# ANNUAL REPORT 2009

Avon Rubber p.l.c.

PROTECTING THE FUTURE

# AVON DELIVERS

Avon has delivered in 2009. Revenues are up 68%, operating profit (before exceptional items) has increased by £8.7m, we have generated operating cashflow (from continuing operations before exceptional items) of £7.3m and net debt has reduced by £1.5m.

The foundation of this delivery has been customers valuing our growing range of leading edge respiratory protection equipment such as:

- M50 and M53 delivered on DoD contracts (pages 2 and 3)
- S10 and FM12 contracts with MoD and UK police (pages 4 and 5)
- C50 and ST53 contracts in developing new markets (pages 6 and 7)

We will continue to focus on our customer needs, invest in materials and technology excellence (pages 8 and 9) through ARTIS and our Protection & Defence and Dairy product development teams and to expand our already significant global footprint (pages 10 and 11). We are confident that this strategy will result in further progress in 2010.

Delivery in 2009 is the culmination of a strategic restructuring which commenced with the disposal of the automotive operations in 2006. In subsequent years the Board and senior management team have been reshaped and further disposals, restructuring and investment has delivered what is now a business focussed exclusively on its world leading military respiratory protection business and its global dairy business. To reflect this, in September 2009 our FTSE classification changed to Defence within the Aerospace & Defence sector.

Peter Slabbert
Chief Executive

2009


2008


2007


2006

# FINANCIAL PERFORMANCE

## GROUP

ORDER BOOK

£69m ↑ £2m

REVENUE

£92m ↑ £37m

OPERATING PROFIT*

£4.6m ↑ £8.7m

## PROTECTION & DEFENCE

ORDER BOOK

£69M ↑ £2m

REVENUE

£67M ↑ £34m

OPERATING PROFIT*

£3.6m ↑ £9.2m

## DAIRY

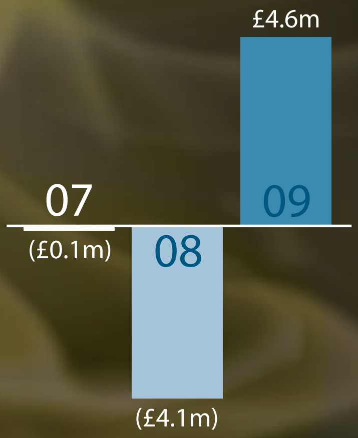
REVENUE

£25m ↑ £3m

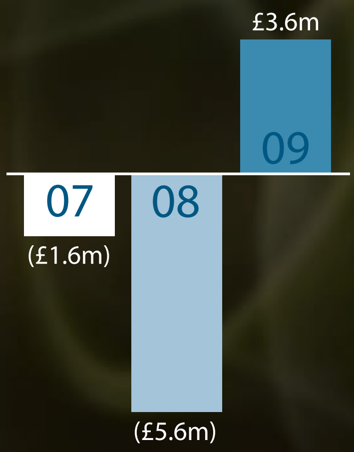
OPERATING PROFIT*

£3.0m ↓ £0.5m

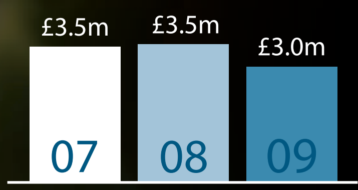
### OPERATING PROFIT*




### OPERATING PROFIT*




### OPERATING PROFIT*




*Operating profit is stated before exceptional items

## Contents



**ST53™** FRONT COVER IMAGE

## VERSATILE PROTECTION

**FOR SPECIAL OPERATIONS**

Avon's revolutionary ST53 multi-role Respiratory Protective Equipment (RPE) system has been developed specifically for specialist applications where the user needs to respond to changing operational conditions.

# AVON DELIVERS ON DoD CONTRACTS

## M50

### US GOVERNMENT CONTRACT SECURED

In February 2009 Avon Protection announced receipt of a second award from the US Government for 100,000 M50 Mask systems in respect of year two of its ten year sole source contract.

Throughout the year the Department of Defense (DoD) placed further orders against the contract bringing the combined value to $41.5 million, while various awards under the spares contract totalled $30.8 million for the year.

# M53

## FIVE YEAR DoD CONTRACT SECURED

In September 2009 Avon Protection announced a new five year contract award from the US Department of Defense (DoD) for the M53 protective mask. Delivery of the systems will commence in the first half of 2010 to the DoD, the United States Coast Guard and the United States National Guard. This contract opens a new customer base for Avon.

The M53 system is a new derivative of the M50 respirator and provides capability for use with all recognised forms of Personal Protection Equipment (PPE). The initial order under this contract is for \$3.7m with an overall potential of \$43.4m.

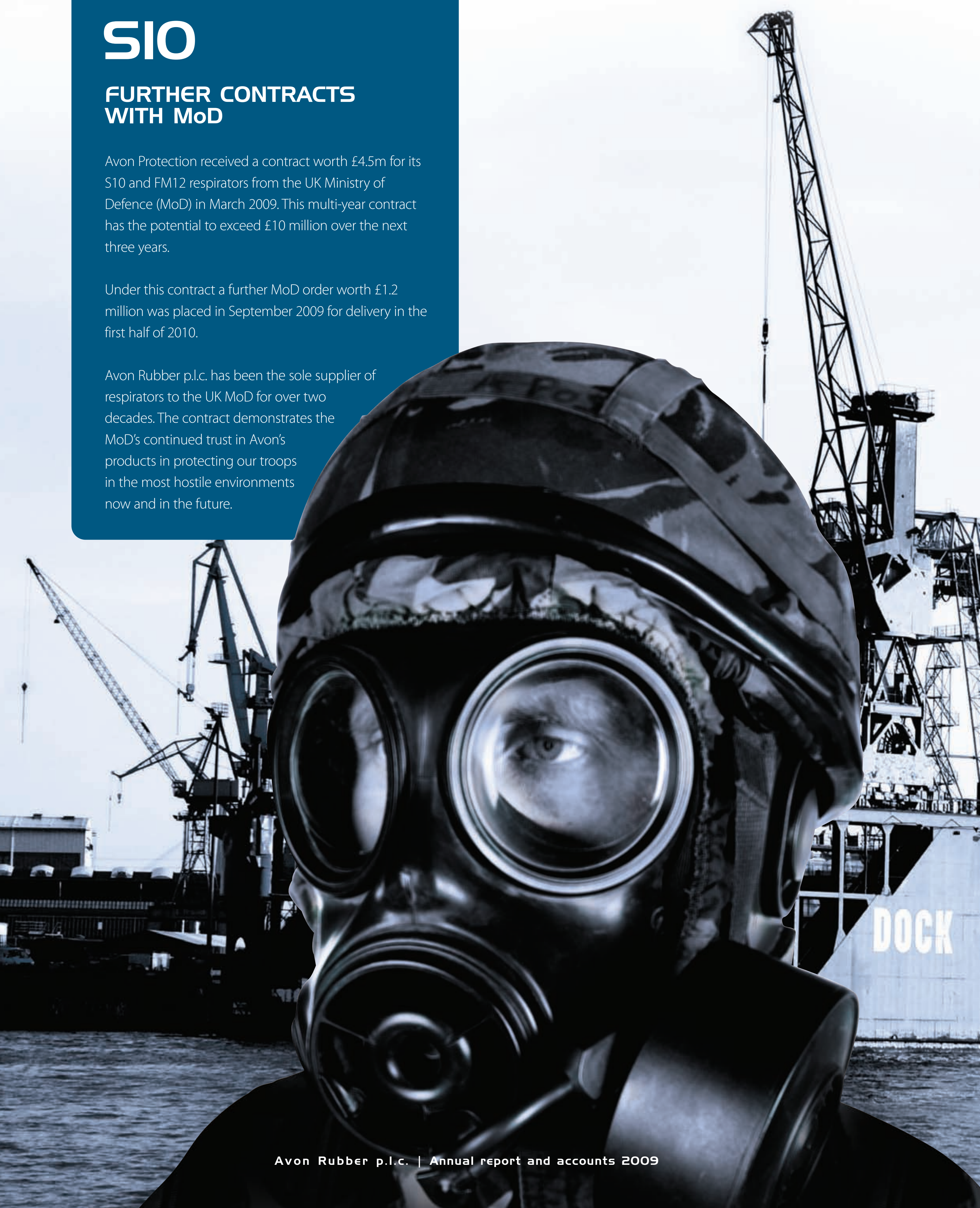
# S10

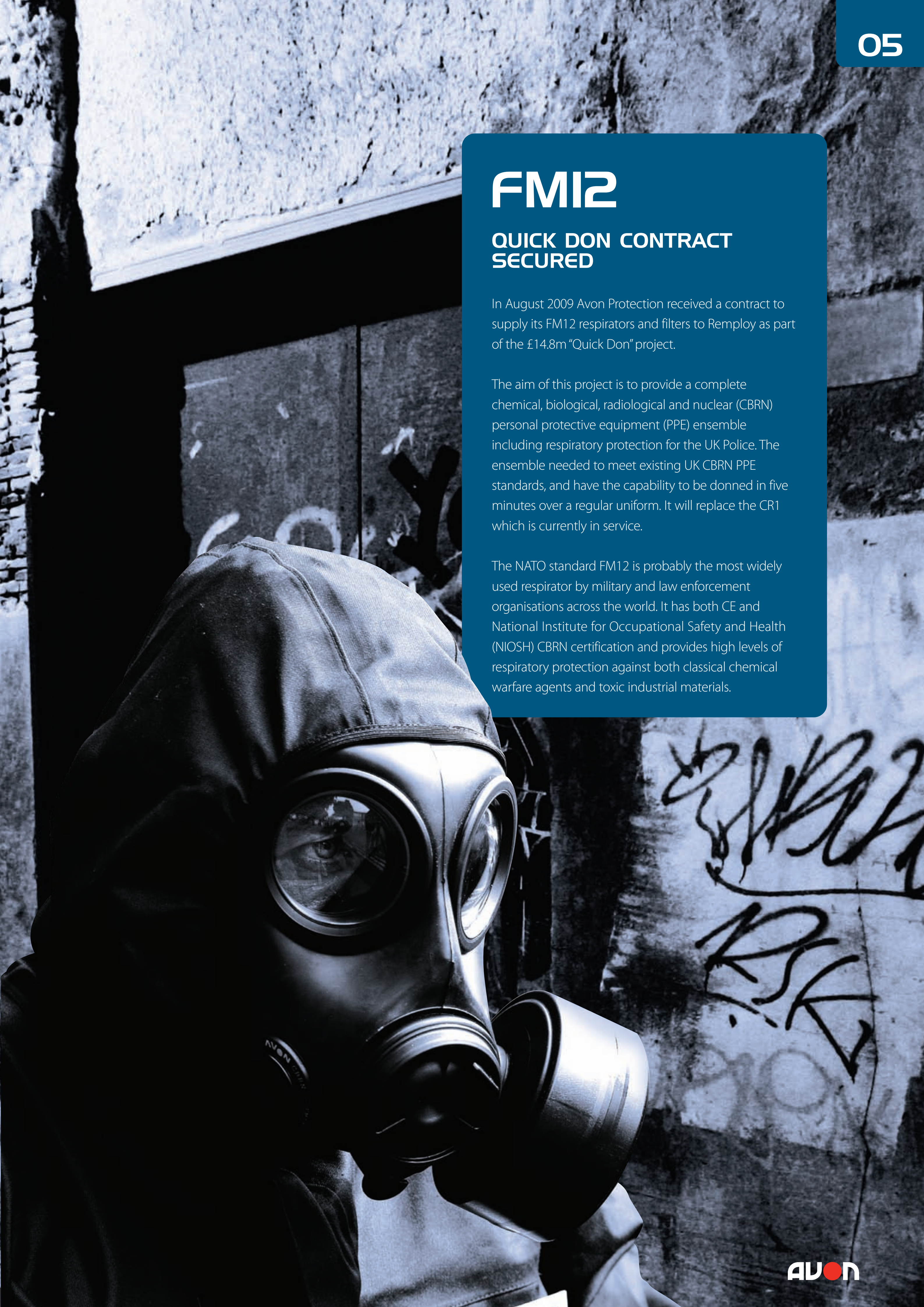
## FURTHER CONTRACTS WITH MoD

Avon Protection received a contract worth £4.5m for its S10 and FM12 respirators from the UK Ministry of Defence (MoD) in March 2009. This multi-year contract has the potential to exceed £10 million over the next three years.

Under this contract a further MoD order worth £1.2 million was placed in September 2009 for delivery in the first half of 2010.

Avon Rubber p.l.c. has been the sole supplier of respirators to the UK MoD for over two decades. The contract demonstrates the MoD's continued trust in Avon's products in protecting our troops in the most hostile environments now and in the future.





# FM12

## QUICK DON CONTRACT SECURED

In August 2009 Avon Protection received a contract to supply its FM12 respirators and filters to Remploy as part of the £14.8m "Quick Don" project.

The aim of this project is to provide a complete chemical, biological, radiological and nuclear (CBRN) personal protective equipment (PPE) ensemble including respiratory protection for the UK Police. The ensemble needed to meet existing UK CBRN PPE standards, and have the capability to be donned in five minutes over a regular uniform. It will replace the CR1 which is currently in service.

The NATO standard FM12 is probably the most widely used respirator by military and law enforcement organisations across the world. It has both CE and National Institute for Occupational Safety and Health (NIOSH) CBRN certification and provides high levels of respiratory protection against both classical chemical warfare agents and toxic industrial materials.

# C50

## CONTRACT FOR THE STATE OF ILLINIOS

In May 2009 Avon Protection received a contract to supply the C50 respirator system to the State of Illinois.

With distribution partner Pro-Tech, Avon will deliver C50 respirators devices for use by Illinois law enforcement and state agencies.

Ed Drellishak, President of Pro-Tech said,

**"This award marks another significant step in the development of Avon's market leading position and demonstrates the superiority of the C50 product"**

The C50 is Avon's next generation full face mask, offering users the highest levels of protection, whilst providing an outstanding field of vision and superior comfort.

# ST53™

## HOT ZONE SOLUTIONS CHOOSE AVON PROTECTION

In August 2009 Avon Protection was selected to supply its ST53 multi-role modular respiratory protective equipment system to Hot Zone Solutions. It was chosen as a part of the essential Personal Protection Equipment (PPE) staff should wear during live agent training demonstrations, as well as for the Chemical, Biological, Radiological and Nuclear (CBRN) security it provides at large events and conferences.

Current user groups of the ST53, who have already incorporated this system into their PPE requirements, include the US Secret Service, Boston SWAT, the Department of Energy/Border Patrol, FBI and Drug Enforcement Agency.

Dieter Rothbacher of Hot Zone Solutions explains:

**"Here at Hot Zone Solutions, we are focused on providing first class chemical, biological and radiological agent training to the law enforcement, emergency response and security communities. As a part of developing and delivering our specialised training, we require proven PPE that can withstand a CBRN toxic environment. Avon's ST53 is ideal in such situations due to its flexibility and total protection."**

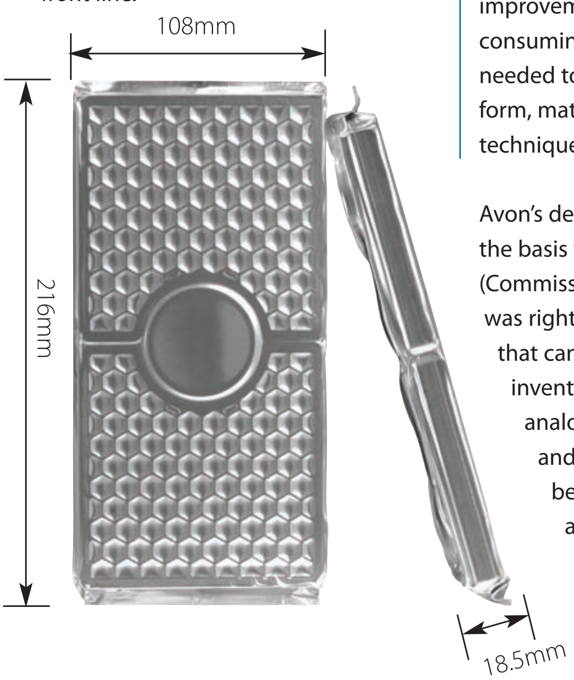
# CUTTING EDGE PRODUCTS

**The Personal Protection Equipment (PPE) industry is a highly regulated, safety critical market where quality and dependability are a must – not a target.**

PPE is one of the vital systems that allows end users to carry out their assigned tasks in hazardous environments. Military teams, law enforcement agents and first responders for example, all carry out strenuous roles and demand the minimum burden from their PPE when delivering their tasks. They need the lightest, lowest burden devices to enable them to adapt to dangerous situations in challenging environments.

So begins our challenge – operational needs demand that designers think beyond conventional boundaries and extend their thoughts to lighter, smaller and more innovative solutions.

The market for PPE, particularly CBRN equipment (Chemical, Biological, Radiological and Nuclear) is changing quickly. As the level and type of threat to countries, governments and individuals change, designers and manufacturers of PPE must respond quickly to help equip those on the new front line.




Even when you think you are meeting customer demands, there are always new challenges in the R&D environment to stretch conceptions of what can be achieved using tools and techniques available to a designer.

Avon's recent programme for the USA Department of Homeland Security Science & Technology Group (DHS S&T) is an outstanding example where existing pre-conceptions had to be adjusted even before the project could start. Code named **EH15**, the customer defined a new requirement in Escape Hood technology – a super slim product capable of being stored in a suit jacket pocket whilst providing protection in a CBRN environment for a minimum of 15 minutes. The challenge for Avon's design team was to harness recent advancements in technologies and manufacturing techniques to squeeze a safety critical escape hood device inside a package no larger than 19mm (3/4") thick.

Avon's cross functional team set about putting together concepts exploring how to combine, eliminate or miniaturise bulky components found in traditional Escape Hoods to meet the size target. Although many good ideas were generated no single idea initially presented itself as the 'step change'. The method of using small, incremental improvements was ineffective and time consuming so a new direction was needed to help rethink the traditional form, materials and manufacturing techniques used in respiratory products.

Avon's design team began working on the basis that Charles Duell (Commissioner, US Patent Office, 1899) was right when he said: "Everything that can be invented has been invented" and so set about exploring analogous technologies, objects and products. Then the team began looking at pop-up books and by mocking up in card a couple of folding filters and some simple cardboard sheets to represent a pop-up design concept, our eureka moment happened.

Following extensive iterations of physical models, the geometry was eventually finalised and only then did the team begin transposing the design into a 3D computer model which was developed in just 3 days. The resulting 3D data was then used directly by the toolmaker to make the first prototype mould. Within 5 weeks the first products were successfully produced and placed into filter assemblies – they all folded and popped open exactly as intended.

A critical factor for an Escape Hood is its ability to withstand CBRN gases. Gas filtration performance is dominated by the filter depth – the deeper the filter, the longer the gases can be resisted. Using a novel composite cover plate (metal with plastic over moulding), Avon developed a unique ultra low profile filter with greater strength than a standard Escape Hood filter whilst maintaining the **EH15** product height limit of 19mm. Filter performance was assessed and honed using CBRN gases and nerve agent stimulant testing at Avon's specialized filter laboratory in Cadillac, MI, USA.

Product validation is the critical phase and the **EH15** proved its robustness by completing the full range of laboratory and user trials identified by the customer. The use of Avon's development facilities in the UK enabled immediate feedback on the main performance parameters of breathing resistance, re-breathed $CO_2$ and the ability of the hood to provide a sealed environment to protect the user.

Although passing specific laboratory testing enables the product to be considered suitable for field use - the real test is how it is received by its users. As part of the product development cycle, an independent user trial was conducted at the University of Maryland, USA, on ten selected subjects (two female, eight male) who assessed the **EH15** for performance, wearability, and comfort. After donning the hood, each subject was asked to perform three minute exercises in the following order: walk at a normal pace, enter/exit a sport utility vehicle, fast walk/slow jog, walk up/down along dimly lit corridors and go up/down the stairs. The final report concluded that *"Testing of human wearers indicates that the EH15 hood is comfortable, easy to use, and imposes little burden on wearers"* In any event, the **EH15** allows the user to continue to escape by whatever means available.

At the end of the programme, Avon had delivered the **EH15** prototypes on time and to the agreed budget. The customer Programme Manager Jalal Mapar summarised:
*"The test data showed that Avon had developed an exceptional product that had performed well against the specification"*
and this statement epitomises the view of the product within the customer base.

Before the development of the EH15, Escape Hoods were devices that were carried on a belt or stored in cupboards. The EH15 is a truly portable device which meets all the exacting requirements of the DHS S&T. So as designers, this project reinforces the adage that challenges generate inspiration and without those challenges, the designers are sometimes left bereft of ideas.

**EH15** *is now being further developed by Avon with DHS S&T funding to meet the requirements of National Institute for Occupational Safety and Health (NIOSH) Statement of Standard for Chemical, Biological, Radiological, and Nuclear (CBRN) Air-Purifying Escape Respirator (APER).*

**"The EH15 programme is a great example of our ability to delight our customers by delivering innovative solutions to their requirements. The UK team challenged conventional thinking about how an escape hood should be designed and packaged and we are very proud of their success."**

Mike Harral
Product Development Director

**MILK-RITE®**
animal health and milk quality

**IMPULSE VENTED LINERS**

**"This has revolutionised cow milking. I think it is the biggest improvement in milking dairy cows in a generation."**

**Ben Pullen, Chairman of the British Friesian Breeders Club**

**artis**
stretching the limits

Avon Dairy Solutions is currently using ARTIS to explore the way that silicone milking liners change during service. Using a programme of unique tests to evaluate the physical and chemical changes in the liner during service, the understanding gained will allow development of the next generation of silicone liners.
This methodology has already been applied to a major study looking at the way the design and materials used in conventional liners can improve animal health and milking efficiency.

ARTIS used a prototype silicone dairy milking inflation to test for insertion force. Milk liners are used in a very demanding environment. Milk contact, fatigue and exposure to cleaning agents are key factors affecting milking performance and longevity. Tests such as this help Avon to develop new and improved material solutions,ensuring our milk liners remain competitive in the marketplace.

# A GLOBAL PRESENCE

"Avon's secure Distributor Portal enables our international distributor base to download up-to-date brochures, marketing and training materials from a single source accessible anywhere in the world using an internet connection."

Jason Hargreaves,
IT & Communications Director


AVON PROTECTION
AVON DAIRY SOLUTIONS
ARTIS
CORPORATE OFFICE
SALES OFFICE
Belgium
SALES OFFICE
Malaysia

## "The 2009 results demonstrate that we can deliver in our chosen markets."

### INTRODUCTION

Avon is a very different company to that of 12 months ago. We are customer driven and continue to strive to become more so; we are innovative and market focused in our product development activity and operate with an increasingly appropriate cost base. However, whilst we have changed, we still retain the best of our long and successful heritage; talented and motivated people, a great brand name and excellence in materials science and manufacturing all remain fundamental to our success.

In 2009 we capitalised on these strengths to deliver the first stage in transforming the performance of the Group. We concentrated on delivering the opportunities outlined in 2008 and creating a secure platform for future growth. Revenue has grown by 68% to £91.7m and this delivered a £4.6m operating profit (before exceptional items) compared to the £4.1m operating loss (before exceptional items) last year. Our order book has grown to £69m providing good visibility on future sales. The loss making mixing operation has been sold and we have outlined a clear strategic vision for the Group. Our balance sheet has strengthened through debt reduction.

At ISI we have so far been unable to turn around the fortunes of our US based self contained breathing apparatus (SCBA) business. We have however reduced the cost base of the business and appointed an experienced General Manager providing a greater focus on industrial and defence related opportunities which should result in an improved performance in 2010. Avon Engineered Fabrications (AEF) has yet to be divested despite considerable interest. The intention is still to dispose of this business, but with it returning to profit this year, we will only do so if an acceptable valuation can be agreed.

Our strong order book, dominant market positions in defence respiratory protection and dairy liners, supported by technologically superior products, growing brand strength and high competitive entry barriers, should enable us to continue to improve profit margins. We are increasing investment in product development and routes to market to aid our business growth.

### STRATEGY

The 2009 results demonstrate that we can deliver in our chosen markets. The Protection & Defence business has seen rapid growth on the back of the new 50 series respirators and the DoD contracts, while seeing continuing demand for our S10 and FM12 masks from the UK MoD and police. We enhanced our sales and marketing capability and signed up key distributors to provide access to new markets for our world leading products. We transformed our Avon Protection Systems branding and continue to add value to our product range through product enhancement and integration. We are well placed to lead the future provision of integrated chemical, biological, radiological and nuclear (CBRN) protection to the future soldier. Despite global pressures on defence budgets, we still expect funding for personal protective equipment to be maintained. We have invested in facilities with capacity to deal with increased respirator orders, with further investment in filter production to meet demand for this consumable product planned in the coming year.

Our dairy Milk-Rite brand has increased its market share in all regions despite tough conditions in the dairy industry. Our aim is to become a 'technical solutions' provider encompassing all consumables involved in the automated milking process. To achieve this we will continue to introduce innovative new products and source related products which we can provide to our customers under the Milk-Rite brand through our extensive dealer network. The recent outsourcing of liner production from the UK means we now have globally competitive production sources in both the USA and Europe.

MILK-RITE®
animal health and milk quality

### Milk-Rite launches in Poland & Russia


In September, Milk-Rite made a high profile launch into Eastern Europe at the AgroShow and Ferma shows in Poland and the Golden Autumn and AgrProdMasz shows in Russia. The Eastern European market is beginning to develop and open up and is a major focus for future sales growth.

## RESULTS

Revenue from continuing operations increased by 68% to £91.7m (2008: £54.6m) with Protection & Defence up 105% to £66.9m (2008: £32.6m) and Dairy up 13% to £24.8m (2008: £22.0m). We have benefited from the translation impact of the stronger US dollar as our business is predominantly US based. At constant exchange rates the revenue growth would have been 36%. The Protection & Defence growth came primarily from a full year's supply of masks and filters under the 5 year sole source DoD contract which entered full production in May 2008, together with strong demand under the 10 year option contract. Dairy growth was largely currency related, with lower demand driven by market conditions for much of the 2009 calendar year after a strong first quarter.

The operating profit before depreciation, amortisation and exceptional items (EBITDAE) rose from a £0.7m loss in 2008 to a £8.6m profit in 2009; operating profit before exceptional items improved by £8.7m to £4.6m (2008: £4.1m loss) and after exceptional operating items of £2.5m (2008: £8.5m), the operating profit was £2.1m (2008: £12.6m loss). The return to profitability resulted from the higher revenues, a significant improvement in gross profit percentage and operating expenses held at prior year levels. EBITE was split £3.6m from Protection & Defence (2008: £5.6m loss), £3.0m from Dairy (2008: £3.5m) less unallocated central costs of £2.0m (2008: £1.9m).

Net debt reduced to £13.6m (2008: £15.1m). At 2008 exchange rates net debt would have reduced to £10.8m. We now have headroom of £5.6m, facilities agreed through to June 2011, debt levels at less than 2 times continuing EBITDAE and opportunities for further reduction through the proceeds of the AEF disposal.

