

N° 32965

32965

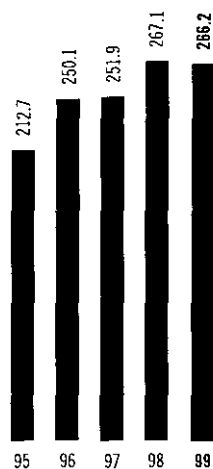
# Financial highlights Continuing activities

for the year ended 2 October 1999

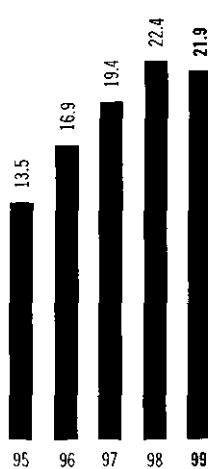
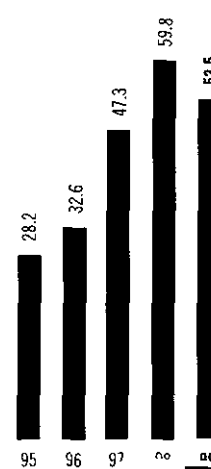
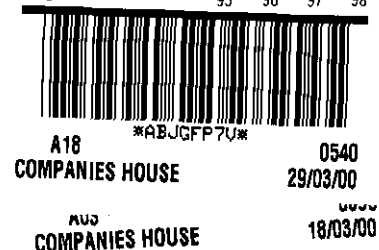
	1999 £'000	1998 £'000
Turnover	£266,164	£267,085
Operating profit before exceptional items	£21,880	£22,351
Profit before taxation and exceptional items	£20,484	£23,187
Earnings per share before exceptional items	53.5p	59.8p
Dividend per ordinary share	24.20p	22.80p

## Five year analysis Continuing activities

Turnover (£m)



Operating profit (£m)

Earnings per share (p)  
before exceptional itemsDividend per  
ordinary share (p)

## Contents

- 1 Financial highlights
- 2 Chairman's statement
- 4 Avon at a glance 1994-1999

- 6 Chief Executive's review of operations
- 16 Financial review
- 20 Accounts

**Our strategy, supported by determined implementation throughout the Group, has resulted in a year of further progress while laying the foundations for long term value creation.**

## Chairman's statement

I am pleased to report that the benefits of our international presence have shown their value in a year when poor demand affected our UK manufacturing operations. Early action to reduce costs could not fully cover the reduction in profits caused by lower UK sales. Past investments enabled us, during the year, to expand product ranges and production volumes in continental Europe and North America to achieve improved profits. Acquisitions have been integrated to provide a stronger base for our core businesses, while selective divestments have released funds.

Major features of the year were the acquisition of Industrial Flexo S.A. and Proflex S.A. in Spain and the building of two new manufacturing units in Wiltshire, UK, which will be ready for transfer of production over the coming months.

### RESULTS

In 1999, Group sales on continuing operations including acquisitions were £266.2 million (1998: £267.1 million) and Group profit before taxation and exceptional items was £20.5 million (1998: £23.2 million), a decrease of 11.6%.

There was an exceptional gain of £1.4 million (1998: £0.7 million). This exceptional gain arose from insurance proceeds received for the refurbishment of plant and machinery that could not be replaced following the fire at our facility in Albion, in New York State.

Earnings per share of 53.5p on continuing activities before exceptional items was down against last year by 10.5%.

Capital expenditure was £35.4 million (1998: £14.0 million) of which £19.8 million (1998: £2.0 million) was associated with the new facilities in Wiltshire. Before including the costs of acquisitions and capital

expenditure, the Group generated cash of £9.8 million (1998: £22.2 million). The cash cost of acquisitions during the year was £21.4 million, which includes taking on borrowings of £3.1 million net of cash on the Spanish acquisitions.

Net debt at the year-end stood at £46.4 million compared with the opening net debt of £2.5 million.

### DIVIDEND

Shareholders are recommended to approve a final dividend of 17.2p per share, which will be paid on 28 January 2000 to ordinary shareholders on the register on 6 January 2000. When added to the interim dividend of 7.0p per share the total dividend of 24.2p shows an increase of 6.1% on the 1998 dividend of 22.8p and is the fifth consecutive year of real increase in dividend.

### DIRECTORS

John Cutts, a Non-Executive director, and Hamish McPhie, the former Finance Director, left the Board in January 1999. We wish them both well and thank them for their contribution to the company's activities during their time as directors.

### EMPLOYEES

We depend on the enthusiasm, skills and knowledge of our employees. Their continued support remains critical to the future success of the Group and we will continue to place a high priority on providing opportunities for personal development to ensure full benefits are achieved from our investment in physical assets. Our thanks to them for their hard work and dedication during a challenging year.

**Avon Rubber p.l.c.****N° 32965****CORPORATE GOVERNANCE**

A full account of the company's compliance with the Combined Code on Corporate Governance is set out on pages 24 to 29.

**HEALTH, SAFETY AND ENVIRONMENT**

As indicated last year, the Group is working to obtain ISO 14001, the International Standard for Environmental Management Systems, at all locations. To date, three of our UK plants have achieved ISO 14001 accreditation and a self-assessment process has been developed which will assist all our operations and monitor their progress towards the ISO standard.

The Board strongly believes that a health, safety and environment policy which meets best practice is not only good business but is a part of our obligation to society in general and to the communities in which we operate in particular.

**OUTLOOK**

The coming year will see the completion of two new factories in the UK. Despite the strength of sterling, the lower cost base of these facilities together with recent investments in our overseas operations will contribute to the strong positioning of Avon as an international partner for customers in our core markets.

We have won important new automotive contracts which will come on stream over the next three years and the strong US economic climate remains a positive indicator for our substantial business activities in North America.

Whilst we expect further challenges during the coming year, we will continue our strategic progress by means of selective acquisitions, disposals and organic development.

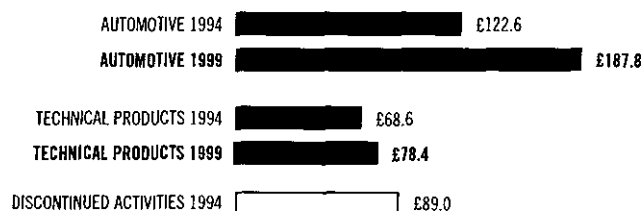
**CHRISTOPHER KING CBE***Chairman*

# Avon at a glance 1994-1999

Improving focus and performance

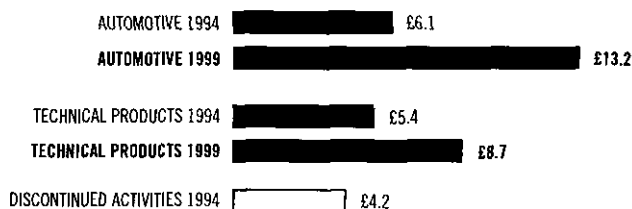
## Turnover by business sector (£m)

1994 TOTAL £280.2  
1999 TOTAL £266.2



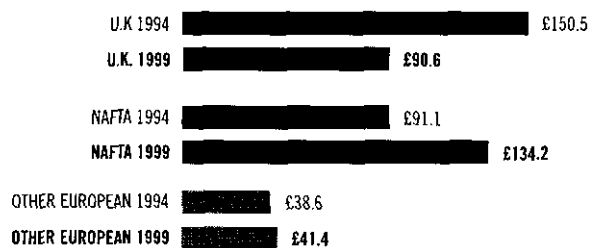
## Operating Profits by business sector (£m)

1994 TOTAL £15.7  
1999 TOTAL £21.9



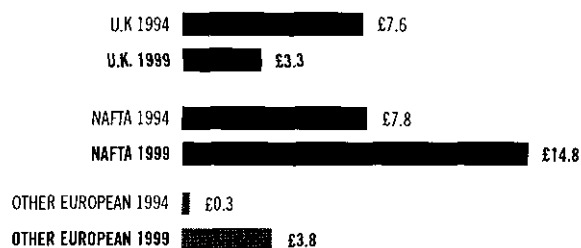
## Turnover by Origin (£m)

1994 TOTAL £280.2  
1999 TOTAL £266.2



## Operating Profit by Origin (£m)

1994 TOTAL £15.7  
1999 TOTAL £21.9



## U.S.A.

Coolant hose  
Emission components  
Vacuum control assemblies  
Fuel hose products  
Technical mouldings  
Dairy components  
Industrial hose  
Air hose  
Plastic mouldings  
Business machine components

## UNITED KINGDOM

Coolant hose  
Vibration management systems  
Dairy components  
Industrial products  
Technical mouldings  
Air hose  
Business machine components

## GERMANY

Engineering and sales support

## INDIA

Coolant hose

## PORTUGAL

Coolant hose

## SPAIN

Coolant hose  
Technical mouldings  
Profiles

## \*TURKEY

Coolant hose

## MEXICO

Coolant hose  
Emission components  
Vacuum control assemblies  
Technical mouldings

## \*BRAZIL

Coolant hose  
Fuel hose products

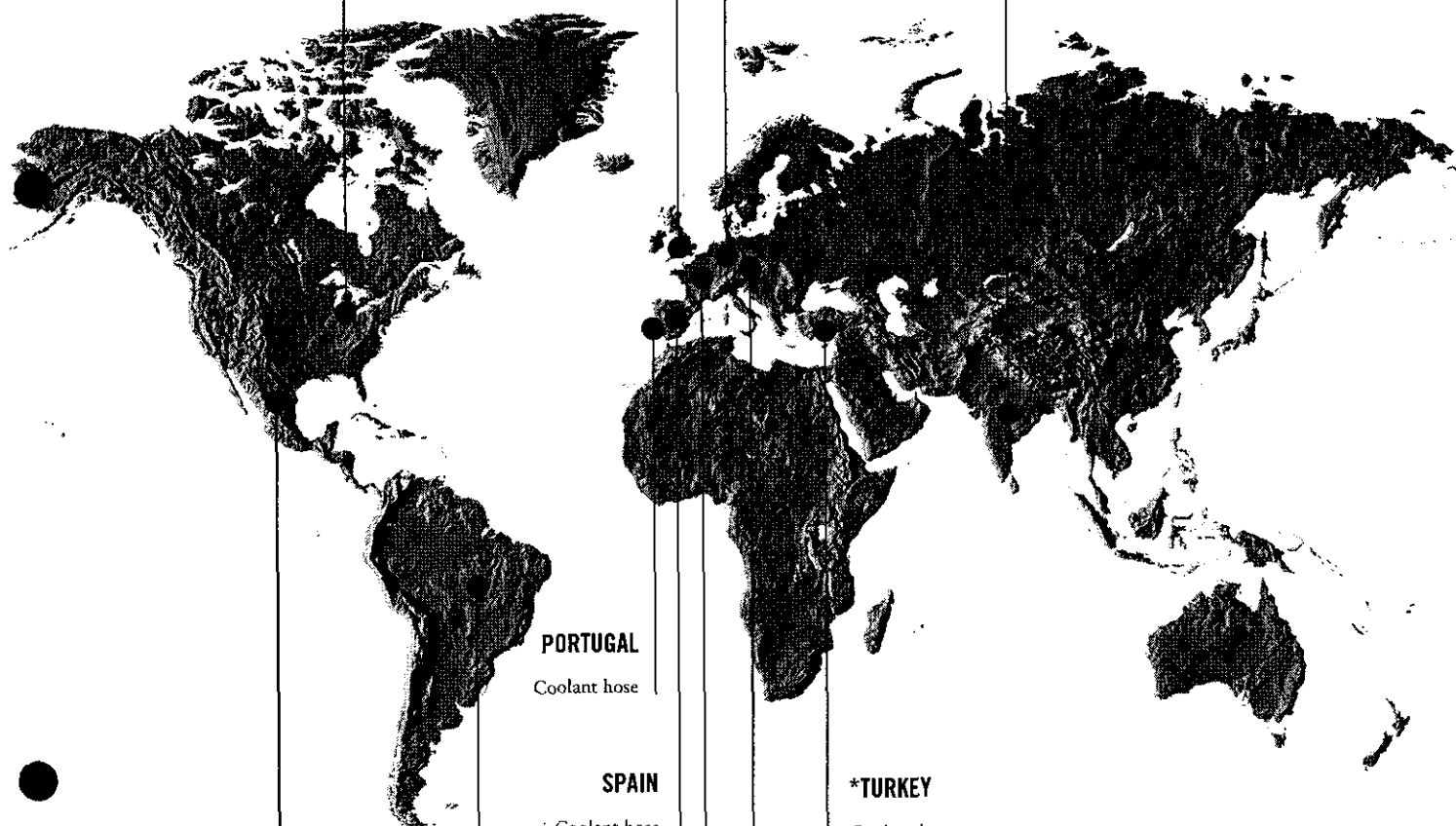
## FRANCE

Coolant hose  
Technical mouldings  
Railway components  
Crawler tracks  
Fuel hose products  
Air hose

## CZECH REPUBLIC

Coolant hose  
Technical mouldings

\* Technology partner



N° 32965

**We believe that we can apply the expertise of our employees to add value for customers and earn satisfactory returns for our owners.**

## Chief Executive's review of operations

During recent years we have been reshaping the Group to generate sustainable value for shareholders. We believe that we can apply the expertise of our employees to add value for customers and earn satisfactory returns for our owners.

We continue to invest to ensure that we have a competitive edge in product cost as well as in technology and geographical location. The two new manufacturing units being set up in the UK have been designed to provide lower costs as well as world class facilities. Both buildings were completed on time and within cost, and initial production trials are in progress.

Since we did not plan to transfer our Fabrications unit to the new factory at Hampton Park West, the business was sold to Checkmate UK Ltd in September. In October we sold the CQC subsidiary which manufactures textile based products at Barnstaple, UK, to a company set up by the local management team. Our best wishes for a successful future go with the employees who have transferred with these businesses.

During the year we were pleased to welcome Industrial Flexo S.A. and Proflex S.A. to the Group and look forward to the benefits of a presence in Spain.

We operate within a constantly evolving business environment and we have announced a new management structure to focus on the next phase of progress. Roger Hunt will extend the period of his secondment in North America where he is the resident member of the Group Board and responsible for Technical Products in that region. Steve Stone is a member of the Group Board and is now responsible for all European operations as well as the Materials Development Centre which provides services world wide. Lee Richards, President of Avon Automotive Inc. and Janine Jones, Group Purchasing Director, are each responsible for substantial key business activities and now report directly to the Chief Executive.

We have succeeded in creating an international presence in key locations around the world where local manufacturing can benefit from the work done by our development centres. The team of scientists and

engineers at the Materials Development Centre in the UK has access to the most modern analytical and test equipment and maintains close links with other academic and industrial centres of excellence throughout the world. Among recent projects, the team has designed materials to overcome problems of electrochemical degradation of traditional hose materials when used in certain operating conditions. These materials, which offer better performance, are now used in our production of coolant hoses.

