Avon Rubber p.l.c.

BUILDING A BRIGHTER FUTURE

	30 Sept 2017	30 Sept 2016 (Restated)[2]	% Increase Reported	% Increase Constant Currency
Orders received	**£173.9m**	£142.3m	22.2%	11.8%
Closing order book	**£34.0m**	£23.4m	45.3%	46.3%
Revenue	**£163.2m**	£142.9m	14.2%	4.5%
Adjusted[1] operating profit	**£25.8m**	£20.9m	23.4%	16.1%
Operating profit	**£19.8m**	£16.8m	17.9%	11.0%
Net cash	**£24.7m**	£2.0m	(up £22.7m)	
Adjusted[1] earnings per share	**82.8p**	71.9p	15.2%	10.0%
Earnings per share	**70.6p**	58.1p	21.5%	13.9%
Dividend per share	**12.32p**	9.48p	30.0%	

Financial highlights

- Strong financial delivery – adjusted[1] operating profit, EPS and net cash ahead of expectations
- Orders received up 22.2% at £173.9m and £10.7m ahead of revenue
- Revenue up 14.2% at £163.2m and adjusted[1] operating profit up 23.4% at £25.8m
- Constant currency revenue and adjusted[1] operating profit growth of 4.5% and 16.1%
- Positive adjusted[1] EBITDA margin enhancement of 120 bps to 22.1%
- Strong EBITDA cash conversion of 98.1% resulting in net cash of £24.7m, up £22.7m
- Adjusted[1] earnings per share of 82.8p grew by 15.2% and 10.0% at constant currency
- Final dividend per share of 8.21p, resulting in total dividend per share of 12.32p, up 30%
- Closing order book of £34.0m, up 45.3%, and £26.6m of orders received post year end provides excellent visibility going into 2018

Paul McDonald, Chief Executive Officer, commented:

"We have delivered a strong set of results, growing our order book and progressing medium-term opportunities for future growth.

Our Law Enforcement and Fire businesses drove strong growth in Avon Protection during the year. This momentum, together with the significant opportunities emerging from the expanding Military product and customer base, provide a very positive growth outlook for Avon Protection in 2018 and subsequent years.

milkrite | InterPuls continues to benefit from its expanded technology and service proposition, alongside a more positive dairy market, with strong growth in PCI and Farm Services, which we expect to continue in 2018.

There are significant growth opportunities for both businesses and I am confident in our ability to deliver value to our customers, our people and our shareholders in 2018 and beyond."

Notes:
[1] The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. Adjusted results exclude exceptional items, defined benefit pension scheme costs and the amortisation of acquired intangibles. The term adjusted is not defined under IFRS and may not be comparable with similarly titled measures used by other companies. A reconciliation of reported numbers to adjusted numbers is provided in the financial review on page 15 of the preliminary results.

[2] 2016 has been restated to correct the charge for share based payments, see page 31 of the preliminary results for further details. The restatement reduces the 2016 adjusted and reported operating profit and earnings per share by £0.9m and 2.3p respectively.

For further enquiries, please contact:

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An analyst meeting will be held at 11.00am this morning at the offices of Weber Shandwick Financial, 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE.

Legal Entity Identifier: 213800JM1AN62REBWA71

Note to editors:
Avon Rubber p.l.c. is an innovative technology group specialising in respiratory protection systems and milking point solutions through our two businesses Avon Protection and milkrite | InterPuls. We design, test and manufacture specialist products and services to maximise the performance and capabilities of our customers.

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

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

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

Chief Executive Officer's review

Having worked for Avon for the last 14 years, I was delighted to be appointed Chief Executive Officer on 15 February 2017. There are significant growth opportunities for the Group and I am confident in our ability to deliver value to our customers, our people and our shareholders.

STRATEGY

Following my appointment, I have been working with the Board and my Group Executive management team to update the Group's strategy for delivering long-term, sustainable growth. Our strategy for creating shareholder value is based upon 3 key elements:

- grow the core by maximising organic sales growth from our current product portfolio;
- pursue selective organic product development to maintain our innovation leadership position; and
- target value enhancing acquisitions to complement our existing businesses and add additional growth opportunities for the Group.

GROW THE CORE

Avon Protection

We see clear growth opportunities for Avon Protection's existing product and service offering across all our markets of Military, Law Enforcement and Fire.

Expanding our global Military customer base

Our technology platform and commitment to service delivery have made Avon Protection the global leader in respiratory protection. Through our strong relationship with the US military, we have created a specialist product portfolio ranging from general service respiratory equipment through to complex integrated CBRN systems. As a result we can offer a tailored solution that addresses both the functionality and cost requirements of our customers. Coupled with excellent service and reliability, this enables us to serve the sophisticated needs of special forces customers as well as high volume general service requirements.

Our world leading expertise and reputation for quality in respiratory protection systems has been recognised by the UK Ministry of Defence through our nomination as the preferred bidder for the resupply and in-service support of its General Service Respirator.

We are actively pursuing further opportunities to broaden our Military customer base and provide access to our world leading products.

Growing the Law Enforcement market

Demand from this market continues to be driven by a need to provide improved protection against growing global CBRN threats, as recently seen in several countries around the world. During 2017 we have experienced strong sales momentum in this market and have seen increased demand for our escape products. In the US in particular, our leading product technologies for Law Enforcement departments are setting Avon Protection apart and enabling us to continue to grow our market share. Over the mid-term we expect market share gains to continue. To cross-sell a broader range of CBRN systems, we look forward to launching our US powered air range once NIOSH approvals are received.

Reshaping our Fire strategy

Our market for Self-Contained Breathing Apparatus (SCBA) in the Fire sector remains competitive and with a fragmented customer base. However we see an opportunity to leverage our technology capability to enhance the product offering in this segment and are in the process of upgrading our system to comply with the new 2018 NFPA standards. We have developed a revised sales strategy to ensure we deliver sustainable growth over the mid-term.

The argus thermal imaging camera technology we acquired in October 2015 has been a significant addition to the Fire product portfolio. This is a trusted brand for firefighters and will enable us to open cross-selling opportunities across the product range and build a wider distribution network for the combined product offering.

Continuous focus on operational excellence

Over the last ten years we have established an efficient and flexible manufacturing operation from which to serve our global customer base. This has enabled us to maintain excellent product reliability, as well as actively manage order scheduling, ensuring that we can maintain high productivity whilst being able to meet our customers' quality and delivery needs.

We are committed to continually improving our production processes and see opportunities for further scale efficiencies in the medium-term. Furthermore, we are exploring opportunities to deploy flexible manufacturing solutions, including local assembly operations to support regional customers, and optimise our production cost base to meet our future growth aspirations.

milkrite | InterPuls

milkrite | InterPuls has developed a set of strategic sales growth priorities for each of its lines of business.

Interface

Further expand our existing global market-leading position and counter competitive challenge by focusing on expanding the global dealer network and launching the next generation of milking products.

Precision, Control and Intelligence (PCI)

Leverage our dominant market position in Interface to maximise cross-sales of our PCI range of products. Complete the development of the control and intelligence product ranges to meet the regional requirements for the geographies that we serve.

Farm Services

Continue to build on the success of Cluster Exchange Service (CES) in both US and European markets by introducing the additional Pulsator Exchange Service (PES) and Tag Exchange Service (TES) and marketing as a Farm Services portfolio, whilst becoming a key partner directly with the farm on a lease hire arrangement.