## DIVIDEND

Our intention is to build a long term sustainable and growing business. With the current credit markets and cash requirements from the legacy of losses and restructuring and further investment planned for 2010, the Board believes it remains appropriate to continue to strengthen the Group balance sheet and further reduce debt. Accordingly we are not proposing to pay a dividend in 2009 but remain committed to resuming a dividend at the appropriate time.

## EMPLOYEES

Revenues have grown significantly this year yet our headcount has shrunk to 686 from 842 last year. The reduction is due to the outsourcing of dairy manufacture to the Czech Republic, improving production efficiencies and a trend towards the outsourcing of component supply. Our production employees are increasingly concentrating on high end value adding assembly and quality control processes, and there is less emphasis on administrative tasks and more focus on customer service. All this means an increased demand on our people both in terms of skills and productivity. They have responded magnificently and I thank them on behalf of the Board.

## OUTLOOK

We have delivered the return to profitability predicted last year through substantial growth from our core long term protection contracts supported by a modern lean manufacturing culture, despite some challenges in our dairy and fire protection markets.

We are seeing some encouraging revival in milk prices which we expect will feed through in higher demand for our dairy products in 2010. This, together with the cost reductions from the outsourcing of European production, should result in an improved performance from our Dairy business.

Our Protection & Defence businesses have strong order books entering 2010 and the potential to benefit from homeland security and foreign military demand for our market leading products around the globe. Funding levels in the fire services market in the US may remain low but improvement at ISI will come from increasing opportunities in the defence and industrial sectors.

Richard Needham

The Rt. Hon. Sir Richard Needham
Chairman
19 January 2010


Avon Protection exhibited at Defence Systems & Equipment International (DSEI), the world's largest fully integrated defence and security exhibition held in London. International delegations visiting the stand included Kuwait, Korea, Malaysia, USA, Japan and New Zealand.

The British Army Export Support Team exhibited Avon's products and performed demonstrations twice daily.

## 1. BUSINESS OVERVIEW

Avon is a world leader in the design, test and manufacture of advanced Chemical, Biological, Radiological and Nuclear (CBRN) respiratory protection solutions to the worlds military, law enforcement, first responder, emergency services, fire and industrial markets. Avon has a unique capability in CBRN protection based on a range of advanced CBRN technologies in respirator design, filtration and compressed air breathing apparatus. This enables Avon to develop specialised solutions that take full account of user requirements. Avon also operates a world leading dairy business, manufacturing liners and tubing for the automated milking process.

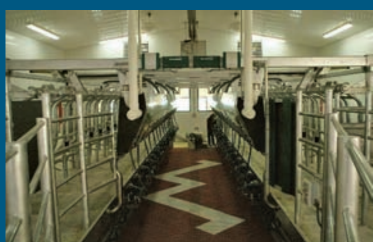
### Protection & Defence

This business consists of a growing range of respiratory protection products. The main Protection & Defence products are respirators or gas masks (product names S10, FM12, M50, C50, ST53 and M53) together with a range of spares and accessories; the CE approved emergency hood (EH20), NIOSH approved emergency hood (NH15) and self-contained breathing apparatus (SCBA) (primarily the Viking product range). These respirators and escape hoods offer breathing protection to varying degrees against chemical, biological, radiological and nuclear (CBRN) threats while the SCBA equipment offers protection in oxygen depleted environments. We also manufacture the consumable filters used by these products and thermal imaging camera equipment. Earlier in the year the product range was improved with the approval of our emergency hood to USA National Institute of Occupational Safety and Health (NIOSH) standards. A new escape hood is being developed for the US Federal Government (see page 8) and a pipeline of further new product developments is being established.

Our respiratory protection products are sold direct to military markets where our primary customers are the US Department of Defense (DoD) and the UK Ministry of Defence (MoD) as well as a number of approved friendly governments globally. Other significant markets are categorised under the Homeland Security banner that includes the Police and other emergency services and are sold either directly or through distribution channels. The SCBA and thermal imaging equipment is focused on fire services and other industrial users primarily through a distribution network in the US. All these products are safety critical and the markets are consequently highly regulated with the approval standards creating significant entry barriers. The product life cycles are long and standardisation to a particular product by users is the norm.


**Avon Protection exhibited at the 116th Annual International Association of Chiefs of Police (IACP) Conference and Exhibition in Denver, Colorado. Attended by 14,000 law enforcement professionals, IACP is the largest exhibition of products and services for the law enforcement community and provided the ideal platform for Avon to demonstrate the ST53, C50 and NH15.**

AVON DAIRY SOLUTIONS



The University of Wisconsin is the centre of excellence and leadership in the areas of dairy science education.

We have agreed a technical alliance with them to work on research and development and funded research projects. This will include trials at their Arlington Test Farm, a $7m investment project opened in 2009. The farm has a 400 cow herd.

This gives us a world leading product development centre.

### Dairy

Our Dairy business manufactures and sells products used in the automated milking process, primarily rubberware such as liners and tubing. These products can be in direct contact with the cow and are replaced regularly to ensure product hygiene, animal welfare and to maximise milk quality. The global market is concentrated in high consumption automated markets in North America and Western Europe where we have significant market shares. Potential exists outside our traditional markets in particular in China, which is experiencing rapidly increasing demand for dairy products, and in mechanised milking. Our products are manufactured for major Original Equipment Manufacturers (OEMs) as well as being sold through distributors under our own Milk-Rite brand. We excel in product design, materials specification and manufacturing efficiency. We are working to bring a wider range of dairy products to market under our Milk-Rite brand, enhancing the farmer's view of Milk-Rite as their primary technical solutions provider.

## 2. OBJECTIVES AND STRATEGIES

The Group is committed to generating shareholder value through developing products and serving markets that can deliver long-term sustainable revenues at higher than average margins.

The strategy to achieve this is to expand our Protection & Defence business, and to sustain and develop our strong Dairy operations.

### Protection & Defence

We have a world leading range of military respirators, developed over a number of years and funded partially by our customers, where we own the intellectual property. Our strategy is to build on this strong position in the military market, initially through our long-term contract to supply the US military, and subsequently through sales and further long-term contracts to other friendly forces. We believe that our existing product range and customer base, together with our credibility and development expertise, will put us in prime position to supply into all accessible global markets.

We are simultaneously targeting homeland security markets with non-military versions of these products. Our SCBA products have the potential for greater integration with our other respiratory protection products as has been demonstrated with the ST53 product launched during the year.
We aim to increase our range of product offerings, widen our routes to market and aggressively pursue further product approvals and certifications in new markets. In addition, successfully integrating our respiratory products with the other CBRN protection products a war fighter requires such as boots, gloves and suits, will allow us to provide a full suite of CBRN protection. These will primarily be through organic growth in the short term.

### Dairy

Our aim is to maintain our market leading position in the US while growing our European business through our own brand Milk-Rite products. We are also investing in opportunities in developing markets such as China and Eastern Europe, which have the potential to deliver growth in the longer term. Innovative new product offerings and continued world class low cost manufacturing excellence enable this business to sustain a consistent record of profitability and cash generation.

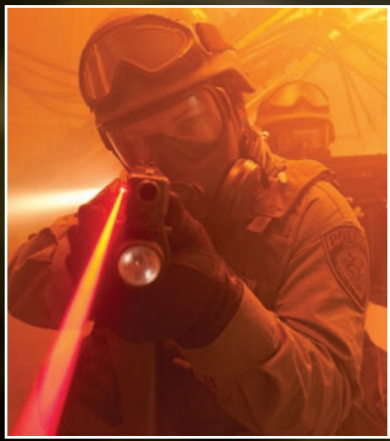
## 3. YEAR UNDER REVIEW

2009 has been a year of consolidation and delivery for Avon. Following the Non-Executive Board appointments in 2007, which brought significant relevant experience to the Group, a new Chief Executive and a new Group Finance Director were appointed in 2008. This gave the Group a Board and Executive team which was well equipped to meet the opportunities available to the Group in 2009.

The Group's key achievements in 2009 have been :-

- £8.7m turnaround in operating profit (before exceptional items) from a £4.1m loss in 2008 to £4.6m profit in 2009.
- Cash generated from continuing operating activities (before exceptional items) of £7.3m.
- Order intake in Protection & Defence of £54.5m, including significant orders from UK MoD (£5.5m) and US DoD (£34.0m), leaving a closing order book of £69m.
- Manufacturing capability for the 50 Series mask and associated filters for the DoD contract demonstrated and efficiency improvements delivered.
- Delivery of the DoD contract requirements to schedule.
- To commence the relocation of European dairy manufacturing from the UK to a subcontractor based in the Czech Republic, due to complete in the first half of 2010.
- Disposal of our European mixing facility in November 2008 for £2.0m.
- Completion of sale and leaseback transactions of our two US Dairy facilities, realising $6.0m of cash to pay down debt.
- Addressing the UK cost base including the announcement of the closure of the UK defined benefit pension scheme to future accrual of benefits, effective 1 October 2009.

**Avon Protection was selected to supply its ST53 multi-role modular respiratory protective equipment system to Hot Zone Solutions.**



**"Avon gas masks are great. They flow really well. You can actually see out of them and you can actually shoot a rifle whilst wearing it as well. Its one of the most comfortable gas masks I've ever worn and I've worn quite a few of them".**

Fire Arms Instructor
Aurora Police Department

**Avon Protection have been the major event sponsor of the US National SWAT Championships since its inception in 2007. This year more than 20 elite tactical teams from the US and Europe took part.**

Bob Owens, long standing commander of Dallas acclaimed SWAT team,

**"SWAT competitions bring out the best in law enforcement. These types of competitions offer top-notch training and competition"**

### Results

2009 has seen Avon move from a business with significant potential to a business which has started to show it is capable of delivery. The £8.7m turnaround in operating profit (before exceptional items) has been driven by the Group winning orders from existing and new customers, which, together with operational improvements, allowed us to fulfil these orders profitably.

Revenue from continuing operations increased by £37.1m (68%) to £91.7m (2008: £54.6m), with Protection & Defence up 105% from £32.6m to £66.9m. Dairy revenues grew 13% from £22.0m to £24.8m. The operating profit before exceptional items was £4.6m (2008: £4.1m loss). After exceptional items, net interest and other finance income the profit before tax was £1.0m (2008: £12.4m loss). After tax, the loss for the year from continuing operations was £0.7m (2008: £11.1m loss).

### Exceptional items

Exceptional items amounted to £2.5m (2008: £8.5m) and relate to the costs of the transfer of European dairy production from the UK to the Czech Republic, offset by gains from the sale and leaseback of dairy production and distribution facilities in the USA.

The move of European dairy production which will improve future Dairy profits, included £2.0m of redundancy and relocation costs, which are cash costs to be met in 2009 and 2010, non-cash costs of £1.1m in respect of asset write offs and an onerous lease provision of £2.5m in respect of the leased UK facility as the move has resulted in significant unutilised space at the Group's Hampton Park West facility in the UK.

### Cashflow and liquidity

Net interest costs increased to £1.5m (2008: £1.0m) reflecting increased borrowings as we entered the year, together with the higher cost of funding in the current financial markets. In the year we invested £3.6m (2008: £2.7m) in fixed assets and new product development, particularly in the Protection & Defence business. Working capital decreased notwithstanding higher sales, as the benefits of increased focus in this area were realised. Other finance income associated with the Group's UK retirement benefit scheme was £0.4m (2008: £1.2m), the fall being largely attributable to the increasing discount rate on AA corporate bonds and lower expected rates of return on assets used in IAS19 calculations for 2009.

Net debt at the year end was £13.6m (2008: £15.1m). The majority of the Group's borrowings are US$ denominated, so the fall in the exchange rate from $1.84 to $1.59 added £2.8m to reported net debt due to translation. Group borrowing facilities at year end of £19.2m all had expiry dates of less than 12 months. Subsequent to the year end new facilities of £5m and $28.2m, the majority of which have a maturity date of 30 June 2011, have been put in place.

### Taxation

The tax charge on continuing operations totalled £1.7m (2008: £1.3m credit) on a profit before tax of £1.0m (2008: £12.4m loss). The higher tax rate is due to two factors: the exceptional item in respect of UK restructuring not giving rise to a tax deduction and the lack of recognition of UK tax losses as a deferred tax asset. Thus the effective tax rate, if the impact of exceptional items is removed from the profit before tax, is 48% (2008: 32% credit). Unrecognised deferred tax assets in respect of tax losses in the UK amount to £8.5m.

### Discontinued operations

Discontinued operations in 2009 represented the AEF business, held for sale at 30 September 2009. AEF made an operating profit of £0.9m and after a tax charge of £0.3m contributed £0.6m to the Group result.

In March 2009 AEF commenced delivery against the major fuel storage tank contract which it was awarded late in 2008 and this contributed significantly to the improved performance of the business in 2009. AEF ended the year with orders of $9.1m on hand in respect of the fuel storage contract, the majority of which are expected to be delivered in the first half of 2010.

The sale of the UK mixing facility was completed on 7 November 2008 for £2.05m, settled in cash.

### Earnings per share

The basic loss per share was 0.6p (2008: 68.4p loss) and loss per share from continuing operations was 2.6p (2008: 39.1p loss).

Adjusted earnings per share from continuing operations were 12.5p (2008: 3.4p loss). Adjusted earnings per share excludes the impact of amortisation of intangibles and exceptional items.

### Protection & Defence performance

Protection & Defence includes our respiratory protection businesses in the US and UK and represents 73% of total Group revenues. Revenue grew by 105% to £66.9m (2008:£32.6m). Operating profit before exceptional items amounted to £3.6m (2008: £5.6m loss).

In May 2008 our Cadillac facility was successful in obtaining a single source $112m, 5 year full rate production (FRP) order from the US Department of Defense (DoD) for the M50 military respirator at the rate of 100,000 mask systems per annum. The DoD also exercised its 'requirements' option to extend the order for a further 5 years allowing it to take up to a further 200,000 masks systems per annum, resulting in total potential quantities of up to 300,00 mask systems per annum over a 10 year period.

In 2009 we delivered $73.6m to the DoD against these and other associated spares contracts. With total orders on hand of $102m at 30 September 2009, of which $50m are for delivery in 2010 and further US Government funding to place further orders of $48m already approved for 2010 for delivery in 2010 and 2011, we have good visibility on this long term contract.

Our UK operation continues to see demand for our existing S10 and FM12 products. In March 2009 the UK Ministry of Defence (MoD) awarded Avon a multi-year contract with the potential to exceed £10 million over the next 3 years whilst other long standing customers of these respirators continue to order masks and accessories. We take forward £2.4m of MoD orders for delivery in 2010.

Market conditions for ISI, the Group's US based self-contained breathing apparatus (SCBA) business, were challenging. The cutbacks and delays in the release of Federal grants to fire departments and extremely competitive and price driven market conditions led to a disappointing performance. We have taken action to reduce the cost base of the business and appointed a new General Manager with significant industry experience. These actions and a greater focus on industrial and defence related opportunities should result in an improved performance in 2010.

## PROTECTION & DEFENCE PERFORMANCE

**Protection & Defence includes our respiratory protection businesses in the US and UK and represents 73% of total Group revenues.**

**Revenue grew by**
**105%**
**to**
**£66.9m**
**(2008: £32.6m)**

**Operating profit up**
**£9.2m**
**to**
**£3.6m**
**(2008: £5.6m loss)**

AVON

### Dairy performance

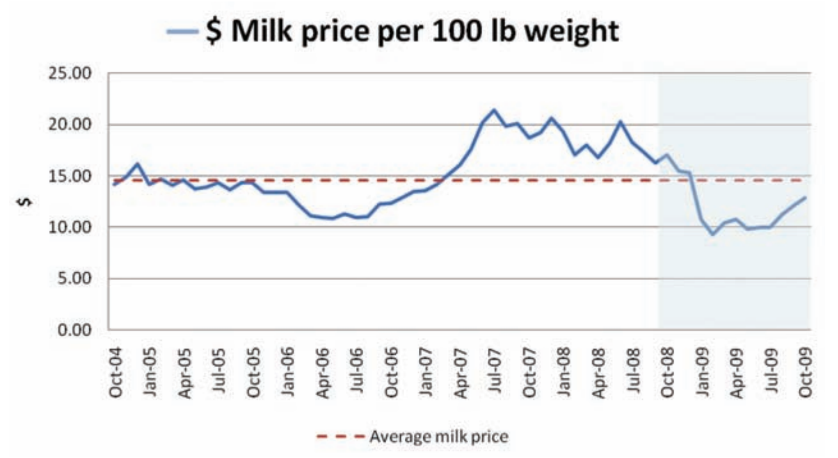
Revenues increased by 13% from £22.0m to £24.8m. The stronger US dollar increased Dairy reported revenues even though the business saw a fall in volumes in the last three quarters of the year. This reduced demand for our product reflected global economic conditions, and in particular the falling milk price (see graph below). Dairy farmers profits fell and as a consequence they took short term decisions to change liners less frequently.

A positive factor has been the continued growth of our Milk-Rite brand in the USA and Europe.

Operating profit before exceptional items was £3.0m (2008: £3.5m) reflecting the weaker markets. As in the second half of 2008, in 2009 operating profit was depressed by the increased allocation of overhead costs associated with our UK production facility following the disposal of the Group's aerosol gasket business in March 2008. On 1 April 2009 we announced the relocation of manufacturing to a Czech Republic based subcontractor, which should address this issue once it is completed in 2010.

**MILK-RITE®**
**animal health and milk quality**


**MILK-RITE has expanded the product range to include additional technical milk harvesting components. The MILK-RITE branded claw and pulsators ranges will be available during 2010 and complements our technical understanding of the milking process to enable improved animal health and milk quality.**




**MILK-RITE®**
**animal health and milk quality**


**Milk-Rite is expanding its technical product offering by adding claws and pulsators to the range.**

### Balance sheet

Our balance sheet continues to be affected by the inclusion of retirement benefit assets and liabilities together with associated deferred tax balances, particularly given the size of our UK final salary scheme pension fund relative to the size of the Group. At 30 September 2008 we saw weakness in global financial markets and an unprecedented rate of return (6.9%) on AA rated corporate bonds. This led to a reported surplus on the scheme (on an IAS 19 basis) of £43.4m. During the year the value of the scheme's assets has held up well in difficult markets. The move to a Liability Driven Investment (LDI) approach back in 2007 has significantly reduced the volatility in asset values. Our decision to close the scheme to future accrual of benefit from 1 October 2009 also represents a significant milestone in risk reduction.

However, at 30 September 2009 we have seen AA corporate bond discount rates fall by 1.5% to 5.4% and as a consequence, the value of liabilities on a discounted cash flow basis has increased significantly resulting in a deficit (on an IAS 19 basis) of £8.4m.

The scheme's tri-annual valuation, as at 31 March 2009 is in progress and is due to be finalised by 30 June 2010.

Intangible assets totalling £9.9m (2008: £9.5m) form a significant part of the balance sheet as we invest in new product development. This can be seen by our expanding product range, particularly respiratory protection products. The annual charge for amortisation of intangible assets was £1.8m (2008: £1.7m).

Working capital decreased as increased focus was given to all areas. This was a major achievement as revenue increased by 68%. As a result, the trade working capital to revenue ratio fell from 25% in 2008 to 14% in 2009. Net debt at 30 September 2009 was £13.6m (2008: £15.1m) the majority of which was denominated in US dollars. The strengthening of the US dollar in the financial year to a closing rate of $1.59 (2008: $1.84) adversely impacted the year end reported sterling book value of net debt by £2.8m.

## 4. KEY PERFORMANCE INDICATORS (KPIs)

The Group uses a variety of performance measures which are detailed below.

**Protection & Defence orders in hand**

This demonstrates the orders in hand for fulfilment in future sales. It is measured at sales value and shows how successful we have been in winning new business in the year. 2009: £69m (2008: £67m, 2007: £10m).

**Revenue moving annual total (MAT)**

This looks at revenue from continuing operations for a cumulative 12 month period and is used to identify the directional trend in revenue.

**Return on sales**

Earnings before interest, taxation, depreciation, amortisation and exceptional items from continuing operations ('EBITDAE') divided by revenue. This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets. 2009: 9.4% (2008: -1.3%, 2007: 6.4%).

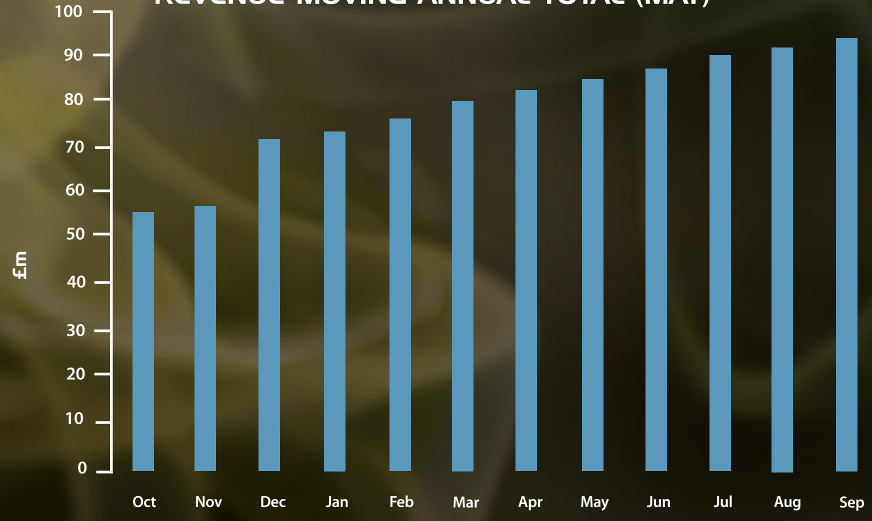
**Trade working capital to revenue ratio**

Trade working capital is defined as inventory plus trade receivables less trade payables, expressed as a percentage of revenue from continuing operations. The management of working capital is an important factor in ensuring that profitable revenue growth converts into cash generation. 2009: 14% (2008: 25%, 2007: 34%).

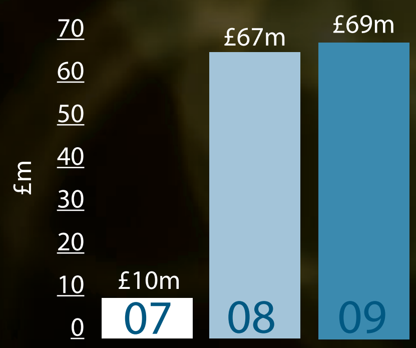
**Adjusted earnings per share**

This is defined as profit after tax from continuing operations, excluding the impact of exceptional items and the amortisation of intangibles. This measure is designed to include the effective management of the Group's interest costs and tax charge and measure the total return achieved for shareholders. 2009: 12.5p (2008: 3.4p loss, 2007: 6.8p).

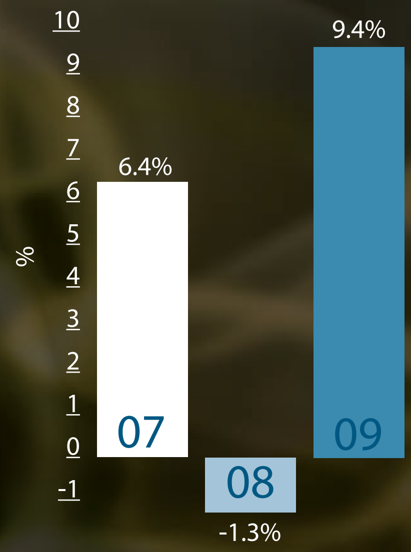
### REVENUE MOVING ANNUAL TOTAL (MAT)



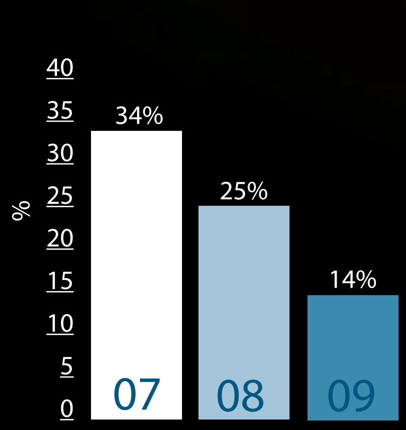

### PROTECTION & DEFENCE ORDERS IN HAND



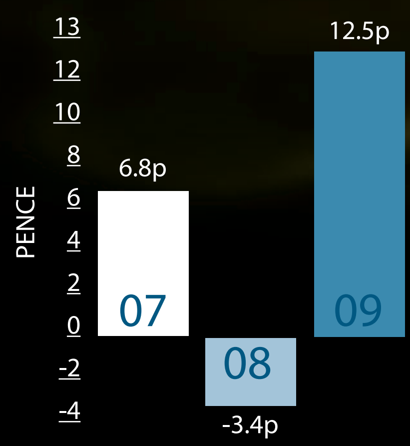

### RETURN ON SALES




### TRADE WORKING CAPITAL TO REVENUE RATIO




### ADJUSTED EARNINGS PER SHARE



## 5. PRINCIPAL RISKS AND UNCERTAINTIES

The Group has an established process for the identification and management of risk across the two divisions working within the governance framework set out in our corporate governance statement, (see pages 34 to 37). Ultimately the management of risk is the responsibility of the Board, and the development and execution of a comprehensive and robust system of risk management has a high priority in Avon.

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

### These processes of risk management within the business involve:

- Identification and assessment of individual risks
- Design of controls
- Testing of controls through internal audits
- Formulating a conclusion on the effectiveness of the control environment in place.

The major risks affecting the Group are identified by the Group Executive team. The process involves quarterly risk assessment and a process for ensuring that the Group's approach to dealing with individual risks is robust and timely. Each risk, once identified, is allocated to one of the members of the Group Executive to ensure the correct level of visibility and attention, and update sessions to review progress in dealing with issues at an operational level are conducted regularly through the year.

We identify three main risk areas:

- **Strategic risks** – risks affecting the strategic aims of the business, or those issues that affect the strategic objectives faced by the Group
- **Financial risks** - issues that could affect the finances of the business both externally and from a perspective of internal controls
- **Operational risks** – matters arising out of the operational activities of the Group relating to areas such as procurement, product development and interaction with commercial partners.