Product Development Centres work closely with customers and our factories to offer innovative concepts which take into account interfaces with other systems as well as issues of cost and suitability for manufacture.

Our respirator development team were able to use expertise gained from prior projects to quote for the design and development of a new Joint Services General Purpose Mask for US military personnel. If our bid is successful we will work with specialist partners to develop a product design which meets the customer requirements in every respect.

The Vibration Management Systems product development team have secured orders for innovative products for use on vehicles to be launched over the next three years and approval has been given to set up a development centre for hose products which will be based next to the factory at Cadillac, Michigan. Multi-disciplined teams led by skilled project managers are used to transfer technology and ensure best practice is deployed throughout the Group.

We aspire to business excellence in all that we do and the contribution of all employees is key to our success. Our human resources strategy uses the Investor in People standard as a central feature. All of Avon's UK sites are accredited to the IIP standard and we are adapting and introducing vocational qualification awards into our North American factories. The Health and Safety of employees receives particular attention and is a high priority on the list of management responsibilities.

Avon Automotive have  
a global strategy

- *driven* by a focussed  
commitment to  
customer service
-

# Chief Executive's review of operations Continued

## AUTOMOTIVE

*Avon Automotive recognises the important combination of local relationships supported by global customer links.*

At constant exchange rates and including acquisitions, turnover decreased by 3.7% to £187.8 million and operating profits were lower by 15.4% in comparison to 1998 at £13.2 million. The return on sales was 7.0% compared with 8.0% in 1998.

During 1999 we experienced some unexpected incidents including the fire which destroyed our Albion, New York factory and an earthquake which damaged our plant at Orizaba, Mexico. I am happy to report that there were no injuries and to say "Thank you" to all who worked so hard to get the units back to full production within days and so ensure our customers did not suffer.

The Continental European plants all gained business from new models coming on stream and from the product lines which were transferred from the UK and USA. Of particular relevance were the blow moulding of air ducts and start up of Avon's permeation resistant fuel hose 'CADbar' in France, and increased coolant hose production in Portugal and the Czech Republic. The acquisition, in June 1999 of Industrial Flexo S.A. and Proflex S.A. in Spain significantly increased our share of the European coolant hose market as well as providing us with new customers, new technologies and a strong local management team.

In North America volumes remained buoyant and our ability to introduce new variants of 'CADbar' maintained our technology lead despite increased competition. The build up of coolant hose volumes at the Orizaba factory in Mexico has established the plant as a qualified automotive component facility gaining the benefits of volume and scale.

Reductions in car builds by a number of our European customers hit the profitability of our UK plants. These well publicised shortfalls, caused by the late introduction of new models and by poor sales of existing vehicles, eased during the last quarter but affected most of the year.

Market conditions in all regions remained tough throughout the year with continued pressure to reduce prices. These requirements were met through a combination of cost reductions and product redesigns.

The newly formed procurement team was able to leverage Avon's global purchasing and worked with suppliers to achieve the most cost effective purchasing practices. This development of preferred suppliers will be of increasing importance over the next few years.

*Avon Automotive has benefited substantially from an approach which recognises the important combination of local relationships supported by global customer links.*

We have invested in Engineering, Sales Support and Product Development Centres around the world. These facilities work in close partnership with the major vehicle makers to offer a comprehensive system design, build and test service. Our manufacturing facilities are strategically located to ensure consistency of supply and quality to customer production lines.



We have focussed our  
*strategy* on those

- businesses which  
offer the potential  
for growth and
- sustainable earnings

# Chief Executive's review of operations Continued

## TECHNICAL PRODUCTS

**We have focussed our strategy on those businesses which offer the potential for growth and sustainable earnings**

As the result of actions we have taken in line with our strategy of tighter focus, we have increased sales and profits. Acquisitions that were made last year have been integrated as we have continued to focus on those businesses which offer the potential for growth and sustainable earnings. At constant exchange rates, turnover of £78.4 million was 10.9% higher than 1998 and operating profits were 31.8% higher at £8.7 million with a return on sales of 11.1% compared with 9.3% in 1998.

We are the world's largest manufacturer of rubber components for machine milking systems. Our teams in the United States and Europe maintain close liaison with major equipment suppliers and contribute specialist expertise to support their development programmes. During the year we successfully transferred our dairy rubberware business from Cadillac, Michigan, to our Hi-Life facility in Johnson Creek, Wisconsin. This was achieved with no disruption to our customers and has delivered benefits in line with our plans.

Nylaflow, the braided plastic hose product line that was acquired from DSM last year was relocated from Reading, Pennsylvania and the opportunity was taken to upgrade the production equipment during the transfer to Cadillac, Michigan.

Bell-Avon at Picayune, Mississippi, received a 'best value medallist' award from the US Department of Defense for the consistent high standard of work which places the company in the top 1% of contractors to the US Government.

The Zatec facility near Boston, Massachusetts, which manufactures cleaning blades for business machines, has introduced new working methods to increase productivity. The result has been a leaner, more focussed operation, capable of expanding its customer base. Blades are also manufactured in our UK Business Machines joint venture Avon-Ames, where development costs and low sales of established roller products led to an unsatisfactory trading result.

Earlier investments in improved production equipment have enhanced profitability in our market leading aerosol gasket business and similarly enabled our plant at Malesherbes, France, to provide supplies of high quality mixed compounds to other facilities in addition to meeting its own requirements.

## FUTURE

**We have an exciting future and a determination to capitalise on the investments made.**

During the year we won a number of automotive orders which will come into production during the next three years and provide a substantial platform for growth. New business with General Motors, Ford, Daimler-Chrysler, VW and Nissan for hose and anti-vibration products results from the ongoing investment in process and product development. This enables us to offer innovative products at a cost effective price from our global manufacturing base. The Gold Seal-Avon plant in India has secured first orders from local manufacturers Maruti, Telco and Mahindra in addition to contracts to supply hoses for Fiat India and the recently announced Ford Ikon.

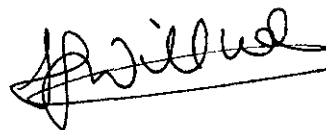
In Mexico we have capacity to expand production at both major sites and have a number of interesting projects under evaluation.

We have high hopes for the new UK factories. In addition to the move to Hampton Park West, Technical Products UK will be seeking new business to meet the targets for expansion to take advantage of the lower cost base. The benefits from the state of the art mixing facility at Westbury will become available progressively during the year.

The changes to the management organisation will identify opportunities for more effective use of resources in seeking opportunities for profitable growth. We have an exciting future and a determination to capitalise on the investments made.

**STEVE WILLCOX**

*Chief Executive*



**Avon Rubber p.l.c.**

**N° 32965**

# Financial review

for the year ended 2 October 1999

The 1999 accounts of the Group have been prepared in accordance with applicable accounting standards.

## TREASURY POLICY

The Group policy is not to engage in speculation and as a result the Group uses various types of financial instruments to manage its exposure to market risks which arise from its business operations. The main risks continue to be movements in foreign currency and interest rates.

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

Each subsidiary company which undertakes a transaction in a currency which is not its local currency reduces the risk of fluctuations in currencies by entering into forward exchange contracts to cover any significant net exposure (i.e. sales less purchases in foreign currency transactions).

The Group seeks to ensure that where possible borrowings are arranged in the relevant currency, to provide a hedge in respect of net assets and liabilities held in that currency. An exposure remains which is summarised in note 24 to the accounts. The principal area of exposure is in respect of the US Dollar where a 1% fluctuation in exchange rate could result in a £0.1 million fluctuation in the Group's net assets.

The Group has arranged facilities to meet its ongoing requirements where borrowings are used to finance capital investment, the loans are for periods between 5 to 10 years.

The exposure to interest rate fluctuations is protected through obtaining fixed rates of interest. At the year end approximately 59% of the Group's borrowings were at fixed interest rates (see note 24).

## ACQUISITIONS

The Group acquired the entire share capitals of Industrial Flexo S.A. and Proflex S.A. in Spain for a total cash consideration of £20.7 million which included net borrowings of £3.1 million. The Group funded the transaction from existing resources and Euro denomination debt.

## Avon Rubber p.l.c.

N° 32965

## EXCHANGE RATE

The Group reports trading results of overseas companies based upon average rates of exchange compared with sterling over the year. The main rates of exchange that impact Avon's overseas profits are as follows:

	1999 v£	1998 v£	% Change
US Dollar	1.63	1.65	1.2
French Franc	9.87	9.87	-
Czech Crown	54.00	55.00	1.8
Portuguese Escudo	316.00	302.00	(4.6)

The balance sheets of foreign subsidiaries are converted into sterling based on the closing rates of exchange. The gains and losses arising on conversion are recorded in reserves as are gains or losses arising on borrowings in the same currencies. Most of the trading activities of each of the subsidiary companies are in local currency.

## TURNOVER

Continuing price down pressure is an ongoing feature of our Automotive business. This year the strength of sterling has impacted both price levels and demand from our UK based customers.

Overall European Automotive turnover was down by 3.4% at £90.1 million (1998: £93.3 million). UK Automotive turnover was down by 13.6% at £59.8 million (1998: £69.2 million). There were increases in turnover in France and Czech Republic and an encouraging start from our new acquisitions in Spain. The North American Automotive market remained strong. However, our lower cost solutions and consequent price reductions resulted in turnover being down 5% at £97.7million (1998: £102.8 million).

In Technical Products, turnover increased to £78.3 million (1998: £71.0 million) up 10.3% as the previous year's acquisitions had a full year impact. Turnover in Europe was down by £4.8 million to £41.9 million (1998: £46.7 million) and arose from our UK operations. In North America there was a strong performance overall with Hi-Life and Zatec showing good increases over the previous year's annual turnover.

In the following summaries, 1998 figures have been restated at 1999 rates of exchange for comparative purposes.

Group turnover in 1999 of £266.2 million compares with the restated turnover of 1998 of £265.7 million.

# Financial review Continued

for the year ended 2 October 1999

By business sector, the change in turnover is analysed as follows:

£ million	1999	1998*	% Change
Automotive	187.8	195.0	-3.7
Technical Products	78.4	70.7	+10.9
Total	266.2	265.7	+0.2

\* Restated at 1999 rates of exchange

By origin the change is as follows:

£ million	1999	1998*	% Change
United Kingdom	90.6	103.8	-12.7
Other European	41.4	36.4	+13.7
North America	134.2	125.5	+6.9
Total	266.2	265.7	+0.2

\* Restated at 1999 rates of exchange

Sales by overseas companies represented 66% of Group turnover in 1999 compared with 61% in 1998. Export sales from UK based companies in 1999 were £40.6 million (1998: £42.2 million).

## OPERATING PROFIT

The changes in operating profit reflected the changes in turnover. UK profit was down 40.0% at £3.3 million (1998: £5.5 million). This was offset by increases in other parts of Europe of 52% to £3.8 million (1998: £2.5 million) and North America up 4.2% at £14.8 million (1998: £14.2 million).

The reduced Automotive volumes in Europe, particularly in the UK, and the continuous price down pressure from manufacturers have been a feature of the year. As a result Automotive profits are down 15.4% to £13.2 million (1998: £15.6 million) and this represents a return on sales of 7.0% compared to 8% in 1998. Overall Technical Products profit has improved by 31.8% to £8.7 million (1998: £6.6 million) with return on sales up to 11.1% (1998: 9.3%). This has been achieved in the main by the strong performances of our recent acquisitions, offsetting the predicted reduction in the defence and energy markets.

By origin, the changes in operating profit were as follows:

£ million	1999	1998*	% Change
United Kingdom	3.3	5.5	-40.0
Other European	3.8	2.5	+52.0
North America	14.8	14.2	+4.2
Total	21.9	22.2	-1.4

\* Restated at 1999 rates of exchange

By business sector the changes in operating profit are as follows:

£ million	1999	1998*	% Change
Automotive	13.2	15.6	-15.4
Technical Products	8.7	6.6	+31.8
Total	21.9	22.2	-1.4

\* Restated at 1999 rates of exchange

## PROFIT BEFORE TAXATION

The Group profit before taxation and exceptional items has decreased by 11.6% to £20.5 million (1998: £23.2 million) and represents a return on sales of 7.7% compared with 8.7% in 1998 on a published basis.

## TAXATION

The taxation charge of £6.3 million represents an effective rate of 28.1% compared with 30.2% in 1998. As between the overseas companies and those in the UK the effective rates compared with those of 1998 are as follows:

	1999 %	1998 %
UK	33	19
Overseas	27	40

The main reason for the increased rate of UK taxation was the elimination of tax losses in 1997/98. The overseas rate was reduced by a combination of tax planning and high levels of capital expenditure.

## CAPITAL INVESTMENT

There was a considerable capital investment programme in 1999 which in total amounted to £56.8 million as follows:

	£ million
Acquisitions	21.4
New plant and mixing facility in Wiltshire	19.8
Capital expenditure in existing facilities	15.6
<b>New Capital Investment</b>	<b>56.8</b>

Ongoing capital expenditure of £15.6 million in 1999 (1998: £12.0 million) reflects the increase in development expenditure and production systems required in the Group.

By division, capital expenditure was as follows:

£ million	1999	1998
Automotive	12.1	8.8
Technical Products	3.5	3.2
New Plant in Wiltshire	19.8	2.0
<b>Total</b>	<b>35.4</b>	<b>14.0</b>

Capital expenditure excluding new plant in Wiltshire represented 1.6 times depreciation in 1999 of £9.7 million (1998: 1.3 times depreciation of £8.9 million).

## CASH FLOW

The opening net debt position of the Group was £2.5 million. There was a change of £43.9 million in the year with Group debt of £46.4 million at the year-end, representing a gearing ratio of 50.5% of shareholders' equity.

The ratio of trading working capital as a percentage of turnover increased to 14.4% in 1999 compared with 13.5% in 1998 because of higher debtors and stock at the end of the year.

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

	£ million
Net Debt at end of 1998	(2.5)
Acquisitions	(21.4)
Capital expenditure	
Ongoing	(15.6)
Disposals	3.1
	(12.5)
New plant in Wiltshire	(19.8)
Other cash flow	9.8
<b>Net debt at end of 1999</b>	<b>(46.4)</b>

## RETURN ON CAPITAL EMPLOYED

The return on capital employed was 16.8% compared with 26.2% in 1998.

After adjusting for the capital expenditure on the New Plant in Wiltshire which will become operational at the beginning of the year 2000 and the goodwill costs relating to the Flexo acquisition, the return on capital would be 22.6%.

