S.p.A.	via F. Maritano, 11 | 42020, Albinea RE, Italy	The manufacture and distribution of milking point technology	Italy

Shareholdings are ordinary shares and all undertakings are wholly owned by the Group and operate primarily in their country of incorporation.

All companies have a year ending in September, except Avon Dairy Solutions (Shanghai) which has a year ending in December. For the purpose of the Group accounts the results are consolidated to 30 September.

Avon Rubber Pension Trust Limited is a pension fund trustee.

Avon Rubber Overseas Limited, Avon Rubber Italia S.r.l. and Avon Rubber & Plastics, Inc. are investment holding companies.

InterPuls S.p.A. designs and manufactures specialist milking components for use in the dairy industry.

The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer based products.

Avon Polymer Products Limited and Avon Rubber Overseas Limited are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006 ('the Act'). All remaining UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 480 of the Act.

7.5 Related Party Transactions

There were no related party transactions during the year or outstanding at the end of the year (2017: £nil). Key management compensation is disclosed in note 6.1.

7.6 Post balance sheet event

On October 26, 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that pension scheme benefits should be amended to equalise guaranteed minimum pension benefits for men and women. We are working with our actuarial advisors to understand the extent to which the judgment crystallises any additional liabilities for the Group's UK defined benefit pension scheme. We are early in the evaluation process, but we estimate that the additional liability could be in the region of £3m. Subsequent to further assessment with our advisors, any necessary adjustment is expected to be recognised in the first half of our 2019 financial year.

Parent Company Balance Sheet

At 30 September 2018

	Note	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	4	0.1	–
Investments in subsidiaries	5	70.8	70.8
Deferred tax assets	6	0.7	0.5
		71.6	71.3
Current assets			
Trade and other receivables	7	0.5	0.4
Amounts owed by Group undertakings		69.1	70.4
Cash and cash equivalents		32.4	14.7
		102.0	85.5
Liabilities			
Current liabilities			
Trade and other payables	8	3.6	3.6
Amounts owed to Group undertakings		29.5	21.0
Provisions for liabilities and charges	9	0.3	0.3
		33.4	24.9
Net current assets		68.6	60.6
Non-current liabilities			
Provisions for liabilities and charges	9	1.7	1.2
		1.7	1.2
Net assets		138.5	130.7
Shareholders' equity			
Ordinary shares	11	31.0	31.0
Share premium account		34.7	34.7
Capital redemption reserve		0.5	0.5
Translation reserve		3.2	3.2
Retained Earnings		69.1	61.3
Total equity		138.5	130.7

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the company profit and loss account. The profit for the Company for the year was £11.5m (2017: £3.1m).

These financial statements on pages 129 to 137 were approved by the Board of Directors on 14 November 2018 and signed on its behalf by:

Paul McDonald Nick Keveth

Paul McDonald
Chief Executive Officer

Nick Keveth
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 30 September 2018

	Note	Share capital £m	Share premium £m	Capital redemption reserves £m	Retained earnings £m	Total equity £m
At 30 September 2016		31.0	34.7	0.5	65.1	131.3
Profit and total comprehensive income for the year	1	–	–	–	3.1	3.1
Dividends paid	2	–	–	–	(3.2)	(3.2)
Own shares acquired	11	–	–	–	(1.0)	(1.0)
Fair value of share based payments	13	–	–	–	0.9	0.9
Deferred tax relating to employee share schemes	6	–	–	–	(0.4)	(0.4)
At 30 September 2017		31.0	34.7	0.5	64.5	130.7
Profit and total comprehensive income for the year	1	–	–	–	11.5	11.5
Dividends paid	2	–	–	–	(4.1)	(4.1)
Own shares acquired	11	–	–	–	(1.1)	(1.1)
Fair value of share based payments	13	–	–	–	1.2	1.2
Deferred tax relating to employee share schemes	6	–	–	–	0.3	0.3
At 30 September 2018		31.0	34.7	0.5	72.3	138.5

Parent Company Accounting Policies

For the year ended 30 September 2018

ACCOUNTING POLICIES

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

BASIS OF PREPARATION

The accounts have been prepared on a going concern basis and in accordance with the Companies Act 2006 and with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and under the historical cost convention except for financial assets and liabilities (including derivative instruments) held at fair value through profit and loss.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to the following:

- presentation of a cash flow statement and related notes (IAS 7)
- comparative period reconciliations for share capital and intangible and tangible fixed assets (paragraph 38, IAS 1)
- transactions with wholly owned subsidiaries (IAS 24)
- capital management (paragraph 134–136, IAS 1)
- share based payments (paragraph 45(b) and 46 to 52, IFRS 2)
- financial instruments (IFRS 7)
- compensation of key management personnel (paragraph 17, IAS 24)

Where required, equivalent disclosures are given in the Group financial statements.

RECENT ACCOUNTING DEVELOPMENTS

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 30 September 2018 have had a material impact on the Company.