The top ten risks identified in the risk management process are listed in the table opposite in order of severity and with the categorisation given to them internally shown alongside. Mitigation, where possible, is shown by each identified risk area.

| TYPE OF RISK | BUSINESS RISK | MITIGATION |
|---|---|---|
| 1. OPERATIONAL | **Business interruption- supply chain**<br>• Dependency on sole supplier/subcontractor<br>• Availability/quality of raw materials | Proactive approach to the approval of second sources and reducing cost through purchasing initiatives. Robust supplier quality management procedures. |
| 2. STRATEGIC | **Competitor threat**<br>• Lack of sales growth<br>• Loss of major contract or business to competitor | Setting the strategy for i) securing US Government funding; ii) winning additional business from existing customers; iii) capturing new customers and revenue streams. Continuing recruitment of sales personnel. Setting and regular monitoring of sales budgets and major sale prospects by the Group Executive and the Board. Continued investment in product development. |
| 3. OPERATIONAL | **Quality and product recall**<br>• Poor quality systems allow faulty product to reach customer<br>• Process/material/equipment inadequacy | Focus on Six Sigma manufacturing disciplines, site quality procedures and employee engagement. |
| 4. FINANCIAL | **Financial management**<br>• Foreign exchange risk and debt capacity<br>• Funding of the UK defined benefit pension scheme<br>• Poor / insufficient financial controls | Implementation of effective internal control procedures and internal audit. Definition of reporting structures (monthly Business Reviews, quarterly Group Executive review, annual budget process and an independent Audit Committee). |
| 5. STRATEGIC | **Product development**<br>• Failure to meet regulatory product/system requirements<br>• Lack of investment in new products<br>• Lack of expertise and skills | Publication of technology roadmap, Intellectual Property policy and New Product Introduction (NPI) process. Focus on delivery of projects in the roadmap on time, to budget and cost. Sales and product development have the objective of delivering external funding and new revenue streams. This coherent strategy helps retain skills and make recruitment easier. |
| 6. OPERATIONAL | **Talent management**<br>• Insufficient skills of employees, poor engagement and morale<br>• Dysfunctional organisational structure/reporting lines | Introduction of Project Nova (see page 30). Also actively managed by succession planning, the annual performance management process and the reward and incentives structure |
| 7. STRATEGIC | **Customer dependency**<br>• Over reliance on few customers<br>• Poor customer relationships and communication due to incomplete understanding of customers or failure to meet expectations | Focus on customer service (internal and external). |
| 8. OPERATIONAL | **Non-compliance with legislation**<br>• Failure to comply with export controls, International Trading in Arms Regulations (ITAR), product approvals | Regular focus and review of the ITAR control framework, NPI process and the internal control procedures. |
| 9. STRATEGIC | **Political and economic instability**<br>• Increasing long term US medical costs<br>• Exchange rate fluctuations | Active management of US medical programmes by the executive team. Use of forward exchange contracts to mitigate short term exchange rate volatility and denomination of bank facility in US dollars to hedge investment into USA. |
| 10. OPERATIONAL | **Business interruption-access**<br>• Plant closures due to natural disaster or major incident<br>• IT failure | Quarterly review of control environment, disaster recovery planning and insurance. |

### 6. TREASURY POLICY AND EXCHANGE RATES

The Group uses various types of financial instruments to manage its exposure to market risks which arise from its business operations, full details of which are included in note 19 of the financial statements. The main risks continue to be movements in foreign currency and interest rates.

The Group's exposure to these risks is managed by the Group Finance Director who reports to the Board. The Group faces translation currency exposure on its overseas subsidiaries and is exposed in particular to changes in the US Dollar.

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

The Group reports trading results of overseas companies based on average rates of exchange compared with sterling over the year. This income statement translation exposure is not hedged as this is an accounting rather than cash exposure and as a result the income statement is exposed to the following:

Based on 2009 results a 5¢ movement in the US dollar would have impacted reported operating profit (before exceptional items) by £0.29m.

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

At the year end the asset exposure was 33% hedged (2008: 62%). As a result of the remaining balance sheet exposure after hedging, the Group was exposed to the following:

5¢ movement in US Dollar: impact £0.6m (2008: £0.3m) on Group net assets.

The Group is exposed to interest rate fluctuations. The Group assesses the need to obtain the best mix of fixed and floating interest rates in conjunction with the maturity profile of its debt.

The Group had none of its borrowings fixed at the year end (2008: None). The current level of floating rate borrowings is due to the short maturity period of our current debt.

### 7. ENVIRONMENTAL, EMPLOYEE AND SOCIAL & COMMUNITY ISSUES

These matters are discussed on pages 28 to 33.

Peter Slabbert
Chief Executive
19 January 2010

Andrew Lewis
Group Finance Director
19 January 2010

### THE RT. HON. SIR RICHARD NEEDHAM
**Chairman**

Aged 67, Richard was appointed to the Board as Chairman in January 2007. He was Member of Parliament for North Wiltshire from 1979 to 1992 and has served as a Minister in Northern Ireland and as Minister of Trade. In 1994 he was made a Privy Counsellor and was knighted in 1997. He is Vice Chairman of NEC Europe Ltd and an independent Director of Dyson Ltd. He was an Executive Director of GEC PLC, Chairman of GPT Ltd and was previously Chairman of Biocompatibles plc, a Non-Executive Director of Meggitt Plc and has been a Non-Executive Director of a number of other public and private companies.

### PETER SLABBERT
**Chief Executive**

Aged 47, Peter joined Avon as Group Financial Controller in May 2000. He was appointed Group Finance Director on 1 July 2005 and Chief Executive on 21 April 2008. A Chartered Accountant and a Chartered Management Accountant, Peter joined Avon from Tilbury Douglas where he was Divisional Finance Director and Group Financial Controller. Prior to that he worked at Bearing Power International as Finance Director.

## ANDREW LEWIS
**Group Finance Director**

Aged 38, Andrew joined Avon in September 2008 as Group Finance Director. Andrew holds a 1st Class joint honours degree in Mathematics and Accounting from the University College of North Wales, Bangor and is a Fellow of the Institute of Chartered Accountants in England and Wales. He gained a wide range of international manufacturing experience as a Director at PricewaterhouseCoopers before joining Rotork p.l.c. as Group Financial Controller.

## DAVID EVANS
**Non-Executive Director**

Aged 62, David was appointed to the Board in June 2007. He has been working in the defence sector for over 30 years with extensive knowledge of the US market. David spent 17 years with GEC-Marconi before joining Chemring Group PLC in 1987 and was appointed Chief Executive in 1999. He has remained on the Chemring Board as a Non-Executive Director following his retirement in April 2005. He was previously a Non-Executive Director of Whatman PLC.

## STELLA PIRIE OBE
**Non-Executive Director**

Aged 59, Stella was appointed to the Board in March 2005. She began her career as an auditor at KPMG before becoming Divisional Finance Director and Group Treasurer of Rotork p.l.c. and then Finance Director of GWR Group Plc. Stella holds a degree in Economics from the University of Manchester and is a Non-Executive Director of Schroder UK Growth Fund Plc and Highcross Group Ltd. She is also Chairman of Bath Spa University. Stella was awarded the OBE in 1999.

## PETER SLABBERT
CHIEF EXECUTIVE

**"These are exciting times. Being the world leader in both of our major businesses creates massive opportunities – and we have the right team to deliver these."**

Peter is a main Board Director. See page 22

## ANDREW LEWIS
GROUP FINANCE DIRECTOR

**"In the year since I joined Avon we have laid strong foundations which leave us in good shape to capitalise on the exciting opportunities which lie ahead."**

Andrew is a main Board Director. See page 23

## GARY DUNN
VICE PRESIDENT SALES & MARKETING

Gary heads up the sales and marketing team for North and South America ensuring the highest level of service and support to our existing customers, identifying and building clear opportunities for business growth and delivering through clearly defined sales and marketing strategies linked to our brand positioning.

**"Avon has established itself as a clear leader in the field of CBRN protection through consistently meeting and exceeding customer expectations, delivering products and services that clearly differentiate themselves and are truly reflective of our brand value."**

Aged 53, Gary has been with Avon for 25 years in which time he has led the capture of many multi million pound CBRN programmes around the world, most recently the M50, JSGPM for the US DoD. He is a trained mechanical engineer with subsequent studies and qualifications in Computer Science and Management Information systems.

## MATT EVANS
SALES & MARKETING DIRECTOR

Matt heads up the sales and marketing team for UK, Europe, Africa, Asia and Australasia. Matt has responsibility for the development and implementation of a market strategy to build a long term sustainable business based on excellence of product, customer service and life-time product support. Targeting Military, Special Forces, Police, Emergency Responders and Homeland Security agencies, the aim is to help these customer face the challenges that the asymmetric threat of the 21st Century brings by providing product capabilities hitherto only dreamt of.

**"Avon's sales and marketing team is committed to partnering our customers during both operational active and standby duties by offering a total through life capability to achieve the highest level of protection."**

Aged 50, Matt joined Avon in August 2008 from BAE Systems where he was Executive Vice President. He is a Member of the Chartered Institute of Marketing and holds a Master of Business Administration, specialising in international marketing strategy.

## MIKE HAMNER
### VICE PRESIDENT OPERATIONS

**Mike is responsible for the manufacture and delivery of quality products to our customers worldwide. He is responsible for Avon's manufacturing facilities in Cadillac (Michigan), Picayune (Mississippi) in the US and Melksham in the UK.**

**"Our Cadillac facility has been running at planned efficiencies and output targets while also providing a base for our commercialization of the military respirator. Operations at Hampton Park West, Wiltshire have made significant progress in reducing non-core manufacturing as well as improving efficiency and output."**

Aged 38, Mike has held several management roles since joining Avon in May 1996, including General Manager of Avon Engineered Fabrications in Mississippi. Mike holds a Masters of Business Leadership and a Bachelors Degree in Engineering. Mike was previously a Program Manager for Becker Group International.

## MIKE HARRAL
### PRODUCT DEVELOPMENT DIRECTOR

**Mike leads our global product development programme. He is responsible for delivering new products into manufacture in accordance with our strategic plans and for support and customisation of our existing products in response to market needs. Additionally he ensures that ARTIS (our materials technology group) supports our business activities and develops its own external consultancies.**

**"Innovation and technical excellence are in our DNA at Avon – we are committed to listening to our customers and developing the solutions they want."**

Aged 49, Mike joined Avon in 2005 as Product Development Director. A Chartered Engineer and a Member of the Institute of Mechanical Engineers, Mike joined Avon from Page Aerospace. Before that Mike spent 20 years with Protector Technologies and Normalair-Garrett Ltd.

## MILES INGREY-COUNTER
### COMPANY SECRETARY & GENERAL COUNSEL

**As well as being Company Secretary, Miles is our in house lawyer, which allows him to interact directly with the businesses on a range of commercial issues. He also has responsibility for the Group's insurance and risk management programmes.**

**"Under Peter Slabbert the executive team has developed a dynamic approach to the management of the business and, with the Board's assistance, the development of our long term strategy."**

Aged 36, Miles joined Avon in January 2004 and was appointed to the Executive in 2007 as Company Secretary. He is a qualified solicitor, member of the Law Society and the Institute for Chartered Secretaries and Administrators. Before joining Avon, Miles was a solicitor with a City firm and specialised in commercial and intellectual property law.

## PAUL McDONALD
### MANAGING DIRECTOR - DAIRY

**Paul is responsible for leading our global dairy business and the continued expansion of the Milk-Rite brand and global distribution network. He also oversees the operations, sales and product development functions.**

**"Our aim is to maximise our world leading position and ensure we remain the chosen long term partner to each of our key global customers."**

Aged 35, Paul joined Avon in April 2003 as General Manager of UK Operations and was appointed Managing Director of Dairy in March 2008. He previously worked in the Automotive sector and gained his first General Management position at the age of 26 with Teleflex Fluid Systems.

The Directors submit the one hundred and nineteenth 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 2009.

The Company is registered in England and Wales with registration number 00032965.

## Principal activities and business review

The principal activities of the Group are the design and manufacture of respiratory protection products for defence, police, fire and other emergency services, together with the design and manufacture of a range of polymer based products for the dairy and defence industries. The Group sold its rubber mixing business in November 2008.

The business review, which includes information on the Group's development and performance during the year and commentary on future developments is set out on pages 14 to 21.

## Financial results and dividend

The Group loss for the year after taxation amounts to £142,000 (2008: £19,469,000 loss). Full details are set out in the income statement on page 44.

No interim dividend was paid in respect of the half year ending 31 March 2009 (2008: nil).

The Directors do not recommend that a final dividend should be paid (2008: nil) resulting in a nil dividend distribution per share for the year to 30 September 2009 (2008: nil).

## Share capital

Details of the Company's share capital, including rights and obligations attaching to the shares, are set out in note 20 of the financial statements. The issued share capital consists of ordinary shares with a nominal value of £1, all of which are fully paid up, rank equally in all respects and are listed on the Official List and traded on the London Stock Exchange. The rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association ('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 and to attend, speak and exercise voting rights (including by proxy) at general meetings. 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 666,191 shares held in the name of the Employee Share Ownership Trust as a hedge against awards to be made pursuant to the Performance Share Plan are held on terms which provide voting rights to the Trustee.

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 bank loan agreements and the Performance Share Plan. The agreements relating to the £5,000,000 and US$28,234,000 revolving credit facility made available to the Company would become repayable upon a change of control of the Company and are therefore considered significant in terms of potential impact on the business of the Group as a whole if there was a change of control. 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) at any time is/are or become(s) interested in more than 50% of the issued ordinary share capital of the Company. Under the rules of the Performance Share Plan, on a takeover a proportion of each outstanding grant will vest. The number of shares that vest is to be determined by the Remuneration Committee, including by reference to the extent to which the performance condition has been satisfied and the number of months that have passed since the award were made.

## Substantial shareholdings

At 19 January 2010 the following shareholders held 3% or more of the Company's issued ordinary share capital:-

| | % |
|---|---|
| Schroder Investment Management | 12.9 |
| Gartmore Investment Management | 12.4 |
| Howson Tattersall Investment Counsel | 8.7 |
| M&G Investment Management | 4.1 |
| Barclays Stockbrokers Limited | 4.0 |
| Henderson New Star | 3.8 |
| Efs Harris Auday | 3.2 |

## Acquisition of own shares

The Directors have the power to make purchases of up to 4,371,000 of the Company's own shares in issue as set out in the explanatory note on page 91. No share purchases were made or funded by the Company during the year. The Directors also have the authority to allot shares up to an aggregate nominal value of £9,713,560 which was approved by shareholders at the 2008 annual general meeting. In addition, shareholders approved a resolution giving the Directors a limited authority to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's annual general meeting when resolutions to renew these authorities will be proposed.

## Directors

The names of the Directors as at 19 January 2010 are set out on pages 22 and 23.

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

During the year there have been no changes to the membership of the Board. None of the Directors have a beneficial interest in any contract to which the Company or any subsidiary was a party during the year. Beneficial interests of Directors, their families and trusts in ordinary shares of the Company can be found on page 41.

The Board is satisfied that Sir Richard Needham, Mr. D.R. Evans and Mrs. S.J. Pirie are independent Non-Executive Directors. Each have service agreements and details of these are contained in the Remuneration Report on pages 38 to 43.

Sir Richard Needham retires by rotation and, being eligible, offers himself for re-election.

The Board confirms that Sir Richard Needham has contributed substantially to the performance of the Board. Mrs. S. J Pirie, the Senior Independent Non-Executive Director gives full support to Sir Richard's offer of re-election and draws the attention of shareholders to his profile on page 22.

As part of the Board's annual evaluation process, each Director undertook a performance evaluation which included considering the effective contribution of Board members.

All Executive Directors' service contracts with the Company require one year's notice of termination, subject to retirement, currently at age 60 for Mr. P.C. Slabbert and 65 for Mr. A.G. Lewis. Neither of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group.

### Directors' and Officers' indemnity insurance

Subject to the provisions of the Companies Acts, the Articles provide for the Directors and Officers of the Company to be appropriately indemnified. In accordance with section 233 of the Companies Act 2006 the Company has arranged an appropriate Directors and Officers insurance policy to provide cover in respect of legal action against its Directors.

### Research and development

The Group continues to utilise its materials expertise to further advance its products and remain at the forefront of technology in the field of polymer technology and materials engineering. The Group maintains its links to key Universities 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 £1,196,000 (2008: £1,895,000) further details of which are contained in the Business Review on pages 14 to 21.

Through ARTIS the Group is recognised as a world leader in understanding the composition and use of polymer products.

### Political and charitable contributions

No political contributions were made during the year or the prior year. Contributions for charitable purposes amounted to £9,839 (2008: £18,883) consisting exclusively of numerous small donations to various charities in Wiltshire, Michigan, Wisconsin, Georgia and Mississippi.

### Financial instruments

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

### Statement of Directors' responsibility for preparing the financial statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

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

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

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

Each of the Directors in service at the date of approval of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and

- the review of the business contained on pages 14 to 21 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

### Creditor payment policy

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

For the year ended 30 September 2009, the number of days purchases outstanding at the end of the financial year for the Group was 51 days (2008: 42 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days purchases outstanding for the parent company was 53 days (2008: 44 days).

### Auditors

Each Director confirms that on the date that this report was approved 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.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

### Annual general meeting

The Company's annual general meeting will be held for the first time at its Hampton Park West facility, Semington Road, Melksham, Wiltshire SN12 6NB on 2nd March 2010 at 10.30am. The Notice of Meeting can be found on pages 87 to 94. Registration will be from 10:00am.

Miles Ingrey-Counter
Company Secretary
19 January 2010

The Directors recognise that there is increasing focus in the UK on how businesses take account of their economic, social and environmental impacts in the way they operate, with the aim of addressing their own competitive interests at the same time as those of wider society. The Directors acknowledge that this involves balancing the interests of shareholders, employees, customers, suppliers and the wider communities in which our businesses operate.

## BUSINESS CONDUCT

The Group's Policy & Code on Business Conduct (which is in its ninth version this year) requires employees to carry on their business activities in a way which will attract the respect of those we deal with and which will not bring Avon's reputation into disrepute. This includes complying with the laws and regulations in the countries in which we operate and do business. The Policy & Code also contains guidance on avoiding conflicts of interest and managing relationships with third parties.

## ETHICS AND ANTI-CORRUPTION

Partly in recognition of the Group's reclassification by the London Stock Exchange from 'General Industrial' to 'Aerospace & Defence' the latest version of the Policy & Code contains a new section on the prohibition of corrupt practices, based on the European Aerospace & Defence Association's Common Industry Standards on Anti-Corruption. All agents and third parties who act on behalf of the Group are obliged to comply with the standards, which will be incorporated into all written arrangements. The Policy & Code also contains a whistleblowing procedure which enables any employee or individual working for the Group to raise concerns about a breach of policy or malpractice.

## ENVIRONMENT

The Group's three environmental objectives centre around the activities of:

- Energy consumption
- Waste and recycling
- Supplier environmental development

## ENERGY SAVING INITIATIVES

The Group is in the process of implementing a balanced scorecard process called the 'Company Dashboard' to measure whether smaller scale operational activities around the Group are aligned with our long term objectives and strategy. The Company Dashboard will be used to monitor energy consumption to ensure the long term objective of reducing overall energy consumption is achieved. Each site will report on electricity, gas, water and process energy use and the results will be included in future versions of this report. By way of example, Hampton Park West (HPW) has focused on its energy consumption in the last year with the following results:

- Reducing the delivery pressure of the site's compressed air system by 1 bar has resulted in an energy saving of about 110,000 kWh per year. It also allowed the site's large compressor to be switched off and air to be supplied instead via a variable speed compressor, which has led to additional energy savings of around 144,000 kWh per year.
- Selectively switching off the main factory overhead lighting in areas where it is not needed has saved around 230,000 kWh per year. For example, the lighting in a storage area can be at lower level, or the lighting in a production area not running 3 shifts can be turned off for part of the time.
- Calculations have shown that a steam leak on site as small as 3 mm wide can waste energy. A programme of leak tagging, together with surveys at 'quiet times,' when air leaks can be heard, has enabled HPW to identify and correct both air and steam leaks across the site resulting in an energy saving of 342,000 kWh.

In aggregate, HPW's focus on reducing energy consumption has resulted in an energy saving of around 826,000 kWh in the year, a $CO_2$ emissions reduction of 355 tonnes.

Our UK production facility at Hampton Park West (HPW) remains the Group's flagship in terms of environmental improvement activities. During the year the site maintained its certification to the externally accredited Environmental Management Systems standard ISO14001 and the latest Lloyds Register Quality Assurance surveillance visit found no non-conformities with the system or its implementation. Monitoring and measurement includes utility metering (electricity, gas and water), process energy use (including steam) and measuring the percentage of solid waste generated on site that is recycled instead of being sent to landfill. Waste recycling initiatives have continued to result in a significant amount of solid waste being recycled instead of going to landfill. With increasing restrictions on landfill use this is becoming ever more significant. In 2007/08 nearly 89% of solid waste generated at Hampton Park West was recycled. In 2008/09 with a different product mix (less rubber, which is recyclable, and more plastic components which are not) we achieved 83%.

In the last year all US production facilities were in compliance with their State emissions permits and applicable environmental regulations. At our manufacturing facilities in the United States there has historically been less focus on environmental improvements because these sites have a low environmental impact and there is significantly less regulatory pressure in the US to address such issues compared to Europe. However, this has been changing and the Directors are committed to implementing a Group wide environmental policy, using Hampton Park West as the benchmark, in 2010.

Avon Hi-Life in Wisconsin and Avon Engineered Fabrications in Mississippi continued their focus on scrap reduction and recycling to limit the volume of rubber and other waste sent to landfill. Their scrap rubber is shredded and used as garden mulch or as a playground covering.

The environmental performance of the Group's suppliers is also important and this is taken into account as part of tendering and supplier management processes.

# AND THE ENVIRONMENT

ARTIS is working hard to develop green credentials and reduced carbon footprints for the rubber industry.

It is currently positioned as an expert in the rubber recycling market by offering a compound development service which includes converting rubber crumb from a range of sources into new or existing rubber formulations. It has been looking at understanding the key factors controlling the results of this process and has developed a good knowledge of the need for control and housekeeping by rubber material suppliers, the crumb manufacturers and the compound users.

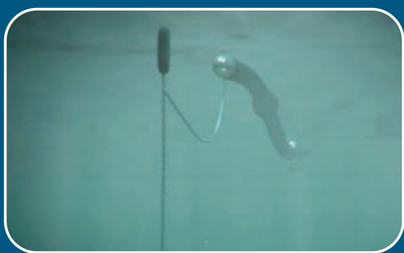
ARTIS has also studied the alternative approach of pyrolysing rubber materials to produce a char that can be included in rubber compounds as a way of reducing carbon black volumes for some compounds. Again the need for controlled sourcing and good housekeeping are paramount.

ARTIS is part of a consortium created by Symphony Energy Ltd and funded by the Technology Strategy Board, which is looking at the disassembly of used tyres using ultra high pressure water jets to crumb the tyre and allow the steel cord and fabric to be separated and recovered. Microwave pyrolysis then converts the crumb to carbon and gas which can be condensed to form oil. This represents a much less energy intensive process than conventional shredding and gives lower $CO_2$ emissions than incineration. ARTIS will be involved in the initial system optimization and evaluation of the crumb as a product in itself or as a feedstock for the pyrolysis process. The carbon produced is a possible material for incorporation into rubber and ARTIS will be evaluating this material with Imperial College. It is expected that the oil will be used as fuel. It is anticipated that at the end of the project a full scale production facility will be developed and ARTIS will be closely involved in the set up and quality monitoring of this operation and act as technical resource for the business regarding the use in rubber compounds.

ARTIS is also working with a number of other companies in the recycling chain and the knowledge transfer networks set up by the UK Government.

Alongside recycling issues ARTIS is involved at the forefront of 'Green Energy' generation and has recently been awarded a development contract from the Carbon Trust supporting the development of the Anaconda sea energy device.

The Anaconda is a new concept for the generation of electricity from wave energy and is currently being developed by Melksham based Checkmate Sea Energy **(www.checkmateuk.com/seaenergy).** Invented by Professors Francis Farley and Rod Rainey the design utilises a large distensible rubber tube of up to 200m in length and 5m in diameter, which floats at right angles to oncoming sea waves. Bulge waves are formed through interaction with sea waves, these pass along the inside of Anaconda, riding in front of the wave rather like a surfer, gathering energy as they move towards the turbine power take off unit at the end of the device.



ARTIS has been involved with the materials selection, engineering design and prototype testing stages of the device, with a view to maximising its efficiency and longevity. This will depend largely upon the correct choice and use of materials, an area where ARTIS has recognised expertise.

The Anaconda is one of an increasing number of programs where ARTIS is involved in green issues : ARTIS has a number of programmes looking at recycling, sustainability and environmental impact reduction and continues to grow its research activities inside and outside of Avon despite the poor economic climate.

Other areas of involvement range from the development of a rubber 'Portable Patio' containing around 80% sustainable materials to a development programme using MinTron 7 pulverised fuel ash in rubber which has been taken up by major tyre producers. ARTIS has carried out a significant amount of work looking at the removal of phthalate plasticisers from rubber compounds – an issue highlighted many times over the past few years – and has developed a number of solutions to resolve the health issue associated with use of these materials in rubber and plastics.

ARTIS continues to work with bodies such as the National Physical Laboratory, the Institute of Materials, Minerals and Mining, academia and Government organisations to improve the carbon footprint and green credentials of its customers, both internal and external.

# NOVA – TURNING AVON AROUND

## EMPLOYEE ENGAGEMENT

Avon has a rich history dating back over a century. Our commitment to our customers, our stakeholders and our people is of paramount importance.


Our commitment to success, and our desire to constantly evolve the Group and the way in which it engages and motivates its people, led to NOVA ('turning AVON around') being launched in the second half of the financial year. Resulting from a combination of a recognition for greater brand awareness (both internally and externally) and development of a new set of core Group values, several significant changes have been made.

### Employees:

The Board recognises that our employees are fundamental to the growth and success of our business and has set the following two Group objectives as employees:

- To attract, retain and develop high performing employees who can facilitate and participate in the Group's pursuit of its strategic aims and add value to the business and to our stakeholders; and

- To communicate with employees in a structured and open manner to include regular briefings and the dissemination of relevant information.

The Group performance management process links managers' remuneration to achievement of a range of performance targets. The Group seeks to encourage employee consultation, communication and involvement and to promote the development of employees' potential through relevant training.

The Group applies policies and procedures which are intended to further diversity in our workforce and ensure that no employee is disadvantaged as a result of discrimination including on grounds of sex, race, religion, disability or age.

### CREED: AVON's new principles and values

Above all, trust and integrity are the foundation of AVON. Our values and culture guide our behaviour. CREED is our set of principles and values. These cultural values should be rigorously pursued and adhered to across our Group.

C understanding and delivering our **CUSTOMER** (internal or 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 businesses

### Customer focus:

Annual customer and employee satisfaction surveys to take place to help define a customer service training program for every single employee. Customer delight is a way of life rather than just a statement.

### Avon's brands:

A strengthening of the brand image of our businesses, not only externally but internally, to reinforce the importance of the customer and to instil an even greater product pride within our workforce. In support of the brand and CREED values we introduced Avon Brand Culture – 'The ABC' as a guide to understanding, using and communicating our brand identity and culture throughout the Group.

### Employee performance measurement:

Avon's Performance Management Process (PMP) has been re-defined to reflect NOVA's desired behavioural competencies – CREED. Every employee will be assessed according to these five fundamental values.

### Communication:

Regular local and group-wide communications programs have been launched to engage and inform our employees and also facilitate a forum for 360 degree feedback, cultivating openness and honesty across the company.

### Recognition and reward:

A strengthening of our commitment for appropriate reward for a job well done, not only informally in our day to day operations but also through formal recognition such as Avon's 'CREED Heroes' program.

AVON can look back on a proud history. Our commitment to CREED, knowing who we are, what we're good at and with a clear vision of where we are going as a technologically innovative Group will ensure we will be a success.