## TERRY STEAD

*Finance Director*

# Accounts contents

21	Board of Directors
22	Directors' Report
24	Corporate Governance
30	Statement of Directors' Responsibilities
31	Auditors' Report
32	Consolidated Profit and Loss Account
33	Consolidated Statement of Total Recognised Gains & Losses Reconciliation of Movements in Shareholders' Funds
34	Consolidated Balance Sheet
35	Parent Company Balance Sheet
36	Consolidated Cash Flow Statement
37	Accounting Policies
39	Notes to the Financial Statements
60	Group Undertakings and Participating Interests
61	Shareholder Information
62	Five Year Record
63	Notice of Annual General Meeting

# Board of Directors

**Avon Rubber p.l.c.**

**N° 32965**

**CHRISTOPHER KING CBE**

*Chairman*

Aged 63. He has been a member of the board since January 1995 and was appointed Chairman in January 1997. He spent 35 years with BP in Europe and the US and was Chairman of BP Europe until retiring in 1994. He is a Non-Executive Director of the BOC Group plc and the Canada Life Group (U.K.) Limited. He has an MBA from INSEAD and is a member of the INSEAD board. He was made a CBE in the 1995 New Year's Honours List.

**STEVE WILLCOX**

*Chief Executive*

Aged 53. He was appointed to the board in 1991 as the director responsible for Avon's polymer interests in Europe, becoming Chief Executive on 1 January 1995. An honours graduate of Durham University, he first joined Avon in 1968 as a graduate trainee, moving in 1973 to a personnel and training role in the pharmaceutical industry. He returned to Avon in 1977 as Personnel Director of our Melksham operations.

**TERRY STEAD**

*Finance Director*

Aged 50. He joined the company on 1 September 1998 and was appointed to the board on 5 October 1998. An honours graduate from Bristol University, he qualified as a chartered accountant with KPMG. He was Group Finance Director of How Group plc until the take-over of that company by Tilbury Douglas in June 1998, having previously worked for several years with Lucas Industries plc in a number of senior finance roles.

**STEVE STONE**

*Executive Director*

Aged 49. He was appointed to the board on 1 June 1995 having previously been Managing Director of Avon Automotive Components. He is now responsible for Avon's operations in Europe and for the Materials Development Centre in Westbury, Wiltshire. A graduate chemist and Fellow of the Institute of Materials, he is a director of the Wiltshire and Swindon Tec and Chairman of the Wiltshire and Swindon Lifelong Learning Partnership.

**ROGER HUNT**

*Executive Director*

Aged 55. He was appointed to the board in September 1997, having joined the company in May 1994 as Director of Corporate Planning. Based in Cadillac, Michigan, he is responsible for the North American operations of Avon Technical Products and the Corporate Office of Avon Rubber & Plastics Inc. A chartered Engineer, he previously worked for Lucas in Europe and, immediately prior to joining Avon, was based in the UK as Southwest Regional Director for PA Management Consultants.

**ERIC PRIESTLEY**

*Non-Executive Director*

Aged 57. He was appointed to the board in February 1998. He has recently been based in the United States as Chief Operating Officer of Jefferson Smurfit Corporation and, previously, the President and Chief Executive of Rexam Inc. He was formerly a director of Redland PLC and of Rexam PLC. He is currently the Non-Executive Chairman of Lynx Express Limited, Weir Holdings Limited and Weaverman S.A., a Non-Executive Director of Southwire Company of Atlanta, US and is on the Board of Advisors of Duke Street Capital.

**TREVOR BONNER CBE**

*Deputy Chairman and Senior Independent Director*

Aged 56. A chartered accountant, he was appointed to the board in September 1994. He was appointed Deputy Chairman in March 1998 and Senior Independent Director in July 1998. A former Executive Director of GKN plc, he is President of CLEPA (the European Association of Automotive Suppliers), Deputy President of the Society of Motor Manufacturers and Traders and a Non-Executive Director of LDV Limited. He was made a CBE in the 1996 Birthday Honours List.

*Committees of the board*

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

**Avon Rubber p.l.c.****N° 32965**

# Directors' Report

for the year ended 2 October 1999

The directors submit the one hundred and ninth annual report and audited financial statements of the company for the year ended 2 October 1999.

## 1. Principal activities and business review

The principal activities of the Group are:

- Manufacture of components for the automotive industries
- Manufacture of other polymer based products

The business review, including commentary on future developments, is covered on pages 1-19.

## 2. Results and dividend

The Group profit for the year before taxation and exceptional items amounts to £20,484,000 (1998: £23,187,000). The Group profit for the year after taxation and minority interests but before exceptional items amounts to £14,360,000 (1998: £16,438,000). An interim dividend of 7.0p per share (1998: 6.6p) was paid on 2 July 1999. The directors recommend a final dividend of 17.2p per share (1998: 16.2p) making a total of 24.2p per share for the year to 2 October 1999 (1998: 22.8p). Full details are set out in the profit and loss account on page 32. The total distribution of dividends for the year to 2 October 1999 is £6,733,000 (1998: £6,298,000).

## 3. Directors

The names of the Directors as at 7 December 1999 are set out on page 21. None of the Directors has a beneficial interest in any contract to which the parent company or any subsidiary was a party during the year. Beneficial interests of Directors, their families and trusts in ordinary shares of the company can be found on page 28.

Mr S.J. Stone and Mr R.A. Hunt retire in rotation as Directors and, being eligible, offer themselves for re-election. Mr J.W. Cutts and Mr I.A.H. McPhie resigned as Directors on 12 January 1999 and 20 January 1999 respectively.

Mr S.J. Stone and Mr R.A. Hunt have service contracts with the company requiring two years' notice of termination, subject to retirement at age 60.

## 4. Substantial shareholdings

At 1 December 1999, the following shareholders held 3% or more of the Company's issued ordinary share capital.

Deutsche Asset Management	8.69%
Schroder Investment Management Limited	8.29%
Prudential Portfolio Managers Limited	8.12%
Scudder Threadneedle Investment Limited	7.29%
Aberforth Partners	5.34%
Edinburgh Fund Managers plc	5.17%
Britannic Assurance plc	4.33%
Mercury Asset Management Limited	4.33%
Fleming Investment Managers Limited	4.26%
Jupiter Asset Management Limited	3.18%
SLC Asset Management Limited	3.01%

## 5. Political and charitable contributions

No political contributions were made during the year. Contributions for charitable purposes amounted to £66,000 (1998: £69,000).

## 6. Creditor payment policy

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

For the year ended 2 October 1999, the number of days' purchases outstanding at the end of the financial year for the Group was 48 days (1998: 49 days) based on the ratio of trade creditors at the end of the year to the amounts invoiced during the year by trade creditors. On the same basis the number of days' purchases outstanding for the parent company was 8 days (1998: 38 days).



# Directors' Report Continued

for the year ended 2 October 1999

## 7. Disabled persons

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

## 8. Employee involvement

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

In its UK operations the company has been recognised as an Investor In People and will be using the IIP framework in its businesses around the world.

## 9. Research and development

The Group's investment in research and development in the year to 2 October 1999 amounted to £4.6 million (1998: £4.6 million).

We continue to work closely with our customers and major suppliers, often through joint development programmes, to improve the performance and cost effectiveness of our products. The recently established Materials Development Centre in the UK and the Hose Development Centre shortly to be established in the USA are designed to provide technical support to the Group's world-wide manufacturing operations. These centres also have the role of capturing and sharing Avon's technical knowledge. This combination of product design skills and materials knowledge enables Avon to offer unique solutions to its customers from the forefront of polymer technology.

## 10. Health, Safety and the Environment

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

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

## 11. Year 2000

Over the last three years the Group has conducted a review aimed at ensuring that all IT systems will be Year 2000 compliant in time to support business operations and that all embedded chips in production and process equipment are checked and where necessary replaced. This review has been extensive and subject to external audit by specialist consultants acting for customers and we believe that we have taken all reasonable steps to ensure that all significant IT systems (including production and process equipment) will be compliant by the end of the year. However, the diversity of systems in use and reliance on third parties for some services means that it is impossible to guarantee that no Year 2000 problems will arise.

Contingency and "Roll Over" plans have been designed to promote a smooth transition to the new millennium and to minimise disruption caused by unexpected internal or external failures. Major customers and suppliers have been contacted and where appropriate Avon staff have carried out on-site audits.

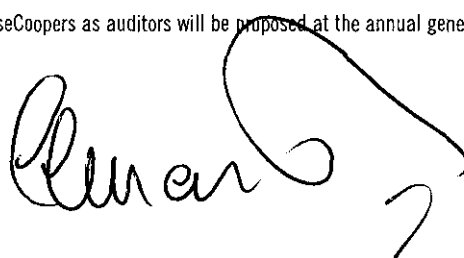
The incremental costs of this exercise have been covered within normal IT expenditure and are not considered material.

## 12. Auditors

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

By order of the board

C.L. Martin, Secretary  
Bradford-on-Avon, Wiltshire  
8 December 1999



**Avon Rubber p.l.c.****N° 32965**

# Corporate Governance

Statement of compliance with the Combined Code

The Company believes in high standards of Corporate Governance and the Board is accountable to shareholders for the Group's performance in this area. This statement describes how the Group is applying the relevant principles of governance, as set out in the Combined Code of the Principles of Good Governance and Code of Best Practice ("the Combined Code") annexed to the Listing Rules of the London Stock Exchange. For this purpose this statement will address separately the four main subject areas of the Combined Code namely the Board, Directors' Remuneration, Relations with Shareholders and Accountability and Audit.

The Company has complied throughout the year with the provisions of the Combined Code except that as the Combined Code had not been implemented by the end of the year in respect of which the Company was reporting, the Company did not announce the level of proxy votes on resolutions proposed at the 1999 annual general meeting as contemplated by paragraph C.2.1 of the Combined Code. The Company will be following the Combined Code provisions in relation to proxy vote disclosures at the forthcoming annual general meeting.

## 1. The Board

The Avon Board currently comprises a Non-Executive Chairman, two other independent Non-Executive Directors, the Chief Executive and three other Executive Directors. Biographies of the Directors appear on page 21 and these illustrate the range of business, financial and global experience which the Board is able to call upon. This reflects the specific intention of the Board that its membership should be well balanced both numerically and in terms of experience.

The Board is satisfied that all its Non-Executive Members are independent. One of their roles 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 Company's other stakeholders. The Non-Executive Directors fully review the Group's operational performance and the Board as a whole has, with a view to reinforcing its control of the company, reserved a number of important powers solely to itself.

In order to achieve the foregoing objectives, all Directors have full and timely access to all relevant information and the Board meets regularly with appropriate contact between meetings. Procedures are in place, which have been agreed by the Board, for Directors in the furtherance of their duties to take independent professional advice if necessary at the Company's expense.

In order to anticipate requirements of good governance, Mr. T.C.Bonner, CBE, who is Deputy Chairman, was appointed senior independent director in July 1998 and the Board obtained shareholder approval in the same year to a change to the Articles of Association under which all Directors, whether Executive or Non-Executive, are obliged to retire and, if appropriate, seek re-election by the shareholders at least every three years. Additionally, the Non-Executive Directors are appointed by the Board for specified terms, and reappointment is not automatic.

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. These Committees comprise, solely, all the Non-Executive Directors; the Remuneration and Nominations Committees are chaired by Mr C.P.King and the Audit Committee is chaired by Mr T.C.Bonner.

The Remuneration Committee's principal responsibilities are to make recommendations to the Board on remuneration policy and to determine remuneration packages and other terms and conditions, including appropriate performance related benefits, for Executive Directors and other Senior Executives. The Chief Executive attends meetings of the Committee by invitation, but is absent when issues relating to him are discussed.

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

The Audit Committee meets twice a year. The meetings are also attended by representatives of the Group's internal and external auditors and such of the Executive Directors as are appropriate to the items under discussion. At all meetings time is allowed for the Audit Committee to discuss issues with the external auditors with no Executive Directors present. As well as reviewing draft preliminary and interim statements, the Committee considers reports prepared by the internal and external auditors and monitors all services provided by, and fees payable to, the external auditors to ensure that an objective and professional relationship is maintained. As part of its work, and in line with its terms of reference, the Committee particularly considers the discharge of the Board's responsibilities in the areas of Corporate Governance, Financial Reporting and Corporate Control.

## 2. Directors' Remuneration

Remuneration of the company's Non-Executive Directors is determined by the Board, following research undertaken by the Group Personnel Director and advice from independent external sources. The Non-Executive Directors do not vote on any remuneration issue affecting themselves.

The company's policy on Executive Directors' remuneration, as set out in the two following paragraphs, has been prepared by the Remuneration Committee and approved by the full Board of Directors.

The Remuneration Committee seeks to establish an overall package of salary, incentives, pension and other benefits which will be competitive when compared with other manufacturing companies of a similar size and global spread.

The Remuneration package takes into account the linkage between pay and performance by both rewarding effective management and by making the enhancement of shareholder value a critical factor in the setting of incentives, whether in the short or longer term.

# Corporate Governance Continued

Statement of compliance with the Combined Code

Executive Directors' remuneration comprises four elements: -

## **Salary**

The basis of setting salaries is consideration of the Executive Directors' experience and responsibility. Comparisons with other companies of a similar size and global spread, as well as consideration of the rates of salary increases within the company as a whole, are also taken into account when salaries are set or increases are given. Executive Director salaries are reviewed annually.

## **Bonus**

Bonus is based on annual targets set by the Remuneration Committee linked to the Company's financial performance. The targets are set before the start of the financial year and are designed to be stretching. Two elements are normally used, profit before taxation and cashflow performance. Both these elements link directly to enhanced shareholder value.

As further linkage to the enhancement of shareholder value, 50% of any bonus paid is used to buy company shares as part of the Long-term Incentive Plan.

Bonus payments are not pensionable.

## **Pension and Other Benefits**

Executive Directors are members of the Senior Executive Section of the Avon Rubber Retirement and Death Benefit Plan, a contributory defined benefit scheme based on length of service and earnings. The level of contribution from the scheme members and the company are assessed annually. For the year ended 2 October 1999 the contribution rates were 5.5% from the members and 10.1% from the company including National Insurance rebates. For Mr.R.A. Hunt and Mr.T.K.P. Stead, who joined the company after the introduction of the pensionable salary cap, a funded unapproved retirement benefits scheme has been put in place. Executive Directors are provided with private health insurance for themselves and applicable members of their immediate families and are also able to participate in the Company's SAYE Share Option Scheme.

## **Long-term Incentive Plan**

In 1996 a Long-term Incentive Plan was approved by shareholders. Executive Directors use 50% of any annual bonus to purchase company shares (contributed shares) on the open market, at the time that the bonus is awarded. Three years from the date of purchase of the contributed shares, matching shares may be awarded up to three times the number of the contributed shares, based on total shareholder return over the period.

Total shareholder return is measured against a comparator group of small and medium capitalised companies. To achieve the maximum award of three times the number of contributed shares, the company must be in the top 20% of its comparator group. The measurement of performance is carried out independently.

The Remuneration Committee has considered the conclusions of the Hampel Committee with regard to the notice period given to Executive Directors for termination of their service contracts. Currently this notice period stands at 24 months. The Committee believes that this continues to be appropriate and enables the company to be competitive, attracting Directors of the calibre necessary to run a diverse multi-national business. The Remuneration Committee strongly endorses the principle of mitigation of loss on early termination of a service contract and takes care to ensure that poor performance is not rewarded.