SELECTIVE PRODUCT DEVELOPMENT

Continued investment to expand our product range

To maintain our innovation leadership position, we will continue to invest in new products in both businesses and in enhancements to our existing product ranges. Our aim is to generate the highest return from our research and development activities by focussing on innovation that is most relevant to our customers and offers the best commercial outcomes. This means that whilst we do not intend to invest at the same levels as recent years, we will target investment in large projects where we see further opportunity to add value in line with our strategic objectives and growth targets.

Building on our long term partnership with the DoD

The ten year sole-source JSGPM contract for the M50 mask system has been a significant platform for establishing the Group both as a trusted supplier to and as a critical innovation partner for the US Department of Defense (DoD). We have established multi-level relationships with the world's largest military customer and our R&D teams continue to work closely in addressing the future challenges for military technology.

We have been working on a number of potentially significant new platform programmes, including the M69 aircrew mask and the M53A1 powered air respirator & Powered Air Purifying Respirator (PAPR) system. Following the recent confirmation from the DoD of the Group's participation under the Joint Enterprise – Research, Development, Acquisition and Production Procurement contract vehicle, we anticipate commencing production of these systems during 2018 and expect this to offset any revenue reduction as a result of the transition of the JSGPM contract in 2019.

VALUE ENHANCING ACQUISITIONS

We intend to complement the organic growth strategy described above with carefully selected, value enhancing acquisitions within both Avon Protection and milkrite | InterPuls. Acquisitions are intended to complement and extend the reach of our existing businesses. This will have the effect of building a more robust and diversified business, albeit within our existing markets. We have a strong balance sheet including net cash of £24.7m, together with committed bank facilities of £29.9m, and a cash generative business. This financial position, as well as our willingness to extend leverage up to two times EBITDA, means we are well positioned to pursue potential acquisitions that meet our criteria and act decisively where we find them.

I am excited by the potential of our updated strategy which sets out the next chapter in building a brighter future for Avon through the delivery of long-term sustainable growth at improved margins.

PEOPLE

This year saw a high level of transition within the senior executive team, with my appointment as Chief Executive Officer and that of Nick Keveth as Chief Financial Officer. I am delighted to welcome two new divisional leaders this year, Leon Klapwijk for Avon Protection and Craig Sage for milkrite | InterPuls, both being internal appointees from within our business who have extensive knowledge and experience of the Group and the markets we serve. I believe we have a stronger senior management team in place to continue to build on the success of recent years and deliver our ambitious and exciting growth strategy for the future.

Since my appointment, I have visited all of our sites and wish to personally thank all of our employees for their positive response to my appointment and their input to the updated strategy. I thank you all for your continued dedication, enthusiasm and professionalism and look forward to sharing in our future success as a Group.

OUTLOOK

Our closing order book of £34.0m together with £26.6m of orders received post year end provides good visibility as we enter the new financial year and we are well positioned to deliver further growth in 2018.

Within Avon Protection we expect initial orders for the M53A1 powered air respirator and M69 aircrew respirator programmes in 2018, with these orders offsetting the non-recurrence of the 37,000 FM50 general purpose respirator order and anticipated lower M50 mask systems deliveries to the DoD during 2018. In the medium-term these programmes together with UK General Service Respirator revenues are expected to offset any revenue reduction from anticipated lower

M50 deliveries once the ten year sole-source contract ends in 2018. We are also excited by the opportunities emerging from our wider product portfolio that will enable us to grow with the DoD as well as broadening the Military and Law Enforcement customer base.

The Dairy market environment continues to be positive with improved milk prices and low feed costs reflected in increased farmer confidence. In this environment, we anticipate that the growth trends experienced by milkrite | InterPuls in 2017 will continue in the new financial year.

We are well positioned to deliver against all three of our strategic priorities of growing the core, selective product development and value enhancing acquisitions.

Operational review

Avon Protection

FINANCIAL PERFORMANCE

	2017	2016	% Change	% Change at constant currency
Orders received	**£123.9m**	£99.7m	24.3%	14.6%
Closing order book	**£30.5m**	£20.9m	45.9%	50.0%
Revenue	**£113.8m**	£100.9m	12.8%	3.6%
Adjusted EBITDA	**£27.1m**	£21.5m	26.0%	16.6%
Adjusted EBITDA margin	**23.8%**	21.3%	2.5%	
Adjusted operating profit	**£19.8m**	£15.1m	31.1%	22.2%
Segment result	**£15.9m**	£13.1m	21.4%	12.8%

Orders received totalling £123.9m (2016: £99.7m) together with favourable currency movements drove an increase in revenue of 12.8% to £113.8m (2016: £100.9m). On a constant currency basis, revenue grew by 3.6% with flat Military revenue, 6.1% growth in Law Enforcement and Fire growing by 17.7%.

Adjusted operating profit grew by 31.1% to £19.8m (2016: £15.1m) and adjusted EBITDA was up 26.0% to £27.1m (2016: £21.5m), resulting in an adjusted EBITDA margin of 23.8%. (2016: 21.3%). Our margins have improved due to the mix of product shipped and cost efficiencies. On a constant currency basis adjusted operating profit and adjusted EBITDA grew by 22.2% and 16.6% respectively.

MILITARY

Military revenue of £68.2m (2016: £62.3m) was up 9.5% due to favourable currency movements. On a constant currency basis, Military revenues were flat versus last year with the 37,000 FM50 general purpose respirator order offsetting lower DoD revenues.

DoD revenue from M50 mask systems, filters, spares and development costs totalled £50.5m versus £52.9m in 2016, reflecting lower M50 mask system volumes offset by favourable currency movements.

We delivered 150,000 M50 mask systems and 144,000 filter pairs, compared with 189,000 mask systems and 122,000 pairs of filter spares in 2016. DoD spares and development costs revenue increased to £15.6m (2016: £12.9m) due to higher development costs relating to the M69 air crew mask.

Having received orders for 169,000 M50 mask systems during the year, this leaves us with an order book of 49,000 systems as we enter 2018. The closing order book also includes spares of £4.1m, primarily relating to 15,000 M50 face piece assemblies. Since the year end we have received further orders for 118,000 filters and £4.5m of spares from the DoD.

Revenue from our Rest of World Military business increased to £13.7m (2016: £4.8m) primarily due to delivery of the 37,000 FM50 general purpose mask order.

Avon Engineered Fabrications (AEF) has experienced another soft year with revenues of £4.0m (2016: £4.8m), reflecting the variability in timing of certain DoD procurement programmes for fuel and water storage tanks. AEF experienced strong order intake in the final quarter of 2017 and enters 2018 with an order book totalling £4m. Our acquisition strategy will result, in the medium-term, in AEF losing the benefits it currently enjoys under the US Small Business regime and therefore we are considering the strategic options for this business.

LAW ENFORCEMENT

Law Enforcement revenue grew 14.2% to £29.0m (2016: £25.4m) due to favourable currency movements and 6.1% at constant currency. North America revenues grew by 22.3% on a constant currency basis to £20.0m, driven by strong performance in hoods and mask systems as we continue to convert police forces to our C50 mask.

FIRE

Fire revenue grew by 25.8% to £16.6m (2016: £13.2m) and 17.7% at constant currency with solid contributions from both SCBA and thermal imaging cameras.

