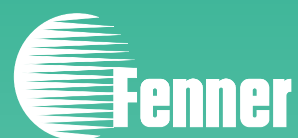


Annual Report 2007

Growing
Partnerships
Worldwide

Growing Partnerships Worldwide

Fenner is a world leader in reinforced polymer technology.

Our strategy is to increase market share and target new value added product areas.

We will continue to concentrate on growing those businesses where we already demonstrate leadership through our skills in applications, design, materials technology and dedication to customer service as well as by carefully planned acquisitions.

Contents

1	Financial Highlights
2	Chairman's Statement
4	Business Review - Chief Executive Officer's Review
11	Business Review - Group Finance Director's Review
14	Business Review - Definition of Key Performance Indicators Used
15	The Board
16	Corporate Governance
20	Board Remuneration Report
27	Directors' Report
29	Independent Auditors' Report
30	Consolidated Financial Statements
65	Independent Auditors' Report - Company
66	Company Financial Statements
71	Five Year Summary of the Group
72	Annual General Meeting Advisors Financial Calendar

Financial Highlights

	2007 £m	% increase on 2006
Revenue	380.8	-
Operating profit before amortisation of intangible assets acquired and exceptional items	39.0	+14%
Operating profit	38.2	+13%
Profit before taxation	33.6	+15%
Adjusted earnings per share before amortisation of intangible assets acquired and exceptional items	15.1p	+15%
Basic earnings per share	15.0p	+15%
Dividend per share	6.225p	+4%

Record operating profit for the Group

I am pleased to report that the performance achieved in 2006/7 has met our ambitious growth targets. The fundamentals of our core markets associated with energy and power generation have remained strong. Against this backdrop, all of our businesses have delivered robust returns which have culminated in a record operating profit for the Group.

FINANCIAL HIGHLIGHTS

Group revenue for the year amounted to £380.8m (2006 £379.0m). The growth would have been £21.0m higher at last year's currency rates. Increased revenue in the Advanced Engineered Products Division reflected both acquisitive and organic growth, particularly in our seals businesses. The Conveyor Belting Division benefited from a continued expansion in the Southern Hemisphere. After a slower first half because of mild winter weather conditions, order levels for the North American business normalised in the second half of the year, following the earlier temporary pause in demand for energy.

Operating profit before amortisation of intangible assets acquired and exceptional items increased to £39.0m (2006 £34.1m) after absorbing the effect of £2.7m of adverse currency movements. The underlying growth of 24% has been facilitated by continuous improvement and development of our integrated service and product offering.

Exceptional items of £0.2m (2006 £nil) comprised a charge of £2.7m and a gain of £2.5m. The charge of £2.7m related to the reorganisation associated with the expansion of the conveyor belting operations in North America and the integration of EGC, which was acquired in October 2006, into the seals business in Houston, Texas. The gain of £2.5m related to the profit generated from the Group's disposal during the year of its non-core interest in KSB Pumps in South Africa.

Operating profit increased to £38.2m (2006 £33.7m). Total net finance costs incurred were £4.6m (2006 £4.3m) with a resultant profit before taxation of £33.6m (2006 £29.3m).

The headline and underlying taxation rates were 29% and 30% respectively. Adjusted earnings per share before amortisation of intangible assets acquired and exceptional items was 15.1p per share (2006 13.1p). Basic earnings per share amounted to 15.0p per share (2006 13.0p).

The Group's ability to generate cash is evident from the net cash inflow from operating activities of £38.8m (2006 £26.3m) emanating from both profit and working capital management. This has funded the Group's major expansion plans in the period as capital expenditure incurred rose to £32.0m (2006 £18.8m). The acquisition of EGC cost £8.8m and the divestment of KSB Pumps generated £5.2m. Net debt at the end of the year was £36.3m (2006 £33.1m). This benefited from borrowings being denominated in weaker foreign currencies, giving rise to a gain of £2.5m.

The Board is recommending a final dividend of 4.15p per share which gives a total distribution for the year of 6.225p per share (2006 6.0p), a 4% increase on 2006. This is in line with our policy of paying a one-third interim dividend and a two-thirds final dividend.

OPERATIONS

The Advanced Engineered Products Division had another strong year, particularly our seals businesses, where high trading levels continued to be enjoyed in the mining, oil and gas and semi conductors sectors. These businesses have gone from strength to strength since their acquisition two years ago. The integration of EGC has progressed well and the initial results have exceeded pre-acquisition expectations. The precision polymers businesses saw healthy growth in both hose and industrial markets, particularly in North America.