An account of directors' participation in the Long Term Incentive Plan, and in Share Option Schemes, together with details of directors' emoluments, pensions and interests in Company's shares, is set out on pages 27 to 29.

## 3. Relations with Shareholders

We regard communications with shareholders as extremely important. In terms of published materials the company issues carefully prepared annual reports and accounts and, at the half year, an interim report. Dialogue takes place regularly with institutional shareholders and general presentations are given following the preliminary and interim results. Shareholders have the opportunity to ask questions at the annual general meeting and also have the opportunity to leave written questions for the company's response. Directors meet informally with shareholders after the annual general meeting and the Company responds throughout the year to correspondence from individual shareholders on a wide range of issues.

At the annual general meeting on 19 January 2000 the Board will be following the recommendations in the Combined Code regarding the constructive use of annual general meetings; in particular, the agenda will include a presentation by the Chief Executive on aspects of the company's business.

# Corporate Governance Continued

Statement of compliance with the Combined Code

## 4. Accountability and Audit

The Combined Code has introduced a requirement that directors review the effectiveness of the Group's system of internal controls. This requirement *extends the directors' review to cover all controls including operational compliance controls and risk management as well as financial controls*. The Board is aware of the formal guidance on the review of non financial internal controls which has been published by the task force established by the Institute of Chartered Accountants of England and Wales and intends to ensure that appropriate procedures are put in place to reflect that guidance. In the meantime, the Directors consider that they have observed the principles of the Combined Code in the financial year 1998/99.

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

- Systems exist throughout the group which provide for the creation of three year plans and annual budgets; monthly reports enable the Board to compare performance against budget and to take action where appropriate.
- An internal audit function is in place with staff in the UK and in the US.
- Procedures are in place to identify any major business risks and to evaluate their potential financial effects. In this connection the Board carries out a detailed annual review of the risks facing the Group at the top level. Additionally, some years ago, the Board created a Risk Management Steering Group with the objective of enhancing the risk management culture within the Group, of assisting businesses to identify and control their risks and to make policy proposals to the Board in this area.
- There is a clearly defined delegation of authority from the Board to the operating companies, with appropriate reporting lines from business managers to individual Executive Directors.
- There are procedures for the authorisation of capital expenditure and investment, together with procedures for post-completion appraisal.
- Internal financial controls are in existence which provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.
- The Board has issued a Policy and Code on Business Conduct which reinforces the importance of the internal financial controls. This Policy and Code is reviewed annually.
- Although the Board itself retains the ultimate power and authority in relation to decision making, the Audit Committee of the Board of Directors meets regularly with management and external and internal auditors to review specific accounting, reporting and financial control matters. The Committee also reviews the interim, preliminary and annual statements.

## Going Concern

After making enquiries the directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

# Corporate Governance Continued

Statement of compliance with the Combined Code

## Executive Share Incentive Scheme 1996 ("the 1996 Scheme")

At the 1996 Annual General Meeting shareholders approved the 1996 Scheme, a description of which was contained in the 1995 Report and Accounts. Briefly, the 1996 Scheme provides that executive directors will take a percentage of any annual bonus in the form of shares on the basis that three years later a number of matching shares (up to a maximum of three times the number of shares taken as part of any annual bonus) may be awarded, *dependent on the Group's performance in terms of total shareholder return as compared with a comparator group of companies. In the year under review executive directors and other senior employees bought a total of 16,037 shares as part of their annual bonus for the 1997/98 financial year.*

The maximum number of shares comprised in the conditional awards to directors and senior employees under this Scheme in its first three years of operation are as follows:

	Total granted to date	Granted 1999	Granted 1998	Granted 1997
S.J. Willcox	28,305	14,034	8,088	6,183
S.J. Stone	18,090	9,090	5,124	3,876
I.A.H. McPhie	20,148	9,927	5,793	4,428
R.A. Hunt	10,335	7,878	1,518	939
Other senior employees	21,831	9,618	4,866	7,347

In accordance with the rules of the 1996 scheme, the conditional award to I.A.H. McPhie did not lapse when he left the Board in January 1999.

In accordance with UITF 17, the fair value of the shares at the date the conditional award was granted is charged to the profit and loss account over the performance period.

## Pensions

All the executive directors are currently members of the Group's Senior Executive Retirement and Death Benefits Plan. Subject to Inland Revenue limits, members are eligible for a pension of up to two thirds of final pensionable salary upon retirement at the age of 60, provided that the minimum service requirement of 20 years has been met. Additionally, defined contribution schemes are in place for the benefit of Mr R.A. Hunt and Mr. T. K. P. Stead.

Directors' basic salaries are the only pensionable element of their remuneration packages.

## Directors' Emoluments

	Basic salary & fees £'000	Other benefits £'000	Annual bonus £'000	Total emoluments excluding pensions		Pension ** contributions		Total emoluments including pensions	
	1999 £'000	1998 £'000	1999 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000
<b>Executive</b>									
S.J. Willcox (highest paid director)	204	17	13	234	282	—	—	234	282
R.A. Hunt	112	42	6	160	170	—	12	160	182
I.A.H. McPhie (until 20.1.99)	44	38	—	82	202	44	17	126	219
D.C. Samardich (until 31.12.97)	—	—	—	—	210	—	15	—	225
T.K.P. Stead (from 5.10.99)	110	14	5	129	—	6	—	135	—
S.J. Stone	133	15	7	155	186	—	—	155	186
<b>Non-Executive</b>									
C.P. King CBE (Chairman)	43	—	—	43	40	—	—	43	40
T.C. Bonner CBE (Deputy Chairman)	19	—	—	19	18	—	—	19	18
J.W. Cutts (until 12.1.99)	5	—	—	5	18	—	—	5	18
G.T.E. Priestley (from 1.2.98)	19	—	—	19	12	—	—	19	12
<b>Total 1999</b>	<b>689</b>	<b>126</b>	<b>31</b>	<b>846</b>	<b>—</b>	<b>50</b>	<b>—</b>	<b>896</b>	<b>—</b>
<b>Total 1998</b>	<b>674</b>	<b>239</b>	<b>225</b>	<b>—</b>	<b>1,138</b>	<b>—</b>	<b>44</b>	<b>—</b>	<b>1,182</b>

\*\* Pension contributions represent the company's contribution to defined contribution schemes.

No director waived emoluments in respect of the year ended 2 October 1999.

Other benefits paid to I.A.H. McPhie include £30,000 compensation for loss of office in accordance with the terms of his service contract.

# Corporate Governance Continued

Statement of compliance with the Combined Code

## Executive Directors' Pensions

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

	S.J. Willcox	S.J. Stone	T.K.P. Stead	R.A. Hunt
Accrued entitlement as at 2 October 1999	£102,963p.a.	£66,651p.a.	£3,217p.a.	£16,087p.a.
Increase in accrued entitlement over the period in excess of the increase awarded to deferred pensioners	£11,335p.a.	£4,165p.a.	£2,942p.a.	£3,418p.a.
Contributions paid by each director over the period	£11,233	£6,963	£4,859	£4,859
Increase in the transfer value over the year (net of the director's contributions)	£88,408	£12,793	£29,373	£35,549

The accrued lump sum under the defined benefit scheme for the highest paid director at 2 October 1999 was £52,148 (1998: £49,880).

## Directors' Interests

Beneficial interests of directors, their families and trusts in ordinary shares of the company were:

	At the beginning of the year or date of appointment	At the end of the year
C.P. King CBE	6,000	6,000
T.C. Bonner CBE	2,000	2,000
R.A. Hunt	1,288	3,812
G.T.E. Priestley	2,000	12,000
T.K.P. Stead	2,000	2,000
S.J. Stone	7,666	10,578
S.J. Willcox	15,761	25,559

Additionally, the company operates a qualifying employee share ownership trust ("Quest") which is used to deliver shares to employees exercising their options under the Savings Related Share Option Scheme. By virtue of their participation, or potential participation, in that Scheme, Mr. S.J. Willcox, Mr. S.J. Stone, Mr. T.K.P. Stead and Mr. R.A. Hunt have an interest in the shares held by the Quest. At 2 October 1999 137,044 shares were held in the Quest (3 October 1998: 201,110 shares).

There were no movements in directors' shareholdings between the end of the financial year and 8 December 1999.

Details of directors' share options held, exercised and granted during the year are as follows:

## Executive Share Option Scheme:

	Number of options at 3/10/98	Granted during the year	Exercised during the year	Number of options at 2/10/99	Exercise price (£)	Exercisable at any time up to
S.J. Willcox	24,000	—	—	24,000	5.81	Feb 2004
	60,000	—	—	60,000	5.10	Jun 2005
S.J. Stone	15,000	—	—	15,000	5.81	Feb 2004
	24,000	—	—	24,000	5.10	Jun 2005
I.A.H. McPhie	39,000	—	—	39,000	5.03	Apr 2001
R.A. Hunt	15,000	—	—	15,000	5.10	May 2005

In the case of Mr. I.A.H. McPhie, the remuneration committee has determined that his executive share options may be exercised at any time up to 5 April 2001.

No directors' options have lapsed during the year unexercised.

# Corporate Governance *Continued*

Statement of compliance with the Combined Code

## Savings Related Share Option Schemes:

	Number of options at 3/10/98	Granted during the year	Exercised during the year	Number of options at 2/10/99	Exercise price (£)	Exercisable during
S.J. Willcox	5,301	—	5,301	—	2.55	—
	841	—	—	841	3.80	2003
	3,253	—	—	3,253	5.01	2005
S.J. Stone	1,125	—	—	1,125	3.80	2001
	1,322	—	—	1,322	5.79	2002
	1,060	—	—	1,060	5.01	2003
R.A. Hunt	1,062	—	—	1,062	3.67	2002
	1,203	—	—	1,203	5.79	2002
	1,683	—	—	1,683	3.80	2003
	234	—	—	234	5.01	2003

No directors' options have lapsed during the year unexercised.

As at 2 October 1999 other employees held options for 582,326 ordinary shares, exercisable between 1999 and 2006, at option prices ranging from £3.67 to £5.79.

All options are over ordinary shares of £1 each.

As at 2 October 1999, the market price of Avon Rubber p.l.c. shares was £5.10 (1998: £4.05). During the year the highest and lowest market prices were £6.00 and £3.94 respectively.

# Statement of Directors' Responsibilities

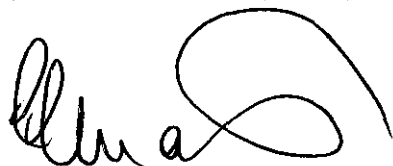
for the year ended 2 October 1999

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board  
C.L. Martin, Secretary  
Bradford-on-Avon, Wiltshire  
8 December 1999



**Avon Rubber p.l.c.**

**N° 32965**



**Avon Rubber p.l.c.**

# Auditors' Report

**N° 32965**

for the year ended 2 October 1999

## Report of the auditors to the members of Avon Rubber p.l.c.

We have audited the financial statements on pages 32 to 59 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 37 to 38.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 30 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 24 to 29 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its internal controls.

## Basis of audit opinion

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

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 2 October 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Bristol

8 December 1999

# Consolidated Profit and Loss Account

for the year ended 2 October 1999

	Note	1999 £'000	1998 £'000
<b>Turnover</b>	2		
Continuing activities		261,142	267,085
Acquisitions		5,022	—
<b>Total turnover</b>		266,164	267,085
<b>Cost of sales</b>		(214,012)	(216,174)
Gross profit		52,152	50,911
Net operating expenses	3	(30,218)	(28,586)
Share of operating (losses)/profits of joint ventures and associates	4	(54)	26
<b>Operating profit</b>	2		
Continuing activities		21,421	22,351
Acquisitions (after £163,000 (1998: nil) goodwill amortisation)		459	—
<b>Total operating profit</b>		21,880	22,351
Profit on sale of properties		—	993
Loss on sale of fixed asset investment		—	(275)
Profit on disposal of fixed assets	5	1,422	—
<b>Profit on ordinary activities before interest</b>		23,302	23,069
Interest payable	6	(4,532)	(3,014)
Interest receivable	6	3,136	3,850
<b>Profit on ordinary activities before taxation</b>	7	21,906	23,905
Taxation	8	(6,257)	(7,003)
<b>Profit on ordinary activities after taxation</b>		15,649	16,902
Minority interests		133	254
<b>Profit for the year</b>		15,782	17,156
Dividends (including non-equity interests)	9	(6,733)	(6,298)
<b>Retained profit for the year</b>	28	9,049	10,858
<b>Earnings per ordinary share</b>	10		
Basic		56.8p	62.4p
Before exceptional items		53.5p	59.8p
Diluted		56.7p	61.7p

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

N° 32965

# Consolidated Statement of Total Recognised Gains & Losses

for the year ended 2 October 1999

	Note	1999 £'000	1998 £'000
<b>Profit for the year</b>		<b>15,782</b>	<b>17,156</b>
Net exchange differences on overseas investments	28	(431)	(1,268)
<b>Total gains and losses for the year</b>		<b>15,351</b>	<b>15,888</b>

# Reconciliation of Movements in Shareholders' Funds

for the year ended 2 October 1999

	1999 £'000	1998 £'000
Opening shareholders' funds	80,405	105,791
Profit for the year	15,782	17,156
Dividends	(6,733)	(6,298)
Net exchange difference on overseas investments	(431)	(1,268)
New share capital subscribed (net)	534	273
Goodwill written off on acquisitions	—	(35,249)
<b>Closing shareholders' funds</b>	<b>89,557</b>	<b>80,405</b>
Equity shareholders' funds	89,057	79,905
Non-equity shareholders' funds	500	500
	<b>89,557</b>	<b>80,405</b>

## Avon Rubber p.l.c.

N° 32965

## Consolidated Balance Sheet

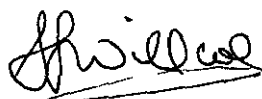
at 2 October 1999

	Note	1999 £'000	1998 £'000
<b>Fixed assets</b>			
Intangible assets	13	12,788	—
Tangible assets	14	102,102	67,408
Investments	16	900	1,001
		<b>115,790</b>	<b>68,409</b>
<b>Current assets</b>			
Stocks	19	24,014	21,444
Debtors — Amounts falling due within one year	20	57,579	48,502
Debtors — Amounts falling due after more than one year	20	5,772	5,419
Investments	21	—	36,800
Cash at bank and in hand		17,336	6,473
		<b>104,701</b>	<b>118,638</b>
<b>Creditors</b>			
Amounts falling due within one year	22	67,215	55,389
<b>Net current assets</b>		<b>37,486</b>	<b>63,249</b>
<b>Total assets less current liabilities</b>		<b>153,276</b>	<b>131,658</b>
<b>Creditors</b>			
Amounts falling due after more than one year	23	55,115	43,564
<b>Provisions for liabilities and charges</b>	25	6,276	5,263
		<b>61,391</b>	<b>48,827</b>
<b>Net assets</b>		<b>91,885</b>	<b>82,831</b>
<b>Capital and reserves</b>			
Share capital	27	28,324	28,218
Share premium account	28	34,070	33,642
Revaluation reserve	28	2,723	2,735
Profit and loss account	28	24,440	15,810
<b>Shareholders' funds (including non-equity interests)</b>		<b>89,557</b>	<b>80,405</b>
Minority interests (equity interests)		2,328	2,426
		<b>91,885</b>	<b>82,831</b>