OUTLOOK

The strong closing order book totalling £30.5m (2016: £20.9m) together with the further orders received post year end for 118,000 M61 filter pairs and £4.5m of DoD spares provide excellent visibility for 2018.

The previously reported M53A1 powered air respirator and M69 aircrew mask opportunities continue to progress with initial DoD orders expected in the 2018 financial year. We anticipate that the initial orders under these programmes will offset the non-recurrence of the 37,000 FM50 general purpose respirator order and anticipated lower M50 mask systems deliveries to the US DoD during 2018 resulting in stable Military revenues.

We expect similar levels of Law Enforcement revenue growth in 2018 driven by continued conversion of North American police forces to our C50 mask system and continuing demand for our hoods from a range of global customers. We also expect sales of our new PAPR range to build momentum once NIOSH approvals have been obtained.

We anticipate slower revenue growth in Fire in 2018 as the growth rate for argus thermal imaging cameras reverts to a more normal level.

FINANCIAL PERFORMANCE

	2017	2016	% Change	% Change at constant currency
Orders received	**£50.0m**	£42.6m	17.4%	8.5%
Closing order book	**£3.5m**	£2.5m	40.0%	20.1%
Revenue	**£49.4m**	£42.0m	17.6%	6.6%
Adjusted EBITDA	**£10.9m**	£9.8m	11.2%	4.7%
Adjusted EBITDA margin	**22.1%**	23.3%	(1.2%)	
Adjusted operating profit	**£8.0m**	£7.2m	11.1%	5.8%
Segment result	**£6.3m**	£5.4m	16.7%	13.7%

Revenue increased by 17.6% to £49.4m (2016: £42.0m) due to favourable currency movements and 6.6% on a constant currency basis. On a constant currency basis, Interface grew revenue by 4.3%, PCI by 20.2% and Farm Services by 18.9%. The growth trends reflect increased farmer confidence following sustained improvements in the milk price/feed cost ratio as the market recovers from the weaker market conditions experienced in 2016.

Adjusted operating profit grew by 11.1% to £8.0m (2016: £7.2m) and adjusted EBITDA was up 11.2% to £10.9m (2016: £9.8m), resulting in an adjusted EBITDA margin of 22.1% (2016: 23.3%). Our margins have softened due to increased investment to deliver growth in response to the improved market conditions. On a constant currency basis adjusted operating profit and adjusted EBITDA grew by 5.8% and 4.7% respectively.

INTERFACE

Interface revenue grew by 12.4% to £34.5m (2016: £30.7m) benefiting from favourable currency movements and 4.3% constant currency growth driven by Europe and Brazil.

North America revenues grew 9.1% to £19.2m (2016: £17.6m), reflecting favourable currency movements. On a constant currency basis revenue declined by 1.1% reflecting a further decline in OEM revenues. milkrite | InterPuls manufactures 64% (2016: 61%) of liners sold in the US with its own brand products share stable at 51% and the Impulse Air mouthpiece vented liner increasing its share to 31% (2016: 29%).

In Europe, revenue grew by 17.4% to £9.7m and 15.6% at constant currency. Avon manufactured liners have a 76% (2016: 72%) market share with milkrite | InterPuls's own branded product increasing to 38% (2016: 32%) due to growth in traditional own brand products and the success of our Impulse Air mouthpiece vented liner with its market share increasing to 8% (2016: 6%).

Latin America grew liner revenues by 29.3% on a constant currency basis reflecting market share gains in Brazil. Asia Pacific liner revenues declined by 1% at constant currency as a result of difficult market conditions experienced in China during 2017.

PRECISION, CONTROL & INTELLIGENCE

Sales of our PCI products have benefited from increased farmer confidence resulting in higher investment spend. Revenue grew by 33.3% to £10.4m (2016: £7.8m) reflecting 20.2% constant currency growth and favourable currency movements.

The constant currency growth was driven by growth in Europe of 29.5% and 82.5% in Latin America again reflecting our performance in Brazil. In North America, PCI growth was 3.3% on a constant currency basis.

FARM SERVICES

Farm Services has continued to show exceptional growth with revenue increasing by 28.6% to £4.5m (2016: £3.5m) and constant currency growth of 18.9%. The constant currency growth was driven by growth in North America of 16.8% and 22.7% in Europe.

At the end of the year, Cluster Exchange had grown by 25% to 35,000 cluster points (2016: 28,000) serving 624,000 cows on 1,891 farms, up from 467,000 cows and 1,530 farms at the same time last year. To increase our European capacity, we plan to open a Farm Services exchange centre at our Albinea site in Italy during 2018.

During the year, we have expanded Farm Services with the launch of Pulsator Exchange in North America. From a zero base, we have introduced 478 Pulsators onto 11 farms serving 19,570 cows.

Tag Exchange will follow in 2018 with farm pilots underway and progressing successfully. We plan to launch Tag Exchange in both North America and Europe in 2018.

OUTLOOK

The dairy market environment continues to be positive with improved milk prices and low feed costs reflected in increased farmer confidence. In this environment, we anticipate that the growth trends experienced in 2017 will continue in the new financial year, although with a moderation in the PCI revenue growth rate to around 10%.

Financial review

The Group has delivered a strong financial performance during the year with growth in orders received of 22.2% and favourable currency movements delivering revenue growth of 14.2% and adjusted operating profit growth of 23.4%. After amortisation of acquired intangibles, the write down of the Emergency Escape Breathing Device (EEBD) (see below) and post-acquisition adjustments, operating profit grew by 17.9% to £19.8m (2016: £16.8m). At constant currency, orders, revenue and adjusted operating profit increased by 11.8%, 4.5% and 16.1% respectively. Our continued focus on profitable growth has resulted in our adjusted EBITDA margin increasing to 22.1% compared to 20.9% in 2016.

Adjusted profit before tax was £25.6m (2016: £20.7m) and after a tax charge of £0.4m (2016: credit of £1.1m), the Group recorded an adjusted profit for the year of £25.2m (2016: £21.8m).

On a statutory basis, profit before tax was £18.6m (2016: £15.9m) and, after a tax credit, profit for the year was £21.5m (2016: £17.6m).

Adjusted basic earnings per share grew by 15.2% to 82.8p (2016: 71.9p). Basic earnings per share were 70.6p (2016: 58.1p) up 21.5% on 2016.

Our results for 2017 reflect the £2.9m exceptional write down of the EEBD development costs following the discontinuation of this product, as well as higher share based payment costs of £0.9m to fully reflect the fair value of the share awards.

We have restated our 2016 operating profit to correct the prior year charge for share based payments resulting in a restated 2016 adjusted operating profit of £20.9m compared to the £21.8m previously reported. Going forward we expect the higher share based payments costs to be offset by lower amortisation costs in relation to intangible assets.

Cash generation has continued to be strong with 98.1% of adjusted EBITDA converted into operating cash inflows. This has resulted in year end net cash of £24.7m, an increase of £22.7m in the year, which will help fund our growth strategy and future acquisitions.

Against this backdrop, the Board has increased the final dividend by 30% to 8.21p resulting in total dividends for the year of 12.32p, also up 30% on 2016.

The closing order book of £34.0m is 45.3% higher than at the end of 2016, reflecting strong performances across all markets in which we operate. On a constant currency basis, the closing order book grew by 46.3%. The closing order book together with £26.6m of orders received post year end provides good visibility for 2018.

The table below summarises the performance by segment, which is further explained in the Divisional reviews.