FOREIGN CURRENCIES

The Group's functional currency is Sterling. Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

PENSIONS

The Group operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is closed to new entrants and was closed to future accrual of benefits from 1 October 2009. Scheme assets are measured using market values, while liabilities are measured using the projected unit method. One of the Company's subsidiaries, Avon Polymer Products Limited is the employer that is legally responsible for the scheme and the pension obligations are included in full in its accounts. No asset or provision has been reflected in the Company's balance sheet for any surplus or deficit arising in respect of pension obligations.

The Company also provides pensions by contributing to defined contribution schemes. The charge in the profit and loss account reflects the contributions paid and payable to these schemes during the period. Full disclosures of the UK pension schemes have been provided in the Group financial statements.

SHARE BASED PAYMENT

The Company operates a number of equity-settled, share based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

INTANGIBLE ASSETS

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

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the intangible assets based upon discounted cash flow projections using an appropriate risk weighted discount factor.

PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment losses.

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

Depreciation is provided estimated to write down the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the lives used are:

- Computer hardware – three years
- Other plant and machinery – five to 10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts.

LEASED ASSETS

Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

Parent Company Accounting Policies continued

For the year ended 30 September 2018

INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

DEFERRED TAXATION

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

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

Deferred tax assets arise where the carrying amount of an asset is lower than the tax value (less tax benefit which has been taken). Deferred tax assets are recognised only where the Company considers it probable that it will be able to use such losses by offsetting them against future taxable profits.

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

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset is realised or the liability is settled.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost after deducting provisions for impairment of receivables.

CASH AND CASH EQUIVALENTS

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

TRADE PAYABLES

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

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

PROVISIONS

Provisions are recognised when:

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

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

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

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

BORROWINGS

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

DIVIDENDS

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

SHARE CAPITAL

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

Where the Company purchases its own share capital (treasury shares) through employee share ownership trusts, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in shareholders' funds.

Notes to the Parent Company Financial Statements

For the year ended 30 September 2018

1 PARENT COMPANY

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the Parent Company is omitted from the accounts by virtue of section 408 of the Companies Act 2006. The Parent Company's profit for the financial year was £11.5m (2017: £3.1m).

The audit fee in respect of the Parent Company is set out in note 2.5 to the Group financial statements.

2 DIVIDENDS

Details of the Company's dividends are set out in note 5.6 to the Group financial statements.

3 EMPLOYEES

The total remuneration and associated costs during the year were:

	2018 £m	2017 £m
Wages and salaries	2.4	2.4
Social security costs	0.3	0.3
Other pension costs	0.1	0.9
Share based payments	1.2	0.9
	4.0	4.5

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid Director, are given on pages 59 to 79.

The average monthly number of employees (including Executive Directors) during the year was: 17 (2017: 12), all of whom were classified as administrative staff.

4 INTANGIBLE ASSETS

	Computer software £m
Cost	
At 1 October 2017	0.1
Additions	0.1
At 30 September 2018	0.2
Amortisation charge	
At 1 October 2017	0.1
Charge for the year	–
At 30 September 2018	0.1
Net book value	
At 30 September 2018	0.1
At 30 September 2017	–

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2018

5 INVESTMENTS IN SUBSIDIARIES

	£m
Cost and net book value	
At 1 October 2017	70.8
At 30 September 2018	70.8

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The investments consist of a 100% (unless indicated as otherwise) interest in the following subsidiaries:

	Principal activity	Registered office	Country in which incorporated
Avon Polymer Products Limited	The manufacture and distribution of rubber and polymer based products	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Rubber Overseas Limited	Investment company	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Rubber Pension Trust Limited	Pension Fund Trustee	Hampton Park West, Melksham, SN12 6NB, UK	UK
Avon Dairy Solutions (Shanghai) International Trading Company Limited	Trading company	Section B1, 1F, District D12C, 207 Taigu road, Waigaoqiao Free Trade Zone, Shanghai, PRC	China
Avon Rubber Italia S.r.l.	Investment company	Corso di Porta Vittoria 9, 20122, Milano, Italy	Italy
Avon-Dairy America do sul Solucoes Para Ordenha LTDA (1%)	Trading company	City of Castro, State of Parana, at Rua José Antonio de Oliveira, 80, Jardim das Araucárias, Zip Code 84174620	Brazil

Details of investments held by these subsidiaries are given in note 7.4 to the Group financial statements.

6 DEFERRED TAX ASSETS

	Share Options £m	Accelerated capital allowances £m	Total £m
At 30 September 2016	0.6	0.1	0.7
(Charged)/credited to profit for the year	0.2	–	0.2
Charged to equity	(0.4)	–	(0.4)
At 30 September 2017	0.4	0.1	0.5
(Charged)/credited to profit for the year	(0.1)	–	(0.1)
Credited to equity	0.3	–	0.3
At 30 September 2018	0.6	0.1	0.7

7 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Other receivables	0.1	0.2
Prepayments	0.4	0.2
	0.5	0.4

8 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Trade payables	0.5	0.4
Accruals	3.1	3.2
	3.6	3.6

Amounts due to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

9 PROVISIONS FOR LIABILITIES AND CHARGES

	Property obligations £m
Balance at 30 September 2016	2.5
Payments in the year	(1.0)
Balance at 30 September 2017	1.5
Reclassification from other payables	0.8
Payments in the year	(0.3)
Balance at 30 September 2018	2.0

Analysis of total provisions	2018 £m	2017 £m
Non-current	1.7	1.2
Current	0.3	0.3
	2.0	1.5

Property obligations include an onerous lease provision of £0.9m in respect of unutilised space at the Group's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2019 and the remaining £0.6m over the following two years. Other property obligations relate to leased premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next 10 years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, or subletting of surplus leasehold property and any final negotiated settlement of any dilapidation claims with landlords.