The Conveyor Belting Division achieved a further year of growth as the strategic development of our market strengths progressed in accordance with our plans. Demand for belting benefited from both the buoyant mining conditions which prevailed for much of the year and a strong industrial sector. In Australia, the national coverage of the service businesses broadened to accommodate the needs of our widely spread customer base. The business in China continued to expand as the belting requirement from the coal mining sector grew, driven by this territory's increasing demand for energy. In North America, the improved volumes in the second half enabled a good full year performance with operational efficiencies assisting margins. Our substantial capital investment programme commenced in earnest during the period, the benefits of which will be evident for years to come. Finally, results from the European businesses have been most encouraging as economic conditions showed improvement and penetration of new and emerging markets continued.

PEOPLE

Fenner employs over 3,500 people in its geographically diverse operations around the world. We are fortunate to have strong teams of talented and dedicated people throughout the Group. I recognise that the achievements to date could not have happened without their support and therefore, on behalf of the Board, I would like to extend my appreciation and gratitude.

OUTLOOK

In the first few weeks of 2007/8 trading has commenced in line with our expectations. Current order flow remains healthy and our markets are generally buoyant. The effect of economic uncertainty, particularly in the US, has not been seen directly in our businesses, although we are alert to the possibility of this occurring. The medium and longer term drivers remain strongly positive and, we believe, endorse our customer led investment strategy. As a consequence we remain confident of continuing growth this year.

Colin Cooke
Chairman

Maintaining the momentum

"The Fenner businesses are well invested and positioned in geographic locations where markets offer good growth prospects."
Mark Abrahams - Chief Executive Officer

INTRODUCTION

The Business Review on pages 4 to 14 provides information on the corporate objectives of the Fenner Group and its businesses, together with a review of our progress in 2007 and an assessment of the key risks and uncertainties we face.

Fenner is a world leader in reinforced polymer technology. We will maintain or achieve leading positions in all our niche markets by continuing to concentrate on, and invest in, understanding our customers' needs and delivering superior value added products to satisfy those needs. The commitment and expertise of our workforce in both established and emerging markets provides a solid platform for profit and growth.

The Conveyor Belting ("CB") Division continues to be a world leader in the global conveyor belting market with products including lightweight and heavyweight conveyor belting for the mining, power generation and industrial markets.

The Advanced Engineered Products ("AEP") Division is involved in precision motion control products for the paper handling and mechanical equipment markets, silicon and EPDM hose production for non-automotive applications and the specialist sealing business, which manufactures seals products for the mining, hydraulics, oil and gas, electronics, pumps, valves, compressors, and aerospace industries. As with CB, AEP demonstrates its market leadership through its customer responsiveness, product range, quality and the whole-life value of the product to the customer.

The Group takes pride in being a manufacturer of world class products that are known for quality and reliability and which provide value added solutions to our customers. From 3mm wide inkjet printer belts to 1500mm wide High-Vis conveyor belt for carrying potash, our reputation is key to the Group's success and has been built up over many years of customer focused trading. Measuring our performance against customer requirements and their satisfaction, including appropriate "on time in full" measurement and customer surveys, is a key task throughout the Group.

STRATEGIC OBJECTIVES

Strategic reviews are held periodically and are embedded into the Group's corporate processes, with the Board and Executive management team devoting a proportion of each of their meetings to discuss strategic issues. CB and AEP have separate strategic objectives, with common goals of continued investment and development in emerging markets, as well as expanding share where possible in established markets. The possibility of further expansion into other emerging markets is subject to regular review.

Fenner continues to grow its reputation as a specialist polymer engineering company, with global operations offering products focused on distinct markets and managed through two operating divisions. The Group's head office promotes proactive local autonomy with well defined, timely reporting. Fenner has over 3,500 employees based in 18 countries and where possible we recruit and develop indigenous management. A list of principal subsidiaries can be found in Note 35 to the consolidated financial statements.

Acquisition opportunities are actively sought and evaluated. The capacity and desire to grow by acquisition is tempered by availability and value of appropriate targets.

During the year, there was major organic investment across our CB and AEP

operations, demonstrating a clear commitment to achieving our strategic objectives. Good progress was made on the building work for our Port Clinton operation with the wide steel cord and fabric presses on track for installation in the first half of 2008. The current phase of investment in the Toledo operation is complete and the operational benefits are starting to flow through. Work has also started on the new bespoke state of the art weaving facility in Georgia. Investment has been made in South Africa and China to increase both the capacity and product range of the CB operations in those countries.

Major expansion of the Houston site to accommodate the recently acquired EGC business has shown encouraging progress. AEP expanded in China with the opening of new facilities for both the sealing operation and the hose business. The business also continues to benefit from the new bespoke factory in Hampton which was completed in 2006.