	2017 £m	2016 £m (restated)	Growth %	Growth at constant currency %
Orders received				
Avon Protection	**123.9**	99.7	24.3%	14.6%
milkrite | InterPuls	**50.0**	42.6	17.4%	8.5%
Total	**173.9**	142.3	22.2%	11.8%
Closing order book				
Avon Protection	**30.5**	20.9	45.9%	50.0%
milkrite | InterPuls	**3.5**	2.5	40.0%	20.1%
Total	**34.0**	23.4	45.3%	46.3%
Revenue				
Avon Protection	**113.8**	100.9	12.8%	3.6%
milkrite | InterPuls	**49.4**	42.0	17.6%	6.6%
Total	**163.2**	142.9	14.2%	4.5%
Operating profit				
Avon Protection	**15.9**	13.1	21.4%	12.8%
milkrite | InterPuls	**6.3**	5.4	16.7%	13.7%
Unallocated corporate costs	**(2.4)**	(1.7)	41.2%	
Total	**19.8**	16.8	17.9%	11.0%
Adjusted operating profit				
Avon Protection	**19.8**	15.1	31.1%	22.2%
milkrite | InterPuls	**8.0**	7.2	11.1%	5.8%
Unallocated corporate costs	**(2.0)**	(1.4)	42.9%	
Total	**25.8**	20.9	23.4%	16.1%
Adjusted EBITDA				
Avon Protection	**27.1**	21.5	26.0%	16.6%
milkrite | InterPuls	**10.9**	9.8	11.2%	4.7%
Unallocated corporate costs	**(2.0)**	(1.4)	42.9%	
Total	**36.0**	29.9	20.4%	12.1%
Adjusted EBITDA margin				
Avon Protection	**23.8%**	21.3%		
milkrite | InterPuls	**22.1%**	23.3%		
Total	**22.1%**	20.9%		

PROFIT FOR THE YEAR

	2017 £m	2016 £m (restated)
Adjusted operating profit	**25.8**	20.9
Adjustments	**(6.0)**	(4.1)
Operating profit	**19.8**	16.8
Net finance costs	**(1.2)**	(0.9)
Profit before taxation	**18.6**	15.9
Taxation	**2.9**	2.0
Profit from continuing operations	**21.5**	17.9
Discontinued operations	**-**	(0.3)
Profit for the year	**21.5**	17.6

ADJUSTMENTS

Adjustments of £6.0m (2016: £4.1m) have been excluded from adjusted operating profit and include the £2.9m exceptional write down of costs incurred in developing the EEBD product, amortisation of acquired intangible assets of £3.0m (2016: £3.3m) and pension administration costs of £0.4m (2016: £0.3m). Adjustments in 2017 also included an exceptional credit of £0.3m (2016: nil) for a post-acquisition working capital adjustment relating to the acquisition of InterPuls.

FINANCE COSTS

Net interest costs were £0.2m (2016: £0.2m). Other finance expenses of £1.0m (2016: £0.7m) represent the unwind of the discount on the net pension liability and, as in previous years, has been excluded from adjusted profit for the year.

TAXATION

Taxation was a credit of £2.9m (2016: credit of £2.0m) which consists of a £4.3m charge relating to the current year and a £7.2m credit in respect of previous periods. The current year charge represents an effective rate of 23% of profit before tax. The £7.2m credit in respect of previous periods includes a £2.3m credit in connection with company restructuring in previous years and the release of provisions following an updated assessment of uncertain tax positions.

DIVIDENDS

The Board is recommending a final dividend of 8.21p per share (2016: 6.32p) which together with the 4.11p per share interim dividend gives a total dividend of 12.32p (2016: 9.48p), up 30% on last year. The final dividend will be paid on 16 March 2018 to shareholders on the register at 16 February 2018 with an ex-dividend date of 15 February 2018.

Our policy is to maintain a progressive dividend policy balancing dividend increases with the rates of adjusted earnings per share growth achieved, taking into account potential acquisition spend and the Group's financing position. Over recent years, we have grown the dividend per share by 30% per annum and we expect to continue to grow dividends ahead of earnings over the medium-term. Our policy is to maintain dividend cover (the ratio of dividend per share to adjusted earnings per share) above two times. This year dividend cover was 6.7 times (2016: 7.6 times). Once dividend cover has reduced to two times we intend to increase dividends in line with the growth in adjusted earnings per share.

CASHFLOW AND NET CASH

Adjusted cash generated from operations was £35.3m up 6.6% on 2016. Operating cash conversion from adjusted EBITDA continued to be strong at 98.1% (2016: 110.7%) and operating cash conversion from adjusted operating profit was 136.8% (2016: 158.4%).

	2017 £m	2016 £m
Cash generated from operations before effect of exceptional items	**35.3**	33.1
Cash effect of exceptional items and discontinued operations	**0.3**	(0.7)
Cash generated from operations	**35.6**	32.4
Interest	**(0.1)**	(0.4)
Payments to pension plan	**(1.0)**	(0.7)
Tax	**(2.0)**	(1.0)
Purchase of property, plant and equipment	**(2.6)**	(3.6)
Capitalised development costs and purchased software	**(2.9)**	(3.3)
Acquisitions	**-**	(3.3)
Purchase of own shares	**(1.0)**	(1.8)
Dividends to shareholders	**(3.2)**	(2.4)
Foreign exchange and other items	**(0.1)**	(0.7)
Increase in net cash	**22.7**	15.2

At the year end, the Group had net cash of £24.7m (2016: £2.0m) and an undrawn US Dollar denominated bank facility of £29.9m, which is committed to 30 November 2019.

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

R&D INVESTMENT

We continue to invest for the future and our total investment in research and development (capitalised and expensed) amounted to £8.4m (2016: £8.3m) as shown below. Total research and development as a percentage of revenue was 5.1% (2016: 5.8%).

	2017			2016		
	Protection £m	**Dairy £m**	**Group £m**	Protection £m	Dairy £m	Group £m
Total expenditure	**7.6**	**0.8**	**8.4**	7.5	0.8	8.3
Less customer funded	**(4.6)**	**-**	**(4.6)**	(4.3)	-	(4.3)
Group expenditure	**3.0**	**0.8**	**3.8**	3.2	0.8	4.0
Capitalised	**(1.9)**	**(0.8)**	**(2.7)**	(2.5)	(0.6)	(3.1)
Income statement impact of current year expenditure	**1.1**	**-**	**1.1**	0.7	0.2	0.9
Amortisation	**3.3**	**0.2**	**3.5**	2.3	0.1	2.4
Impairment	**2.6**	**-**	**2.6**	-	-	-
Total income statement impact	**7.0**	**0.2**	**7.2**	3.0	0.3	3.3
Revenue	**113.8**	**49.4**	**163.2**	100.9	42.0	142.9
R&D spend as % of revenue	**6.7%**	**1.6%**	**5.1%**	7.4%	1.9%	5.8%

In Avon Protection the most significant investments have been in further developing the M69 aircrew mask, our Deltair SCBA and MCM100 product range. In milkrite | InterPuls, investment has been focussed on expanding our Precision, Control and Intelligence (PCI) product range.