Notes to the Parent Company Financial Statements continued

For the year ended 30 September 2018

10 BORROWINGS

During the year the Group renewed its $40m revolving credit facility with Barclays Bank and Comerica Bank which expires on 28 June 2021 with an option to extend for a further two years. This facility is priced on the dollar LIBOR plus margin of 1–1.75% depending on leverage and includes financial covenants which are measured on a quarterly basis. The Company was in compliance with its financial covenants during 2018 and 2017.

The Company has provided the lenders with a negative pledge in respect of certain shares in Group companies.

There was no drawdown of loans in 2018 and 2017.

11 SHARE CAPITAL

Details of the Company's share capital are set out in note 5.5 to the Group financial statements.

12 OTHER FINANCIAL COMMITMENTS

The Company has no capital expenditure committed at the year end (2017: nil).

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2018 £m	2017 £m
Within one year	1.0	0.4
Between one and five years	3.6	3.7
Later than five years	8.5	9.6
	13.1	13.7

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

13 SHARE BASED PAYMENTS

The Company operates an equity-settled share based performance share plan (PSP), details of which are disclosed in note 6.3 to the Group financial statements.

Five Year Record

For the year ended 30 September 2018

	2018 £m	2017 (restated) £m	2016 (restated) £m	2015 (restated) £m	2014 (restated) £m
Revenue	165.5	159.2	138.1	123.9	117.6
Operating profit before amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	27.3	26.1	20.5	16.1	15.1
Amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	(4.5)	(6.0)	(4.1)	(1.3)	(2.7)
Operating profit	22.8	20.1	16.4	14.8	12.4
Net finance costs and other finance expense	(1.2)	(1.2)	(0.9)	(1.0)	(0.5)
Profit before taxation	21.6	18.9	15.5	13.8	11.9
Taxation	(1.8)	2.9	2.1	(2.3)	(3.0)
Profit for the year from continuing operations	19.8	21.8	17.6	11.5	8.9
Discontinued operations – loss for the year	1.6	(0.3)	–	1.4	1.8
Profit attributable to equity shareholders	21.4	21.5	17.6	12.9	10.7
Ordinary dividends	(4.1)	(3.2)	(2.4)	(1.9)	(1.4)
Retained profit	17.3	18.3	15.2	11.0	9.3
Intangible assets and property, plant and equipment	64.1	66.7	77.4	69.5	36.8
Working capital	6.2	8.9	7.2	10.3	7.4
Provisions	(2.8)	(2.0)	(2.5)	(2.6)	(3.8)
Pension liability	(30.5)	(44.1)	(39.9)	(16.6)	(16.0)
Net deferred tax liability	1.3	1.4	(2.2)	(5.2)	(2.3)
Net cash/(borrowings)	46.5	24.7	2.0	(13.2)	2.9
Net assets employed	84.8	55.6	42.0	42.2	25.0
Financed by:					
Ordinary share capital	31.0	31.0	31.0	31.0	31.0
Reserves attributable to equity shareholders	53.8	24.6	11.0	11.2	(6.0)
Total equity	84.8	55.6	42.0	42.2	25.0
Basic earnings per share – continuing operations	64.9p	71.6p	58.0p	41.7p	35.6p
Adjusted basic earnings per share	77.1p	83.8p	71.8p	52.5p	43.1p
Dividends per share paid in cash	13.56p	10.43p	8.02p	6.17p	4.75p

The results for 2014–2017 have been restated to present AEF as a discontinued operation (see note 2.2 to the Group financial statements).

Glossary of Financial Terms

	Definition
Adjusted basic earnings per share	Adjusted profit for the year divided by the weighted average number of shares in issue
Adjusted EBITDA	Adjusted EBITDA is defined as operating profit before depreciation, amortisation, exceptional items and defined benefit pension scheme costs. It excludes any effect of discontinued operations
Adjusted EBITDA margin	The ratio of Adjusted EBITDA to revenue
Adjusted operating profit	Operating profit adjusted to exclude amortisation of acquired intangibles, pension administration costs and any exceptional items
Cash conversion	The ratio of cash generated from operations before the effect of exceptional items, as a percentage of adjusted EBITDA
Closing order book	Orders held by the Group at the end of the year which are not yet fulfilled
Constant currency	Comparative performance measures are retranslated at current year exchange rates to present a comparison unaffected by currency movements
Continuing operations	The segments of the Group that are expected to still be operating in the future
Discontinued operations	The segments of the Group that no longer function within the core business and which are separately disclosed within the Income Statement
Dividend per share	Dividends paid / proposed, divided by the weighted average number of shares in issue
EBITDA	The Group's earnings before charging interest, tax, depreciation and amortisation
Exceptional Items	Significant non recurring items such as significant restructuring and project cancellation costs
Intellectual Property	Intangible property created by the Group through research and development, that is protected through patents, copyrights or trademarks
Net cash / debt	Net cash is the Group's cash net of any drawn debt or overdraft. Net debt is the Group's drawn debt and overdrafts net of any cash balance
Orders received	The orders received throughout the year and recognised as revenue together with orders in the closing order book
Return on capital employed	Adjusted operating profit as a percentage of average capital employed. Capital employed is the sum of shareholders' funds adjusted for non-current liabilities and current borrowings

