2016 ANNUAL REPORT

Avon Rubber p.l.c.

AN INTRODUCTION TO AVON RUBBER p.l.c.

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

Avon Protection Systems is the recognised global market leader in advanced Chemical, Biological, Radiological and Nuclear (CBRN) respiratory protection systems for the world's military, homeland security, first responder, fire and industrial markets.

With an unrivalled pedigree in mask design dating back to the 1920's, Avon Protection Systems' advanced products are the first choice for Personal Protective Equipment (PPE) users worldwide and are placed at the heart of many international defence and tactical PPE deployment strategies. Our expanding global customer base now includes military forces, civil and first line defence troops, emergency service teams and industrial, marine, mineral and oil extraction site personnel. All put their trust in Avon's advanced respiratory solutions to shield them from every possible threat whether land, air or sea based.

Our world-leading Dairy supplies business and its Milkrite | InterPuls brand has a global market presence. With a long history of manufacturing liners and tubing for the dairy industry, we have become the leading innovator and designer for products and services right at the heart of milking. The acquisition of InterPuls in 2015, a specialist in electro-mechanical milking components, such as pulsators, milk meters, automatic cluster removers and milking clusters, has added significantly to our product range, making us the complete milking point solutions provider, improving every farm we touch.

Working with leading scientists and health specialists in the global dairy industry, we continue to invest in technology to further improve the milking process and animal welfare. Our products provide exceptional results for both the animal and the milker, making the milk extraction process more efficient. As our market share and milking experience continue to improve, so does our global presence.

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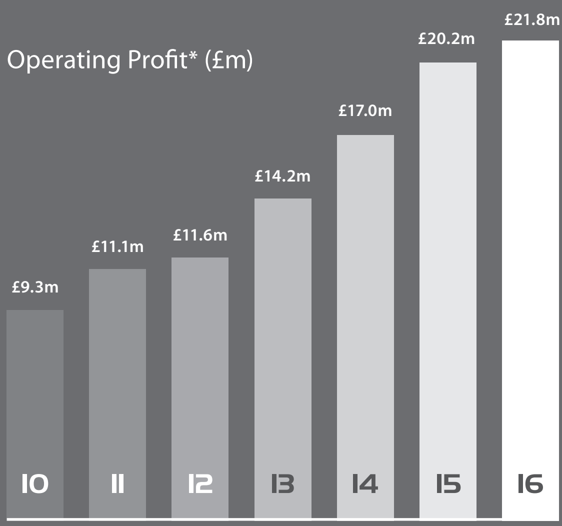
GROUP

Revenue
£142.9m ↑ £8.6m

Operating Profit*
£21.8m ↑ £1.6m

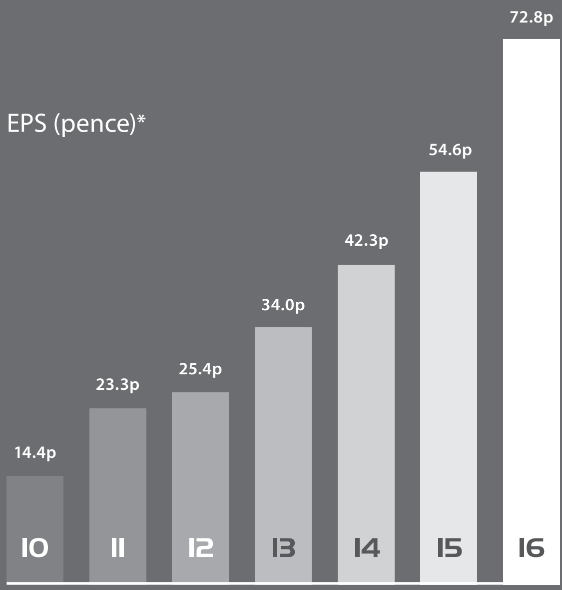
Operating Profit* (£m)



GROUP

Diluted earnings per share (EPS)*
72.8p ↑ 18.2p

EPS (pence)*

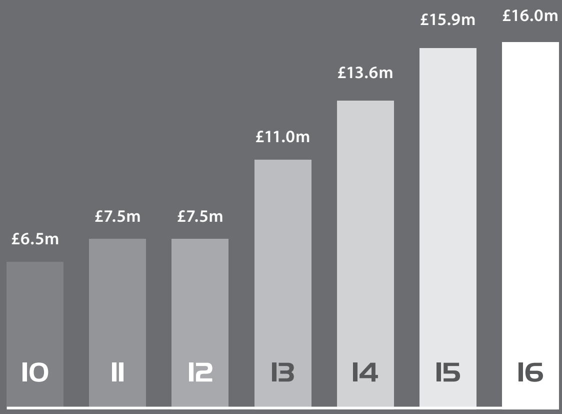


PROTECTION & DEFENCE

Revenue
£100.9m ↑ £2.1m

Operating Profit*
£16.0m ↑ £0.1m

Operating Profit* (£m)

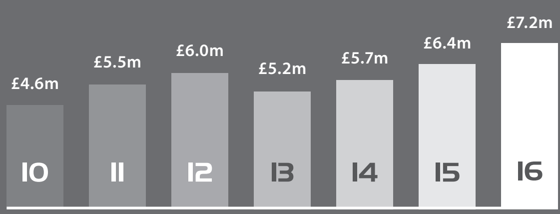


DAIRY

Revenue
£42.0m ↑ £6.5m

Operating Profit*
£7.2m ↑ £0.8m

Operating Profit* (£m)



* All profit and earnings per share figures above relate to adjusted business performance as defined on page 19.

OUTLOOK 2017

"SIGNIFICANT OPPORTUNITIES FOR 2017 INCLUDE PRODUCTION OF OUR AIRCREW MASK, FURTHER SALES OF OUR NEW CBRN/ CO ESCAPE HOOD AND ARGUS THERMAL IMAGING CAMERAS TOGETHER WITH A NUMBER OF NON-DOD MILITARY CONTRACTS."

OUR 2016

"DOD DELIVERIES WERE ON SCHEDULE AND THE BUILDING BLOCKS FOR THE FUTURE HAVE BEEN PUT IN PLACE THROUGH PRODUCT DEVELOPMENT AND ROUTES TO MARKET."

MARKET CONDITIONS

"OUR DOD RELATIONSHIP PROVIDES OPPORTUNITIES TO EXPAND INTO AIRCREW AND NAVY PRODUCTS AND IS A FANTASTIC REFERENCE CUSTOMER AS WE TENDER FOR PROGRAMMES IN OTHER COUNTRIES."

"THE LARGE INSTALLED BASE OF GAS MASKS IN THE US CREATES SIGNIFICANT OPPORTUNITY BOTH FOR OUR EXISTING PRODUCTS AND OUR NEW UNIQUE CBRN/CO ESCAPE HOOD."

MARKETS

"WE HAVE A LONG-TERM SOLE-SOURCE CONTRACT WITH THE DOD FOR THE SUPPLY OF MASK SYSTEMS AND OUR RESPIRATORY PROTECTION PRODUCTS ARE SOLD TO FOREIGN MILITARY CUSTOMERS AROUND THE GLOBE."

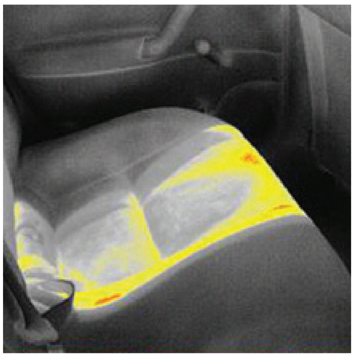
PRODUCTS

MILITARY

LAW ENFO

"THE ADDITION OF THE ARGUS THERMAL IMAGING CAMERA AND THE NIOSH APPROVAL OF OUR CBRN/CO ESCAPE HOOD HAVE BEEN THE HIGHLIGHTS OF THE YEAR."

"IN THE SCBA MARKET WE ARE A RELATIVELY SMALL PLAYER GIVING US OPPORTUNITY TO GROW. THE ARGUS THERMAL IMAGING CAMERA IS ONE OF THE MARKET LEADERS IN ITS CATEGORY."

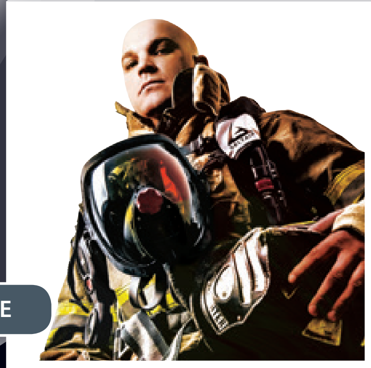


"OUR PRODUCTS HAVE EARNED A REPUTATION FOR QUALITY, COMFORT AND OPERATIONAL EFFECTIVENESS AND ARE SOLD TO LAW ENFORCEMENT AND FIRST RESPONDER USERS GLOBALLY."

"WE PROVIDE HIGH PERFORMANCE PERSONAL PROTECTION EQUIPMENT AND ADVANCED THERMAL IMAGING CAMERAS FOR THE FIRE SERVICE INDUSTRY."

RCEMENT

FIRE



milkrite | InterPuls

OUTLOOK 2017

"WE HAVE SEEN THE EARLY SIGNS THAT THE CYCLICAL DOWNTURN IN MILK PRICE WILL REVERSE IN 2017 AND EXPECT THE DEMAND FOR OUR PRODUCTS TO NORMALISE."

OUR 2016

"IN A SOFT MARKET WE HAVE GROWN MILKRITE | INTERPULS' MARKET SHARE AND THE PROPORTION OF OUR OWN BRAND SALES."

MARKET CONDITIONS

"THE GENERAL MARKET CONDITIONS FOR DAIRY FARMERS HAVE BEEN WEAK AS MILK PRICES HAVE BEEN LOW."

"WE HAVE SEEN A CYCLICAL DOWNTURN IN MILK PRICES, REDUCING DEMAND FOR OUR CONSUMABLE AND SEMI-CONSUMABLE PRODUCTS AS FARMERS OVERUSE EQUIPMENT."

MARKETS

"MILKRITE | INTERPULS IS THE LEADING SUPPLIER AT THE INTERFACE BETWEEN THE ANIMAL AND THE MILKING MACHINE. OUR PRODUCTS RAISE THE QUALITY OF THE MILK, IMPROVE ANIMAL HEALTH AND MAXIMISE FARM EFFICIENCY."

PRODUCTS

INTERFACE

PRECISION, CONTROL

> DEFERRED FARMER INVESTMENT DECISIONS WILL RESULT IN INCREASED DEMAND FOR INTERPULS PRODUCTS, ALONG WITH THE LAUNCH OF INTERPULS PRODUCTS IN THE US.

> TOGETHER WITH THE INCREASED RANGE OF PRODUCTS AND DISTRIBUTION CHANNELS, WE WILL EXIT THIS DOWNTURN A MORE ROBUST BUSINESS.

> THE DIFFICULT MARKET CONDITIONS ARE LEADING TO FARM CONSOLIDATION AND THE CONSEQUENT PROFESSIONALISATION OF FARMING.

> THROUGH THE USE OF PRECISION, CONTROL AND INTELLIGENCE PRODUCTS, SUCH AS PULSATORS, FARMS CAN INCREASE THEIR PROFITABILITY AND EFFICIENCY THROUGH SYSTEMS INTEGRATION, CALIBRATION AND RELIABILITY.

> OUR CLUSTER EXCHANGE MODEL, LAUNCHED THREE YEARS AGO, HAS BEEN WELL RECEIVED BY THE MARKET AND WE ARE PILOTING A WIDER FARM SERVICES CONCEPT WITH PULSATORS, LEG TAGS AND NECK TAGS.

AND INTELLIGENCE

FARM SERVICES

AVON
Avon Rubber p.l.c.

1 Avon Rubber p.l.c.
Corporate Headquarters
Melksham, UK

1 Avon Protection
Melksham, UK

1 Avon Dairy Solutions
Melksham, UK

2 Avon Protection
Cadillac, MI

3 Avon Protection
Baltimore, MD

4 Avon Protection - AEF
Picayune, MS

5 Avon Protection
Kuala Lumpur, Malaysia

6 Avon Protection
Brussels, Belgium

7 Avon Electronics Centre
West Palm Beach, FL

8 Avon Dairy Solutions
Johnson Creek, WI

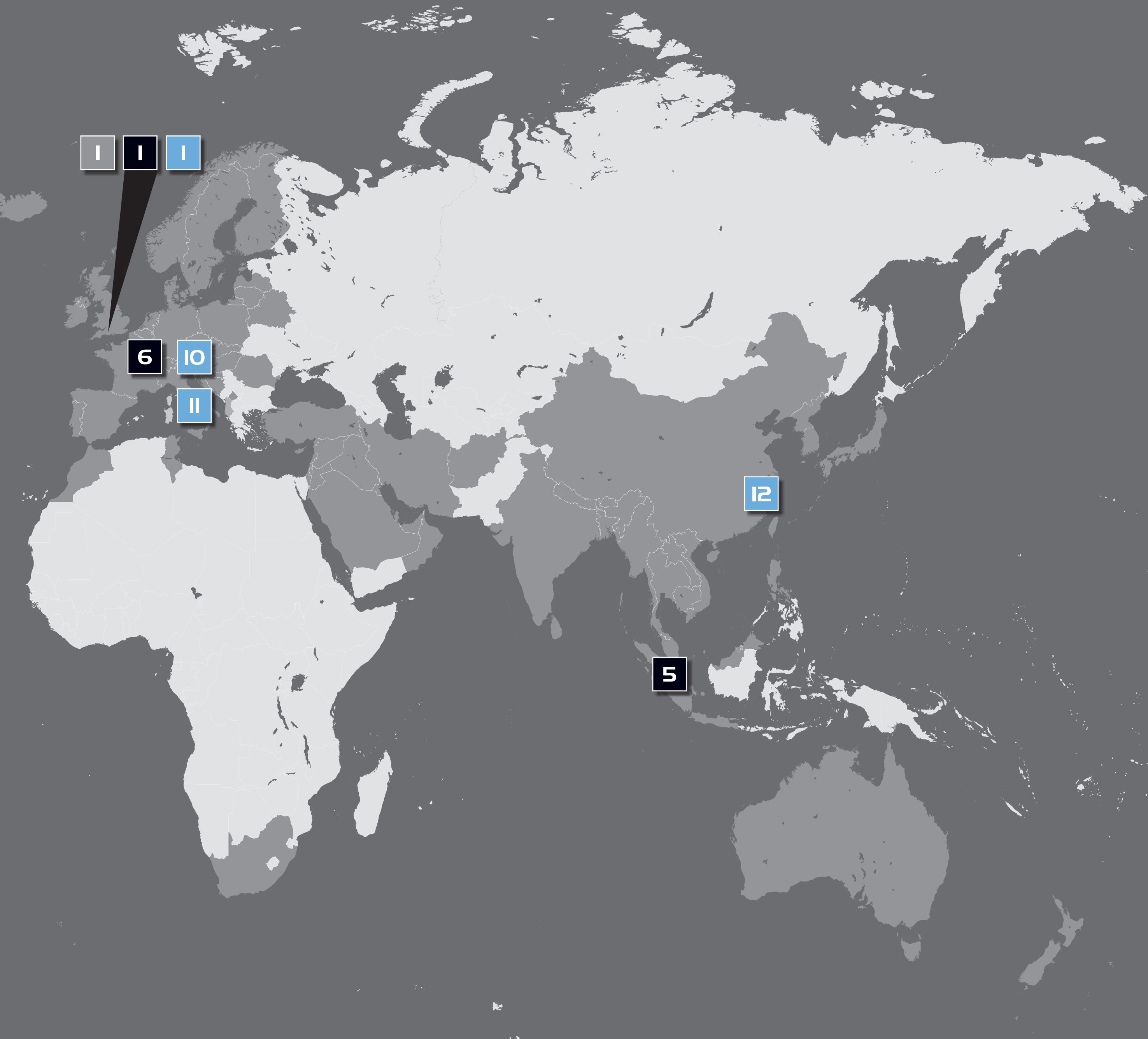
9 Milkrite | InterPuls
Modesto, CA

10 Avon Dairy Solutions
Rudnik, Czech Republic

11 Milkrite | InterPuls
Albinea, Italy

12 Milkrite | InterPuls
Shanghai, China

13 Milkrite | InterPuls
Castro, Brazil



Agents and Distributors

AVON PROTECTION 233

milkrite | InterPuls 1,210

Distribution countries

"Avon's strategy has delivered strong earnings growth and cash generation. Our business has proved to be resilient in difficult market conditions and we exit the year a more robust business with a range of good opportunities for growth".

David Evans, Chairman, Avon Rubber p.l.c.

↑ 33%

INCREASE IN DILUTED EPS

I am pleased to report that Avon's strategy has delivered strong earnings growth and cash generation resulting in the Group ending the year with net cash of £2.0m.

During the year we have successfully integrated the acquisitions made late in 2015 and early 2016 and, in difficult market conditions, both sides of our business have proved to be resilient. We exit the year a more robust business with both a broader product range and increased routes to market.

We continue to maintain our focus on creating a healthy and sustainable business and, by investing in and integrating technology in both divisions, we are creating exciting future international growth opportunities.

Continuing sound financial and operational management has both protected our margins and delivered strong operating cash flows, enabling us to fund the recent acquisitions whilst reducing our debt by £15.2m, thus maintaining a strong balance sheet.

Revenue of £142.9m (2015: £134.3m) increased by £8.6m or 6%. Operating profit increased by 8% to £21.8m (2015: £20.2m). Diluted earnings per share rose to 72.8p (2015: 54.6p).

In Protection & Defence we are growing in all our international market sectors and now have a range of products for military and first responders wherever their threat may be, across land, air or sea.

Our mask systems production has, as planned, been focused on fulfilling deliveries to the US Department of Defense (DOD) under our ten year sole-source contract for the JSGPM M50 mask and we still see several higher margin export opportunities for military masks although the timing of order receipt remains difficult to predict. However, these remain live and are progressing, and we expect to receive and deliver them in our 2017 financial year.

152%

OPERATING CASH CONVERSION

In the final quarter of our financial year we announced that our unique CBRN/CO (carbon monoxide) Escape Hood had received NIOSH approval and that immediately after the launch of this product we received an order worth $9m from the New York Police Department ('NYPD'), of which approximately a third is carried forward for delivery in the first quarter of 2017. This is an exciting new and unique product which we believe will be attractive to many customers in the future. In addition, we received a 15,000 non-DOD mask order late in this financial year for delivery in the first quarter of 2017.

In the Dairy business, the general market conditions for farmers were weak throughout the year as milk prices have been low. This typically cyclical market dynamic has had the expected consequence of reducing demand for our consumable products as farmers extend the life through over-using product. This has been more noticeable in the InterPuls business which we acquired late in 2015, where the nature of the product is more capital/semi-consumable than consumable.

We are encouraged that our own brand Milkrite | InterPuls products and Cluster Exchange service have continued to gain market share leaving us well positioned as the cyclical downturn in milk price reverses. We are extending the exchange service concept to include pulsators and tags under a new Farm Services umbrella.

The roll out programme of InterPuls products through Milkrite distribution in the US has commenced with the first revenues seen in the final quarter of our financial year. We have also seen the early signs of increases in the global milk price which provides an encouraging backdrop against which to start our new financial year. In this context, the Board is confident of the Dairy business's ability to make progress in 2017.

Acquisition

In October 2015 we acquired the Argus thermal imaging camera business from e2v technologies plc for £3.3m. The thermal imaging product is complementary to our offering in both fire service and law enforcement markets and has been successfully integrated into our sales and distribution structure with good demand for the products.

Protection & Defence

Protection & Defence revenue increased 2% to £100.9m.

Under our long-term DOD M50 mask contract we supplied 189,000 mask systems during the financial year, bringing the total to over 1.6m systems so far under this contract.

Having received orders for 169,000 mask systems during the year, this left us with an order book of 30,000 systems as we entered our 2017 financial year. Since the year end we have received a further order for 131,000 mask systems from the DOD.

The filter requirement has less short-term visibility, but we expect this consumable item to be a good source of repeat revenue in the long term as more masks enter service. As expected, the DOD qualified a second source to provide filters during 2015 and in 2016 we received orders under this new arrangement for 122,000 filter pairs, with 37,000 pairs carried forward for delivery in the first quarter of 2017.

During the year the Joint Service Aircrew Mask (JSAM) programme design, development and testing work progressed well. This will provide respiratory protection to a wide range of operators on the DOD's fleet of fixed-wing aircraft. During 2016 the DOD continued to test the product on the aircraft platforms it will be deployed on. We continue to expect that when this concludes it should lead to a production contract which could be worth in excess of $70m, with the first revenues expected in 2017.

The non-DOD side of the business includes the US first responder market and the Rest of World military and law enforcement market. Both markets are currently being driven by an increasing need to provide improved protection against growing global CBRN threats as recently seen in several geographies around the world.

In the US, while budgets remain constrained, we offer the respirator of choice for law enforcement which enables us to displace incumbent product and grow our market share, as less effective equipment procured post 9/11 is replaced. In addition, our expanded product portfolio being delivered under Project Fusion is creating further opportunities within this sector, including the recently approved CBRN/CO Escape Hood which, with NYPD as an important customer for, and source of information about, the Escape Hood, we believe could provide significant opportunities in large cities in the future.

Whilst the timing of end-user procurement remains difficult to predict in the Rest of World markets, we are the CBRN respiratory protection provider of choice and we continue to build business, particularly in the Middle East. The number of individual opportunities in the Middle East continues to grow and we have also seen several NATO countries commence their procurement process to replace their legacy mask systems which will provide opportunities in the short to medium term.

The closing order book in Protection & Defence was £20m (2015: £20m), which, together with the 131,000 mask system order received in the new year, provides good visibility for 2017.

Dairy

Dairy revenue increased by 18% to £42.0m. Market conditions have been weak during the year as the milk price has been cyclically low, causing farmers to overuse consumables and defer investment.

In the second half of our financial year we saw milk prices stabilise as supply and demand came back within equilibrium and in the last few months we have seen global milk prices increase month on month which gives us cause for optimism as we enter 2017.

Our focus in these cyclically challenging market conditions has been to ensure we exit the cycle well placed to benefit from the upturn we expect to come in 2017. We have focused on ensuring the integration of InterPuls happened successfully and that our own brand Milkrite | InterPuls continued to develop.

Our Dairy business has become substantially less dependent on original equipment manufacturers (OEMs) in recent years as we continue to grow sales of our own higher margin Milkrite | InterPuls branded products and services. Six years ago our own brand customers represented 53% of our revenue; at the end of this financial year this had risen to 80%, reflecting the growth of the higher margin Milkrite | InterPuls brand and some OEM re-sourcing.

In recent years the business has demonstrated through the launch of our Impulse Air liner that the industry is receptive to new technology which improves farm efficiency and animal health. This proprietary product now enjoys a 29% market share in the US and continues to gain traction in the more fragmented market in Europe with market share increasing to 6% following its launch in this market late in 2013.

Our Cluster Exchange service was launched in the US and Europe in 2013 and growth rates since launch have exceeded our expectations. Under this programme farmers outsource their liner change process to us through Milkrite | InterPuls service centres with the support of our dealers and third-party logistics specialists. By the end of the year it was servicing 467,000 cows on 1,530 farms in the US and Europe. This added-value service enhances the value of each direct liner sale we make and has led to a more robust and sustainable business model, with the potential to grow a significant recurring revenue stream in the years to come as more farms continue to sign up.

We are piloting an extension of the exchange concept in 2017 to include pulsator, neck tag and leg tag exchange schemes. These will fall under the Farm Services banner as we continue to develop the concept of delivering farmers products that enhance their efficiency in a manner that provides us with a diversified and recurring revenue stream.

Huge potential remains in emerging markets, especially in Brazil, Russia, India and China where the growing demand for animal protein in diets and the expanding middle class has led to an increase in demand for dairy products, driving demand for our consumable product. We opened a sales and distribution centre in Brazil in 2015 to service Brazil and the wider South American market following the same model as our Chinese operation where we established a sales and distribution facility during 2012. Sales in both regions have grown substantially and these operations are progressing to plan.

The opportunity to take the high specification InterPuls products through our strong Milkrite US dealer network has been developed during the year. Our sales team and dealers have been trained, products demonstrated to end users and we saw our first revenues in this area late in the financial year, laying the foundations for delivery of significant sales synergies in 2017.

Group results

Group revenue increased 6% to £142.9m (2015: £134.3m) with Protection & Defence higher by 2% at £100.9m (2015: £98.8m) and Dairy up 18% to £42.0m (2015: £35.5m). Operating profit before depreciation and amortisation (EBITDA) rose 13% to £30.8m (2015: £27.3m) and operating profit rose 8% to £21.8m (2015: £20.2m).

The progressive strengthening of the US dollar during the year gave the Group a foreign exchange translation tailwind. The US $/£ average rate was $1.42 (2015: $1.54) and this 12 cent tailwind was equivalent to £9.4m at a revenue level and £1.4m at an operating profit level.

EBITDA in Protection & Defence grew 4% to £22.4m (2015: £21.6m) and operating profit was £16.0m (2015: £15.9m) reflecting contribution from the CBRN/CO Escape Hood order and the addition of the Argus product range together with improved operational performance and continuing better pricing on the DOD contract. Dairy EBITDA and operating profit grew 27% and 12% to £9.8m (2015: £7.7m) and £7.2m (2015: £6.4m) respectively, reflecting the acquisition of InterPuls, the success of our Cluster Exchange service and the growth of the Milkrite | InterPuls brand, offsetting lower volumes caused by the impact of the low milk price and some OEM resourcing.

Interest costs were £0.2m (2015: £0.2m). Group tax resulted in a credit to the income statement of £0.9m (2015: charge of £2.9m) reflecting credits in relation to the positive outcome of certain tax enquiries and the finalisation of the 2015 tax returns in which we could take the benefit of certain deductions allowed by legislation enacted after our 2015 financial statements were approved, offset by the change in geographic mix of profits. Post-tax profit for the year was £22.5m (2015: £16.9m). This equates to earnings per share of 74.2p (2015: 56.1p).

On a fully-diluted basis, earnings per share rose 33% to 72.8p (2015: 54.6p).

We continue to invest in product development which is reflected in our expanding product range in both sides of the business. Our total investment in research and development (capitalised and expensed) amounted to £8.3m (2015: £7.1m), 6% of revenue, of which £4.3m (2015: £3.9m) was customer funded.

After completing the acquisition of Argus for £3.3m, net cash at year end was £2.0m (2015: £13.2m net debt), reflecting the strong operating cash conversion from disciplined financial management within the business. Committed bank facilities of £30.9m run to 30 November 2019.

Dividend

Based on the Group's improved profitability, cash generation and the confidence the Board has in the Group's future prospects, the Board is pleased to propose a 30% increase in the final dividend to 6.32p per ordinary share (2015: 4.86p). This, combined with the 2016 interim dividend of 3.16p, results in a full year dividend of 9.48p (2015: 7.29p), up 30%.

Employees

Our employees have risen to the challenge in supporting the Group's progression from a traditional manufacturing business to a customer and technology driven, sales and marketing led organisation. We are succeeding in creating a culture of innovation to enable us to take full advantage of opportunities in developing new technologies and new markets while maintaining the manufacturing excellence for which the Group is so highly regarded. Our people have continued to respond positively, particularly in respect of the challenges of integrating new businesses and we have been pleased to welcome the employees in Albinea, West Palm Beach and Chelmsford to the Avon team. I thank everyone for their valued contribution on behalf of the Board.

Opportunities

I am pleased to report that the acquisitions we completed late in 2015 and early 2016 have been successfully integrated into the existing Group, enhancing our global market leading positions and delivering further opportunities for growth. We will continue to invest in innovative new technologies and products and in building our brand and market reach to bring these opportunities to fruition.

Board changes

Rob Rennie joined as Chief Executive on 1 December 2015.

After serving as a Non-Executive Director since December 2012 Richard Wood stood down at the AGM in January 2016.

Chloe Ponsonby was appointed on 1 March 2016. Chloe is a founding partner at the Lazarus Partnership, an independent equity research and advisory firm.

After eight years as Group Finance Director, Andrew Lewis will step down on 30 November 2016.

The Board thanks Andrew for his significant contribution to Avon's success. He has been instrumental in the successful transformation of the Group, helping to build the foundations that have led to the recent consistent growth in profits. His stewardship of the Group's finances has placed it in a good position to take advantage of the many opportunities ahead. The Board wishes him every success in the future.

The Board is pleased to confirm the appointment of Paul Rayner as Interim Group Finance Director with effect from 1 December 2016.

Outlook

Our strategy of integrating new technologies from product development and acquisitions with our existing strong brands and routes to market has created a business that is resilient to adverse market conditions with strong foundations for growth in both divisions.

In our global Protection & Defence business we continue to see a number of higher margin export opportunities, have good visibility of DOD revenues for 2017 and a strong underlying portfolio of non-DOD business, which we expect to be enhanced by the increasing impact of the recently launched new products.

In Dairy, after the weak market conditions in 2016, the acquisition of InterPuls and the encouraging gains in Milkrite | InterPuls market share provide us with significant opportunity as the milk prices improve in 2017. This, together with the sales and distribution platforms we have established in China and Brazil to service these rapidly growing emerging markets, means we have a Dairy business with excellent short and longer term growth prospects.

The majority of the Group's earnings are US dollar denominated and hence the continued strengthening of the US dollar against Sterling provides a potentially significant foreign exchange translation tailwind in 2017 should it be maintained throughout the year.

D R Evans

David Evans
Chairman
16 November 2016

Strategic overview

Group objectives

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

Business overview

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

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Our world-leading Dairy supplies business and its Milkrite | InterPuls brand has a global market presence. With a long history of manufacturing liners and tubing for the dairy industry, we have become the leading innovator and designer for products and services right at the heart of milking. The acquisition of InterPuls in 2015, a specialist in electro-mechanical milking components, such as pulsators, milk meters, automatic cluster removers and milking clusters, has added significantly to our product range, making us the complete milking point solutions provider, improving every farm we touch.

Working with leading scientists and health specialists in the global dairy industry, we continue to invest in technology to further improve the milking process and animal welfare. Our products provide exceptional results for both the animal and the milker, making the milk extraction process more efficient. As our market share and milking experience continue to grow, so does our global presence.

Group strategy

We have two strategic priorities at Group level:

- Expanding our Protection & Defence business in military, first responder and industrial markets globally; and
- Developing our Dairy operation through its Milkrite | InterPuls brand in traditional and emerging markets with both existing and innovative new products.

We measure progress against our strategic priorities by reference to our financial performance (as shown on page 19) and a broader set of key performance indicators (KPIs) which are shown on pages 26 to 27.

Protection & Defence strategy

We have a world-leading range of military respirators, developed over many years and funded partially by our customers, where we own the intellectual property.

Our strategy is to build a strong position in the US military market and use this position to sell to other governments and first responder markets globally.

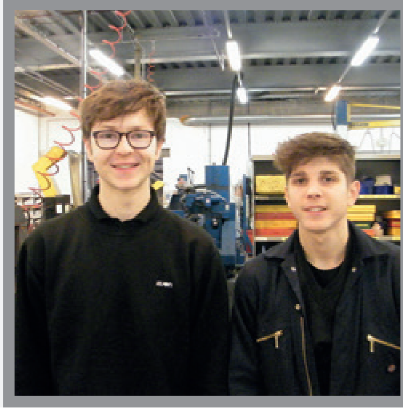
We initially demonstrated this through our long-term sole-source mask systems contract to supply the US military. Our status as a prime contractor to the DOD, which regards us as experts in our field, has brought us a number of other opportunities to replicate this with our recently developed respiratory protection products.

Our product range and manufacturing capability is increasing. Developing through-life revenues with greater consumable sales and service revenue, such as filters, is also a key objective.

We believe that our expanding product range and customer base, together with our credibility and development expertise, will put us in a market-leading position to supply into all accessible global markets.

Strategic imperatives for success in Protection & Defence

Leverage our relationship with the DOD to aid and facilitate next generation products for commercialisation.	Successfully design, develop and launch advanced respiratory protection products which sustain our position as the leader in our field.
Develop a global operating platform which is efficient, stable, scaleable and responsive to business demands.	Integrate technology across our product range through partnerships or acquisitions.
Sustain organic growth through long-term quality relationships with customers, agents and distributors.	Attract, retain and develop our employees and make Avon a Great Place to Work.



Apprentice engineers in Melksham

Avon has recruited two apprentices to join its engineering team in Melksham.

Jack Alexander joined as an apprentice CNC machinist and is following a BTEC L3 Diploma in Mechanical Engineering qualification.

Callum Demkiv joined as an apprentice Maintenance Engineer on a City & Guilds 2850 L3 Diploma in Installation, Commissioning and Maintenance (ICM) qualification.

Jack and Callum are continuing a family tradition, both having grandfathers who worked at Avon for many years.

Dairy strategy

Our strategy for long-term sustainable profit growth is to be the complete milking point solutions provider, improving every farm we touch. Our Dairy business comprises liners and tubing, precision and control components and our service offering.

Our liners and tubing are already established as market-leading products in developed markets. Our growth strategy in developed markets is to continue to convert customers to more technical own brand products. In emerging markets, as the automation of the milking process continues, our investment in in-country distribution centres leaves us well positioned to grow our market share.

The acquisition of InterPuls gives us a market leading position in Europe and Asia in precision and control systems, including pulsators, which will allow us to leverage our position in liners and tubing, combine our global distribution networks and maximise our sales of precision and control systems by launching these products into the US.

The success of our innovative Cluster Exchange service has demonstrated the benefits to the farmer of such a service offering. We plan to expand the concept further by piloting exchange schemes for pulsators, neck tags and leg tags in 2017.

Innovative new product and service offerings and continued world class low cost manufacturing excellence should allow our enhanced Dairy business to sustain growth, profitability and cash generation.

Strategic imperatives for success in Dairy

Expansion of our product and service range.

Expansion of in-country sales presence including world class logistics.

milkrite | InterPuls brand development and positioning.

Expansion of distribution and dealer network.

Leverage the benefit of our world class manufacturing operations and efficient supply chain.

Attract, retain and develop our employees and make Avon a Great Place to Work.

Moving on to bigger and better things in China

In July, Avon Dairy Solutions (ADS) China relocated to the Shanghai Jia Ding District in China and moved to a larger facility.

In this new space, ADS China has doubled its warehouse storage capacity and added a professional training room with full installation of Milkrite | InterPuls demonstration equipment ready for customer visits.

This was a big task for ADS China who are continuously working to improve service levels and optimise allocation of resources. We expect a bright future for ADS China.

Group business model

Our management structure is decentralised and decision-making is delegated to the appropriate executive team. Our Board manages overall control of the Group's affairs and is responsible for delivering the Group's overall objective of generating shareholder value through developing new products and serving global markets that can deliver long-term sustainable revenues at higher than average margins. The Group Executive team which comprises the Executive Directors and four key members of our senior management team is responsible for assisting the Chief Executive in implementing our strategy and the day-to-day management of the Group. This team is supported by three executive teams covering Protection & Defence, Dairy and Corporate activities.

Protection & Defence business model

Markets

Our respiratory protection products are sold direct to military markets where our primary customer is the DOD (Army, Navy, Marine Corps, Coastguard and Air Force) as well as a number of approved governments globally. Other significant markets are categorised under the first responder banner and include law enforcement and other emergency services and are addressed either directly or through distribution channels. Self Contained Breathing Apparatus (SCBA) and thermal imaging equipment is targeted at fire services and other industrial users, primarily through a distribution network. All of these products are safety-critical and the markets are consequently highly regulated with the approval standards creating significant barriers to entry. Product life cycles are long and standardisation to a particular product by users is typical.

MILITARY

We have a long-term sole-source contract with the US DOD for the supply of mask systems. Our products have earned a reputation for quality and comfort and the business is currently developing a new aircrew mask system funded by the DOD.

FIRE

We provide a total solutions option, manufacturing a broad portfolio of high-performance, timesaving respiratory personal protection equipment and thermal imaging cameras that employ the most advanced features in the fire service industry. In 2014 we launched Deltair, our completely redesigned fire SCBA which meets the latest NFPA regulatory standard.