These financial statements were approved by the board of directors on 8 December 1999 and were signed on its behalf by:

C.P. King CBE

S.J. Willcox




N° 32965

# Parent Company Balance Sheet

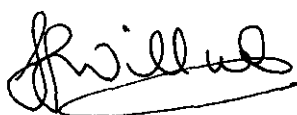
at 2 October 1999

	Note	1999 £'000	1998 £'000
<b>Fixed assets</b>			
Tangible assets	15	21,674	2,096
Investments	17	90,437	94,295
		<b>112,111</b>	<b>96,391</b>
<b>Current assets</b>			
Debtors	20	10,321	8,371
Investments	21	—	36,800
Cash at bank and in hand		32,590	2,034
		<b>42,911</b>	<b>47,205</b>
<b>Creditors</b>			
Amounts falling due within one year	22	45,666	30,261
<b>Net current (liabilities)/assets</b>		<b>(2,755)</b>	<b>16,944</b>
<b>Total assets less current liabilities</b>		<b>109,356</b>	<b>113,335</b>
<b>Creditors</b>			
Amounts falling due after more than one year	23	—	1,067
<b>Net assets</b>		<b>109,356</b>	<b>112,268</b>
<b>Capital and reserves</b>			
Share capital	27	28,324	28,218
Share premium account	29	34,070	33,642
Merger reserve	29	16,439	16,439
Revaluation reserve	29	709	733
Profit and loss account	29	29,814	33,236
<b>Shareholders' funds (including non-equity interests)</b>		<b>109,356</b>	<b>112,268</b>

These financial statements were approved by the board of directors on 8 December 1999 and were signed on its behalf by:

C.P. King CBE

S.J. Willcox




N° 32965

# Consolidated Cash Flow Statement

for the year ended 2 October 1999

	Note	1999 £'000	1998 £'000
<b>Net cash flow from operating activities</b>	31	22,226	33,093
<b>Dividends from joint ventures and associates</b>		—	149
<b>Returns on investments and servicing of finance</b>			
Interest received		3,094	4,344
Interest paid		(4,867)	(2,777)
Interest paid on finance leases		(118)	(165)
Preference dividends paid		(35)	(25)
Dividends paid to minority shareholders		—	(147)
		(1,926)	1,230
<b>Taxation</b>			
Corporation tax paid		(4,215)	(7,624)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(35,358)	(14,047)
Sale of tangible fixed assets		3,132	1,169
Purchase of fixed asset investments		—	(292)
Sale of fixed asset investments		—	145
		(32,226)	(13,025)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	30	(18,351)	(44,264)
Net cash acquired	30	394	2
		(17,957)	(44,262)
<b>Equity dividends paid</b>		(6,394)	(5,930)
<b>Net cash outflow before management of liquid resources and financing</b>		(40,492)	(36,369)
<b>Management of liquid resources</b>			
Decrease/(increase) in cash deposits treated as liquid resources	21	36,800	(1,800)
<b>Financing</b>			
Issue of ordinary shares		534	273
Issue of shares to minority shareholders		—	149
Repayment of loans		—	(7,986)
New loans		14,373	35,689
New finance leases		194	(766)
Principal payments under finance leases		(807)	—
		14,294	27,359
<b>Increase/(decrease) in cash in the period</b>	32	10,602	(10,810)

**Avon Rubber p.l.c.****N° 32965**

# Accounting Policies

for the year ended 2 October 1999

## Accounting period

The company's accounting period ends on the Saturday nearest to 30 September each year. The period ended 2 October 1999 consisted of 52 weeks (1998: 53 weeks).

## Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently, with the exception of the capitalisation of goodwill and interest, is set out below. The financial statements are prepared on the historical cost basis, modified by the inclusion of certain fixed assets at valuation.

## Consolidation

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

In accordance with the Financial Reporting Standard No. 10 "Goodwill and Intangible Assets" (FRS10), goodwill arising on acquisitions made on or after 3 October 1998 is capitalised and amortised on a straight line basis over its useful economic life. Previously, all goodwill was written off against reserves in the year of acquisition. On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off. The results of businesses acquired are included from the effective date of acquisition and businesses sold are included up to the date of disposal.

## Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that the liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions and other post-retirement benefits.

## Derivative Financial Instruments

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

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

## Exchange rates

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

## Fixed asset investments

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

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

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

# Accounting Policies Continued

for the year ended 2 October 1999

## Interest

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

## Leased assets

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

## New Financial Reporting Standards

During the year the following financial reporting standards (FRS) became effective for the Group's financial statements:

- FRS10 – Goodwill and intangible assets
- FRS11 – Impairment of fixed assets and goodwill
- FRS12 – Provisions, contingent liabilities and contingent assets
- FRS13 – Derivatives and other financial instruments: disclosures
- FRS14 – Earnings per share

The accounting standards to the extent applicable have been reflected in these financial statements. There has been no impact on the financial statements as a result of FRS11 and 12.

## Pensions and other post retirement benefits

The UK Group undertakings participate in a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme. The cost of providing other post-retirement benefits is recognised on a basis similar to that adopted for pensions.

## Research and development

All research and development costs are written off in the year in which they are incurred.

## Stocks

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

## Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less amounts provided for depreciation. No depreciation is provided on freehold land where its value can be separately ascertained. In all other cases freehold properties are depreciated on a straight line method at 2% per annum. Leasehold properties are amortised by equal annual instalments over 50 years or the life of the lease, if shorter. Plant and machinery are depreciated on the straight line method at rates varying between 6% and 50% per annum.

## Turnover

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



N° 32965

# Notes to the Financial Statements

for the year ended 2 October 1999

## 1. Parent Company

As permitted by S230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements.

The parent company's profit for the financial year was £3,273,000 (1998: £20,766,000).

## 2. Segmental Information

### (a) External sales by destination:

	1999		
	Continuing activities £'000	Acquisitions £'000	Total £'000
United Kingdom	51,295	360	51,655
Other European	69,114	4,662	73,776
North America	133,926	—	133,926
Rest of World	6,807	—	6,807
	<b>261,142</b>	<b>5,022</b>	<b>266,164</b>
	1998		
	Continuing activities £'000	Acquisitions £'000	Total £'000
United Kingdom	63,025	—	63,025
Other European	68,020	—	68,020
North America	129,963	—	129,963
Rest of World	6,077	—	6,077
	<b>267,085</b>	<b>—</b>	<b>267,085</b>

### (b) By origin:

	1999			1998		
	External sales £'000	Operating profit £'000	Operating net assets £'000	External sales £'000	Operating profit £'000	Operating net assets £'000
<b>Continuing activities</b>						
United Kingdom	90,621	3,298	54,220	103,759	5,478	29,738
Other European	36,363	3,284	15,839	36,291	2,435	13,476
North America	134,158	14,839	48,114	127,035	14,438	42,795
	<b>261,142</b>	<b>21,421</b>	<b>118,173</b>	<b>267,085</b>	<b>22,351</b>	<b>86,009</b>
<b>Acquisitions</b>						
United Kingdom	—	—	—	—	—	—
Other European	5,022	459	21,560	—	—	—
North America	—	—	—	—	—	—
	<b>5,022</b>	<b>459</b>	<b>21,560</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total</b>	<b>266,164</b>	<b>21,880</b>	<b>139,733</b>	<b>267,085</b>	<b>22,351</b>	<b>86,009</b>

Inter segmental sales are not material.

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 2. Segmental Information Continued

### (c) By business sector:

	1999			1998		
	External sales £'000	Operating profit £'000	Operating net assets £'000	External sales £'000	Operating profit £'000	Operating net assets £'000
<b>Continuing activities</b>						
Automotive Components	182,793	12,739	69,388	196,097	15,740	62,433
Technical Products	78,349	8,682	48,785	70,988	6,611	23,576
	261,142	21,421	118,173	267,085	22,351	86,009
<b>Acquisitions</b>						
Automotive Components	5,022	459	21,560	—	—	—
Technical Products	—	—	—	—	—	—
	5,022	459	21,560	—	—	—
<b>Total</b>	<b>266,164</b>	<b>21,880</b>	<b>139,733</b>	<b>267,085</b>	<b>22,351</b>	<b>86,009</b>

Inter segmental sales are not material.

### (d) Reconciliation of operating net asset analysis

	1999 £'000	1998 £'000
Consolidated balance sheet	91,885	82,831
Borrowings	63,702	45,745
Interest bearing bank deposits	(15,854)	(42,567)
<b>Operating net assets</b>	<b>139,733</b>	<b>86,009</b>

### (e) Employees

The number of employees during the year was:

	1999		1998	
	Year end	Average	Year end	Average
Automotive Components	4,257	3,969	3,634	3,580
Technical Products	1,494	1,448	1,513	1,458
<b>Total</b>	<b>5,751</b>	<b>5,417</b>	<b>5,147</b>	<b>5,038</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 3. Cost of sales and other operating income and expenses

	1999		
	Continuing activities £'000	Acquisitions £'000	Total £'000
<b>Turnover</b>	<b>261,142</b>	<b>5,022</b>	<b>266,164</b>
Cost of sales	(209,967)	(4,045)	(214,012)
<b>Gross profit</b>	<b>51,175</b>	<b>977</b>	<b>52,152</b>
Distribution costs	(6,188)	(217)	(6,405)
Administrative expenses	(24,591)	(185)	(24,776)
Goodwill amortisation	—	(163)	(163)
Other operating income	1,079	47	1,126
<b>Net operating expenses</b>	<b>(29,700)</b>	<b>(518)</b>	<b>(30,218)</b>
Share of losses of joint ventures and associates	(54)	—	(54)
<b>Operating profit</b>	<b>21,421</b>	<b>459</b>	<b>21,880</b>

	1998		
	Continuing activities £'000	Acquisitions £'000	Total £'000
<b>Turnover</b>	<b>267,085</b>	<b>—</b>	<b>267,085</b>
Cost of sales	(216,174)	—	(216,174)
<b>Gross profit</b>	<b>50,911</b>	<b>—</b>	<b>50,911</b>
Distribution costs	(5,134)	—	(5,134)
Administrative expenses	(24,348)	—	(24,348)
Other operating income	896	—	896
<b>Net operating expenses</b>	<b>(28,586)</b>	<b>—</b>	<b>(28,586)</b>
Share of profits of joint ventures and associates	26	—	26
<b>Operating profit</b>	<b>22,351</b>	<b>—</b>	<b>22,351</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 4. Joint ventures and associates

	1999 £'000	1998 £'000
Share of operating loss in joint venture	(88)	(107)
Share of operating profit in associate	34	133
	(54)	26

The Group's share of the turnover of the joint venture was £17,000 (1998: £19,000).

	Share Capital	Held by the Group	Accounting Date	Basis of Consolidation
<b>Joint Venture:</b>				
Gold Seal-Avon Polymers PVT India	4,403,596 shares of 10 rupees each	50%	31 March	Audited accounts to 31 March 1999 Unaudited accounts to 2 October 1999
<b>Associate:</b>				
Ames-Avon Industries USA	2,000 shares of nil par value	49%	31 December	Audited accounts for 1998 Unaudited accounts to 2 October 1999

## 5. Exceptional items

The exceptional gain arose from insurance proceeds received for the refurbishment of plant and machinery that could not be replaced. The expenditure on the major refurbishment has been capitalised and the proceeds taken as an effective gain on disposal. The gain of £1,422,000 is before taking account of the related tax charge of £498,000.

The exceptional items in 1998, refer to a gain of £993,000 relating to the sale of property, previously written down to zero, and a loss of £275,000 resulting from the Group's disposal of a 10% holding in Avon Marine Limited.

## 6. Net interest receivable/(payable) and similar charges

	1999 £'000	1998 £'000
Bank loans and overdrafts	(2,276)	(2,036)
US Dollar private placement	(2,347)	(448)
Other loans	(306)	(327)
Finance leases	(118)	(165)
	(5,047)	(2,976)
Share of interest cost in joint venture	(64)	(38)
Less interest capitalised	579	—
Total interest payable	(4,532)	(3,014)
Interest receivable	3,136	3,850
	(1,396)	836

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 7. Profit on ordinary activities before taxation

	1999 £'000	1998 £'000
<b>Profit on ordinary activities before taxation is stated after crediting:</b>		
Rent receivable	42	98
Gain/(loss) on foreign exchange	40	(70)
<b>and after charging:</b>		
Depreciation for the year on tangible fixed assets:		
owned assets	8,901	8,006
leased assets	833	865
Amortisation of goodwill	163	—
Auditors' remuneration for:		
Audit (Company £50,000; 1998 £40,000)	293	250
Other services to UK members of the Group including taxation	165	438
Research and development	4,645	4,610
Operating leases:		
plant and machinery	2,082	1,852
other assets	1,617	1,305

## 8. Taxation

	1999 £'000	1998 £'000
<b>The taxation charge, based on the results for the year, comprises:</b>		
<b>Tax charge on operating activities:</b>		
United Kingdom corporation tax at 30.5% (1998: 31%)	546	1,981
Overseas taxes	3,651	5,077
Joint venture	—	—
Associated company	14	51
	4,211	7,109
Deferred taxation	2,046	(106)
	6,257	7,003

The relatively low corporation tax charge largely arises as a result of lower taxation on overseas profit. These lower taxation charges on overseas profits are largely due to capital allowances arising on capital expenditure.

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 8. Taxation Continued

An analysis of provided and unprovided deferred tax at 30% (1998: 31%) is shown below:

	Amount provided		Amount unprovided	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Capital allowances	(2,162)	(89)	(4,845)	(5,493)
Pension deferral	—	—	(748)	—
Post retirement healthcare	941	834	—	—
Other timing differences	(47)	(18)	2,876	1,326
Losses	—	—	(217)	159
<b>Asset/(potential liability)</b>	<b>(1,268)</b>	<b>727</b>	<b>(2,934)</b>	<b>(4,008)</b>

In addition to the above there are losses of £233,000 (1998: £522,000) (in terms of tax) available for carry forward.

No provision has been made for taxation liabilities which would arise on the distribution of profits returned by overseas subsidiaries because there is no intention that such profits will be remitted in the foreseeable future.

## 9. Dividends

	1999 £'000	1998 £'000
Dividends on equity shares:		
Ordinary – Interim paid of 7.0p per share (1998: 6.6p per share)	1,936	1,815
Ordinary – Final proposed of 17.2p per share (1998: 16.2p per share)	4,762	4,458
	<b>6,698</b>	<b>6,273</b>
Dividends on non-equity shares:		
Preference 7% paid (1998: 4.9%)	35	25
	<b>6,733</b>	<b>6,298</b>

## 10. Earnings per share

Financial Reporting Standard No. 14 (FRS14) "Earnings Per Share" has been adopted and consequently basic and diluted earnings per share have been calculated in accordance with the requirements of the Standard. Comparative basic and diluted earnings per share for the year ended 3 October 1998 have been recalculated on the same basis.