Abbreviations

Term	Explanation
50 Series	Range of masks based on the proven technology of the M50 mask system
AEF	Avon Engineered Fabrications, Inc. was the US based hovercraft skirt and bulk liquid storage tank business
BPS	Basis Points
CBRN	Chemical, Biological, Radiological, Nuclear
CE	CE markings indicate conformity to health and safety standards sold within the European Economic area
CES	Cluster Exchange Service
DOD	Department of Defense
FX	Foreign Exchange
FY	Financial Year
GSR	General Service Respirator
H1/H2	First half of the financial year (October – March) / Second half of financial year (April – September)
MOD	Ministry of Defence
NFPA	National Fire Protection Association, a North American trade association that maintains usage standards for the Fire service
NIOSH	National Institute of Occupational Safety and Health. NIOSH approval indicates conformity to health and safety standards of products sold within North America
OEM	Original equipment manufacturer
PAPR	Powered Air Breathing Apparatus
PCI	Precision, Control and Intelligence
PES	Pulsator Exchange Service
RoW	Rest of World
SCBA	Self Contained Breathing Apparatus
TES	Tag Exchange Service

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in Avon Rubber p.l.c., please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR ENDED 30 SEPTEMBER 2018

Notice is hereby given that the annual general meeting ('AGM') of shareholders of Avon Rubber p.l.c. (the 'Company') will be held at Hampton Park West, Semington Road, Melksham, Wiltshire on 31 January 2019 at 10.30am for the purposes set out below.

You will not receive a form of proxy for the Annual General Meeting in the post. Instead, you will receive instructions to enable you to vote electronically and how to register to do so. You will still be able to vote in person at the Annual General Meeting, and may request a hard copy proxy form directly from the registrars, Link Asset Services, 34 Beckenham Road, Beckenham, BR3 4TU (telephone number: 0871 664 0300).

ORDINARY BUSINESS

To consider and, if thought fit, pass resolutions 1–11 (inclusive) as Ordinary Resolutions:

Resolution 1

To receive the Company's accounts and the reports of the Directors and the Auditors for the year ended 30 September 2018.

Resolution 2

To approve the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) for the financial year ended 30 September 2018.

Resolution 3

To approve the Directors' Remuneration Policy set out on pages 59 to 79 of the Annual Report.

Resolution 4

To declare a final dividend of 10.68p per ordinary share as recommended by the Directors.

Resolution 5

To re-elect David Evans as a Director of the Company.

Resolution 6

To re-elect Pim Vervaat as a Director of the Company.

Resolution 7

To re-elect Chloe Ponsonby as a Director of the Company.

Resolution 8

To re-elect Paul McDonald as a Director of the Company.

Resolution 9

To re-elect Nick Keveth as a Director of the Company.

Resolution 10

To appoint KPMG LLP as auditor of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 11

To authorise the Directors to determine the auditors' remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass resolution 12 as an Ordinary Resolution and resolutions 13–18 (inclusive) as Special Resolutions:

Resolution 12

That in accordance with section 551 of the Companies Act 2006 (the 'Act') the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined in the notes to this resolution) comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £10,341,097 but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Resolution 13

That, subject to the passing of resolution 12, the Directors be authorised to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

Notice of Annual General Meeting continued

(b) expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 14

That, subject to the passing of resolution 12, the Directors be authorised, in addition to any authority granted under resolution 13, to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

(b) be used for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors have determined to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and

(c) expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 15

That the Company be and is hereby unconditionally and generally authorised for the purpose of section 701 of the Act to make market purchases (within the meaning of 693(4) of the Act) of ordinary shares of £1 each in the capital of the Company provided that:

(a) the maximum number of shares which may be purchased is 3,102,329;

(b) the minimum price (excluding expenses) which may be paid for each share is £1;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share is an amount equal to the higher of:

(i) 105% (one hundred and five per cent) of the average of the middle market quotations of the Company's ordinary shares as derived from the Daily Official List of the London Stock Exchange for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and

(ii) the value of an ordinary share calculated on the basis of the higher of the price quoted for the last independent trade of and the highest current independent bid for any number of the Company's ordinary shares on the London Stock Exchange Daily Official List at the time the purchase is agreed; and

(d) this authority shall expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

Resolution 16

That a general meeting of the Company (other than an annual general meeting), may be called on not less than 14 clear days' notice.