## HEALTH AND SAFETY

The Board recognises the importance of health and safety to the business. Not only does a safe working environment contribute to employee well being, but the prevention of accidents and personal injury contributes to the running of an efficient business. The Group's stated policy in this area is that management practices and employee work activity will, so far as is reasonably practicable, ensure the health, safety and welfare at work of its employees, contractors and visitors, together with the health and safety of all other persons affected by the business activities of the Group's operations.

All of the Group's businesses maintain health and safety systems that are both compliant with Group policy and appropriate to the business, with the overall objective of providing a safe and healthy working environment. Accident rates are consequently low across the Group.

## ACCIDENT RATES ACROSS THE 5 MANUFACTURING SITES DURING 2009

| | OSHA RII RATE FOR THE YEAR* | OSHA RECORDABLE ACCIDENTS FOR THE YEAR |
|---|---|---|
| Hampton Park West, UK | 2.1 | 7 |
| Avon Protection Systems, Cadillac | 3.4 | 9 |
| Hi-Life, Wisconsin | 2.5 | 3 |
| ISI, Georgia | 0 | 0 |
| AEF, Mississippi | 17.1 | 7 |

* the number of Occupational Safety and Health Administration (OSHA) recordable injuries per 200,000 man hours worked

## SUPPLIERS

Avon recognises the need to treat its suppliers both fairly and responsibly and this is stated clearly in the Policy & Code.

All tenders for business are treated according to strict and unbiased guidelines. All such tenders are underlined by a legal requirement for an official Request for Quotation, all tenders being reviewed according to the requirements set out in the tender documentation. Where required, Avon will complete a cross-function decision-making worksheet to assess each supplier against agreed criteria.

Avon grades each key supplier on a monthly basis against Parts Per Million (PPM) and On Time In Full (OTIF) targets, encouraging suppliers to submit and agree to their own OTIF performance. This information is shared and discussed with suppliers on a monthly basis.

Avon encourages long term relationships with its supply base through the use of service level agreements, the aim of which is not only to protect Avon in terms of setting agreed guidelines for quality, cost and delivery, but equally to ensure that Avon adheres to its own responsibilities. Examples would be the setting of agreed stock liability and volumes which recognises a supplier's own material constraints against Avon's desire for efficiencies and optimum pricing.

## COMMUNITY

The Group's policy is to direct management practices to:

- Good communication and integrity in our dealings with the communities in which we operate;
- foster greater understanding between the Group's businesses and the communities in which they operate; and
- encouraging employees to participate, where appropriate, in the affairs of the community and professional bodies.

As a result, all of the Group's businesses play an active and prominent role in their local communities.

### Avon Protection Systems in Cadillac, MI:

holds a "Blue Jeans Day" each Friday, where employees contribute $1 in order to wear jeans to work. Funds collected are donated to a different local charity each month and suggestions are sought annually from employees for local charities to include for the coming year. Employees have been involved in fundraising events for the local March of Dimes, American Cancer Society Relay for Life and the Cadillac Area Youth Orchestra.

### Hi-Life in Johnson Creek, WI:

runs a Christmas neighbour program which involves employees giving gifts and food to needy families in Jefferson County and made donations to help fund local community projects and to local schools to buy books and fund learning programs.

### ISI in Lawrenceville, GA:

supports the Quinn House, an organisation providing support to families in need.

### Avon Engineered Fabrications in Picayune, MS:

supports the local police and sheriff department with financial assistance to provide educational material to prevent drug abuse and improve community safety and employs Picayune Industries, a handicapped employee organisation, to provide site services.

## UK

In the UK the Group maintains a fund with the Community Foundation for Wiltshire and Swindon, a charity dedicated to strengthening local communities. The Foundation targets its grants to make a genuine difference to the lives of local people. This year Avon's fund provided grants to SPLITZ, a service supporting adults and children affected by domestic violence and abuse and Carers Support, which provides a range of services for carers in the district, including holiday activity programmes.

Hampton Park West held an employee fun day which helped raise funds for the Help for Heroes charity and implemented the UK Department for Transport Cycle to Work Scheme.

Miles Ingrey-Counter
Company Secretary
19 January 2010

# OUR EMPLOYEES IN THE COMMUNITY

## Sue Peterson, our Senior Corporate Accountant based in Cadillac, is not only an invaluable member of the Avon team, she is also a prized asset within her local community.

**Sue Peterson (right) receiving the Spirit of the Community Award from Michigan Governor, Jennifer Granholm.**

Sue used her financial skills within the community for the first time back in 1996, when she joined the Cadillac Rotary Club. Since then, Sue has been its President, and has chaired the Rotary Auction where she helped to raise an amazing $55,000. Sue has also been on a Mission Trip to the Dominican Republic through the club to deliver wheelchairs and water filters.

Providing her talents for the improvement of her native city earned Sue the 10th Annual Cadillac Area Chamber of Commerce Spirit of Community Award in 2006.

"This is my community so I decided I needed to do something for my community", explained Sue after receiving the award.

Sue's community activities now include a variety of different projects. She is a board member of the Cadillac Area Chamber of Commerce, President of the United Way of Wexford County where she raised a record $330,000 in 2008, Treasurer of the South Community Methodist Church, and has been a Junior Achievement volunteer teacher for 10 years.

## STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Company believes in high standards of corporate governance and the Board is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of Corporate Governance ("the Code") which is available on the website of the Financial Reporting Council ('FRC'). The Company is applying the June 2008 version of the Code on a voluntary basis for the financial year commencing 1 October 2008.

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 Company has complied throughout the year with the applicable provisions of the Combined Code other than as explained in this report.

This statement will address separately three main subject areas of the Code namely the Board, Relations with Shareholders and Accountability and Audit. Directors' remuneration is dealt with in the Remuneration Report on pages 38 to 43.

The Board confirms that it has been applying the procedures necessary to implement the Turnbull Guidance on how to apply the section of the Code dealing with internal control.

### The Board

The Board of Avon Rubber p.l.c. currently comprises a Chairman, two independent Non-Executive Directors ('the Non-Executive Directors'), and two Executive Directors who are the Chief Executive and the Group Finance Director. All Directors submit themselves for re-election at regular intervals of not more than three years and are subject to re-election at their first Annual General Meeting after appointment. Additionally, the Non-Executive Directors are appointed by the Board for specific terms and reappointment is not automatic. Non-Executive Directors submit themselves for annual re-election if they have served for more than 9 years since first election.

Biographies of the directors appear on pages 22 and 23. These illustrate the range of business and financial experience which the Board is able to call upon. The intention of the Board is that its membership should be well balanced between executives and non-executives and have the appropriate skills and experience. The special position and role of the Chairman under the Code is recognised by the Board and a written statement of the division of responsibilities of the Chairman and Chief Executive has been agreed by the Board. The Chairman is responsible for the leadership of the Board and the Chief Executive manages the Group and has the prime role, with the assistance of the Board, in 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.

An annual performance evaluation was undertaken by the Board during the year. The Chairman acted as the sponsor of the evaluation process and each Director was required to score a questionnaire for review by the Board and appropriate Committees. The Company Secretary acted as facilitator to the Board and issues arising from the process were incorporated into the Board's business as appropriate. Within the evaluation exercise, the Board addressed three key areas; the extent to which the Board focuses on the right issues, interacts effectively and has the right mechanics in place.

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. The Chief Executive 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 throughout meetings and every Director is encouraged to participate and provide opinions for 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 is regularly reviewed and updated and includes appropriate strategic, financial, organisational and compliance issues, embracing the approval of high level announcements, circulars and the report and accounts and certain strategy and management issues. Examples of strategy and management issues include the approval of the annual operating budget and the three year plan; the extension of the Group's activities into new business and geographic areas (or their cessation); changes to the corporate or capital structure; financial issues, including changes in accounting policy, the approval of dividends, bank facilities and guarantees; changes to the constitution of the Board; and the approval of significant contracts, for example the acquisition or disposal of assets worth more than £250,000 or the exposure of the Company or the Group to a risk greater than £250,000.

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

Of particular importance in a governance context are three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee. The members of the Committees comprise the Chairman and all the Non-Executive Directors. The Non-Executive Directors regard the Chairman as adding significant value to the deliberations of the Audit Committee and his membership is now 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. Mrs. S.J. Pirie remains Chairman of the Audit Committee and Senior Independent Non-Executive Director. The Board is satisfied that Mrs. Pirie has recent relevant financial experience and her profile appears on page 23. Sir Richard Needham chairs the Nominations Committee. Mr. D.R. Evans remains Chairman 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 Executive Directors and other senior executives. The Chief Executive and the Company Secretary attend meetings of the Committee by invitation, but are absent when issues relating to each of them are discussed.

The Nominations Committee, to which the Chief Executive is normally invited, reviews the Board structure, leads the process for Board appointments and makes recommendations to the Board, including on Board succession planning. The Nominations Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role for new appointments. In identifying potential candidates for positions as Non-Executive directors, the Committee has full regard to the principles of the Code regarding the independence of Non-Executive directors. The Committee did not meet during the year.

The Audit Committee meets at least three times a year. The meetings are also attended by the Executive Directors and usually by representatives of the Group's external auditors. At meetings attended by the external auditors time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present. An annual rolling Agenda is reviewed to ensure that all matters within the Audit Committee's Terms of Reference during the year are appropriately covered. As well as reviewing draft preliminary and interim statements, the Committee reviews significant financial reporting judgements contained in formal announcements by the Company.

The Committee also considers external and internal audit reports and monitors all services provided by, and fees payable to, the external auditors to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained.

The Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process. The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

In order to ensure the independence and objectivity of the external auditors the committee maintains and regularly reviews its Auditor Independence Policy. This policy provides clear definitions of services that the external auditors can and cannot provide. They may only provide non-audit services where those services do not conflict with their independence, for example tax compliance work. A formal authorisation policy is in place for the provision of non audit services to ensure that appropriate pre-approval is obtained as necessary. The 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 PricewaterhouseCoopers LLP for audit services, audit-related services and non audit work. 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.

As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the Turnbull Guidance.

## STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

### Meetings during year ended 30 September 2009

| | Board | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|---|
| S.J. Pirie | 9 | 3 | 5 | - |
| Sir Richard Needham | 9 | 3 | 5 | - |
| D.R. Evans | 8 | 2 | 5 | - |
| P.C. Slabbert | 9 | 3* | 5* | - |
| A.G. Lewis | 9 | 3* | - | - |

* Attendance by invitation.

The Board schedules 8 or 9 regular meetings per year. This year 8 further meetings have been held on an ad hoc basis, including by telephone conference, for example in connection with amendments to the banking facilities and disposals. In addition, between them, the three Non-Executive Directors visited most of the Group's US facilities accompanied by the Chief Executive or the Group Finance Director to meet management at these sites and receive presentations from them.

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

### Relations with shareholders

The Directors regard communications with shareholders as extremely important. All members of the Board receive copies of analysts' reports of which the Company is made aware. In terms of published materials the Company issues a detailed annual report and accounts and, at the half year, an interim report. Further to the Transparency Directive, which has been implemented by the FSA through amendments to the Listing and Disclosure Rules, interim management statements have been issued during the year, together with a number of other event updates. Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results. The Board receives comments from analyst meetings and shareholder meetings after both interim and final results and other updates from its corporate advisers. Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the responses of the Directors. The Directors meet informally with shareholders after the annual general meeting and respond throughout the year to correspondence from individual shareholders on a wide range of issues. Annual general meetings provide a venue for the shareholders to meet the Non-Executive Directors in addition to any other meetings shareholders may request.

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. However, should shareholders have concerns, which they feel cannot be resolved through normal shareholder meetings, the Chairman, Senior Independent Non-Executive Director and the other Non-Executive Director may be contacted upon request through the Company Secretary.

At the annual general meeting on 2 March 2010 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 on aspects of the Group's business.

### Accountability and audit

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

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

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

An internal audit process is undertaken by members of the finance team who conduct financial reviews of each of the sites on a quarterly basis and through an annual site visit. 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 reviewed by the Board and continues to be monitored by the Audit Committee.

Procedures are in place to identify any major business risks and to evaluate their potential impact on the Group. These risks are described within the Business Review on pages 14 to 21. The Board carried out an annual review of the key risks facing the Group during the year and this will move to a quarterly review next year. In the year under review, the risk assessments carried out both at business level and at Board level continued to be reviewed and strengthened as part of the Board's ongoing response to the Turnbull Guidance.

In a change of practice from previous years, risk is now managed by the executive management team at its quarterly meetings, led by the Company Secretary and the Chief Executive. At each meeting the executive team sets its key priorities for successfully managing the Group's businesses in the coming quarter. This process inherently addresses risk and the Company Secretary sponsors an exercise that ensures the known risks to the businesses, together with any newly identified risks, are assessed and analysed effectively and that the priorities eliminate, minimise, control or transfer risk (or the effect thereof) as appropriate. The Company Secretary also sponsors a review of the continuing effectiveness of other aspects of the control environment by the executive team at each quarterly meeting.

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 Board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal control framework within the Group. The Policy and Code includes a whistle-blowing procedure whereby individuals may raise concerns in matters of financial reporting or other matters directly with the Audit Committee which will ensure independent investigation and follow up action. The Policy and Code is reviewed annually. The latest version contains material designed to strengthen the Group's approach to the risk of bribery and corruption by implementing the UK Government's anti-corruption initiative as reflected in the Common Industry Standards prepared by the Defence Manufacturers' Association and the Society of British Aerospace Companies.

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, on two occasions, 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.

## 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.

Stella Pirie OBE
Chairman of the Audit Committee
19 January 2010

# Remuneration Report
for the year ended 30 September 2009

Part 1 of this Report sets out the Company's remuneration policies for the Directors for the year ended 30 September 2009. These policies are likely to continue to apply in future years, unless there are specific reasons for change, in which case shareholders will be informed appropriately. Part 2 sets out audited details of the remuneration received by Directors during the year ended 30 September 2009.

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

## EXECUTIVE DIRECTORS

### Remuneration Committee
The Remuneration Committee is responsible for developing the remuneration policy for the Executive Directors and for determining their individual packages and terms of service. In establishing this policy, and to ensure consistency with the arrangements for other management levels, the Remuneration Committee has regard to pay and conditions throughout the Group and is also responsible for setting the remuneration packages of the executive management team. The Committee's terms of reference are available on the Company's website.

The Committee met 5 times during the year. The composition of the Committee has remained unchanged during the year and comprises Mr. D.R. Evans (Chairman), Sir Richard Needham and Mrs. S.J. Pirie. The Chief Executive, Mr. P.C. Slabbert and the Company Secretary, Mr. M. Ingrey-Counter, are invited to attend meetings except when matters relating to their own remuneration arrangements are discussed. The Committee also uses external independent professional advisers. During the year an executive salary benchmarking report was commissioned from Ernst & Young LLP. KPMG is the Company's independent actuarial advisor on pension matters and will provide the Committee with information on executive pension arrangements when required. New Bridge Street Consultants provide performance monitoring data for review by the Committee in relation to the Performance Share Plan.

### Guiding policy
The Remuneration Committee's aim is to ensure that the structure of executive remuneration supports the achievement of the Company's performance objectives and, in turn, increases shareholder value. The Remuneration Committee reviews executive remuneration arrangements regularly to ensure that they remain effective, competitive and appropriate to the Group's circumstances and prospects, and monitors incentive award levels and consequent company liabilities.

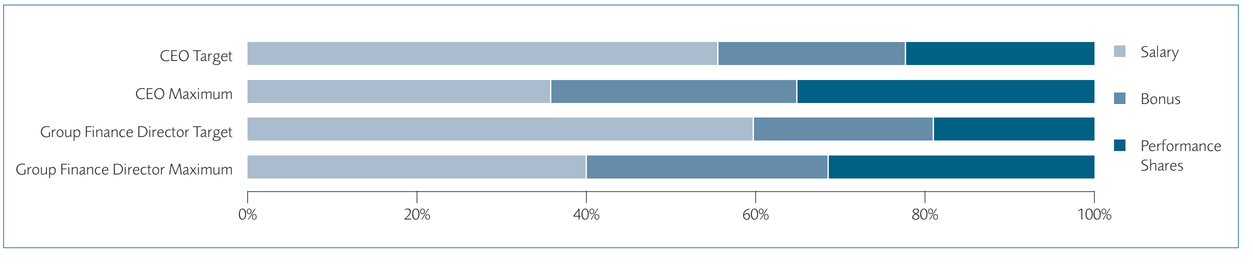
The Company's guiding policy on executive remuneration is that:

- executive remuneration packages should take into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical success factor in the setting of incentives, both in the short and the long term; and

- 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.

### Remuneration elements
Executive remuneration comprises four elements: annual salary; short-term bonus; longer-term performance shares and other benefits (including pension). In line with the Company's emphasis on performance-related pay, bonus payments are dependent on the Company's annual financial performance, while the receipt of performance shares is dependent on enhanced relative returns to shareholders over a three-year period. The following table illustrates the proportion of variable pay to base salary for the Chief Executive and the Group Finance Director for 2009/10, assuming target or maximum performance related pay.

### Proportion of performance related pay to salary




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

The annual base salary as at 30 September 2009 for Mr. P.C.Slabbert is £220,000 and for Mr. A.G.Lewis is £135,000.

### Annual bonus

The executives' annual bonus arrangements are focused on the achievement of the Company's short-term financial objectives. Before the start of each year, the Remuneration Committee sets financial performance targets for the year. These are designed to be stretching and for the bonus for 2009/10 will be based on the following:

- Group PBIT budget achievement (30%)
- Year on year PBITE growth (30%)
- The ratio of Group operating cashflow to Group operating profit (30%)
- Achievement of personal performance targets (10%)

The maximum bonus potential for 2009/10 under these arrangements is 80% of salary for the Chief Executive and 70% of salary for the Group Finance Director. Bonus payments are not pensionable.

### Profit Incentive Bonus Scheme (PIBS)

In 2009 the Remuneration Committee approved the continuation of the Profit Incentive Bonus Scheme as a short-term measure to focus the attention of the senior managers only on the immediate objective of improving the Company's profitability. Performance is measured quarterly against a Group budgeted profit figure. When this is equalled or exceeded, participants receive $5,000. The maximum annual bonus amount is $20,000. The Executive Directors and other members of the executive team participated in the scheme as part of the eligible group throughout the last financial year, during which three of the four awards were payable. The scheme will continue in 2010 but will exclude the eight members of the Executive management team.

### Performance Share Plan (PSP)

The Remuneration Committee introduced this Plan with shareholder approval at the AGM in 2002 and this year shareholders are being asked to approve a replacement. The existing Plan came into effect from 1 October 2001, with the aim of motivating Executive Directors and other senior executives to achieve performance superior to the Company's peers and to deliver sustainable improvement in shareholder returns. This is reflected in the Plan's performance condition which compares the total return received by the Company's shareholders in terms of share price growth and dividends (total shareholder return or "TSR") over a period of time with the total returns received by shareholders in companies within a predetermined and appropriate comparator group.

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

- If the Company's TSR performance is below the median TSR of the comparator group, no shares will vest.
- If the Company's TSR performance is equal to the median TSR of the comparator group, 40% of the shares may vest.
- If the Company's TSR performance is equal to, or exceeds, the upper quartile TSR of the comparator group, 100% of the shares may vest.
- If the Company's TSR performance is between the median and upper quartile TSR of the comparator group, shares may vest on a pro-rata basis.

The above schedule reflects the Remuneration Committee's intention to reward only TSR performance which outperforms the comparator group and the same measures are proposed for the 2010 Plan. In addition, the Committee may reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting.

The maximum value that can be granted under the Plan in any year is 100% of salary. It is the Remuneration Committee's current intention that, as before, only the Chief Executive should receive the maximum conditional grant, with the Group Finance Director receiving 80% of salary.

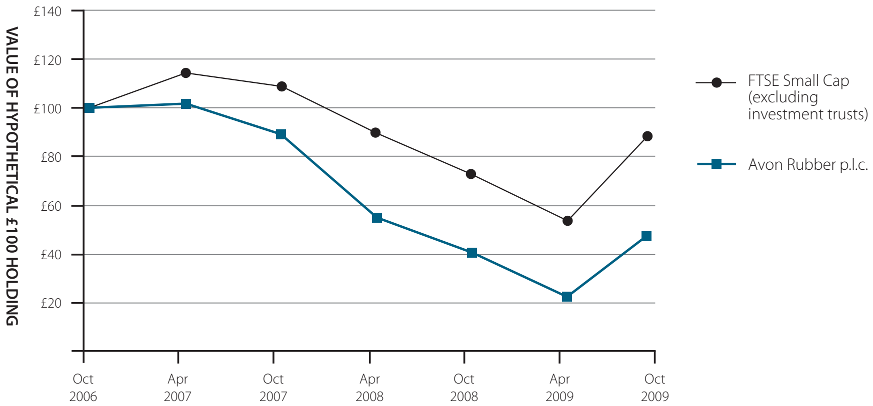
## Remuneration Report continued
for the year ended 30 September 2009

As announced to shareholders in January 2009, the 2008/9 conditional awards were made following the surrender of 2006/2007 and 2007/2008 awards totalling 386,801 shares previously granted under the Plan. At the time the Committee confirmed that it believed the surrender and grant aligned Executive Director and other recipients' interests with those of shareholders and the Committee remains of this view. As reported last year, the Remuneration Committee determined that the 2005/6 conditional award should not vest.

The Company's TSR performance in respect of the 2006/7 conditional award did not exceed the median performance of the comparator group, as calculated by New Bridge Street Consultants. The Committee therefore determined in October 2009 that the 2006/7 award, of which a limited number of awards were still outstanding in the hands of ex-employees, should not vest.

### Performance graph
The following graph illustrates the total return, in terms of share price growth and dividends on a notional investment of £100 in the Company over the last three years relative to the FTSE Small Cap Index (excluding investment trusts). This index was chosen by the Remuneration Committee as a competitive indicator of general UK market performance for companies of a similar size.

**Three Year Historical TSR Performance**
**Growth in the value of a hypothetical £100 holding over three years**
**FTSE Small Cap (excluding investment trusts) comparison based on 30 trading day average values**




### Shareholding guidelines
Under shareholding guidelines approved during 2004, executives participating in the Performance Share Plan during the year are required to build up and retain a shareholding in the Company. For Executive Directors the shareholding requirement is equivalent to 1.5 times base salary and for other executives the shareholding requirement is equivalent to 1.0 times base salary. The Executive Directors and senior executives are required to retain a portion of any awards that vest under the Performance Share Plan until their respective shareholding guideline is met.

### Dilution
The Company reviews the awards of shares made under the various all-employee and executive share plans in terms of their effect on dilution limits. In respect of the 5% and 10% limits recommended by the Association of British Insurers, the relevant percentages were 4.64% and 7.03% respectively based on the issued share capital at 30 September 2009. Under the 2010 Plan it is proposed to increase the 5% limit to 10%. It has been the Company's practice to use an Employee Share Ownership Trust in order to meet its liability for shares awarded under the Performance Share Plan. At 30 September 2009 there were 666,191 shares held in the Employee Share Ownership Trust which will either be used to satisfy awards granted under the Plan to date, or in connection with awards to be made under the 2010 Plan, if approved. A Hedging Committee has been established to ensure that the Employee Share Ownership Trust holds sufficient shares to satisfy existing awards made under the Plan and any future awards to be made under the 2010 Plan, if approved, by buying shares in the market or causing the Company to issue new shares.

### Pensions and other benefits
The current Executive Directors (Mr. P.C. Slabbert and Mr. A.G. Lewis) are both based in the UK and are members of the Avon Rubber Retirement and Death Benefits Plan. Until 30 September 2009, when the final salary section of the Plan closed to future accrual of benefits, Mr. Slabbert was a member of the Senior Executive Section which provided members with a defined level of benefit on retirement depending on length of service and earnings. Members can receive a pension of up to two-thirds of pensionable salary on retirement from age 60, provided the minimum service requirement of 20 years has been met. On death in service, a lump sum of four times pensionable salary is paid, along with a spouses' pension of one half of the member's prospective pension. When an Executive Director dies after retirement, a spouse's pension of one half of the member's pension is paid. During the year, Mr Slabbert, like all members, has been required to make contributions to the scheme at a rate of 7.5% of salary. For the year commencing 1 October 2009 Mr. Slabbert is a member of the money purchase section of the Plan (see below).

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

Mr. Lewis is therefore a member of the money purchase section of the Plan. Members receive a pension based upon the size of their retirement account on retirement from age 65. On death in service, a lump sum of four times pensionable salary is paid, along with a spouses' pension of one quarter of the member's pensionable salary. Both Mr Slabbert and Mr Lewis receive a company pension contribution of 15% of salary.

Executive Directors' basic salaries are the only pensionable element of their remuneration packages. Executive Directors are entitled to participate in employee healthcare plans and to receive a car allowance and related expenses.

Neither of the Executive Directors is currently appointed as a non-executive director of any limited company outside the Group. The Remuneration Committee will establish a policy on the treatment of any fees received by Executive Directors in respect of such non-executive roles when required.

### Contracts

The Company's policy is that Executive Directors should normally be employed on a contract which may be terminated either by the Company or the Executive Director giving 12 months notice and which otherwise expires on retirement, currently at age 60 for Mr. Slabbert and age 65 for Mr. Lewis. The Company may terminate the contract early without cause by making a payment in lieu of notice by monthly instalments of salary and benefits to a maximum of 12 months, with reductions for any amounts received from providing services to others during this period.

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

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

| | Contract date | Years to expected retirement | Company notice period | Expected notice period |
|---|---|---|---|---|
| P.C. Slabbert | 28 September 2009 | 13 | 12 months | 12 months |
| A.G. Lewis | 28 September 2009 | 27 | 12 months | 12 months |

## CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Chairman and Non-Executive Directors receive a fixed fee for their services. Fee levels are determined by the Board in light of market research and advice provided by Hanson Green, which also provides services in connection with the proposed recruitment of new Non-Executive Directors. Fee levels are reviewed from time to time. The Chairman and the Non-Executive Directors do not participate in any Board discussions or vote on their own remuneration, nor do they participate in any incentive or benefit plans.

The Chairman and the Non-Executive Directors each have a letter of appointment which specifies an initial period of appointment. The initial period for Mrs. Pirie was three years and this was extended for a further three years on 1 March 2008. Sir Richard Needham's and Mr. Evans' appointments are also for an initial period of three years. Chairman and Non-Executive Director appointments are subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years. The Chairman and any Non-Executive Director who has served for more than nine years since first election are subject to annual re-election by shareholders. There are no provisions for compensation payments on early termination in the Chairman's and the Non-Executive Directors' letters of appointment. The date of each appointment is set out below, together with the date of their last re-election

| | Date of initial appointment | Date of last re-election |
|---|---|---|
| The Rt. Hon. Sir Richard Needham | 26 January 2007 | 23 January 2008 |
| D.R. Evans | 1 June 2007 | 23 January 2008 |
| S.J. Pirie OBE | 1 March 2005 | 21 January 2009 |

## DIRECTORS' INTERESTS

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

| | At the end of the year | At the beginning of the year |
|---|---|---|
| The Rt. Hon. Sir Richard Needham | 56,246 | 41,246 |
| S.J. Pirie OBE | 44,000 | 35,500 |
| D.R. Evans | 40,000 | 30,000 |
| P.C. Slabbert | 22,833 | 22,833 |
| A.G. Lewis | - | - |

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

There were the following movements in Directors' shareholdings between the end of the financial year and 19 January 2010.