LAW ENFORCEMENT AND FIRST RESPONDER

Our respiratory protection products are sold to foreign military, law enforcement and first responder customers in over 60 countries around the globe.

AEF

We continue to provide the US Army and Navy with hovercraft skirting assemblies. We also supply a wide range of collapsible storage tanks for static fuel and water storage for military applications.

Products

Our Protection & Defence business consists of a growing range of respiratory products. The main products are respirators or gas masks (product names M50, C50, M53 and FM12) together with a range of spares and accessories; the NIOSH-approved emergency hood (NH15 and NH15 CO); rebreathers for escape and underwater use; and SCBA (primarily the Deltair product range and ST53). We also manufacture the consumable filters used by these products and thermal imaging camera equipment. The respirators and escape hoods offer breathing protection to varying degrees against CBRN threats while the SCBA equipment offers protection in oxygen depleted environments. We also have a flexible fabrications business which manufactures hovercraft skirts and fuel and water storage tanks.

MILITARY

M50

The most advanced general service respiratory protection mask to date, offering advanced comfort, usability, operational effectiveness and protection.

EEBD

Our Emergency Escape Breathing Device for which we recently obtained NIOSH certification has military applications on-board ship and we are targeting applications in the mining and commercial shipping industries.

MCM100

We are designing an underwater product range for military use including the MCM100, a multi-capability mine counter-measures rebreather.

JSAM

We are developing upgraded CBRN respiratory protection equipment for aircrew on the DOD's fleet of fixed wing aircraft.

M61

Pioneering conformal filter technology for closer integration and designed with bayonet quick fit for use only with the M50 mask.

LAW ENFORCEMENT

MILCF50

The filter has a unique conformal shape providing a low profile close fit with the mask. The filter design minimises snag and pull hazards as well as reducing neck loading.

C50

Developed using the same platform as our M50 based US military mask. The innovative design features optimise the user's time in the operational arena for CBRN protection in law enforcement or counter-terrorism operations.

NH15 CO

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

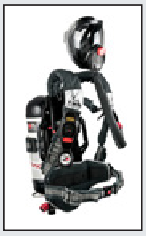
CS-PAPR

Our latest product is the CS-PAPR, a combination system powered air purifying respirator, which can be used as a complete system or as individual modules. It allows the wearer to switch seamlessly between purified air and SCBA modes of protection.

FIRE

MI-TIC S

The most advanced thermal imaging camera available which improves operational effectiveness in difficult conditions.



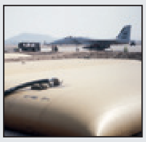
DELTAIR

As the firefighting industry's first new SCBA innovation in years, Deltair offers superior air management, single power supply, clearer communication and optimal weight distribution for firefighters and other first responders.

AEF

HOVERCRAFT SKIRTS

Hovercraft skirts are used in military air cushioned vehicles which transport equipment and personnel at sea and onto land. The US Navy have a large fleet of hovercraft which require skirt sets to be regularly replaced.



STORAGE TANKS

Storage tanks are manufactured to provide an ideal collapsible and flexible storage solution for temporary or long-term storage of water and most aqueous solutions including fuel.

Product development

Our product development combines the skills and expertise of our design and engineering teams to enhance our product range for multiple users in different threat scenarios.

Our unique CBRN/CO Escape Hood which received NIOSH approval during the year provides protection against both CBRN and carbon monoxide in a small, lightweight and portable package which has applications for a range of customers across law enforcement, industrial and corporate markets.

We are developing a multi-capability mine counter-measures diving rebreather for use by the military.

We continue to enhance our suite of modular personal protection comprising smaller modules with multiple functionalities that can be combined or used independently.

We expect this modular approach to further extend our market reach into the military, law enforcement and first responder protective equipment market for air, land or sea based users.

argus®
thermal imaging from Avon Protection

Argus acquisition – Avon becomes the eyes of the firefighter

- During the year we acquired the trade and assets of the "Argus" thermal imaging camera business from e2v technologies plc.
- Argus is a leading designer and manufacturer of thermal imaging cameras for the first responder and fire markets.
- Argus is a strategic addition to our fire and first responder product range, offering the leading camera to enhance sales in our US markets and access to distribution in Europe and Asia.
- The Argus team brings a wealth of technical expertise in this area which will generate longer-term product development opportunities for the Protection & Defence business.
- Argus manufacturing has been consolidated into our Melksham facility during the year.

Dairy business model

Markets

Our Dairy business designs, manufactures and sells products and services used in the automated milking process. We are the complete milking point solutions provider, supplying rubberware, such as liners and tubing, and electro-mechanical components, such as pulsators, milk meters, automatic cluster removers and milking clusters.

Our consumable products come into direct contact with the cow and the milk and are replaced regularly to ensure product hygiene, animal welfare and to maximise milk quality. The electro-mechanical components form the basis of the control system of a milking parlour and are replaced periodically, either through usage or to enhance farm efficiency. We also have a range of intelligence products that give farmers management information, allowing them to make more informed decisions to drive farm efficiency, improving every farm we touch.

Our customer base consists mainly of customers buying our own-brand Milkrite | InterPuls products and we also sell to OEMs.

The global market is concentrated in high consumption automated milking markets in North America and Western Europe where we have significant market shares. Potential exists outside these traditional markets, in particular in China, South America, Russia, Eastern Europe and India, all of which are currently experiencing rapidly increasing demand for dairy products which is being satisfied through mechanised milking. To harness this potential we have opened sales and distribution facilities in China and Brazil.

US

- Our Milkrite | InterPuls brand has established a 51% market share in the liner market with a total Avon market share of 61%.
- Impulse Air has 29% share of the market.
- Our Milkrite | InterPuls precision, control and intelligence products were launched in the last quarter of the financial year.
- Cluster Exchange is servicing 338,000 cows on 271 farms.

CHINA

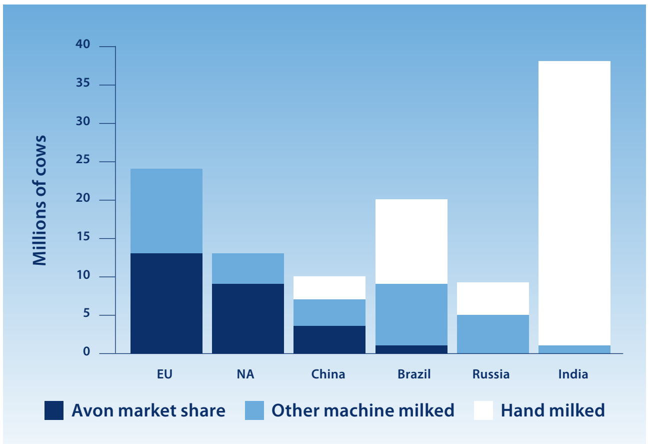
- Contracts have been secured with China's largest milk suppliers and distributors, Mengniu and Yili.
- Our dealer network is growing.
- We have built a strong Milkrite | InterPuls presence.

EU

- The rate of Milkrite | InterPuls liner market share growth has accelerated with Milkrite | InterPuls market share increasing to 32% of which 6% represents Impulse Air, launched in 2013. Total Avon market share is 73%.
- Our Milkrite | InterPuls pulsator market share is 10% in the EU and 30% in the rest of the world.
- Cluster Exchange is servicing 129,000 cows on 1,259 farms.

SOUTH AMERICA

- We have opened a sales and distribution centre in Brazil to service the wider South American market which will allow further opportunity for growth.
- Our dealer network has grown rapidly from 12 to 180 dealers.



Products

Our products are sold through distributors under our own Milkrite | InterPuls brand. We also manufacture for major OEMs. 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 own brands, enhancing the farmer's view of us as the primary technical solutions provider in the milk extraction process. The success of the innovative mouthpiece vented liner, Impulse Air, continues and this product has established a 29% market share in the US since its launch in 2010 and a 6% market share in Europe since its launch there in 2013.

Product development

We have invested considerably in the development of products and services.

Our Cluster Exchange service, recently launched in the US and Europe, means Milkrite | InterPuls is a complete solution provider, saving farmers time on low-value tasks, securing our relationships with our customers and managing the liner change cycle. Further opportunities are available for this exciting concept.

During the year we completed our Impulse Air cluster offering with the launch of our Impulse Claw 300. This is an important chapter for the Milkrite | InterPuls brand and completes the transition from liner expert to cluster expert. The lightweight and ergonomic design makes the claw easier to handle and reduces the overall weight of the cluster. In addition, the claw is a combination of quality components made from high quality material which makes it extremely durable.

We also launched our iMilk600 during the year, part of the next generation of intelligence products. iMilk600 is a state-of-the-art milk meter with advanced electronics and reliable sensors. The user-friendly panel displays in real time: milk yield, temperature, milking time, cow number and conductivity. This data can be analysed by the farmer to help maximise profit from the dairy herd.

The acquisition of InterPuls brings capability in the fields of herd management, sensor technology and telemetry, all of which provide opportunities for integration with our existing product range.

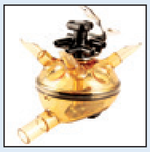
INTERFACE

LINERS

The Impulse and Impulse Air range provides triangular liners designed for less slip and improved animal health with their unique interlocking anti-twist shell design. Impulse Air takes innovation one step further using a unique air flow to draw the milk away quickly.

TUBING

Ultraclean tubing is the first to combine a smooth sanitary interior surface with a durable, flexible rubber exterior, resulting in long-lasting tubing.



CLAWS

The Impulse Claw 300 completes our story from liner expert to cluster expert. The durable, lightweight and ergonomic design makes the claw easier for the operator to hold and reduces the overall weight of the cluster therefore improving cow comfort.

PRECISION, CONTROL, INTELLIGENCE

PULSATORS

We are the world-leading manufacturer of state of the art electronic pulsators designed to facilitate gentle, complete and uniform milking.

MILK METERS

We manufacture advanced electronics and sensors placing us at the cutting edge of milk analysis.

FARM SERVICES

CLUSTER EXCHANGE SERVICE

Under this programme farmers outsource their liner change process to us, which we deliver through service centres established in our existing facilities, with the support of our dealers and third-party logistics specialists.

Business review – the year under review

In challenging market conditions, Avon has demonstrated the robustness of our business in delivering another strong set of financial results, building on the solid foundations laid by the investments we have made in products and routes to market.

Strong operating cashflow, demonstrating the robust financial disciplines embedded in the business, meant we ended the year with net cash of £2.0m which gives the Group the ability to continue to pursue organic and inorganic growth opportunities.

The Group's key achievements in 2016 have been:

- **Revenue growth of 6% to £142.9m**
- **EBITDA growth of 13% to £30.8m**
- **Operating profit growth of 8% to £21.8m**
- **Operating margins improved by 0.2% to 15.2%**
- **Profit before tax up 9% to £21.6m**
- **Diluted earnings per share up 33% to 72.8p**
- **Dividend increase of 30% to 9.48p**
- **Cash generated from operating activities of £33.1m, representing 152% of operating profit**
- **Successful integration of the acquisitions of InterPuls, Hudstar and Argus**
- **$9m order for recently approved CBRN/CO Escape Hood**
- **Market share growth of Impulse Air to 29% in the US and 6% in Europe in a soft dairy market**
- **Cluster Exchange servicing 467,000 cows on 1,530 farms across US and Europe**

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

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

All profit and earnings per share figures in the Chairman's Statement and this Strategic Report relate to adjusted business performance (as defined above) unless otherwise stated.

A reconciliation of adjusted measures to statutory measures is provided below:

	2016 Statutory	2016 Adjustments	2016 Adjusted	2015 Statutory	2015 Adjustments	2015 Adjusted
Group EBITDA (£m)	30.0	0.8	30.8	27.0	0.3	27.3
Group operating profit (£m)	17.6	4.2	21.8	18.9	1.3	20.2
Other finance expense (£m)	0.7	(0.6)	0.1	0.9	(0.7)	0.2
Group profit before taxation (£m)	16.8	4.8	21.6	17.8	2.0	19.8
Tax (credit)/charge (£m)	(1.8)	0.9	(0.9)	2.7	0.2	2.9
Group profit for the year (£m)	18.3	4.2	22.5	13.7	3.2	16.9
Basic earnings per share (pence)	60.4	13.8	74.2	45.4	10.7	56.1
Diluted earnings per share (pence)	59.2	13.6	72.8	44.2	10.4	54.6
Protection & Defence EBITDA (£m)	21.9	0.5	22.4	21.4	0.2	21.6
Protection & Defence operating profit (£m)	14.0	2.0	16.0	15.3	0.6	15.9
Dairy EBITDA (£m)	9.8	-	9.8	7.5	0.2	7.7
Dairy operating profit (£m)	5.4	1.8	7.2	5.6	0.8	6.4

The adjustments comprise:

- Amortisation of acquired intangibles of £3.3m (2015: £1.0m)
- Net defined benefit pension scheme cost of £0.3m (2015: credit £0.3m), which relates to a scheme closed to future accrual and therefore does not relate to current operations
- Exceptional items of £0.5m (2015: £0.6m) relating to acquisition integration costs (2015: executive search fees and acquisition costs)
- Tax effect of adjustments of £0.9m (2015: £0.2m)
- Loss on discontinued operations of £0.3m (2015: £1.5m) relating to dilapidations costs of former leased premises of a business disposed of in 2006

Further details are provided in note 3 of the financial statements.

Results

Avon has enjoyed another positive year, successfully integrating our recent acquisitions which broaden our product range and routes to market.

Revenue increased 6% to £142.9m (2015: £134.3m) with Protection & Defence up 2% and Dairy up 18%.

Operating profit increased to £21.8m (2015: £20.2m) and earnings before interest, taxation, depreciation and amortisation (EBITDA) were £30.8m (2015: £27.3m). This represents a return on sales (defined as EBITDA divided by revenue) of 21.6% (2015: 20.3%).

The progressive strengthening of the US dollar during the year gave the Group a foreign exchange translation tailwind. The US $/£ average rate was $1.42 (2015: $1.54) and this 12 cent tailwind was equivalent to £9.4m at a revenue level and £1.4m at an operating profit level.

After net interest and other finance costs the profit before tax was £21.6m (2015: £19.8m). After tax, the profit for the year was £22.5m (2015: £16.9m).

Finance expenses

Net interest costs were £0.2m (2015: £0.2m) and other (non-cash) finance expenses associated with the unwinding of discounts on provisions were £0.1m (2015: £0.2m).

Taxation

The statutory tax credit totalled £1.8m (2015: charge £2.7m) on a statutory profit before tax of £16.8m (2015: £17.8m). The effective tax rate for the period is a credit of 11% (2015: charge of 15%), reflecting the geographic split of taxable profits for 2016, the finalisation of the 2015 tax returns and the positive outcome of certain tax enquiries.

The adjusted effective tax rate, where the tax charge and the profit before taxation are adjusted for exceptional items, the amortisation of acquired intangibles and defined benefit pension scheme costs is a credit of 4% (2015: charge of 15%). In 2016 the US Federal tax rate was 34%, the UK rate was 20% and the combined Federal and Regional Italian tax rate was 31%. The Group's current year tax charge reflects a blended rate of these jurisdictions which will vary over time depending on the geographic mix of profits.

Prior period adjustments related to the positive outcome of certain tax enquiries and taxation payable in the US where legislation concerning the timing of deductibility of certain expenditure was passed by Congress after the 2015 financial statements were approved but before we filed our US tax returns. Hence we were able to take the benefit of this in our tax filings but we had not assumed such a benefit when calculating our tax liability at the time of approving the 2015 financial statements.

Unrecognised deferred tax assets in respect of tax losses in UK non-trading companies amounted to £nil (2015: £0.3m).

Key factors impacting the future effective tax rate are as follows:

- Material changes in the geographic mix of profits
- Changes in tax rates in the jurisdiction in which the Group operates
- Resolution of tax judgements arising from current or future tax issues since the Group can be subject to a number of challenges by tax authorities and the outcome of these challenges is inherently uncertain

Earnings per share

Basic earnings per share were 74.2p (2015: 56.1p) and diluted earnings per share were 72.8p (2015: 54.6p).

Finance Director of the Year Winner

Congratulations to Andrew Lewis who won Finance Director of the Year at the Quoted Company Awards.

The 12th annual Grant Thornton Quoted Company Awards celebrate the huge contribution that the small-cap community makes to the UK economy.

The awards celebrated the best PLCs, executive and non-executive board directors, fund managers and advisers that drive the fast-growth sector.

The judges commented that they were impressed by Andrew's commercial mind-set, great involvement with the operations of the company and deep understanding of the industry, which is reflected in the way he manages shareholder expectations and communicates with investors.

Segmental performance

Protection & Defence performance

Protection & Defence represented 71% (2015: 74%) of total Group revenues. The business saw revenues increase by 2% from £98.8m to £100.9m.

Operating profit grew to £16.0m (2015: £15.9m) and EBITDA was up 4% to £22.4m (2015: £21.6m), representing a return on sales (as defined above) of 22.2% (2015: 21.9%). Our margins have improved due to the mix of product shipped, efficiencies, the careful management of discretionary spend and increased prices under our long-term DOD contract.

As expected, sales of mask systems and filter spares to the DOD decreased from £44.5m to £40.1m as production scheduling returned to normal levels following the higher level of DOD activity in 2015.

We delivered 189,000 mask systems and 122,000 pairs of filter spares, compared with 240,000 mask systems and 92,000 pairs of filter spares in 2015.

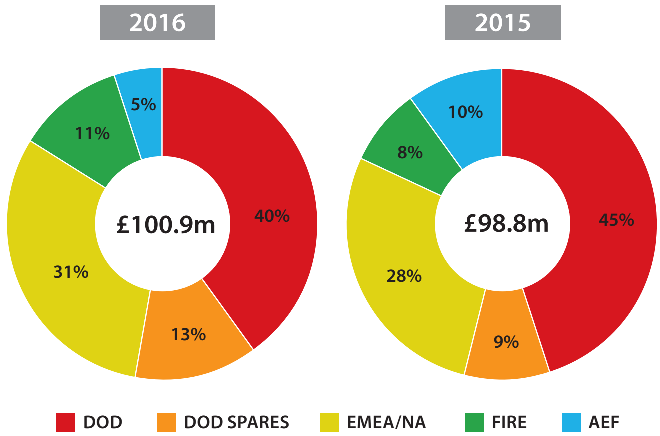
Having received orders for 169,000 mask systems during the year, this leaves us with an order book of 30,000 systems as we enter 2017. Since the year end we have received a further order for 131,000 mask systems from the DOD.

Sales to US law enforcement and non-US military and law enforcement were £31.6m (2015: £27.7m) as a result of a good performance from the underlying portfolio and a $9m order for our recently approved CBRN/CO Escape Hood, the majority of which was delivered in the final quarter of the year.

We saw growth in sales to the fire market this year following the acquisition and successful integration of the Argus thermal imaging camera business.

AEF has experienced a softer year, reflecting the variability in timing of certain DOD procurement programmes for fuel and water storage tanks.

DOD spares sales have increased this year, as expected given the increase in the installed base of masks. Long term, as the installed base of masks continues to grow so will the DOD's requirement to fill its supply chain.



Fire Department Instructors Conference (FDIC) International 2016

Avon Protection had another great year at FDIC International, the world's largest firefighter training conference and exhibition.

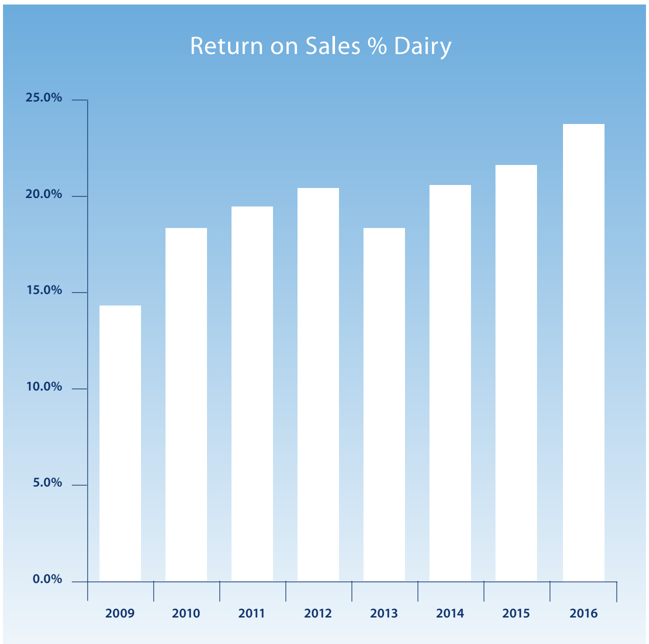
FDIC, which is held in Indianapolis attracts firefighters from around the world to train, network and learn from the industry's most elite instructors, including Avon, where we demonstrated our award winning Deltair SCBA.

After the acquisition of Argus in October 2015, this was the first chance to display the Mi-TIC range of thermal imaging cameras under the Avon Protection brand at a major show and this product was well received by firefighters and distributors.

Dairy performance

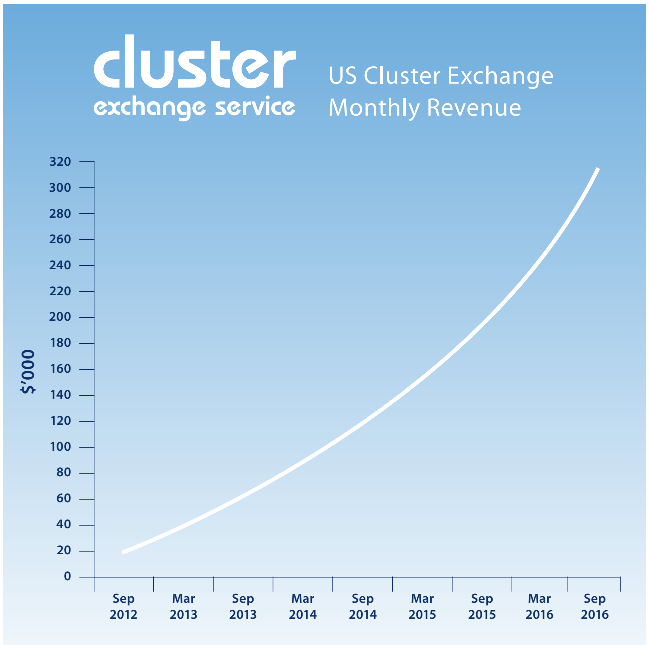
Dairy revenues increased by 18% to £42.0m (2015: £35.5m) following the acquisition of InterPuls in August 2015 which offset softer market conditions caused by low milk prices. An increasing proportion of higher margin Milkrite | InterPuls product and service sales, together with disciplined management of discretionary spend, contributed to an increased operating profit of £7.2m (2015: £6.4m).

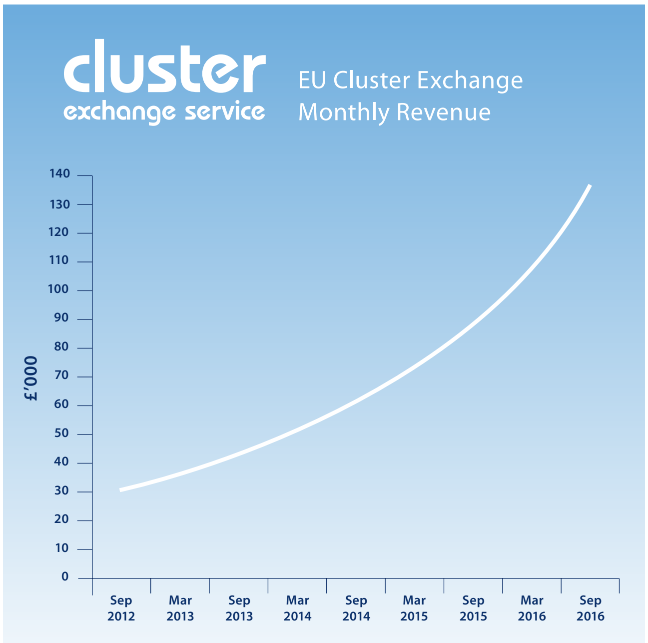
EBITDA was £9.8m (2015: £7.7m), giving a return on sales (as defined above) of 23.3%, up from 21.7% in 2015.



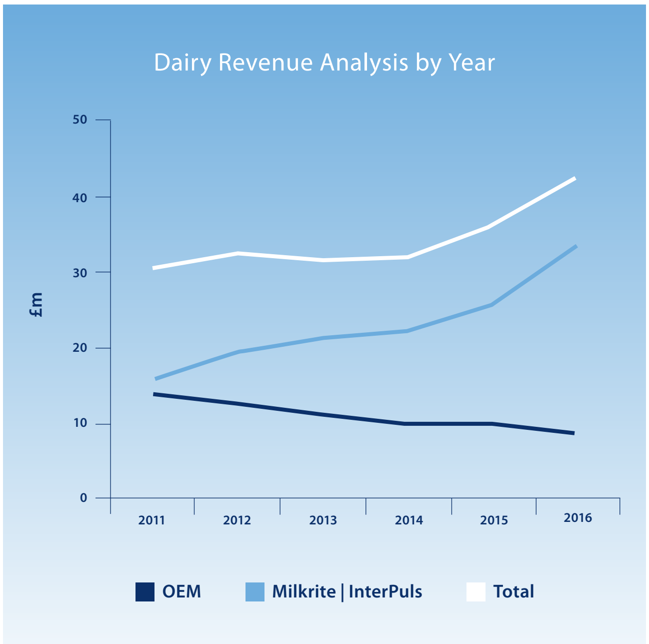
Market conditions for dairy farmers have been weak as milk prices have been low. This typically cyclical market dynamic has, as expected, reduced demand for our consumable products as farmers extend the life through over-using our products. The capital nature of the InterPuls products makes the replacement cycle longer, meaning InterPuls is more affected by the cyclical market dynamics than Milkrite consumable products.

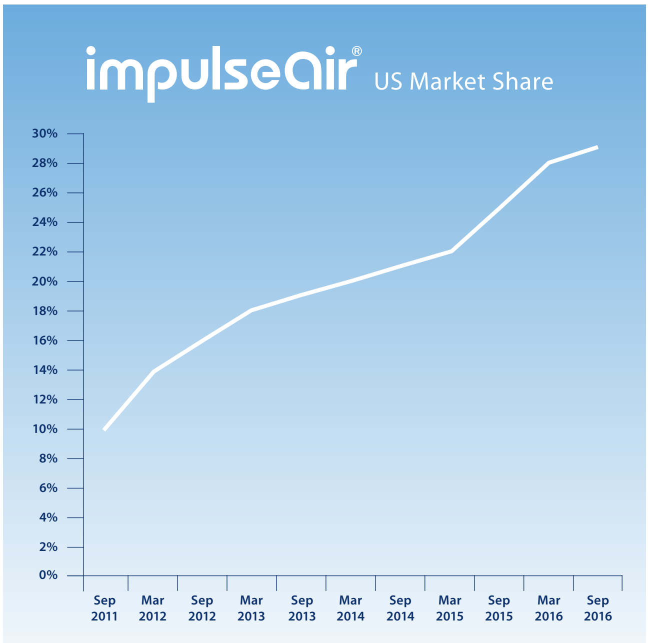
Our Dairy business has become substantially less dependent on original equipment manufacturers (OEMs) in recent years as we continue to grow sales of our own higher margin Milkrite | InterPuls branded products and services. In difficult market conditions we are encouraged that our Milkrite | InterPuls market share continues to increase, meaning that we exit this cyclical downturn with a more robust business.



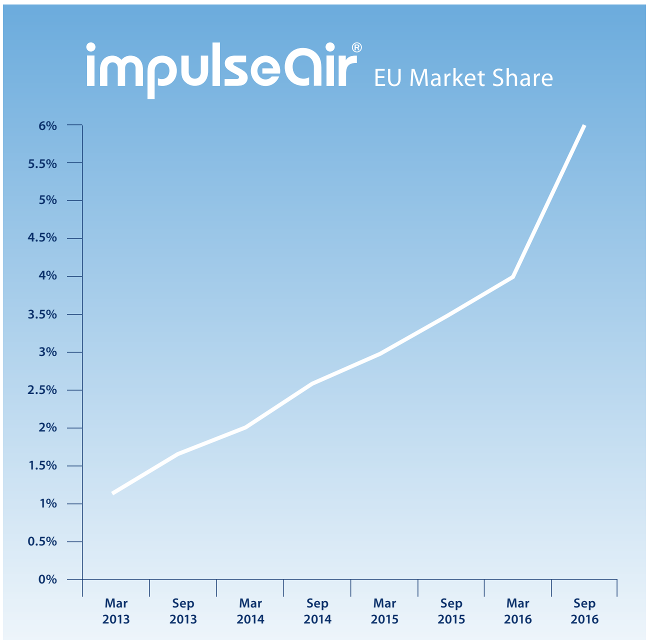


Milkrite | InterPuls sales increased as a proportion of total revenue, providing a richer sales mix. Only six years ago OEM customers represented 47% of our revenue; at the end of this year this had fallen to 20%, reflecting the success of the higher margin Milkrite | InterPuls brand and the decision of certain OEMs to insource or dual source production.





In Europe, where Avon-manufactured liners have a 73% market share, Milkrite | InterPuls's liner market share has increased to 32% due to growth in traditional own brand products and the success of our Impulse Air mouthpiece vented liner, first launched in Europe late in 2013. This product continues to gain traction, with its market share increasing to 6%.



In the US, where Avon-manufactured liners have a 61% market share, the Impulse Air mouthpiece vented liner continued to perform well, with its market share increasing to 29%. The total Milkrite | InterPuls market share in the US is 51%.

We are encouraged that in poor market conditions retention of existing farmers and the take up by new farmers of our innovative Cluster Exchange service remains strong in both North America and Europe. By the end of the year we were servicing 467,000 cows on 1,530 farms in the US and Europe, up from 430,000 cows and 1,262 farms at the same time last year. This added-value service enhances the value of each direct liner sale we make and has led to a more robust and sustainable business model, with the potential to grow a significant recurring revenue stream in the years to come, as more farms sign up. We are extending the exchange service concept to include pulsators and tags under a new Farm Services umbrella.

Milk prices in our major markets appear to have bottomed-out and started to improve in the final quarter of our financial year, a trend which has continued since the year end.

We are pleased with the integration of InterPuls, acquired in August 2015, into the wider Dairy business and are on track to realise the long-term strategic benefits that have been identified, in particular the sales synergies available in the North American market. The programme for the roll out of InterPuls products through existing Milkrite distribution in the US has commenced, with the first revenues seen in the final quarter of the financial year. This, together with our expectation that the recent improvement in milk price will continue and positively impact demand for our products, leaves the Board confident of the ability of the Dairy business to make progress in 2017.

This success has given us the confidence to invest further in product development resource and to commence work on the next generation of products, the first of which, our Impulse Claw 300, was successfully launched early in the year and the next generation of intelligence products, the iMilk600, was launched in the final quarter of the year. The InterPuls acquisition further adds to our product portfolio and product development capability, the benefits of which we expect to see in future years.

In China, our customer base continues to grow, demonstrating the continuation of the industrialisation of the milking process and the strength of the local presence we have established in this market. We remain encouraged by the excellent long-term potential for our products.

In South America, where we opened our sales and distribution facility in the first half of 2015, we have started to make good progress in establishing a strong dealer network and expect to see growth in this region, with revenue growing in line with our expectations.

In many other emerging markets, including India, the number of dairy cows being milked using automated milking processes is growing strongly. This is adding to the market potential for the consumable products we sell. We plan to harness this potential using the distribution network which InterPuls has already established in these regions.

Group position

Acquisition

On 8 October 2015, the Group completed the acquisition of the Argus thermal imaging camera business from e2v technologies plc for £3.3m from existing debt facilities.

Net cash and cash flow

Net cash at the end of the year was £2.0m (2015: net debt of £13.2m). At the year end, our main bank facility was £30.9m, which is US dollar denominated and committed to 30 November 2019.

In the year we invested £3.3m in the Argus acquisition and £6.8m (2015: £6.2m) in property, plant and equipment and new product development. In the Protection & Defence business this focused on the completion of our new product development programme, Project Fusion. In Dairy we invested in the development of our iMilk600 milk meter, the completion of our new claw and the hardware required to support our Cluster Exchange service offering.

Operating activities generated cash of £33.1m (2015: £24.1m), representing 152% of operating profit (2015: 119%). Through disciplined financial management the Group has driven strong conversion of profits into cash. The timing of shipments to customers can impact all aspects of working capital and at the 2016 year end inventory was higher from a combination of foreign exchange translation, the acquisition of Argus and being mid-way through the manufacture of a large order. Receivables increased due to a combination of foreign exchange translation and the timing of shipment on part of a large order prior to our year end.

Payables have increased due to a combination of foreign exchange translation and the timing of procurement of materials for a large order.

Three new training rooms at our Dairy sites

Three new training centres have been installed at our Wisconsin, Brazil and China facilities.

The training centres contain a suite of the latest Milkrite | InterPuls product technology which can be used to train dealers, farmers and also our own team members.

The training centres are an important step towards delivering on the opportunity of selling InterPuls products into these markets.

UK retirement benefit obligations

The balance, as measured under IAS 19 (revised), associated with the Group's UK retirement benefit obligation, which has been closed to future accrual, has moved from a £16.6m deficit at 30 September 2015 to a £40.0m deficit at 30 September 2016.

This movement has resulted from an increase in liabilities as the AA corporate bond rate has fallen, partially offset by strong performance from our return-seeking assets and Liability Driven Investment.

During 2016, the Group paid total contributions of £0.7m (2015: £0.8m).

The last triennial actuarial valuation took place as at 31 March 2013. That valuation showed the scheme to be 98.0% funded on a continuing basis and under the deficit recovery plan, the payments for the Group financial years ending 30 September are as follows: 2017: £0.7m and 2018: £0.7m. These amounts include £0.3m p.a. in respect of administration expenses.

The Trustee is currently undertaking the 31 March 2016 valuation, the results of which are due by 30 June 2017.

Research and development

Intangible assets relating to development costs totalling £19.2m (2015: £16.2m) form a significant part of the balance sheet as we invest in new product development. This can be seen from our expanding product range in both Protection & Defence and Dairy. The annual charge for amortisation of development costs was £2.5m (2015: £1.9m).

Our total investment in research and development (capitalised and expensed) amounted to £8.3m (2015: £7.1m) of which £4.3m (2015: £3.9m) was customer funded and has been recognised as revenue.

In Dairy we have started to expand our product range under the Milkrite | InterPuls brand beyond liners and tubing into non-rubber goods such as liner shells, claws and farm intelligence systems.

We have started to see the benefits of these efforts, which underpin the long-term prosperity of the Group, during our 2016 financial year.

Research and development expenditure

	Protection & Defence £m	**Dairy £m**	**Total £m**
Total expenditure	7.5	0.8	8.3
Less customer funded	(4.3)	-	(4.3)
Group expenditure	3.2	0.8	4.0
Capitalised	(2.5)	(0.6)	(3.1)
Income statement impact of current year expenditure	0.7	0.2	0.9
Amortisation	2.3	0.2	2.5
Total income statement impact	3.0	0.4	3.4
Revenue	100.9	42.0	142.9
R&D spend as % of revenue	7.4%	1.9%	5.8%

NH15 CO receives full NIOSH approval

Our unique CBRN/CO Escape Hood received NIOSH approval in the final quarter of our financial year.

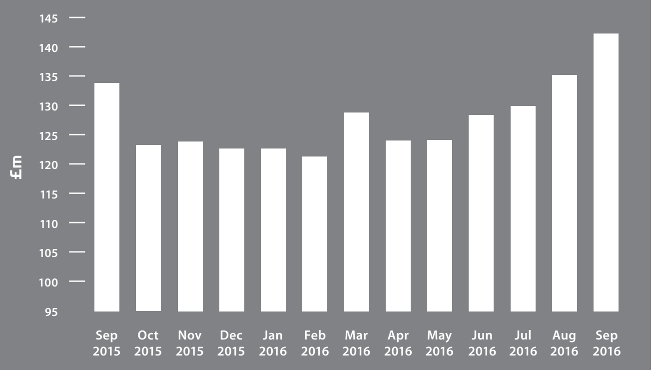
The NH15 CO is a revolutionary new carbon monoxide resistant, extremely compact CBRN escape hood, based on Avon's widely acclaimed NH15.