Basic earnings per share amount to 56.8p (1998: 62.4p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £15,747,000 (1998: £17,131,000) and 27,721,000 ordinary shares (1998: 27,454,000) being the weighted average of the shares in issue during the year.

Earnings per share before exceptional items amount to 53.5p (1998: 59.8p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £14,823,000 (1998: £16,413,000.)

Diluted earnings per share amount to 56.7p (1998: 61.7p) and are based on profit after taxation, and deduction of minority interests, and non-equity dividends, of £15,747,000 (1998: £17,131,000) and 27,795,000 ordinary shares (1998: 27,750,000) being the diluted weighted average number of shares in issue during the year.

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 10. Earnings per share Continued

The difference between the weighted average number of shares in issue and the diluted weighted average number of shares in issue relates to unexercised share options details of which are shown on pages 28 and 29.

*Adjusted earnings per share figures have been calculated in addition to basic and diluted figures since, in the opinion of the directors, this gives a better understanding of the Group's performance. A reconciliation of the different earnings per share is shown below.*

	1999	1998
Basic earnings per share	56.8p	62.4p
Adjustment for exceptional items	(3.3p)	(2.6p)
Earnings per share before exceptional items	53.5p	59.8p

## 11. Pensions and other retirement benefits

### Pensions

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

Pension costs are assessed on the advice of an independent consulting actuary using the projected unit method. The funding of the plan is based on regular actuarial valuations. The most recent actuarial valuation of the plan was carried out as at 31 March 1997 when the market value of the plan's assets was £236.2 million. The actuarial value of those assets represented 106% of the value of the benefits which had accrued to members, after allowing for future increases in salaries.

Pension cost for the year ended 2 October 1999 is based on the actuarial valuation as at 31 March 1997 which took into consideration the changes announced in the March 1997 budget. The principal actuarial assumptions used are that the annual rate of return on investments would be 2.5% (1998: 2.5%) higher than the annual increase in pensionable remuneration and 4% (1998: 4%) higher than the annual increase in present and future pensions in payment. The pension cost to the Group in the year ended 2 October 1999 in respect of UK employees was £1,269,000 (1998: £1,152,000). At 2 October 1999, the pension prepayment held in the Group balance sheet is £3,005,000 (1998: £1,951,000).

For employees overseas, pension arrangements are principally defined contribution plans. The cost to the Group in the year ended 2 October 1999 in respect of overseas employees was £2,115,000 (1998: £2,015,000).

### Other post retirement benefits

Cadillac Rubber and Plastics Inc. operates a medical cover scheme under the terms of which retiring employees who have ten years service and their dependants are entitled to medical cover from the date of their retirement for a period of three years, or until they reach the age of 65, whichever is the earlier. The amount charged to the Group profit and loss account in the year ended 2 October 1999 is £82,000 (1998: £125,000), and the accrued liability of £2,691,000 (1998: £2,537,000) is included in provisions for liabilities and charges (see note 25).

## 12. Directors and employees

Detailed disclosures of directors' remuneration and share options are given on pages 27 to 29. During the year one director (1998: two) exercised options granted under the Savings Related Share Option scheme. The aggregate of the gains made on the exercise of these options, calculated on the difference between the option price and the mid-market price at the date of exercise, was £14,000 (1998: £32,000) all of which (1998: £23,000) related to the gains attributable to the highest paid director.

	1999 £'000	1998 £'000
Staff costs during the year were:		
Wages and salaries	79,396	76,744
Social security costs	8,227	8,052
Other pension costs	3,675	3,505
	91,298	88,301

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 13. Intangible fixed assets – Group

	Cost £'000	Amortisation £'000	Net book value £'000
<b>Goodwill</b>			
At 4 October 1998	–	–	–
Acquisitions during the year	13,152	–	13,152
Amortisation	–	(163)	(163)
Exchange differences	(202)	1	(201)
<b>Net book value at 2 October 1999</b>	<b>12,950</b>	<b>(162)</b>	<b>12,788</b>

The goodwill arising on the acquisitions of Industrial Flexo S.A. and Proflex S.A. during the year is being amortised on a straight-line basis over 20 years.

This period is the period over which the directors estimate the value of the business acquired is expected to exceed the value of the underlying assets.

The cumulative goodwill resulting from acquisitions, which has been written off to reserves at 2 October 1999, is £79,204,000 (1998: £79,204,000).

## 14. Tangible fixed assets – Group

	Freeholds £'000	Long leasehold £'000	Short leasehold £'000	Plant and machinery £'000	Assets in course of construction £'000	Total £'000
<b>Cost or valuation:</b>						
At 4 October 1998	14,175	1,465	130	110,566	1,690	128,026
Exchange differences	(17)	17	1	(391)	–	(390)
Acquisitions	2,384	–	–	4,877	–	7,261
Additions at cost	1,449	27	3	15,945	20,500	37,924
Disposals	(811)	(199)	(1)	(3,162)	–	(4,173)
<b>At 2 October 1999</b>	<b>17,180</b>	<b>1,310</b>	<b>133</b>	<b>127,835</b>	<b>22,190</b>	<b>168,648</b>
At Cost	6,910	510	133	127,835	22,190	157,578
At Valuation	10,270	800	–	–	–	11,070
	17,180	1,310	133	127,835	22,190	168,648
<b>Depreciation:</b>						
At 4 October 1998	1,415	119	75	59,009	–	60,618
Exchange differences	(36)	1	2	(603)	–	(636)
Reclassifications	85	–	–	(85)	–	–
For the year	624	71	6	9,033	–	9,734
On disposals	(544)	(61)	(1)	(2,564)	–	(3,170)
<b>At 2 October 1999</b>	<b>1,544</b>	<b>130</b>	<b>82</b>	<b>64,790</b>	<b>–</b>	<b>66,546</b>
<b>Net book value at 2 October 1999</b>	<b>15,636</b>	<b>1,180</b>	<b>51</b>	<b>63,045</b>	<b>22,190</b>	<b>102,102</b>
Net book value at 3 October 1998	13,461	1,346	55	52,546	–	67,408
<b>Net book value includes the following leased assets:</b>						
At 2 October 1999	–	1,180	51	2,502	–	3,733
At 3 October 1998	–	1,346	55	2,979	–	4,380



# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 14. Tangible fixed assets – Group Continued

Additions at cost include £579,000 (1998: nil) of interest costs capitalised (see note 6).

Group properties were valued independently as at 28 September 1996 on the basis of existing use value or open market value as deemed appropriate. These valuations were undertaken in the United Kingdom by Knight Frank and overseas by DTZ Debenham Thorpe, both firms of independent Chartered Surveyors. If land and buildings had not been revalued, they would have been included in the financial statements at the following amounts:

	Freeholds £'000	Long leaseholds £'000	Short leaseholds £'000
Cost	18,967	837	133
Depreciation	4,963	248	82
<b>Net book value at 2 October 1999</b>	<b>14,004</b>	<b>589</b>	<b>51</b>
Net book value at 3 October 1998	11,817	755	55

## 15. Tangible fixed assets – Parent

	Freeholds £'000	Long leaseholds £'000	Plant and machinery £'000	Assets in course of construction £'000	Total £'000
<b>Cost or valuation:</b>					
At 4 October 1998	1,297	800	1,710	–	3,807
Additions at cost	–	–	133	261	394
Transfers from Group companies	–	–	882	18,957	19,839
Disposals	(455)	–	(275)	–	(730)
<b>At 2 October 1999</b>	<b>842</b>	<b>800</b>	<b>2,450</b>	<b>19,218</b>	<b>23,310</b>
At Cost	–	–	2,450	19,218	21,668
At Valuation	842	800	–	–	1,642
	<b>842</b>	<b>800</b>	<b>2,450</b>	<b>19,218</b>	<b>23,310</b>
<b>Depreciation:</b>					
At 4 October 1998	433	48	1,230	–	1,711
For the year	31	24	225	–	280
Transfers from Group companies	–	–	116	–	116
On disposals	(227)	–	(244)	–	(471)
<b>At 2 October 1999</b>	<b>237</b>	<b>72</b>	<b>1,327</b>	<b>–</b>	<b>1,636</b>
<b>Net book value at 2 October 1999</b>	<b>605</b>	<b>728</b>	<b>1,123</b>	<b>19,218</b>	<b>21,674</b>
Net book value at 3 October 1998	864	752	480	–	2,096
<b>Net book value includes the following leased assets:</b>					
At 2 October 1999	–	728	–	–	728
At 3 October 1998	–	752	–	–	752

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 15. Tangible fixed assets – Parent Continued

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

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

	Freeholds £'000	Long leaseholds £'000
Cost	739	327
Depreciation	65	178
<b>Net book value at 2 October 1999</b>	<b>674</b>	<b>149</b>
Net book value at 3 October 1998	921	161

## 16. Fixed asset investments – Group

	1999 £'000	1998 £'000
Investments in joint ventures:		
shares of joint assets	713	724
shares of joint liabilities	(695)	(558)
Investments in associates	580	543
Other investments	302	292
	<b>900</b>	<b>1,001</b>

	Joint venture £'000	Associated company £'000	Other investments other than loans £'000	Total £'000
<b>Unlisted shares at cost, less amount written off:</b>				
At 4 October 1998	384	158	292	834
Exchange differences	–	5	10	15
<b>at 2 October 1999</b>	<b>384</b>	<b>163</b>	<b>302</b>	<b>849</b>
<b>Group share of profits less losses:</b>				
At 4 October 1998	(218)	385	–	167
Exchange differences	4	12	–	16
For the year	(152)	20	–	(132)
<b>at 2 October 1999</b>	<b>(366)</b>	<b>417</b>	<b>–</b>	<b>51</b>
<b>Net book value at 2 October 1999</b>	<b>18</b>	<b>580</b>	<b>302</b>	<b>900</b>
Net book value at 3 October 1998	166	543	292	1,001

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 17. Fixed asset investments – Parent

	Unlisted shares at cost less amounts written off £'000	Loan to Group Undertaking £'000	Total £'000
At 4 October 1998	82,585	11,710	94,295
Repayment of loan	–	(4,389)	(4,389)
Exchange Rate movement	–	531	531
<b>Net book value at 2 October 1999</b>	<b>82,585</b>	<b>7,852</b>	<b>90,437</b>

The company and Group had a \$13 million US currency swap (1998: US\$20 million) outstanding at the year end, maturing in more than one year, in order to hedge the loan to the Group undertaking.

A list of Group undertakings appears on page 60.

## 18. Other financial commitments

	Group		Parent	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Capital expenditure committed	4,586	8,959	–	–

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

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

	1999		1998	
	Land and buildings £'000	Other assets £'000	Land and buildings £'000	Other assets £'000
<b>For leases expiring:</b>				
Within 1 year	–	167	–	140
In 2–5 years	682	425	661	431
Over 5 years	503	23	430	120
	<b>1,185</b>	<b>615</b>	<b>1,091</b>	<b>691</b>

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

The parent company has annual commitments for non-cancellable operating leases on land and buildings expiring in over 5 years of £68,000 (1998: £68,000).

## 19. Stocks

	Group	
	1999 £'000	1998 £'000
Raw materials	7,999	7,243
Work in progress	6,483	5,497
Finished goods	9,532	8,704
	<b>24,014</b>	<b>21,444</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 20. Debtors

	Group		Parent	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	45,113	41,939	143	174
Group undertakings	—	—	7,544	4,515
Undertakings in which the Group has a participating interest	192	38	146	—
Deferred tax	—	—	—	—
Advance corporation tax recoverable	1,700	888	—	888
Corporation tax	2,050	828	1,507	14
Other debtors	7,698	4,256	758	1,543
Prepayments	826	553	17	17
	<b>57,579</b>	<b>48,502</b>	<b>10,115</b>	<b>7,151</b>
<b>Amounts falling due after more than one year:</b>				
Deferred tax	941	834	—	—
Advance corporation tax recoverable	—	1,115	—	1,115
Other debtors	1,826	1,519	—	—
Pension fund prepayment	3,005	1,951	206	105
	<b>5,772</b>	<b>5,419</b>	<b>206</b>	<b>1,220</b>
	<b>63,351</b>	<b>53,921</b>	<b>10,321</b>	<b>8,371</b>

## 21. Current asset investments

Current asset investments relate to short term bank deposits maturing in less than one year.

## 22. Creditors – amounts falling due within one year

	Group		Parent	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Current instalments due on loans	6,828	103	985	—
Bank overdrafts	2,401	2,366	—	—
Finance leases	689	666	—	—
Total borrowings falling due within 1 year	<b>9,918</b>	<b>3,135</b>	<b>985</b>	<b>—</b>
Trade creditors	27,476	24,001	146	476
Group undertakings	—	—	38,597	22,763
Bills of exchange	1,521	2,052	—	—
Advance corporation tax payable	—	1,115	—	1,115
Corporation tax	5,001	2,147	462	—
Deferred tax	—	17	—	—
Other taxation and social security	3,394	3,176	87	87
Other creditors	5,051	2,941	217	151
Accruals	10,092	12,347	410	1,211
Proposed dividend on ordinary shares	4,762	4,458	4,762	4,458
	<b>67,215</b>	<b>55,389</b>	<b>45,666</b>	<b>30,261</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 23. Creditors – amounts falling due after more than one year

	Group		Parent	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank loans (secured £127,000 1998: £310,000)	17,125	6,631	–	1,067
US Dollar private placement	35,754	34,609	–	–
Finance leases up to 5 years	901	1,349	–	–
Finance leases over 5 years	4	21	–	–
Total borrowings falling due after more than one year	53,784	42,610	–	1,067
Other creditors	1,331	865	–	–
Deferred tax	–	89	–	–
	55,115	43,564	–	1,067

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

Bank loans secured are by way of fixed charges over land and buildings.

The US dollar denominated private placement loan of \$60 million (1998: \$60 million) is stated net of unamortised issue costs of £487,000 (1998: £522,000)

Included within bank loans and the US dollar private placements are amounts payable after more than five years (see note 24).

## 24. Financial instruments

### Treasury Policy

Details of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities are discussed in the financial review on page 17. The financial review also discusses the objectives and policies for holding or issuing financial instruments and the strategies for achieving those objectives.

### Short term debtors and creditors

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

### Interest rate risk of financial assets

Currency	1999			1998		
	Cash at bank and in hand £'000	Investments £'000	Total £'000	Cash at bank and in hand £'000	Investments £'000	Total £'000
Sterling	9,644	–	9,644	1,056	36,800	37,856
US dollars	6,082	302	6,384	4,569	292	4,861
EU currencies (other than sterling)	1,139	–	1,139	503	–	503
Other currencies	471	–	471	345	–	345
	17,336	302	17,638	6,473	37,092	43,565

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

Sterling investments at 3 October 1998 consist of £36,800,000 of short term bank deposits maturing in less than one year. The US dollar investment relates to a 10% equity holding in Longbore Inc. of \$500,000 (1998: \$500,000).