Resolution 17

That the rules of the Avon Rubber p.l.c. Long Term Incentive Plan (the 'LTIP'), the principal terms of which are summarised in the Appendix to this Notice of Annual General Meeting, and produced in draft to this meeting and, for the purposes of identification, are initialled by the Chairman of the meeting, be and are hereby approved and the Directors be authorised to:

(a) make such modifications to the LTIP as they may consider appropriate to take account of the requirements of best practice and for the implementation of the LTIP and to adopt the LTIP as so modified and to do all such other acts and things as they may consider appropriate to implement the LTIP; and

(b) establish further plans based on the LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the LTIP.

Resolution 18

That the Articles of Association of the Company be amended by deleting the words 'one and one quarter times' in Article 101.2 (borrowing powers), and replacing them with the words 'two times'.

By order of the Board

Miles Ingrey-Counter

Miles Ingrey-Counter
Company Secretary

14 November 2018

EXPLANATORY NOTES RELATING TO THE RESOLUTIONS

The Board believes that the adoption of resolutions 1 to 18 will promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Board unanimously recommends that all shareholders should vote in favour of all the resolutions to be proposed at the AGM. Each of the Directors of the Company intends to vote in favour of all resolutions in respect of their own beneficial holdings.

Resolution 1 – Report and Accounts

The Directors are required by law to present to the AGM the accounts, and the reports of the Directors and Auditors, for the year ended 30 September 2018. These are contained in the Company's 2018 Annual Report.

Resolution 2 – Directors' Remuneration Report

This resolution seeks shareholders' approval of the Directors' Remuneration Report for the year ended 30 September 2018 contained on pages 59 to 79 of the Annual Report. As in previous years, the vote is advisory only and the Directors' entitlement to remuneration is not conditional on it being passed.

Resolution 3 – Directors' Remuneration Policy

This resolution seeks shareholders' approval for the new Directors' Remuneration Policy which is contained on pages 59 to 79 of the Annual Report.

It is intended that the Directors' Remuneration Policy will take effect immediately after the AGM and will replace the existing policy that was approved by shareholders in 2016 and which is due to expire this year. The vote is a binding vote and, subject to limited exceptions, no remuneration payment or loss of office payment may be made to a prospective, current or former Director unless consistent with the approved remuneration policy (or otherwise specifically approved by shareholders). It is anticipated that the Directors' Remuneration Policy will be in force for three years although the Board will closely monitor regulatory changes and market trends and, if necessary, may present a revised policy within that three year period.

The Directors' Remuneration Policy has been developed taking into account the principles of the UK Corporate Governance Code and the views of the Company's major shareholders.

Resolution 4 – Declaration of a dividend

A final dividend can only be paid after the shareholders have approved it at a general meeting. The Directors recommend that a final dividend in respect of the financial year ended 30 September 2018 of 10.68p be paid. Subject to approval, the final dividend will be paid on 15 March 2019 to eligible shareholders on the Company's register of members at close of business on 15 February 2019.

Resolutions 5 to 9 – Re-appointment of Directors

Each member of the Board has offered himself/herself for re-election in accordance with best practice corporate governance standards. The Board unanimously recommends that they each be re-elected as Directors of the Company. The Chairman confirms that each of the Non-executive Directors who are seeking re-election at the Annual General Meeting continues to be an effective member of the Board and to demonstrate their commitment to their role. The Chairman himself is also seeking re-election to the Board. Pim Vervaat, in his capacity as Senior Independent Director, has confirmed that the Chairman continues to be an effective Chairman and demonstrates commitment to his role as Chairman.

Biographical details for each Director are set out on pages 46 and 47 of the Annual Report.

Resolutions 10 & 11 – Appointment of auditor and authorisation for the Directors to set the auditor's remuneration

The Company is required to appoint an auditor at each general meeting at which its accounts are presented. During 2018, the Board oversaw a formal tender process for the external auditor appointment. PwC, due to their length of tenure and having been appointed for over 20 years, did not participate in the tender. Following the audit tender process and on the Audit Committee's recommendation, the Board is recommending to shareholders the appointment of KPMG LLP to succeed PwC as the Company's auditor for the financial year commencing on 1 October 2018. Full details of the audit tender process are set out in the Audit Committee report on pages 54 to 58 of the Annual Report. The outgoing auditor, PwC, will provide the Company with a statement of the reasons for their departure, as required by the Act and this will be circulated to shareholders once received.

Notice of Annual General Meeting continued

EXPLANATORY NOTES RELATING TO THE RESOLUTIONS CONTINUED

Resolution 12 – Directors' authority to allot

This resolution deals with the Directors' authority to allot Relevant Securities in accordance with section 551 of the Act. The authority granted at the last annual general meeting is due to expire at the conclusion of this year's AGM and accordingly it is proposed to renew this authority.

This resolution will, if passed, authorise the Directors to allot Relevant Securities up to a maximum nominal amount of £10,341,097, which is equal to approximately one-third of the issued share capital of the Company as at 14 November 2018 in accordance with institutional shareholder guidelines. The Directors have no present intention of exercising this authority. The authority granted by this resolution will expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company.

In this resolution, Relevant Securities means:

(i) shares in the Company other than shares allotted pursuant to:
  - an employee share scheme (as defined by section 1166 of the Act);
  - a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or
  - a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

(ii) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Act). References to the allotment of Relevant Securities in this resolution include the grant of such rights.