Sir Richard Needham purchased a further 16,200 shares to take his shareholding to 72,446 ordinary shares. Mrs S.J. Pirie purchased a further 6,000 shares to take her shareholding to 50,000 ordinary shares.

# Remuneration Report continued

for the year ended 30 September 2009

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

The following information has been audited by the Company's auditors PricewaterhouseCoopers LLP, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

### Directors' emoluments

| | Basic salary & fees £'000 | Other benefits* £'000 | Annual bonus** £'000 | PIBS*** £'000 | Compensation for loss of office £'000 | **Total 2009 £'000** | Total 2008 £'000 |
|---|---|---|---|---|---|---|---|
| **Directors holding office throughout 2008 and 2009** | | | | | | | |
| The Rt. Hon. Sir Richard Needham (Chairman) | 70 | - | - | - | - | **70** | 70 |
| D.R. Evans (Non-Executive) | 40 | - | - | - | - | **40** | 39 |
| S.J. Pirie OBE (Non-Executive) | 40 | - | - | - | - | **40** | 40 |
| P.C. Slabbert (highest paid Director) | 219 | 17 | 120 | 10 | - | **366** | 192 |
| **Total 2009** | **369** | **17** | **120** | **10** | **-** | **516** | **-** |
| Total 2008 | 322 | 19 | - | - | - | **-** | 341 |
| **Appointments & resignations** | | | | | | | |
| B. Duckworth OBE (Non-Executive) (resigned 30.11.07) | - | - | - | - | - | **-** | 7 |
| A.G. Lewis (appointed 08.09.08) | 132 | 15 | 61 | 10 | - | **218** | 10 |
| T.K.P. Stead (resigned 08.09.08) | - | - | - | - | - | **-** | 408 |
| **Total 2009** | **501** | **32** | **181** | **20** | **-** | **734** | **-** |
| Total 2008 | 466 | 33 | - | - | 267 | **-** | 766 |

* Other benefits are described in Part 1 on pages 40 and 41.

** The Remuneration Committee determined at its meeting on 17 November 2009 that the criteria for making an award under the annual bonus scheme had been met. The sums referred to represent 91% of the maximum potential entitlement.

*** Three of the four quarterly awards were approved by the Remuneration Committee in 2009.

No Director waived emoluments in respect of the year ended 30 September 2009 (2008: nil).

### Executive Directors' pensions

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

| | P.C. Slabbert |
|---|---|
| Accrued entitlement as at 30 September 2009 | £60,721 p.a. |
| Increase in accrued entitlement over the period | £18,267 p.a. |
| Contributions paid by each Director over the period | £16,406 |
| Transfer value at 30 September 2008 | £468,365 |
| Transfer value at 30 September 2009 or date of retirement if earlier | £756,064 |
| Increase in transfer value over the year (net of Directors' contributions) | £271,293 |
| Increase in accrued entitlement over the period (excluding inflation of 5.0%) | £16,144 p.a. |
| Transfer value of increase in accrued pension (net of Director's contributions) | £184,614 |

In respect of Mr. A.G. Lewis, company contributions to the money purchase section of the plan were £19,875.

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of Director's pension benefits. They do not represent sums payable to individual Directors and, therefore, cannot be added meaningfully to annual remuneration.

The accrued entitlement shown is the amount that would be paid each year at normal retirement age, based on service to the end of the current year. The accrued lump sum, under the defined benefit scheme, for Mr Slabbert at 30 September 2009 was £281,400 (2008: £212,270).

### Performance Share Plan 2002 (the 2002 Scheme)

For grants of options or conditional awards made to date pursuant to the 2002 Scheme, the performance conditions have been based on the Company's TSR relative to the TSR of a comparator group, comprising the FTSE Small Cap companies (excluding investment trusts).

A list of the number of shares under option granted at nil cost, to Executive Directors and senior employees, prior to 30 September 2009 and following approval of the 2002 Scheme by shareholders is set out below:

| | Granted * 2005/6 (for the qualifying period ending 30 Sept 2008) | Granted ** 2006/7 (for the qualifying period ending 30 Sep 2009) | Granted 2007/8 (for the qualifying period ending 30 Sept 2010) | Granted *** 2008/9 (for the qualifying period ending 30 Sept 2011) | Lapsed in year | **Total option awards outstanding at 30 Sep 2009** |
|---|---|---|---|---|---|---|
| P.C. Slabbert | 55,652 | 66,494 | 130,067 | 460,714 | (252,213) | **460,714** |
| A.G. Lewis | - | - | - | 222,857 | - | **222,857** |
| Former Directors**** | 99,939 | 73,683 | 26,302 | - | (99,939) | **99,985** |
| Other senior employees | 51,942 | 46,754 | 170,710 | 541,776 | (242,183) | **568,999******* |

*As explained in last year's report the awards granted under the 2005/6 cycle did not vest during the year.

**The Remuneration Committee agreed on 16 October 2009 that the 2006/7 awards did not vest as the Company's TSR performance did not exceed the median performance of the comparator group.

***These awards were reduced to 69% of entitlement at the discretion of the Remuneration Committee.

****This includes awards granted to Mr. T.K.P. Stead (stood down 21 April 2008, resigned as a Director on 8 September 2008 and retired on 15 May 2009). All these awards were pro-rated and may vest at the end of the qualifying periods, subject to satisfaction of the applicable measures.

*****This figure includes 541,776 in respect of key management as defined in note 9 of the financial statements.

The market price at the award date for the 2008/9 award was 32.2 pence, for the 2007/8 award was 165.0 pence , for the 2006/7 award was 154.0 pence and for the 2005/6 award was 172.5 pence.

### Sharesave option schemes

As at 30 September 2009 none of the Directors had outstanding options relating to sharesave option schemes. Other employees held options over 46,252 ordinary shares (2008: 161,052), exercisable between 2008 and 2012, at option prices ranging from £1.00 to £1.72. All options are over ordinary shares of £1 each.

As at 30 September 2009, the market price of Avon Rubber p.l.c. shares was £0.79 (2008: £0.695). During the year the highest and lowest market prices were £0.875 and £0.25 respectively.

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

David Evans
Chairman of the Remuneration Committee
19 January 2010

## Consolidated Income Statement

for the year ended 30 September 2009

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 1 | **91,688** | 54,606 |
| Cost of sales | | **(68,148)** | (44,476) |
| Gross profit | | **23,540** | 10,130 |
| Distribution costs | | **(4,676)** | (3,445) |
| Administrative expenses | | **(16,881)** | (20,496) |
| Other operating income | | **120** | 1,225 |
| Operating profit/(loss) from continuing operations | 1 | **2,103** | (12,586) |
| **Operating profit/(loss) is analysed as:** | | | |
| Before depreciation, amortisation and exceptional items | | **8,595** | (686) |
| Depreciation and amortisation | | **(3,957)** | (3,419) |
| Operating profit/(loss) before exceptional items | 1 | **4,638** | (4,105) |
| Exceptional operating items | 2 | **(2,535)** | (8,481) |
| Finance income | 3 | **33** | 27 |
| Finance costs | 3 | **(1,539)** | (1,015) |
| Other finance income | 3 | **394** | 1,183 |
| **Profit/(loss) before taxation** | 4 | **991** | (12,391) |
| Taxation | 5 | **(1,699)** | 1,259 |
| **Loss for the year from continuing operations** | | **(708)** | (11,132) |
| **Discontinued operations** | | | |
| **Profit/(loss) for the year from discontinued operations** | 6 | **566** | (8,337) |
| **Loss for the year** | | **(142)** | (19,469) |
| Profit attributable to minority interest | | **41** | 6 |
| Loss attributable to equity shareholders | 21 | **(183)** | (19,475) |
| | | **(142)** | (19,469) |
| **Loss per share** | 8 | | |
| Basic | | **(0.6)p** | (68.4)p |
| Diluted | | **(0.6)p** | (68.4)p |
| **Loss per share from continuing operations** | 8 | | |
| Basic | | **(2.6)p** | (39.1)p |
| Diluted | | **(2.6)p** | (39.1)p |

## Statement of Recognised Income and Expense

at 30 September 2009

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Loss for the year** | | **(142)** | (19,469) |
| Actuarial (loss)/gain recognised in retirement benefit schemes | 10 | **(53,051)** | 25,427 |
| Movement on deferred tax relating to retirement benefit schemes | 5 | **12,158** | (7,158) |
| Net exchange differences offset in reserves | 21 | **1,049** | 1,574 |
| **Net (losses)/gains recognised directly in equity** | | **(39,844)** | 19,843 |
| **Total recognised (expense)/income for the year** | | **(39,986)** | 374 |
| Attributable to: | | | |
| Equity shareholders | | **(40,027)** | 368 |
| Minority interest | | **41** | 6 |
| **Total recognised (expense)/income for the year** | | **(39,986)** | 374 |

# Consolidated Balance Sheet

at 30 September 2009

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | **9,936** | 9,549 |
| Property, plant and equipment | 12 | **15,263** | 15,491 |
| Deferred tax assets | 5 | **271** | 265 |
| Retirement benefit assets | 10 | **-** | 43,399 |
| | | **25,470** | 68,704 |
| **Current assets** | | | |
| Inventories | 13 | **9,528** | 10,134 |
| Trade and other receivables | 14 | **12,614** | 10,684 |
| Cash and cash equivalents | 15 | **1,041** | 769 |
| | | **23,183** | 21,587 |
| Assets classified as held for sale | 6 | **4,914** | 4,642 |
| | | **28,097** | 26,229 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 17 | **14,697** | 15,908 |
| Trade and other payables | 16 | **16,196** | 15,545 |
| Current tax liabilities | | **673** | 72 |
| | | **31,566** | 31,525 |
| Liabilities directly associated with assets classified as held for sale | 6 | **1,832** | 1,125 |
| | | **33,398** | 32,650 |
| **Net current liabilities** | | **(5,301)** | (6,421) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 5 | **2,104** | 13,289 |
| Retirement benefit obligations | 10 | **9,152** | 759 |
| Provisions for liabilities and charges | 18 | **6,649** | 5,568 |
| | | **17,905** | 19,616 |
| **Net assets** | | **2,264** | 42,667 |
| **Shareholders' equity** | | | |
| Ordinary shares | 20 | **29,141** | 29,141 |
| Share premium account | 21 | **34,708** | 34,708 |
| Capital redemption reserve | 21 | **500** | 500 |
| Translation reserve | 21 | **(21)** | (1,070) |
| Retained earnings | 21 | **(62,103)** | (21,175) |
| **Equity shareholders' funds** | 21 | **2,225** | 42,104 |
| Minority interest in equity | | **39** | 563 |
| **Total equity** | | **2,264** | 42,667 |

These financial statements were approved by the Board on 19 January 2010 and were signed on its behalf by:

Richard Needham

The Rt. Hon. Sir Richard Needham

Peter Slabbert

# Consolidated Cash Flow Statement

for the year ended 30 September 2009

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from continuing operating activities prior to the effect of exceptional operating items | | **7,303** | 384 |
| Cash effect of exceptional operating items | 2 | **(1,688)** | (80) |
| Cash generated from continuing operations | 22 | **5,615** | 304 |
| Cash used in discontinued operations | 22 | **(2,468)** | (1,453) |
| Cash generated from/(used in) operations | 22 | **3,147** | (1,149) |
| Finance income received | | **33** | 27 |
| Finance costs paid | | **(1,582)** | (946) |
| Tax (paid)/received | | **(282)** | 172 |
| **Net cash generated from/(used in) operating activities** | | **1,316** | (1,896) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of operations | | **2,050** | 1,847 |
| Proceeds from sale of property, plant and equipment | | **4,798** | 447 |
| Purchase of property, plant and equipment | | **(2,684)** | (1,368) |
| Purchase of intangible assets | | **(884)** | (1,343) |
| **Net cash generated from/(used in) investing activities** | | **3,280** | (417) |
| **Cash flows from financing activities** | | | |
| Net proceeds from issue of ordinary share capital | | **-** | 17 |
| Net movements in loans | | **(6,005)** | 9,100 |
| Dividends paid to minority interests | | **(283)** | - |
| Dividends paid to shareholders | | **-** | (1,367) |
| **Net cash (used in)/generated from financing activities** | | **(6,288)** | 7,750 |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | | **(1,692)** | 5,437 |
| Cash, cash equivalents and bank overdrafts at beginning of the year | | **414** | (5,037) |
| Effects of exchange rate changes | | **188** | 14 |
| **Cash, cash equivalents and bank overdrafts at end of the year** | 23 | **(1,090)** | 414 |

# Accounting Policies and Critical Accounting Judgements

for the year ended 30 September 2009

## 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

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on page 50.

## RESTATEMENT OF COMPARATIVES

Note 1, Segment information, has been restated as a result of the early adoption of IFRS8, "Operating segments".

Central costs, previously apportioned to the operating segments, are now shown as unallocated.

## RECENT ACCOUNTING DEVELOPMENTS

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

(a) Standards, amendments and interpretations effective in 2009.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 October 2008 but are not relevant to the Groups operations, or have no significant impact:

- IFRIC 11, "IFRS 2 – Group and treasury share transactions".
- IFRIC 12, "Service concession arrangements".
- IFRIC 13, "Customer loyalty programmes".

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 October 2008 and have not been adopted early:

- IAS 23 (amendment), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group.
- IFRS 2 (amendment) "Share-based payment", effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's SAYE schemes.
- IFRS 3 (amendment), "Business combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates" and IAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group.
- IAS 1 (amendment), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing pro forma accounts under the revised disclosure requirements of this standard.
- IAS 32 (amendment), "Financial instruments: presentation", and consequential amendments to IAS 1, "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group, as the Group does not have any puttable instruments.
- IFRIC 15 Agreements for the Construction of Real Estate.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation.
- IFRIC17 Distributions of Non-Cash Assets to Owners
- IFRIC18 Transfers of Assets from Customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the net assets or results of the Group.

(c) Standards, amendments and interpretations to existing standards that have been adopted early by the Group.

- IFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes

## BASIS OF CONSOLIDATION

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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

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

# Accounting Policies and Critical Accounting Judgements continued

for the year ended 30 September 2009

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 presentational currency is sterling. The results and financial positional 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;
- income and expenses are translated at average rates and 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 income statement 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 transaction at exchange rates ruling at the balance sheet date of monetary assets or liabilities denominated in foreign currencies are recognised in the income statement, 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, which is usually when title passes or a separately identifiable phase of a contract or development has been completed and accepted by the customer.

## SEGMENTAL REPORTING

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. Segments are identified based on management information provided to the Chief Executive. 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 Group's primary segment is by business as this is the dominant source and nature of Avon's risks and returns. The secondary reporting format is the geographic segment.

## 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, outside of the income statement and are presented in the statement of recognised income and expense. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period. The scheme is closed to new entrants and was closed to future accrual of benefit from 1 October 2009.

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.

The balance sheet includes post retirement obligations in respect of overseas subsidiaries where differed arrangements are adopted to provide post retirement benefits.

### Share based compensation

The Group 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 income statement 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, 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 income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

#### Patents and distribution networks

Patents and distribution networks, recognised as identifiable net assets of acquired subsidiaries are included in intangible assets. Patents are amortised over their expected useful lives. Distribution networks are tested for impairment at least annually or whenever there is an indication that the asset may be impaired.

#### Development Expenditure

In accordance with IAS 38 "Intangible Assets", 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. The capitalised costs are amortised over the estimated period of sale for each product, commencing in the year sales of the product are first made. Development costs capitalised are tested for impairment at least annually or whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for research and development are not recognised.

### 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.

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

In general, the rates used are: .

- Freehold and long leasehold buildings – 2%
- Short leasehold property – over the period of the lease
- Plant, machinery etc. – 6% to 50%

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 it's 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 income statement.

### FIXED ASSET INVESTMENTS

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

### 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 income statement on a straight-line basis over the period of the lease. Leases in which a significant portion of the risks and rewards of ownership are passed to the lessee are classified as finance leases.

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 income statement on a straight-line basis over the lease term.

### 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 stated at 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.

### 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.

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.

### TAXATION

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

# Accounting Policies and Critical Accounting Judgements continued

for the year ended 30 September 2009

Current tax is the expected tax payable on the taxable income for the year, using tax rates, substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.
Income tax is charged or credited in the income statement, except where it relates to items recognised in equity, in which case it is dealt with in equity.

## DIVIDENDS

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

## SHARE CAPITAL

Ordinary shares are classified as equity.

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

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

## CRITICAL ACCOUNTING JUDGEMENTS

The Group's principal accounting policies are set out above. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.

Areas which management believes require the most critical accounting judgements are:

### Exceptional Items

The Directors consider that items of income or expense which are material or non-recurring by virtue of their nature or amount should be disclosed separately if the financial statements are to fairly present the financial position and financial performance of the Group. The Directors label these items collectively as "exceptional items".

### Retirement benefit obligations

The Group operates defined benefit schemes. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years.

The pension cost under IAS 19 is assessed in accordance with the advice of an independent qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 10 of the financial statements.

### Impairment of receivables

At each balance sheet date, each subsidiary evaluates the collectability of trade receivables and records provisions for impairment of receivables based on experience including, for example, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery, which could impact on operating results positively or negatively.

### Inventory provisions

At each balance sheet date, each subsidiary evaluates the recoverability of inventories and records provision against these based on an assessment of net realisable values. The actual net realisable value of inventory may differ from the estimated realisable values, which could impact on operating results positively or negatively.

### Impairment of intangible assets

The Group records all assets and liabilities acquired in business acquisitions, including goodwill, at fair value. Intangible assets which have an indefinite useful life, principally goodwill, are assessed annually for impairment.

The Group is engaged in the development of new products and processes the costs of which are capitalised as intangible assets or tangible fixed assets if, in the opinion of management, there is a reasonable expectation of economic benefits being achieved. The factors considered in making these judgements include the likelihood of future orders and the anticipated volumes, margins and duration associated with these.

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the assets based upon discounted cash flow projections using an appropriate risk weighted discount factor. Rates used were between 10% and 15%.

### Provisions

Provisions are made in respect of claims, onerous contractual obligations and warranties based on the judgement of management taking into account the nature of the claim/warranty, the range of possible outcomes and the defences open to the Group.

# Notes to the Group Financial Statements

for the year ended 30 September 2009



Due to the differing natures of the products and their markets, Avon Rubber p.l.c.'s primary reporting segment is by business. The secondary reporting format comprises the geographical segments by origin.

**Primary reporting format - business segments**

Year ended 30 September 2009

| | Protection & Defence £'000 | Dairy £'000 | Unallocated £'000 | Continuing Total £'000 | Discontinued Total £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| Revenue | 66,895 | 24,793 | | 91,688 | | 91,688 |
| Segment result before depreciation, amortisation and exceptional items | 6,874 | 3,490 | (1,769) | 8,595 | | 8,595 |
| Depreciation and amortisation | (3,296) | (470) | (191) | (3,957) | | (3,957) |
| Segment result before exceptional items | 3,578 | 3,020 | (1,960) | 4,638 | | 4,638 |
| Exceptional items | - | (2,535) | - | (2,535) | | (2,535) |
| Segment result after exceptional items | 3,578 | 485 | (1,960) | 2,103 | | 2,103 |
| Finance income | | | 33 | 33 | | 33 |
| Finance costs | | | (1,539) | (1,539) | | (1,539) |
| Other finance income | | | 394 | 394 | | 394 |
| Profit/(loss) before tax | 3,578 | 485 | (3,072) | 991 | | 991 |
| Taxation | | | (1,699) | (1,699) | | (1,699) |
| Profit/(loss) for the year from continuing operations | 3,578 | 485 | (4,771) | (708) | | (708) |
| Profit for the year from discontinued operations | | | | | 566 | 566 |
| Profit/(loss) for the year | 3,578 | 485 | (4,771) | (708) | 566 | (142) |
| Profit attributable to minority interest | | | | | | 41 |
| Loss attributable to equity shareholders | | | | | | (183) |
| | | | | | | 142 |
| Segment assets | 39,689 | 6,715 | 2,249 | 48,653 | 4,914 | 53,567 |
| Segment liabilities | 10,694 | 6,034 | 32,743 | 49,471 | 1,832 | 51,303 |
| **Other segment items** | | | | | | |
| Capital expenditure | | | | | | |
| - intangible assets | 823 | 21 | - | 844 | 23 | 867 |
| - property, plant and equipment | 2,270 | 412 | 82 | 2,764 | 274 | 3,038 |
| Depreciation | 1,553 | 467 | 167 | 2,187 | 179 | 2,366 |
| Amortisation of intangibles | 1,743 | 3 | 24 | 1,770 | 15 | 1,785 |

The Protection & Defence segment includes £47.9m (2008: £18.0m) of revenues to customers which individually contribute more than 10% to total Group revenues.

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 1 SEGMENT INFORMATION (CONTINUED)

Year ended 30 September 2008

| | Protection & Defence £'000 | Dairy £'000 | Unallocated £'000 | Continuing Total £'000 | Discontinued Total £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| Revenue | 32,616 | 21,990 | | 54,606 | | 54,606 |
| Segment result before depreciation, amortisation and exceptional items | (2,985) | 3,875 | (1,576) | (686) | | (686) |
| Depreciation and amortisation | (2,639) | (422) | (358) | (3,419) | | (3,419) |
| Segment result before exceptional items | (5,624) | 3,453 | (1,934) | (4,105) | | (4,105) |
| Exceptional operating items | (8,481) | - | - | (8,481) | | (8,481) |
| Segment result after exceptional operating items | (14,105) | 3,453 | (1,934) | (12,586) | | (12,586) |
| Finance income | | | 27 | 27 | | 27 |
| Finance costs | | | (1,015) | (1,015) | | (1,015) |
| Other finance income | | | 1,183 | 1,183 | | 1,183 |
| (Loss)/profit before taxation | (14,105) | 3,453 | (1,739) | (12,391) | | (12,391) |
| Taxation | | | 1,259 | 1,259 | | 1,259 |
| (Loss)/profit for the year from continuing operations | (14,105) | 3,453 | (480) | (11,132) | | (11,132) |
| Loss for the year from discontinued operations | | | | | (8,337) | (8,337) |
| (Loss)/profit for the year | (14,105) | 3,453 | (480) | (11,132) | (8,337) | (19,469) |
| Profit attributable to minority interest | | | | | | 6 |
| Loss attributable to equity shareholders | | | | | | (19,475) |
| | | | | | | (19,469) |
| Segment assets | 34,855 | 7,132 | 48,304 | 90,291 | 4,642 | 94,933 |
| Segment liabilities | 9,043 | 2,240 | 39,858 | 51,141 | 1,125 | 52,266 |
| **Other segment items** | | | | | | |
| Capital expenditure | | | | | | |
| - intangible assets | 1,306 | - | 21 | 1,327 | 41 | 1,368 |
| - property, plant and equipment | 1,018 | 275 | 58 | 1,351 | 66 | 1,417 |
| Depreciation | 969 | 634 | 241 | 1,844 | 398 | 2,242 |
| Amortisation of intangibles | 1,653 | - | 25 | 1,678 | 5 | 1,683 |
| Impairment of intangibles | 8,102 | - | - | 8,102 | - | 8,102 |

## SEGMENT INFORMATION (CONTINUED) 1

### Secondary reporting format - geographical segments

Year ended 30 September 2009

| | Europe £'000 | North America £'000 | Group £'000 |
|---|---|---|---|
| Revenue | **12,495** | **79,193** | **91,688** |
| Segment assets | **10,072** | **43,495** | **53,567** |
| Capital expenditure - property, plant and equipment | **459** | **2,579** | **3,038** |
| - intangible assets | **357** | **510** | **867** |

Year ended 30 September 2008

| | Europe £'000 | North America £'000 | Group £'000 |
|---|---|---|---|
| Revenue | 11,114 | 43,492 | 54,606 |
| Segment assets | 46,420 | 48,513 | 94,933 |
| Capital expenditure - property, plant and equipment | 328 | 1,089 | 1,417 |
| - intangible assets | 255 | 1,113 | 1,368 |

## EXCEPTIONAL OPERATING ITEMS 2

The exceptional operating items comprise:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Relocation of European Dairy production to the Czech Republic | **(5,557)** | - |
| Profit on sale and leaseback of freehold property | **3,022** | - |
| Impairment of goodwill and other intangibles (see note 11) | **-** | (8,102) |
| Other operating charges | **-** | (379) |
| Exceptional operating items | **(2,535)** | (8,481) |

In the consolidated income statement, the exceptional items are included within administrative expenses.

The move of European dairy production includes £2.0m of redundancy costs, which are cash costs to be met in 2009 and 2010, non-cash costs of £1.1m in respect of asset write offs and an onerous lease provision of £2.5m in respect of the leased UK facility as the move has resulted in significant unutilised space at the Group's Hampton Park West facility in the UK.

The cash impact in 2009 of exceptional items was:

a) To realise £4,850,000 in respect of the sale and leaseback of freehold property
b) To utilise cash of £1,688,000 to settle obligations of which £1,102,000 was in respect of the relocation of the European dairy production and £586,000 was to settle prior year exceptional items.

There was no impact on taxation due to brought forward losses in the UK meaning no deduction is available for the costs of the Dairy relocation and the availability of capital losses in the US meaning the capital gains were not subject to tax.

# Notes to the Group Financial Statements continued
for the year ended 30 September 2009

## 3 FINANCE INCOME AND COSTS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | **(1,433)** | (957) |
| Other finance costs | **(106)** | (58) |
| Total finance costs | **(1,539)** | (1,015) |
| Finance income | **33** | 27 |
| | **(1,506)** | (988) |

Other finance income represents the excess of the expected return on pension plan assets over the interest cost relating to retirement benefit obligations.

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Interest cost: UK scheme | **(14,592)** | (13,610) |
| Expected return on plan assets: UK scheme | **15,020** | 14,860 |
| Other finance cost: USA scheme | **(34)** | (67) |
| | **394** | 1,183 |

## 4 PROFIT/(LOSS) BEFORE TAXATION

| | Note | 2009 £'000 | 2008 £'000 |
|---|---|---|---|
| **Profit/(loss) before tax is shown after crediting:** | | | |
| Rent receivable | | **79** | 92 |
| Gain on foreign exchange | | **10** | - |
| Profit on disposal of property, plant and equipment | | **2,088** | - |
| **and after charging:** | | | |
| Employee benefits | | **28,344** | 24,674 |
| Charge relating to employee share schemes | 25 | **148** | 187 |
| Depreciation on property, plant and equipment | | | |
| - owned assets | | **2,186** | 2,085 |
| - leased assets | | **1** | 21 |
| Loss on disposal of property, plant and equipment | | **-** | 129 |
| Repairs and maintenance of property, plant and equipment | | **564** | 480 |
| Amortisation of intangibles | | **1,770** | 1,678 |
| Impairment of goodwill and intangibles | | **-** | 8,102 |
| Research and development | | **413** | 687 |
| Impairment of inventories | | **246** | 127 |
| Impairment of trade receivables | | **127** | 86 |
| Operating leases | | | |
| - plant and machinery | | **113** | 186 |
| - property | | **1,388** | 1,215 |
| Services provided to the Group (including its overseas subsidiaries) by the Group's auditors | | | |
| Audit fees in respect of the audit of the accounts of the parent company and consolidation | | **50** | 56 |
| Audit fees in respect of the audit of the accounts of subsidiaries of the company | | **82** | 110 |
| | | **132** | 166 |
| Other services relating to taxation | | **98** | 79 |
| Other business advisory services | | **70** | 38 |
| Total fees | | **300** | 283 |

In addition, audit fees of £5,000 (2008: £8,000) were paid relating to the US engineered fabrications operation which is now classified as discontinued.