Having appraised the range of future product opportunities available, we have decided to discontinue the NIOSH approvals process for the Emergency Escape Breathing Device (EEBD). This product, which is outside of our core CBRN and respiratory range, was primarily developed for a US Navy contract which was ultimately awarded to a competitor in 2015. Following review of alternative commercial opportunities for this technology, further development has been terminated in view of the limited opportunities identified to commercialise the product in the foreseeable future. As a result, an exceptional non-cash impairment charge of £2.9m has been recorded in the year end accounts as a non-recurring item.

PENSIONS

The Group has a UK pension scheme which is closed to future accrual. The net pension liability, as measured under IAS 19 (revised), is £44.1m (2016: £39.9m). The £4.2m increase in the deficit over the last year is due to adopting more conservative mortality and inflation assumptions and the discount rate exceeding actual investment return.

We received the results of the triennial funding valuation as at 31 March 2016 and this showed the plan to be 90% funded on a continuing basis with a deficit of £33.8m. A deficit recovery plan is in place. In 2017, the Group made total contributions of £1.0m (2016: £0.7m) and has agreed to pay £1.5m per annum in future. The level of contributions will next be reassessed following the 2019 triennial funding valuation.

FINANCIAL RISK MANAGEMENT

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

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

CURRENCY EFFECT

The Group has translational exposure arising on the consolidation of overseas company results into Sterling. Based on the current mix of currency denominated profit, a five cents appreciation of the US Dollar increases revenue by approximately £5.0m and operating profit by approximately £0.7m. A five cents appreciation of the Euro increases revenue by approximately £0.5m and operating profit by approximately £0.1m.

SHARE BASED PAYMENTS

The non-cash charge to the income statement for share based payments has been understated in previous years, as share awards under the Performance Share Plan have been undervalued for accounting purposes. As a result, the 2016 share based payments charge has been restated from £0.1m to £1.0m, to reflect the fair value of these awards, which has the effect of reducing the 2016 reported and adjusted operating profit by £0.9m. Further details of this restatement to the 2016 comparators is provided in note 12 to the preliminary results.

ADJUSTED PERFORMANCE MEASURES

This document contains certain financial measures that are not defined or recognised under IFRS including adjusted operating profit and adjusted earnings per share. The Directors believe that adjusted measures provide a more useful comparison of business trends and performance. These adjusted measures exclude the effect of exceptional items, defined benefit scheme pension costs, the amortisation of acquired intangible assets and discontinued operations. The Group uses these measures for planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses within the Group. Given the term adjusted is not defined under IFRS, the adjusted measures may not be comparable with similarly titled measures used by other companies.

The following tables show the adjustments made to arrive at adjusted operating profit, adjusted profit for the year and adjusted basic earnings per share.

	2017			2016		
Adjusted operating profit	**Protection £m**	**Dairy £m**	**Group £m**	Protection £m	Dairy £m	Group £m (restated)
Operating profit	**15.9**	**6.3**	**19.8**	13.1	5.4	16.8
Amortisation of acquired intangibles	**1.0**	**2.0**	**3.0**	1.5	1.8	3.3
Integration costs	**-**	**-**	**-**	0.5	-	0.5
Defined benefit pension administration costs	**-**	**-**	**0.4**	-	-	0.3
Impairment of EEBD capitalised development expenditure	**2.6**	**-**	**2.6**	-	-	-
Impairment of EEBD plant and machinery	**0.3**	**-**	**0.3**	-	-	-
Post-acquisition working capital adjustment	**-**	**(0.3)**	**(0.3)**			
Adjusted operating profit	**19.8**	**8.0**	**25.8**	15.1	7.2	20.9

Adjusted basic earnings per share	**2017 £m**	2016 £m (restated)
Profit for the year	**21.5**	17.6
Amortisation of acquired intangibles	**3.0**	3.3
Integration costs	**-**	0.5
Defined benefit pension administration costs	**0.4**	0.3
Impairment of EEBD capitalised development expenditure	**2.6**	-
Impairment of EEBD plant and machinery	**0.3**	-
Post-acquisition working capital adjustment	**(0.3)**	-
Defined benefit pension net interest cost	**1.0**	0.7
Tax on exceptional items	**(3.3)**	(0.9)
Loss from discontinued operations	**-**	0.3
Adjusted profit for the year	**25.2**	21.8
Weighted average number of shares (in thousands)	**30,434**	30,276
Basic earnings per share (in pence)	**70.6**	58.1
Adjusted basic earnings per share (in pence)	**82.8**	71.9

Consolidated Statement of Comprehensive Income
for the year ended 30 September 2017

	Note	2017 Adjusted £m	2017 Adjustments* £m	2017 Statutory £m	2016 Adjusted (restated) £m	2016 Adjustments* £m	2016 Statutory (restated) £m
Continuing operations							
Revenue	2	**163.2**	**-**	**163.2**	142.9	-	142.9
Cost of sales		**(101.5)**	**-**	**(101.5)**	(90.2)	-	(90.2)
Gross profit		**61.7**	**-**	**61.7**	52.7	-	52.7
Selling and distribution costs		**(20.0)**	**-**	**(20.0)**	(18.0)	-	(18.0)
General and administrative expenses		**(15.9)**	**(6.0)**	**(21.9)**	(13.8)	(4.1)	(17.9)
Operating profit	2	**25.8**	**(6.0)**	**19.8**	20.9	(4.1)	16.8
Operating profit is analysed as:							
Before depreciation and amortisation		**36.0**	**(0.1)**	**35.9**	29.9	(0.8)	29.1
Depreciation and amortisation		**(10.2)**	**(5.9)**	**(16.1)**	(9.0)	(3.3)	(12.3)
Operating profit		**25.8**	**(6.0)**	**19.8**	20.9	(4.1)	16.8
Finance income		**0.1**	**-**	**0.1**	-	-	-
Finance costs		**(0.3)**	**-**	**(0.3)**	(0.2)	-	(0.2)
Other finance expense		**-**	**(1.0)**	**(1.0)**	-	(0.7)	(0.7)
Profit before taxation		**25.6**	**(7.0)**	**18.6**	20.7	(4.8)	15.9
Taxation	4	**(0.4)**	**3.3**	**2.9**	1.1	0.9	2.0
Profit for the year from continuing operations		**25.2**	**(3.7)**	**21.5**	21.8	(3.9)	17.9
Discontinued operations - loss for the year	3	**-**	**-**	**-**	-	(0.3)	(0.3)
Profit for the year		**25.2**	**(3.7)**	**21.5**	21.8	(4.2)	17.6

Consolidated Statement of Comprehensive Income
for the year ended 30 September 2017 (Continued)

	Note	2017 Adjusted £m	2017 Adjustments* £m	2017 Statutory £m	2016 Adjusted (restated) £m	2016 Adjustments* £m	2016 Statutory (restated) £m
Other comprehensive (expense)/income							
Items that are not subsequently reclassified to the income statement							
Actuarial loss recognised on retirement benefit scheme				**(3.8)**			(23.1)
Deferred tax relating to retirement benefit scheme	4			**0.6**			3.5
Items that may be subsequently reclassified to the income statement							
Net exchange differences offset in reserves				**(2.3)**			7.9
Cash flow hedges				**1.1**			(0.9)
Tax relating to exchange differences offset in reserves				**0.2**			(1.7)
Other comprehensive (expense)/income for the year, net of taxation				**(4.2)**			(14.3)
Total comprehensive income for the year				**17.3**			3.3
Earnings per share	6						
Basic		**82.8p**		**70.6p**	71.9p		58.1p
Diluted		**82.3p**		**70.2p**	70.6p		57.0p
Earnings per share from continuing operations	6						
Basic		**82.8p**		**70.6p**	71.9p		59.1p
Diluted		**82.3p**		**70.2p**	70.6p		58.0p

2016 has been restated to correct the charge for share based payments (see note 12).