Resolution 13 – General disapplication of pre-emption rights

This resolution will, if passed, give the Directors power, pursuant to the authority to allot granted by resolution 12, to allot equity securities (as defined by section 560 of the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 14 November 2018 and renews the authority given at the AGM in 2018.

The figure of 5% reflects the Pre-Emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the 'Statement of Principles'). The Directors will have due regard to the Statement of Principles in relation to any exercise of this power, in particular they do not intend to allot shares for cash on a non-pre-emptive basis pursuant to this power in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company in any rolling three year period, without prior consultation with shareholders save as permitted in connection with an acquisition or specified capital investment as described in the notes for resolution 14.

The power granted by this resolution will expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors have no present intention to exercise the authority conferred by this resolution.

Resolution 14 – Additional disapplication of pre-emption rights

This resolution seeks a further power pursuant to the authority granted by resolution 12, to allot equity securities (as defined by section 560 of the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 14 November 2018. This is in addition to the 5% referred to in resolution 13 above.

The power granted by this resolution will expire on the date 15 months after the date of this resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors will have due regard to the Statement of Principles in relation to any exercise of this power and in particular they confirm that they intend to use this power only in connection with a transaction which they have determined to be an acquisition or other capital investment (of a kind contemplated by the Statement of Principles most recently published prior to the date of this Notice) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

Resolution 15 – Authority to purchase own shares

This resolution seeks authority for the Company to make market purchases of its own shares and is proposed as a special resolution. If passed, the resolution gives authority for the Company to purchase up to 3,102,329 ordinary shares of £1 each, representing 10 per cent of the Company's issued ordinary share capital as at 14 November 2018.

The resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the date 15 months after the date of this resolution and the Company's next AGM. The Company purchased no ordinary shares in the period from the last AGM to 14 November 2018 under the existing authority.

The Directors have no present intention of exercising the authority to make market purchases; however, the authority provides the flexibility to allow them to do so in the future.

The Directors will exercise this authority only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the earnings per ordinary share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. In the event of any purchase under this authority, the Directors would either hold the purchased ordinary shares in treasury or cancel them.

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

As of 14 November 2018 there were options to subscribe outstanding over 443,138 ordinary shares, representing 1.42 per cent of the Company's ordinary issued share capital. If the authority given by resolution 15 were to be fully exercised, these options would represent 1.59% of the Company's ordinary issued share capital after cancellation of the re- purchased shares. As of 14 November 2018, there were no warrants outstanding over ordinary shares.

Resolution 16 – Notice of Meeting

Resolution 16 is a resolution to allow the Company to hold general meetings (other than annual general meetings) on 14 days' notice.

Before the introduction of the Companies (Shareholders' Rights) Regulations in August 2009, the Company was able to call general meetings (other than annual general meetings) on 14 clear days' notice. One of the amendments that the Companies (Shareholders' Rights) Regulations 2009 made to the Act was to increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided that: (i) the Company offers facilities for shareholders to vote by electronic means; and (ii) there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days.

Resolution 16 is therefore proposed as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The approval will be effective until the Company's next annual general meeting, when it is intended that the approval be renewed. The Company will use this notice period only when permitted to do so in accordance with the Act and when the Directors consider it appropriate to do so.

Resolution 17 – Approval of LTIP

The Company's existing long-term incentive arrangement for the Company's Executive Directors and other selected senior management is the Avon Rubber p.l.c. Performance Share Plan (the 'PSP').

Since its first approval by shareholders in March 2010, the PSP has provided for annual share-based awards ordinarily vesting following a three year performance period subject to the participant's continued service and the extent to which objective performance criteria are met over the performance period. The Remuneration Committee has recently undertaken a review of the PSP and concluded that shareholder authority should be sought under resolution 17 for a new arrangement, the Avon Rubber p.l.c Long Term Incentive Plan (the 'LTIP').

The terms of the LTIP have been designed to materially continue with the main features of the PSP but with appropriate changes to bring the LTIP in line with prevailing best practice expectations and to facilitate the long-term incentive aspects of the new Directors' Remuneration Policy proposed for approval under resolution 3 as referred to above.

The PSP will be closed to further awards upon shareholder approval of the LTIP and therefore ahead of the expiry of its 10 year life that would have otherwise expired in March 2020.

A summary of the principal terms of the LTIP is set out in the Appendix to this Notice of Annual General Meeting.

Resolution 18 – Increase in the Company's borrowing powers

Article 101.2 (Borrowing Powers) of the Company's articles of association provides that the Company's borrowings should not exceed one and one quarter times its capital and consolidated reserves (as defined in the articles). As part of the Board's ongoing analysis of the Group's borrowing requirements, the Board has identified that this current limit (adopted over 25 years ago) may become unduly restrictive and that it is not in the longer-term interests of the Company or its shareholders. The Board therefore considers it commercially prudent and timely to increase the borrowing limit in conjunction with the Company's growth plans. As such, this would allow greater flexibility for the Company to respond to any future needs of the Group, including strategic investment and acquisition opportunities. Accordingly, the Directors are proposing this resolution to sanction an increase in permitted borrowings of up to two times share capital and consolidated reserves. The Directors consider this to be the appropriate borrowing limit for the Group going forward.