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Overseas current tax | **892** | (718) |
| Overseas prior year adjustment to current tax | **(193)** | (187) |
| Deferred tax - current year | **78** | (382) |
| Deferred tax - prior year adjustment | **922** | 28 |
| Tax charge/(credit) | **1,699** | (1,259) |

In addition to the total tax charged/(credited) to the income statement, a deferred tax credit of £12,158,000 (2008 charge of £7,158,000) has been recognised directly in equity during the year.

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

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Profit/(loss) before taxation | **991** | (20,728) |
| Profit/(loss) before taxation at the standard rate of 28% (2008: 28%) | **277** | (5,804) |
| Permanent differences | **(658)** | 2,245 |
| Losses for which no deferred taxation asset was recognised | **997** | 3,286 |
| Adjustments to taxation charge in respect of previous periods | **729** | (159) |
| Differences in overseas tax rates | **354** | (827) |
| Tax charge/(credit) | **1,699** | (1,259) |

### Deferred tax (assets) and liabilities

Movements on the deferred tax account were:

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Liability at the beginning of the year | **12,991** | 6,182 |
| Charged/(credited) to the income statement | **1,000** | (354) |
| (Credited)/charged to the statement of recognised income and expense | **(12,158)** | 7,158 |
| Exchange differences | **(34)** | 5 |
| Liability at the end of the year | **1,799** | 12,991 |
| Reclassified as assets held for sale | **34** | 33 |
| Total | **1,833** | 13,024 |

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.

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 5 TAXATION (CONTINUED)

### Deferred tax liabilities

| | Retirement benefit obligations £'000 | Accelerated capital allowances £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|
| At 30 September 2007 | 4,586 | 272 | 1,930 | 6,788 |
| Charged/(credited) to the income statement | 414 | (272) | (799) | (657) |
| Charged to the statement of recognised income and expense | 7,158 | - | - | 7,158 |
| At 30 September 2008 | **12,158** | **-** | **1,131** | **13,289** |
| Charged to the income statement | **-** | **1,257** | **(297)** | **960** |
| Credited to the statement of recognised income and expense | **(12,158)** | **-** | **-** | **(12,158)** |
| Exchange differences | **-** | **(34)** | **47** | **13** |
| **At 30 September 2009** | **-** | **1,223** | **881** | **2,104** |

### Deferred tax assets

| | Retirement benefit obligations £'000 |
|---|---|
| At 30 September 2007 | (606) |
| Charged to the income statement | 303 |
| Charged to the statement of recognised income and expense | - |
| Exchange differences | 5 |
| | (298) |
| Reclassified as assets held for sale | 33 |
| At 30 September 2008 | **(265)** |
| Charged to the income statement | **40** |
| Exchange differences | **(47)** |
| | **(272)** |
| Reclassified as assets held for sale | **1** |
| **At 30 September 2009** | **(271)** |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The offset amounts are as follows:

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Deferred tax assets: | | |
| Deferred tax asset to be recovered after more than 12 months | **(271)** | (265) |
| Included within assets held for sale | **(34)** | (33) |
| | **(305)** | (298) |
| Deferred tax liabilities: | | |
| Deferred tax liability to be recovered after more than 12 months | **2,104** | 13,289 |
| Deferred tax liability to be recovered within 12 months | **-** | - |
| | **2,104** | 13,289 |
| Net deferred tax liabilities | **1,799** | 12,991 |

## TAXATION (CONTINUED) 5

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

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Losses | **(8,526)** | (9,366) |
| Accelerated capital allowances | **(1,909)** | (630) |
| Retirement benefit obligations | **(2,345)** | (31) |
| Other | **(1,778)** | (882) |
| | **(14,558)** | (10,909) |

## RESULTS FROM DISCONTINUED OPERATIONS 6

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Revenue | **9,212** | 11,337 |
| Cost of sales | **(7,686)** | (11,920) |
| Gross profit/(loss) | **1,526** | (583) |
| Distribution costs | **(119)** | (638) |
| Administrative expenses | **(536)** | (5,705) |
| Other operating income | **-** | 45 |
| Operating profit/(loss) from discontinued operations | **871** | (6,881) |
| Operating profit/(loss) is analysed as: | | |
| Before exceptional items | **871** | (2,023) |
| Exceptional operating items | **-** | (4,858) |
| Taxation | **(305)** | - |
| Loss on disposal | **-** | (1,456) |
| Profit/(loss) for the year from discontinued operations | **566** | (8,337) |

In 2009, the results from discontinued operations relate to the US engineered fabrications operation which was being actively marketed for sale.

In 2008 discontinued operations also included the UK mixing operation which was disposed of in November 2008 and the UK aerosol business which was sold during 2008.

At the end of 2009, assets held for sale and associated liabilities relate to the US engineered fabrications business.

## DIVIDENDS 7

The 2007 final dividend of 4.8p per share was paid on 4 February 2008. No dividends were declared in respect of the 2008 financial year and the Board announced in May 2009 that there would be no interim dividend in 2009.

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 8 EARNINGS/(LOSS) PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/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 Sharesave Option Scheme and the Performance Share Plan (see page 43). Adjusted earnings per share from continuing operations adds back to profit the effect of exceptional items and the amortisation of intangible assets.

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

| | **2009** | 2008 |
|---|---|---|
| Weighted average number of ordinary shares in issues (thousands) used in basic calculations | **28,474** | 28,473 |
| Potentially dilutive shares (weighted average) | **972** | - |
| Fully diluted number of ordinary shares (thousands) | **29,446** | 28,473 |

| | **2009 £'000** | **2009 Basic eps pence** | **2009 Diluted eps pence** | 2008 £'000 | 2008 Basic eps pence | 2008 Diluted eps pence |
|---|---|---|---|---|---|---|
| Loss attributable to equity shareholders of the company | **(183)** | **(0.6)** | **(0.6)** | (19,475) | (68.4) | (68.4) |
| Profit/(loss) from discontinued operations attributable to equity shareholders of the company | **566** | **2.0** | **1.9** | (8,337) | (29.3) | (29.3) |
| Loss from continuing operations attributable to equity shareholders of the Company | **(749)** | **(2.6)** | **(2.6)** | (11,138) | (39.1) | (39.1) |
| Exceptional items | **2,535** | | | 8,481 | | |
| Profit/(loss) from continuing operations excluding exceptional items | **1,786** | **6.3** | **6.1** | (2,657) | (9.3) | (9.3) |
| Amortisation of intangible assets | **1,770** | | | 1,683 | | |
| Profit/(loss) from continuing operations excluding exceptional items and amortisation of intangibles | **3,556** | **12.5** | **12.1** | (974) | (3.4) | (3.4) |

## 9 EMPLOYEES

The total remuneration and associated costs during the year were:

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Wages and salaries | **23,117** | 20,998 |
| Social security costs | **2,421** | 2,166 |
| Other pension costs | **4,560** | 3,072 |
| Share awards costs | **148** | 187 |
| | **30,246** | 26,423 |

Detailed disclosures of Directors' remuneration and share options are given on pages 42 and 43.

## EMPLOYEES (CONTINUED) 9

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

| | 2009 Number | 2008 Number |
|---|---|---|
| **By business segment** | | |
| Protection & Defence | **468** | 543 |
| Dairy | **221** | 243 |
| Other | **12** | 12 |
| Total continuing operations | **701** | 798 |
| Discontinued operations | **45** | 81 |
| | **746** | 879 |

At the end of the financial year the total number of employees in the Group was 686 (2008: 842).

**Key management compensation**

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Salaries and other employee benefits | **1,596** | 1,226 |
| Post employment benefits | **89** | 96 |
| Compensation for loss of office | **277** | 267 |
| | **1,962** | 1,589 |

The key management figures given above include the Executive Directors plus eight other members of the Group Executive during the year.

## PENSIONS AND OTHER RETIREMENT BENEFITS 10

Retirement benefit assets and liabilities can be analysed as follows:

| | UK £'000 | USA £'000 | 2009 Total £'000 | 2008 Total £'000 |
|---|---|---|---|---|
| Pension (liability)/asset | **(8,377)** | **(872)*** | **(9,249)** | 42,547 |
| Deferred tax asset/(liability) | **-** | **305** | **305** | (11,860) |
| Net pension (liability)/asset | **(8,377)** | **(567)** | **(8,944)** | 30,687 |

*Includes £97,000 (2008: £93,000) presented as liabilities associated with assets held for sale.

Full disclosures are provided in respect of UK defined benefit pensions and USA post-retirement benefits below.

**UK**

The Group operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is now closed to new entrants and will close to future accrual of benefit from 1 October 2009. 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.

## Notes to the Group Financial Statements continued
for the year ended 30 September 2009

### 10 PENSIONS AND OTHER RETIREMENT BENEFITS (CONTINUED)

Pension costs are assessed on the advice of an independent consulting actuary using the projected unit method. The funding of the plan is based on regular actuarial valuations. The most recent finalised actuarial valuation of the plan was carried out as at 1 April 2006 when the market value of the plan's assets was £258.2 million. The actuarial value of those assets represented 101% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

Employer contributions to the plan during the year were 8.2% of salaries, with additional payments of £25,856 per month, in respect of scheme expenses.

An updated actuarial valuation for IAS 19 purposes was carried out by an independent actuary at 30 September 2009 using the projected unit method.

The main financial assumptions used by the independent qualified actuary to calculate the liabilities under IAS 19 are set out below:

| | 2009<br>% p.a. | 2008<br>% p.a. |
|---|---|---|
| Inflation | **3.00** | 3.40 |
| Rate of general long-term increase in salaries | **n/a** | 3.65 |
| Pension increases post August 2005 | **2.10** | 2.40 |
| Pension increase April 1997 to August 2005 | **2.90** | 3.40 |
| Pension increases pre April 1997 | **2.90** | 3.40 |
| Discount rate for scheme liabilities | **5.46** | 6.90 |

The scheme actuary estimates that a 0.1% change in the discount rate would change the value of scheme liabilities by approximately 1.7%.

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:

| | 2009 | 2008 |
|---|---|---|
| Male | **21.0** | 21.0 |
| Female | **24.0** | 24.0 |

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

| | 2009 | 2008 |
|---|---|---|
| Male | **23.0** | 23.0 |
| Female | **25.0** | 25.0 |

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

| | Long-term rate of return expected at 30 Sept 2009<br>% p.a. | Value at 30 Sept 2009<br>£'000 | Long-term rate of return expected at 30 Sept 2008<br>% p.a. | Value at 30 Sept 2008<br>£'000 |
|---|---|---|---|---|
| Equities | **8.40** | **101,032** | 8.40 | 105,548 |
| Property | **7.50** | **945** | 7.90 | 1,379 |
| Liability driven investments | **4.30** | **147,693** | 5.10 | 152,981 |
| Other | **4.30** | **3,738** | 6.20 | 1,112 |
| Average expected long term rate of return/Total fair value of assets | **5.95*** | **253,408** | 6.45* | 261,020 |

*The overall expected rate of return on scheme assets is a weighted average of the individual expected rates of return on each asset class.

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 scheme's liabilities.

### Reconciliation of funded status to balance sheet

| | Value at 30 Sept 2009 £'000 | Value at 30 Sept 2008 £'000 |
|---|---|---|
| Fair value of plan assets | **253,408** | 261,020 |
| Present value of funded defined benefit obligations | **(261,785)** | (217,621) |
| (Liability)/asset recognised on the balance sheet | **(8,377)** | 43,399 |

### Amounts recognised in the income statement

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Current service cost | **279** | 647 |
| Curtailments | **(300)** | - |
| Interest cost | **14,592** | 13,610 |
| Expected return on plan assets | **(15,020)** | (14,860) |
| Total recognised in the income statement | **(449)** | (603) |

### Changes to the present value of the defined benefit obligation during the year

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Opening defined benefit obligation | **217,621** | 235,390 |
| Current service cost | **279** | 647 |
| Interest cost | **14,592** | 13,610 |
| Contributions by plan participants | **293** | 459 |
| Actuarial losses/(gains) on plan liabilities* | **42,187** | (21,631) |
| Net benefits paid out | **(12,887)** | (10,854) |
| Curtailments | **(300)** | - |
| Closing defined benefit obligation | **261,785** | 217,621 |

*Includes changes to the actuarial assumptions

### Changes to the fair value of the scheme assets during the year

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Opening fair value of plan assets | **261,020** | 251,770 |
| Expected return on plan assets | **15,020** | 14,860 |
| Actuarial (losses)/gains on plan assets | **(10,864)** | 3,949 |
| Contributions by the employer | **826** | 836 |
| Contributions by the plan participants | **293** | 459 |
| Net benefits paid out | **(12,887)** | (10,854) |
| Closing fair value of plan assets | **253,408** | 261,020 |

### Actual return on plan assets

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Expected return on plan assets | **15,020** | 14,860 |
| Actuarial (losses)/gains on plan assets | **(10,864)** | 3,949 |
| Actual return on plan assets | **4,156** | 18,809 |

# Notes to the Group Financial Statements continued
for the year ended 30 September 2009

## 10 PENSIONS AND OTHER RETIREMENT BENEFITS (CONTINUED)

### Amounts recognised in the statement of recognised income and expense (SoRIE)

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Total actuarial (losses)/gains in SoRIE | **(53,051)** | 25,580 |
| Cumulative amount of gains recognised in SoRIE | **1,487** | 54,538 |

### History of asset values, defined benefit obligation, (deficit)/surplus in scheme and experience gains and (losses)

| | 2009 £'000 | 2008 £'000 | 2007 £'000 | 2006 £'000 | 2005 £'000 |
|---|---|---|---|---|---|
| Fair value of plan assets | **253,408** | 261,020 | 251,770 | 249,689 | 235,686 |
| Defined benefit obligation | **(261,785)** | (217,621) | (235,390) | (261,936) | (250,855) |
| (Deficit)/surplus in plan | **(8,377)** | 43,399 | 16,380 | (12,247) | (15,169) |

| | 2009 £'000 | 2008 £'000 | 2007 £'000 | 2006 £'000 | 2005 £'000 |
|---|---|---|---|---|---|
| Experience (losses)/gains on plan assets | **(10,864)** | 3,949 | (3,583) | 6,487 | 26,384 |
| Experience (losses)/gains on plan liabilities | **(1,917)** | (213) | (232) | 12,072 | (768) |

In addition, commencing 1 February 2003, a defined contribution scheme was introduced for new employees within the UK. The cost to the Group in respect of this scheme for the year ended 30 September 2009 was £102,000 (2008: £92,000).

### USA post retirement benefits

The liabilities of the unfunded benefit scheme were valued by an independent actuary at 30 September 2008 and updated at 30 September 2009, based on the following principal assumptions.

| | 2009 | 2008 |
|---|---|---|
| Discount rate | **7.5%** | 7.5% |
| Healthcare cost trend rate | **5.5%** | 9% reducing to 5.5% by 2009 |

### Amounts charged/(credited) to operating profit in respect of post retirement benefits

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Current service cost | **55** | 42 |
| Past service credit | **(40)** | (1,144) |
| Total operating charge/(credit) | **15** | (1,102) |

### Movement in provision during the year

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Provision at the beginning of the year | **(852)** | (1,730) |
| Movement: | | |
| Current service cost | **(55)** | (42) |
| Contributions | **164** | 132 |
| Past service credit | **40** | 1,144 |
| Other finance costs | **(34)** | (67) |
| Actuarial loss | **-** | (153) |
| Exchange difference | **(135)** | (136) |
| Provision at the end of the year | **(872)** | (852) |
| Related deferred tax asset | **305** | 298 |
| Net post retirement liability | **(567)** | (554) |

# Notes to the Group Financial Statements continued
for the year ended 30 September 2009

## 11 INTANGIBLE ASSETS

| | Goodwill £'000 | Patents and distribution networks £'000 | Development expenditure £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 October 2007** | | | | | |
| Cost | 5,511 | 3,004 | 10,034 | 1,090 | 19,639 |
| Accumulated amortisation and impairment | - | (570) | (765) | (999) | (2,334) |
| **Net book amount** | 5,511 | 2,434 | 9,269 | 91 | 17,305 |
| **Year end 30 September 2008** | | | | | |
| Opening net book amount | 5,511 | 2,434 | 9,269 | 91 | 17,305 |
| Exchange differences | 232 | - | 737 | (3) | 966 |
| Additions | - | - | 1,208 | 160 | 1,368 |
| Disposals | - | - | (252) | (17) | (269) |
| Impairment | (5,743) | (2,119) | (240) | - | (8,102) |
| Amortisation | - | (315) | (1,284) | (84) | (1,683) |
| Reclassified as assets held for sale | - | - | (36) | - | (36) |
| **Closing net book amount** | - | - | 9,402 | 147 | 9,549 |
| **At 30 September 2008** | | | | | |
| Cost | 5,743 | 3,004 | 11,823 | 1,044 | 21,614 |
| Accumulated amortisation and impairment | (5,743) | (3,004) | (2,421) | (897) | (12,065) |
| **Net book amount** | - | - | 9,402 | 147 | 9,549 |
| **Year end 30 September 2009** | | | | | |
| Opening net book amount | **-** | **-** | **9,402** | **147** | **9,549** |
| Exchange differences | **-** | **-** | **1,312** | **20** | **1,332** |
| Additions | **-** | **-** | **783** | **61** | **844** |
| Disposals | **-** | **-** | **(10)** | **(9)** | **(19)** |
| Amortisation | **-** | **-** | **(1,699)** | **(71)** | **(1,770)** |
| **Closing net book amount** | **-** | **-** | **9,788** | **148** | **9,936** |
| **At 30 September 2009** | | | | | |
| Cost | **6,562** | **3,484** | **14,100** | **1,124** | **25,270** |
| Accumulated amortisation and impairment | **(6,562)** | **(3,484)** | **(4,312)** | **(976)** | **(15,334)** |
| **Net book amount** | **-** | **-** | **9,788** | **148** | **9,936** |

Development expenditure is amortised over an average duration of 5 years.

Other intangible assets are primarily computer software which is amortised over an average duration between 3 and 4 years.

## PROPERTY, PLANT AND EQUIPMENT 12

| | Freehulds £'000 | Short leaseholds £'000 | Plant and machinery £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 October 2007** | | | | |
| Cost | 13,548 | 133 | 32,622 | 46,303 |
| Accumulated depreciation and impairment | (8,997) | (52) | (17,213) | (26,262) |
| **Net book amount** | 4,551 | 81 | 15,409 | 20,041 |
| **Year end 30 September 2008** | | | | |
| Opening net book amount | 4,551 | 81 | 15,409 | 20,041 |
| Exchange differences | 264 | 8 | 874 | 1,146 |
| Additions | 31 | - | 1,386 | 1,417 |
| Disposals | - | - | (9) | (9) |
| Depreciation charge | (77) | (17) | (2,148) | (2,242) |
| Disposal of businesses | - | - | (1,565) | (1,565) |
| Reclassifications | 757 | - | (757) | - |
| Reclassified as assets held for sale | (2,716) | (19) | (562) | (3,297) |
| **Closing net book amount** | 2,810 | 53 | 12,628 | 15,491 |
| **At 30 September 2008** | | | | |
| Cost | 4,558 | 62 | 27,503 | 32,123 |
| Accumulated depreciation and impairment | (1,748) | (9) | (14,875) | (16,632) |
| **Net book amount** | 2,810 | 53 | 12,628 | 15,491 |
| **Year end 30 September 2009** | | | | |
| Opening net book amount | **2,810** | **53** | **12,628** | **15,491** |
| Exchange differences | **568** | **9** | **1,277** | **1,854** |
| Additions | **53** | **-** | **2,711** | **2,764** |
| Reclassifications | **633** | **-** | **(633)** | **-** |
| Disposals | **(1,477)** | **-** | **(1,182)** | **(2,659)** |
| Depreciation charge | **(35)** | **(13)** | **(2,139)** | **(2,187)** |
| **Closing net book amount** | **2,552** | **49** | **12,662** | **15,263** |
| **Year end 30 September 2009** | | | | |
| Cost | **3,300** | **72** | **28,159** | **31,531** |
| Accumulated depreciation and impairment | **(748)** | **(23)** | **(15,497)** | **(16,268)** |
| **Net book amount** | **2,552** | **49** | **12,662** | **15,263** |

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 13 INVENTORIES

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Raw materials | **5,590** | 5,001 |
| Work in progress | **1,368** | 1,399 |
| Finished goods | **2,570** | 3,734 |
| | **9,528** | 10,134 |

The above numbers include provisions for inventory write downs of £1,229,000 (2008: £546,000).

The cost of inventories recognised as an expense and included in cost of sales amounted to £48,918,000 (2008: £27,871,000) of which £43,643,000 (2008: £20,938,000) relates to continuing business.

## 14 TRADE AND OTHER RECEIVABLES

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade receivables | **9,758** | 8,567 |
| Less: provision for impairment of receivables | **(240)** | (181) |
| Trade receivables - net | **9,518** | 8,386 |
| Prepayments | **812** | 673 |
| Other receivables | **2,284** | 1,625 |
| | **12,614** | 10,684 |

Other receivables include £1,268,000 (2008: £956,000) in respect of rent deposits relating to the Group's premises in Melksham, Wiltshire, UK and Johnson Creek, Wisconsin, USA. The remaining balance comprises sundry receivables which are not individually significant for disclosure.

Management considers the carrying value of trade and other receivables approximates to the fair value.

## 15 CASH AND CASH EQUIVALENTS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Cash at bank and in hand | **1,041** | 769 |

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

## 16 TRADE AND OTHER PAYABLES

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Trade payables | **6,450** | 4,730 |
| Other taxation and social security | **232** | 241 |
| Other payables | **3,046** | 2,776 |
| Accruals | **6,468** | 7,798 |
| | **16,196** | 15,545 |

Other payables include £1,258,000 (2008: £1,085,000) of deferred consideration following the purchase of International Safety Instruments, Inc in July 2005. The remaining balance comprises sundry payables which are not individually significant for disclosure.

## BORROWINGS 17

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Current** | | |
| Bank loans | **12,557** | 15,526 |
| Bank overdrafts | **2,140** | 382 |
| **Total borrowings** | **14,697** | 15,908 |
| The maturity profile of the Group's borrowings at the year-end was as follows: | | |
| In one year or less, or on demand | **14,697** | 15,908 |
| Between one and two years | **-** | - |
| Between two and five years | **-** | - |
| | **14,697** | 15,908 |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Sterling | **3,800** | 382 |
| US dollars | **10,897** | 15,526 |
| | **14,697** | 15,908 |

The Group has the following undrawn committed borrowing facilities:

| | 2009 Floating rate £'000 | 2009 Total £'000 | 2008 Total £'000 |
|---|---|---|---|
| Expiring within one year | **4,449** | **4,449** | 4,778 |
| Expiring between one and two years | **-** | **-** | - |
| Total undrawn committed borrowing facilities | **4,449** | **4,449** | 4,778 |
| Bank loans and overdrafts utilised | **14,697** | **14,697** | 15,908 |
| Utilised in respect of guarantees | **472** | **472** | 407 |
| Total Group facilities | **19,618** | **19,618** | 21,093 |

The facilities are secured by charges over UK assets and certain shares in Group companies.

Subsequent to the 2009 year end, the Group has agreements with its two principal bankers for new facilities of £5m and $28.2m, the majority of which are committed to 30 June 2011. These facilities are priced on average at the appropriate currency LIBOR plus a margin of 3.5% and include financial covenants which are measured on a quarterly basis, which were complied with during 2009.

The effective interest rates at the balance sheet dates were as follows:

| | 2009 Sterling % | 2009 Dollar % | 2008 Sterling % | 2008 Dollar % |
|---|---|---|---|---|
| Bank loans | **4.0** | **3.7** | - | 5.2 |
| Bank overdrafts | **-** | **3.2** | 6.3 | - |

The carrying amounts and fair value of the Group's borrowings are as follows:

| | 2009 Book value £'000 | 2009 Fair value £'000 | 2008 Book value £'000 | 2008 Fair value £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts under one year | **14,697** | **14,697** | 15,908 | 15,908 |

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 18 PROVISION FOR LIABILITIES AND CHARGES

| | Other provisions £'000 | Automotive disposal £'000 | European Dairy Relocation £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 30 September 2008 | 2,088 | 3,480 | - | 5,568 |
| Charged to the income statement | **103** | **-** | **4,532** | **4,635** |
| Payments in the year | **(1,162)** | **(1,290)** | **(1,102)** | **(3,554)** |
| **Balance at 30 September 2009** | **1,029** | **2,190** | **3,430** | **6,649** |

The provision relating to the disposal of Avon Automotive is expected to be fully utilised during the next two years.

Of the provision in respect of European dairy relocation £1.4m is expected to be utilised in 2010 and the remaining £2.0m over the following five years.

Other provisions relate primarily to the Group's obligations for vacant property and are expected to be utilised over a four year period.

## 19 FINANCIAL INSTRUMENTS

### Financial risk and treasury policies

The Group treasury management team maintains liquidity, manages relations with the Group's bankers, identifies and manages foreign exchange risk and provides a treasury service to the Group's businesses. Treasury dealings such as investments, borrowings and foreign exchange are conducted only to support underlying business transactions.

The Group has clearly defined policies for the management of foreign exchange and interest rate risk. The Group treasury management team is not a profit centre and, therefore, does not undertake speculative foreign exchange dealings for which there is no underlying exposure. Exposures resulting from sales and purchases in foreign currency are matched where possible and the net exposure may be hedged by the use of forward exchange contracts.

### (i) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and monies on deposit with financial institutions.

The US Government through the Department of Defense and the UK Government through the Ministry of Defence are major customers 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 and UK Governments noted above.