All investments in new production equipment are required to improve quality and reduce waste. The CB investments in North America will produce major savings from reduced waste and improvements in conversion efficiencies. Overall the Group is addressing capacity constraints and continues to improve on production efficiencies.

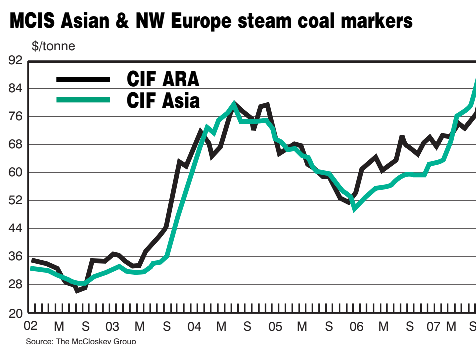
After a long and successful partnership with KSB Pumps in South Africa, Fenner took the opportunity to realise a good exit price for this non-core business unit which will enable KSB Pumps to develop in the Black Economic Empowerment environment.

CONVEYOR BELTING

Capacity and temporary weather related local market weakness constrained growth in the first half. Improved demand and a better mix of business led to an increase in profitability in the second half.

Internationally traded coal prices, one of the key indicators of the relative health of the market for conveyor belting, demonstrated by the McCloskey graph, rose steadily throughout the year. Coal prices are affected by, but not linked to, oil prices, but coal is seen as a more secure source of basic energy, especially in China and North America.

KPI: Traded Coal Prices



McCloskey's key physical prices

High coal stocks and a warm winter depressed demand for FENNER DUNLOP Americas in the first half. Volume recovered in the second half and the long term outlook remains positive. The slowdown in the North American housing market and concerns over sub-prime credit had little visible impact on our operations. With a dedicated sales team, the business strengthened its position with national accounts during the year which means the business is well placed to exploit both coal and industrial markets in future years. With recent international investment by American coal companies, FENNER DUNLOP Worldwide is uniquely placed to service these customers. In industrial markets, continued high levels of construction activity provided demand for many material handling applications ranging from forestry to steel manufacturing.

Our UK based operation made gains in market share in Western Europe and continues to penetrate into new markets opening up in Eastern Europe and the former Soviet Union.

Domestic industrial markets in Western Europe were steady for the first half of the year and grew in the second half. Building on the changes made last year, the European operation continued to improve its margins through the year and to exploit its diverse product range by improving customer perception of quality and continuing with its improvements in manufacturing efficiencies.

Operations in China, India and South Africa benefited from continued strength in the coal industries in their domestic markets, primarily driven by the demand for power for both industrial and domestic use. New

product launches are planned, including a steel cord line in South Africa to enable the business to expand beyond the coal dominated product range into such applications as overland conveying.

In Australia, FENNER DUNLOP experienced a positive trading year with a particularly strong first half. The service business offers resilience to the otherwise cyclical nature of new belting projects. This counterbalance reinforces the Group's strategy to invest in value added services. The Australian iron ore market is booming with numerous projects coming on line to increase production. The business is well placed to supply into these new projects and to offer the value added after sales services.

Work continued to develop rEscan alongside the Australian service business. In the Americas, and elsewhere, the service business has been reorganised and is beginning to implement our successful service model whilst complementing our existing distribution channels.

ADVANCED ENGINEERED PRODUCTS

AEP is made up of four discrete businesses. They share the same broad strategic objectives of seeking to provide engineered solutions to customers' needs using material science and design skills in niche applications which are usually performance critical. The markets are very diverse and therefore each business within AEP deploys different tactics and value propositions to achieve their strategic goals.

Fenner Advanced Sealing Technologies ("FAST") had another record year due to strong organic growth combined with the EGC acquisition. Demand continued to be strong for seals for oil, gas and mining applications. FAST continues to focus on niche performance critical and higher pressure applications for which a strong advanced materials capability is necessary. A key part of FAST's strategy is to continue to roll out the Six Sigma continuous improvement programme, with the primary objective of achieving market leading delivery performance and availability for its product range. The new facility in Shanghai is being used to develop business in Asia and there are new customer service operations in India and South America. To develop new business faster, all seals service subsidiaries have been equipped with CNC prototyping capability.

The hose business, trading as James Dawson, is a world leading producer of speciality hoses for diesel engine, truck, bus and off road commercial vehicles. The hose business successfully relocated its Chinese manufacturing into a purpose built facility in Shanghai during the year and is now producing hose for the South East Asian market from the new bespoke factory. Domestic growth combined with exports increased the sales of our Chinese hose facility by 50%.