Notice of Annual General Meeting continued

NOTICE OF MEETING NOTES

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of business on 28 January 2019. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

2. Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 10:30am (UK time) on 31 January 2019 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.

3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).

5. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

6. You can vote either:

   - by logging on to www.signalshares.com and following the instructions;
   - you may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00–17:30, Monday to Friday excluding public holidays in England and Wales.
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF by 10:30 am on 29 January 2019.

7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

8. The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 11 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

9. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 10:30am on 29 January 2019. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

11. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

13. As at 14 November 2018 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 31,023,292 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 14 November 2018 are 31,023,292.

14. Under Section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's financial statements (including the Auditor's Report and the conduct of the audit) that are to be laid before the Meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual financial statements and reports were laid in accordance with Section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

15. Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

16. The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 30 minutes before the Meeting until the conclusion of the Meeting:

   - copies of the Directors' letters of appointment or service contracts;
   - a copy of the draft rules of the Long Term Incentive Plan; and
   - a copy of the current Articles of Association of the Company.

   In addition a copy of the draft rules of the Long Term Incentive Plan will be available for inspection at the offices of Aon Hewitt at The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN during normal business hours on any weekday (Saturdays, Sundays and English public holidays excepted) until the close of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.

17. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

Notice of Annual General Meeting continued

APPENDIX

Summary of the principal terms of the Avon Rubber p.l.c. Long Term Incentive Plan (the 'LTIP')

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.avon-rubber.com

Operation

The Remuneration Committee of the Board (the 'Committee') will supervise the operation of the LTIP.

Eligibility

Any employee (including any executive director) of the Company and its subsidiaries will be eligible to participate in the LTIP at the discretion of the Committee.

It is currently anticipated that participation in the LTIP will be limited to the Company's Executive Directors and selected senior management.

Grant of awards

The Committee may grant awards to acquire shares within six weeks following the Company ceasing to be in a closed period under the Market Abuse Regulation (EU) 596/2014. The Committee may also grant awards within six weeks of shareholder approval of the LTIP or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards.

The Committee may grant awards as conditional share awards or nil (or nominal) cost options.

The Committee may also grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although in practice, this is only expected to be the case (if at all) in exceptional circumstances.

An award may not be granted more than 10 years after shareholder approval of the LTIP.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

The first awards under the LTIP would be made within six weeks following shareholder approval of the LTIP or as soon as reasonably practicable thereafter.

Individual limit

An employee may not receive awards in any financial year over shares having a market value in excess of 150% of their annual base salary in that financial year.

Market value for the purposes of the above limit shall ordinarily be based on the market value of shares on the dealing day immediately preceding the grant of an award or by reference to a short averaging period ending on such dealing day.

Performance conditions

The extent of vesting of awards granted to the Company's Executive Directors will be subject to performance conditions set by the Committee. Performance conditions may also apply in the case of awards to others.

For the first awards granted under the LTIP to the Company's Executive Directors and other senior management, the vesting of such awards will be subject to the satisfaction of performance conditions comprising measures of relative total shareholder return and earnings per share performance over a performance period comprising three years.

Fuller details of such performance conditions are explained in the Directors' Remuneration Report within the Company's Annual Report.

The terms of the performance conditions for awards to the Company's Executive Directors shall be set in line with the applicable Directors' Remuneration Policy from time to time.

The Committee may vary the performance conditions applying to any award if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and, in the case of awards to Executive Directors, not materially more or less challenging than the original conditions would have been but for the event in question.

Vesting of awards

Awards shall vest on such normal vesting date specified for the award or, if later, when the Committee determines the extent to which any performance conditions have been satisfied.

In the case of awards to Executive Directors, the normal vesting date specified for the award shall ordinarily be no earlier than the third anniversary of the grant of the award. Earlier dates however may be specified for such awards to take account of delays in normal grant timetable. For example, a normal vesting date of 1 December 2021 is proposed in respect of the first awards under the LTIP to the Executive Directors.

Where awards are granted in the form of options, once vested, such options will then be exercisable up until the tenth anniversary of grant (or such shorter period specified by the Committee at the time of grant) unless they lapse earlier. Shorter exercise periods shall apply in the case of 'good leavers' and/or vesting of awards in connection with corporate events.

Holding period

The terms of the LTIP require that Executive Director participants (and such others if any as the Committee requires) will ordinarily be required to retain any vested shares (on an after-tax basis) acquired under the LTIP until at least the second anniversary of the vesting of the relevant award.

Exceptionally, the Committee may, in its discretion, allow such participants to sell, transfer, assign or dispose of some or all of these shares before the end of the holding period, subject to such additional terms and conditions that the Committee may specify.

Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or shares) of an amount equivalent to the dividends that would have been payable on an award's vested shares between the date of grant and the vesting of the award (or if later, and only whilst the award remains unexercised in respect of vested shares, the expiry of any holding period). This amount may assume the reinvestment of dividends and shall be paid at the same time as the delivery of the related vested shares (or cash payment as relevant).