Where possible, goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

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

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Trade receivables | **11,181** | 8,800 |
| Other receivables | **3,116** | 2,309 |
| Cash and cash equivalents | **1,050** | 796 |
| Forward exchange contracts used for hedging: | | |
| - Assets | **31** | - |
| - Liabilities | **(56)** | (16) |
| Total | **15,322** | 11,889 |

The maximum exposure to credit risk for trade receivables at the reporting date by currency was:

**Carrying amount**

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Sterling | 2,261 | 1,684 |
| US dollar | 8,384 | 7,074 |
| Euro | 536 | 42 |
| Other | - | - |
| Total | 11,181 | 8,800 |

**Provisions against trade receivables**

The ageing of trade receivables and associated provision for impairment at the reporting date was:

| | Gross 2009 £'000 | Provision 2009 £'000 | Gross 2008 £'000 | Provision 2008 £'000 |
|---|---|---|---|---|
| Not past due | 8,730 | (18) | 7,607 | - |
| Past due 0-30 days | 2,107 | (77) | 424 | - |
| Past due 31-60 days | 407 | (27) | 644 | (72) |
| Past due 61-90 days | 71 | (34) | 223 | (26) |
| Past due more than 91 days | 106 | (84) | 83 | (83) |
| Total | 11,421* | (240) | 8,981 | (181) |

*includes £1,663,000 (2008: £414,000) presented as assets held for sale.

**(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 is has sufficient borrowing facility to meet foreseeable operational expenses and at the year end had facilities of £19.2m.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

**Analysis of contractual cash flow maturities**

| | Carrying amount £'000 | Contractual cash flows £'000 | Less than 12 months £'000 | 1-2 Years £'000 | 2-5 Years £'000 | More than 5 Years £'000 |
|---|---|---|---|---|---|---|
| **30 September 2009** | | | | | | |
| Secured bank loans | 12,557 | 12,557 | 12,557 | - | - | - |
| Overdraft | 2,140 | 2,140 | 2,140 | - | - | - |
| Trade and other payables | 17,931 | 17,931 | 17,931 | - | - | - |
| Forward exchange contracts | | | | | | |
| - Outflow | 56 | 6,288 | 6,288 | - | - | - |
| - Inflow | (31) | (711) | (711) | - | - | - |
| Total | 32,653 | 38,205 | 38,205 | - | - | - |

# Notes to the Group Financial Statements continued
for the year ended 30 September 2009

## 19 FINANCIAL INSTRUMENTS (CONTINUED)

### Analysis of contractual cash flow maturities

| | Carrying amount £'000 | Contractual cash flows £'000 | Less than 12 months £'000 | 1-2 Years £'000 | 2-5 Years £'000 | More than 5 Years £'000 |
|---|---|---|---|---|---|---|
| **30 September 2008** | | | | | | |
| Secured bank loans | 15,526 | 15,526 | 15,526 | - | - | - |
| Overdraft | 382 | 382 | 382 | - | - | - |
| Trade and other payables | 16,465 | 16,465 | 16,465 | - | - | - |
| Forward exchange contracts | | | | | | |
| - Outflow | 16 | 2,005 | 2,005 | - | - | - |
| - Inflow | - | - | - | - | - | - |
| Total | 32,389 | 34,378 | 34,378 | - | - | - |

### (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 market 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 primarily are 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 income statement. 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 2009 was a £25,000 liability (2008: a £16,000 liability) comprising an asset of £31,000 (2008: nil) and a liability of £56,000 (2008: £16,000).

All forward exchange contracts in place at 30 September 2009 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 £290,000 impact on the Group's profit before tax for the year ended 30 September 2009. The method of estimation, which has been applied consistently, involves assessing the transaction impact of US dollar cash flows and the translation impact of US dollar profits and losses.

The following significant exchange rates applied during the year:

| | **Average rate 2009** | **Closing rate 2009** | Average rate 2008 | Closing rate 2008 |
|---|---|---|---|---|
| US Dollar | **1.538** | **1.589** | 1.978 | 1.843 |
| Euro | **1.146** | **1.088** | 1.320 | 1.262 |

**(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 floating rate financial liabilities comprise bank loans/overdrafts bearing interest rates fixed by reference to the relevant LIBOR or equivalent rate.

The maturity profile of the Group's financial liabilities at 30 September was as follows:

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| In one year or less | **14,697** | 15,908 |
| In more than one year but not more than two years | **-** | - |
| In more than two years but not more than five years | **-** | - |
| In more than five years | **-** | - |
| Total | **14,697** | 15,908 |

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:

| | Carrying amount 2009<br>£'000 | Carrying amount 2008<br>£'000 |
|---|---|---|
| **Floating rate instruments** | | |
| Financial assets | **1,050** | 796 |
| Financial liabilities | **(14,697)** | (15,908) |
| | **(13,647)** | (15,112) |

Financial liabilities consist of overdrafts which are on floating rates or short term loans on rates based on LIBOR plus a fixed margin.

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 net debt has been managed carefully and has reduced as disclosed below, consistent with the Group's objectives, thus positively impacting the gearing ratio.

The Group's net debt at the balance sheet date was:

| | 2009<br>£'000 | 2008<br>£'000 |
|---|---|---|
| Total borrowings | **14,697** | 15,908 |
| Cash and cash equivalents | **(1,050)** | (796) |
| Group net debt | **13,647** | 15,112 |

# Notes to the Group Financial Statements continued
for the year ended 30 September 2009

## 19 FINANCIAL INSTRUMENTS (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 2009 £'000** | **Fair amount 2009 £'000** | Carrying amount 2008 £'000 | Fair amount 2008 £'000 |
|---|---|---|---|---|
| Trade receivables | **11,181** | **11,181** | 8,800 | 8,800 |
| Other receivables | **3,116** | **3,116** | 2,309 | 2,309 |
| Cash and cash equivalents | **1,050** | **1,050** | 796 | 796 |
| Forward exchange contracts | | | | |
| - Assets | **31** | **31** | - | - |
| - Liabilities | **(56)** | **(56)** | (16) | (16) |
| Secured loans | **(12,557)** | **(12,557)** | (15,526) | (15,526) |
| Trade and other payables | **(17,931)** | **(17,931)** | (16,465) | (16,465) |
| Bank overdrafts | **(2,140)** | **(2,140)** | (382) | (382) |
| | **(17,306)** | **(17,306)** | (20,484) | (20,484) |

Included in the above are £1,663,000 (2008: £414,000) of trade receivables, £20,000 (2008: £11,000) of other receivables, £9,000 (2008: £27,000) of cash and £1,735,000 (2008: £920,000 of trade and other payables, which have been presented within assets and liabilities held for sale.

The forward exchange contracts are cashflow hedges, the assets are held at fair value through the income statement and the liabilities valued at amortised cost.

### 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
Forward exchange contracts are valued at year end spot rates, adjusted for the forward points to the contract's value date, and gains and losses taken to the income statement. No contract's value date is greater than one year from the year end.

Secured loans
As the loans fall due in less than one year, the notional amount is deemed to reflect the 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.

## SHARE CAPITAL 20

| | 2009 No. of shares | 2009 Ordinary shares £'000 | 2009 Share premium £'000 | 2008 No. of shares | 2008 Ordinary shares £'000 | 2008 Share premium £'000 |
|---|---|---|---|---|---|---|
| **Authorised** | | | | | | |
| Ordinary shares of £1 each | **37,900,000** | **37,900** | **-** | 37,900,000 | 37,900 | - |
| **Called up allotted and fully paid** | | | | | | |
| At the beginning of the year | **29,140,681** | **29,141** | **34,708** | 29,124,804 | 29,125 | 34,707 |
| Proceeds from shares issued pursuant to option schemes | **-** | **-** | **-** | 15,877 | 16 | 1 |
| **At the end of the year** | **29,140,681** | **29,141** | **34,708** | 29,140,681 | 29,141 | 34,708 |

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report on page 43.

Ordinary shareholders are entitled to receive dividends and are entitled to vote at meetings of the Company.

At 30 September 2009, 666,191 (2008: 666,191) ordinary shares were held by a trust in respect of obligations under the 2002 Performance Share Plan. Dividends on these shares have been waived.

## RECONCILIATION OF CHANGES IN EQUITY 21

| | Share Capital £'000 | Share premium £'000 | Retained earnings £'000 | Capital redemption reserve £'000 | Translation reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 October 2007 | 29,125 | 34,707 | (18,789) | 500 | (2,644) | 42,899 |
| Loss for the year attributable to equity shareholders | - | - | (19,475) | - | - | (19,475) |
| Dividends paid | - | - | (1,367) | - | - | (1,367) |
| Unrealised exchange differences on overseas investments | - | - | - | - | 1,574 | 1,574 |
| Movement in respect of employee share schemes | - | - | 187 | - | - | 187 |
| Actuarial gain recognised in retirement scheme | - | - | 25,427 | - | - | 25,427 |
| Movement on deferred tax relating to retirement benefit obligations | - | - | (7,158) | - | - | (7,158) |
| New share capital subscribed | 16 | 1 | - | - | - | 17 |
| At 30 September 2008 | 29,141 | 34,708 | (21,175) | 500 | (1,070) | 42,104 |
| Loss for the year attributable to equity shareholders | **-** | **-** | **(183)** | **-** | **-** | **(183)** |
| Unrealised exchange differences on overseas investments | **-** | **-** | **-** | **-** | **1,049** | **1,049** |
| Movement in respect of employee share schemes | **-** | **-** | **148** | **-** | **-** | **148** |
| Actuarial loss recognised in retirement scheme | **-** | **-** | **(53,051)** | **-** | **-** | **(53,051)** |
| Movement on deferred tax relating to retirement benefit obligations | **-** | **-** | **12,158** | **-** | **-** | **12,158** |
| At 30 September 2009 | **29,141** | **34,708** | **(62,103)** | **500** | **(21)** | **2,225** |

# Notes to the Group Financial Statements continued

for the year ended 30 September 2009

## 22 CASH GENERATED FROM OPERATIONS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Continuing operations** | | |
| Loss for the financial year | **(708)** | (11,132) |
| Adjustments for: | | |
| Tax | **1,699** | (1,259) |
| Depreciation | **2,187** | 1,844 |
| Difference between pension charge and cash contributions | **(1,043)** | (1,332) |
| Amortisation and impairment of intangibles | **1,770** | 9,780 |
| Finance income | **(33)** | (27) |
| Finance costs | **1,539** | 1,015 |
| Other finance income | **(394)** | (1,183) |
| (Profit)/loss on disposal of property, plant and equipment | **(2,088)** | 52 |
| Loss on disposal of intangible assets | **20** | - |
| Movement in respect of employee share scheme | **148** | 187 |
| Decrease in inventories | **1,759** | 1,079 |
| Increase in receivables | **(1,193)** | (216) |
| Increase in payables and provisions | **1,952** | 1,496 |
| **Cash generated from continuing operations** | **5,615** | 304 |
| Analysed as: | | |
| Cash generated from continuing activities prior to the effect of exceptional operating items | **7,303** | 384 |
| Cash effect of exceptional operating items | **(1,688)** | (80) |
| **Discontinued operations** | | |
| Profit/(loss) for the financial year | **566** | (6,881) |
| Adjustments for: | | |
| Tax | **305** | - |
| Depreciation | **179** | 398 |
| Impairment of property, plant and equipment | **-** | 688 |
| Difference between pension charge and cash contributions | **(70)** | 114 |
| Amortisation of intangibles | **15** | 5 |
| Loss on disposal of property, plant and equipment | **-** | 80 |
| (Increase)/decrease in inventories | **(561)** | 519 |
| (Increase)/decrease in receivables | **(818)** | 1,512 |
| (Decrease)/increase in payables and provisions | **(2,084)** | 2,112 |
| **Cash used in discontinued operations** | **(2,468)** | (1,453) |
| **Cash generated from/(used in) operations** | **3,147** | (1,149) |

Cash flows relating to the discontinued operations are as follows:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Cash flows from operating activities | **(2,468)** | (1,453) |
| Cash flows from investing activities | **1,753** | 2,190 |
| Cash flows from financing activities | **-** | - |
| - | | |
| **Cash (used in)/generated from discontinued operations** | **(715)** | 737 |

## ANALYSIS OF NET DEBT 23

This note sets out the calculation of net debt, a measure considered important in explaining our financial position.

| | At 1 Oct 2008 £'000 | Cash flow £'000 | Exchange movements £'000 | **At 30 Sept 2009 £'000** |
|---|---|---|---|---|
| Cash at bank and in hand | 769 | 156 | 116 | **1,041** |
| Cash included in assets held for sale | 27 | (19) | 1 | **9** |
| Overdrafts | (382) | (1,829) | 71 | **(2,140)** |
| Net cash and cash equivalents | 414 | (1,692) | 188 | **(1,090)** |
| Debt due within 1 year | (15,526) | 6,005 | (3,036) | **(12,557)** |
| | (15,112) | 4,313 | (2,848) | **(13,647)** |

## OTHER FINANCIAL COMMITMENTS 24

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Capital expenditure committed | **1,529** | 293 |

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:

| | **2009 Land and buildings £'000** | **2009 Other assets £'000** | 2008 Land and buildings £'000 | 2008 Other assets £'000 |
|---|---|---|---|---|
| Within one year | **1,727** | **32** | 1,300 | 1 |
| Between 1 and 5 years | **6,890** | **19** | 4,765 | 54 |
| Later than 5 years | **9,418** | **1** | 6,475 | - |
| | **18,035** | **52** | 12,540 | 55 |

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 2009

## 25 SHARE BASED PAYMENTS

The Company operates an equity settled share based compensation plan (PSP) and an employee Sharesave Option Scheme (SAYE). Details of these Schemes, awards granted and options outstanding are set out in the remuneration report. The charge to the Income Statement of £148,000 (2008: £187,000) in respect of PSP and SAYE options granted after 7 November 2002 has been calculated using the Monte Carlo and Black Scholes pricing models, respectively and the following principal assumptions.

| | **2009 SAYE** | **2009 PSP** | 2008 SAYE | 2008 PSP |
|---|---|---|---|---|
| Weighted average fair value (£) | **0.56** | **0.15** | 0.56 | 0.99 |
| Key assumptions used: | | | | |
| Weighted average share price (£) | **2.11** | **0.32** | 2.11 | 1.64 |
| Range of exercise prices (£) | **1.33-1.72** | **0.0** | 1.33-1.72 | 0.0 |
| Volatility (%) | **25** | **35** | 25 | 25 |
| Range of risk-free interest rate (%) | **4.15-5.13** | **3.75-4.00** | 4.15-5.13 | 4.22-4.91 |
| Range of expected option term (yrs) | **3.0-7.0** | **3.0** | 3.0-7.0 | 3.0 |
| Dividend yield (%) | **4.5** | **3.0** | 4.5 | 4.5-5.0 |

## 26 RELATED PARTY TRANSACTIONS

There were no related party transactions during the year or outstanding at the end of the year.

## 27 GROUP UNDERTAKINGS

| | Group interest | Country in which incorporated |
|---|---|---|
| **Held by Parent Company** | | |
| Avon Polymer Products Limited | | UK |
| Avon Rubber Overseas Limited | | UK |
| Avon Rubber Pension Trust Limited | | UK |
| **Held by Group undertakings** | | |
| Avon Engineered Fabrications, Inc. | | USA |
| Avon Hi-Life, Inc. | | USA |
| Avon Milk-Rite U.S.A, Inc. | | USA |
| Avon Protection Systems, Inc. | | USA |
| Avon Rubber & Plastics, Inc. | | USA |
| Avon-Ames Limited | 51% | UK |
| Avon International Safety Instruments, Inc. | | USA |
| Nova Insurance Limited | | Guernsey |

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

All companies have a year ending in September.

Avon Rubber Pension Trust Limited and Nova Insurance Limited are, respectively a pension fund trustee and an insurer.

Avon Rubber Overseas Limited and Avon Rubber & Plastics, Inc. are investment holding companies.

The activities of all of the other companies listed above are the manufacture and/or distribution of rubber and other polymer-based products.

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

# Independent Auditor's Report

for the year ended 30 September 2009

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p.l.c.

We have audited the group financial statements of Avon Rubber p.l.c. for the year ended 30 September 2009 which comprise the Consolidated Income Statement, the Statement of Recognised Income and Expense, the Balance Sheet, the Consolidated Cash Flow Statement, the Accounting Policies and Critical Accounting Judgements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30 September 2009 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.
- the information given in the Corporate Governance statement on pages 34 to 37 with respect to internal control and risk management systems and about share capital structures is consistent with the group financial statements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 37, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## OTHER MATTER

We have reported separately on the parent company financial statements of Avon Rubber p.l.c. for the year ended 30 September 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Simon Chapman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
19 January 2010

# Independent Auditor's Report

for the year ended 30 September 2009

### INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVON RUBBER p.l.c.

We have audited the parent company financial statements of Avon Rubber p.l.c. for the year ended 30 September 2009 which comprise the Company Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the 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.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

### OTHER MATTER

We have reported separately on the group financial statements of Avon Rubber p.l.c. for the year ended 30 September 2009.

Simon Chapman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
19 January 2010

## Parent Company Balance Sheet
at 30 September 2009

| | Note | 2009 £'000 | 2009 £'000 | 2008 £'000 | 2008 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 4 | | **140** | | 1,953 |
| Investments | 5 | | **72,097** | | 72,885 |
| | | | **72,237** | | 74,838 |
| **Current assets** | | | | | |
| Debtors - amounts falling due within one year | 7 | **49,626** | | 50,441 | |
| Debtors - amounts falling due after more than one year | 7 | **956** | | 956 | |
| Cash at bank and in hand | | **436** | | 430 | |
| | | **51,018** | | 51,827 | |
| **Creditors - amounts falling due within one year** | 8 | **21,217** | | 24,840 | |
| **Net current assets** | | | **29,801** | | 26,987 |
| **Total assets less current liabilities** | | | **102,038** | | 101,825 |
| **Provisions for liabilities and charges** | 10 | **3,678** | | 908 | |
| | | | **3,678** | | 908 |
| **Net assets** | | | **98,360** | | 100,917 |
| **Capital and reserves** | | | | | |
| Share capital | 11 | | **29,141** | | 29,141 |
| Share premium account | 12 | | **34,708** | | 34,708 |
| Capital redemption reserve | 12 | | **500** | | 500 |
| Profit and loss account | 12 | | **34,011** | | 36,568 |
| **Total shareholders' funds** | 13 | | **98,360** | | 100,917 |

These financial statements were approved by the board of directors on 19 January 2010 and were signed on its behalf by:

The Rt. Hon. Sir Richard Needham

Peter Slabbert

# Parent Company Accounting Policies
for the year ended 30 September 2009

## 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, as amended and with all applicable accounting standards in the United Kingdom (UK GAAP) under the historical cost convention.

As a consolidated income statement is published, a separate income statement for the parent company is omitted from the Company accounts by virtue of section 408 of the Companies Act 2006.

The Company is exempt under the terms of FRS1 (Revised 1996) "Cash Flow Statements" from the requirement to publish its own cash-flow statement, as its cash-flows are included within the consolidated cash-flow statement of the Group.

## FOREIGN CURRENCIES
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.

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

## IMPAIRMENT OF FIXED ASSETS
Impairment reviews are undertaken if events or changes in circumstances indicate that the carrying amount of the tangible fixed assets may not be recoverable. If the carrying amount exceeds its recoverable amount (being the higher of the value in use and the net realisable value) then the fixed asset is written down accordingly. Where recoverable amounts are based on value in use, discount rates of typically between 10% and 15% are used depending on the risk attached to the underlying asset.

## INVESTMENT IN SUBSIDIARY UNDERTAKINGS
Investment 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.

## LEASED ASSETS
Operating lease rentals are charged against profit over the term of the lease on a straight line basis.

## PENSIONS
The Company operates a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is now closed to new entrants. Scheme assets are measured using market values while liabilities are measured using the projected unit method. The multi-employer exemption has been taken and no asset or provision has been reflected in the parent company's balance sheet for any surplus or deficit arising in respect of pension obligations.

The Company also provide 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.

## PROVISIONS FOR LIABILITIES AND CHARGES
Provisions are recognised when a liability exists at the year end that can be measured reliably, there is an obligation to one or more third parties as a result of past transactions or events and there is an obligation to transfer economic benefits in settlement.

Provisions are calculated based on management's best estimate of the expenditure required to settle the present obligation at the balance sheet date, after due consideration of the risks and uncertainties that surround the underlying event. Provision for reorganisation costs are made where a detailed plan has been approved and an expectation has been raised in those affected by the plan that the Company will carry out the reorganisation.

## TANGIBLE FIXED ASSETS
Tangible fixed assets are stated at cost, less amounts provided for depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. No depreciation is provided on freehold land where its value can be separately ascertained. In all other cases freehold properties are depreciated on a straight line method at 2% per annum. Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum.

## RELATED PARTIES
The Company has taken advantage of the dispensation under FRS 8, Related Party Transactions, not to disclose transactions or balances with other Group companies.

## 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 income statement. 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.

# Notes to the Parent Company Financial Statements
for the year ended 30 September 2009

## PARENT COMPANY 1

As a consolidated income statement is published, a separate income statement for the parent company is omitted from the Company accounts by virtue of section 408 of the Companies Act 2006. The parent company's loss for the financial year was £2,705,000 (2008: £23,000).

The audit fee in respect of the parent company was £50,000 (2008: £55,000)

## DIVIDENDS 2

The 2007 final dividend of 4.8p per share was paid on 4 February 2008. No dividends were declared in respect of the 2008 financial year and the Board announced in May 2009 that there would be no interim dividend in 2009.

## EMPLOYEES 3

**The total remuneration and associated costs during the year were:**

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Wages and salaries | **1,707** | 1,581 |
| Social security costs | **182** | 160 |
| Other pension costs | **92** | 114 |
| | **1,981** | 1,855 |

Detailed disclosures of Directors' remuneration and share options are given on pages 42 and 43 in the Group accounts.

The average number of employees (including Executive Directors) during the year was: 11 (2008: 12), all of whom are classified as administrative staff.

## TANGIBLE FIXED ASSETS 4

| | Plant and Machinery £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 October 2008 | **3,056** | **3,056** |
| Transfers from group companies | **367** | **367** |
| Additions at cost | **82** | **82** |
| Disposals | **(3,033)** | **(3,033)** |
| **At 30 September 2009** | **472** | **472** |
| **Accumulated depreciation** | | |
| At 1 October 2008 | **1,103** | **1,103** |
| Transfer from group companies | **352** | **352** |
| Charge for the year | **282** | **282** |
| On disposals | **(1,405)** | **(1,405)** |
| **At 30 September 2009** | **322** | **322** |
| **Net book amount at 30 September 2009** | **140** | **140** |
| Net book amount at 30 September 2008 | 1,953 | 1,953 |

# Notes to the Parent Company Financial Statements continued

for the year ended 30 September 2009

## 5 FIXED ASSET INVESTMENTS

| | **Investments in subsidiaries 2009 £'000** | Investments in subsidiaries 2009 £'000 |
|---|---|---|
| **Net book value** | **72,097** | 72,885 |

The investments consist of a 100% interest in the following subsidiaries:

| | Principal activity | Country in which incorporated |
|---|---|---|
| Avon Polymer Products Limited | The manufacture and distribution of rubber and polymer based products | UK |
| Avon Rubber Overseas Limited | Investment Company | UK |
| Avon Rubber Pension Trust Limited | Pension Fund Trustee | UK |

Details of investments held by these subsidiaries are given in note 27 to the Group accounts on page 76.

During the year the investments in a number of dormant companies were written off as part of a Group reorganisation.

## 6 OTHER FINANCIAL COMMITMENTS

| | **2009 £'000** | 2008 £'000 |
|---|---|---|
| Capital expenditure committed | **-** | 16 |

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

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

| | **2009 Land and buildings £'000** | **2009 Other assets £'000** | 2008 Land and buildings £'000 | 2008 Other assets £'000 |
|---|---|---|---|---|
| **For leases expiring** | | | | |
| Within 1 year | **-** | **-** | - | - |
| In 2-5 years | **-** | **-** | - | - |
| Over 5 years | **965** | **-** | 965 | - |
| | **965** | **-** | 965 | - |

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

## DEBTORS 7

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade debtors | **-** | 18 |
| Amounts owed by Group undertakings | **49,013** | 47,912 |
| Other debtors | **19** | 2,081 |
| Prepayments | **594** | 430 |
| | **49,626** | 50,441 |
| **Amounts falling due after more than one year** | | |
| Other debtors | **956** | 956 |
| | **50,582** | 51,397 |

The amount falling due after more than one year is in respect of a rent deposit relating to the company's premises in Melksham, Wiltshire.

## CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR 8

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Bank loans | **12,557** | 15,526 |
| Bank overdrafts | **63** | - |
| Trade creditors | **29** | 450 |
| Amounts due to Group undertakings | **6,992** | 8,358 |
| Other taxation and social security | **31** | 46 |
| Other creditors | **816** | 55 |
| Accruals | **729** | 405 |
| | **21,217** | 24,840 |

# Notes to the Parent Company Financial Statements continued
for the year ended 30 September 2009

## 9 BORROWINGS

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Current** | | |
| Bank loans | **12,557** | 15,526 |
| Bank overdrafts | **63** | - |
| Total borrowings | **12,620** | 15,526 |
| The maturity profile of the Company's borrowings at the year end was as follows: | | |
| In 1 year or less or on demand | **12,620** | 15,526 |
| Between 1 and 2 years | **-** | - |
| Between 2 and 5 years | **-** | - |
| | **12,620** | 15,526 |

The carrying amounts of the Company's borrowings are denominated in the following currencies:

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| Sterling | **3,800** | - |
| US dollars | **8,820** | 15,526 |
| | **12,620** | 15,526 |

Subsequent to the 2009 year end, the Group has agreements with its two principal bankers for new facilities of £5m and $28.2m, the majority of which are committed to 30 June 2011. These facilities are priced on average at the appropriate currency LIBOR plus a margin of 3.5% and include financial covenants which are measured on a quarterly basis, which were complied with during 2009.

## 10 PROVISIONS FOR LIABILITIES AND CHARGES

| | Other Provisions £'000 | European dairy relocation £'000 | Total £'000 |
|---|---|---|---|
| Balance at 30 September 2008 | 908 | - | 908 |
| Charged to profit and loss account | - | 2,958 | 2,958 |
| Payments in the year | (188) | - | (188) |
| **Balance at 30 September 2009** | 720 | 2,958 | 3,678 |

Other provisions relate primarily to the Company's obligations for vacant property and are expected to be utilised over a four year period.

Of the provision in respect of European dairy relocation £1.0m is expected to be utilised in 2010 and the remaining £2.0m over the following five years.

## SHARE CAPITAL 11

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| **Authorised** | | |
| 37,900,000 ordinary shares of £1 each | **37,900** | 37,900 |
| **Allotted and fully paid** | | |
| 29,140,681 (2008: 29,140,681) ordinary shares of £1 each | **29,141** | 29,141 |

No ordinary shares were issued during the year.