Restructuring of the business in the previous year has brought improved market focus to Fenner Drives and Fenner Precision. Fenner Precision produces polymeric belts, tyres and rollers for the global office automation market, with increased focus on mission critical, document handling applications. Fenner Drives continues to develop a growing range of innovative, proprietary products which solve problems in the power transmission, motion control and unit handling markets. The key geographic markets for Fenner Precision and Fenner Drives are North America, Europe and Asia, where demand continues to be robust. Capacity at the Manheim facility was increased in late 2006, enabling the business to meet customer demand.

AEP continues to look for acquisition opportunities to strengthen its current operating bases and develop its geographical reach.

OUTLOOK

The new year has started in line with our expectations.

Global commodity markets including oil, iron ore and coal remain strong in terms of price and demand. However, this must be tempered by the weak housing and infrastructure market in North America plus the, as yet unknown, fallout from the sub-prime mortgage losses. Although approximately half our business is in North America, overall our current order intake reflects commodity strength.

Our organic investment programme continued throughout the year in support of our customers' investments in new projects. The commissioning phase of these programmes will be completed in the next 6 to 18 months, providing growth in future years.

Our intentions are not limited to organic investment and we continue to look for

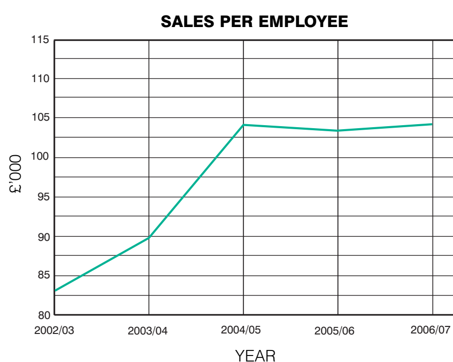
strategic acquisition opportunities across all our businesses.

The Fenner businesses are well invested and positioned in geographic locations where markets offer good growth prospects. We anticipate that the combination of these factors will enable us to continue our progress in 2008.

EMPLOYEES

Fenner benefits from a stable, skilled and committed workforce around the globe and acknowledges the importance of our employees' contribution to the performance of the Group. Both operating divisions have manufacturing processes that require high levels of skill and technical expertise. Many of the end products are used in safety critical applications and therefore a skilled and motivated workforce is essential to maintain product safety, reliability and quality.

With over 3,500 employees, employment costs continue to be a significant consideration and therefore good levels of productivity are a key factor in the success of the Group. Due to the diversity of our operations, productivity across the Group is best measured by total sales per employee as reported below:



The table shows a period of substantial growth in sales per employee from 2002/03 to 2004/05. 2005/06 saw the full year effect of the FAST operations and a general reduction in the level of overtime. In 2006/07, the levels of productivity were achieved against a backdrop of organic investment in new buildings and production facilities. Furthermore, developing our service businesses generates lower sales per employee than the average for our manufacturing businesses.

Fenner produces an in house 'Fenner Focus' magazine which is distributed to all employees and is an effective route to communicate matters of Group and operational significance. The magazine informs employees of any major Group developments including acquisitions and disposals. The annual results are also summarised in the publication enabling all employees to be kept informed of the Group's progress. Most operations supplement 'Fenner Focus' with their own publications highlighting local achievements and initiatives.

HEALTH AND SAFETY

Health and safety continues to be a top priority in the Group. Regrettably this year, there was a fatality of an employee at our Drachten facility. In addition to providing help and support to his family and colleagues, the incident was thoroughly and independently investigated. All relevant equipment and procedures were rapidly reviewed throughout the Group. The results of this review demonstrated that we meet or exceed the recommendations from the independent investigation. The Dutch administrative process is not yet complete.

Four locations across the Group are actively evaluating compliance with ISO 18000 for health and safety systems with a view to full implementation. The Hampton facility won a RoSPA health and safety Gold Award in March 2007 demonstrating that its safety systems are world class.

Workplace accidents are recorded and reviewed operationally and safe systems of work updated if necessary. Accidents involving lost time are reported through divisional management and up to the main Board. Where relevant the details of an incident and the rectification measures taken are shared around Group operations to prevent similar accidents elsewhere.

The absolute number of lost time incidents ("LTIs") is a KPI which measures the success of the health and safety policy and ethos of the Group. 2006/07 showed a substantial improvement in the number of LTIs which will be challenging to maintain as the Group continues to invest and grow. The following table shows the results over the last four years:

Year	No. of LTIs
2003/04	120
2004/05	96
2005/06	98
2006/07	86

ENVIRONMENTAL

The Group is committed to identifying and assessing the risks of pollution and other forms of environmental impairment arising out of its activities. We seek to reduce our impact on the environment to the lowest practical levels and with each new investment ensure that we exemplify the best contemporary practice in respect of the environment. At Board level, the Chief Executive Officer has specific responsibility for the development of policy and management systems. Responsibility for environmental matters in each operating division is designated to the Divisional Managing Director and at a local level to a senior manager on each site. Each Divisional Managing Director is required to report to the Board on a regular basis and to advise the Board immediately of any environmental risks or other incidents likely to be significant to the business. No new risks were reported to the Board in the last year.