The level of cash balances held reflect the development plans that exist for the medium term. In particular, certain development costs, in respect of the Melksham site, will be met from these balances. In addition, the Group's borrowings reflect longer term commitments and the Group's principal policy of "borrowing long to invest long". As a result, cash balances are held to take account of short-term cashflow fluctuations and also to provide finance for small short-term investment opportunities.

# Notes to the Financial Statements *Continued*

for the year ended 2 October 1999

## 24. Financial instruments *Continued*

### Interest rate risk of financial liabilities

Currency	Floating rate financial liabilities £'000	1999 Fixed rate financial liabilities £'000	Total £'000	Floating rate financial liabilities £'000	1998 Fixed rate financial liabilities £'000	Total £'000
<b>Sterling</b>						
Financial liabilities	—	1,229	1,229	47	2,036	2,083
Preference shares	—	500	500	—	500	500
<b>US dollars</b>	2,409	35,812	38,221	2,394	34,609	37,003
<b>EU currencies (other than sterling)</b>	23,208	365	23,573	5,940	—	5,940
<b>Other currencies</b>	679	—	679	719	—	719
	<b>26,296</b>	<b>37,906</b>	<b>64,202</b>	<b>9,100</b>	<b>37,145</b>	<b>46,245</b>

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

Fixed rate financial liabilities comprise finance leases, preference shares, and a dollar denominated loan of \$60 million which provides a hedge against the Group's investment in dollar denominated net assets.

### Fixed rate financial liabilities

Currency	1999 Weighted average interest rate %	1999 Weighted average period for which rate is fixed Years	1998 Weighted average interest rate %	1998 Weighted average period for which rate is fixed Years
<b>Sterling</b>				
Finance liabilities	7.2	2.5	7.2	3.5
Preference shares	7.0	—	4.9	—
<b>US dollar</b>	6.7	8.9	6.7	9.9
<b>EU currencies (other than sterling)</b>	4.7	0.9	—	—

### Maturity of financial liabilities

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

	1999				1998			
	Bank overdrafts and loans £'000	Finance leases £'000	Preference shares £'000	Total £'000	Bank overdrafts and loans £'000	Finance leases £'000	Preference shares £'000	Total £'000
<b>In 1 year or less, or on demand</b>	9,229	689	—	9,918	2,469	666	—	3,135
<b>Between 1 and 2 years</b>	2,259	422	—	2,681	1,132	731	—	1,863
<b>Between 2 and 5 years</b>	13,719	479	—	14,198	5,499	618	—	6,117
<b>Over 5 years</b>	36,901	4	500	37,405	34,609	21	500	35,130
	<b>62,108</b>	<b>1,594</b>	<b>500</b>	<b>64,202</b>	<b>43,709</b>	<b>2,036</b>	<b>500</b>	<b>46,245</b>

The cumulative preference shares have a fixed cumulative dividend of 7.0% and are not redeemable.

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 24. Financial instruments Continued

### Borrowing facilities

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

	Actual borrowings £'000	1999 Total committed facilities £'000	Undrawn facilities £'000	Actual borrowings £'000	1998 Total committed facilities £'000	Undrawn facilities £'000
Expiring within 1 year	9,229	27,407	18,178	2,469	19,302	16,833
Between 1 and 2 years	2,259	2,259	—	1,132	5,126	3,994
Between 2 and 5 years	13,719	33,972	20,253	5,499	23,064	17,565
Over 5 years	36,901	36,901	—	34,609	34,609	—
	<b>62,108</b>	<b>100,539</b>	<b>38,431</b>	<b>43,709</b>	<b>82,101</b>	<b>38,392</b>

The undrawn facilities are available at floating rates of interest. These facilities are subject to formal agreement with the providers of finance. The majority of the facilities which expire in more than one year are subject to annual review in line with normal banking procedures.

### Fair values of financial assets and liabilities

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

	1999		1998	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Bank loans and overdrafts under 1 year	9,229	9,229	2,469	2,469
US dollar denominated loan	36,241	33,136	35,131	34,609
Bank loans over 1 year	17,125	17,125	6,631	6,631
Finance leases	1,594	1,594	2,036	2,036
Preference shares	500	485	500	495
Cash at bank and in hand	17,336	17,336	6,473	6,473
<b>Derivative financial instruments held to manage the interest rate and currency profile</b>				
Currency swap	—	298	—	829
Forward foreign currency contracts	71	71	5	5
<b>Derivative financial instruments held or issued to hedge the currency exposure on expected future sales:</b>				
Forward foreign currency contracts	—	97	—	29

The book value of the US dollar denominated loan is shown in the above table gross of unamortised issue costs of £487,000 (1998: £522,000)

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 24. Financial instruments Continued

### Summary of methods and assumptions

#### Currency swap

The fair value reflects the net amount receivable at year end exchange rates.

#### US dollar denominated loan and forward foreign currency contracts

Fair value is based on the market value of comparable instruments at the balance sheet date.

#### Bank loans

The fair value of bank loans approximates to their book values as these are floating rate facilities on which interest rates are reset to market rates typically on a one to six months basis.

#### Finance leases

The fair values of finance leases approximates to their book values as the interest rates inherent in these agreements are similar to the interest rates available on replacement facilities.

A fair value has not been disclosed for the Group's investments in Longbore Inc. on the grounds that an estimated fair value cannot be determined with sufficient reliability because this is an unquoted investment. This investment represents a 10% equity holding carried at cost \$500,000 (1998: \$500,000).

### Currency exposures

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

### Hedges

In order to protect against the fluctuations in foreign currencies, borrowings are taken out in the functional currency of the subsidiary companies. The currency exposure as at 2 October 1999 in respect of overseas investments was as follows:

Currency	Operating assets £'000	Unamortised goodwill £'000	Functional currency borrowings £'000	Remaining functional currency exposure £'000
US dollar	45,678	—	38,221	7,457
EU currencies (excluding sterling)	19,210	12,788	22,588	9,410
Other currencies	4,826	—	679	4,147
	69,714	12,788	61,488	21,014

The exposure to the US investment has been partially offset by a \$13 million US currency swap, which provides a hedge against the exposures to foreign currency movements. Any gains or losses arising (£298,000 in 1999) have been offset against the gains or losses arising on the retranslation of the net investments in US dollars.

At the end of the year, the Group had a FF10,000,000 loan, taken out as a hedge against its investments in France, any currency gains or losses resulting from this loan are taken to the Statement of Total Recognised Gains and Losses and offset against gains or losses on retranslation of the net investments in the French subsidiaries.

The unrecognised gains on forward foreign currency contracts at 3 October 1998 amounted to £29,000 which was recognised in the profit and loss account for the year ended 2 October 1999. The unrecognised gains on forward foreign currency contracts at 2 October 1999 amount to £97,000 which is expected to be recognised in the profit and loss account for the year ended 30 September 2000.



# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 25. Provision for liabilities and charges – Group

	Deferred tax £'000	Post * retirement benefits £'000	Other £'000	Total £'000
Balance at 4 October 1998	–	2,537	2,726	5,263
Charged/(credited) to profit and loss account	2,209	82	(767)	1,524
Payments in the year	–	–	(583)	(583)
Exchange differences	–	72	–	72
<b>Balance at 2 October 1999</b>	<b>2,209</b>	<b>2,691</b>	<b>1,376</b>	<b>6,276</b>

The Group sold its interest in Avon Tyres to Cooper Tires during the year ended 27 September 1997. As part of the agreement for the sale, the Group has to relocate its Technical Products and Automotive Components businesses currently based on the Cooper-Avon site in Melksham. As the Group is committed to the relocation as part of the sale agreement, provision has been made for the losses that will arise on the relocation. These are included as other provisions.

\* See note 11

## 26. Contingent liabilities

	Group		Parent	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Guarantees of overdraft facilities and loans of Group undertakings	–	–	59,409	44,060
Other guarantees	427	573	–	–
	<b>427</b>	<b>573</b>	<b>59,409</b>	<b>44,060</b>

The company and certain subsidiaries have unconditionally guaranteed the liabilities of Avon Rubber & Plastics Inc in respect of its US\$60,000,000 private debt placement and Avon Rubber Espana S.L. in respect of its 23 million Euro loan.

The bank has the right to set off the bank account of the Parent and the UK subsidiaries.

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

## 27. Share capital

	1999 £'000	1998 £'000
<b>Authorised:</b>		
37,900,000 ordinary shares of £1 each	37,900	37,900
500,000 7.0% cumulative preference shares of £1 each	500	500
	<b>38,400</b>	<b>38,400</b>
<b>Called up, allotted and fully paid:</b>		
27,824,000 ordinary shares of £1 each	27,824	27,718
500,000 7.0% cumulative preference shares of £1 each	500	500
	<b>28,324</b>	<b>28,218</b>
	<b>1999</b>	<b>1998</b>
During the year the following ordinary shares were issued pursuant to the:		
Executive Share Option scheme	15,000	–
Savings Related Share Option schemes	–	45,528
Qualifying Employee Share Ownership Trust	90,486	238,559
	<b>105,486</b>	<b>284,087</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 27. Share capital Continued

Shares issued under the Executive Share Option scheme were satisfied by a total cash consideration of £77,000. A further 90,486 ordinary shares have been issued to a Qualifying Employee Share Ownership Trust (QUEST) which have been funded by contributions from employees totalling £457,000.

At 2 October 1999, QUEST held 137,044 ordinary shares in the company at a market value of £5.10 per share, all of which were under option to employees. Dividends on the shares held by QUEST have been waived.

The cumulative preference shares have a fixed cumulative dividend of 7.0% and are not redeemable. In the event of a winding up of the company they rank ahead of the ordinary shares and will be entitled to the amounts paid up thereon, any arrears of dividend and a premium equivalent to the difference between the nominal amount of capital paid up on such shares and the average quoted price for such shares for the preceding six months (net of any dividend arrears). Except under certain circumstances the shares carry no right to vote at general meetings. The title of these shares has been changed from 4.9% cumulative preference shares following the abolition of ACT.

Details of outstanding share options are given on pages 28 and 29.

## 28. Share premium account and reserves – Group

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 4 October 1998	33,642	2,735	15,810
Transfer from revaluation reserve to profit and loss	–	(12)	12
Premium on shares issued during the year	428	–	–
Unrealised exchange differences			
on overseas investments	–	–	(445)
on related borrowings	–	–	14
Current year retained profit	–	–	9,049
<b>at 2 October 1999</b>	<b>34,070</b>	<b>2,723</b>	<b>24,440</b>
Avon Rubber p.l.c. and subsidiaries	34,070	2,723	24,389
Joint ventures and associated companies	–	–	51
	<b>34,070</b>	<b>2,723</b>	<b>24,440</b>

## 29. Share premium account and reserves – Parent

	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 4 October 1998	33,642	16,439	733	33,236
Transfer from revaluation reserve to profit and loss	–	–	(24)	24
Premium on shares issued during the year	428	–	–	–
Unrealised exchange differences	–	–	–	14
Current year loss	–	–	–	(3,460)
<b>at 2 October 1999</b>	<b>34,070</b>	<b>16,439</b>	<b>709</b>	<b>29,814</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 30. Acquisitions

On 30 June 1999 the Group acquired two Spanish companies; Industrial Flexo S.A. and Proflex S.A. The total cost of the acquisition was £17,681,000, including £850,000 of acquisition expenses. The fair value of the net assets acquired totalled £4,529,000 giving rise to goodwill of £13,152,000.

These acquisitions have been accounted for using acquisition accounting.

A summary of the fair values of the assets acquired is given below:

	Net assets acquired £'000	Fair value adjustment £'000	Fair value of net assets acquired £'000
Tangible fixed assets	6,034	1,227	7,261
Stocks	1,416	—	1,416
Debtors	6,509	57	6,566
Creditors	(6,671)	(980)	(7,651)
Borrowings	(2,796)	(267)	(3,063)
	4,492	37	4,529
Goodwill	13,152	—	13,152
<b>Total Cost</b>	<b>17,644</b>	<b>37</b>	<b>17,681</b>
Deferred consideration			(297)
Cash paid			17,384

The fair value adjustments made are:

	Alignment of accounting policies £'000	Other £'000	Total £'000
Write off of research and development costs	(31)	—	(31)
Change in depreciation policy	477	—	477
Reclassifying operating lease obligations as finance leases	230	—	230
Tax provision	—	(250)	(250)
Provision for onerous contract	—	(350)	(350)
Others	—	(39)	(39)
	676	(639)	37

The summarised aggregate profit and loss account of Industrial Flexo S.A. and Proflex S.A. for the period from 1 January 1999, the beginning of the subsidiary's year, to the date of acquisition was as follows:

	6 month period ended 30 June 1999 £'000
Turnover	11,094
Profit on ordinary activities before taxation	555
Tax on ordinary activities	(173)
<b>Profit on ordinary activities after taxation</b>	<b>382</b>

The company had no recognised gains or losses other than the profit on ordinary activities after taxation shown above. The profit on ordinary activities after tax for the year ended 31 December 1998 was £1,270,000.

The above acquisition contributed £127,000 to the Group's net operating cash flows, paid £107,000 in respect of taxation, £287,000 in respect of capital expenditure, and £142,000 in respect of returns on investments and servicing of finance.

The figure shown on the cash flow statement of £18,351,000 in respect of purchase of subsidiary undertakings includes £967,000 of deferred consideration relating to acquisitions reported in the 1998 accounts.