* See note 3 for further details of adjustments.

Consolidated Balance Sheet

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Intangible assets		**40.4**	47.3
Property, plant and equipment		**26.3**	30.1
Deferred tax assets	4	**8.2**	7.8
		74.9	85.2
Current assets			
Inventories		**21.8**	20.6
Trade and other receivables		**23.8**	20.0
Derivative financial instruments		**0.2**	-
Cash and cash equivalents	10	**26.5**	4.5
		72.3	45.1
Liabilities			
Current liabilities			
Borrowings	10	**1.8**	2.5
Trade and other payables		**30.1**	24.2
Derivative financial instruments		**-**	0.9
Provisions for liabilities and charges	7	**0.3**	0.7
Current tax liabilities		**6.8**	8.3
		39.0	36.6
Net current assets		**33.3**	8.5
Non-current liabilities			
Deferred tax liabilities	4	**6.8**	10.0
Retirement benefit obligations		**44.1**	39.9
Provisions for liabilities and charges	7	**1.7**	1.8
		52.6	51.7
Net assets		**55.6**	42.0
Shareholders' equity			
Ordinary shares	8	**31.0**	31.0
Share premium account	8	**34.7**	34.7
Capital redemption reserve		**0.5**	0.5
Translation reserve		**6.5**	8.6
Accumulated losses		**(17.1)**	(32.8)
Total equity		**55.6**	42.0

Consolidated Cash Flow Statement

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from continuing operating activities before the impact of exceptional items	9	**35.3**	33.1
Cash impact of exceptional items		**0.3**	(0.4)
Cash generated from continuing operations		**35.6**	32.7
Cash used in discontinued operations		**-**	(0.3)
Cash generated from operations	9	**35.6**	32.4
Finance income received		**0.1**	-
Finance costs paid		**(0.2)**	(0.4)
Retirement benefit deficit recovery contributions		**(1.0)**	(0.7)
Tax paid		**(2.0)**	(1.0)
Net cash generated from operating activities		**32.5**	30.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**-**	0.1
Purchase of property, plant and equipment		**(2.6)**	(3.6)
Capitalised development costs and purchased software		**(2.9)**	(3.3)
Acquisition of subsidiaries and businesses		**-**	(3.3)
Net cash used in investing activities		**(5.5)**	(10.1)
Cash flows from financing activities			
Net movements in loans	10	**(0.8)**	(12.0)
Dividends paid to shareholders	5	**(3.2)**	(2.4)
Purchase of own shares	8	**(1.0)**	(1.8)
Net cash used in/generated from financing activities		**(5.0)**	(16.2)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**22.0**	4.0
Cash, cash equivalents, and bank overdrafts at beginning of the year		**4.5**	0.3
Effects of exchange rate changes		**-**	0.2
Cash, cash equivalents, and bank overdrafts at end of the year	10	**26.5**	4.5

Consolidated Statement in Changes in Equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Accumulated losses (restated) £m	Total equity (restated) £m
At 30 September 2015		31.0	34.7	2.9	(26.4)	42.2
Profit for the year		-	-	-	17.6	17.6
Net exchange differences offset in reserves		-	-	7.9	-	7.9
Tax relating to exchange differences offset in reserves		-	-	(1.7)	-	(1.7)
Cash flow hedges		-	-	-	(0.9)	(0.9)
Actuarial loss recognised on retirement benefit scheme		-	-	-	(23.1)	(23.1)
Deferred tax relating to retirement benefit scheme	4	-	-	-	3.5	3.5
Total comprehensive income for the year		-	-	6.2	(2.9)	3.3
Dividends paid	5	-	-	-	(2.4)	(2.4)
Movement in shares held by the employee benefit trust	8	-	-	-	(1.8)	(1.8)
Movement in respect of employee share schemes	12	-	-	-	1.0	1.0
Deferred tax relating to employee share schemes	4	-	-	-	(0.3)	(0.3)
At 30 September 2016		31.0	34.7	9.1	(32.8)	42.0
Profit for the year		**-**	**-**	**-**	**21.5**	**21.5**
Net exchange differences offset in reserves		**-**	**-**	**(2.3)**	**-**	**(2.3)**
Tax relating to exchange differences offset in reserves		**-**	**-**	**0.2**	**-**	**0.2**
Cash flow hedges		**-**	**-**	**-**	**1.1**	**1.1**
Actuarial loss recognised on retirement benefit scheme		**-**	**-**	**-**	**(3.8)**	**(3.8)**
Deferred tax relating to retirement benefit scheme	4	**-**	**-**	**-**	**0.6**	**0.6**
Total comprehensive income for the year		**-**	**-**	**(2.1)**	**19.4**	**17.3**
Dividends paid	5	**-**	**-**	**-**	**(3.2)**	**(3.2)**
Movement in shares held by the employee benefit trust	8	**-**	**-**	**-**	**(1.0)**	**(1.0)**
Movement in respect of employee share schemes	12	**-**	**-**	**-**	**0.9**	**0.9**
Deferred tax relating to employee share schemes	4	**-**	**-**	**-**	**(0.4)**	**(0.4)**
At 30 September 2017		**31.0**	**34.7**	**7.0**	**(17.1)**	**55.6**

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 30 September 2017 or 30 September 2016. Statutory accounts for the year ended 30 September 2016 were approved by the Board of Directors on 16 November 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2017 have not yet been delivered to the Registrar nor have the auditors yet reported on them.

This financial information has been prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (collectively 'IFRSs') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Certain statements in this announcement constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be constructed as a profit forecast.

Recent accounting developments

The following amendments to existing standards were adopted for the financial year but with no impact on the financial statements:

- Amendments to IAS 1, 'Disclosure Initiative'
- Amendments to IFRS 10, IFRS 12 and IAS 28, 'Applying the consolidation exemption'
- Annual improvements 2012-2014 cycle

At the time of this report, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the financial period:

- IFRS 9, 'Financial instruments' (applicable from year ending 30 September 2019)
- IFRS 15, 'Revenue from Customer Contracts' (applicable from year ending 30 September 2019)
- IFRS 16, 'Leases' (applicable from year ending 30 September 2020)

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

Under IFRS 16 'Leases', lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the financial statements as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 30 September 2017, operating lease commitments were £19.7m and operating lease payments for 2017 were £2.3m.

The Directors anticipate that the adoption of IFRS 9 and IFRS 15 will not have a material impact on the amounts reported and disclosures made in the Group's financial statements in the period of initial application.

2. 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 and Dairy.