All acquisitions are subject to appropriate environmental due diligence which is specifically extended to include environmental management systems and operational compliance. Compliance with applicable regulatory standards is a minimum which is subject to official audit; other, larger facilities validate their management systems by independent audit. Significant progress is being made on environmental management systems with one site achieving ISO14000 and six other locations actively progressing towards accreditation in 2008 or 2009.

We are exploring suitable environmental KPIs for the Group as a whole which can then be reported in future years. Areas being looked at include energy consumption and waste management, both of which potentially have a direct environmental and business impact. One operation is also assessing the carbon footprint of a plant with a view to seeing if some meaningful actions can result from it and to prepare for a local compliance requirement. Consideration will be given to whether this should be rolled out to other Group operations.

In addition to our environmental responsibilities, there are sound commercial reasons to minimise and recycle waste. Our textile operations within the CB Division have, for many years, recycled waste yarns. Other recycled process waste materials include polythene, polyurethane and rubber (cured and uncured). Cardboard and polythene packaging and paper are also recycled where the local infrastructure makes these practical options. Specific initiatives have produced a year on year increase in the quantity of material recycled.

Air quality can be adversely affected by some of our processes and significant investment and maintenance costs are incurred to ensure this does not happen. A number of locations use processes which involve a range of chemicals which are generically referred to as volatile organic compounds ("VOCs"). These chemicals are subject to strict regulation, with their storage and use carefully controlled. In addition to minimising any emissions to air of VOCs, potential substitutes are assessed as soon as they become commercially available.

The majority of the Group's businesses have occupied their sites for many years, some for over 100 years. The Group therefore recognises and manages risk of exposure to environmental legacy issues.

Fenner continues to be committed to undertaking regular reviews of its activities and the workings of its environmental policy to ensure it is comprehensive and effective and identifying objectives and standards that will enable a demonstrable continuous improvement in environmental matters.

PRINCIPAL RISKS AND UNCERTAINTIES

Fenner considers the following to be the most significant risk factors for Fenner to consider, but the risks listed do not necessarily comprise all those associated with Fenner and are not set out in any particular order of priority.

Additional risks and uncertainties not presently known to Fenner or that Fenner currently deem immaterial may also have an adverse effect on its business.

Strength of key markets

Fenner is well positioned to benefit from the potential continuation of growth in energy markets, particularly oil and coal, and recovery in industrial markets. Although Fenner has successfully traded through previous cycles, a substantial downturn in one or more of these key markets could have a material adverse impact on the business. Fenner continues to look for opportunities that are counter cyclical to help balance out any market downturn.

Fluctuations in raw material costs

Fluctuations in raw material costs continue to be a key risk for the Group as there is a

direct impact on the costs of production. The Group continues to try to manage raw material costs, for example, where materials are a significant cost of sale we have long term supply agreements and arrangements which are driven by the constraints of the markets into which we sell. However, increases in such costs could have a material adverse impact upon the Group's profitability and cash flow if such increases cannot be recovered through increased sales prices.

Climate change

Increasing media attention is being given to climate change and the political will to act appears to be responding to that coverage. Fenner takes full account of all substantive publicised research in evaluating its strategic projects. The adoption of non-fossil fuel generation substantially in excess of the IEA Advanced Technology Scenario would have a material adverse effect on the business.

Fluctuations in foreign currency

Because of the global nature of the Group, Fenner derives a large proportion of its revenues from overseas and hence has an exposure to foreign currency fluctuations, most notably the US dollar. Whilst the Group seeks to reduce this risk through formal contracts and borrowings, adverse movements in foreign currencies, particularly the US dollar relative to sterling, could lead to material adverse movements in reported earnings.

Competition

Products are available which compete directly or indirectly with the Group's products. New technology, changing commercial circumstances and new entrants to the markets in which the Group operates may adversely affect the Group's business. One source of competition comes from the low cost economies but whilst these can compete on price, they cannot always compete on quality. Aggressive or predatory pricing from competitors could lead to a reduction in margin or volume.

Dependence on key personnel

The future success of Fenner is dependent on the continued services of key personnel. Although the Group has succession plans and seeks to develop and promote from within, the loss of the services of the executive officers of the Group and other key employees could have a material adverse effect on the business.