The NH15 CO offers unsurpassed levels of respiratory protection against the dual threat of carbon monoxide and CBRN agents. It provides the user the protection to escape from hazardous environments, particularly when dangerously high levels of carbon monoxide are present or likely in combination with other toxic materials and gases such as found in a smoke filled environment.

Key Performance Indicators (KPIs)

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

12 MONTH MOVING TOTAL REVENUE



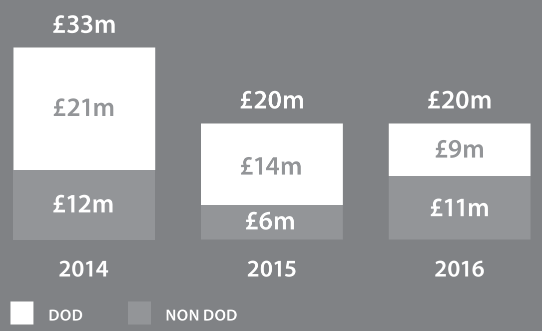
REASON FOR CHOICE
This looks at revenue for a cumulative 12 month period and is used to identify the directional trend in revenue.

HOW WE CALCULATE
This is measured at sales value.

COMMENTS ON RESULTS
Revenue has increased in 2016, as both divisions have benefited from the translation effect of a stronger US dollar. Dairy also benefited from the acquisition of InterPuls in August 2015.

INCREASED BY
6%

PROTECTION & DEFENCE ORDERS IN HAND



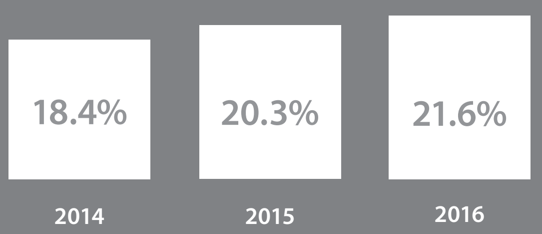
REASON FOR CHOICE
This demonstrates the orders in hand for fulfilment and future sales.

HOW WE CALCULATE
This is measured at sales value.

COMMENTS ON RESULTS
We focused on fullfilling our DOD order book in 2016, hence as expected our year end DOD order book is lower than in prior years. This is offset by a higher non-DOD order book.

NO CHANGE AT
£20m

RETURN ON SALES



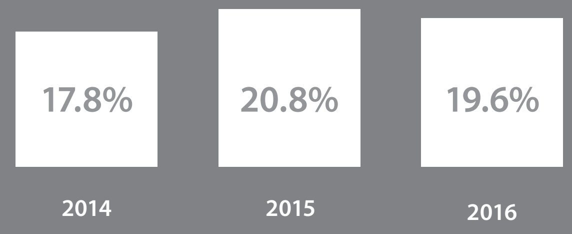
REASON FOR CHOICE
This measure brings together the combined effects of procurement costs and pricing as well as the leverage of our operating assets.

HOW WE CALCULATE
Earnings before interest, taxation, depreciation, amortisation, discontinued operations, defined benefit pension scheme costs and exceptional items (EBITDA) divided by revenue.

COMMENTS ON RESULTS
We have succeeded in growing profit in our Protection & Defence business through operational efficiencies and improved pricing on our long-term DOD contract. In Dairy, an increasing proportion of higher margin Milkrite | InterPuls sales and the careful management of discretionary spending contributed to an increased return on sales.

INCREASED TO
21.6%

TRADE WORKING CAPITAL TO REVENUE RATIO



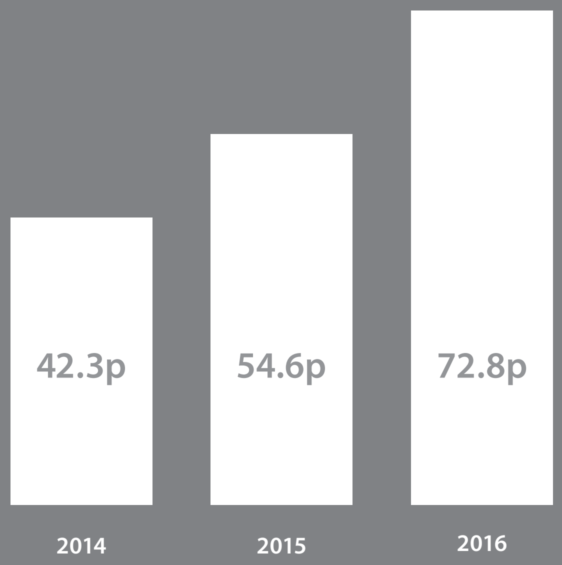
REASON FOR CHOICE
Management of working capital ensures that profit growth converts into cash generation.

HOW WE CALCULATE
Trade working capital is defined as inventory + trade receivables - trade payables and advance receipts from customers, expressed as a percentage of revenue.

COMMENTS ON RESULTS
Overall, working capital was reasonably stable during the year but was impacted at the year end by the strengthening of the US dollar. Had the year end working capital balances been translated at average exchange rates the ratio would have been lower at 18.1%.

DECREASED TO
19.6%

DILUTED EARNINGS PER SHARE



REASON FOR CHOICE
This measure is designed to include the effective management of interest costs and the tax charge and measure the total return achieved for shareholders.

HOW WE CALCULATE
Profit after tax excluding the impact of discontinued operations, the amortisation of acquired intangibles, defined benefit pension scheme costs and exceptional items divided by the fully diluted number of ordinary shares.

COMMENTS ON RESULTS
Higher operating profit and a lower Group effective tax rate in 2016 have contributed to an improved EPS position.

INCREASED TO
72.8p

Our non-financial KPIs in relation to health and safety are detailed in our Environmental and Corporate Social Responsibility report on pages 34 to 41.

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 47 to 51). Ultimately the management of risk is the responsibility of the Board of Directors, and the development and execution of a comprehensive and robust system of risk management has a high priority at 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, ensuring that these are communicated effectively across the businesses and setting the overall policies for risk management and control.

The principal risks affecting the Group are identified by the Group Executive team and reviewed by the Board.

Each risk has priority tasks allocated to it that are the responsibility of the members of the Group Executive to deliver during the financial year. Regular sessions are held throughout the year to review progress in delivery of the priority tasks at an operational level.

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 the perspective of internal controls
- **Operational risks** – matters arising from the operational activities of the Group relating to areas such as procurement, product development and interaction with commercial partners

Risk management within the business involves:

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

The principal risks identified through the risk management process in October 2015 are listed on the following page in order of severity and with the categorisation given to them internally shown alongside. Mitigation, where possible, is shown by each identified risk area.

KEY

LIKELIHOOD COLOUR INDICATOR:

■ MOST LIKELY ■ LESS LIKELY

ARROWS INDICATE WHETHER THE LEVEL OF RISK RELATIVE TO THE OTHER RISKS OF THE BUSINESS HAS INCREASED (↑), DECREASED (↓) OR REMAINED THE SAME (→) DURING THE YEAR.

DUE TO THE ACQUISITION ACTIVITY, INTEGRATION RISK WAS CONSIDERED THE GROUP'S HIGHEST RISK. TALENT MANAGEMENT IS CONSIDERED AN INCREASINGLY IMPORTANT PRIORITY FOR THE BUSINESS. THE REMAINING RISKS HAVE BEEN RE-ORDERED ACCORDINGLY.

1 ACQUISITION INTEGRATION

BUSINESS RISK

- LOSS OF KEY CUSTOMERS
- LOSS OF KEY EMPLOYEES
- EROSION OF INTELLECTUAL PROPERTY BASE
- FAILURE TO INTEGRATE MANAGEMENT REPORTING STRUCTURES AND DISCIPLINES

MITIGATION

- PREPARATION AND EXECUTION OF CROSS-FUNCTIONAL INTEGRATION PLANS
- EARLY EMPLOYEE ENGAGEMENT BY ON-SITE PRESENCE OF AVON MANAGEMENT
- EARLY INTEGRATION INTO EXISTING INTERNAL CONTROL FRAMEWORK

↑

LIKELIHOOD

IMPACT ON

SALES, COSTS & PROFITABILITY

2 TALENT MANAGEMENT

BUSINESS RISK

- INSUFFICIENT SKILLS OF EMPLOYEES
- POOR ENGAGEMENT AND MORALE
- DYSFUNCTIONAL ORGANISATIONAL STRUCTURE/REPORTING LINES

MITIGATION

- FOCUS ON CELEBRATING AND REWARDING ACHIEVEMENTS AND PROMOTING POSITIVE ACTION BY EMPOWERING OUR PEOPLE AND ENGAGING AND INVOLVING THEM THROUGH EFFECTIVE COMMUNICATION
- CONTINUE TO REALIGN TEAMS AND STRUCTURES, RECRUITING WHERE APPROPRIATE TO ENSURE THAT AS THE BUSINESS GROWS THE STRUCTURE REMAINS FIT FOR PURPOSE
- ACTIVE MANAGEMENT BY SUCCESSION PLANNING, THE ANNUAL PERFORMANCE MANAGEMENT PROCESS AND THE REWARD AND INCENTIVES STRUCTURE

↑

LIKELIHOOD

IMPACT ON

MEDIUM-TERM COST & QUALITY ISSUES

Principal risks and uncertainties (continued)

3 MARKET THREAT

BUSINESS RISK

- LACK OF SALES GROWTH
- LOSS OF MAJOR CONTRACT OR BUSINESS TO COMPETITOR E.G. PRICE COMPETITION IN THE DAIRY MARKET AND THE IMPACT OF MILK PRICES AND FEED COSTS

MITIGATION

- SAFETY APPROVALS AND SOLE-SOURCE SUPPLY CONTRACTS PROVIDE SIGNIFICANT BARRIERS TO ENTRY
- CONTINUED INVESTMENT IN PRODUCT DEVELOPMENT TO ENSURE COMPETITIVE ADVANTAGE
- SETTING THE STRATEGY FOR
  i) SECURING US GOVERNMENT FUNDING;
  ii) WINNING ADDITIONAL BUSINESS FROM EXISTING CUSTOMERS; AND
  iii) CAPTURING NEW CUSTOMERS AND REVENUE STREAMS
- CONTINUING RECRUITMENT OF SALES PERSONNEL

LIKELIHOOD

IMPACT ON

SALES VOLUME & PROFITABILITY

4 PRODUCT DEVELOPMENT

BUSINESS RISK

- FAILURE TO MEET REGULATORY PRODUCT/SYSTEM REQUIREMENTS
- LACK OF INVESTMENT IN NEW PRODUCTS
- FAILURE TO IDENTIFY AND IMPLEMENT NEW PRODUCTS

MITIGATION

- PUBLICATION OF AND ADHERENCE TO AN INTELLECTUAL PROPERTY MANUAL 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

LIKELIHOOD

IMPACT ON

SALES VOLUME & PROFITABILITY

5 BUSINESS INTERUPTION – SUPPLY CHAIN

BUSINESS RISK

- DEPENDENCY ON SOLE SUPPLIER/SUBCONTRACTOR
- AVAILABILITY/QUALITY OF RAW MATERIALS
- FAILURE TO MANAGE DISTRIBUTORS AND DEALERS CORRECTLY

MITIGATION

- PROACTIVE APPROACH TO THE APPROVAL OF SECOND SOURCES AND REDUCING COST THROUGH PURCHASING INITIATIVES
- ROBUST SUPPLIER QUALITY MANAGEMENT PROCEDURES
- NEGOTIATIONS WITH CUSTOMERS TO PASS ON INCREASES IN RAW MATERIAL PRICES

LIKELIHOOD

IMPACT ON

COSTS, SALES & PROFITABILITY

6 QUALITY RISKS AND PRODUCT RECALL

BUSINESS RISK

- POOR QUALITY SYSTEMS ALLOW FAULTY PRODUCT TO REACH CUSTOMER
- PROCESS/MATERIAL/EQUIPMENT INADEQUACY E.G. OUR PROTECTION PRODUCTS ARE SAFETY CRITICAL THEREFORE ALL PRODUCT REACHING THE END CONSUMER MUST MEET SPECIFICATION

MITIGATION

- FOCUS ON SIX SIGMA MANUFACTURING DISCIPLINES, SITE QUALITY PROCEDURES AND EMPLOYEE ENGAGEMENT
- FOCUS ON PRODUCT DEVELOPMENT TO IMPROVE DESIGN OF PRODUCTS
- CONTINUE WITH EQUIPMENT AND PROCESS IMPROVEMENTS

LIKELIHOOD

IMPACT ON

FINANCIAL LOSS, REPUTATIONAL DAMAGE

7 CUSTOMER DEPENDENCY

BUSINESS RISK

- OVER RELIANCE ON A FEW CUSTOMERS E.G. US GOVERNMENT
- POOR CUSTOMER RELATIONSHIPS AND COMMUNICATION DUE TO INCOMPLETE UNDERSTANDING OF CUSTOMERS OR FAILURE TO MEET EXPECTATIONS

MITIGATION

- FOCUS ON CUSTOMER SERVICE
- GROWING SALES TO OTHER CUSTOMERS E.G. CONTINUING TO EXPAND PROTECTION SALES INTO NEW COUNTRIES AND MARKETS AND EXPANDING DAIRY SALES INTO DEVELOPING MARKETS
- SETTING AND REGULAR MONITORING OF SALES BUDGETS AND MAJOR SALES PROSPECTS BY THE GROUP EXECUTIVE AND THE BOARD

LIKELIHOOD

IMPACT ON

SALES AND PROFITABILITY

8 NON-COMPLIANCE WITH LEGISLATION

BUSINESS RISK

- FAILURE TO COMPLY WITH EXPORT CONTROLS, THE INTERNATIONAL TRAFFIC IN ARMS REGULATIONS (ITAR), BRIBERY ACT AND PRODUCT APPROVALS

MITIGATION

- REGULAR FOCUS AND REVIEW OF THE EXPORT AND ITAR CONTROL FRAMEWORK, NPI PROCESS AND THE INTERNAL CONTROL PROCEDURES
- INTERNAL AND EXTERNAL AUDIT

LIKELIHOOD

IMPACT ON

FINANCIAL LOSS, REPUTATIONAL DAMAGE

Trends affecting the future

Protection & Defence – DOD spending

Our Protection & Defence business is well placed to meet the challenges of a continuing period of instability in the global defence market. Providing safety-critical equipment to the war fighter under a long-term sole-source contract with the DOD provides a degree of certainty in our biggest market, while our rapid growth in homeland security and military markets around the globe demonstrates the success of our strategy of investing in sales, marketing and product development.

In May 2008 we were successful in obtaining a single-source $112m, five year full rate production (FRP) contract from the DOD for the M50 military respirator at the supply rate of 100,000 mask systems per annum. The DOD also exercised its ‘requirements’ option to extend the order for a further five years allowing it to take up to a further 200,000 mask systems per annum, resulting in total potential quantities of up to 300,000 mask systems per annum over a ten year period.

Budget funding for our ten year sole-source respirator programme with the DOD has been largely unaffected by the current economic instability although the procedural process of doing business with the US Government has slowed. Despite continued downward pressure on military budgets globally and in particular uncertainty about the size and timing of the approval of DOD budgets, we expect spend on PPE for the war fighter to remain stable, although the timing of orders may again be unpredictable. At the year end we carried forward orders for 30,000 M50 masks for delivery in 2017. Since the year end we have received a further order for 131,000 mask systems from the DOD.

The buying pattern of filter spares has been less stable and predictable as is often the case when a new product is first fielded to the front line. The combination of filling the logistics chain and replacement of filters which have been used or where the shelf-life has expired provides a long-term source of demand for filter spares. Avon is now one of two sources for filters for the DOD.

Protection & Defence – timing of non-DOD orders

The opportunity to sell our Protection & Defence products outside of the DOD exists, and has been a successfully executed part of our strategy and growth. It is however difficult to predict the timing of when these opportunities will arise and how long the bid and contract award processes will take. The material nature of these opportunities means the timing of shipment can positively or negatively impact any given reporting period.

Dairy – market conditions

The market for our consumable products can be affected by macro issues that impact farmers’ short-term cash flow and thus their purchasing patterns. Our semi-consumable products are affected by these market cycles to a greater degree, although in this case we see spend deferred to a period when market conditions are more favourable to the farmer.

The milk price, which determines the farmer’s revenue, is impacted by both short-term commodity markets (it is a traded item in the US) and the medium-term cycle of cow population, as herds are bred or culled as well as global macro matters such as trading sanctions and quotas. Feed is the farmer’s major input cost and the price of feed is determined by the success or otherwise of the harvest and competing demand for the crops.

Argus manufacturing fully integrated in Melksham

The Argus manufacturing cell has been successfully transferred from the e2v site in Chelmsford to Melksham, with the first cameras coming off the line in January.

Avon Protection acquired Argus, world leaders in thermal imaging for firefighters and law enforcement officers, in October 2015. The manufacturing cell was up and running in our existing facility in just four months, demonstrating our operational flexibility and dedication of our people to quickly integrate an acquired business.

Group – treasury 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 Treasury Committee who report to the Board. The Group faces translation currency exposure on its overseas subsidiaries and is exposed in particular to changes in the US dollar and, following the acquisition of InterPuls in 2015, the euro.

Brexit is not expected to have a significant impact on the Group.

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 the 2016 results a 5¢ movement in the average US dollar rate would have impacted reported operating profit by £0.6m (2015: £0.7m) and profit after tax by £0.6m (2015: £0.6m).
- Based on the 2016 results a 5¢ movement in the average euro rate would have impacted reported operating profit by £nil (2015: £nil) and profit after tax by £nil (2015: £nil).

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 can be partially hedged by matching either with foreign currency borrowings within the subsidiaries or with foreign currency borrowings which are held centrally.

At the end of the year the US dollar asset exposure is not hedged as there are no dollar borrowings, the euro exposure is 9% hedged. (2015: 10% dollar, 9% euro).

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

- Based on the 2016 balance sheet a 5¢ movement in the year-end US dollar rate would have impacted Group net assets by £2.2m (2015: £1.3m).
- Based on the 2016 balance sheet a 5¢ movement in the year-end euro rate would have impacted Group net assets by £1.0m (2015: £0.8m).

The Group is exposed to interest rate fluctuations but with net cash at the year end (2015: net debt of £13.2m), a 1% movement in interest rates would not impact the interest costs (2015: £0.1m).

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. There were no fixed interest borrowings at the year end (2015: £nil).

Rob Rennie
Chief Executive Officer
16 November 2016

Eric Fielding: 50 years service

Eric Fielding joined Avon Rubber on 18 July 1966 as a trainee estimator, when he was just 16 years old. As part of his job, he worked out the costs of supplying products and services. Eric commented "when I got the job I was fortunate enough that there were not many people who were as good at mental arithmetic as I was".

Fast forward 50 years and Eric has become the longest serving employee at Avon Rubber and has watched the business transform over the years.

Presenting his award, Sarah Matthews-DeMers commented "Eric has been an invaluable, committed member of my team who has been happy to turn his hand to anything the business needed".

Congratulations and thank you for your hard work and dedication Eric!

Annual report on environmental and corporate social responsibility

The sustainability of the business is directly impacted by the environment in which we operate. In order to secure the future of the business we are committed to contributing to economic, social and environmental sustainability both locally and globally. The Directors acknowledge that this involves balancing the interests of shareholders, employees, customers, suppliers and the wider communities in which our businesses operate.

As we continue to work to strengthen our position as the world leader in the markets in which we do business, we will also seek to honour our obligations to society. At many of our sites we remain one of the largest employers in the local area. As an integral part of these communities we ensure our impact is one of being an economic, intellectual and social asset.

We are committed to minimising the impact of our operations on the environment. We encourage all employees to think about ways of modifying their behaviour to reduce our impact on the environment by, for example, reducing waste, restricting unnecessary travel and saving water and energy.

As a company with many manufacturing sites a forward thinking approach to the health and safety of our employees is of paramount importance and we constantly endeavour to improve our systems to maintain our excellent health and safety record.

We strive to:

- Manage the Group as a sustainable business for the benefit of shareholders and other stakeholders
- Develop and motivate our employees, ensuring they are fully engaged in the Group's strategy
- Minimise waste and emissions that contribute to climate change
- Maintain our excellent standards of health and safety in the workplace

Code of Conduct

Our Code of Conduct ('The Code') sets out the values and standards of behaviour expected from employees with a guide as to what is expected of them as representatives of Avon and provides information on how to report concerns.

All those working for or on behalf of Avon are required to confirm each year that they have read and understood the Code.

Ethics and anti-corruption

The Code covers a wide range of rules and responsibilities for employees to ensure they carry out their business activities in a way that will attract the respect of those they deal with and 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 Code also contains guidance on avoiding conflicts of interest, confidentiality, adherence to export controls, our approach to gifts and hospitality, bribery and corruption and managing relationships with third parties.

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

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

Upholding the Code is the responsibility of all employees at Avon.

We encourage everyone to report any behaviour which may be a breach of the Code, or is unethical or illegal. This is achieved by fostering a culture of openness and accountability and by providing a formal procedure that enables any individual working

Contributing to local youth

Andrew Lewis volunteers as a cricket coach at Goatacre Cricket Club, coaching the Under 11 and Under 13 teams.

In 2015 the Under 11 team was unbeaten, winning both leagues they entered and Andrew was honoured to be selected as Coach of the Year for Wiltshire by the English Cricket Board.

He is pictured receiving his award this summer from the England team batting coach Graham Thorpe at an international match played in Southampton.

for the Group to raise breaches of policy or malpractice directly at the highest level.

A copy of the Code is available to all employees in addition to being available on the Group website.

Human rights

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

Modern slavery

The Modern Slavery Act addresses the role of businesses in preventing modern slavery within their organisation and down into their supply chain. The Company has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all of its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in its business or in any of its supply chains. Our first Modern Slavery Act statement is being prepared and will be published on our website. The statement will show the steps Avon has taken to ensure slavery and human trafficking is not taking place in any part of our business or supply chains.

Environmental responsibility

We consider protection of the environment and the environmental impact of our business to be an essential part of our business operations. We are committed to complying with all relevant legislation and to operating in an environmentally responsible manner.

We are committed to minimising the impact of our operations on the environment and encourage all employees to think about ways of modifying their behaviour to reduce the impact on the environment by for example, reducing waste, restricting unnecessary travel, saving water and by reducing energy usage.

At the start of each year we set significant environmental improvement goals. Each site has delivered a number of improvements including:

Cadillac, US

- Installed light sensors for energy savings
- Replaced lighting with LEDs

Picayune, US

- Purchased new lifting equipment to improve the handling of chemicals, reducing the potential of spillages
- Installed a berm liner in our test site to eliminate the use of weed control chemicals

Melksham, UK

- Improved efficiency in our use of compressed air by replacing site compressors with independent units on each press, meaning they are utilised only when the press is running
- Heating timers introduced on infrequently used moulding presses
- Replacement of dated overhead lighting with fluorescent LEDs throughout the facility

Recycling

At our UK sites we continue to recycle:

- Waste cardboard
- Paper
- Used products
- Toners and inks
- Waste polythene
- Metal
- WEEE

Environmental concerns

We have experienced no external environmental incidents or concerns throughout 2016 at any of our locations.

Energy

The three main energy sources of electricity, gas and water used at our Melksham site are being monitored on a weekly basis for trends which differ from the normal distribution. The aim of this is to recognise spikes in usage and implement improvements to reduce energy consumption on these processes. It is hoped to roll this approach out to the US sites in due course.

ISO 14001

External auditors visited Avon in 2016 to conduct a re-certification of our ISO 14001 standard. The audit was very successful with no deficiencies recorded.

What is ISO 14001?

ISO 14001 was developed to provide a management system to help organisations reduce their environmental impact.

The standard provides the framework for organisations to demonstrate their commitment to preserving and protecting the environment by:

- Reducing harmful effects on the environment
- Providing evidence of continual improvement of environmental management

Environmental management system

By achieving ISO 14001 certification Avon is able to clearly demonstrate its commitment to reducing waste and recycling materials where appropriate. The benefits to the organisation are not just in cost savings; ISO 14001 accreditation is also beneficial when tendering for new business.

Legislation

With evolving environmental legislation within the EU, US and the UK, Avon ensures compliance through regular environmental updates from its membership to the Institute of Environmental Management and Assessment (IEMA).

Mandatory carbon reduction scheme

The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 requires quoted companies to include within their annual report details of greenhouse gas emissions for which they are responsible and other environmental matters for which key performance indicators are selected.

Avon has employees in each of its facilities who are responsible for collecting and acting on the data. The collected data allows the organisation to monitor and examine carbon emission trends.

Greenhouse Gas (GHG) emissions

	Description	GHG emissions in tons 2014	GHG emissions in tons 2015	GHG emissions in tons 2016
Scope 1	Greenhouse gas emissions derived directly from our operations including gas usage and company owned transport.	2,378	2,340	2,198
Scope 2	Mandatory reporting of emissions from electricity usage.	6,146	7,068	5,351
Total		8,524	9,408	7,549

Health and Safety (H&S)

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

Over the year monthly global H&S meetings are held at the UK and US sites. Through information sharing, knowledge and ideas we are able to implement best practice across our global sites and create positive safety attitudes.

Monthly meeting reports are displayed in our facilities and on our Avon Communication Exchange (ACE) intranet site for all employees and invited visitors to view.

Our management teams put considerable focus on potential hazard reporting. This reporting ensures that any potential hazards are reported early and appropriate action taken before they cause an incident or an accident. These actions are key to ensure our facilities are safe places in which to work.

Safety teams

Safety teams have been established at each of our facilities to conduct internal audits, inspections and to lead by example, further increasing the positive safety culture throughout our organisation. The safety teams share best practice initiatives, ensuring they are embedded throughout the group.

Below are listed some examples of health and safety improvements implemented at our sites during 2016:

Cadillac, US

- First aid and CPR training conducted
- Improved security by updating all lock out procedures

Facility	Scope 2 tons CO^2 emissions 2014	2014 average number of employees	Scope 2 tons CO^2 emissions 2015	2015 average number of employees	Scope 2 tons CO^2 emissions 2016	2016 average number of employees
Albinea	146	n/a	48	n/a	5	82
Belcamp	155	n/a	148	n/a	113	54
Cadillac	1,700	304	1,719	275	1,277	244
West Palm Beach	n/a	n/a	n/a	n/a	92	25
Johnson Creek	1,658	160	1,980	160	1,415	160
Melksham	1,909	205	2,378	205	1,996	217
Picayune	578	37	795	43	453	32
Total Annual Scope 2 Emissions	6,146	706	7,068	683	5,351	814

- Added ergonomic desks to allow computer operators to stand or sit

Picayune, US

- Use of protective eyewear implemented throughout the plant
- Bloodborne pathogens training conducted
- Plant-wide sound exposure level survey updated

Melksham, UK

- Re-introduction of monthly plant safety tours by management
- Review of work processes and introduction of more ergonomic equipment for employees
- Lowest number of recorded accidents for five years

West Palm Beach, US

- Safety Kaizens completed throughout the factory
- Installation of roll up doors with swinging doors and panic bars
- Improved lighting throughout

Corporate social responsibility

Investing in our people

Our success depends on our people. The Group recognises the importance of our employees in helping us to achieve our corporate goals.

The Group aims to support all employees to develop to their full potential and we are committed to recognising, encouraging and developing talent across our business. We encourage talented employees by matching the right people to the right roles and by ensuring professional development opportunities are available throughout their employment within the Group.

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

We operate group-wide employee share plans to encourage our staff to participate in the future of the Group through share ownership. All UK employees are entitled to participate in the Share Incentive Plan (SIP) whilst US employees are invited to join the Employee Stock Purchase Plan (ESPP). Both provide the opportunity to purchase shares through payroll deductions.

The gender of our staff at 30 September 2016 was as follows:

	Male	Female
Non-Executive Directors	2	1
Executive Directors	2	-
Senior Managers	16	5
Other Employees	485	320
Total	505	326

Six of the senior managers (four male, two female) are also Directors or officers of subsidiary undertakings.

Learning English at InterPuls

To help with the integration of InterPuls, we provided English language training to staff with the aim of strengthening the language skills inside the company.

The training involved 12 employees from different departments, with varying levels of language capability. It was a challenging course with over 60 hours of training involved which has improved communication with their colleagues in the UK and the US ever since.

Great Place to Work

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

Our core values

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

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

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

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

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

Recognition

All employees have a part to play in ensuring Avon remains a great place to work. One of our corporate values is to motivate our people through appropriate recognition and reward programmes.

The Group's core values are embodied by the acronym CREED, a set of principles and cultural values which are rigorously pursued and adhered to across the Group. Under our CREED reward programme, employees can nominate colleagues whom they believe embody one or more of the CREED values in their job performance. Each month all those nominated receive a recognition award from the Group, with a quarterly and annual winner selected from those nominated. The Melksham Annual Site winner, Ross Heard, is pictured below with Rob Wills, Plant Manager and Rob Rennie, Chief Executive Officer.

Communication

We recognise the importance of employee engagement, and effective communication throughout the business is vital in achieving this. We regularly communicate our strategy, performance and business priorities to all employees in a variety of ways, including through our intranet sites, email and regular newsletters as well as through regular employee meetings at all levels of the organisation. We also encourage employees to communicate and feed back to the business, either face to face or through discussion boards on our intranet. All employees have the ability to make suggestions directly to the CEO.

Part of the communication programme is our employee opinion survey. The survey gives employees the opportunity to give anonymous feedback to management, which we assess and use to inspire improvement plans. The survey helps to ensure Avon listens to its employees and strives for continuing improvement. The responses are evaluated by each level of management and it will continue to be a platform that helps Avon invest in its people and drive success.

Training and Development

We want to attract, retain and develop talented individuals.

We strive to provide an environment which offers the right training and development to ensure we retain our employees, providing the support needed to enable them to achieve their potential and become the future leaders of our business. We provide a combination of formal training opportunities and on the job experience.

Our flagship global Professional Development Programme has just finished its second cycle (pictured below). The programme enables participants across our business to manage their own career development through setting self-learning objectives with the help and guidance of a mentor from the senior leadership team and an external facilitator. We will be rolling out this style of learning on a wider basis throughout our 2017 financial year.

Through a new initiative, employees can apply for training grants for qualifications they wish to work towards. Avon funds half of the tuition fees and loans the other half to the employee, to be paid back over time. So far, the initiative has helped the continued development of our marketing, PR and engineering departments.

On top of this we also offer numerous positions for placement students in our engineering team, both in the US and the UK. The students help us tackle real-world engineering problems as they learn about the engineering profession as well as having the potential for long-term employment within Avon. A number of our student placements have taken up full time employment with the Group following their graduation and contribute significantly to Group achievements. We also offer work experience placements.

Our graduate recruitment scheme is now in its second year, with two further individuals joining the company in September to support the growing need of our business. The scheme is based on a two year 'work and learn' programme designed to bring new talent to our organisation.

Wellbeing

Under our wellbeing initiative, we offer healthy lifestyle support and advice, with the aim of encouraging better health and wellbeing for all employees.

We believe wellbeing works best when the experience is a shared one, we have regular global wellness challenges for our employees to take part in to help stimulate small changes to improve their overall health. These include challenges related to increasing activity levels, eating healthier and drinking more water.

We also had our first global wellness week earlier in the year. There were a variety of activities on offer at all of our sites including healthy eating options in our canteens, a wellness fair and health quizzes.

Community

We aim to work with and for the communities in which we operate, recognising our role as a major employer in our geographical site locations. We are aware of the impact the Group has on its local environment and seek to contribute to its economic, social and environmental sustainability.

Our community programme is led from the bottom up rather than top down, which means each site is empowered to create their own initiatives to help benefit their local community. Engaging with, and giving back positively to, the local community ensures that we are supporting our employees, their friends and families. We also work with many charitable organisations who are involved in some way with the areas of business in which we operate.

We recognise the value provided to local and wider communities by members of the reserve forces and those in public service. We are proud to have employees serving and a number of our employees are part of service families. We support their commitment and dedication to serve.

It's not just supporting our local communities, it's also about creating a community at work. That's why we offer opportunities for our employees to establish relationships with each other outside of their day to day job. From football matches to bake sales and even a few charity drives, we want our employees to feel embedded within the culture of the organisation.

Listed below are just a few examples of the organisations we have helped this year across our US and UK sites:

Wiltshire Community Foundation
Giving money and support where people need it most

Wiltshire Community Foundation

The Company established a fund with a local community charity in Wiltshire, the Wiltshire Community Foundation (WCF), in 1993. This fund was invested by the WCF and the interest earned to date has been used to support a wide range of charities and groups in the Wiltshire area.

Since 2001, £42,858 has been donated from this fund to the local community surrounding the Melksham headquarters.

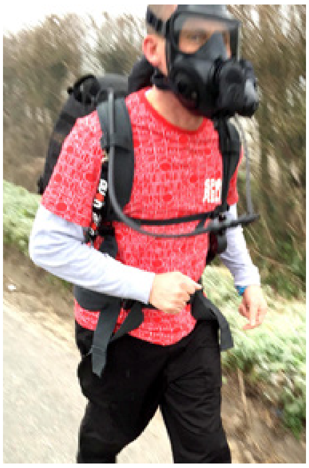
In total 46 projects have been supported. Here are a few examples:

Alzheimer's Support is an independent charity offering a range of services to people living with all types of dementia and their family carers in East and West Wiltshire. A grant helped to fund Art Projects for people with Alzheimer's and their carers to enable them to both enjoy taking part in creative activities together.

Dorothy House Hospice offers end of life care and support, as well as therapies and clinics for life-limiting illnesses. Funding went towards the overhead costs of staff for the Trowbridge outreach centre over three years.

Hope Nature Centre provides education, training and support of adults with special needs to promote independence and personal development through employment and leisure opportunities. A grant contributed to the purchase of play equipment for children with disabilities.

Iain's mad mask dash



In March, Iain Thomson, our Training and Consultancy Manager from Avon Protection, ran, jogged and walked the eight miles from his home to our head office in Melksham wearing Avon's CS-PAPR to raise funds for Sport Relief. He raised £967 - a fantastic achievement - and proved the capabilities of our CS-PAPR!

Iain also helped to raise awareness for combat veterans suffering from PTSD by completing the 22 day push-up challenge whilst wearing Avon respirators.

Splash Pad project at the Friendship Park

Jamie Rogers, AEF General Manager, presented a donation on behalf of AEF employees to contribute to the construction of the Splash Pad project at the Friendship Park in Picayune.

The Lower Pearl River Valley Foundation granted $50,000 for the project but the total cost of construction was $77,280 so the city had to raise the difference by community donation. The purpose of the Splash Pad is to bring people into the local area, increase revenues for local businesses and to provide family centered entertainment.

Avon celebrates its first global wellness week

As part of the Great Place to Work Programme, Avon celebrated its first global wellness week across all sites in March 2016. Employees were invited to take part in various activities which all encouraged a healthy lifestyle.

Some of the highlights included a wellness fair at Belcamp, where our employees were educated on financial health, spinal wellbeing and relaxation techniques, and a health quiz at our Melksham site, the winners of which (pictured) were presented with a selection of fruit and vegetables.

Jefferson County Humane Society

Johnson Creek has been giving back to the local community by participating in multiple donation drives this year. One of these drives was for the Jefferson County Humane Society whose mission is to care for the lost, homeless and abused animals of Jefferson County and help place them in forever homes. Over five boxes of food, toys and cleaning supplies for pets were collected.

FC Chippenham Youth Girls

With a focus on fun, long-term player development and a friendly, inclusive team spirit, FC Chippenham Youth Girls are an FA Charter Standard football club that play competitive league and cup games in the Wiltshire County Womens & Girls League.

There are more than 65 girls affiliated over five teams ranging from Under 10s to Under 12s - Emeralds, Onyx, Amethyst, Sapphires and Diamonds. To support the girls to play football, develop their skills, make new friends and just have a great time, Avon Protection are pleased to have sponsored the teams for the 2015-2016 season to help fund kit as well as directly providing coaching support.