Business segments

Year ended 30 September 2017

	Protection £m	Dairy £m	Unallocated £m	Group £m
Revenue	**113.8**	**49.4**		**163.2**
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	**27.1**	**10.9**	**(2.0)**	**36.0**
Depreciation of property, plant and equipment	**(3.7)**	**(2.3)**	**-**	**(6.0)**
Amortisation of development costs and software	**(3.6)**	**(0.6)**	**-**	**(4.2)**
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	**19.8**	**8.0**	**(2.0)**	**25.8**
Amortisation of acquired intangibles	**(1.0)**	**(2.0)**	**-**	**(3.0)**
Exceptional items	**(2.9)**	**0.3**	**-**	**(2.6)**
Defined benefit pension scheme costs			**(0.4)**	**(0.4)**
Segment result	**15.9**	**6.3**	**(2.4)**	**19.8**
Finance income				**0.1**
Finance costs				**(0.3)**
Other finance expense				**(1.0)**
Profit before taxation				**18.6**
Taxation				**2.9**
Profit for the year				**21.5**
Segment assets	**62.3**	**50.2**	**34.7**	**147.2**
Segment liabilities	**15.6**	**15.3**	**60.7**	**91.6**
Other segment items				
Capital expenditure				
- intangible assets	**2.2**	**0.7**	**-**	**2.9**
- property, plant and equipment	**1.1**	**1.5**	**-**	**2.6**

The Protection segment includes £50.5m (2016: £52.9m) of revenues from the US DoD, the only customer which individually contributes more than 10% to Group revenues.

Year ended 30 September 2016

	Protection (restated) £m	Dairy £m	Unallocated £m	Group (restated) £m
Revenue	100.9	42.0	-	142.9
Segment result before depreciation, amortisation, exceptional items and defined benefit pension scheme costs	21.5	9.8	(1.4)	29.9
Depreciation of property, plant and equipment	(3.9)	(2.0)	-	(5.9)
Amortisation of development costs and software	(2.5)	(0.6)	-	(3.1)
Segment result before amortisation of acquired intangibles, exceptional items and defined benefit pension scheme costs	15.1	7.2	(1.4)	20.9
Amortisation of acquired intangibles	(1.5)	(1.8)	-	(3.3)
Exceptional items	(0.5)	-	-	(0.5)
Defined benefit pension scheme costs	-	-	(0.3)	(0.3)
Segment result	13.1	5.4	(1.7)	16.8
Finance income				-
Finance costs				(0.2)
Other finance expense				(0.7)
Profit before taxation				15.9
Taxation				2.0
Profit for the year from continuing operations				17.9
Discontinued operations - loss for the year				(0.3)
Profit for the year				17.6
Segment assets	69.2	48.6	12.5	130.3
Segment liabilities	14.2	12.3	61.8	88.3
Other segment items				
Capital expenditure				
- intangible assets	2.7	0.6	-	3.3
- property, plant and equipment	1.9	1.7	-	3.6

Geographical segments by origin
Year ended 30 September 2017

	North America	**Europe**	**Group**
	£m	**£m**	**£m**
Revenue	**123.0**	**40.2**	**163.2**
Non-current assets	**27.9**	**47.0**	**74.9**

Year ended 30 September 2016

	North America	Europe	Group
	£m	£m	£m
Revenue	111.2	31.7	142.9
Non-current assets	40.2	45.0	85.2

3. Adjustments and discontinued operations

	2017	2016
	£m	£m
Amortisation of acquired intangible assets	**(3.0)**	(3.3)
Exceptional impairment of capitalised development expenditure	**(2.6)**	-
Exceptional impairment of plant and machinery	**(0.3)**	-
Exceptional post-acquisition working capital adjustment	**0.3**	-
Exceptional integration costs	**-**	(0.5)
Defined benefit pension scheme administration costs	**(0.4)**	(0.3)
	(6.0)	(4.1)

The tax impact of the above gives rise to a deferred tax credit to the income statement of £1.0m (2016: £0.9m).

The impairment of capitalised development expenditure and plant and machinery in 2017 represents the write down of costs of developing the Emergency Escape Breathing Device (EEBD) product. Further development of this product has been terminated as there are limited commercial opportunities in the current market.

The integration costs in 2016 relate to the acquisition of the argus thermal imaging camera business and the relocation of the manufacturing to our Melksham, UK site.

Defined benefit pension scheme costs relate to administrative expenses of the scheme which is closed to future accrual. £1.0m (2016: £0.7m) 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 £0.3m cash inflow (2016: £0.4m cash outflow).

	2017	2016
	£m	£m
Loss from discontinued operations	**-**	0.3

The loss from discontinued operations in 2016 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.

Discontinued operations had no impact on the cashflow statement in 2017 (2016: £0.3m).

4. Taxation

	2017 £m	2016 (restated) £m
UK current tax	**2.2**	1.2
UK adjustment in respect of previous periods	**(0.3)**	-
Overseas current tax	**1.5**	2.2
Overseas adjustment in respect of previous periods	**(2.6)**	(3.8)
Total current tax charge/(credit)	**0.8**	(0.4)
Deferred tax - current year	**0.6**	(0.9)
Deferred tax - adjustment in respect of previous periods	**(4.3)**	(0.7)
Total deferred tax credit	**(3.7)**	(1.6)
Total tax credit	**(2.9)**	(2.0)

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:

	2017 £m	2016 (restated) £m
Profit before taxation	**18.6**	15.9
Profit before taxation at the average standard rate of 19.5% (2016: 20.0%)	**3.6**	3.2
Permanent differences	**(0.1)**	(1.0)
Losses for which no deferred taxation asset was recognised	**-**	(0.6)
Differences in overseas tax rates	**0.8**	0.8
Adjustment in respect of previous periods	**(7.2)**	(4.4)
Tax (credit)	**(2.9)**	(2.0)

The £7.2m credit adjustment in respect of previous periods includes a £2.3m tax credit in connection with company restructuring in previous years and the release of provisions following an updated assessment of uncertain tax positions.

The income tax credited directly to equity during the year was £0.2m (2016: £1.7m charge).

The deferred tax credited directly to equity during the year was £0.2m (2016: £3.2m).

Deferred tax liabilities

	Accelerated capital allowances £m	Other temporary differences £m	Total £m
At 1 October 2015	2.5	7.2	9.7
Arising on acquisition of subsidiaries	-	0.5	0.5
Credited to profit for the year	(0.3)	(1.2)	(1.5)
Exchange differences	0.3	1.0	1.3
At 30 September 2016	2.5	7.5	10.0
Credited to profit for the year	**(0.7)**	**(2.8)**	**(3.5)**
Exchange differences	**0.1**	**0.2**	**0.3**
At 30 September 2017	**1.9**	**4.9**	**6.8**

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

Deferred tax assets

	Retirement benefit obligation £m	Share options (restated) £m	Accelerated capital allowances £m	Other temporary differences £m	Total (restated) £m
At 30 September 2015	3.3	0.7	0.4	0.1	4.5
Credited/(charged) to profit for the year	-	0.2	-	(0.1)	(0.1)
Credited/(charged) to equity on recognition	3.5	(0.3)	-	-	3.2
At 30 September 2016	6.8	0.6	0.4	-	7.8
Credited/(charged) against profit for the year	**0.1**	**0.2**	**(0.1)**	**-**	**0.2**
Credited/(charged) to equity	**0.6**	**(0.4)**	**-**	**-**	**0.2**
At 30 September 2017	**7.5**	**0.4**	**0.3**	**-**	**8.2**

The standard rate of corporation tax in the UK is 19%.

A number of changes to the UK corporation tax system were announced in the March 2016 Budget Statement, which reduce the main rate of corporation tax to 17% by 1 April 2020. These changes were substantively enacted at the balance sheet date. The 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.

	2017 £m	2016 £m
Losses	**-**	-
Other	**0.7**	0.7
	0.7	0.7

5. Dividends

On 2 February 2017, the shareholders approved a final dividend of 6.32p per qualifying ordinary share in respect of the year ended 30 September 2016. This was paid on 17 March 2017 absorbing £1.9m of shareholders' funds.