Leaving employment

As a general rule, an award will lapse upon a participant's termination of employment within the Group or giving or receiving notice of such termination. However, if a participant ceases to be an employee or gives or receives notice because of death, injury, ill-health, disability, redundancy, retirement with the agreement of the Committee, their employing company or the business for which they work being sold out of the Group or in other circumstances at the discretion of the Committee, then their award will normally vest on normal timetable. The extent to which an award will vest in these situations will depend upon two factors: (i) the extent to which the performance conditions (if any) have, in the opinion of the Committee, been satisfied over the original performance measurement period, and (ii) pro rating of the award to reflect the period spent in service relative to the award's normal vesting period. The Committee can decide to pro-rate an award to a lesser extent (including as to nil) if it regards it as appropriate to do so in the particular circumstances.

Alternatively, in such 'good leaver' circumstances specified above (including in the case of a discretionary good leaver), the Committee can decide that the participant's award will vest when they leave, subject to: (i) the performance conditions being measured at that time; and (ii) pro-rating as described above (including the Committee's discretion as described above in respect of pro-ration).

Corporate events

In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early subject to: (i) the extent that the performance conditions (if any) have been satisfied at that time; and (ii) pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award (or pro-rate to a lesser extent) if it regards it as appropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation awards will be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

In the event of a demerger, special dividend or other similar event which, in the opinion of the Committee, would affect the market price of shares to a material extent, the Committee may decide that awards shall vest early on such basis as considered appropriate.

Override

Notwithstanding any other provision of the LTIP, and irrespective of whether any performance condition attached to an award has been satisfied, the Committee retains discretion under the LTIP to scale back the level of vesting that would otherwise result by reference to formulaic outcomes alone.

Such discretion would only be used in exceptional circumstances and may include regard to corporate and personal performance.

Participants' rights

Awards settled in shares will not confer any shareholder rights until the awards have vested or the options have been exercised as relevant and the participants have received their shares.

Notice of Annual General Meeting continued

APPENDIX CONTINUED

Summary of the principal terms of the Avon Rubber p.l.c. Long Term Incentive Plan (the 'LTIP') continued

Rights attaching to shares

Any shares allotted when an award vests or is exercised will rank equally with shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the shares, the Committee may make such adjustment as it considers appropriate to the number of shares subject to an award and/or the exercise price payable (if any).

Overall Plan limits

The LTIP may operate over new issue shares, treasury shares or shares purchased in the market.

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 10% of the issued ordinary share capital of the Company under the LTIP and any other employee share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of these limits unless institutional investor guidelines provide that they need not count.

Alterations to the Plan

The Committee may, at any time, amend the LTIP in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of shares or the transfer of treasury shares, the basis for determining a participant's entitlement to, and the terms of, the shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group. Shareholder approval will also not be required for any amendments to any performance condition applying to an award varied on its terms.

Recovery and withholding

The Committee may apply the LTIP's recovery and withholding provisions if, at any point prior to the third anniversary of the date of vesting of an award, it is discovered that there has been a material misstatement of the Company's financial results, an error of calculation (including on account of inaccurate or misleading information) or in the event of serious misconduct, serious reputational damage or corporate failure.

The recovery and withholding may be satisfied by way of a reduction in the amount of any future bonus, subsisting award or future share awards and/or a requirement to make a cash payment.

Overseas plans

The shareholder resolution to approve the LTIP will allow the Board to establish further plans for overseas territories, any such plan to be similar to the LTIP, but modified to take account of local tax, exchange control or securities laws, provided that any shares made available under such further plans are treated as counting against the limits on individual and overall participation in the LTIP.

Shareholder Information

SHAREHOLDING

As at 30 October 2018 the Company had 1,423 shareholders, of which 844 had 1,000 shares or fewer.

FINANCIAL CALENDAR

Interim results are announced in May and final results in November.

In respect of the year ended 30 September 2018 the annual general meeting will be held on 31 January 2019 at Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England.

CORPORATE INFORMATION

Registered office

Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England

Registered

In England and Wales No. 32965
VAT No. GB 137 575 643

Board of Directors

David Evans (Chairman)
Paul McDonald (Chief Executive Officer)
Nick Keveth (Chief Financial Officer)
Pim Vervaat (Non-Executive Director)
Chloe Ponsonby (Non-Executive Director)

Company secretary

Miles Ingrey-Counter

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Registrars and transfer office

Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU

Tel: 0871 664 0300
(calls cost 10p per minute plus network extras, lines are open 8.30am–5.30pm, Monday to Friday excluding UK public holidays)

Brokers

Peel Hunt LLP

Solicitors

TLT LLP

Principal bankers

Barclays Bank PLC
Comerica Inc.
Lloyds Bank Plc

Website

www.avon-rubber.com

Designed and produced by emperor
Visit us at emperor.works

Avon Rubber p.l.c.

Hampton Park West
Semington Road
Melksham, Wiltshire
SN12 6NB
England

Telephone: +44 (0) 1225 896 800
Email: enquiries@avon-rubber.com

www.avon-rubber.com