Project Christmas

APS Cadillac donated a total of 3,442lbs of food to the Project Christmas program. Project Christmas has had the privilege of serving Wexford county since 1989 and is built on the guiding principle "to provide a Christmas for families that otherwise might not have one by joining together in a collaborative effort". With the caring support of individuals, organizations and churches they were able to serve 974 families in 2015.

Other organisations

Listed below are a few more examples of the organisations we have helped this year across our US and UK sites:

- Wiltshire Citizens Advice
- West Wilts Multi Faith Forum
- Carer Support Wiltshire
- Wiltshire Music Centre
- SPLITZ Support Services
- Red Nose Day
- Wiltshire Air Ambulance
- Macmillan Cancer Support
- Stehouwer Free Clinic
- Back Pack Programme
- United Way
- The Salvation Army
- Michigan Advanced Technician Training
- City of Picayune Community Splash Pad
- Cadillac Chamber of Commerce Leadership
- Cancer Research UK
- Royal Marines Charity
- Melksham & Corsham Gateway Club

Miles Ingrey-Counter

Miles Ingrey-Counter
Company Secretary
16 November 2016

BOARD OF DIRECTORS

DAVID EVANS | **CHAIRMAN**

Aged 70. David took up the position of Chairman of the Board in February 2012 having served on the Board from the time of his appointment in June 2007. He has been working in the defence sector for over 30 years and has 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 remained on the Chemring Board as a Non-Executive Director following his retirement in April 2005 but stood down from this role during 2012 to focus on his role as Chairman of Avon Rubber p.l.c. He was previously a Non-Executive Director of Whitman PLC.

ROB RENNIE | **CHIEF EXECUTIVE OFFICER**

Aged 52. Rob joined as Chief Executive in December 2015 from the global engineering company Invensys p.l.c. where he worked for more than 20 years. As a member of the Executive Team at Invensys, Rob was President of the Energy Controls Division which operated internationally under the Eurotherm, Residential Controls, IMServ, and Eliwell brands. Previous Executive roles included responsibility for Foxboro M&I, Eckhardt and the EURA region for Invensys operations management. He began his career on the shop floor then moved through to sales and marketing roles before taking up business leadership positions.

ANDREW LEWIS | **GROUP FINANCE DIRECTOR**

Aged 45. Andrew joined Avon in September 2008 as Group Finance Director. He holds a first class joint honours degree in Mathematics and Accounting from the University College of North Wales, Bangor and is a Fellow of the ICAEW. He was awarded the Finance Director of the Year Award at the Quoted Company Awards in 2016 and Young Finance Director of the Year Award at the ICAEW Financial Directors' Excellence Awards in May 2011. He gained a wide range of international experience as a Director at PricewaterhouseCoopers in Bristol and New Zealand before joining Rotork p.l.c. as Group Financial Controller.

PIM VERVAAT | **NON-EXECUTIVE DIRECTOR**

Aged 51. Pim joined the Board in March 2015 and chairs the Audit Committee. Pim is Chief Executive of RPC Group Plc, the UK based manufacturer of rigid plastic packaging and a FTSE 250 listed company. Pim was appointed RPC's CEO in 2013, having previously been their Finance Director since 2007. Prior to this, Pim worked for Dutch metals producer, Hoogovens Groep, before joining Dutch ship propulsion producer Lips Group as Chief Financial Officer in 1996. In 1999 he returned to Hoogovens Groep (acquired by Corus) and in 2004 became divisional Finance Director of the £3bn turnover Corus Distribution and Building Systems Division.

CHLOE PONSONBY | **NON-EXECUTIVE DIRECTOR**

Aged 40. Chloe joined the Board in March 2016 and chairs the Remuneration Committee. Chloe is a founding partner at The Lazarus Partnership, an independent equity research and advisory firm based in London. Prior to Lazarus, Chloe was a senior corporate broker at stockbrokers Oriel Securities and Altium Capital, where she set up and managed the Corporate Broking and Investor Relations teams. Chloe started her career as a fund manager at Jupiter Asset Management.

The Directors submit the annual report and audited financial statements of Avon Rubber p.l.c. ('the Company') and the Avon Rubber group of companies, ('the Group') for the year ended 30 September 2016. The Company is registered in England and Wales with company registration number 32965. The Company's principal subsidiary undertakings and branches, including those located outside the UK, are listed in note 27 to the financial statements.

Strategic Report

The Strategic Report, which contains a review of the Group's business (including by reference to key performance indicators), a description of the principal risks and uncertainties facing the Group, and commentary on likely future developments is set out on pages 11 to 33 and is incorporated into this Directors' report by reference.

Financial results and dividend

The Group statutory profit for the year after taxation amounts to £18,279,000 (2015: £13,666,000). Full details are set out in the Consolidated Statement of Comprehensive Income on page 74.

An interim dividend of 3.16p per share was paid in respect of the year ended 30 September 2016 (2015: 2.43p).

The Directors recommend a final dividend of 6.32p per share (2015: 4.86p) resulting in a total dividend distribution per share for the year to 30 September 2016 of 9.48p (2015: 7.29p).

Share capital

As at 16 November 2016, the issued share capital of the Company was 31,023,292 ordinary shares of £1 each. Details of the shares in issue during the financial year are set out in note 20 of the financial statements.

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, to attend and speak at general meetings, to exercise voting rights in person or by appointing a proxy and to receive a dividend where declared or paid out of profits available for that purpose. There are no restrictions on the transfer of issued shares or on the exercise of voting rights attached to them, except where the Company has suspended their voting rights or prohibited their transfer following a failure to respond to a notice to shareholders under section 793 of the Companies Act 2006, or where the holder is precluded from transferring or voting by the Financial Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

The 718,789 shares held in the names of the two Employee Share Ownership Trusts on a jointly owned basis or as a hedge against awards previously made or to be made pursuant to the Performance Share Plan are held on terms which provide voting rights to the Trustee and, in certain circumstances under the terms of joint ownership awards, to the recipient of the awards. The Company is also not aware of any agreements between its shareholders which may restrict the transfer of their shares or the exercise of their voting rights. The only exception to this being the Trustees of the two Employee Share Ownership Trusts have waived their rights to dividends.

At the Company's last annual general meeting (AGM) held on 26 January 2016, shareholders authorised the Company to make market purchases of up to 4,653,492 of the Company's issued ordinary shares. No shares were purchased under this authority during the year. A resolution will be put to shareholders at the forthcoming AGM to renew this authority.

The Directors require authority to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2016 AGM and resolutions to renew these authorities will be proposed at the 2017 AGM, see explanatory note on page 136. No shares were allotted under this authority during the year.

Substantial shareholdings

At 7 November 2016, the following shareholders held 3% or more of the Company's issued ordinary share capital:

BlackRock Investment Management	10.36%
Schroder Investment Management	9.85%
Hargreave Hale & Co	4.46%
JPMorgan Asset Management	4.30%
Franklin Templeton Investments	4.16%
Henderson Global Investors	3.55%
River & Mercantile Asset Management LLP	3.30%

Significant Agreements – change of control

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

- the Company's revolving credit facility agreement; and
- the Performance Share Plan.

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

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

Under the rules of the 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 was made.

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

Directors

The names of the Directors as at 16 November 2016 are set out on page 42 along with their photographs and biographies.

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

During the year there have been three changes to the membership of the Board. Mr R. Rennie assumed the role of Chief Executive on 1 December 2015 following the retirement of Mr P. Slabbert on 30 September 2015. Mr R. Wood retired from the Board with effect from the conclusion of the AGM on 26 January 2016 and Miss C. Ponsonby was appointed as his replacement as Director and Chair of the Remuneration Committee on 1 March 2016.

Mr P. Vervaat replaced Mr R. Wood as the Senior Independent Director.

On 18 October 2016 the Company announced that Mr A. Lewis, Group Finance Director, will step down on 30 November 2016. Mr P. Rayner will be appointed Interim Group Finance Director on 1 December 2016.

The Board is satisfied that Mr D. Evans, Mr P. Vervaat and Miss C. Ponsonby are independent Non-Executive Directors.

In accordance with the UK Corporate Governance Code and the Company's Articles, all Directors are subject to election by shareholders at the first AGM after their appointment, and to re-election thereafter at intervals of no more than three years. Non-Executive Directors who have served longer than nine years are subject to annual re-election.

Mr D. Evans retires by rotation and, being eligible, offers himself for re-election. The Board confirms that Mr D. Evans has contributed substantially to the performance of the Board. Mr P. Vervaat, the Senior Independent Non-Executive Director, gives his full support to Mr D. Evans' offer of re-election and draws the attention of shareholders to his profile on page 42.

Mr R. Rennie retires by rotation and, being eligible, offers himself for re-election. The Board confirms that Mr R. Rennie has contributed substantially to the performance of the Board since his appointment and the Chairman gives his full support to Mr R. Rennie's offer of re-election and draws shareholders to his profile on page 42.

Miss C. Ponsonby, who, having been appointed since the Company's last AGM, retires in accordance with Article 79 of the Articles and, being eligible, offers herself for re-election. The Board confirms that Miss C. Ponsonby has contributed substantially to the performance of the Board since her appointment and the Chairman gives his full support to Miss C. Ponsonby's offer of re-election and draws shareholders to her profile on page 42.

All Executive Directors' service contracts with the Company require one year's notice of termination. Neither Mr A. Lewis or Mr R. Rennie is currently appointed as a Non-Executive Director of any company outside the Group.

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 70.

Directors' and Officers' indemnity insurance

In accordance with the Company's Articles and subject to the provisions of the Companies Act 2006 ('the Act'), the Company maintains at its expense, Directors and Officers insurance to provide cover in respect of legal action against its Directors.

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

Conflicts of interest

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

Research and development

The Group continues to utilise its technical and materials expertise to further advance its products and remain at the forefront of technology in the fields of respiratory protection, dairy milking technology and polymer engineering. The Group maintains its links to key universities in the US and UK and continues to work with new and existing customers and suppliers to develop its knowledge and product range. Total Group expenditure on research and development in the year was £8,341,000 (2015: £7,139,000) further details of which are contained in the Strategic Report on pages 11 to 33.

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

Corporate governance

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 47 to 51. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Environmental and corporate social responsibility

Matters relating to environmental and corporate social responsibility including reference to our policy on diversity are set out on pages 34 to 41.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Environment and Corporate Social Responsibility Report, on page 36.

Political and charitable contributions

No political contributions were made during the year or the prior year. Contributions for charitable purposes amounted to £15,528 (2015: £17,053) consisting exclusively of numerous small donations to various community charities in Wiltshire, Maryland, Michigan, Wisconsin and Mississippi.

Post balance sheet events

There have been no material events from 30 September 2016 to the date of this report.

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' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). 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 the IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent 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 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Having taken advice from the Audit Committee, the Board considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 42 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 profit of the Group; and the Strategic Report contained on pages 11 to 33 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.

Independent auditors

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

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 at our Hampton Park West facility, Semington Road, Melksham, Wiltshire SN12 6NB on 2 February 2017 at 10.30am. The Notice of Meeting can be found on pages 134 to 139. Registration will be from 10:00am.

Miles Ingrey-Counter
Company Secretary
16 November 2016

Statement of compliance with the UK Corporate Governance Code

The Board of Directors believes in high standards of corporate governance, notwithstanding the Company's size and status as a member of the FTSE SmallCap index, and 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 UK Corporate Governance Code (the Code) which is available on the website of the Financial Reporting Council (FRC).

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

The Board considers that throughout 2016, Avon has complied with the Code, save in the following three respects.

Firstly, the Senior Independent Director does not attend meetings with the major shareholders to listen to their views (which is explained further below).

Secondly, the annual performance review of the Board has been postponed to take place in March 2017, outside the current financial year to allow the new Board members sufficient time in their roles before undertaking a formal evaluation.

Finally, our new Chief Executive, Mr R. Rennie, was appointed on 1 December 2015. Under the Code, Directors are required to retire and be re-appointed at the first AGM after their appointment. As Mr R. Rennie was appointed after the notice of AGM had been circulated, Mr R. Rennie did not retire and offer himself for re-appointment and will instead retire at this year's AGM.

This statement will address the main subject areas of the Code namely leadership, effectiveness, accountability and relations with shareholders. Remuneration is dealt with in the Remuneration Report on pages 55 to 73.

The Board has an established framework of internal controls covering both financial and non-financial controls. In addition, there is an ongoing process for identifying, evaluating and managing significant business risks faced by the Group. This process was in place throughout the 2016 financial year and accords with the Revised Guidance for Directors on Internal Control (formerly called the Turnbull Guidance).

The Board

During the year there have been three changes to the membership of the Board. Mr R. Rennie assumed the role of Chief Executive on 1 December 2015 following the retirement of Mr P. Slabbert on 30 September 2015. Mr R. Wood retired from the Board with effect from the conclusion of the AGM on 26 January 2016 and Miss C. Ponsonby was appointed as his replacement as Director and Chair of the Remuneration Committee on 1 March 2016.

The Board comprises the Chairman, two Non-Executive Directors and two Executive Directors who are the Chief Executive and the Group Finance Director. The Board treats the two Non-Executive Directors as independent. Following the retirement of Mr R. Wood from the Board at the conclusion of last year's AGM, Mr P. Vervaat was appointed Senior Independent Director.

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

Amendments to the Articles must be approved by a special resolution of shareholders. Under the Articles all Directors are subject to election by shareholders at the first annual general meeting following their appointment, and to re-election thereafter at intervals of no more than three years.

The Board is aware of the FRC's suggestion that companies outside the FTSE 350 should consider the annual re-election of all Directors. On the basis that this is not a requirement of the Code and it has not been raised as an issue by any shareholders the Board has chosen not to change its existing practice.

Non-Executive Directors submit themselves for annual re-election if they have served for more than nine years since first election.

Additionally, the Non-Executive Directors are appointed by the Board on terms which allow for termination on three months' notice.

Biographies of the Directors appear on page 42. These illustrate the range of business and financial experience upon which the Board is able to call. The intention of the Board is that its membership should be 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. The Chairman is responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role and the Chief Executive manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

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

How the Board operates

The Chairman ensures through the Company Secretary that the Board agenda and all relevant information is provided to the Board sufficiently in advance of meetings and that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chief Executive 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 includes appropriate strategic, financial, organisational and compliance issues, including the approval of high level announcements, circulars and the report and accounts and certain strategic and management issues.

Examples of strategic and management issues include the following:

- Approval of the annual operating budget and the three year 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
- The approval of significant contracts, for example the acquisition or disposal of assets worth more than £1,000,000 or the exposure of the Company or the Group to a risk greater than £1,000,000
- The approval of unbudgeted capital expenditure exceeding £250,000
- The approval of quotations and sale contracts where the sales commission payable to an intermediary exceeds 10% of the net invoice price
- Consideration and approval of all proposed acquisitions and mergers

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

Committees of the Board

Of particular importance in a governance context are the three committees of the Board, namely the Remuneration Committee, the Nominations Committee and the Audit Committee.

The members of the Committees comprise the Chairman and all the Non-Executive Directors. The Non-Executive Directors continue to regard the Chairman as adding significant value to the deliberations of the Audit Committee and his membership is ratified by Provision C.3.1. of the Code, which permits listed companies outside the FTSE 350 to allow the Chairman to sit on the audit committee where he or she was considered independent on appointment as Chairman. Mr P. Vervaat is Chairman of the Audit Committee. The Board is satisfied that Mr P. Vervaat has recent relevant financial experience and his profile appears on page 42. Mr D. Evans is Chairman of the Nominations Committee and Miss C. Ponsonby is 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 the 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. More details of the activities of the Remuneration Committee are set out in the Remuneration Report on pages 55 to 73.

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.

Attendance at meetings

The Board schedules eight regular meetings per year. This year two further meetings were held on an ad hoc basis, by telephone conference, in connection with the timing of the release of the Company's 2015 results and to provide an update to the 2016 trading position. All Committee and Board meetings held in the year were quorate. Directors' attendance during the year ended 30 September 2016 was as follows:

Meetings during year ended 30 September 2016

	Board	Audit Committee	Remuneration Committee	Nominations Committee
D. Evans	8	3	4	2
R. Wood**	2	1	2	-
R. Rennie ***	6	2*	2*	2*
A. Lewis	7	3*	2*	-
P. Vervaat	8	3	4	2
C. Ponsonby ****	5	2	2	-

* Attendance by invitation
** R. Wood retired from the Board on 26 January 2016
*** R. Rennie was appointed to the Board on 1 December 2015
**** C. Ponsonby was appointed to the Board on 1 March 2016

Performance evaluation

The formal performance evaluation of the Board is scheduled to take place in March 2017, falling outside the financial year under review. The review was delayed until after the end of the financial year to enable the new appointees to the Board, Mr R. Rennie (appointed 1 December 2015) and Miss C. Ponsonby (appointed 1 March 2016) to have sufficient time in their roles before taking part in a formal evaluation.

Relations with shareholders

The Directors regard regular communications with shareholders as extremely important. All members of the Board receive copies of analysts' reports of which the Company is made aware.

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

Regular dialogue takes place with institutional shareholders including presentations after the Company's preliminary announcements of the half and full year results. The Board receives comments from analyst meetings and shareholder meetings after both interim and final results and at other times during the year. Shareholders have the opportunity to ask questions at the AGM and also have the opportunity to leave written questions with the Company Secretary for the response of the Directors. The Directors also make themselves available after the AGM to talk informally to shareholders, should they wish to do so and respond throughout the year to any correspondence from individual shareholders.

At the AGM on 2 February 2017, 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 and an opportunity for shareholders to ask questions. The level of proxies received for each AGM resolution is declared after the resolution has been dealt with on a show of hands providing no poll has been called for. The Board has no plans to introduce poll voting on all business at general meetings as a substitute for using proxy votes, as this is not a requirement of the Code.

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

Accountability and audit

The Code requires that Directors review the effectiveness of the Group's system of internal controls on a continuing basis. The scope of this review covers all controls including financial, operational and compliance controls as well as risk management. As indicated earlier, the Board has put in place a framework of internal controls 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, through the Audit Committee, keeps this system under continuous review and formally considers its content and its effectiveness on an annual basis. Such a system can provide only reasonable, and not absolute, assurance against material misstatements or losses.

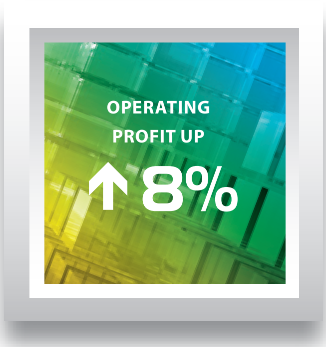
152%
OF OPERATING PROFIT CONVERTED TO CASH

The section on internal control in the Audit Committee Report on pages 53 to 54 and the following paragraphs describe relevant key procedures within the Group's systems of internal control and the process by which the Directors have reviewed their effectiveness.

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

Procedures are in place to identify all major business risks and to evaluate their potential impact on the Group.

These risks are described within the Strategic Report on pages 28 to 31.



Risk management

Risk is managed by the Group Executive team during the year, led by the Company Secretary and the Chief Executive. The Group Executive team sets its key priorities for successfully managing the Group's businesses. 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.

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

The Board also carried out an annual review of the major business risks affecting the Group, including the macro risks. In the year under review, the risk assessments carried out both at business level and at Board level continue to be reviewed and strengthened as part of the Board's ongoing response to the FRC's Revised Guidance on Internal Control: Guidance to Directors.

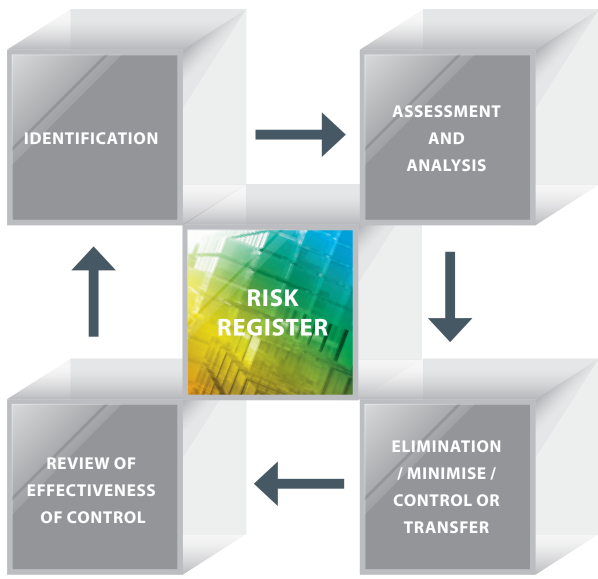
The risk management process

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

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

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

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



Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee meets at least three times a year with management and, 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.

Disclosure and transparency rules ('DTR')

Disclosures in respect of the DTR requirements under DTR 7.2.6 are given in the Directors' Report on pages 43 to 46 and have been included by reference.

Going concern

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

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

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

Long-term viability statement

The Directors have assessed the viability of the Group over a three year period to September 2019, taking account of the Group's current position and the potential impact of the principal risks documented in the Strategic Report. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to September 2019.

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

This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three-year period to September 2019 is an appropriate period over which to provide its viability statement. In making their assessment, the Directors have taken account of the Group's net cash position (see note 19), its ability to raise new finance in most market conditions and other potential mitigating actions such as restricting dividend payments.

Pim Vervaat
Chairman of the Audit Committee
16 November 2016

NOMINATIONS COMMITTEE REPORT

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 met twice during the year in connection with identifying a replacement for Mr R. Wood who retired on 26 January 2016.

Main responsibilities

The main responsibilities of the Committee are as follows:

- To lead the process for identifying and nominating candidates for the approval of the Board, to fill Board vacancies as and when they arise
- To put in place plans for succession
- To regularly review the Board's structure, size and composition taking into account the challenges and opportunities facing the Group and the skills, knowledge and experience needed by the Board and make recommendations to the Board with regard to any changes
- The Committee's terms of reference are available within the Corporate Governance section of the Company's website

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

The Nominations Committee is also responsible for the Board's policy on diversity.

The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint new Directors to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

The Board's diversity policy can be found in the Corporate Governance section of the Company's website.

Further information, including the number of women in senior management and within the organisation is shown in the Environmental and Corporate Social Responsibility Report on pages 34 to 41.

Recent appointments to the Board

During the year, the Committee recommended to the Board the appointment of Miss C. Ponsonby as Non-Executive Director and Chair of the Remuneration Committee.

The Committee initiated the recruitment process following the retirement of Mr R. Wood in January 2016. The Committee re-visited the list of potential candidates provided to them by external recruitment consultants, Korn Ferry in connection with the appointment of Mr P. Vervaat in 2015 and considered some suggested candidates put forward by the Group Executive team. The potential candidates were considered on the basis of their skills and experience in the context of the range of skills and experience of the existing Board as a whole and shortlisted for interview with members of the Nominations Committee and the Chief Executive. On the recommendation of the Nominations Committee, the Board approved the appointment of Miss C. Ponsonby with effect from 1 March 2016.

Korn Ferry have no other connection with the Company and are an independent provider of services to the Company.

D R Evans

David Evans
Chairman
16 November 2016

Main responsibilities

- Reviewing the effectiveness of the Company's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk
- Reviewing significant financial reporting issues and judgements
- Monitoring the integrity of the Company's financial statements
- Keeping the relationship with the auditors under review, including their terms of engagement, fees and independence
- Monitoring the role and effectiveness of the internal audit function
- Advising the Board on whether the Committee believes the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Activities during the year

The Audit Committee meets three times a year. Meetings are also attended by the Executive Directors and on at least two occasions 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 without the Executive Directors being 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. The Committee operates under formal terms of reference and these are reviewed annually. The Committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate during the year.

Financial reporting

During the year the Committee reviewed the appropriateness of the Group's half year and full year financial statements including considering significant financial reporting judgments made by management, taking into account reports from management and the external auditors. The main areas of focus considered by the Committee during 2016 were as follows:

- The presentation of the financial statements and, in particular, the presentation of adjusted performance and the adjusting items. The Committee reviewed a paper prepared by management and reviewed the disclosure of adjusted items within the Group's full year and half year results, agreeing that the position taken in the financial statements is appropriate
- Review of the key judgements made in estimating the Group's tax charge. The review and discussion included an update on the current position and the status of discussions with the relevant tax authorities. The Committee agreed that the position taken in the financial statements is appropriate
- The need to perform an impairment review in respect of intangible assets and goodwill on acquisition. Following review of a report summarising the key issues in relation to impairment, the Committee concurred with management's assessment that there were no triggering events in 2016 requiring an impairment review except for goodwill arising on acquisitions where such a review is mandated by IFRS. The Committee concurred with management's assessment that the carrying value of goodwill was not impaired
- Review of the value ascribed to the intangible assets of the acquisition made during the year. The Committee reviewed a paper prepared by management summarising the key judgements and agreed that the position taken in the financial statements is appropriate
- Review of the ongoing funding level of the defined benefit pension scheme. As the costs, assets and liabilities are regularly reviewed and advice is taken from an independent actuary on the appropriateness of the assumptions used, the Committee agreed this was being managed appropriately
- At the request of the Board, the Committee considered whether the 2016 annual report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance, business model and strategy. Having taken account of the other information provided to the Board throughout the year, the Committee was satisfied that, taken as a whole, the annual report was fair, balanced and understandable

The Committee was content, after due challenge and debate, with the assumptions made and the judgements applied in the accounts and agreed with management's recommendations.

In addition the Committee reviewed and recommended the approval of the statements on corporate governance, internal control and risk management in the annual report and the half year and trading statements.

External auditors

The Committee oversees the relationship with the external auditors and monitors all services provided by and fees payable to them, to ensure that potential conflicts of interest are considered and that an objective and professional relationship is maintained.

In particular the Committee reviews and monitors the independence and objectivity of the external auditors and the effectiveness of the audit process. At the outset of the audit process, the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key risks and their intended areas of focus. This is agreed with the Committee to ensure coverage is appropriately focused.

Feedback on the audit process is requested from management. For the 2016 financial year management were satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process as satisfactory. The Committee concurred with the view of management. The Committee also keeps under review the nature, extent, objectivity and cost of non-audit services provided by the external auditors.

PricewaterhouseCoopers LLP (PwC) have been the Company's external auditors for over 20 years. The Committee last reviewed the external audit mandate in 2012 and confirmed the continuing appointment of PwC. This was on the basis that the Committee was comfortable that the PwC audit team remained objective and independent on the basis of the regular rotation of the audit partner, which occurred in 2015 and specific assurance provided by PwC to the Committee on the arrangements it has in place to maintain its independence. The provision of external audit and tax compliance are separated with tax compliance services provided by BDO in the US and Tax Partner in the UK. The Committee considers the reappointment of the external auditor and their independence on an annual basis.

The new regulatory requirement to rotate the external audit mandate does not affect the Company until 2020, after which date the Company will undertake a full tender process. However, in order to ensure the independence and objectivity of the external auditors and avoid a situation where the auditor's familiarity with the Group's affairs results in excessive trust, the Committee maintains a formal Auditor Independence Policy. 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. 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 latest version provides that non-audit services with a value of more than £50,000 or which cumulatively exceed the annual audit fee require the approval of the Board. This approach was preferred to capping the value of non-audit services performed by the external auditor by reference to the external audit fee. The policy also establishes guidelines for the recruitment of employees or former employees of the external auditor. To ensure compliance with this policy the Audit Committee carried out a review during the year of the remuneration received by PwC for audit services, audit-related services and non-audit work. The breakdown of the fees paid to the external auditor, including the split between audit and non-audit fees, is included in note 5 on page 86 of the financial statements. No non-audit services were carried out by PwC during the year. These reviews ensure a balance of objectivity, value for money and compliance with this policy. The outcome of these reviews was that no conflicts of interest existed between such audit and non-audit work.

Internal control

The Committee regularly reviews the effectiveness of the Group's system of internal controls and risk management. This involves the monitoring and reviewing of the effectiveness of internal audit activities, which included a review of the audits carried out and the results thereof, the management response and the programme and resourcing for 2016 and 2017. The Committee believes it is appropriate that the internal audit process is undertaken by members of the finance team who conduct financial reviews of the sites on a rotational basis.

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

No significant failings or weaknesses were identified by the internal audit process but several minor improvements were identified and implemented. As part of its work, and in line with its terms of reference, the Committee also considers the discharge of the Board's responsibilities in the areas of corporate governance, financial reporting and internal control, including the internal management of risk, as identified in the FRC's revised guidance on Internal Control: Guidance to Directors.

Risk management activities are dealt with in more detail in the Corporate Governance Report on pages 47 to 51.

Pim Vervaat
Chairman of the Audit Committee
16 November 2016

Letter from the Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present my first Directors' Remuneration Report for the year ended 30 September 2016 following my appointment to the Board and as Chair of the Remuneration Committee on 1 March 2016.

The Remuneration Report is split into three sections:

- This Annual Statement summarising the work of the Remuneration Committee in 2016;
- The Directors' Remuneration Policy (the 'Policy') as approved at the last AGM; and
- The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in the year ended 30 September 2016 under the Policy. This will be the subject of an advisory vote at the forthcoming AGM.

2016 Performance

As set out in the Strategic Report, the results for the year ended 30 September 2016 reflect a good performance for the year, in what have been challenging market conditions. Increases were seen in revenue (6%) adjusted operating profit (8%) and adjusted earnings per share (33%). Strong financial management has produced excellent cash conversion, meaning we ended the year with net cash of £2.0m.

In addition, we have successfully integrated our recent acquisitions, which broaden our product range and routes to market.

Remuneration Committee activities in 2016

The key decisions made by the Remuneration Committee ('the Committee') in respect of 2016 remuneration were as follows:

- In accordance with our Policy, the basic salary for each Executive Director is reviewed and benchmarked every three years, with increases only implemented if current salary levels were found to be below the median of a comparator group. The previous review was in 2013 and therefore a review and benchmarking exercise was conducted during this financial year. Non-Executive Director fees were reviewed in 2014 and are frozen under the terms of the existing Policy until October 2017.
- The bonus outcomes for the Executive Directors were determined by reference to performance against the agreed financial and strategic business targets, as well as the Committee's assessment of their individual performance and delivery of personal objectives. The Company's financial performance for the year, together with the assessment of individual performance and contribution, resulted in bonus awards for the Executive Directors at 67% of maximum for Mr A. Lewis and 52% of maximum for Mr R. Rennie.
- Vesting of the 2010 Performance Share Plan (PSP) in December 2015, based on the agreed measures of relative Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth over the three years to 30 September 2015. The overall vesting level achieved for these awards was 100%.
- The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting on 26 January 2016 and will remain in effect for three years or until shareholders are asked to approve an amended version. Although the Policy was comfortably approved, we received some feedback from shareholders in relation to the one off bonus and disclosure of actual bonus targets and have therefore included some clarification on these matters in the existing Policy to address these comments. The Policy Report is not subject to a shareholder vote this year.

Link between remuneration and Company strategy

The Committee seeks to support the delivery of the Group's strategy through establishing appropriate remuneration arrangements. The Policy is designed to align the Executive Directors' interests with those of shareholders, and to incentivise the Executive Directors to meet the Company's financial and strategic objectives by making a significant proportion of remuneration performance-related. The Group's financial and strategic objectives are set out in the Strategic Report on pages 11 to 33. The Committee reviews the application of the Policy regularly, to ensure it remains appropriate. No amendments are proposed to the Policy this year and it is not subject to a shareholder vote.

Communication with shareholders

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

Chloë Ponsonby

Chloe Ponsonby
Chairman of the Remuneration Committee
16 November 2016

Remuneration Policy Report

The Company's Remuneration Policy was approved by shareholders at the AGM on 26 January 2016 and took effect from that date. The Policy Report is not subject to a shareholder vote this year but has been reproduced here for ease of reference.

Remuneration Committee

The Remuneration Committee is responsible for developing and implementing remuneration policy and for determining the Executive Directors' individual packages and terms of service together with those of the other members of the Group Executive management team.

Guiding policy

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

- Determining and agreeing with the Board the policy for the remuneration of the Company's Chief Executive, Group Finance Director, Chairman, the Company Secretary and such other members of the senior management team as it chooses to consider or is designated to consider (currently the Group Executive management team)
- Within the terms of the agreed policy, determining the total individual remuneration package of each Executive Director including, where appropriate, bonuses, incentive payments, share options and pension arrangements. The remuneration of Non-Executive Directors is a matter for the Chairman and the Executive Directors
- Reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such discretionary plans, determining each year whether awards will be made, the overall amount of such awards, the individual awards to Executive Directors and the Group Executive management team (and others) and the performance targets to be used
- Determining the targets for any performance-related bonus schemes operated by the Company
- Reviewing remuneration trends across the Group, including the salary increases proposed annually for all Group employees
- Agreeing termination arrangements for senior executives

The Committee aims to provide a remuneration structure that supports the achievement of the Company's performance objectives and, in turn, increases shareholder value.

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
- The overall level of salary, incentives, pension and other benefits should be competitive when compared with other companies of a similar size and global spread to attract, retain and motivate Executive Directors of superior calibre in order to deliver continued growth of the business
- Performance related components should form a significant proportion of the overall remuneration package, with maximum total potential rewards being earned through the achievement of challenging performance targets based on measures that represent the best interests of shareholders

Approach to recruitment remuneration

The Committee's policy on recruitment remuneration is that new Executive Directors will be offered a base salary below the median level in the applicable benchmarking report until proven, at which point they will receive an uplift to the benchmark median salary level determined and maintained by reference to independent benchmarking studies carried out every three years. Annual bonus awards, performance share plan awards and pension contributions would not be in excess of the current levels stated for the Chief Executive and the Group Finance Director. This is the approach that has been followed in setting the remuneration package for the new Chief Executive.

In unusual circumstances it may be necessary to pay a joining incentive to secure the right candidate. The Committee might consider paying up to 2.5 times base salary in these circumstances with the actual amount being defined by market requirements at the time. However, any such payment would be subject to performance conditions and a claw back on underperformance during the first two years of employment. The Committee would be very cautious before using such flexibility and would do so only when absolutely necessary to secure the right candidate. Any proposed buyout would take account of remuneration given up at the individual's former employer and would be capped at the value foregone. No joining incentives were paid in connection with the recruitment of the new Chief Executive, Mr R. Rennie, except for relocation expenses of £22,404.

Consideration of conditions elsewhere in the Company

The experience of Committee members and an independent experts' benchmarking report have been relied upon in setting the remuneration packages for the Executive Directors and this remuneration policy. Employees have not been specifically consulted in this regard. In line with other small to mid-sized companies there is no works council and therefore there is no established process or platform to consult employees in relation to executive remuneration. Consistent with this approach annual cost of living increases granted to the wider workforce are not paid to the Executive Directors or to the other members of the Group Executive management team.

The Committee monitors the remuneration of the wider workforce and, in particular, the divisional management teams as well as other key employees. As with the current policy for the Executive Directors, general practice across the Group is to recruit employees at market rates and this tends to be at the median salary level or above to attract them to the Group.

Because of the numbers involved and the need to absorb new recruits at salaries comparable with those already employed, salaries are normalised upwards over time to the median salary level so that the pay level of the workforce is always kept close to the median level and maintained at that level by the cost of living increases. Employees are then able to earn annual bonuses in excess of the mid-market rate in return for delivering exceptional performance.

In addition, the Group Executive management team maintains a benchmarking database of all management employees in the Group with the aim of ensuring that each is being paid at or near the median local benchmark level for their role and that, where applicable, each has a career and associated salary progression plan. It is possible that some of the more senior personnel within that group will be brought within the Committee's remit but the Committee remains comfortable that the Group Executive management team sets the remuneration for the divisional management levels beneath it in the organisation structure.

Consideration of shareholder views

Last year the then Chairman of the Committee consulted with the three largest Company shareholders on the proposed amendments to the Policy and the changes to the Performance Share Plan. We received some feedback from our shareholders in relation to the introduction of the one off bonus and disclosure of bonus targets and have included further information to clarify our position on these points within the existing policy.

Policy Table

Set out below is a summary of the main components of the remuneration policy for Directors, together with further information on how these aspects of remuneration operate. The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting on 26 January 2016 and will remain in effect for three years or until shareholders are asked to approve an amended version. The Remuneration Committee has discretion to amend remuneration and benefits in 2017 to the extent described in the table and the written sections that follow it below.