The Board of Directors declared an interim dividend of 4.11p (2016: 3.16p) per qualifying ordinary share in respect of the year ended 30 September 2017. This was paid on 8 September 2017 absorbing £1.3m (2016: £1.0m) of shareholders' funds.

After the balance sheet date the Board of Directors proposed a final dividend of 8.21p per qualifying ordinary share in respect of the year ended 30 September 2017, which will absorb an estimated £2.5m of shareholders' funds. Subject to shareholder approval, the dividend will be paid on 16 March 2018 to shareholders on the register at the close of business on 16 February 2018. In accordance with accounting standards this dividend has not been provided for and there are no corporation tax consequences.

6. Earnings per share

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

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

	2017	2016
Weighted average number of ordinary shares in issue used in basic calculations (thousands)	**30,434**	30,276
Potentially dilutive shares (weighted average) (thousands)	**186**	612
Fully diluted number of ordinary shares (weighted average) (thousands)	**30,620**	30,888

	2017			2016 (restated)		
	£m	**Basic eps pence**	**Diluted eps pence**	£m	Basic eps pence	Diluted eps pence
Profit attributable to equity shareholders of the Company	**21.5**	**70.6**	**70.2**	17.6	58.1	57.0
Loss from discontinued operations	**-**	**-**	**-**	0.3	1.0	1.0
Profit from continuing operations	**21.5**	**70.6**	**70.2**	17.9	59.1	58.0
Adjustments	**3.7**	**12.2**	**12.1**	3.9	12.8	12.6
Profit excluding loss from discontinued operations, amortisation of acquired intangible assets, exceptional items, acquisition costs and defined benefit pension scheme costs	**25.2**	**82.8**	**82.3**	21.8	71.9	70.6

7. Provisions for liabilities and charges

	Property obligations £m	Total £m
Balance at 30 September 2015	2.6	2.6
Payments in the year	(0.1)	(0.1)
Balance at 30 September 2016	2.5	2.5
Payments in the year	**(0.5)**	**(0.5)**
Balance at 30 September 2017	**2.0**	**2.0**

Analysis of total provisions	**2017 £m**	2016 £m
Non-current	**1.7**	1.8
Current	**0.3**	0.7
	2.0	2.5

Property obligations include an onerous lease provision of £1.2m 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 2018 and the remaining £0.9m 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.

8. Share capital

	No. of shares 2017	**Ordinary shares 2017 £m**	**Share premium 2017 £m**	No. of shares 2016	Ordinary shares 2016 £m	Share premium 2016 £m
Called up allotted and fully paid ordinary shares of £1 each						
At the beginning of the year	**31,023,292**	**31.0**	**34.7**	31,023,292	31.0	34.7
At the end of the year	**31,023,292**	**31.0**	**34.7**	31,023,292	31.0	34.7

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

At 30 September 2017 565,803 (2016: 718,789) 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 2017 was £5.3m (2016: £7.3m). These shares are held at cost as treasury shares and deducted from shareholders' equity.

During 2017 the trust acquired 100,000 (2016: 181,890) shares at a cost of £1.0m (2016: £1.8m).

247,099 (2016: 343,526) shares were used to satisfy awards following the vesting of shares relating to the 2010 Performance Share Plan.

5,887 (2016: 6,890) ordinary shares of £1 each were awarded in relation to the annual incentive plan.

9. Cash generated from operations

	2017 **£m**	2016 £m
Continuing operations		
Profit for the year	**21.5**	17.9
Adjustments for:		
Taxation	**(2.9)**	(2.0)
Depreciation	**6.0**	5.9
Amortisation of intangible assets	**7.2**	6.4
Impairment of plant and machinery	**0.3**	-
Impairment of development expenditure	**2.6**	-
Defined benefit pension scheme cost	**0.4**	0.3
Finance income	**(0.1)**	-
Finance costs	**0.3**	0.2
Other finance expense	**1.0**	0.7
Movement in respect of employee share scheme	**0.9**	1.0
Increase in inventories	**(1.7)**	(0.4)
Increase/(decrease) in receivables	**(4.7)**	(0.7)
Increase/(decrease) in payables and provisions	**4.8**	3.4
Cash generated from continuing operations	**35.6**	32.7
Analysed as:		
Cash generated from continuing operations prior to the effect of exceptional operating items	**35.3**	33.1
Cash effect of exceptional operating items	**0.3**	(0.4)
Discontinued operations		
Loss for the year	**-**	(0.3)
Cash used in discontinued operations	**-**	(0.3)
Cash generated from operations	**35.6**	32.4

Cash flows relating to the discontinued operations are as follows:

	2017 **£m**	2016 £m
Cash flows from operating activities	**-**	(0.3)
Cash used in discontinued operations	**-**	(0.3)

10. Analysis of net cash/(debt)

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

	At 1 Oct 2016 £m	Cash flow £m	Exchange movements £m	**At 30 Sept 2017 £m**
Cash at bank and in hand	4.5	22.0	-	**26.5**
Overdrafts	-	-	-	**-**
Net cash and cash equivalents	4.5	22.0	-	**26.5**
Debt due in less than 1 year	(2.5)	0.8	(0.1)	**(1.8)**
	2.0	22.8	(0.1)	**24.7**

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 2017 and 2016.

InterPuls S.p.A. had a fixed term loan of €2.0m which expired on 31 October 2017. This facility is priced on EURIBOR plus margin of 1.15%.

11. Exchange rates

The following significant exchange rates applied during the year:

	Average rate 2017	**Closing rate 2017**	Average rate 2016	Closing rate 2016
US Dollar	**1.267**	**1.339**	1.423	1.296
Euro	**1.147**	**1.134**	1.282	1.161

12. Share based payments

The Group operates an equity-settled share-based performance share plan (PSP). An expense of £0.9m was recognised in the year. In 2017 an error was identified in the process for valuing the share based payments charged to the income statement in previous years. The comparative figures for 2016 have therefore been restated to correct the charge and the related disclosures. The effect is to increase the 2016 share based payment charge from £0.1m to £1.0m and to reduce statutory and adjusted operating profit by £0.9m. The share based payment charge is a non-cash amount and there is no impact on the group's balance sheet.

A Monte Carlo simulation was used to calculate the fair value of awards granted that are subject to a Total Shareholder Return performance condition. The fair value of other awards was calculated as the market price of the shares at the date of grant reduced by the present value of the dividends expected to be paid over the vesting period. The principal assumptions used were:

	2017	2016 (restated)
Weighted average fair value (£)	**8.02**	8.13
Key assumptions used:		
Weighted average share price (£)	**10.40**	10.72
Expected volatility (%)	**28**	23
Risk-free interest rate (%)	**0.2**	0.8
Expected option term (yrs.)	**3.0**	3.0
Dividend yield (%)	**0.9**	0.7

Volatility is estimated based on actual experience over the last three years.

13. Annual Report & Accounts

Copies of the Directors' report and the audited financial statements for the year ended 30 September 2017 will be posted to shareholders who have elected to receive a copy and may also be obtained from the Company's registered office at Hampton Park West, Semington Road, Melksham, Wiltshire, SN12 6NB, England. Full audited financial statements will be available on the Company's website at www.avon-rubber.com.