Fluctuations of revenues, expenses and operating results

Fenner's revenues, expenses and operating results could vary from period to period as a result of a variety of factors, some of which are outside Fenner's control. These factors, which are actively monitored and considered in all relevant management decisions, include general economic conditions, adverse movements in interest rates, conditions specific to the energy markets, seasonal trends in revenues, capital expenditure, other costs and the introduction of new products by Fenner or its competitors.

In response to a changing competitive environment, Fenner may elect from time to time to make certain pricing, service or marketing decisions or acquisitions that could have a material adverse effect on the Group's revenues, results of operations and financial condition. Despite the current strength of Fenner's order book and order pipeline, there is no guarantee that these orders and expected orders will be converted into sales, which could have a material adverse effect upon continuing profitability and cash flow.

Employee benefit schemes

The Group has a number of employee benefit schemes, including defined benefit pension schemes and healthcare programmes in the US. These schemes expose the Group to changes in interest rates, other investment returns and inflation as well as the longevity of scheme members. Developments in medical science and changes in healthcare management can significantly increase the cost of maintaining benefits in the future. Appropriate financial and legal advice is taken on the rules and funding of all such schemes.

Major projects

The successful completion of major projects, such as significant capital expenditure projects or acquisitions, is important to both sustain and grow the business. All major projects have clearly identified resources and management responsibilities established during the approval process. However, failure to deliver on major projects could have a material adverse impact on Fenner's ability to maximise both profitability and cash flow.

Litigation

Subsidiaries of the Group are currently involved in certain disputes, actual and threatened, and regulatory investigations. These disputes are actively managed in conjunction with our lawyers, other advisors and insurers, with appropriate Board reporting and oversight. If such disputes and investigations are not resolved in accordance with the directors' expectations or in favour of the relevant subsidiary of the Group, or if a subsidiary incurs significant and unexpected costs or is required to devote significant additional resources, including management time, in the pursuit, defence or investigation of these matters, such disputes and investigations may have a material adverse impact on the business, financial resources, results and/or future operations of the Group.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including those under the captions "OUTLOOK" and "PRINCIPAL RISKS AND UNCERTAINTIES", constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fenner, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such statements. Such risks, uncertainties and other factors include, among others: growth in the energy markets, general economic and business conditions, particularly in the US, competition and the ability to attract and retain personnel.

Mark Abrahams
Chief Executive Officer

REVENUE AND OPERATING PROFIT

Reported Group revenue remained at a similar level to the prior year at £380.8m (2006 £379.0m). The adverse effect of currency movements was £21.0m which principally arose from the translation of revenues into sterling using a weaker US dollar. At constant exchange rates the underlying growth was 6%.

Revenue in the CB Division was £255.8m (2006 £269.5m). The reduction was principally due to the translation effect of weaker foreign currencies, particularly the US dollar and South African Rand. Underlying demand for our products and services remained strong in the principal territories in which the Group operates.

Revenue in the AEP Division increased to £125.0m (2006 £109.5m) mainly from the acquisition of EGC and underlying growth in the existing operations, particularly the seals business.

Group operating profit before amortisation of intangible assets acquired and exceptional items increased by 14% to £39.0m (2006 £34.1m). At constant exchange rates the increase was 24%. Divisional profits contributed were £24.2m (2006 £23.8m) from the CB Division and £20.0m (2006 £15.2m) from the AEP Division.

Exceptional items of £0.2m (2006 £nil) comprised restructuring costs associated with the expansion of the conveyor belting businesses in North America of £1.9m, integration costs following the acquisition of EGC of £0.8m and a profit on disposal of joint venture of £2.5m. Amortisation of intangible assets acquired was £0.6m (2006 £0.4m).

Group operating profit increased to £38.2m (2006 £33.7m).

INTEREST

The net interest cost in the year was £4.6m (2006 £4.3m). By the year end, more than three quarters of the Group's gross borrowings were at fixed interest rates. The remaining borrowings and deposits were at floating rates. Interest cover increased from 7.9 to 8.5 times.

TAXATION

The taxation rate for the year was 29% (2006 30%). The underlying taxation rate before amortisation of intangible assets acquired and exceptional items remained at 30%. The taxation rate in the relatively higher taxation rate territories in North America increased after tax losses were mostly utilised in 2006. This was offset by the utilisation of tax losses not previously recognised for deferred taxation in Europe and by the benefit of a tax holiday in China. The net result of this was an unchanged underlying taxation rate.

EARNINGS PER SHARE AND DIVIDENDS

Basic earnings per share was 15.0p per share (2006 13.0p) and adjusted for amortisation of intangible assets acquired and exceptional items was 15.1p per share (2006 13.1p).

The interim dividend of 2.075p per share (2006 1.975p) was paid on 5 September 2007. The Board is recommending a final dividend of 4.15p per share to make a total dividend for the year of 6.225p per share (2006 6.0p).