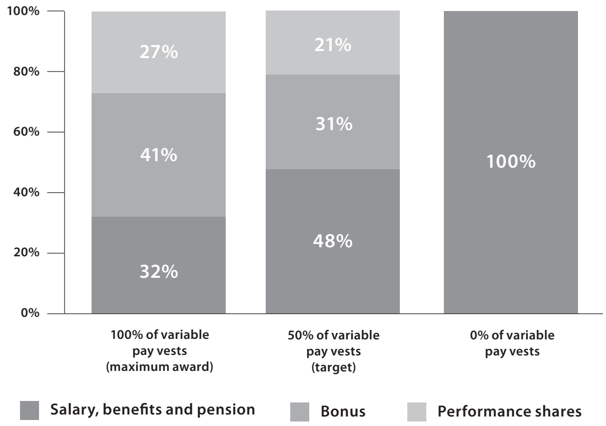
Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value*	Performance targets
Base Salary	To provide competitive fixed remuneration. To attract and retain Executive Directors of superior calibre in order to deliver growth for the business. Intended to reflect that paid to senior management of comparable companies. Reflects individual experience and role.	Reviewed every three years by the Remuneration Committee. Individual salary adjustments take into account each Executive Director's performance against agreed challenging objectives and the Group's financial circumstances, as well as relative to the external market as identified in a benchmarking study based on an appropriate comparator group. An Executive Director may be paid a salary supplement for fulfilling the role of another higher paid Executive Director when that Executive Director retires or leaves the Company.	No prescribed maximum triennial increase. Basic salary should reflect the median of a suitable comparator group. Salary supplement is capped at the leaving Director's base salary.	Not applicable.
Benefits	As above.	Executive Directors are entitled to medicals every two years and private health insurance. Cash for car payments were phased out in 2009. Life assurance is a benefit under the pension scheme but paid for by the Company. Small loans have been made in connection with the jointly owned equity awards under the Performance Share Plan.	Full cost of healthcare benefits is circa £2k per Executive Director. Life assurance is provided as part of a group-wide policy and therefore a specific cost cannot be attributed to the Executive Director.	Not applicable.
Annual Bonus	Rewards the achievement of annual financial and strategic business targets and delivery of personal objectives. Maximum bonus only payable for achieving demanding targets. Deferred element encourages long- term shareholding and discourages excessive risk taking.	Paid in cash except 25% is deferred into shares to be held for two years. Not pensionable. Deferral does not apply to the percentage award relating to achievement of personal objectives. Claw back applies if the financial results which led to the bonus being paid are restated due to an error in the subsequent two years.	CEO and FD: 150% of salary.	The first 100% is based upon a combination of Group profit budget achievement (Group PBITE), year on year PBITE growth and Group cash generation (ratio of operating cash flow to operating profit) plus specific personal performance targets. Bonus in excess of 100% of salary is based upon EPS growth occurring in excess of 20% over the previous year.
Performance Share Plan	Designed to align Executive Directors' interests with both the strategic objectives of delivering sustainable earnings growth and the interests of shareholders.	The Company has one Performance Share Plan, which was originally approved by shareholders in 2010 and most recently amended and approved in 2016. Annual grants of conditional share awards which vest after a three year performance period, subject to achievement of performance targets and continued service.	Under the rules of the PSP, Executive Directors may receive a normal award of up to 100% of salary and up to a further 100% in exceptional circumstances.	For the normal 100% award: 50% TSR (of which 25% vests for median increasing to 100% vesting for upper quartile of the FTSE SmallCap Index excluding investment trusts). For awards after 1 October 2015, the FTSE All-Share Index is used as the comparator group. 50% EPS (which starts vesting at nil for RPI +3% rising to 100% at RPI +8%). For awards after 1 October 2015, CPI is used instead of RPI. For the additional 100% exceptional award: Financial performance conditions dependent on circumstances of award, measured over a three year period.

Element of remuneration	Purpose and link to strategy	Operation	Maximum potential value*	Performance targets
Share ownership guidelines	To increase alignment between executives and shareholders.	Executive Directors are required to retain a proportion of their net of tax vested awards until the guideline is met.	Executive Directors are required to build up and maintain a shareholding worth 200% of salary. An additional two year holding period applies for awards made in excess of 100% of salary.	Not applicable.
Pension	To reward sustained contribution by providing retirement benefits.	The Company funds contributions to a Director's pension as appropriate, through contribution to the Company's money purchase scheme or through the provision of salary supplements.	Company contribution fixed at 15% of salary.	Not applicable.
One off bonus	To mitigate continuity risk amongst Executive Directors associated with the departure of other Executive Directors by retaining their services and to reward extra work and responsibility during the recruitment and transition period.	Executive Directors may be awarded a one off bonus capped at one year's base salary, payable in instalments over a defined period and subject to an adjustment factor based on the Company's TSR compared to a comparator group TSR over the defined period.	One year's base salary.	Payment to be multiplied by an adjustment factor set by reference to the Company's relative TSR performance when compared to the FTSE All-Share Index excluding investment trusts over the previous 12 months. If Avon tracks the FTSE All Share exactly over the period the adjustment factor is 1. For example, if Avon underperforms by 10% the adjustment factor is 0.9, if it outperforms by 10% the adjustment factor is 1.1.
Chairman and Non-Executive Directors' fees	To provide compensation in line with the demands of the roles at a level that attracts high calibre individuals and reflects their experience and knowledge.	Base fee for Chairman and Non-Executive Directors. Additional fees are paid to Non-Executive Directors for additional services, such as chairing a Board Committee and sitting on a Board Committee. Fee levels are determined by the Board in light of market research and benchmarking advice provided by an external advisor. Fees are benchmarked every three years and adjusted to the median level of the comparator group. The first increases pursuant to this benchmarking were made on 1 October 2014 and fees are now fixed until October 2017.	No maximum fee or maximum fee increase. Fees are benchmarked every three years and adjusted to the median level of the comparator group.	Not applicable.

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

Illustration of the application of the Policy

The chart below illustrates for both the Chief Executive and Group Finance Director how the Policy would function for minimum, on target and maximum performance for each Executive Director.



Basic salary and benefits

The basic salary for each Executive Director is reviewed every three years by the Remuneration Committee. It is intended that basic salary levels should reflect the median of a suitable comparator group selected according to size, industry sector or location as a suitable benchmark group for the Company and will be paid subject to the Group's wider financial circumstances.

The Group's employees have received an increase of approximately 8% over the same period, including annual cost of living, promotional increases and increases based on exceptional performance.

The Company has the ability to pay a salary supplement where any Executive Director takes on another Executive Director's role in addition to their own. The amount of supplement will always be capped at the salary level of the Executive Director being replaced.

Annual cash bonus

The Executives' annual bonus arrangements are focused on the achievement of the Company's short and medium-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. Bonus payments are not pensionable.

	R. Rennie	A. Lewis
1. FINANCIAL TARGETS		
(a) Group profit budget achievement (Group PBITE)	25%	25%
Less than 90% of budget pays nothing. Bonus is earned from 90% of budget pro rata up to 110% of budget on a straight line basis. Measured (for foreign exchange translation) at budget exchange rates.		
(b) Profit growth on previous year (year on year PBITE growth)	25%	25%
Bonus will be earned for growth on the previous year between 0% and 10% on a straight line basis. Measured (for foreign exchange translation) at prior year exchange rates (i.e. constant currency measure).		
(c) Group cash generation (ratio of operating cash flow to operating profit)	20%	20%
As reported in the Annual Report and Accounts each year. Pays on a straight line basis where the ratio exceeds 80% up to a maximum of 100%. Excludes exceptional items and other adjustments from both measures.		
(d) Earnings per share growth in excess of 20% over the previous year	50%	50%
Calculated according to a ratchet mechanism set out in more detail below.		
2. PERSONAL PERFORMANCE TARGETS		
A portion of bonus can be earned based on an individual reviewer's assessment of personal performance against personal performance targets set at the beginning of the financial year.	30%	30%
TOTAL potential bonus 2016 as a percentage of basic salary	150%	150%

2016

For the year ended 30 September 2016, 120% of the Executive Directors' bonus potential, capped at 150% of salary, was based on the achievement of Group financial targets.

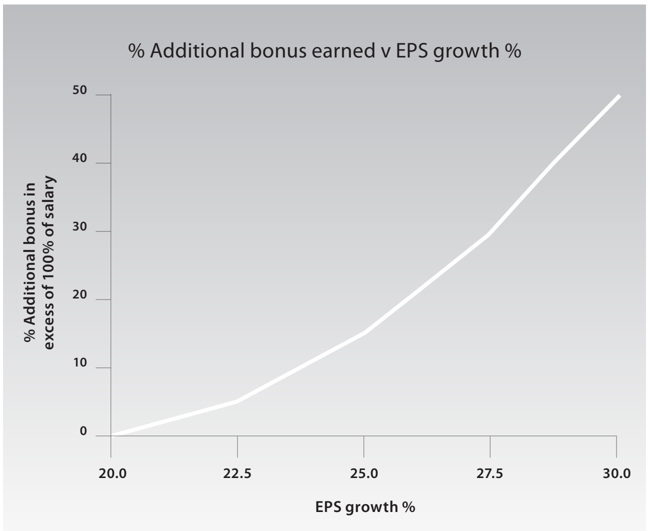
The remaining 30% was based on achieving measurable personal performance targets, as shown at the bottom of page 60.

Performance measures (a) to (d) were the same as in previous years and closely align the performance of the Executive Directors with the strategy of the Company's business and shareholder value creation. The personal performance targets are a set of non-financial personal targets which also support the delivery of the strategy.

For an additional 10% of EPS growth above 20% over the previous financial year's EPS (i.e. up to a maximum of 30% EPS growth over the previous financial year's EPS) additional bonus can be earned on a pro rata basis up to the maximum as follows:

R. Rennie	A. Lewis	EPS measure
5%	5%	for the first 2.5% of additional growth
10%	10%	for the second 2.5% of additional growth
15%	15%	for the third 2.5% of additional growth
20%	20%	for the fourth 2.5% of additional growth

EPS means, in relation to any year, the fully diluted earnings per share of the Group as adjusted to exclude the charge/ credit in respect of discontinued operations, exceptional items, the revaluation or impairment of assets, the charge or credit related to IAS 19 (revised) and the amortisation of acquired intangible assets.



The maximum bonus percentages were reviewed and confirmed as part of the triennial benchmarking exercise during 2016 and the Committee decided not to change them. The Committee believes it continues to be necessary to retain the ability to incentivise the Executive Directors to deliver truly exceptional performance. The Committee has decided to review annually whether to include the 50% element for excess earnings per share growth.

A claw back rule applies if the Group's financial results are restated due to an error during the two years following their release and a deferral rule provides for 25% of annual bonus payments to be deferred into shares to be held for two years, then treated as shares which are not subject to the executive shareholding guidelines.

One off bonus arrangements

In order to mitigate continuity risk associated with the departure of an Executive Director and to recognise any extra work and responsibility carried out during this period, Executive Directors may be awarded a one off bonus capped at one year's base salary, payable in instalments over a defined period and subject to an adjustment factor based on the Company's TSR compared to a comparator group TSR over the defined period.

The Company amended its Remuneration Policy last year to include the ability to make such payments, due to the specific circumstances surrounding the departure of Mr P. Slabbert. Although the amended Policy was approved by shareholders, the Committee recognises that shareholders may have concerns in relation to such payments and the Committee confirms it is unlikely to agree a further payment of this type during the term of this Policy.

A one off bonus arrangement was implemented for Mr A. Lewis in connection with the retirement of Mr P. Slabbert, in order to retain his services while the recruitment and transition to a new CEO was completed. The payment was also designed to reflect the extra work and responsibility Mr A. Lewis had to carry out during this period.

Long-term incentive plan – Performance Share Plan (the 'Plan')

The Remuneration Committee introduced the Plan with shareholder approval at the AGM in 2002 and in 2010 and 2016 shareholders approved an updated plan. The existing version of the Plan therefore came into effect from 26 January 2016, with the aim of motivating Executive Directors and other senior executives to achieve performance superior to the Company's peers and to maintain and increase earnings levels whilst at the same time ensuring that it is not at the expense of longer-term shareholder returns. This is reflected in the Plan's performance conditions which are based on total shareholder return (TSR) and earnings per share (EPS). The Plan will expire in 2020.

The current financial performance conditions remain appropriate for a growing business and the expectations of shareholders over the life of the current policy. They will therefore be applied to the next cycle of awards in December 2016. Non-financial performance conditions are not considered appropriate at the current stage in the development of the Group although this will be kept under review.

The TSR measure takes the total return received by the Company's shareholders in terms of share price growth and dividends over a three-year period and compares it with the total returns received by shareholders in companies within a predetermined and appropriate comparator group.

The EPS measure is based on real growth in earnings over the performance period where real growth is expressed as a percentage above inflation.

Under the Plan, Executive Directors and a limited number of other senior executives and employees receive conditional share awards (which may be in the form of nil-cost options) in respect of the Company's shares. The awards are split so that 50% vests in accordance with the TSR target and 50% in accordance with the EPS target. The Committee considered as part of its 2015 review whether to make the targets apply concurrently but decided against this, preferring the balance of measures relating to earnings growth and long-term strategic performance that are assessed independently of each other. The actual number of shares that each participant receives depends on the Company's performance over a three-year performance period against the combined EPS/TSR target.

The Committee believes following its review that a three-year performance period remains appropriate for the Company and in line with market practice. An extended retention period of two years applies for 'exceptional' awards in excess of 100% of salary.

For the TSR measure, the performance of the Company's shares over the performance period is compared with the TSR performance within a comparator group comprising the FTSE Small Cap Index, excluding investment trusts. For awards after 1 October 2015, the comparator group is the FTSE All Share index (excluding investment trusts).

Over the 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, 25% 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 Committee's view is that measuring this by reference to median and upper quartile placing remains appropriate.

Vesting according to the ranking of the Company's TSR in the peer group

	% of award vesting
Below median	nil
Median	25%
Upper quartile	100%

For the EPS measure, earnings per share over the performance period are compared with a scale which provides for nil vesting at RPI +3% and maximum vesting at RPI +8%, with vesting on a pro rata basis for performance between these two figures. This range was first introduced for the awards made in December 2011 and remains appropriate, but the Committee will keep it under review. It remains difficult to link the EPS target to broker forecasts which only look out one year, but if inflation is assumed to be 3%, then under the EPS measure the Group has to grow profits by 20% over three years to achieve minimum vesting and by 35% to achieve maximum vesting. These targets are ahead of the expectations for those businesses in the Company's sector where longer-term forecasts are published. For all PSP awards from 1 October 2015, the Committee has amended the calculation of the EPS performance condition to CPI instead of RPI on the basis that RPI is no longer an approved national statistic.

EPS growth targets

	% of award vesting
At or less than RPI/CPI +3%	nil
At or greater than RPI/CPI +8%	100%

In addition, the Committee has discretion to reduce the number of shares which will vest or decide that no shares will vest if it considers that the financial performance of the Company or the performance of the participant does not justify vesting.

The maximum value that can currently be granted under the Plan rules in any year for a 'normal' award is 100% of salary and up to a further 100% in exceptional circumstances, if an appropriate business challenge warrants such treatment e.g. a major acquisition or strategic initiative. The performance conditions for special awards will be financial and will be set at the time the awards are made. They are likely to be a more challenging version of the existing TSR/EPS conditions, but the Committee may decide to use a different financial performance condition if appropriate in the circumstances. The Committee has no current plans to issue any exceptional awards.

The Committee has discretion to allow good leaver status on a case by case basis. In addition, for added flexibility, the rules allow for a clean break when an executive leaves. This permits vesting to be triggered at the point of leaving by reference to performance at that date, rather than waiting until the end of the performance period if the Committee so decides. This, in turn, will allow vesting at rates appropriate to the Board's strategy for managing an exit, for example to offset cash compensation by allowing earlier vesting conditions.

The current remuneration policy is that both the Chief Executive and Group Finance Director should receive 'normal' awards of up to 100% of salary, being the median level originally identified in the 2011 EY benchmarking report and reconfirmed in the 2016 EY benchmarking report.

On a change of control, any vesting of awards will be pro-rated by reference to time and performance.

Under the Plan as amended in 2010, joint ownership awards were permitted for the first time and have been issued to UK resident employees ever since. In the Company's case until 2016, savings in employer National Insurance Contributions resulting from this were not offset by the loss of corporation tax credits because of the presence of historic corporation tax losses in the UK.

The Company loans recipients the small up-front cost of purchasing their interest in the joint ownership award shares. For consistency the Executive Directors have been treated in the same way as other recipients and have therefore received small loans in connection with their outstanding awards. The total value of the loans received by the Executive Directors is capped at £10,000.

As announced to shareholders in December 2015, joint ownership awards, nil cost options and conditional awards of shares were granted under the 2010 Plan to the Executive Directors, members of the Group Executive management team and other valued employees. A further award will be made in December 2016 within the existing parameters of the Plan as described above and at 100% of salary for the Chief Executive.

Shareholding guidelines

Executives participating in the Performance Share Plan are required to build up and retain a shareholding in the Company. For Executive Directors, the shareholding requirement is two times base salary. For other recipients the shareholding requirement is equivalent to one times base salary. The Executive Directors and other members of the Group Executive management team are required to retain a portion of any awards that vest under the Plan until their respective shareholding guideline is met. Once the shareholding guideline is met executives are not required to retain any portion of future awards that vest.

For the new special awards in excess of 100% of salary, a two year mandatory holding period applies following the three year performance period for such awards. At the end of this period the shares subject to the award will not be subject to the shareholding guidelines for normal awards and may be sold.

Dilution

The Company reviews the awards of shares made under the all employee and executive share plans in terms of their effect on dilution limits in any rolling ten-year period. The current position is set out on page 71 of this report and no change to this is proposed. In summary, in 2011 shareholders approved a 15% dilution limit for all employee schemes which is in excess of the 10% recommended by the ABI, and a 10% dilution limit for discretionary (executive) schemes which is in excess of the 5% recommended by the ABI. At the time the Company committed to consult with certain institutional shareholders before exceeding the 10% limit but has never had cause to do this and has no plans to exceed 10% in future. In practice there is therefore a 10% dilution limit on all schemes which the Company will continue to operate within, including when utilising the higher salary cap proposed under the Performance Share Plan and the new CSOP and ISO plans.

Other share plans

Shareholders approved the introduction of the Avon Rubber p.l.c. Share Incentive Plan (the 'SIP') at the AGM in February 2012. All UK tax resident employees of the Company and its subsidiaries are entitled to participate. Under the SIP, participants purchase shares in the Company monthly using deductions from their pre-tax pay. The maximum contribution each month under the SIP is £150, a sum which is set by the Government. Mr A. Lewis participated in the SIP at the maximum level during the year, Mr R. Rennie is not currently a member.

Shareholders also approved the introduction of the Avon Rubber p.l.c. Employee Stock Purchase Plan (the 'ESPP') at the AGM in February 2012. The ESPP is open to all US tax resident employees and allows participants to accumulate deductions from their post-tax pay over an offering period of 12 months. The maximum contribution for each 12 month period is $3,000. At the conclusion of the offering period the accumulated funds are used to purchase the Company's shares at a discount. Executive Directors were not eligible to participate in the ESPP.

Last year shareholders approved the introduction of two new share option schemes, the Avon Rubber p.l.c. 2015 Share Option Plan (the 'CSOP') in the UK and the Avon Rubber p.l.c. 2015 Incentive and Non-Qualified Stock Option Plan (the 'ISO') in the US. Awards under both schemes are targeted at junior management and may be supplemented by unapproved share options. Neither Mr A. Lewis nor Mr R. Rennie will be granted awards under the CSOP and neither will be entitled to participate in the ISO.

Pension

Under the Policy, UK-based Executive Directors joining the Company are offered defined contribution arrangements. Under the Company's money purchase scheme, members receive a pension based upon the size of their retirement account on retirement from age 65. Membership of the pension scheme entitles members to life assurance which pays a lump sum of four times pensionable salary on death, together with a spouse's pension of one quarter of the member's pensionable salary. The Company funds contributions to an Executive Director's pension as appropriate, through contribution to the Company's money purchase scheme or through the provision of salary supplements. Both Mr R. Rennie and Mr A. Lewis receive a company pension contribution equal to 15% of annual salary.

Service contracts and policy on payments for loss of office

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

The Remuneration Committee may vary these terms if the particular circumstances surrounding the appointment of a new Executive Director demand it but this would be exceptional and has never occurred. The parameters for varying the contractual terms on recruitment are described in the guiding policy section above.

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	Company notice period	Executive notice period
A. Lewis	28 September 2009	12 months	12 months
R. Rennie	30 September 2015	12 months	12 months

Other appointments

Neither Mr R. Rennie nor Mr A. Lewis is currently appointed as a Non-Executive Director of any company outside the Group. The Remuneration Committee will consider its approach to the treatment of any fees received by Executive Directors in respect of Non-Executive roles as they arise.

Chairman and Non-Executive Directors

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

Chairman and Non-Executive Director appointments are subject to Board approval and election by shareholders at the annual general meeting following appointment and, thereafter, re-election by rotation every three years. Any Non-Executive Director who has served for more than nine years since first election is subject to annual re-election by shareholders. This will apply to Mr D. Evans from this year.

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

	Date of initial appointment	Date of last re-election
D. Evans	1 June 2007	26 January 2016
C. Ponsonby	1 March 2016	n/a
P. Vervaat	1 March 2015	26 January 2016
R. Wood (retired 26 January 2016)	1 December 2012	29 January 2015

Annual report on remuneration

Role and composition of the Remuneration Committee

The Remuneration Committee is responsible for developing and implementing remuneration policy and for determining the Executive Directors' individual packages and terms of service together with those of the other members of the Group Executive management team.

The Committee comprises Miss C. Ponsonby, who became Chair of the Committee on her appointment on 1 March 2016, Mr D. Evans and Mr P. Vervaat. The Committee uses external independent professional advisers when needed. KPMG are the Company's independent actuarial advisor on pension matters and will provide the Committee with information on executive pension arrangements when this cannot be provided by the pension scheme actuary AonHewitt. EY provide annual performance monitoring data and share award valuations for review by the Committee in relation to the Performance Share Plan. EY also provide remuneration benchmarking of the reward packages received by the Executive Directors, the Group Executive and the fees received by the Chairman and the other Non-Executive Directors as well as more general advice on executive remuneration. The Company's solicitors, TLT LLP, provide advice on remuneration governance and all share plans.

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

- Approved the annual bonus payments to the Executive Directors in November 2015
- Approved the annual bonus plan for the Executive Directors for the 2016 financial year
- Reviewed and confirmed the vesting of the 2013 Performance Share Plan awards in December 2015
- Reviewed and approved the 2016 Performance Share Plan awards granted in December 2015 and monitored the performance of the outstanding awards against their performance targets
- Reviewed the executive management succession plan
- Oversaw the remuneration benchmarking process for the Executive Directors and Group Executive management team

Since the end of the 2016 financial year, the Committee has:

- Approved annual bonus payments to the Executive Directors and the Group Executive management team, following completion of the external audit in November 2016
- Made preparations for the 2017 Performance Share Plan awards to be granted in December 2016

Implementation of the Remuneration Policy for 2016

Result of 2016 benchmarking exercise

In accordance with our Policy, the basic salary for each Executive Director is reviewed and benchmarked every three years, with increases only implemented if current salary levels were found to be below the median of a comparator group. The previous review was in 2013 and therefore a review and benchmarking exercise was conducted during this financial year. The review concluded that the median for the Executive Directors had not increased in this time. In accordance with our Policy, on Mr R. Rennie's appointment as Chief Executive Officer, his salary was set below the current median level , to be increased to the median once proven. Mr R. Rennie's salary will be increased to the median of £330,000 as from 1 October 2016. Following the resignation of Mr A. Lewis as Group Finance Director on 18 October 2016, his permanent successor's salary will be confirmed, in accordance with the Policy, following appointment.

Basic salaries for Directors

Basic salary	Up to 30 September 2016	From 1 October 2016	Increase
R. Rennie	£300,000	£330,000	10%
A. Lewis	£252,000	n/a	n/a

Non-Executive Directors

As detailed in the Policy, the fees for Non-Executive Directors are determined in light of market research and benchmarking advice provided by an external advisor. Fees are benchmarked every three years and adjusted to the median level of a comparator group. The first increases pursuant to this benchmarking were made on 1 October 2014 and fees are now fixed until October 2017.

Current fees for Non-Executive Directors are as follows:

	2016	2017	% Increase
Chairman	£125,000	£125,000	-
Base fee Non-Executive	£38,500	£38,500	-
Committee Chairman fee	£10,000	£10,000	-
Committee attendance fee	£2,000	£2,000	-

The information that follows has been audited (except where indicated) by the Company's auditors PricewaterhouseCoopers LLP. Directors' remuneration for the year ended 30 September 2016 was as follows:

Single total figure of remuneration for Directors for the year ended 30 September 2016:

		Fixed Pay				Pay for performance			
	Year	Basic salary and fees £'000	Pension/other supplements £'000	Other Benefits* £'000	Sub-total £'000	Annual Bonus** £'000	PSP £'000***	Subtotal £'000	Total Remuneration £'000
Executive Directors									
R. Rennie	**2016**	250 [5]	38	22	310	174	-	174	484
	2015	-	-	-	-	-	-	-	-
	2014	-	-	-	-	-	-	-	-
A. Lewis	**2016**	265 [6]	40	2	307	517	483	1,000	1,307
	2015	252	38	2	292	335	345	680	972
	2014	252	38	2	292	370	388	758	1,050
Non-Executive Directors									
D. Evans	**2016**	125	-	4	129	-	-	-	129
	2015	125	-	3	128	-	-	-	128
	2014	100	-	4	104	-	-	-	104
P. Vervaat	**2016**	51	-	-	51	-	-	-	51
	2015	29	-	-	29	-	-	-	29
	2014	-	-	-	-	-	-	-	-
C. Ponsonby[1]	**2016**	29	-	-	29	-	-	-	29
	2015	-	-	-	-	-	-	-	-
	2014	-	-	-	-	-	-	-	-
Former Directors									
R. Wood[2]	**2016**	21	-	-	21	-	-	-	21
	2015	51	-	-	51	-	-	-	51
	2014	45	-	-	45	-	-	-	45
P. Slabbert[3]	**2016**	-	-	-	-	-	845	845	845
	2015	330	50	3	383	448	604	1,052	1,435
	2014	330	50	3	383	452	703	1,155	1,538
S. Pirie[4]	**2016**	-	-	-	-	-	-	-	-
	2015	22	-	-	22	-	-	-	22
	2014	45	-	-	45	-	-	-	45
Total									
	2016	741	78	28	847	691	1,328	2,019	2,866
	2015	809	88	8	905	783	949	1,732	2,637
	2014	772	88	9	869	822	1,091	1,913	2,782

1 C. Ponsonby was appointed to the Board with effect from 1 March 2016.

2 R. Wood retired from the Board on 26 January 2016.

3 P. Slabbert retired from the Board on 30 September 2015.

4 S. Pirie retired from the Board on 29 January 2015.

5 R. Rennie was appointed to the Board with effect from 1 December 2015.

6 This amount includes a salary supplement for acting as Interim Chief Executive during October and November 2015.

* This is the cost of private health insurance, executive medical and for R. Rennie, relocation costs paid. No Director waived emoluments in respect of the year ended 30 September 2016 (2015: £nil).

** 2016 bonus payments as a percentage of salary were 77.5% for R. Rennie and 100% for A. Lewis, against maximum percentages of 150%. In respect of A. Lewis this includes a £252,000 one off bonus as per the Remuneration Policy.

*** Calculated by multiplying the number of shares that vested by the share price on the day of vesting, which in 2016 was 1030p (100% vesting), 2015 was 720p (96% vesting), in 2014 was 570p (100% vesting).

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

The Committee continues to believe it is inappropriate to compare the percentage change in remuneration of the CEO with the wider workforce. This is because the CEO's salary is fixed and brought up to the median level every three years, whereas the wider workforce are, largely, already at the median level and receive annual cost of living increases. Nevertheless in line with current practice, we have reported changes in the CEO's remuneration against the wider workforce. Last year we reported that, having brought the CEO's salary up to the median level in 2013, we expected future increases, made to keep track with the median, to start aligning with the annual increases made to other employees each year, when measured over a three-year period. The result of the 2016 benchmarking exercise is that the CEO's 2013 salary remains the median of the 2016 comparator group and the increase being made for Mr R. Rennie in October 2016 brings his salary up to that level.

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

	CEO			All employees		
	2014	2015	**2016**	2014	2015	**2016**
Salary	+18%	0%	**-9%**	+3%	+3%	**+2%**
Benefits	0%	0%	**0%**	0%	0%	**0%**
Annual Bonus	+88%	-1%	**-61%**	+15%	+8%	**-51%**

The ratio of CEO fixed pay to average employee fixed pay is 9.6:1 for the year under review (2015: 11.3:1).

Relative importance of spend on pay (unaudited)

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

	Global remuneration spend	Other expenditure as a percentage of global remuneration spend							
		Dividends to shareholders		Profit retained		Research and development expenditure		Expenditure on property, plant and machinery	
	£'000	£'000	%	£'000	%	£'000	%	£'000	%
2016	**38,211**	**2,430**	**6.4%**	**15,849**	**41.5%**	**8,341**	**21.8%**	**3,689**	**9.7%**
2015	34,344	1,859	5.4%	11,807	34.4%	7,139	20.8%	3,222	9.4%
2014	32,423	1,422	4.4%	9,389	29.0%	7,046	21.7%	3,731	11.5%

Annual bonus (unaudited)

The Remuneration Committee determined at its meeting on 10 November 2016 that the criteria for making an award under the annual bonus scheme had been met. No discretion was exercised by the Committee to reduce or increase payments. The breakdown is as follows:

	R. Rennie		A. Lewis	
	Actual	Max.	Actual	Max.
1. Financial Targets				
(a) Group profit budget achievement (Group PBITE)	0%	25%	0%	25%
(b) Profit growth on previous year (year on year PBITE growth)	0%	25%	0%	25%
(c) Group cash generation (ratio of operating cash flow to operating profit)	20%	20%	20%	20%
(d) Earnings Per Share growth (ratchet based on additional EPS growth above 20% over the previous financial year)	50%	50%	50%	50%
2. Personal Performance Targets	7.5%*	30%	30%	30%
Total potential bonus 2016 as a percentage of basic salary	**77.5%**	**150%**	**100%**	**150%**

* As the 2016 financial targets were not met, a 50% reduction factor was applied to the personal performance element of Mr R. Rennie's bonus under the rules of the Group Performance Management Process. Under the terms agreed with Mr A. Lewis, in connection with his departure on 30 November 2016, it was confirmed that the 50% reduction factor would not be applied to the performance element of his bonus payment.

The Board considers the disclosure in advance of actual performance against the targets for the upcoming year to be commercially sensitive and the Committee has taken the decision not to disclose them. The Committee is not of the view that such targets will necessarily always be confidential but will keep this under review. The Committee is prepared to disclose financial performance targets and performance against them retrospectively as set out below:

Financial Performance targets for the year ended 30 September 2016 (unaudited)

	Threshold (0% payable)	Target (50% payable)	Stretch (100% payable)	Actual/Reported	Applied	Bonus payable
Group PBITE (£'000)	22,724	25,249	27,774	21,763	0%	0%
Year on year PBITE growth (£'000)	22,493	23,618	24,742	21,763	0%	0%
Group cash generation*	80%	90%	100%	152%	100%	20%
EPS growth**	2.5%	6.6%	10%	13.3%	100%	50%

* ratio of operating cashflow to operating profit

** ratchet based on additional EPS growth above 20% over the previous financial year

Of the bonus payable 75% will be paid in cash and the remaining 25% to be deferred into shares to be held for two years. A claw back rule applies if the Group's financial results are restated due to an error during the two years following release.

One off bonus

In 2015, Mr A. Lewis was granted a bonus award, subject to the performance conditions explained below, in connection with the retirement of the CEO Mr P. Slabbert, in order to retain his services while the recruitment and transition to a new CEO was completed. The payment was also designed to reflect the extra work and responsibility Mr A. Lewis had to carry out during this period. The total amount of the bonus was capped at Mr A. Lewis's annual salary of £252,000 and was only to be paid if he remained in post and performed satisfactorily, as determined in the Board's sole discretion, at the time payment was due to be made. This bonus payment is not pensionable.

Amount	Payable	Adjustment factor	Amount paid	Calculation of adjustment factor
£150,000	Within 14 days of the announcement of the 2016 interim results	Payment to be multiplied by an adjustment factor set by reference to the Company's relative TSR performance when compared to the FTSE All Share Index excluding investment trusts over the previous 12 months (in respect of the first payment) and 18 months (in respect of the second payment). If Avon tracks the FTSE All Share exactly over the period the adjustment factor is 1. For example, if Avon underperforms by 10% the adjustment factor is 0.9, if it outperforms by 10% the adjustment factor is 1.1	£182,491	1.217
£50,000	Within 14 days of the announcement of the 2016 final results		£69,509*	1.390

* To be paid to Mr A. Lewis on 30 November 2016 as part of the terms agreed in connection with his departure on 30 November 2016.

Pensions

As confirmed under the Policy, the Executive Directors are entitled to receive a contribution towards pension of 15% of basic salary, paid either as a non-pensionable salary supplement or delivered though the group's money purchase scheme.

Mr A. Lewis has capped his annual contributions into the Plan at £10,000 and the excess is paid to him as a monthly salary supplement. Mr A. Lewis's membership entitles him to life assurance which pays a lump sum of four times pensionable salary on death in service and a spouse's pension of one quarter of the member's salary.

Mr R. Rennie has reached the lifetime allowance and has not joined the Plan. His pension contribution is paid entirely as a salary supplement which Mr R. Rennie uses to purchase Company shares at market price every three months under a trading plan as defined and required under paragraphs 23 to 26 of the Model Code at Annex 1 of Listing Rule 9 and as announced to shareholders on 8 March 2016. Mr R. Rennie is not in receipt of life assurance cover provided by the Company.

The employer pension contribution is shown in the table below:

Executive Director	**Salary supplement £'000**	**Contribution into the Plan £'000**
R. Rennie	38	-
A. Lewis	14	26

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

Directors' shareholdings and share 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
R. Rennie	12,157	n/a
A. Lewis	60,146 *	87,055
D. Evans	40,000	40,000
R. Wood (retired 26 January 2016)	n/a	-
C. Ponsonby	-	n/a
P. Vervaat	2,000	-

* Includes 9,198 shares held under the annual bonus deferral scheme

Interests in jointly owned shares held by the Executive Directors under the Performance Share Plan are excluded from the above and detailed separately opposite.

The only change in the interests set out above between 30 September 2016 and 16 November 2016 were the additional shares bought by Mr A. Lewis under the Share Incentive Plan, which increased his total shareholding to 60,176.

The register of Directors' interests contains details of the Directors' shareholdings and share options. The position under the shareholding guidelines for the Executive Directors is set out on page 71.

Performance Share Plan 2010 (the Plan)

For grants of joint ownership awards, options or conditional awards made to date pursuant to the Plan, the performance conditions have been based on the Company's TSR relative to the TSR of a comparator group, comprising the FTSE SmallCap companies (excluding investment trusts). Under the amended Policy approved last year, the comparator group for awards after 1 October 2015 will use the FTSE All-Share index (excluding investment trusts).

For the Cycles granted in 2014, 2015 and 2016 a split performance condition applied so that 50% of the award vests in accordance with the TSR target and 50% in accordance with an EPS target based on real growth in earnings over the performance period where real growth is expressed as a percentage above inflation.

The twofold test based on TSR performance and EPS is in line with market practice and encourages management to maintain and increase earnings levels whilst at the same time ensuring that it is not at the expense of longer term shareholder return. In 2011, the Committee set the EPS target as nil vesting at RPI +3% and maximum vesting at RPI +8% with vesting on a pro rata basis in between these two figures. For all awards from 1 October 2015, namely the 2016 awards, RPI was replaced with CPI on the basis that RPI is no longer a national statistic.