## SHARE PREMIUM ACCOUNT AND RESERVES 12

| | Share Premium account £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|
| At 30 September 2008 | **34,708** | **500** | **36,568** | **71,776** |
| Retained loss for the year | **-** | **-** | **(2,705)** | **(2,705)** |
| Movement in respect of employee share schemes | **-** | **-** | **148** | **148** |
| **At 30 September 2009** | **34,708** | **500** | **34,011** | **69,219** |

## TOTAL SHAREHOLDERS FUNDS 13

| | 2009 £'000 | 2008 £'000 |
|---|---|---|
| At 30 September 2008 | **100,917** | 102,103 |
| Loss for the financial year attributable to equity shareholders | **(2,705)** | (23) |
| Dividends | **-** | (1,367) |
| New share capital subscribed | **-** | 17 |
| Movement in respect of employee share scheme | **148** | 187 |
| **At 30 September 2009** | **98,360** | 100,917 |

## Five Year Record

for the year ended 30 September 2009

| | 2009 £'000 | 2008 £'000 | 2007 £'000 | 2006 £'000 | 2005 £000 |
|---|---|---|---|---|---|
| Revenue | **91,688** | 54,606 | 48,666 | 63,112 | 46,860 |
| Operating profit/(loss) before exceptional items | **4,638** | (4,105) | (120) | (79) | (1,909) |
| Exceptional operating items | **(2,535)** | (8,481) | - | 2,545 | (1,289) |
| Operating profit/(loss) from continuing operations | **2,103** | (12,586) | (120) | 2,466 | (3,198) |
| Net interest and other finance (charges)/income | **(1,112)** | 195 | 1,688 | (1,219) | (1,467) |
| Profit/(loss) before taxation | **991** | (12,391) | 1,568 | 1,247 | (4,665) |
| Taxation | **(1,699)** | 1,259 | (717) | (2,045) | (1,116) |
| (Loss)/profit for the year from continuing operations | **(708)** | (11,132) | 851 | (798) | (5,781) |
| Profit/(loss) for the year from discontinued operations | **566** | (8,337) | 244 | (18,329) | 735 |
| (Loss)/profit for the year | **(142)** | (19,469) | 1,095 | (19,127) | (5,046) |
| Profit/(loss) attributable to minority interest | **41** | 6 | 1 | (209) | 115 |
| (Loss)/profit attributable to equity shareholders | **(183)** | (19,475) | 1,094 | (18,918) | (5,161) |
| Ordinary dividends | **-** | (1,367) | (2,353) | (2,331) | (2,294) |
| Retained loss | **(183)** | (20,842) | (1,259) | (21,249) | (7,455) |
| Intangible assets and property, plant and equipment | **25,199** | 25,040 | 37,346 | 37,918 | 101,736 |
| Net assets classified as held for sale | **3,082** | 3,517 | 466 | - | - |
| Working capital | **5,273** | 5,201 | 9,649 | 6,475 | 26,281 |
| Provisions | **(6,649)** | (5,568) | (2,037) | (3,426) | (5,615) |
| Pension (liability)/asset | **(9,152)** | 42,640 | 14,650 | (14,598) | (23,076) |
| Net deferred tax (liability)/asset | **(1,833)** | (13,024) | (6,182) | (1,192) | 92 |
| Net borrowings | **(13,656)** | (15,139) | (10,436) | (1,107) | (51,719) |
| Net assets employed | **2,264** | 42,667 | 43,456 | 24,070 | 47,699 |
| Financed by: | | | | | |
| Ordinary share capital | **29,141** | 29,141 | 29,125 | 28,275 | 28,121 |
| Reserves attributable to equity shareholders | **(26,916)** | 12,963 | 13,774 | (4,761) | 18,813 |
| Minority shareholders' interests | **39** | 563 | 557 | 556 | 765 |
| Total equity | **2,264** | 42,667 | 43,456 | 24,070 | 47,699 |
| Basic (loss)/earnings per share | **(0.6)p** | (68.4)p | 3.9p | (68.9)p | (19.1)p |
| Dividends per share | **-** | 4.8p | 8.5p | 8.5p | 8.5p |

2006 and 2005 are as presented in the consolidated financial statements of those years.

# Notice of Annual General Meeting

for the year ended 30 September 2009

Notice is hereby given that the annual general meeting of shareholders will be held at Hampton Park West, Semington Road, Melksham, Wiltshire on 2nd March 2010 at 10.30 a.m. for the following purposes:-

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

2. To receive and consider the report of the Directors and the financial statements for the year ended 30 September 2009 (Resolution No.1).

3. To approve the remuneration report of the Directors (as set out on pages 38 to 43 of the annual report) for the year ended 30 September 2009 (Resolution No. 2).

4. To re-elect Director Sir Richard Needham, who retires by rotation and, being eligible, offers himself for re-election (Resolution No. 3)

5. To approve the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors (Resolution No. 4).

6. To transact any other routine business.

7. As special business to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No. 5):

   "That in accordance with section 551 of the Companies Act 2006 ('2006 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 2006 Act up to an aggregate nominal amount of £9,713,560 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 22 April 2011 or, if earlier, the date of the annual general meeting of the Company in 2011 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."

8. As special business to consider and if thought fit pass the following resolution which will be proposed as a Special Resolution (Resolution No. 6):

   "That, subject to the passing of Resolution No. 5 and in accordance with section 570 of the 2006 Act, the Directors be generally empowered to allot Relevant Securities pursuant to the authority conferred by Resolution No. 5, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall:

   (a) Be limited to the allotment of equity securities up to an aggregate nominal amount of £1,456,240; and
   (b) Expire on 22 April 2011 or, if earlier, the date of the annual general meeting of the Company in 2011 (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 Relevant Securities to be allotted after such expiry and the Directors may allot Relevant Securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired."

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

   "That the Company be and is hereby unconditionally and generally authorised for the purpose of section 701 of the 2006 Act to make market purchases (within the meaning of 693(4) of the 2006 Act) of ordinary shares of £1 each in the capital of the Company provided that:

   (a) the maximum number of shares which may be purchased is 4,371,100;
   (b) the minimum price which may be paid for each share is 1p;
   (c) the maximum price which may be paid for a share is an amount equal to 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange London official list for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and
   (d) this authority shall expire at the conclusion of the annual general meeting of the Company held in 2011 or, if earlier, on 22 July 2011 (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."

## Notice of Annual General Meeting continued
for the year ended 30 September 2009

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

    "That:

(a) the Avon Rubber p.l.c. Performance Share Plan 2010 ('the 2010 Plan') (the principal features of which are summarised in Appendix 1 to the Notice of this Meeting and which is to be constituted by the rules produced in draft to this Meeting and initialled by the Chairman for the purposes of identification) be approved and the Directors be authorised to do all acts and things necessary to operate the 2010 Plan including making such modifications as the Directors consider necessary or appropriate to take account of the UK Listing Authority and best practice; and

(b) the Directors be authorised to establish such further plans for the benefit of employees located in countries other than the UK based on the Plan subject to such modifications as may be necessary or desirable to take account of overseas securities laws, exchange control and tax legislation provided that any Ordinary Shares of the Company made available under such further plans are treated as counting against any limits on individual participation, or overall participation, in the Plan."

11. As special business to consider and it thought fit pass the following resolution which will be proposed as an Ordinary Resolution (Resolution No.9):

    "That the proposed amendments to the trust deed governing the Avon Rubber p.l.c Employee Share Ownership Trust (the "Trust") (which are summarised in Appendix 1 to the Notice of this Meeting and are set out in the draft deed of amendment produced to this Meeting and initialled by the Chairman for the purposes of identification) be approved and the Directors be authorised to do all acts and things necessary or appropriate to give effect to the proposed amendments."

By order of the Board

Miles Ingrey-Counter, Company Secretary
Melksham, Wiltshire
19 January 2010

(1) Information regarding the Meeting including the information required by section 311A of the 2006 Act, is available at www.avon-rubber.com.

(2) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the annual general meeting ('AGM'). Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.

(3) A member entitled to attend and vote at the AGM may appoint one or more proxies (who need not be a member of the Company) to attend and to speak and to vote on his or her behalf whether by show of hands or on a poll. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him. In order to be valid an appointment of proxy (together with any authority under which it is executed or a copy of the authority certified notarially) must be returned by one of the following methods:

– in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;

– via www.capitashareportal.com; or

– in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below and in each case must be received by the Company not less than 48 hours before the time of the meeting.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA 10) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(4) The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with Section 146 of the 2006 Act ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to given instructions to the person holding the shares as to the exercise of voting rights.

(5) In order to be able to attend and vote at the AGM or any adjourned meeting (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by 6.00 pm on 25 February 2010 (or 6.00 pm on the date two days before any adjourned meeting, ignoring non-working days). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(6) To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

(7) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

## Notice of Annual General Meeting continued

for the year ended 30 September 2009

(8) Under section 319A of the 2006 Act, the Company must answer any question you ask relating to the business being dealt with at the meeting unless:

(i) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
(ii) the answer has already been given on a website in the form of an answer to a question; or
(iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

(9) Biographical details of the Directors are shown on page 22 and 23 of the Annual Report and Accounts 2009.

(10) The issued share capital of the Company as at 19 January 2010 was 29,140,681 ordinary shares, carrying one vote each and representing the total number of voting rights in the Company.

(11) The following documents are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the AGM from 15 minutes before the meeting until it ends:

(i) the Register of Directors' interest showing any transactions of Directors and their family interests in the share capital of the Company; and
(ii) copies of all Contracts of Service under which the Executive Directors of the Company are employed by the Company or any of its subsidiaries; and
(iii) copies of the letters of appointment of the Non-Executive Directors of the Company.

(12) Please note that the Company takes all reasonable precautions to ensure no viruses are present in any electronic communication it sends out but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that the members subject all messages to virus checking procedures prior to use. Any electronic communication received by the Company, including the lodgement of an electronic proxy form, that is found to contain any virus will not be accepted.

(13) Pursuant to Chapter 5 of Part 16 of the 2006 Act (sections 527 to 531), where requested by a members or members meeting the qualification criteria set out below, the Company must publish on its website, a statement setting out any matter that such members propose to raise at the AGM relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Meeting. Where the Company is required to publish such a statement on its website:

It may not require the members making the request to pay any expenses incurred by the Company in complying with the request;

(i) it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and
(ii) the statement may be dealt with as part of the business of the Meeting.

The request:

(i) may be in hard copy form or in electronic form (see below);
(ii) either set out the statement in full or, if supporting a statement sent by another member, clearly identify the statement which is being supported;
(iii) must be authenticated by the person or persons making it (see below); and
(iv) must be received by the Company at least one week before the Meeting.

In order to be able to exercise the members' right to require the Company to publish audit concerns the relevant request must be made by:

(i) a member or members having a right to vote at the AGM and holding at least 5% of total voting rights of the Company; or
(ii) at least 100 members having a right to vote at the AGM and holding, on average, at least £100 of paid up share capital; and may be made by:
(iii) a hard copy request which is signed by you, states your full name and address and is sent to Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB.
(iv) a request which is signed by you, states your full name and address and is sent by fax to 01225 896899 marked for the attention of the Company Secretary.
(v) a request which states your full name and address sent by email to miles.ingrey-counter@avon-rubber.com.

## Explanation of Resolutions 5 and 6

Resolutions 5 and 6 authorise your board to allot shares and disapply shareholders' pre-emption rights, with authority given on an annual renewable basis. Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ('the Investment Committees').

The authorities referred to above were renewed at the annual general meeting in 2009 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authorisation for the allotment of shares and for the disapplication of pre-emption rights can be renewed by way of a relatively simple ordinary resolution and special resolution respectively. It is therefore proposed as Resolution No. 5 to renew the authority of the Directors to allot shares up to an aggregate nominal amount of £9,713,560 ('the section 546 amount'), being an amount equal to one third of the existing issued ordinary share capital, so that the Directors are empowered pursuant to and within that authority to issue shares (including in connection with a rights issue). It is additionally proposed as Resolution No. 6 to provide that the authority to issue shares for cash to persons other than existing shareholders (and not by way of a rights issue) will be limited to issues representing no more than £1,457,034 ('the section 561 amount') being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

The proposed section 546 amount and the proposed section 561 amount are the same as last year as there has been no increase in the issued share capital during the year. In connection with the section 546 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to one third of the existing issued ordinary share capital; as in previous years one third of the existing issued ordinary share capital is the lesser amount and the section 546 amount has been calculated accordingly.

The authorities sought in Resolutions 5 and 6 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2011 or on 22 April 2011 if earlier.

'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 2006 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.

(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 2006 Act). References to the allotment of Relevant Securities in the resolutions include the grant of such rights.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or Directors under option schemes approved by shareholders, including the Avon Rubber p.l.c. Sharesave Option Scheme 1992, the Avon Rubber p.l.c. Executive Share Option Scheme 1986, The Avon Rubber Sharesave Option Scheme 2002, the Avon Rubber p.l.c. Performance Share Plan 2002 and, if approved, the Avon Rubber p.l.c. Performance Share Plan 2010), is currently contemplated and none will be made which will effectively alter the control of the Company without the prior approval of the Company in general meeting.

## Explanation of Resolution 7

It is proposed, by way of Resolution 7, to renew the Company's power to buy back its own shares. Although the Company's Articles of Association give the Company the relevant power, the Company is only permitted to buy back its shares pursuant to that power if it is additionally authorised to do so by a relevant resolution of the Company.

Resolution 7 would grant the Company authority to make purchases on the London Stock Exchange of up to 4,371,100 ordinary shares of £1 each of the Company, subject to the limitations on the minimum and maximum prices set out in the Resolution, for a period up to the conclusion of the annual general meeting of the Company held in 2011 or, if earlier, 22 July 2011. The maximum number of ordinary shares for which authority to purchase is being sought represents nearly 15% (fifteen percent) of the Company's issued ordinary share capital.

As of 19 January 2010 there were options to subscribe outstanding over 1,325,124 ordinary shares, representing 4.55% of the Company's ordinary issued share capital. If the authority given by Resolution No.7 were to be fully exercised, these options would represent 5.34% of the Company's ordinary issued share capital. As of 19 January 2010 there were no warrants outstanding over ordinary shares.

The Directors intend to exercise the power given by Resolution 7 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the underlying value per share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

# Notice of Annual General Meeting continued
for the year ended 30 September 2009

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

In the opinion of the Directors, Resolution 7 is in the best interests of the shareholders as a whole and the Directors intend to seek renewal of these powers at subsequent annual general meetings.

### Explanation of Resolutions 8 and 9

Resolution 8 seeks shareholders' approval for the introduction of the Avon Rubber p.l.c. Performance Share Plan 2010 ("the 2010 Plan") to replace the existing Performance Share Plan adopted in 2002 and expiring on 4 February 2012.

The Remuneration Committee continues to believe that executives should be motivated to achieve performance superior to the Company's competitors and to deliver sustainable improvements in shareholder value.

The 2010 Plan will be very similar in all respects to the existing Performance Share Plan save that a participant under the 2010 Plan will now be eligible for the grant of a nil-cost option, conditional award or joint ownership award (or a combination of any two of the above) subject to the same individual limits as apply under the existing Performance Share Plan.

The joint ownership award element of the 2010 Plan will be used to deliver the future growth in value of the Company's shares to executives. A participant who is granted a joint ownership award will acquire a beneficial interest in each share with a trustee as joint owners. If performance conditions are met, the participant will then benefit from any growth in the market value of the share from the date of acquisition above a small 'carry cost' (e.g. 5% p.a.). All other value in the shares at vesting will be delivered to the executive through a nil-cost option or conditional award.

The Committee believes that it is important to ensure that the Company's discretionary share plan arrangements take into account developments in market practice. The use of joint ownership awards within the 2010 Plan should improve the tax efficiency of the arrangement for participants as well as reducing the employer's national insurance costs for the Company.

For the purposes of the 2010 Plan, the 5% share capital dilution limit applicable under the existing Performance Share Plan will be removed. Dilution under the 2010 Plan and all other employee share schemes will be capped at 10% of the issued share capital over any ten year period. The Committee believe that removing the 5% limit will provide greater flexibility in respect of future awards under the 2010 Plan and avoid the need for future awards to be solely sourced through market purchase shares, which would result in an undesirable restriction on working capital.

Resolution 9 seeks shareholders' approval to the amendment of the Avon Rubber p.l.c Employee Share Ownership Trust which will support the 2010 Plan in conjunction with, if required, a newly established employee share ownership trust established on identical terms and with the sole purpose of acting as co-owner with participants under the joint ownership award element of the 2010 Plan. The amendments proposed are required to facilitate the operation of the 2010 Plan.

It is proposed to operate the 2010 Plan, subject to shareholder approval, in the financial year 2009/2010 and thereafter it is intended to make grants annually. The Remuneration Committee has considered which measure of performance is appropriate and has concluded that the performance conditions used under the 2002 Plan remain appropriate for the first awards under the 2010 Plan.

A summary of the main terms of the 2010 Plan and the consequential amendments to the employee trust are set out in Appendix 1.

### Appendix 1

### Summary of the principal terms of the Avon Rubber p.l.c. Performance Share Plan 2010 (the '2010 Plan')

#### 1. Eligibility
All employees (including Directors who are employees) of the Company, and such of its subsidiaries as are designated participating companies by the Remuneration Committee will be eligible to participate in the 2010 Plan. Participation is at the discretion of the Remuneration Committee (the "Committee").

#### 2. Grants under the 2010 Plan
The grant may take the form of a nil-cost option ("Option"), a conditional award of free shares ("Conditional Award") or a joint ownership award ("Joint Ownership Award") or a combination of the same (a "Grant"). A Grant may be made initially in the 42 day period after adoption of the Plan and thereafter each year in the 42 day period following the announcement of the Company's interim or final results. In circumstances deemed exceptional by the Committee, a Grant may be made outside this normal period. A Grant will be personal to a participant and, except on the death of a participant, may not be transferred.

#### 3. Structure of the Grants under the 2010 Plan
It is intended that Grants to US resident employees will, for regulatory reasons, take the form of Conditional Awards and that Grants to UK resident employees will take the form of a combination of a Joint Ownership Award and an Option.

Under a Joint Ownership Award each participant will acquire a shared beneficial interest in a specified number of shares with a co-owner, which in this case will be the trustee of one of the Company's employee trusts (the "Jointly Owned Shares"). The beneficial interests of the participant and the co-owning trustee will be unequal but, together, will make up the entire beneficial ownership of each Jointly Owned Share. The participant's interest in each Jointly Owned Share will be to any increase in value in that share from the Date of Grant over and above a small carry cost. All other value in the shares at vesting will be delivered to the participant through a fixed value nil-cost option.

To the extent the participant does not pay market value on acquiring his interest in the Jointly Owned Shares a charge to income tax will arise, payable by the participant. The Committee will have the discretion to put in place arrangements to assist participants in mitigating the upfront costs associated with a Joint Ownership Award. For the first operation of the 2010 Plan, participants will be required to pay market value for the interest in shares they acquire under a Joint Ownership Award. Payment above a nominal sum on the date of grant will, however, be on deferred terms. The Committee has determined that to assist with such payment a proportion of the shares comprised in the Grant (equivalent in value to the payment) will be excluded from the performance condition below (the "Excluded Award"). On vesting of the Excluded Award, the participant will be required to use its value to meet the deferred payment terms in full.

The effect of the above structure should be to deliver exactly the same potential value to participants on vesting as under the 2002 PSP but with a greater tax efficiency for UK resident participants and a reduced national insurance cost for the Company.

**4. Performance conditions**

When making a Grant, the Committee will specify a performance condition (the "Performance Condition"). The Performance Condition will be measured by reference to a 3 year period beginning from the start of the financial year preceding the date of grant (the "Performance Period"). For the first operation of the 2010 Plan, the Performance Condition will, as with the 2002 Performance Share Plan, be based on the Company's Total Shareholder Return ("TSR") relative to the TSR of a comparator group comprising the FTSE small capitalised companies excluding investment trusts as follows:

If the Company's TSR is below the median TSR of the comparator group, then no shares subject to a Grant will vest. If the Company's TSR is equal to the median TSR of the comparator group, then 40% of the shares subject to a Grant will vest.

100% of the number of shares subject to a Grant will vest if the Company's TSR is equal to, or exceeds, the upper quartile TSR of the comparator group. For TSR performance between median and upper quartile, shares subject to a Grant will vest on a pro-rata basis between 40% and 100%.

Retesting of performance will not be allowed. The Committee may vary the Performance Condition if events occurs which would make the amended Performance Condition a fairer measure of performance.

**5. Individual limits**

No Grant may be awarded to a participant in any year if the value of that Grant would exceed the participant's salary for that year. In calculating this limit, no account will be taken of any Grant made solely for the purpose of ensuring that a participant is not disadvantaged by agreeing to bear his employer's liability to social security contributions or any other tax liability that may arise at the date of grant as a result of the employee's participation in the 2010 Plan.

**6. Share capital limit**

No Grant may be awarded over unissued shares if the number of shares to which it relates, when aggregated with the number of shares issued or remaining issuable under the 2010 Plan and any other employee share plan adopted by the Company, would exceed 10 per cent of the issued share capital at that time.

For the purposes of this limit, no account will be taken of rights to acquire shares or interests in shares which have been surrendered, lapse or have been released. However, shares subscribed by the trustee of the Avon Rubber plc Employee Share Ownership Trust to satisfy rights under any employees' share plan do count and (whilst it continues to be good practice to do so) so do shares transferred from treasury.

**7. Vesting of a Grant**

Following vesting of a Conditional Award, the shares will be transferred to a participant on the Release Date (which will normally be 30 days from the date of vesting).

In relation to an Option, following vesting, a participant may exercise his Option over a fixed value for a nominal exercise price of £1. Once vested, Options will normally be exercisable until the tenth anniversary of their date of grant.

In relation to a Joint Ownership Award, following vesting, a participant may require the trustee joint owner to exchange their respective interests in shares for whole shares or, alternatively, sell the jointly owned shares with the participant in the market.

**8. Termination of employment**

Grants normally lapse on cessation of employment of a participant before the expiry of the Performance Period. However, following cessation of employment for specified "good leaver" reasons, including ill-health or redundancy, the Grant will continue in accordance with the 2010 Plan except that the number of shares in respect of which the Grant would vest will be pro rated to reflect the period of time passed between date of grant and cessation of employment. If the Committee determines that, at the date of termination, it is unlikely that the Performance Condition will be met in respect of a Grant, then the Grant will lapse.

## Notice of Annual General Meeting continued
for the year ended 30 September 2009

If a participant dies before the end of a Performance Period a pro rated proportion of the Grant will vest on the date of death. Exercise is also permitted at the discretion of the Committee if a participant ceases employment for any other reason.

### 9. Dividend equivalents
A Grant may include the right to receive an amount to take account of the net dividends paid between the date of grant and the date of vesting, on the number of shares which vest.

### 10. Reconstruction or takeover
In the event of a reconstruction or takeover of the Company before the end of the Performance Period, a proportion of each outstanding Grant will vest on, or if the Committee so determines immediately prior to, the change of control of the Company.

### 11. Shareholding guidelines
For the first operation of the 2010 Plan, the Committee will apply the shareholding guidelines adopted in 2004. Under those guidelines, the Executive Directors must retain a minimum percentage of net shares until a relevant ownership level of 1.5 x basic salary is reached.

In respect of the 2010 Plan, net shares will mean the balance of shares remaining after shares have been sold to meet all income tax, national insurance and exercise costs.

### 12. Variations in share capital
In the event of a rights issue, capitalisation issue or other event effecting the share capital of the Company, the Committee may make such adjustments to the number of shares or interest in shares (or the terms applying to such shares or interest in shares) comprised in the relevant Grant as it thinks appropriate.

### 13. Amendments
The 2010 Plan may be amended at any time by the Committee, provided that, without the prior approval of the Company in general meeting, no amendments may be made to the material advantage of participants in respect of provisions relating to eligibility, share capital limits, maximum entitlements and the basis for determining and adjusting a participant's entitlement in the event of a variation of the Company's share capital.

The requirement to obtain the prior approval of the Company in general meeting will not apply in relation to any amendment which is of a minor administrative nature, is made to obtain or to comply with the provisions of any existing or proposed legislation, or to obtain or maintain favourable taxation, exchange control or regulatory treatment.

The Committee reserves the right up to the forthcoming annual general meeting to make such amendments and additions to the 2010 Plan as they consider appropriate, provided they do not conflict in any material respect with this summary of the 2010 Plan.

### 14. Extension of the 2010 Plan
In addition, the 2010 Plan may be extended to overseas employees of the Company and its subsidiaries subject to such modifications as the Committee shall consider appropriate to take into account local tax, exchange control, securities laws or other regulatory requirements.

In all cases, shares issued (or re-issued) pursuant to such plans shall be treated as counting against the individual and overall limits of the Plan.

### 15. Benefits
Benefits received under the 2010 Plan will not be pensionable.

### 16. Employee share ownership trusts
The Company will, if required, establish a second employee share ownership trust in addition to the employee share ownership trust established on 6 February 2002. The second trust will be established on identical terms to the first trust (as previously approved by shareholders). The sole purpose of the second trust will be to act as joint owner with participants of joint ownership awards under the 2010 Plan.

### Amendment to the Avon Rubber p.l.c Employee Share Ownership Trust (the "Trust")

The Trust was established on 6 February 2002 and provides that the number of shares which may be subscribed by the Trustee on any day for the purposes of an executive discretionary share plan (such as the 2002 Performance Share Plan and 2010 Plan) must not, when added to the aggregate number of shares which have been subscribed for the same purposes in the previous 10 years, exceed 5% of the Company's issued share capital at that time. It is proposed that this limit be amended to ensure consistency with the share capital dilution limit proposed for the 2010 Plan.

The Trust deed also provides that no more than 5% of the issued ordinary share capital of the Company may be held in the Trust at any time and it is proposed that such limit be amended so that it applies only to unallocated shares, allowing the trustee of the Trustee to subscribe for, or otherwise acquire, Shares in excess of the 5% limit provided such shares are specifically allocated to satisfy Grants or other awards under the Company's employee share plans, such Grants or awards having been granted subject to the dilution limits set out in the relevant employee share plans.

Lastly, it is also proposed to clarify the investment powers of the Trust in order to allow its trustee to enter into arrangements necessary to facilitate the operation of the 2010 Plan.

# Shareholders' Information

## SHAREHOLDERS

On 15 January 2010 the Company had 2,161 shareholders, of which 1,139 (52.7%) had 1,000 shares or less.

## FINANCIAL CALENDAR

Interim results announced in May and final results in November.

In respect of the year ended 30 September 2009 the Annual General Meeting will be held on 2nd March 2010 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
V.A.T. No. GB 137 575 643

### BOARD OF DIRECTORS
The Rt Hon Sir Richard Needham (Chairman)
Stella Pirie OBE (Non-Executive Director)
David Evans (Non-Executive Director)
Peter Slabbert (Chief Executive)
Andrew Lewis (Group Finance Director)

### COMPANY SECRETARY
Miles Ingrey-Counter

### AUDITORS
PricewaterhouseCoopers LLP

### REGISTRARS & TRANSFER OFFICE
Capita Registrars, Northern House
Woodsome Park, Fenay Bridge, Huddersfield, HD8 0GA

Tel: 0871 664 0300
(calls cost 10p a minute plus network extras,
lines are open 8.30am-5.30pm Mon-Fri)

### BROKERS
Arden Partners plc

### SOLICITORS
TLT

### PRINCIPAL BANKERS
Barclays Bank PLC
Comerica Inc.

### CORPORATE FINANCIAL ADVISORS
Arden Partners plc

### CORPORATE WEBSITE
www.avon-rubber.com

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