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 31. Net cash flow from operating activities

	1999 £'000	1998 £'000
Operating profit	21,880	22,351
Goodwill amortisation	163	—
Amortisation of loan issue costs	50	—
Depreciation of tangible fixed assets	9,734	8,871
(Profit)/loss on sale of tangible fixed assets	(707)	49
(Increase)/decrease in stocks	(1,154)	792
(Increase)/decrease in debtors	(784)	536
(Decrease)/increase in creditors	(4,718)	2,758
Increase in pension prepayment	(1,054)	(1,405)
Share of operating losses/(profits) of joint ventures and associates	54	(26)
Decrease in provisions	(1,195)	(894)
Effect of foreign exchange rate changes	(43)	61
<b>Net cash flow from operating activities</b>	<b>22,226</b>	<b>33,093</b>

## 32. Reconciliation of net cash flow to movement in net funds/(net debt)

	1999 £'000	1998 £'000
Increase/(decrease) in cash	10,602	(10,810)
Movements in loans and finance leases	(13,760)	(26,935)
Movement in liquid resources	(36,800)	1,800
Amortisation of loan costs	(50)	—
Loans and finance leases acquired from acquisitions	(3,457)	—
Exchange differences	(429)	993
<b>Movement in net debt in the period</b>	<b>(43,894)</b>	<b>(34,952)</b>
(Net debt)/net funds at the beginning of the year	(2,472)	32,480
<b>Net debt at the end of the year</b>	<b>(46,366)</b>	<b>(2,472)</b>

# Notes to the Financial Statements Continued

for the year ended 2 October 1999

## 33. Analysis of net funds/(net debt)

	At 4 Oct 1998 £'000	Reclassified £'000	Cash flow £'000	Exchange movements £'000	Acquisitions £'000	At 3 Oct 1999 £'000
Cash in bank and in hand	6,473	—	10,313	48	502	17,336
Overdrafts	(2,366)	—	(105)	178	(108)	(2,401)
Debt due after 1 year	(41,240)	5,895	(13,647)	(605)	(3,282)	(52,879)
Debt due within 1 year	(103)	(5,895)	(776)	(54)	—	(6,828)
Finance leases	(2,036)	—	613	4	(175)	(1,594)
Current asset investments (see Note 20)	36,800	—	(36,800)	—	—	—
	(2,472)	—	(40,402)	(429)	(3,063)	(46,366)

## 34. Related party transactions

At the end of the year the Group had loans outstanding due from Gold Seal-Avon Polymers PVT totalling £183,000 (1998: nil)

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

## 35. Post balance sheet event

The company completed the sale of its subsidiary company, CQC Ltd (formerly known as CQC PLC) on 15 October 1999 to a new company Crossco (430) Ltd which was formed by three existing directors of CQC, Mr M Rennie, Managing Director, Mr P Gulliford, Marketing Director and Mr A Greene, Finance Director.

Based in Barnstaple, Devon the Company manufactures a wide range of advanced textile based clothing and personal protection equipment for armed forces and, at the date of the disposal, employed 157 people.

The consideration for the disposal amounted to £1,600,000 in cash.

Additionally, and by a separate transaction, the Group also sold the freehold site from which CQC Ltd operates for a consideration of £1.0 million in cash.

The sale of the business and the property, which was regarded as non-core to the Group's activities, did not result in any significant gain or loss based upon the carrying value in the accounts (including goodwill previously written off against reserves). During the year ended 2 October 1999, CQC Ltd made a pre-tax profit of £0.6 million.

# Group Undertakings and Participating Interests

at 2 October 1999

	Group interest	Country in which incorporated
<b>Held by Parent Company</b>		
Avon Polymer Products Limited		
Avon Rubber Overseas Limited		
Avon Rubber Pension Trust Limited		
<b>Held by Group Undertakings</b>		
Avon Automotive Deutschland GmbH		Germany
Avon Caoutchouc S.A.		France
Avon Hi-Life Inc.		USA
Avon Injected Rubber and Plastics Inc.		USA
Avon Milk-Rite Inc.		USA
Avon Polymères France S.A.		France
Avon Rubber & Plastics Inc.		USA
Avon Rubber Holland BV		Netherlands
Avon Rubber Espana S.L.		Spain
Avon Rubber Polimeros L.D.A.		Portugal
Avon Automotive a.s.*		Czech Republic
Avon Spencer Moulton S.A.		France
Avon Vibration Management Systems Limited		
Avon Zatec LLC.		USA
Avon-Ames Limited	51%	
Bell Avon Inc.	80%	USA
Cadillac Rubber and Plastics Inc.		USA
Cadillac Rubber and Plastics de Mexico SA de CV*		Mexico
Cadimex SA de CV*		Mexico
Cow Polymers Limited		
CQC PLC		
CT Rubber and Plastics Inc.	60%	USA
Industrial Flexo S.A.		Spain
Nova Insurance Limited		Guernsey
Pacer Tool and Plastics Inc.		USA
Proflex S.A.		Spain
<b>Undertakings in which the Group has a participating interest</b>		
Ames-Avon Industries†	49%	USA
Gold Seal-Avon Polymers PVT†	50%	India
Longbore Inc.	10%	USA

Shareholdings are ordinary shares and, except where shown, undertakings are wholly owned.

Except where otherwise shown, all companies are incorporated in England and Wales and operate primarily in their country of incorporation.

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

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

The 80% shown against Bell Avon Inc. represents the Group's interest in the share capital of that company. The Group's interest in the accumulated reserves of Bell Avon Inc. is 50%.

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

†Ames-Avon Industries is an associated company and Gold Seal-Avon Polymers PVT a joint venture within the meaning of Financial Reporting Standard Number 9.

**Avon Rubber p.l.c.**

# Shareholders Information

**N° 32965**

## Shareholders

On 1 December 1999 the company had the following number of shareholders:

£1 ordinary shares: 1,688

7.0% cumulative preference shares of £1 each: 43

Of the ordinary shareholders, 1,098 (65%) had holdings of 1,000 shares or less.

## Financial Calendar

Interim figures announced in May and final results in December.

Preference dividend paid on 30 June and 31 December.

Interim ordinary dividend declared in May and paid in June.

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

Annual General Meeting held in January.

In respect of the year ended 2 October 1999, the Annual General Meeting will be held on 19 January 2000 and the final dividend on the £1 ordinary shares will, if approved, be paid on 28 January 2000 to shareholders on the register on 6 January 2000.

## Corporate Information

<b>Registered Office</b>	Manvers House, Kingston Road, Bradford-on-Avon, Wiltshire, BA15 1AA England Registered in England and Wales No. 32965
<b>Company Secretary</b>	C.L. Martin
<b>Auditors</b>	PricewaterhouseCoopers
<b>Registrars &amp; Transfer Office</b>	Northern Registrars Limited Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
<b>Brokers</b>	Cazenove & Co
<b>Solicitors</b>	Linklaters & Alliance
<b>Principal Bankers</b>	Comerica Inc. HSBC Bank plc
<b>Corporate Financial Advisors</b>	Baring Brothers International Limited
<b>Corporate web site</b>	<a href="http://www.avon-rubber.com">www.avon-rubber.com</a>

Share price information can be obtained on the Financial Times Cityline service by dialling 0336-431713.

**Avon Rubber p.l.c.****N° 32965****Five Year Record**

	1999 £'000	1998 £'000	1997 £'000	1996 £'000	1995 £'000
Turnover	266,164	267,085	290,648	347,471	306,467
Profit on trading	31,831	31,196	30,471	38,250	31,225
Share of (losses)/profits of joint venture and associated company	(54)	26	80	184	255
	31,777	31,222	30,551	38,434	31,480
Goodwill amortisation	(163)	—	—	—	—
Depreciation	(9,734)	(8,871)	(10,713)	(13,330)	(11,254)
Operating profit before exceptional items	21,880	22,351	19,838	25,104	20,226
Reorganisation costs	—	—	(4,000)	—	—
Profit on sale of fixed assets and investments	1,422	718	—	—	—
Profit/(loss) on sale of interest in subsidiary undertakings	—	—	11,047	—	—
Profit before interest	23,302	23,069	26,885	25,104	20,226
Interest	(1,396)	836	(526)	(3,595)	(4,035)
Profit before taxation	21,906	23,905	26,359	21,509	16,191
Taxation	(6,257)	(7,003)	(7,064)	(7,096)	(5,230)
Profit after taxation	15,649	16,902	19,295	14,413	10,961
Minority interests	133	254	(81)	(800)	9
Profit attributable to Avon shareholders	15,782	17,156	19,214	13,613	10,970
Preference dividends	(35)	(25)	(25)	(25)	(25)
Ordinary dividends	(6,698)	(6,273)	(5,775)	(5,248)	(4,744)
Retained profit	9,049	10,858	13,414	8,340	6,201
Fixed assets and investments	115,790	68,409	58,523	93,391	88,251
Working capital	28,737	22,157	23,720	37,424	44,011
Provisions	(6,276)	(5,263)	(6,156)	(3,776)	(4,817)
Net funds	—	—	32,480	—	—
Assets employed	138,251	85,303	108,567	127,039	127,445
Financed by:					
Ordinary share capital	27,824	27,718	27,434	26,952	26,813
Reserves attributable to Avon shareholders	61,233	52,187	77,857	63,350	54,990
Preference share capital	500	500	500	500	500
Minority shareholders' interests	2,328	2,426	2,776	4,130	6,043
Shareholders' capital employed	91,885	82,831	108,567	94,932	88,346
Net borrowings	46,366	2,472	—	32,107	39,099
Capital employed	138,251	85,303	108,567	127,039	127,445
Basic earnings per share	56.8p	62.4p	70.8p	50.6p	40.9p
Dividends per share	24.2p	22.8p	21.15p	19.5p	17.7p

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



N° 32965

# Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of shareholders will be held at The Bath Spa Hotel, Sydney Road, Bath on Wednesday 19 January 2000 at 2.30pm for the following purposes:

1. To receive a presentation by the Chief Executive on aspects of the company's business.
2. To receive and consider the report of the directors and the financial statements for the year ended 2nd October 1999 (Resolution No. 1).
3. To declare a dividend on the ordinary shares (Resolution No. 2).
4. To re-elect directors:  
Mr. S.J. Stone retires by rotation and, being eligible, offers himself for re-election (Resolution No. 3).  
Mr. R.A. Hunt retires by rotation and, being eligible, offers himself for re-election (Resolution No. 4).
5. To re-appoint PricewaterhouseCoopers as auditors (Resolution No. 5).
6. To transact any other routine business.
7. As special business to consider and if thought fit pass the following resolution which will be proposed as a special resolution (Resolution No.6) :

"That article 11 (B) (iv) (a) be amended to read as follows:

'Prescribed period' means in the first instance the period from the date of the adoption of this article to the date of the annual general meeting in 2001 or 19 April 2001, whichever is the earlier, and thereafter shall mean any other period (not exceeding 15 months on any occasion) for which the authority and power conferred by:

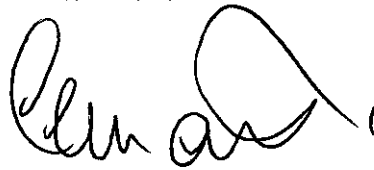
(aa) sub-paragraph (i) is renewed or extended by a special resolution of the company stating the section 80 amount for such period; and

(bb) sub-paragraph (ii) is renewed or extended by a special resolution of the company stating the section 89 amount for such period (provided that the authority and power conferred by sub-paragraph (ii) may only be renewed or extended subject to the passing of the special resolution renewing or extending the section 80 power and authority of allotment)."

8. As special business to consider and if thought fit pass the following resolution which will be proposed as a special resolution (Resolution No. 7) :  
"Subject to the passing of Resolution No. 6 set out in the Notice of Annual General Meeting dated 20 December 1999 the authority conferred on the directors by article 11 (B) (i) of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2001 or on 19 April 2001, whichever is the earlier, and for such period the section 80 amount shall be £9,274,648".
9. As special business to consider and if thought fit pass the following resolution which will be proposed as a special resolution (Resolution No. 8):  
"Subject to the passing of Resolutions Nos. 6 and 7 set out in the Notice of Annual General Meeting dated 20 December 1999 the power conferred on the directors by article 11 (B) (i) of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2001 or on 19 April 2001, whichever is the earlier, and for such period the section 89 amount shall be £1,391,197".

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

By order of the board  
C.L. Martin, Secretary  
Bradford-on-Avon  
20 December 1999



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

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

The documents set out below are available for inspection at the company's registered office during business hours on any weekday (Saturday and public holidays excluded) from the date of this notice until the conclusion of the annual general meeting and will also be available for inspection at the place of the meeting from 15 minutes before it is held until its conclusion:

- (i) the register of directors' interests showing any transaction of directors and their family interests in the share capital of the company; and
- (ii) copies of all contracts of service under which directors of the company are employed by the company or any of its subsidiaries.

# Notice of Annual General Meeting Continued

## Explanation of Resolutions Nos. 3 and 4

At the 1998 annual general meeting shareholders approved an amendment to the company's Articles of Association designed to ensure that all directors, whether or not they hold executive office, should be subject to retirement by rotation. Additionally, the directors will comply with the requirements of the Combined Code that all directors should be subject to re-election at intervals of not more than three years.

This year Mr. S.J. Stone and Mr R.A. Hunt will retire by rotation under Article 91 and stand for re-election (Resolutions Nos. 3 and 4).

## Explanation of Resolutions Nos. 6, 7 and 8

Article 11 of the Articles of Association of the company both authorises your board to allot shares and disapplies shareholders' pre-emption rights, on an annual renewable basis. Shareholders may recall that this authority has previously been given for the maximum amounts permitted by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds ("the Investment Committees").

The authority referred to above was renewed at the annual general meeting in 1999 and will, unless again renewed by the shareholders, expire at the end of the forthcoming annual general meeting. The authority can be renewed by way of relatively simple special resolutions. It is therefore proposed as Resolution No. 7 to renew the authority to allot shares up to an aggregate nominal amount of £9,274,648 (the "section 80 amount"), being an amount equal to 33⅓% of the existing ordinary share capital, so that the directors are empowered pursuant to and within that authority to issue shares for cash, either in connection with a rights issue or to persons other than existing shareholders. It is additionally proposed as Resolution No. 8 to provide that the authority to issue shares for cash to persons other than existing shareholders will be limited to issues representing no more than £1,391,197 (the "section 89 amount") being 5% of the issued ordinary share capital as shown in the latest audited financial statements.

The proposed new section 80 amount and the proposed new section 89 amount have been adjusted to reflect the increase which has taken place during the year in the issued ordinary share capital as a result of employees and directors exercising their rights under the Avon Rubber p.l.c. Sharesave Option Scheme 1992 and the Avon Rubber p.l.c. Executive Share Option Scheme 1986 (together "the Share Option Schemes"). In connection with the section 80 amount the Investment Committees require that the amount should be the lesser of the authorised but unissued share capital and an amount equal to 33⅓% of the existing issued ordinary share capital; this year 33⅓% of the existing issued ordinary share capital is the lesser amount and the section 80 amount had been calculated accordingly.

The authorities sought in Resolution Nos. 7 and 8 comply with the guidelines of the Investment Committees and will, unless subsequently renewed by shareholders, expire at the end of the annual general meeting to be held in 2001 or 19 April 2001 if earlier.

No issue of shares (apart from issues in respect of the exercise of options granted or to be granted to employees or directors under option schemes approved by shareholders, including the Share Option Schemes), is currently contemplated and none will be made which will effectively alter the control of the company without the prior approval of the company in general meeting.

In previous years, the authorities contemplated by Resolutions Nos. 7 and 8 were covered by a single special resolution. In the light of the increasingly common practice, among quoted companies, of seeking separate approval to the two authorities referred to above, the directors have decided that this year, and in the future, the matters referred to in this explanation should be dealt with by two separate special resolutions. Resolution No. 6 is designed to alter the Articles of Association to permit Resolutions Nos. 7 and 8 to be proposed as separate resolutions, both of which are conditional on Resolution No. 6 being passed and Resolution No. 8 being further conditional on Resolution No. 7 being passed.

**Shareholders should note that the company's registrars are now:**

**Northern Registrars Limited**  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA  
Telephone 01484 600900

**Avon Rubber p.l.c.**

**N° 32965**