The Committee determined in December 2015 that the 2013 award vested in full on the basis that the TSR over the three years from 1 October 2013 to 30 September 2015 was significantly ahead of the upper quartile of the comparator group. As a consequence, and as announced to shareholders in December 2015, 46,893 shares were awarded to Mr A. Lewis and 82,063 shares were awarded to Mr P. Slabbert.

The Directors' contingent interests in ordinary shares under the Plan at 30 September 2016 were as follows:

	30 Sep 2015	Granted in the year*	Exercised in the year**	Lapsed in the year	30 Sep 2016***
P. Slabbert [1]	135,286	-	(82,063)	-	53,223
R. Rennie	-	27,650	-	-	27,650
A. Lewis	125,354	23,226	(46,893)	-	101,687
Other senior employees****	508,983	114,806	(204,487)	(15,135)	404,167
	769,623	165,682	(333,443)	(15,135)	586,727

[1] P. Slabbert retired on 30 September 2015

* The award price at the date of grant was 1085 pence

** The market price at the vesting date for the 2013 award was 1073 pence

*** The weighted average remaining life of the awards outstanding at the year-end is 1.2 years (2015: 1.1 years).

**** This figure includes 162,932 (2015: 180,383) in respect of key management as defined in note 9 of the financial statements.

Outstanding awards granted annually under the Plan were as follows:

	2014	2015	2016	Total*
P. Slabbert [1]	37,950	15,273	-	53,223
R. Rennie	-	-	27,650	27,650
A. Lewis	43,471	34,990	23,226	101,687
Other senior employees	139,091	150,270	114,806	404,167
	220,512	200,533	165,682	586,727

[1] P. Slabbert retired on 30 September 2015

* In relation to the awards outstanding at 30 September 2016, deferred loan payments for the awards granted in 2014, 2015 and 2016 will become due to the Company as follows: A. Lewis £9,526.56 (2015: £10,000). R. Rennie £3,533.67 (2015: £nil)

The award price for the 2016 was 1085 pence, for the 2015 award it was 720.2 pence, for the 2014 award it was 579.7 pence and for the 2013 award it was 349.5 pence.

PSP Performance Period years ending	30 Sep 2015 (Cycle E)[5]	30 Sep 2016 (Cycle F)[3]	30 Sep 2017 (Cycle G)[4]	30 Sep 2018 (Cycle H)[4]
TSR element[1]	50%	50%	50%	50%
EPS element[2]	50%	50%	50%	50%
Total exercisable rate (% grant)	100%	-	-	-

1 Based on Avon Rubber p.l.c.'s Total Shareholder Return ranked relative to companies in the FTSE SmallCap Index at the start of the period.

2 Based on the real growth in earnings over the performance period where real growth is expressed as a % above inflation.

3 The three year performance period in respect of these awards is complete but vesting is not determined until the end of November following release of the Group results.

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

5 These awards vested in full in December 2015 on the basis of a Company TSR of 225% compared to the upper quartile of the comparator group at 112%

Position under shareholding guidelines

	Shareholding as at 30 Sep 2016* Number of shares	Actual value** £000	Target Value £000	Achievement ****	Shares held voluntarily in excess of guideline Number of shares
A. Lewis	60,146	607	504	241%	10,245
R. Rennie	12,157	123	660	37%	-

* Taken from the table on page 70.

** Using the closing share price on 30 September 2016 of 1010 pence.

*** 200% of current salary for Executive Directors' salaries used are those effective 1 October 2016.

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

Dilution

In respect of the 5% and 10% limits recommended by the Association of British Insurers, the relevant percentages were 8.15% and 9.23% respectively based on the issued share capital at 30 September 2016.

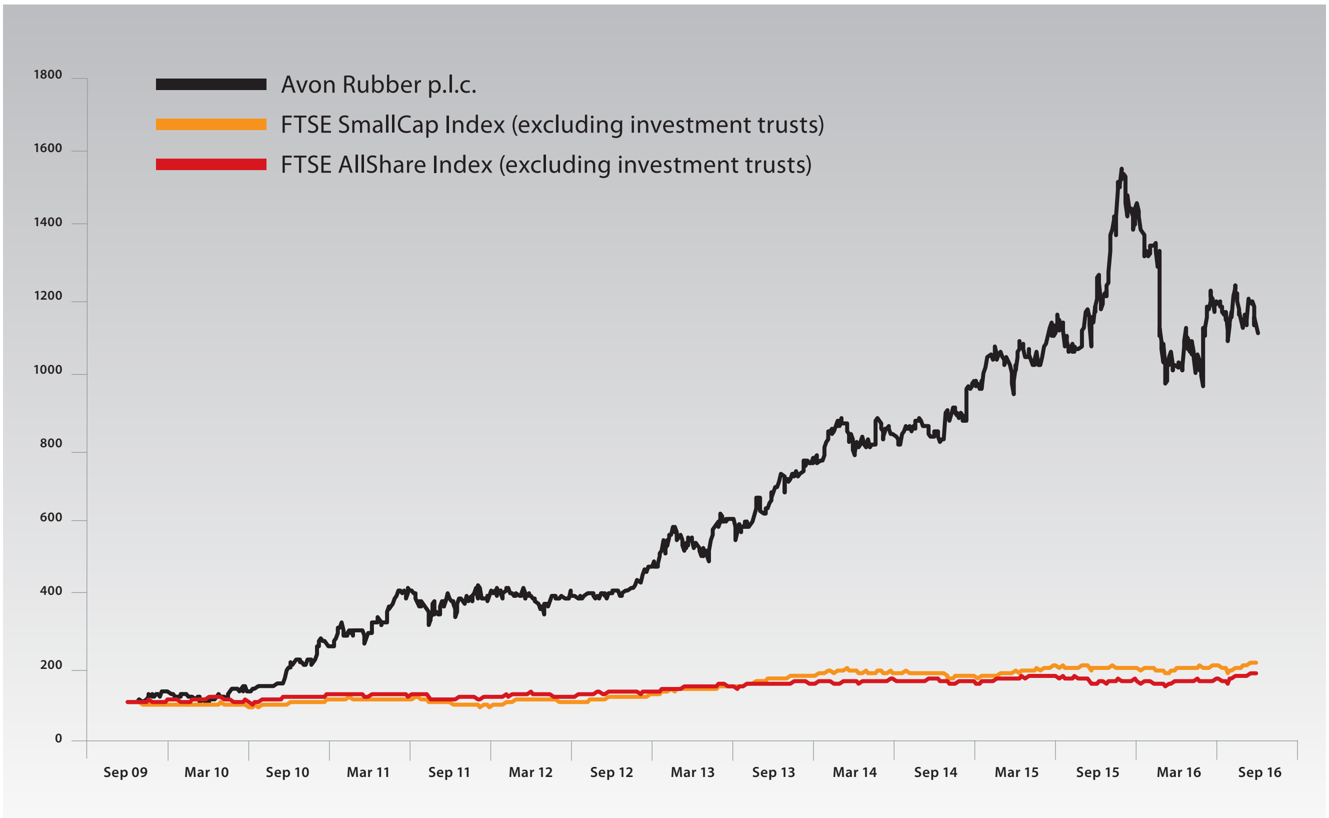
As at 30 September 2016, the number of shares committed under discretionary share-based incentive schemes since 30 September 2006, less the number of shares purchased in the market to satisfy previous awards that had vested and the shares held in the Employee Share Ownership Trust gives 2,527,306 shares. This represents 8.15% dilution against the 10% discretionary plan dilution limit.

As at 30 September 2016, the number of shares committed under all employee share-based incentive schemes since 30 September 2006, less the number of shares purchased in the market to satisfy previous awards that had vested and the shares held in the Employee Share Ownership Trust gives 2,864,612 shares which represents 9.23% dilution against the 15% all employee plan dilution limit.

It remains the Company's practice to use Employee Share Ownership Trusts ('ESOTs') in order to meet its liability for shares awarded under the Plan. Two trusts have been established in connection with the jointly owned equity awards. At 30 September 2016 there were 718,789 shares held in the ESOTs which will either be used to satisfy awards granted under the Plan to date, or in connection with future awards. Of these, 401,742 were held on a jointly owned equity basis. A hedging committee ensures that the ESOTs hold sufficient shares to satisfy existing and future awards made under the Plan by buying shares in the market or causing the Company to issue new shares. Shares held in the ESOTs do not receive dividends.

Total shareholder return performance graph (unaudited)

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



Avon Rubber - Total Return On Investment

Chief Executive Officer's Remuneration (unaudited)

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

Mr P. Slabbert retired on 30 September 2015 and was replaced by Mr R. Rennie on 1 December 2015.

Year	CEO	CEO single figure of total remuneration £000	Annual bonus pay out against maximum opportunity	Long-term incentive vesting rates against maximum opportunity
2016	R. Rennie	484	52%	-
2015	P. Slabbert	1,435	91%	96%
2014	P. Slabbert	1,538	91%	100%
2013	P. Slabbert	1,374	86%	100%
2012	P. Slabbert	1,864	40%	100%
2011	P. Slabbert	404	74%	nil
2010	P. Slabbert	395	90%	nil
2009	P. Slabbert	366	91%	nil

Statement of shareholder voting on the Remuneration Report (unaudited)

The shareholder vote on the Remuneration Report for the year ended 30 September 2015 at the AGM which took place on 26 January 2016 was as follows:

Resolution text	Votes For (including discretionary)	% For	Votes Against (excluding withheld)	% Against	Total (excl. withheld and third party discretionary)	Withheld
Approval of Remuneration Policy	15,042,235	77.15	4,454,154	22.85	19,496,389	1,634,519
Approval of Remuneration Report	19,569,894	98.32	334,138	1.68	19,904,032	1,226,876

Share Incentive Plan

During the year to 30 September 2016 Mr A. Lewis purchased 201 shares pursuant to the Share Incentive Plan (SIP). Mr R. Rennie is not currently a member of the SIP.

As at 30 September 2016, the market price of Avon Rubber p.l.c. shares was £10.10 (2015: £9.14). During the year the highest and lowest market prices were £11.67 and £7.18 respectively.

Payments to past Directors and payments for loss of office

No payments were made to past Directors during the year.

Details of the advisors to the Remuneration Committee and their fees

During the year to 30 September 2016 the Company incurred costs of £11,000 (2015: £16,350) in respect of fees for advisors to the Remuneration Committee.

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

Chloe Ponsonby
Chairman of the Remuneration Committee
16 November 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 Statutory £'000	2016 Adjustments* £'000	2016 Adjusted £'000	2015 Statutory £'000	2015 Adjustments* £'000	2015 Adjusted £'000
Continuing operations							
Revenue	1	**142,884**	**-**	**142,884**	134,318	-	134,318
Cost of sales		**(90,159)**	**-**	**(90,159)**	(88,618)	-	(88,618)
Gross profit		**52,725**	**-**	**52,725**	45,700	-	45,700
Selling and distribution costs		**(17,984)**	**-**	**(17,984)**	(13,007)	-	(13,007)
General and administrative expenses		**(17,111)**	**4,133**	**(12,978)**	(13,807)	1,329	(12,478)
Operating profit	1	**17,630**	**4,133**	**21,763**	18,886	1,329	20,215
Operating profit is analysed as:							
Before depreciation and amortisation		**29,982**	**826**	**30,808**	26,981	286	27,267
Depreciation and amortisation	11,12	**(12,352)**	**3,307**	**(9,045)**	(8,095)	1,043	(7,052)
Operating profit		**17,630**	**4,133**	**21,763**	18,886	1,329	20,215
Finance income	4	**11**	**-**	**11**	45	-	45
Finance costs	4	**(165)**	**-**	**(165)**	(192)	-	(192)
Other finance expense	4	**(675)**	**642**	**(33)**	(901)	654	(247)
Profit before taxation	5	**16,801**	**4,775**	**21,576**	17,838	1,983	19,821
Taxation	6	**1,824**	**(924)**	**900**	(2,672)	(253)	(2,925)
Profit for the year from continuing operations		**18,625**	**3,851**	**22,476**	15,166	1,730	16,896
Discontinued operations - loss for the year	3	**(346)**	**346**	-	(1,500)	1,500	-
Profit for the year		**18,279**	**4,197**	**22,476**	13,666	3,230	16,896
Other comprehensive (expense)/income							
Items that are not subsequently reclassified to the income statement							
Actuarial loss recognised on retirement benefit scheme	10	**(23,084)**	**-**	**(23,084)**	(1,040)	-	(1,040)
Deferred tax relating to retirement benefit scheme	6	**3,471**	**-**	**3,471**	3,321	-	3,321
Items that may be subsequently reclassified to the income statement							
Net exchange differences offset in reserves		**7,903**	**-**	**7,903**	3,311	-	3,311
Cash flow hedges	19	**(898)**	**-**	**(898)**	-	-	-
Tax relating to exchange differences offset in reserves		**(1,698)**	**-**	**(1,698)**	-	-	-
Other comprehensive (expense)/income for the year, net of taxation		**(14,306)**	**-**	**(14,306)**	5,592	-	5,592
Total comprehensive income for the year		**3,973**	**4,197**	**8,170**	19,258	3,230	22,488
Earnings per share	8						
Basic		**60.4p**		**74.2p**	45.4p		56.1p
Diluted		**59.2p**		**72.8p**	44.2p		54.6p
Earnings per share from continuing operations	8						
Basic		**61.5p**		**74.2p**	50.4p		56.1p
Diluted		**60.3p**		**72.8p**	49.0p		54.6p

* See note 3 for further details of adjustments.

CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	11	**47,357**	41,309
Property, plant and equipment	12	**30,112**	28,212
Deferred tax assets	6	**7,775**	4,574
		85,244	74,095
Current assets			
Inventories	13	**20,648**	17,123
Trade and other receivables	14	**19,968**	17,023
Derivative financial instruments	19	**-**	3
Cash and cash equivalents	15	**4,495**	332
		45,111	34,481
Liabilities			
Current liabilities			
Borrowings	17	**2,499**	2,350
Trade and other payables	16	**24,185**	17,150
Derivative financial instruments	19	**895**	-
Provisions for liabilities and charges	18	**745**	855
Current tax liabilities		**8,317**	6,823
		36,641	27,178
Net current assets		**8,470**	7,303
Non-current liabilities			
Borrowings	17	**-**	11,143
Deferred tax liabilities	6	**10,007**	9,734
Retirement benefit obligations	10	**39,951**	16,605
Provisions for liabilities and charges	18	**1,755**	1,712
		51,713	39,194
Net assets		**42,001**	42,204
Shareholders' equity			
Ordinary shares	20	**31,023**	31,023
Share premium account	20	**34,708**	34,708
Capital redemption reserve		**500**	500
Translation reserve		**8,584**	2,379
Accumulated losses		**(32,814)**	(26,406)
Total equity		**42,001**	42,204

These financial statements on pages 74 to 113 were approved by the Board of Directors on 16 November 2016 and signed on its behalf by:

Rob Rennie

David Evans

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash generated from continuing operating activities before the impact of exceptional items	21	**33,146**	24,053
Cash impact of exceptional items		**(449)**	(1,192)
Cash generated from continuing operations		**32,697**	22,861
Cash used in discontinued operations		**(317)**	(1,529)
Cash generated from operations	21	**32,380**	21,332
Finance income received		**11**	45
Finance costs paid		**(320)**	(192)
Retirement benefit deficit recovery contributions		**(700)**	(800)
Tax paid		**(1,031)**	(3,270)
Net cash generated from operating activities		**30,340**	17,115
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**50**	21
Purchase of property, plant and equipment		**(3,565)**	(3,222)
Capitalised development costs and purchased software		**(3,273)**	(2,961)
Acquisition of subsidiaries and businesses	26	**(3,300)**	(21,249)
Net cash used in investing activities		**(10,088)**	(27,411)
Cash flows from financing activities			
Net movements in loans	22	**(11,973)**	10,605
Dividends paid to shareholders	7	**(2,430)**	(1,859)
Purchase of own shares	20	**(1,812)**	(1,152)
Net cash (used in)/generated from financing activities		**(16,215)**	7,594
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**4,037**	(2,702)
Cash, cash equivalents, and bank overdrafts at beginning of the year		**332**	2,925
Cash, cash equivalents, and bank overdrafts acquired on acquisitions		**-**	12
Effects of exchange rate changes		**126**	97
Cash, cash equivalents, and bank overdrafts at end of the year	22	**4,495**	332

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	Share capital £'000	Share premium £'000	Other reserves £'000	Accumulated losses £'000	Total equity £'000
At 1 October 2014		31,023	34,708	(432)	(40,283)	25,016
Profit for the year		-	-	-	13,666	13,666
Net exchange differences offset in reserves		-	-	3,311	-	3,311
Actuarial loss recognised on retirement benefit scheme	10	-	-	-	(1,040)	(1,040)
Deferred tax relating to retirement benefit scheme	6	-	-	-	3,321	3,321
Total comprehensive income for the year		-	-	3,311	15,947	19,258
Dividends paid	7	-	-	-	(1,859)	(1,859)
Movement in shares held by the employee benefit trust	20	-	-	-	(971)	(971)
Movement in respect of employee share schemes	24	-	-	-	85	85
Deferred tax relating to employee share schemes	6	-	-	-	675	675
At 30 September 2015		31,023	34,708	2,879	(26,406)	42,204
Profit for the year		**-**	**-**	**-**	**18,279**	**18,279**
Net exchange differences offset in reserves		**-**	**-**	**7,903**	**-**	**7,903**
Tax relating to exchange differences offset in reserves	6	**-**	**-**	**(1,698)**	**-**	**(1,698)**
Cash flow hedges	19	**-**	**-**	**-**	**(898)**	**(898)**
Actuarial loss recognised on retirement benefit scheme	10	**-**	**-**	**-**	**(23,084)**	**(23,084)**
Deferred tax relating to retirement benefit scheme	6	**-**	**-**	**-**	**3,471**	**3,471**
Total comprehensive income for the year		**-**	**-**	**6,205**	**(2,232)**	**3,973**
Dividends paid	7	**-**	**-**	**-**	**(2,430)**	**(2,430)**
Movement in shares held by the employee benefit trust	20	**-**	**-**	**-**	**(1,697)**	**(1,697)**
Movement in respect of employee share schemes	24	**-**	**-**	**-**	**83**	**83**
Deferred tax relating to employee share schemes	6	**-**	**-**	**-**	**(132)**	**(132)**
At 30 September 2016		**31,023**	**34,708**	**9,084**	**(32,814)**	**42,001**

Other reserves consist of the capital redemption reserve of £500,000 (2015: £500,000) and the translation reserve of £8,584,000 (2015: £2,379,000).

All movements in other reserves relate to the translation reserve.

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 (IFRSs) and IFRS Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis under the historical cost convention except for financial assets and financial liabilities (including derivative instruments) held at fair value through profit or loss.

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 below.

Recent accounting developments

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the IFRIC.

The Group's approach to these is as follows:

a) Standards, amendments and interpretations effective in 2016:

No new standards or amendments have been adopted for the year ended 30 September 2016.

b) Standards, amendments and interpretations to existing standards issued but not yet effective in 2016 and not adopted early:

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 October 2015, have not been adopted early and are not expected to have a material impact on the Group financial statements:

- IFRS 9, 'Financial instruments'
- IFRS 14, 'Regulatory Deferral Accounts'
- IFRS 15, 'Revenue from Customer Contracts'
- IFRS 16, 'Leases'
- Amendments to IAS 1, 'Disclosure Initiative'
- Amendments to IAS 7, 'Disclosure Initiative'
- Amendment to IFRS 10 and IAS 28, 'Sale or Contribution of Assets between and Investor and its Associate or Joint Venture'
- Amendments to IFRS 10, IFRS 12 and IAS 28, 'Applying the consolidation exemption'
- Amendments to IFRS 11, 'Accounting for Acquisition Interests in Joint Operations'
- Amendments to IAS 12, 'Recognition of Deferred Tax Assets for Unrealised Losses'
- Amendments to IAS 16 and IAS 38, 'Clarification of Acceptable Methods of Depreciation and Amortisation'
- Amendments to IAS 16 and IAS 41, 'Agriculture – Bearer Plants'
- Amendments to IAS 27, 'Equity Method in Separate Financial Statements'
- Annual improvements cycle 2012-2014

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 power, exposure or rights to variable returns from its involvement with the entity and the ability to use its power to affect the amount of the Group's returns.

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

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

Foreign currencies

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

- assets and liabilities are translated at the closing rate at the balance sheet date; and
- income and expenses are translated at average rates.

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

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

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

Revenue

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

Segment reporting

Segments are identified based on management information provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Executive team. 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. 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 chief operating decision-maker assesses the performance of the operating segments based on the measures of revenue, EBIT and EBITDA. Central overheads, finance income and expense and taxation are not allocated to the business segments.

Exceptional items

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

Employee benefits

Pension obligations and post-retirement benefits

The Group has both defined benefit and defined contribution plans.

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

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

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

Share based compensation

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

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

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

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

Intangible assets

Goodwill

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

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

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

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

Development expenditure

Expenditure in respect of the development of new products where the outcome is assessed as being reasonably certain as regards viability and technical feasibility is capitalised and amortised over the expected useful life of the development (between 5 and 15 years). Expenditure that does not meet these criteria is expensed as incurred. The capitalised costs are amortised over the estimated period of sale for each product, commencing in the year in which the product is available to sale. Development costs capitalised are tested for impairment whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the consolidated statement of comprehensive income. Subsequent reversals of impairment losses for research and development are not recognised.

Computer software

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

Other intangible assets

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

- Brands and trademarks - four to ten years
- Customer relationships - seven to ten years
- Order backlog - three months to one year

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

Property, plant and equipment

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

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

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

In general, the lives used are:

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

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of comprehensive income.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The sale and lease back of property, where the sale price is at fair value and substantially all the risks and rewards of ownership are transferred to the purchaser, is treated as an operating lease. The profit or loss on the transaction is recognised immediately and lease payments charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments are shown as obligations under finance leases. Assets acquired under finance leases are initially recognised at the present value of the minimum lease payments. The rentals payable are apportioned between interest, which is charged to the consolidated statement of comprehensive income, and the liability, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable incremental selling expenses.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost after deducting provisions for impairment of receivables.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, highly liquid interest-bearing securities with maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are initially recognised at fair value and subsequently held at amortised cost.

Provisions

Provisions are recognised when:

- the Group has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Where a leasehold property, or part thereof, is vacant or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Borrowing costs are expensed using the effective interest method.

Taxation

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

Taxable profit differs from accounting profit because it excludes certain items of income and expense that are recognised in the financial statements but are treated differently for tax purposes. Current tax is the amount of tax expected to be payable or receivable on the taxable profit or loss for the current period. This amount is then amended for any adjustments in respect of prior periods.

Current tax is calculated using tax rates that have been written into law ('enacted') or irrevocably announced/committed by the respective government ('substantively enacted') at the period-end date. Current tax receivable (assets) and payable (liabilities) are offset only when there is a legal right to settle them net and the entity intends to do so. This is generally true when the taxes are levied by the same tax authority.

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax liabilities arise where the carrying amount of an asset is higher than the tax value (more tax deduction has been taken). This can happen where the Group invests in capital assets, as governments often encourage investment by allowing tax depreciation to be recognised faster than accounting depreciation. This reduces the tax value of the asset relative to its accounting carrying amount. Deferred tax liabilities are generally provided on all taxable temporary differences. The periods over which such temporary differences reverse will vary depending on the life of the related asset or liability.

Deferred tax assets arise where the carrying amount of an asset is lower than the tax value (less tax benefit has been taken). This can happen where the Group has trading losses, which cannot be offset in the current period but can be carried forward. Deferred tax assets are recognised only where the Group considers it probable that it will be able to use such losses by offsetting them against future taxable profits.

However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Taxable temporary differences can also arise on investments in foreign subsidiaries and associates, and interests in joint ventures. Where the Group is able to control the reversal of these differences and it is probable that these will not reverse in the foreseeable future, then no deferred tax is provided. Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset is realised or the liability is settled. Similarly to current taxes, deferred tax assets and liabilities are offset only when there is a legal right to settle them net and the entity intends to do so. This normally requires both assets and liabilities to have arisen in the same country.

Income tax expense reported in the financial statements comprises current tax as well as the effects of changes in deferred tax assets and liabilities. Tax expense/credits are generally recognised in the same place as the items to which they relate. For example, the tax associated with a gain on disposal is recognised in the income statement, in line with the gain on disposal. Equally, the tax associated with pension obligation actuarial gains and losses is recognised in other comprehensive income, in line with the actuarial gains and losses.

Dividends

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

Share capital

Ordinary shares are classified as equity.

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

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

Critical accounting judgements

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

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

Retirement benefit obligations

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

The pension cost under IAS 19 (revised) 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 and sensitivities are disclosed in note ten of the financial statements.

Inventory provisions

At each balance sheet date, each subsidiary evaluates the recoverability of inventories and records provisions 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 combinations, 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 property, plant and equipment 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 8% and 12%.

Valuation of acquired intangible assets

Acquisitions may result in the recognition of customer relationships, brands and trademarks, patents and order backlogs. These are valued using discounted cash flow models or a relief from royalty method. In applying these methodologies certain key judgements and assumptions are made over discount rates, growth rates and royalty rates.

Provisions

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

Taxation

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

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

At 30 September 2016 there is a provision of £7.7m in respect of uncertain tax positions. Due to the uncertainties noted above, there is a risk that the Group's judgments are challenged, resulting in a different tax payable or recoverable from the amounts provided. Management estimates that the reasonably possible range of outcomes is between an additional liability of up to £4.5m and a reduction in liabilities of up to £7.7m.

The key uncertainties impacting taxation arise from potential changes to legislation such as the OECD's Base Erosion and Profit Shifting (BEPS) project.

1 SEGMENT INFORMATION

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

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

Business segments

Year ended 30 September 2016

	Protection & Defence £'000	Dairy £'000	Unallocated £'000	Group £'000
Revenue	100,917	41,967		142,884
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	22,417	9,791	(1,400)	30,808
Depreciation of property, plant and equipment	(3,895)	(1,968)	(28)	(5,891)
Amortisation of development costs and software	(2,536)	(608)	(10)	(3,154)
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	15,986	7,215	(1,438)	21,763
Amortisation of acquired intangibles	(1,487)	(1,820)		(3,307)
Exceptional items	(506)			(506)
Defined benefit pension scheme costs			(320)	(320)
Segment result	13,993	5,395	(1,758)	17,630
Finance income			11	11
Finance costs			(165)	(165)
Other finance expense			(675)	(675)
Profit before taxation	13,993	5,395	(2,587)	16,801
Taxation			1,824	1,824
Profit for the year from continuing operations	13,993	5,395	(763)	18,625
Discontinued operations - loss for the year			(346)	(346)
Profit for the year	13,993	5,395	(1,109)	18,279
Segment assets	69,240	48,624	12,491	130,355
Segment liabilities	14,180	12,383	61,791	88,354
Other segment items				
Capital expenditure				
- intangible assets	2,616	640	17	3,273
- property, plant and equipment	1,970	1,719	-	3,689

The Protection & Defence segment includes £52.9m (2015: £54.6m) of revenues from the US DOD, the only customer which individually contributes more than 10% to Group revenues.

1 SEGMENT INFORMATION (CONTINUED)

Year ended 30 September 2015	Protection & Defence £'000	Dairy £'000	Unallocated £'000	Group £'000
Revenue	98,843	35,475		134,318
Segment result before depreciation, amortisation, exceptional items, acquisition costs and defined benefit pension scheme credit	21,632	7,707	(2,072)	27,267
Depreciation of property, plant and equipment	(3,513)	(1,121)	(50)	(4,684)
Amortisation of development costs and software	(2,206)	(153)	(9)	(2,368)
Segment result before amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme credit	15,913	6,433	(2,131)	20,215
Amortisation of acquired intangibles	(384)	(659)		(1,043)
Exceptional items and acquisition costs	(209)	(180)	(215)	(604)
Defined benefit pension scheme credit			318	318
Segment result	15,320	5,594	(2,028)	18,886
Finance income			45	45
Finance costs			(192)	(192)
Other finance expense			(901)	(901)
Profit before taxation	15,320	5,594	(3,076)	17,838
Taxation			(2,672)	(2,672)
Profit for the year from continuing operations	15,320	5,594	(5,748)	15,166
Discontinued operations - loss for the year			(1,500)	(1,500)
Profit for the year	15,320	5,594	(7,248)	13,666
Segment assets	59,487	42,645	6,444	108,576
Segment liabilities	8,378	10,336	47,658	66,372
Other segment items				
Capital expenditure				
- intangible assets	2,800	146	15	2,961
- property, plant and equipment	1,320	1,902	-	3,222

Geographical segments by origin

Year ended 30 September 2016	**Europe £'000**	**US £'000**	**Group £'000**
Revenue	**31,701**	**111,183**	**142,884**
Non-current assets	**45,046**	**40,198**	**85,244**

Year ended 30 September 2015	Europe £'000	US £'000	Group £'000
Revenue	23,704	110,614	134,318
Non-current assets	39,150	34,945	74,095

2 EXPENSES BY NATURE

	2016 £'000	2015 £'000
Changes in inventories of finished goods and work in progress	**1,498**	1,384
Raw materials and consumables used	**53,860**	55,467
Employee benefit expense (note 9)	**38,211**	34,344
Depreciation and amortisation charges (notes 11 and 12)	**12,352**	8,095
Transportation expenses	**1,891**	1,712
Operating lease payments	**2,327**	1,989
Travelling costs	**2,823**	2,511
Legal and professional fees	**1,529**	1,474
Other expenses	**10,763**	8,456
Total cost of sales, selling and distribution costs and general and administrative expenses	**125,254**	115,432

3 ADJUSTMENTS AND DISCONTINUED OPERATIONS

	2016 £'000	2015 £'000
Amortisation of acquired intangible assets (note 11)	**3,307**	1,043
Recruitment costs	**-**	215
Integration costs	**506**	-
Acquisition costs	**-**	389
Defined benefit pension scheme administration costs	**320**	350
Defined benefit pension scheme settlement gain	**-**	(668)
	4,133	1,329

The tax impact of the above is a £nil reduction in tax payable (2015: £nil). The deferred tax impact gives rise to a credit to the income statement of £924,000 (2015: £253,000).

The recruitment costs in 2015 relate to recruitment of main Board Directors.

The integration costs relate to the acquisition of the Argus thermal imaging camera business and the relocation of the manufacturing to our Melksham, UK site.

The acquisition costs in 2015 relate to legal and professional fees on the acquisition of Hudstar Systems Inc. and InterPuls S.p.A.

Defined benefit pension scheme costs relate to administrative expenses of the scheme which is closed to future accrual and the defined benefit pension scheme settlement gain in 2015 which arose following a trivial commutation exercise, both of which impact operating profit. £642,000 (2015: £654,000) of other finance expense relating to the pension scheme is also treated as an adjustment.

The impact on the cash flow statement of the exceptional items was £449,000 (2015: £1,192,000).

	2016 £'000	2015 £'000
Loss from discontinued operations	**346**	1,500

The loss for the year from discontinued operations relates to dilapidations costs of former leased premises of a business which was disposed of in 2006. There was no tax impact of these costs.

The impact on the cash flow statement of the discontinued operations was £317,000 (2015: £1,529,000).

4 FINANCE INCOME AND COSTS

	2016 £'000	2015 £'000
Interest payable on bank loans and overdrafts	**(165)**	(192)
Finance income	**11**	45
	(154)	(147)

Other finance expense

	2016 £'000	2015 £'000
Net interest cost: UK defined benefit pension scheme (note 10)	**(642)**	(654)
Provisions: Unwinding of discount (note 18)	**(33)**	(247)
	(675)	(901)

5 PROFIT BEFORE TAXATION

	2016 £'000	2015 £'000
Profit before taxation is shown after charging:		
Loss on foreign exchange	**395**	196
Loss on disposal of property, plant and equipment	**73**	7
Loss on disposal of intangibles	**5**	-
Depreciation of property, plant and equipment	**5,891**	4,684
Repairs and maintenance of property, plant and equipment	**692**	565
Amortisation of development costs and software	**3,154**	2,368
Amortisation of acquired intangibles	**3,307**	1,043
Research and development	**866**	648
Impairment of inventories	**1,039**	329
Impairment of trade receivables	**37**	35
Operating leases	**2,327**	1,989
Services provided to the Group (including its overseas subsidiaries) by the Company's auditors:		
Audit fees in respect of the audit of the accounts of the Parent Company and consolidation	**30**	30
Audit fees in respect of the audit of the accounts of subsidiaries of the Company	**101**	98
Total fees	**131**	128

6 TAXATION

	2016 £'000	2015 £'000
UK current tax	**1,155**	-
UK adjustment in respect of previous periods	**21**	-
Overseas current tax	**2,154**	4,049
Overseas adjustment in respect of previous periods	**(3,774)**	(1,337)
Total current tax (credit)/charge	**(444)**	2,712
Deferred tax - current year	**(722)**	(259)
Deferred tax - adjustment in respect of previous periods	**(658)**	219
Total deferred tax credit	**(1,380)**	(40)
Total tax (credit)/charge	**(1,824)**	2,672

The adjustment in respect of previous periods relates to the positive outcome of certain tax enquiries and the finalisation of the 2015 tax returns which took advantage of deductions from legislation substantively enacted after the approval of the 2015 financial statements.

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

	2016 £'000	2015 £'000
Profit before taxation	**16,801**	17,838
Profit before taxation at the average standard rate of 20% (2015: 20.5%)	**3,360**	3,657
Permanent differences	**(984)**	(822)
Losses for which no deferred taxation asset was recognised	**(614)**	(577)
Differences in overseas tax rates	**825**	1,532
Adjustment in respect of previous periods	**(4,411)**	(1,118)
Tax (credit)/charge	**(1,824)**	2,672

The income tax charged directly to equity during the year was £1,698,000 (2015: £nil).

The deferred tax credited directly to equity during the year was £3,339,000 (2015: £3,996,000).

6 TAXATION (CONTINUED)

Deferred tax liabilities	Accelerated capital allowances £'000	Other temporary differences £'000	Total £'000
At 1 October 2014	2,003	312	2,315
Arising on acquisition of subsidiaries	177	6,585	6,762
Charged against profit for the year	265	273	538
Exchange differences	30	89	119
At 30 September 2015	2,475	7,259	9,734
Arising on acquisition of subsidiaries	**-**	**455**	**455**
Credited to profit for the year	**(272)**	**(1,246)**	**(1,518)**
Exchange differences	**287**	**1,049**	**1,336**
At 30 September 2016	**2,490**	**7,517**	**10,007**

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

Deferred tax assets	Retirement benefit obligation £'000	Share options £'000	Accelerated capital allowances £'000	Other temporary differences £'000	Total £'000
At 30 September 2014	-	-	-	-	-
Credited to profit for the year	-	-	481	97	578
Credited to equity on recognition	3,321	675	-	-	3,996
At 30 September 2015	3,321	675	481	97	4,574
(Charged against)/credited to profit for the year	**-**	**16**	**(74)**	**(80)**	**(138)**
Credited to/(charged against) equity	**3,471**	**(132)**	**-**	**-**	**3,339**
At 30 September 2016	**6,792**	**559**	**407**	**17**	**7,775**

The standard rate of corporation tax in the UK is 20%.

A number of changes to the UK corporation tax system were announced in the March 2016 Budget Statement which reduce the main rate of corporation tax to 17% by 1 April 2020. These changes were substantively enacted at the balance sheet date. The overall effect of the change has not had any material impact on the Group's deferred tax liabilities as the majority of the Group's deferred tax liabilities are not held in the UK. The impact on the Group's deferred tax asset was a reduction of £1.4m.

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

	2016 £'000	2015 £'000
Losses	**-**	(346)
Other	**-**	(732)
	-	(1,078)

7 DIVIDENDS

On 29 January 2016, the shareholders approved a final dividend of 4.86p per qualifying ordinary share in respect of the year ended 30 September 2015. This was paid on 18 March 2016 absorbing £1,473,000 of shareholders' funds.