ACQUISITIONS AND DISPOSALS

On 1 October 2006, the Group acquired substantially all of the operating assets and liabilities of EGC, a Houston based manufacturer of fluoroplastic seals and other related fluoroplastic precision components. EGC was acquired from Compagnie Plastic Omnium SA, a company quoted on the Paris Stock Exchange. It was acquired for a cash consideration of £8.8m, inclusive of acquisition costs.

On 2 January 2007, the Group disposed of its 50% joint venture in KSB Pumps. This disposal was achieved via a share buyback in which KSB Pumps acquired and cancelled Fenner held shares for an aggregate value of £6.1m. After deducting £0.9m of cash and cash equivalents held by KSB Pumps, the net cash inflow was £5.2m.

CASH FLOW, NET DEBT AND FINANCING

Stronger profits and a reduction in working capital generated an increase in net cash from operating activities to £38.8m (2006 £26.3m). Capital expenditure increased to £32.0m (2006 £18.8m) which reflects the investment in the Group's major expansion programmes. This compares to a depreciation charge of £8.0m (2006 £8.4m). After funding these expansion programmes and disposing of fixed assets of £0.2m (2006 £0.1m), the free cash inflow was £7.0m (2006 £7.6m).

The acquisition of EGC and the disposal of KSB Pumps gave a net outflow of £3.6m. Dividends paid amounted to £9.5m (2006 £8.2m) which, together with an inflow from other financing activities of £0.4m (2006

£0.3m), resulted in an increase in net debt before the effects of exchange rates of £5.7m (2006 £1.1m). The translation effect of weaker exchange rates reduced this amount by £2.5m (2006 £2.5m). Net debt increased in the year by £3.2m to £36.3m (2006 £33.1m).

The Group is financed principally by a mix of equity, retained earnings, US dollar private placement loan notes and a committed bank facility. The principal loan facilities are raised centrally and advanced to operating companies on commercial terms. Operating companies supplement this funding with local overdraft and working capital facilities.

Gross debt at the year end amounted to £102.4m, excluding derivatives. During the year, the Group raised a new $90m US dollar private placement with US based investors led by Pricoa Capital. These Senior Notes are repayable in June 2017 and carry a fixed interest coupon of 5.78%. The notes are guaranteed by the Company and the Group's principal UK and North American subsidiaries. They carry net debt to EBITDA and interest cover covenants. The Group's older private placement notes stood at $34.1m (2006 $40.9m). These carry a fixed interest coupon of 7.29% and mature between 2008 and 2012.

The Group has amended its committed revolving credit bank facility with three leading UK banks during the year. The facility now stands at £75m and its maturity has been extended by two years to June 2012. Its covenants have also been amended and are now similar to the 2017 private placement. At 31 August 2007, £33.5m (2006 £45.3m) of this facility was drawn down.

Cash and cash equivalents at the year end were £66.1m (2006 £41.4m). The majority of this increase was from part of the proceeds of the new private placement placed on deposit which are available for investment. Net debt was £36.3m (2006 £33.1m).

The Group is well placed with medium and long term debt finance and cash resources to fund its continuing expansion plans.

ACCOUNTING POLICIES

The Group financial statements have been prepared in accordance with the accounting policies described in note 1 to the consolidated financial statements, in accordance with IFRS as adopted by the European Union.

The Company financial statements have been prepared in accordance with the accounting policies described in note 1 to the Company financial statements, in accordance with UK GAAP.

FINANCIAL RISK MANAGEMENT

In the normal course of business, the Group is exposed to certain financial risks, principally foreign exchange risk, interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function in conjunction with the operating units, in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board.

The exposures are managed through the use of foreign currency and sterling borrowings, derivatives and credit management procedures. The use of derivatives is undertaken only where the underlying interest or currency risk arises from the Group's operations or sources of finance. No speculative trading in derivatives is permitted.

In the normal course of business, derivatives have been used to hedge future cash flows arising from trading transactions relating to the sale and purchase of goods and services. The Group has chosen not to hedge account for such transactions under the requirements of IAS 39 'Financial Instruments: Recognition and Measurement', recognising that cash flows through to the maturity of the derivative are unaffected. In compliance with IAS 39, all financial instruments have been measured at their fair value as at the balance sheet date. A charge or credit to the income statement has been recognised for the loss or gain on these instruments. In addition, in accordance with IAS 21 'The Effects of Changes in Foreign Exchange Rates', all foreign currency monetary items have been re-translated at the closing rate, with changes in value charged or credited to the income statement.