On 28 April 2016, the Board of Directors declared an interim dividend of 3.16p (2015: 2.43p) per qualifying ordinary share in respect of the year ended 30 September 2016. This was paid on 5 September 2016 absorbing £957,000 (2015: £732,000) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 6.32p per qualifying ordinary share in respect of the year ended 30 September 2016, which will absorb an estimated £1,915,000 of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 17 March 2017 to shareholders on the register at the close of business on 17 February 2017. In accordance with accounting standards this dividend has not been provided for and there are no corporation tax consequences.

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trust. The Company has dilutive potential ordinary shares in respect of the Performance Share Plan (see page 70). Adjusted earnings per share removes the effect of the amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs.

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

	2016	2015
Weighted average number of ordinary shares in issue used in basic calculations (thousands)	**30,276**	30,107
Potentially dilutive shares (weighted average) (thousands)	**612**	830
Fully diluted number of ordinary shares (weighted average) (thousands)	**30,888**	30,937

	2016 £'000	**2016 Basic eps pence**	**2016 Diluted eps pence**	2015 £'000	2015 Basic eps pence	2015 Diluted eps pence
Profit attributable to equity shareholders of the Company	**18,279**	**60.4**	**59.2**	13,666	45.4	44.2
Loss from discontinued operations	**346**	**1.1**	**1.1**	1,500	5.0	4.8
Profit from continuing operations	**18,625**	**61.5**	**60.3**	15,166	50.4	49.0
Adjustments	**3,851**	**12.7**	**12.5**	1,730	5.7	5.6
Profit excluding loss from discontinued operations, amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs	**22,476**	**74.2**	**72.8**	16,896	56.1	54.6

9 EMPLOYEES

The total remuneration and associated costs during the year were:

	2016 £'000	2015 £'000
Wages and salaries	**30,970**	27,776
Social security costs	**3,596**	3,052
Other pension costs	**921**	850
US healthcare costs	**2,641**	2,581
Share based payments (note 24)	**83**	85
	38,211	34,344

Detailed disclosures of Directors' remuneration and share options, including disclosure of the highest paid Director, are given on pages 66 to 73.

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

	2016 Number	2015 Number
By business segment		
Protection & Defence	**569**	554
Dairy	**282**	222
Other	**13**	10
	864	786

At the end of the financial year the total number of employees in the Group was 828 (2015: 852).

Key management compensation

	2016 £'000	2015 £'000
Salaries and other employee benefits	**2,180**	2,508
Post employment benefits	**119**	121
Share based payments	**50**	53
	2,349	2,682

The key management compensation above includes the Directors plus four (2015: three) others who were members of the Group Executive during the year.

10 PENSIONS AND OTHER RETIREMENT BENEFITS

Retirement benefit assets and liabilities can be analysed as follows:

	2016 £'000	2015 £'000
Pension liability	**39,951**	16,605

Defined benefit pension scheme

Full disclosures are provided in respect of the UK defined benefit pension scheme below.

The Group operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The plan was closed to future accrual of benefit on 1 October 2009 and has a weighted average maturity of approximately 18 years. The assets of the plan are held in separate trustee administered funds and are invested by professional investment managers. The Trustee is Avon Rubber Pension Trust Limited, the Directors of which are members of the plan. Three of the Directors are appointed by the Company and two are elected by the members.

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 at 31 March 2013 when the market value of the plan's assets was £311.5m. The fair value of those assets represented 98.0% of the value of the benefits which had accrued to members, after allowing for future increase in pensions.

During the year the Group made payments to the fund of £700,000, (2015: £800,000) in respect of scheme expenses and deficit recovery plan payments. In accordance with the deficit recovery plan agreed following the 31 March 2013 actuarial valuation, the Group will make deficit recovery payments in 2017 of £450,000 in addition to £250,000 towards scheme expenses.

The defined benefit plan exposes the Group to actuarial risks such as longevity risk, interest rate risk and investment risk.

An updated actuarial valuation for IAS 19 (revised) purposes was carried out by an independent actuary at 30 September 2016 using the projected unit method.

10 PENSIONS AND OTHER RETIREMENT BENEFITS (CONTINUED)

Movement in net defined benefit liability

	Defined benefit obligation		Defined benefit asset		Net defined benefit liability	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
At 1 October	**(316,092)**	(316,829)	**299,487**	300,800	**(16,605)**	(16,029)
Included in profit or loss						
Administrative expenses	**(320)**	(350)	**-**	-	**(320)**	(350)
Settlements	**-**	668	**-**	-	**-**	668
Net interest cost	**(12,027)**	(12,692)	**11,385**	12,038	**(642)**	(654)
	(12,347)	(12,374)	**11,385**	12,038	**(962)**	(336)
Included in other comprehensive income						
Remeasurement (loss)/gain:						
- Actuarial (loss)/gain arising from:						
- demographic assumptions	**7,225**	(480)	**-**	-	**7,225**	(480)
- financial assumptions	**(73,862)**	(4,945)	**-**	-	**(73,862)**	(4,945)
- experience adjustment	**5,690**	1,515	**-**	-	**5,690**	1,515
- Return on plan assets excluding interest income	**-**	-	**37,863**	2,870	**37,863**	2,870
	(60,947)	(3,910)	**37,863**	2,870	**(23,084)**	(1,040)
Other						
Contributions by the employer	**-**	-	**700**	800	**700**	800
Net benefits paid out	**15,873**	17,021	**(15,873)**	(17,021)	**-**	-
At 30 September	**(373,513)**	(316,092)	**333,562**	299,487	**(39,951)**	(16,605)

10 PENSIONS AND OTHER RETIREMENT BENEFITS (CONTINUED)

Plan assets

	2016 £'000	2015 £'000
Equities	**166,187**	151,782
Liability Driven Investment	**95,028**	62,022
Corporate bonds	**29,709**	28,485
Cash	**42,638**	57,198
Total fair value of assets	**333,562**	299,487

The Liability Driven Investment (LDI) comprises a series of LIBOR-earning cash deposits which are combined with contracts to hedge interest rate and inflation rate risk over the expected life of the plan's liabilities.

All equity securities and corporate bonds have quoted prices in active markets.

The aim of the Trustee is to invest the assets of the plan to ensure that the benefits promised to members are provided. In setting the investment strategy the Trustee first considered the lowest risk allocation that could be adopted in relation to the plan's liabilities. An asset allocation strategy was then designed to achieve a higher return than this lowest risk strategy which at the same time still represented a prudent approach to meeting the plan's liabilities. The target weightings are 40% allocation to LDI funds and cash and 60% to return-seeking investments.

Actuarial assumptions

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

	2016 % p.a.	2015 % p.a.
Inflation (RPI)	**2.85**	2.80
Inflation (CPI)	**1.65**	1.70
Pension increases post August 2005	**2.05**	2.10
Pension increases pre August 2005	**2.75**	2.70
Discount rate for scheme liabilities	**2.45**	3.90

10 PENSIONS AND OTHER RETIREMENT BENEFITS (CONTINUED)

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:

	2016	2015
Male	**21.9**	22.2
Female	**23.9**	24.4

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

	2016	2015
Male	**23.2**	23.5
Female	**25.4**	25.9

Sensitivity analysis

	Defined benefit obligation Increase/(decrease) £'000
Inflation (RPI) (0.25% increase)	10,751
Discount rate for scheme liabilities (0.25% increase)	(16,134)
Future mortality (1 year increase)	16,056

The above sensitivity analysis shows the impact on the defined benefit obligation only, not the net pension liability as it does not take into account any impact on the asset valuation.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur.

Defined contribution pension scheme

In addition commencing 1 February 2003, a defined contribution scheme was introduced for employees within the UK. The cost to the Group in respect of this scheme for the year ended 30 September 2016 was £496,000 (2015: £442,000).

11 INTANGIBLE ASSETS

	Goodwill £'000	Acquired intangibles £'000	Development expenditure £'000	Computer software £'000	Total £'000
At 1 October 2014					
Cost	63	1,090	22,138	2,604	25,895
Accumulated amortisation and impairment	-	(678)	(7,263)	(714)	(8,655)
Net book amount	63	412	14,875	1,890	17,240
Year ended 30 September 2015					
Opening net book amount	63	412	14,875	1,890	17,240
Exchange differences	109	1,165	684	211	2,169
Additions	-	-	2,567	394	2,961
Acquisitions (note 26)	2,201	20,149	-	-	22,350
Amortisation	-	(1,043)	(1,947)	(421)	(3,411)
Closing net book amount	2,373	20,683	16,179	2,074	41,309
At 30 September 2015					
Cost	2,373	22,304	25,481	3,800	53,958
Accumulated amortisation and impairment	-	(1,621)	(9,302)	(1,726)	(12,649)
Net book amount	2,373	20,683	16,179	2,074	41,309
Year ended 30 September 2016					
Opening net book amount	**2,373**	**20,683**	**16,179**	**2,074**	**41,309**
Exchange differences	**368**	**3,151**	**2,360**	**598**	**6,477**
Additions	**-**	**-**	**3,142**	**131**	**3,273**
Acquisitions (note 26)	**487**	**2,277**	**-**	**-**	**2,764**
Disposals	**-**	**-**	**-**	**(5)**	**(5)**
Amortisation	**-**	**(3,307)**	**(2,482)**	**(672)**	**(6,461)**
Closing net book amount	**3,228**	**22,804**	**19,199**	**2,126**	**47,357**
At 30 September 2016					
Cost	**3,228**	**27,098**	**34,129**	**4,690**	**69,145**
Accumulated amortisation and impairment	**-**	**(4,294)**	**(14,930)**	**(2,564)**	**(21,788)**
Net book amount	**3,228**	**22,804**	**19,199**	**2,126**	**47,357**

Development expenditure is amortised over a period between five and 15 years.
Computer software is amortised over a period between three and seven years.
The remaining useful economic life of the development expenditure is between five and 12 years.
Acquired intangibles include customer relationships, development costs, order book on acquisition and brands and are amortised over a period between three and ten years.

12 PROPERTY, PLANT AND EQUIPMENT

	Freeholds £'000	Short leaseholds £'000	Plant and machinery £'000	Total £'000
At 1 October 2014				
Cost	3,179	-	42,469	45,648
Accumulated depreciation and impairment	(359)	-	(25,714)	(26,073)
Net book amount	2,820	-	16,755	19,575
Year ended 30 September 2015				
Opening net book amount	2,820	-	16,755	19,575
Exchange differences	484	131	981	1,596
Additions	29	-	3,193	3,222
Acquisitions (note 26)	4,511	2,404	1,616	8,531
Disposals	-	-	(28)	(28)
Depreciation charge	(176)	(9)	(4,499)	(4,684)
Closing net book amount	7,668	2,526	18,018	28,212
At 30 September 2015				
Cost	8,879	3,162	57,589	69,630
Accumulated depreciation and impairment	(1,211)	(636)	(39,571)	(41,418)
Net book amount	7,668	2,526	18,018	28,212
Year ended 30 September 2016				
Opening net book amount	**7,668**	**2,526**	**18,018**	**28,212**
Exchange differences	**1,656**	**105**	**2,222**	**3,983**
Reclassifications	**2,558**	**(2,558)**	**-**	**-**
Additions	**108**	**-**	**3,581**	**3,689**
Acquisitions (note 26)	**-**	**-**	**242**	**242**
Disposals	**-**	**-**	**(123)**	**(123)**
Depreciation charge	**(314)**	**(73)**	**(5,504)**	**(5,891)**
Closing net book amount	**11,676**	**-**	**18,436**	**30,112**
At 30 September 2016				
Cost	**14,257**	**-**	**65,808**	**80,065**
Accumulated depreciation and impairment	**(2,581)**	**-**	**(47,372)**	**(49,953)**
Net book amount	**11,676**	**-**	**18,436**	**30,112**

The net book amount of short leaseholds and £33,000 (2015: £106,000) included within plant and machinery relates to assets held under finance leases.

13 INVENTORIES

	2016 £'000	2015 £'000
Raw materials	**13,382**	9,581
Work in progress	**389**	712
Finished goods	**6,877**	6,830
	20,648	17,123

Provisions for inventory write downs were £4,216,000 (2015: £2,412,000).
The cost of inventories recognised as an expense and included in cost of sales amounted to £55,358,000 (2015: £56,851,000).

14 TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Trade receivables	**18,351**	14,904
Less: provision for impairment of receivables	**(401)**	(421)
Trade receivables - net	**17,950**	14,483
Prepayments	**673**	1,344
Other receivables	**1,345**	1,196
	19,968	17,023

Other receivables comprise sundry items which are not individually significant for disclosure.

Movements on the Group provision for impairment of receivables are as follows:

	2016 £'000	2015 £'000
At 1 October	**421**	249
Provision for impairment of receivables	**37**	35
Acquisitions	**-**	137
Receivables written off during the year as uncollectable	**(57)**	-
At 30 September	**401**	421

The creation and release of provisions for impaired receivables have been included in general and administrative expenses in the consolidated statement of comprehensive income.

15 CASH AND CASH EQUIVALENTS

	2016 £'000	2015 £'000
Cash at bank and in hand	**4,495**	332

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

16 TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Trade payables	**6,527**	1,505
Other taxation and social security	**550**	408
Other payables	**373**	1,093
Accruals	**16,735**	14,144
	24,185	17,150

Other payables comprise sundry items which are not individually significant for disclosure.

17 BORROWINGS

	2016 £'000	2015 £'000
Current		
Bank loans	**2,460**	1,864
Finance lease liabilities	**39**	486
	2,499	2,350
Non-current		
Bank loans and overdrafts	**-**	11,143
Total borrowings	**2,499**	13,493
The maturity profile of the Group's borrowings at the year end was as follows:		
In one year or less, or on demand	**2,499**	2,350
Between two and five years	**-**	11,143
	2,499	13,493

17 BORROWINGS (CONTINUED)

The Group has the following undrawn committed facilities:

	2016 £'000	2015 £'000
Expiring within one year	-	-
Expiring beyond one year	30,550	15,194
Total undrawn committed borrowing facilities	30,550	15,194
Bank loans and overdrafts utilised	2,499	13,007
Utilised in respect of guarantees	309	362
Total Group facilities	33,358	28,563

All facilities are at floating interest rates.

On 9 June 2014 the Group agreed new bank facilities with Barclays Bank and Comerica Bank. The combined facility comprises a revolving credit facility of $40m and expires on 30 November 2019. This facility is priced on the dollar LIBOR plus margin of 1.25% and includes financial covenants which are measured on a quarterly basis. The Group was in compliance with its financial covenants during 2016 and 2015.

InterPuls S.p.A. has a fixed term loan of €2.5m which was due for renewal on 31 October 2016. This facility is priced on EURIBOR plus margin of 1.3%.

The Group has provided the lenders with a negative pledge in respect of certain shares in Group companies.

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

	2016 Sterling %	2016 Dollar %	2016 Euro %	2015 Sterling %	2015 Dollar %	2015 Euro %
Bank loans	-	-	1.0	1.8	1.4	0.9
Finance lease liabilities	-	-	3.0	-	-	3.0

18 PROVISIONS FOR LIABILITIES AND CHARGES

	Facility relocation £'000	Property obligations £'000	Total £'000
Balance at 1 October 2014	454	3,365	3,819
Charged in the year	-	1,500	1,500
Unwinding of discount	-	247	247
Payments in the year	(485)	(2,545)	(3,030)
Exchange difference	31	-	31
Balance at 30 September 2015	-	2,567	2,567
Unwinding of discount	**-**	**33**	**33**
Payments in the year	**-**	**(100)**	**(100)**
Balance at 30 September 2016	**-**	**2,500**	**2,500**

Analysis of total provisions	**2016 £'000**	2015 £'000
Non-current	**1,755**	1,712
Current	**745**	855
	2,500	2,567

Property obligations include an onerous lease provision of £1.5m in respect of unutilised space at the Group's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2017 and the remaining £1.2m over the following five years. Other property obligations relate to former premises of the Group which are subject to dilapidation risks and are expected to be utilised within the next ten years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, or subletting of surplus leasehold property and the final negotiated settlement of any dilapidation claims with landlords.

19 FINANCIAL INSTRUMENTS

Financial instruments by category

Trade and other receivables (excluding prepayments) and cash and cash equivalents are classified as 'loans and receivables'. Borrowings and trade and other payables are classified as 'other financial liabilities at amortised cost'. Both categories are initially measured at fair value and subsequently held at amortised cost.

Derivatives (forward exchange contracts) are classified as 'derivatives used for hedging' and accounted for at fair value with gains and losses taken to reserves through the consolidated statement of comprehensive income.

Financial risk and treasury policies

The Group's 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 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 is a major customer of the Group. Credit evaluations are carried out on all non-Government customers requiring credit above a certain threshold, with varying approval levels set above this depending on the value of the sale. At the balance sheet date there were no significant concentrations of credit risk, except in respect of the US Government noted above.

Counterparty risk arises from the use of derivative financial instruments. This is managed through credit limits, counterparty approvals and rigorous monitoring procedures.

Where possible, letters of credit or payments in advance are received for significant export sales.

The Group establishes an allowance for impairment in respect of receivables where recoverability is considered doubtful.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	**2016 £'000**	2015 £'000
Trade receivables	**17,950**	14,483
Other receivables	**1,345**	1,196
Cash and cash equivalents	**4,495**	332
Forward exchange contracts used for hedging	**-**	3
	23,790	16,014

The maximum exposure to credit risk for financial assets at the reporting date by currency was:

Carrying amount of financial assets	**2016 £'000**	2015 £'000
Sterling	**2,571**	2,076
US dollar	**16,123**	11,372
Euro	**4,116**	1,879
Other currencies	**980**	687
	23,790	16,014

19 FINANCIAL INSTRUMENTS (CONTINUED)

Provisions against trade receivables

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

	Gross 2016 £'000	Provision 2016 £'000	Net 2016 £'000	Gross 2015 £'000	Provision 2015 £'000	Net 2015 £'000
Not past due	**14,864**	**-**	**14,864**	11,020	-	11,020
Past due 0-30 days	**2,403**	**(2)**	**2,401**	1,631	(85)	1,546
Past due 31-60 days	**516**	**(50)**	**466**	1,922	(87)	1,835
Past due 61-90 days	**227**	**(49)**	**178**	135	(82)	53
Past due more than 91 days	**341**	**(300)**	**41**	196	(167)	29
	18,351	**(401)**	**17,950**	14,904	(421)	14,483

The total past due receivables, net of provisions is £3,086,000 (2015: £3,463,000).

The individually impaired receivables mainly relate to a number of independent customers. A portion of these receivables is expected to be recovered.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses weekly cash flow forecasts to monitor cash requirements and to optimise its borrowing position. Typically the Group ensures that it has sufficient borrowing facilities to meet foreseeable operational expenses and at the year end had facilities of £33.4m (2015: £28.6m).

The following shows the contractual maturities of financial liabilities, including interest payments, where applicable, and excluding the impact of netting agreements and on an undiscounted basis:

Analysis of contractual cash flow maturities	Carrying amount £'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 2016						
Bank loans and overdrafts	**2,460**	**2,460**	**2,460**	**-**	**-**	**-**
Finance lease liabilities	**39**	**39**	**39**	**-**	**-**	**-**
Trade and other payables	**23,635**	**23,635**	**23,635**	**-**	**-**	**-**
Forward exchange contracts used for hedging						
- Outflow	**895**	**11,949**	**11,949**	**-**	**-**	**-**
- Inflow	**-**	**-**	**-**	**-**	**-**	**-**
	27,029	**38,083**	**38,083**	**-**	**-**	**-**

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 2015						
Bank loans and overdrafts	13,007	13,026	1,872	338	10,816	-
Finance lease liabilities	486	486	486	-	-	-
Trade and other payables	16,742	16,742	16,742	-	-	-
Forward exchange contracts used for hedging						
- Outflow	-	3,923	3,923	-	-	-
- Inflow	(3)	-	-	-	-	-
	30,232	34,177	23,023	338	10,816	-

(iii) Market risks

Market risk is the risk that changes in market prices, such as currency rates and interest rates, will affect the Group's results. The objective of market risk management is to manage and control risk within suitable parameters.

(a) Currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies giving rise to this risk are primarily the US dollar and related currencies and the euro. The Group hedges material forecast US dollar or euro foreign currency transactional exposures using forward exchange contracts. In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value through the consolidated statement of comprehensive income. Fair value is assessed by reference to year end spot exchange rates, adjusted for forward points associated with contracts of similar duration. The fair value of forward exchange contracts used as hedges at 30 September 2016 was a £895,000 liability (2015: £3,000 asset) comprising an asset of £nil (2015: £3,000) and a liability of £895,000 (2015: £nil).

All forward exchange contracts in place at 30 September 2016 mature within one year.

19 FINANCIAL INSTRUMENTS (CONTINUED)

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 £576,000 (2015: £700,000) impact on the Group's current year profit before interest and tax, a £559,000 (2015: £609,000) impact on the Group's profit after tax and a £2,196,000 (2015: £1,300,000) impact on shareholders' funds. The method of estimation, which has been applied consistently, involves assessing the translation impact of the US dollar.

A general change of five cents in the value of the euro against sterling would have had a £27,000 (2015: £nil) impact on the Group's current year profit before interest and tax, a £19,000 (2015: £nil) impact on the Group's profit after tax and a £972,000 (2015: £800,000) impact on shareholders' funds. The method of estimation which has been applied consistently, involves assessing the translation impact of the euro.

The following significant exchange rates applied during the year:

	Average rate 2016	**Closing rate 2016**	Average rate 2015	Closing rate 2015
US dollar	**1.423**	**1.296**	1.542	1.517
Euro	**1.282**	**1.161**	1.351	1.359

(b) Interest rate risk

The Group does not undertake any hedging activity in this area. All foreign currency cash deposits are made at prevailing interest rates and where rates are fixed the period of the fix is generally not more than one month. The main element of interest rate risk concerns borrowings which are made on a floating LIBOR-based rate and short-term overdrafts in foreign currencies which are also on a floating rate.

The Group is exposed to interest rate fluctuations but with net cash of £2.0m (2015: net debt £13.2m) a 1% increase in interest rates would have no impact on interest costs (2015: £0.1m).

The floating rate financial liabilities comprised bank loans bearing floating interest rates fixed by reference to the relevant LIBOR or equivalent rate.

All cash deposits are on floating rates or overnight rates based on the relevant LIBOR or equivalent rate.

19 FINANCIAL INSTRUMENTS (CONTINUED)

(iv) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the gearing ratio, calculated as net debt divided by capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is measured by the current market capitalisation of the Group, plus net debt.

The Group's net cash/(debt) at the balance sheet date was:

	2016 £'000	2015 £'000
Total borrowings	**(2,499)**	(13,493)
Cash and cash equivalents	**4,495**	332
Group net cash/(debt)	**1,996**	(13,161)
Market capitalisation of the Group at 30 September	**313,335**	283,550
Gearing ratio	**n/a**	4.4%

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 2016 £'000	Fair value 2016 £'000	Carrying amount 2015 £'000	Fair value 2015 £'000
Trade receivables	**17,950**	**17,950**	14,483	14,483
Other receivables	**1,345**	**1,345**	1,196	1,196
Cash and cash equivalents	**4,495**	**4,495**	332	332
Forward exchange contracts	**(895)**	**(895)**	3	3
Bank loans, overdrafts and finance leases	**(2,499)**	**(2,499)**	(13,493)	(13,493)
Trade and other payables	**(23,635)**	**(23,635)**	(16,742)	(16,742)
	(3,239)	**(3,239)**	(14,221)	(14,221)

Basis for determining fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Derivatives
The fair value of forward exchange contracts is determined by using valuation techniques using year-end spot rates, adjusted for the forward points to the contract's value date. No contract's value date is greater than one year from the year end. These instruments are included in level two in the fair value hierarchy as the valuation is based on inputs that are either directly or indirectly observable.

Bank loans, overdrafts and finance leases
As the loans are floating rate borrowings, amortised cost is deemed to reflect fair value.

Trade and other receivables/payables
As the majority of receivables/payables have a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

20 SHARE CAPITAL

	No. of shares 2016	Ordinary shares 2016 £'000	Share premium 2016 £'000	No. of shares 2015	Ordinary shares 2015 £'000	Share premium 2015 £'000
Called up allotted and fully paid ordinary shares of £1 each						
At the beginning of the year	**31,023,292**	**31,023**	**34,708**	31,023,292	31,023	34,708
At the end of the year	**31,023,292**	**31,023**	**34,708**	31,023,292	31,023	34,708

Details of outstanding share options and movements in share options during the year are given in the Remuneration Report on pages 55 to 73.

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

At 30 September 2016 718,789 (2015: 887,315) ordinary shares were held by a trust in respect of obligations under the 2010 Performance Share Plan. Dividends on these shares have been waived. The market value of the shares held in the trust at 30 September 2016 was £7,260,000 (2015: £8,110,000). These shares are held at cost as treasury shares and deducted from shareholders' equity.

During 2016 the trust acquired 181,890 (2015: 162,095) shares at a cost of £1,812,000 (2015: £1,152,000).

343,526 (2015: 327,130) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

6,890 (2015: 29,460) ordinary shares of £1 each were awarded in relation to the 2015 annual incentive plan.

21 CASH GENERATED FROM OPERATIONS

	2016 £'000	2015 £'000
Continuing operations		
Profit for the year	**18,625**	15,166
Adjustments for:		
Taxation	**(1,824)**	2,672
Depreciation	**5,891**	4,684
Amortisation of intangible assets	**6,461**	3,411
Defined benefit pension scheme cost/(credit)	**320**	(318)
Finance income	**(11)**	(45)
Finance costs	**165**	192
Other finance expense	**675**	901
Loss on disposal of intangibles	**5**	-
Loss on disposal of property, plant and equipment	**73**	7
Movement in respect of employee share scheme	**83**	85
Increase in inventories	**(422)**	(1,264)
(Increase)/decrease in receivables	**(677)**	4,225
Increase/(decrease) in payables and provisions	**3,333**	(6,855)
Cash generated from continuing operations	**32,697**	22,861
Analysed as:		
Cash generated from continuing operations prior to the effect of exceptional operating items	**33,146**	24,053
Cash effect of exceptional operating items	**(449)**	(1,192)
Discontinued operations		
Loss for the year	**(346)**	(1,500)
Increase/(decrease) in payables and provisions	**29**	(29)
Cash used in discontinued operations	**(317)**	(1,529)
Cash generated from operations	**32,380**	21,332
Cash flows relating to the discontinued operations are as follows:		
Cash flows from operating activities	**(317)**	(1,529)
Cash used in discontinued operations	**(317)**	(1,529)

22 ANALYSIS OF NET CASH/(DEBT)

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

	At 1 Oct 2015 £'000	Cash flow £'000	Exchange movements £'000	At 30 Sep 2016 £'000
Cash at bank and in hand	332	4,037	126	**4,495**
Overdrafts	-	-	-	**-**
Net cash and cash equivalents	332	4,037	126	**4,495**
Debt due in less than one year	(2,350)	247	(396)	**(2,499)**
Debt due in more than one year	(11,143)	11,726	(583)	**-**
	(13,161)	16,010	(853)	**1,996**

23 OTHER FINANCIAL COMMITMENTS

	2016 £'000	2015 £'000
Capital expenditure committed	**426**	560

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:

	2016 £'000	2015 £'000
Within one year	**1,384**	1,372
Between one and five years	**6,103**	5,900
Later than five years	**13,399**	15,419
	20,886	22,691

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

24 SHARE BASED PAYMENTS

The Group operates an equity-settled share-based performance share plan (PSP). Details of the Plan, awards granted and options outstanding are set out in the Remuneration Report on pages 55 to 73 and are incorporated by reference into these financial statements. The charge against profit of £83,000 (2015: £85,000) in respect of PSP options granted after 7 November 2002 has been calculated using the Monte Carlo pricing model and the following principal assumptions:

	2016	2015
Weighted average fair value (£)	**0.38**	0.48
Key assumptions used:		
Weighted average share price (£)	**10.65**	7.28
Volatility (%)	**36**	36
Risk-free interest rate (%)	**1.7**	0.8
Expected option term (years)	**3.0**	3.0
Dividend yield (%)	**0.8**	0.9

Volatility is estimated based on actual experience over the last three years.

25 RELATED PARTY TRANSACTIONS

There were no related party transactions during the year or outstanding at the end of the year (2015: £nil). Key management compensation is disclosed in note 9.

26 ACQUISITIONS

Hudstar Systems Inc.

On 19 June 2015, Avon Protection Systems, Inc. acquired 100% of the share capital of Hudstar Systems Inc. (Hudstar), a leading US based designer and manufacturer of electronic control systems used in powered air respiratory systems, for consideration of $5,576,000.

	Book value £'000	Accounting policy alignment £'000	Fair value adjustment £'000	Fair value £'000
Intangible assets	-	1,536	1,787	3,323
Property, plant and equipment	313	-	-	313
Inventories	454	-	-	454
Trade and other receivables	242	(186)	-	56
Cash and cash equivalents	20	-	-	20
Trade and other payables	(582)	-	-	(582)
Deferred tax liabilities	-	(538)	(625)	(1,163)
Net assets acquired	447	812	1,162	2,421
Goodwill				1,100
Total consideration				3,521

Satisfied by:

Cash at completion	3,205
Deferred/contingent consideration due in future years	316
	3,521

The goodwill is attributable to the acquired workforce and control over key technology providing barriers to entry to competitors.

Intangible assets comprise development costs (£2.8m), customer relationships (£0.2m) and brands and patents (£0.3m).

The contingent consideration becomes payable over the next ten years, providing certain performance conditions are met, based on both qualitative and quantitative factors. The range of outcomes is expected to be between $nil and $500,000.

26 ACQUISITIONS (CONTINUED)

InterPuls S.p.A.

On 5 August 2015, Avon Rubber Italia S.r.l. acquired 100% of the share capital and shareholder loan notes of InterPuls S.p.A. (InterPuls), an Italian supplier of specialist milking components, for consideration of €25,750,000.

	Book value £'000	Accounting policy alignment £'000	Fair value adjustment £'000	Fair value £'000
Intangible assets	319	2,243	14,264	16,826
Property, plant and equipment	8,218	-	-	8,218
Inventories	1,569	-	-	1,569
Trade and other receivables	1,395	(70)	-	1,325
Trade and other payables	(2,541)	(321)	-	(2,862)
Bank loans and other borrowings	(2,609)	-	-	(2,609)
Deferred tax liabilities	(318)	(718)	(4,563)	(5,599)
Net assets acquired	6,033	1,134	9,701	16,868
Goodwill				1,101
Total consideration				17,969

Satisfied by:

Cash at completion	17,969
	17,969

The goodwill is attributable to sales synergies from integration of distribution channels, access to new markets and the workforce of the acquired businesses.

Intangible assets comprise customer relationships (£12.1m), development costs (£2.2m), brand (£1.7m), order book (£0.4m) and software and other (£0.4m).

Goodwill is tested annually for impairment. For goodwill in relation to the Hudstar and InterPuls acquisitions, value in use calculations are used to determine the recoverable amount of goodwill using cash flow projections based on the budget and three year plan. The key assumptions are the discount rate and the long term growth rate. The discount rate is the weighted average cost of debt financing and equity finance of 8.5%. In the period after the three year plan the growth rate is forecast to be 10% for the next four years, being derived from the expected growth rate for the related products. There is significant headroom in each value in use calculation.

26 ACQUISITIONS (CONTINUED)

Argus

On 8 October 2015, the Group acquired the trade and assets of the Argus thermal imaging business from e2v technologies plc. for consideration of £3,300,000. Based in Chelmsford UK, Argus is a leading designer and manufacturer of thermal imaging cameras for the first responder and fire markets.

	Book value £'000	Accounting policy alignment £'000	Fair value adjustment £'000	Fair value £'000
Intangible assets	-	753	1,524	2,277
Property, plant and equipment	242	-	-	242
Inventories	749	-	-	749
Deferred tax liabilities	-	(150)	(305)	(455)
Net assets acquired	991	603	1,219	2,813
Goodwill				487
Total consideration				3,300

Satisfied by:

Cash at completion	3,300
	3,300

The goodwill is attributable to sales synergies from integration of distribution channels, access to new markets and the workforce of the acquired businesses.

The Directors have reviewed the goodwill for impairment and concluded that the carrying value is recoverable as the fair value less costs to sell exceeds the carrying amount of the net assets and goodwill recognised.

Intangible assets comprise customer relationships (£0.6m), development costs (£0.8m), order book (£0.4m) and brand (£0.5m).

The results of the acquired business have been included in the Group's consolidated statement of comprehensive income from 8 October 2015 and contributed revenue of £5.5m and profit of £0.5m to the profit for the year.

27 GROUP UNDERTAKINGS

	Country in which incorporated
Held by Parent Company	
Avon Polymer Products Limited	UK
Avon Rubber Overseas Limited	UK
Avon Rubber Pension Trust Limited	UK
Avon Dairy Solutions (Shanghai) International Trading Company Limited	China
Avon Rubber Italia S.r.l.	Italy
Held by Group undertakings	
Avon Engineered Fabrications, Inc.	US
Avon Hi-Life, Inc.	US
Avon Protection Systems, Inc.	US
Avon Rubber & Plastics, Inc.	US
Avon Group Limited	UK
Avon Protection Systems UK Limited	UK
Avon-Dairy America do sul Solucoes Para Ordenha LTDA	Brazil
Interpuls S.p.A.	Italy

Shareholdings are ordinary shares and all undertakings are wholly owned by the Group and operate primarily in their country of incorporation.

All companies have a year ending in September, except Avon Dairy Solutions (Shanghai) which has a year ending in December. For the purpose of the Group accounts the results are consolidated to 30 September.

Avon Rubber Pension Trust Limited is a pension fund trustee.

Avon Rubber Overseas Limited, Avon Rubber Italia S.r.l. and Avon Rubber & Plastics, Inc. are investment holding companies.

InterPuls S.p.A. designs and manufactures specialist milking components for use in the dairy industry.

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

Avon Polymer Products Limited and Avon Rubber Overseas Limited are exempt from the requirement to file audited accounts by virtue of Section 479A of the Companies Act 2006 ('the Act'). All remaining UK subsidiaries are exempt from the requirement to file audited accounts by virtue of Section 480 of the Act.

Report on the group financial statements

Our opinion

In our opinion, Avon Rubber p.l.c.'s Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 30 September 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 30 September 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the accounting policies and critical accounting judgements; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

MATERIALITY

- Overall Group materiality: £850,000 which represents 5% of Group profit before taxation.

AUDIT SCOPE

- The UK audit team performed an audit of the complete financial information of the two main operating units in the USA (Avon Protection NA and Avon Dairy Solutions NA) and the two main operating units in the UK (Avon Polymer Products Ltd (comprising of Avon Protection UK and Avon Dairy Solutions EU) and Avon Rubber p.l.c.).
- Taken together, these four reporting units account for 87% of Group revenues and in excess of 90% of Group profit before taxation.
- Specific audit procedures were also performed by the UK audit team on certain other balances and transactions at the remaining seven reporting units.

AREAS OF FOCUS

- Provisions for uncertain tax positions and deferred tax.
- Valuation of the Group's pension.
- Intangible assets (development expenditure) impairment assessment.
- Risk of fraud in revenue recognition.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table opposite. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Provisions for uncertain tax positions and deferred tax As noted in the critical accounting judgements section on page 82, and included within note 6, there are a number of significant judgements involved in the determination of taxation balances, particularly in relation to the recognition of deferred taxation assets in the UK which were £7.8m at 30 September 2016. The Group also has material uncertain taxation positions resulting from the interpretation of the impact of the application of tax regulations in certain jurisdictions. Management have applied judgement in estimating the magnitude of the risk and probability of a future outflow in each case to derive the level of provisions held. The provision for uncertain tax positions is described on page 82. Given the number of judgements involved and the complexities of dealing with taxation rules and regulations in different countries and states within the US, this was an area of focus for us.	We evaluated the Directors' assessment of the availability of future taxable profits in the UK to determine whether a deferred taxation asset should be recognised, by considering the forecasts of future profits. We determined that the Director's assessment was reasonable in identifying and recognising deferred taxation assets in relation to the retirement benefit obligation, share options, capital allowances and temporary timing differences. We assessed the adequacy of the level of provision established in relation to a number of uncertain taxation positions primarily in respect of risks across the Group. The judgements made by management took account of the level and nature of the risks giving rise to the uncertain tax positions, together with their assessment of the likely outcome. We considered the judgements made by management to be reasonable based on our understanding of the relevant tax regulations.
Valuation of the Group's pension We focused on this area because of the magnitude of the defined benefit pension deficit of £40.0m and the material judgements involved in determining the actuarial assumptions which are set out in note 10. The net pension deficit is subject to the Directors' judgements regarding the selection of appropriate actuarial assumptions based on the nature of the scheme, including the discount rate, inflation rate and mortality rate, being the assumptions to which the deficit is most sensitive A change in each of these assumptions by 0.25% can cause a material change in the value of the underlying pension deficit (as highlighted on page 94). The Directors employed an independent actuary to assist them with the valuation of the deficit.	We used our actuarial experts to assess the methodology adopted by the Directors and their actuary to determine the net pension deficit. We concluded that the requirements of IAS 19 'Employee benefits' had been applied. We also used our actuarial experts to assess the reasonableness of the key actuarial assumptions selected, by comparing these to our own independent benchmark ranges based on our assessment of current market conditions and available actuarial data. We noted that the discount rate, inflation rate and mortality rate were within our acceptable range. We considered the competence and objectivity of the Directors' independent actuary including the experience and reputation of the firm together with the length of service. We were satisfied that the actuary was competent and objective. We evaluated whether the Directors' judgements and assumptions had been made on a consistent basis including in comparison to prior financial years. We also assessed the actuary's valuation by obtaining supporting evidence for each of the key inputs into the overall pension deficit calculation including independently agreeing changes in membership census data to pension scheme records and agreeing the scheme asset values to independent sources, such as fund manager confirmations and/or quoted market prices where available, noting no exceptions.

Area of focus	How our audit addressed the area of focus
Intangible assets (development expenditure) impairment assessment We focused on this area because of the magnitude of capitalised development expenditure of £19.2m and the risk that amounts may not be recoverable if estimated future sales orders cannot be delivered or regulatory approvals are not obtained. This risk is set out in the critical accounting judgments on page 82 and the amounts capitalised are included in note 11. In particular we focused on the capitalised development costs relating to the PAPR, CBRN/CO Escape Hood and EEBD Protection & Defence products, given the amounts held in the balance sheet and the stage of their development. These products are described on page 15.	We tested a sample of capitalised development costs against the criteria set out in IAS38 'Intangible assets' including the technical feasibility and the viability of the completion of the projects and the ability for the projects to generate future economic benefits and gain necessary regulatory approvals. We met with key operational personnel to update our understanding of the status of major projects and assessed the process and governance which have been put in place around project approval, authorisation and ongoing monitoring. We considered that these processes were appropriate. We assessed individually each of the major projects for indicators of impairment, such as an inability to obtain regulatory approval or not achieving forecast sales orders. As a result of our work we determined that the judgement by management that no impairment was required for these and other major development projects was reasonable.
Risk of fraud in revenue recognition We focused on this area as judgements are made by the Directors in determining whether provisions should be made against revenue on certain contractual arrangements in the US Protection & Defence business. The Directors made an estimate of amounts which could be due back to customers reflecting the risks inherent within the performance of the contracts over a number of years.	We obtained the calculations of contractual revenue provisions and evaluated the Directors' assessment of the risk of claw back based on our independent reading of the relevant contractual terms and the revenue recognised. In doing so, we concluded that the Group recognised revenue in line with their contractual obligations and their revenue recognition accounting policy.

How we tailored the audit scope

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

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

Taken together, these four operating units where we performed audit work accounted for approximately 87% of Group revenues and in excess of 90% of Group profit before taxation.

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

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

Materiality

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

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

Overall Group materiality	£850,000 (2015: £900,000).
How we determined it	5% of Group profit before taxation.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £43,000 (2015: £45,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 51, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
■ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
■ the statement given by the Directors on page 45, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
■ the section of the Annual Report on page 53, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
■ the Directors' confirmation on page 43 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
■ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
■ the Directors' explanation on page 51 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 45, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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 parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of Avon Rubber p.l.c. for the year ended 30 September 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Colin Bates
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
16 November 2016

Report on the parent company financial statements

Our opinion

In our opinion, Avon Rubber p.l.c.'s parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 30 September 2016;
- 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Parent Company Balance Sheet as at 30 September 2016;
- the Parent Company Statement of Changes in Equity for the year then ended;
- the Parent Company accounting policies; and
- the notes to the Parent Company financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

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

Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 45, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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 parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Avon Rubber p.l.c. for the year ended 30 September 2016.

Colin Bates
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
16 November 2016

PARENT COMPANY BALANCE SHEET

AT 30 SEPTEMBER 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	4	**2**	8
Plant and equipment	5	**26**	43
Investments in subsidiaries	6	**70,800**	64,219
Deferred tax assets	7	**645**	806
		71,473	65,076
Current assets			
Trade and other receivables	8	**517**	930
Amounts owed by Group undertakings		**73,225**	75,402
Cash and cash equivalents		**129**	-
		73,871	76,332
Liabilities			
Current Liabilities			
Trade and other payables	9	**3,228**	2,616
Amounts owed to Group undertakings		**8,347**	-
Provisions for liabilities and charges	10	**745**	855
		12,320	3,471
Net current assets		**61,551**	72,861
Non-current liabilities			
Borrowings	11	**-**	8,748
Provisions for liabilities and charges	10	**1,755**	867
		1,755	9,615
Net assets		**131,269**	128,322
Shareholders' equity			
Ordinary shares	12	**31,023**	31,023
Share premium account		**34,708**	34,708
Capital redemption reserve		**500**	500
Retained Earnings		**65,038**	62,091
Total equity		**131,269**	128,322

These financial statements on pages 122 to 132 were approved by the Board of Directors on 16 November 2016 and signed on its behalf by:

D R Evans

Rob Rennie   David Evans

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2014		31,023	34,708	500	57,471	123,702
Profit for the year	1	-	-	-	6,690	6,690
Dividends paid	2	-	-	-	(1,859)	(1,859)
Movement in shares held by the employee benefit trust	12	-	-	-	(971)	(971)
Movement in respect of employee share schemes	14	-	-	-	85	85
Deferred tax relating to employee share schemes	7	-	-	-	675	675
At 30 September 2015		31,023	34,708	500	62,091	128,322
Profit for the year	1	**-**	**-**	**-**	**7,123**	**7,123**
Dividends paid	2	**-**	**-**	**-**	**(2,430)**	**(2,430)**
Movement in shares held by the employee benefit trust	12	**-**	**-**	**-**	**(1,697)**	**(1,697)**
Movement in respect of employee share schemes	14	**-**	**-**	**-**	**83**	**83**
Deferred tax relating to employee share schemes	7	**-**	**-**	**-**	**(132)**	**(132)**
At 30 September 2016		**31,023**	**34,708**	**500**	**65,038**	**131,269**

Accounting policies

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

Basis of preparation

The accounts have been prepared on a going concern basis and in accordance with the Companies Act 2006 and with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and under the historical cost convention except for financial assets and liabilities (including derivative instruments) held at fair value through profit and loss.

FRS 101 became applicable for the year ended 30 September 2016 and the impact of the transition is set out in note 15.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to the following:

- presentation of a cash flow statement and related notes
- comparative period reconciliations for share capital and intangible and tangible fixed assets
- transactions with wholly owned subsidiaries
- capital management
- share based payments
- financial instruments
- compensation of key management personnel
- additional balance sheet for the beginning of the earliest comparative period following transition.

Where required, equivalent disclosures are given in the Group financial statements.

Foreign currencies

The Company's functional currency is sterling. Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the retranslation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Pensions

The Company operated a contributory defined benefits plan to provide pension and death benefits for the employees of Avon Rubber p.l.c. and its Group undertakings in the UK employed prior to 31 January 2003. The scheme is closed to new entrants and was closed to future accrual of benefits from 1 October 2009. Scheme assets are measured using market values while liabilities are measured using the projected unit method. One of the Company's subsidiaries, Avon Polymer Products Limited is the employer that is legally responsible for the scheme and the pension obligations are included in full in its accounts. No asset or provision has been reflected in the Company's balance sheet for any surplus or deficit arising in respect of pension obligations.

The Company also provides pensions by contributing to defined contribution schemes. The charge in the profit and loss account reflects the contributions paid and payable to these schemes during the period. Full disclosures of the UK pension schemes have been provided in the Group financial statements.

Share based payment

The Company operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Intangible assets

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

Impairment charges are made if there is significant doubt as to the sufficiency of future economic benefits to justify the carrying values of the intangible assets based upon discounted cash flow projections using an appropriate risk weighted discount factor.

Plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment losses.

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

Depreciation is provided estimated to write off the depreciable amount of relevant assets by equal annual instalments over their estimated useful lives.

In general, the lives used are:

- Computer hardware – 3 years
- Other plant and machinery – 5 – 10 years.

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated net realisable value. Gains and losses on disposal are determined by comparing proceeds with carrying amounts.

Leased assets

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

Deferred taxation

Because of the differences between accounting and taxable profits and losses reported in each period, temporary differences arise on the amount certain assets and liabilities are carried at for accounting purposes and their respective tax values. Deferred tax is the amount of tax payable or recoverable on these temporary differences.

Deferred tax liabilities arise where the carrying amount of an asset is higher than the tax value (more tax deduction has been taken). This can happen where the Company invests in capital assets, as governments often encourage investment by allowing tax depreciation to be recognised faster than accounting depreciation. This reduces the tax value of the asset relative to its accounting carrying amount. Deferred tax liabilities are generally provided on all taxable temporary differences. The periods over which such temporary differences reverse will vary depending on the life of the related asset or liability.

Deferred tax assets arise where the carrying amount of an asset is lower than the tax value (less tax benefit has been taken). Deferred tax assets are recognised only where the Company considers it probable that it will be able to use such losses by offsetting them against future taxable profits.

However the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset is realised or the liability is settled.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently held at amortised cost after deducting provisions for impairment of receivables.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, highly liquid interest-bearing securities with maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. They are initially recognised at fair value and subsequently held at amortised cost.

Provisions

Provisions are recognised when:

- the Company has a legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, for example where a warranty has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Where a leasehold property, or part thereof, is vacant or sub-let under terms such that the rental income is insufficient to meet all outgoings, provision is made for the anticipated future shortfall up to termination of the lease, or the termination payment, if smaller.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Borrowing costs are expensed using the effective interest method.

Dividends

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

Share Capital

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

Where the Company purchases its own share capital (treasury shares) through Employee Share Ownership Trusts, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from shareholders' funds until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in shareholders' funds.

1 PARENT COMPANY

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the parent company is omitted from the accounts by virtue of section 408 of the Companies Act 2006. The parent company's profit for the financial year was £7,123,000 (2015: £6,690,000).

The audit fee in respect of the parent company was £30,000 (2015: £30,000).

2 DIVIDENDS

On 29 January 2016, the shareholders approved a final dividend of 4.86p per qualifying ordinary share in respect of the year ended 30 September 2015. This was paid on 18 March 2016 absorbing £1,473,000 of shareholders' funds.

On 28 April 2016, the Board of Directors declared an interim dividend of 3.16p (2015: 2.43p) per qualifying ordinary share in respect of the year ended 30 September 2016. This was paid on 5 September 2016 absorbing £957,000 (2015: £732,000) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 6.32p per qualifying ordinary share in respect of the year ended 30 September 2016, which will absorb an estimated £1,915,000 of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 17 March 2017 to shareholders on the register at the close of business on 17 February 2017. In accordance with accounting standards this dividend has not been provided for and there are no corporation tax consequences.

3 EMPLOYEES

The total remuneration and associated costs during the year were:

	2016 £'000	2015 £'000
Wages and salaries	**1,983**	2,408
Social security costs	**287**	279
Other pension costs	**228**	388
Share based payments	**83**	85
	2,581	3,160

Detailed disclosures of Directors' remuneration and share options are given on pages 55 to 73 of the Annual Report and Accounts.

The average monthly number of employees (including Executive Directors) during the year was: 11 (2015: 7), all of whom were classified as administrative staff.

4 INTANGIBLE ASSETS

	Computer software £'000
Cost	
At 1 October 2015	106
At 30 September 2016	**106**
Amortisation charge	
At 1 October 2015	98
Charge for the year	6
At 30 September 2016	**104**
Net book value	
At 30 September 2016	**2**
At 30 September 2015	8

5 PLANT AND EQUIPMENT

	£'000
Cost	
At 1 October 2015	305
At 30 September 2016	**305**
Amortisation charge	
At 1 October 2015	262
Charge for the year	17
At 30 September 2016	**279**
Net book value	
At 30 September 2016	**26**
At 30 September 2015	43

6 INVESTMENTS IN SUBSIDIARIES

	£'000
Cost and net book value	
At 1 October 2015	**64,219**
Increase in investment in Avon Rubber Overseas Limited	**6,581**
At 30 September 2016	**70,800**

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The investments consist of a 100% (unless indicated as otherwise) interest in the following subsidiaries:

	Principal activity	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
Avon Dairy Solutions (Shanghai) International Trading Company Limited	Trading company	China
Avon Rubber Italia S.r.l.	Investment company	Italy
Avon-Dairy America do sul Solucoes Para Ordenha LTDA (1%)	Trading company	Brazil

Details of investments held by these subsidiaries are given in note 27 to the Group accounts on page 113.

7 DEFERRED TAX ASSETS

	Share Options £'000	Accelerated capital allowances £'000	Other temporary differences £'000	Total £'000
At 30 September 2014	-	-	-	-
Credited to profit for the year	-	41	90	131
Credited to equity on recognition	675	-	-	675
At 30 September 2015	675	41	90	806
(Charged)/credited to profit for the year	**16**	**29**	**(74)**	**(29)**
Charged to equity	**(132)**	**-**	**-**	**(132)**
At 30 September 2016	**559**	**70**	**16**	**645**

8 TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Trade receivables	**40**	37
Other receivables	**300**	577
Prepayments	**177**	316
	517	930

9 TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Trade payables	**90**	-
Other payables	**40**	40
Accruals	**3,098**	2,576
	3,228	2,616

10 PROVISIONS FOR LIABILITIES AND CHARGES

	Property obligations £'000
Balance at 1 October 2014	2,211
Charged in the year	1,500
Unwinding of discount	247
Payments in the year	(2,236)
Balance at 30 September 2015	1,722
Charged in the year	**845**
Unwinding of discount	**33**
Payments in the year	**(100)**
Balance at 30 September 2016	**2,500**

	2016 £'000	2015 £'000
Analysis of provisions		
Non-current	**1,755**	867
Current	**745**	855
	2,500	1,722

Property obligations include an onerous lease provision of £1.5m in respect of unutilised space at the Company's leased Melksham facility in the UK. £0.3m of this provision is expected to be utilised in 2017 and the remaining £1.2m over the following five years. Other property obligations relate to former premises of the Company which are subject to dilapidation risks and are expected to be utilised within the next ten years. Property provisions are subject to uncertainty in respect of the utilisation, non-utilisation, or subletting of surplus leasehold property and the final negotiated settlement of any dilapidation claims with landlords.

11 BORROWINGS

	2016 £'000	2015 £'000
Current		
Bank overdrafts	-	-
Non-current		
Bank loans	-	8,748
Total bank loans and overdrafts	-	8,748

The maturity profile of the Company's borrowings at the year end was as follows:

	2016 £'000	2015 £'000
In one year or less or on demand	-	-
Between two and five years	-	8,748
	-	8,748

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

	2016 £'000	2015 £'000
Sterling	-	2,155
US dollars	-	6,593
	-	8,748

On 9 June 2014 the Company agreed new bank facilities with Barclays Bank and Comerica Bank. The combined facility comprises a revolving credit facility of $40m and expires on 30 November 2019. This facility is priced on the dollar LIBOR plus a margin of 1.25% and includes financial covenants which are measured on a quarterly basis. The Company was in compliance with its financial covenants during 2016 and 2015.

The Company has provided the lenders with a negative pledge in respect of certain shares in Group companies.

12 SHARE CAPITAL

	2016 £'000	2015 £'000
Called up, allotted and fully paid ordinary shares of £1 each		
31,023,292 (2015: 31,023,292) ordinary shares of £1 each	**31,023**	31,023

At 30 September 2016 718,789 (2015: 887,315) ordinary shares were held by a trust in respect of obligations under the 2010 Performance Share Plan. Dividends on these shares have been waived. The market value of the shares held in the trust at 30 September 2016 was £7,260,000 (2015: £8,110,000). These shares are held at cost as treasury shares and deducted from shareholders' equity.

During 2016 the trust acquired 181,890 (2015: 162,095) shares at a cost of £1,812,000 (2015: £1,152,000).

343,526 (2015: 327,130) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

6,890 (2015: 29,460) ordinary shares of £1 each were awarded in relation to the 2015 annual incentive plan.

13 OTHER FINANCIAL COMMITMENTS

	2016 £'000	2015 £'000
Capital expenditure committed	**-**	-

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 future aggregate minimum lease payments under non-cancellable operating leases are:

	2016 £'000	2015 £'000
For leases expiring		
Within 1 year	**402**	402
In 2-5 years	**3,189**	2,738
Over 5 years	**10,927**	12,776
	14,518	15,916

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

14 SHARE BASED PAYMENTS

The Company operates an equity-settled share-based performance share plan (PSP). Details of the Plan, awards granted and options outstanding are set out in the remuneration report on page 55 to 73 and are incorporated by reference into these financial statements. The charge against profit of £83,000 (2015: £85,000) in respect of PSP options granted after 7 November 2002 has been calculated using the Monte Carlo pricing model. The principal assumptions used in the calculation are set out in note 24 of the Group financial statements.

15 EXPLANATION OF TRANSITION TO FRS 101

As stated in the accounting policies, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies have been applied in preparing the financial statements for the year ended 30 September 2016, the comparative information presented in these financial statements for the year ended 30 September 2015 and in preparation of an opening FRS 101 balance sheet at 1 October 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position is set out in the following table and the notes that accompany the table.

	Note	1 Oct 2014 UK GAAP	1 Oct 2014 Effect of transition to FRS 101	1 Oct 2014 FRS 101	30 Sep 2015 UK GAAP	30 Sep 2015 Effect of transition to FRS 101	30 Sep 2015 FRS 101
Non-current assets							
Intangible assets	a	-	89	89	-	8	8
Plant and equipment	a	346	(89)	257	51	(8)	43
Investments in subsidiaries		75,540	-	75,540	64,219	-	64,219
Deferred tax assets	b	-	-	-	-	806	806
		75,886	-	75,886	64,270	806	65,076
Current assets							
Trade and other receivables	b	2,283	-	2,283	1,736	(806)	930
Amounts owed by Group undertakings		54,317	-	54,317	75,402	-	75,402
		56,600	-	56,600	77,138	(806)	76,332
Current liabilities							
Trade and other payables		2,533	-	2,533	2,616	-	2,616
Amounts owed to Group undertakings		4,040	-	4,040	-	-	-
Provisions for liabilities and charges	c	-	1,082	1,082	-	855	855
		6,573	1,082	7,655	2,616	855	3,471
Net current assets		50,027	(1,082)	48,945	74,522	(1,661)	72,861
Non-current liabilities							
Borrowings		-	-	-	8,748	-	8,748
Provisions for liabilities and charges	c	2,211	(1,082)	1,129	1,722	(855)	867
		2,211	(1,082)	1,129	10,470	(855)	9,615
Net assets		123,702	-	123,702	128,322	-	128,322
Shareholders' equity							
Ordinary shares		31,023	-	31,023	31,023	-	31,023
Share premium account		34,708	-	34,708	34,708	-	34,708
Capital redemption reserve		500	-	500	500	-	500
Retained Earnings		57,471	-	57,471	62,091	-	62,091
Total equity		123,702	-	123,702	128,322	-	128,322

a) Computer software previously included in plant and equipment has been reclassified as an intangible asset.
b) Deferred tax assets which were previously included within current assets have been reclassified as non-current assets.
c) Provisions for liabilities and charges which were previously included within creditors falling due after more than one year have been split between current and non-current liabilities on the face of the balance sheet.

FIVE YEAR RECORD

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 * £'000
Revenue	**142,884**	134,318	124,779	124,851	106,636
Operating profit before amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	**21,763**	20,215	17,003	14,223	11,621
Amortisation of acquired intangibles, exceptional items, acquisition costs and defined benefit pension scheme costs	**(4,133)**	(1,329)	(2,678)	(1,220)	-
Operating profit	**17,630**	18,886	14,325	13,003	11,621
Net finance costs and other finance expense	**(829)**	(1,048)	(461)	(600)	(616)
Profit before taxation	**16,801**	17,838	13,864	12,403	11,005
Taxation	**1,824**	(2,672)	(3,053)	(3,566)	(3,176)
Profit for the year from continuing operations	**18,625**	15,166	10,811	8,837	7,829
Discontinued operations - loss for the year	**(346)**	(1,500)	-	-	-
Profit attributable to equity shareholders	**18,279**	13,666	10,811	8,837	7,829
Ordinary dividends	**(2,430)**	(1,859)	(1,422)	(1,132)	(941)
Retained profit	**15,849**	11,807	9,389	7,705	6,888
Intangible assets and property,plant and equipment	**77,469**	69,521	36,815	36,928	31,159
Working capital	**7,219**	10,176	7,439	11,512	9,278
Provisions	**(2,500)**	(2,567)	(3,819)	(2,613)	(2,993)
Pension liability	**(39,951)**	(16,605)	(16,029)	(11,279)	(2,238)
Net deferred tax liability	**(2,232)**	(5,160)	(2,315)	(2,977)	(2,584)
Net cash/(borrowings)	**1,996**	(13,161)	2,925	(10,875)	(8,725)
Net assets employed	**42,001**	42,204	25,016	20,696	23,897
Financed by:					
Ordinary share capital	**31,023**	31,023	31,023	30,723	30,723
Reserves attributable to equity shareholders	**10,978**	11,181	(6,007)	(10,027)	(6,826)
Total equity	**42,001**	42,204	25,016	20,696	23,897
Basic earnings per share	**60.4p**	45.4p	36.2p	30.0p	26.9p
Adjusted basic earnings per share	**74.2p**	56.1p	43.7p	33.8p	26.9p
Dividends per share paid in cash	**8.02p**	6.17p	4.75p	3.84p	3.2p

* As presented in the consolidated financial statements for that year.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.
If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.
If you have sold or transferred all of your shares in Avon Rubber p.l.c., please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Notice of Annual General Meeting for the Year Ended 30 September 2016
Notice is hereby given that the annual general meeting ('AGM') of shareholders of Avon Rubber p.l.c. (the 'Company') will be held at Hampton Park West, Semington Road, Melksham, Wiltshire on 2 February 2017 at 10.30am for the following purposes:

Ordinary Business
To consider and, if thought fit, pass resolutions 1- 9 (inclusive) as Ordinary Resolutions:

Resolution 1
To receive the Company's accounts and the reports of the Directors and the Auditors for the year ended 30 September 2016.

Resolution 2
To approve the Directors' Remuneration Report (excluding the Directors' remuneration policy) for the year ended 30 September 2016.

Resolution 3
To declare a final dividend of 6.32p per ordinary share as recommended by the Directors.

Resolution 4
To re-appoint Mr R. Rennie as Director who retires by rotation.

Resolution 5
To re-appoint Mr D. Evans as Director who retires by rotation.

Resolution 6
To re-appoint Miss C. Ponsonby as Director who has been appointed since the last AGM.

Resolution 7
To re-appoint Mr P. Rayner as Director who has been appointed since the last AGM.

Resolution 8
To re-appoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company.

Resolution 9
To authorise the Directors to determine the auditors' remuneration.

Special Business
To consider and if thought fit, pass resolution 10 as an Ordinary Resolution and resolutions 11-14 (inclusive) as Special Resolutions:

Resolution 10
That in accordance with section 551 of the Companies Act 2006 (the 'Act') the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined in the notes to this resolution) comprising equity securities (as defined by section 560 of the Act) up to an aggregate nominal amount of £10,341,097 but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange, provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Resolution 11
That, subject to the passing of Resolution 10, the Directors be authorised to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

(b) expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 12

That, subject to the passing of Resolution 10, the Directors be authorised, in addition to any authority granted under Resolution 11, to allot equity securities (as defined by section 560 of the Act) for cash under the authority conferred by that resolution and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall:

(a) be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £1,551,164; and

(b) be used for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors have determined to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice; and

(c) expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

Resolution 13

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

(a) the maximum number of shares which may be purchased is 4,653,492;

(b) the minimum price which may be paid for each share is 1p;

(c) the maximum price (excluding expenses) which may be paid for each ordinary share is an amount equal to the higher of:

(i) 105% (one hundred and five percent) of the average of the middle market quotations of the Company's ordinary shares as derived from the Official List of the London Stock Exchange for the 5 (five) business days immediately preceding the day on which such share is contracted to be purchased; and

(ii) the value of an ordinary share calculated on the basis of the higher of the price quoted for the last independent trade of and the highest current independent bid for any number of the Company's ordinary shares on the London Stock Exchange Official List at the time the purchase is agreed; and

(d) this authority shall expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

Resolution 14

That a general meeting of the Company (other than an annual general meeting), may be called on not less than 14 clear days' notice.

By order of the Board

Miles Ingrey-Counter

Miles Ingrey-Counter
Company Secretary
16 November 2016

Notes

(1) Information regarding the annual general meeting (the 'AGM') including the information required by section 311A of the 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the 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 AGM, 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:

(i) in hard copy form by post, by courier or by hand to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU;

(ii) via www.capitashareportal.com; or

(iii) 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 AGM.

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 (available from https://euroclear.com). 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. Regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy the message 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 this Notice. 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 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 give 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 6.00pm on 31 January 2017 (or 6.00pm 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 AGM.

(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 applies 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.

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

(i) answering the question would interfere unduly with the preparation for the AGM 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 AGM that the question be answered.

(9) Appointment of proxy by joint members

In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

(10) Termination of proxy appointments

In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by the Company's registrars, Capita Asset Services Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 31 January 2017 at 10.30 am.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the AGM and voting in person. If you have appointed a proxy and attend the AGM in person, your proxy appointment will automatically be terminated.

(11) Biographical details of the Directors are shown on page 42 of the Annual Report.

(12) The issued share capital of the Company as at 16 November 2016 was 31,023,292 ordinary shares, carrying one vote each and representing the total number of voting rights in the Company.

(13) The following documents are available for inspection at the registered office of the Company during normal business hours on any weekday until the close of the AGM and will be available at the place of the AGM from 15 minutes before the AGM until it ends:
- (i) the Register of Directors' interests 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.

(14) 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.

(15) Pursuant to Chapter 5 of Part 16 of the Act (sections 527 to 531), where requested by a member 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 AGM. Where the Company is required to publish such a statement on its website:
- (i) it may not require the members making the request to pay any expenses incurred by the Company in complying with the request;
- (ii) 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
- (iii) the statement may be dealt with as part of the business of the AGM.

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 AGM.

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 each and may be made by:
- - a hard copy request which is signed by the member or members concerned, stating their full names and addresses and is sent to Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB.
- - a request which is signed by the member or members concerned, stating their full names and addresses and is sent by fax to 01225 896898 marked for the attention of the Company Secretary.
- - a request which states the full names and addresses of the member or members concerned, sent by email to miles.ingrey-counter@avon-rubber.com.

(16) Pursuant to sections 338 and 338A of the Act, a member or members meeting the qualification criteria set out below, may, subject to conditions, require the Company to give to members notice of a resolution which may properly be moved and is intended to be moved at the AGM or require the Company to include in the business to be dealt with at the AGM a matter (other than a proposed resolution) which may properly be included in the business.

The conditions are that:

(i) The resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise).

(ii) The resolution or the matter of business must not be defamatory of any person, frivolous or vexatious.

The Company is required to give notice of a resolution or the matter of business once it has received requests that it do so from:

(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 each and may be made by:

- a hard copy request which is signed by the member or members concerned, stating their full names and addresses and is sent to Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB.
- a request which is signed by the member or members concerned, stating their full names and addresses and is sent by fax to 01225 896898 marked for the attention of the Company Secretary.
- a request which states the full names and addresses of the member or members concerned, sent by email to miles.ingrey-counter@avon-rubber.com.

The request:

(i) for a resolution, must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported;

(ii) for a matter of business, must identify the matter of business by either setting out the matter for business in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported; and

(iii) must be received by the Company not later than 6 weeks before the date of the AGM.

Explanatory notes

The Board believes that the adoption of resolutions 1 to 14 will promote the success of the Company and is in the best interests of the Company and its shareholders as a whole. The Board unanimously recommends that all shareholders should vote in favour of all the resolutions to be proposed at the AGM. Each of the Directors of the Company intends to vote in favour of all resolutions in respect of their own beneficial holdings.

Resolution 1 – Report and Accounts

The Directors are required by law to present to the AGM the accounts, and the reports of the Directors and Auditors, for the year ended 30 September 2016. These are contained in the Company's 2016 Annual Report.

Resolution 2 - Directors' Remuneration Report

Resolution 2 seeks approval for the Directors' Remuneration Report for the year ended 30 September 2016 contained on pages 55 to 73 of the Annual Report. As in previous years, the vote on this resolution is advisory only and the Directors' entitlement to remuneration is not conditional on it being passed.

The Company's Remuneration Policy, which is re-stated in the Remuneration Report was approved by shareholders at the 2016 AGM and will remain in effect for three years or until shareholders are asked to approve an amended version. No amendments to the Directors' Remuneration Policy are proposed at this year's AGM.

Resolution 3 – Declaration of a dividend

A final dividend can only be paid after the shareholders have approved it at a general meeting. If the meeting approves this Resolution, a final dividend in respect of the financial year ended 30 September 2016 of 6.32p will be paid.

Resolutions 4 to 7 – Election and re-election of Directors

In accordance with the UK Corporate Governance Code and the Company's Articles, all Directors are subject to election by shareholders at the first AGM after their appointment, and to re-election thereafter at intervals of no more than three years. Non-Executive Directors who have served longer than nine years are subject to annual re-election.

Mr D. Evans and Mr R. Rennie retire by rotation and, being eligible, offer themselves for re-election.

Miss C. Ponsonby was appointed as a Director with effect from 1 March 2016 and Mr P. Rayner will be appointed as a Director with effect from 1 December 2016. In accordance with the Company's Articles, both retire at this year's AGM and Resolutions 6 and 7 propose their re-appointment.

Resolution 8 & 9 – Re-appointment and remuneration of Auditors

Resolutions 8 & 9 propose the re-appointment of PricewaterhouseCoopers LLP as Auditor of the Company and authorise the Directors to set their remuneration.

Resolution 10 – Directors' authority to allot

This Resolution deals with the Directors' authority to allot Relevant Securities in accordance with section 551 of the Act. The authority granted at the last annual general meeting is due to expire at the conclusion of this year's AGM and accordingly it is proposed to renew this authority.

This Resolution complies with the Investment Association Share Capital Management Guidelines issued in July 2016.

This Resolution will, if passed, authorise the Directors to allot Relevant Securities up to a maximum nominal amount of £10,341,097, which is equal to approximately one-third of the issued share capital of the Company as at 16 November 2016.

The Directors have no present intention of exercising this authority.

The authority granted by this resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

In this resolution, Relevant Securities means:

(i) shares in the Company other than shares allotted pursuant to:

- an employee share scheme (as defined by section 1166 of the Act);
- a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or
- a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

(ii) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Act). References to the allotment of Relevant Securities in this resolution include the grant of such rights

Resolution 11 – Disapplication of pre-emption rights

This Resolution will, if passed, give the Directors power, pursuant to the authority to allot granted by Resolution 10, to allot equity securities (as defined by section 560 of the Act, or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 16 November 2016 and renews the authority given at the AGM in 2016.

The figure of 5% reflects the Pre-Emption Group 2015 Statement of Principles for the disapplication of pre-emption rights (the 'Statement of Principles'). The Directors will have due regard to the Statement of Principles in relation to any exercise of this power, in particular they do not intend to allot shares for cash on a non-pre-emptive basis pursuant to this power in excess of an amount equal to 7.5% of the total issued ordinary share capital of the Company in any rolling three-year period, without prior consultation with shareholders save as permitted in connection with an acquisition or specified capital investment as described in the notes for Resolution 12.

The power granted by this Resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors have no preset intention to exercise the authority conferred by this resolution.

Resolution 12 – Additional disapplication of pre-emption rights

This Resolution seeks a further power pursuant to the authority granted by Resolution 10, to allot equity securities (as defined by section 560 of the Companies Act 2006) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings up to a maximum nominal amount of £1,551,164 which represents approximately 5% of the Company's issued share capital as at 16 November 2016. This is in addition to the 5% referred to in Resolution 11 above.

The power granted by this Resolution will expire on the date 15 months after the date of this Resolution or, if earlier, the date of the next annual general meeting of the Company.

The Directors will have due regard to the Statement of Principles in relation to any exercise of this power and in particular they confirm that they intend to use this power only in connection with a transaction which they have determined to be an acquisition or other capital investment (of a kind contemplated by the Statement of Principles most recently published prior to the date of this Notice) which is announced contemporaneously with the announcement of the issue, or which has taken place in the preceding six month period and is disclosed in the announcement of the issue.

Resolution 13 – Authority to purchase own shares

This Resolution seeks authority for the Company to make market purchases of its own shares and is proposed as a special resolution.

If passed, the resolution gives authority for the Company to purchase up to 4,653,492 ordinary shares of £1 each, representing just under 15% of the Company's issued ordinary share capital as at 16 November 2016.

The Resolution specifies the minimum and maximum prices which may be paid for any ordinary shares purchased under this authority. The authority will expire on the earlier of the date 15 months after the date of this Resolution and the Company's next AGM.

As of 16 November 2016 there were options to subscribe outstanding over 605,862 ordinary shares, representing 1.95% of the Company's ordinary issued share capital. If the authority given by Resolution 13 were to be fully exercised, these options would represent 2.29% of the Company's ordinary issued share capital after cancellation of the re-purchased shares. As of 16 November 2016 there were no warrants outstanding over ordinary shares.

The Directors intend to exercise the power given by Resolution 13 only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the earnings per ordinary share having regard to the intent of the guidelines of institutional investors and that such purchases are in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly.

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

In the opinion of the Directors, Resolution 13 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.

Resolution 14 – Notice of Meeting

Resolution 14 is a resolution to allow the Company to hold general meetings (other than annual general meetings) on 14 days' notice.

Before the introduction of the Companies (Shareholders' Rights) Regulations in August 2009, the Company was able to call general meetings (other than annual general meetings) on 14 clear days' notice. One of the amendments that the Companies (Shareholders' Rights) Regulations 2009 made to the Act was to increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided that: (i) the Company offers facilities for shareholders to vote by electronic means; and (ii) there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days.

Resolution 14 is therefore proposed as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The approval will be effective until the Company's next annual general meeting, when it is intended that the approval be renewed. The Company will use this notice period when permitted to do so in accordance with the Act and when the Directors consider it appropriate to do so.

NOTES

SHAREHOLDER INFORMATION

Shareholding

On 7 November 2016 the Company had 1,600 shareholders, of which 959 (60%) had 1,000 shares or fewer.

Financial calendar

Interim results announced in May and final results in November.

In respect of the year ended 30 September 2016 the annual general meeting will be held on 2 February 2017 at Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England.

Corporate information

Registered office

Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England.

Registered

In England and Wales No 32965
VAT No. GB 137 575 643

Board of Directors

David Evans (Chairman)
Rob Rennie (Chief Executive Officer)
Andrew Lewis (Group Finance Director)
Pim Vervaat (Non-Executive Director)
Chloe Ponsonby (Non-Executive Director)

Company secretary

Miles Ingrey-Counter

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Registrars & transfer office

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU.

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

Brokers

Arden Partners PLC

Solicitors

TLT LLP

Principal bankers

Barclays Bank PLC
Comerica Inc.

Corporate financial advisor

Arden Partners PLC

Corporate website

www.avon-rubber.com

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