The interest rate swap entered into in 2006 to hedge interest rate cash flows continued during the year. This instrument fixes the interest rate on $40m of floating rate bank borrowings until 2011. At 31 August 2007, the fair value of this instrument was a liability of £0.7m (2006 £0.6m).

During the year, the Group also swapped $27.2m of the 2017 private placement into €20.0m, with cash flows mirroring the private placement at a fixed rate of 5.05%. This swap matures in June 2017 when the private placement is repayable.

These swaps have been accounted for as hedges in accordance with IAS 39, with the charge or credit recognised directly in equity.

POST-RETIREMENT BENEFITS

The Group operates a number of defined benefit post-retirement schemes for qualifying employees in operations around the world. The principal scheme is the Fenner Pension Scheme which is based in the UK.

The total defined benefit post-retirement liability on the balance sheet, as calculated by the schemes' actuaries in accordance with IAS 19 'Employee Benefits', reduced to £14.1m (2006 £29.1m). Of this amount, the Fenner Pension Scheme represented £13.1m (2006 £26.9m) and the overseas schemes totalled £1.0m (2006 £2.2m). During the year, the fair value of assets in the schemes has benefited from rising equity markets whilst the present value of obligations has reduced as bond yields increased.

KEY FINANCIAL PERFORMANCE INDICATORS

	2007	2006
Adjusted earnings per share	**15.1p**	13.1p
Interest cover (times)	**8.5**	7.9
Net debt to EBITDA	**0.8**	0.8
Return on gross capital employed	**20%**	19%

Richard Perry
Group Finance Director

Definition of Key Performance Indicators Used

INTERNATIONALLY TRADED COAL PRICES
As published by, and used with the permission of, the McCloskey Group Limited, the coal industry recognised market analysis and trade reporting company. These bi-weekly prices reflect the delivered to port price of coal for the two major coal importing markets.

SALES PER EMPLOYEE
Total annual third party revenue at constant exchange rates divided by the average number of employees derived from a simple total head count with no distinction between full time, part time, temporary or casual employees. Where employees are employed for part of a year, the average number is calculated on a pro-rata basis.

LOST TIME INCIDENTS
The number of incidents connected with work which result in an injured person being away from work or unable to do the full range of their normal duties, not including the day of the incident.

ADJUSTED EARNINGS PER SHARE
This is a measure of performance and growth. It is calculated by dividing the profit for the year before amortisation of intangible assets acquired and exceptional items by the weighted average number of shares in issue and ranking for dividend.

INTEREST COVER
This measure provides an indication of whether the Group's profit is sufficient to cover its interest obligations. It is calculated by dividing the operating profit before amortisation of intangible assets acquired and exceptional items by the net of finance income and finance costs.

NET DEBT TO EBITDA
This is a measure of the Group's ability to service its debt obligations. It is calculated by dividing net debt, defined as short and long term borrowings less cash and cash equivalents, by the profit for the year after adding back net finance costs, taxation, depreciation, amortisation and exceptional items.

RETURN ON GROSS CAPITAL EMPLOYED
This is a measure of performance relative to amounts invested. It is calculated by dividing the operating profit for the year before amortisation of intangible assets acquired and exceptional items by the gross capital employed. Gross capital employed is defined as the average of the opening and closing non-current assets (excluding deferred tax), inventories, trade and other receivables and trade and other payables.

The Board

COLIN COOKE* (67) [a,r,n]
Chairman

Appointed in May 1993 as non-executive Chairman. He is also non-executive Chairman of Dowlis Corporate Solutions plc and non-executive Chairman of Energybuild Group Plc

MARK ABRAHAMS (52) [n]
Chief Executive Officer

Appointed to the Board as Group Finance Director in 1990 and became Chief Executive Officer in May 1994. He is also non-executive Chairman of Inditherm plc.

RICHARD PERRY (57)
Group Finance Director

Appointed to the Board in September 1994. He is also a non-executive director of Scapa Group plc.

DAVID BUTTFIELD (61)* [a,r,n]

Appointed to the Board in January 2003, he was formerly an executive director of D S Smith Plc.

DAVID CAMPBELL (57)* [a,r,n]

Appointed to the Board in November 2005, he was formerly Chief Executive of British Vita plc and is a non-executive director of Zotefoams Plc.

DEBRA BRADBURY (42)
Company Secretary

Joined the Company in 2001 and was appointed Company Secretary in July 2002.

* Non-executive
[a] Audit Committee
[r] Remuneration Committee
[n] Nomination Committee

Corporate Governance

The Group remains committed to maintaining high standards of corporate governance as set out in the Combined Code on Corporate Governance ("Combined Code") issued by the Financial Reporting Council in July 2003. This statement explains how the Principles of Corporate Governance in the Combined Code are applied within the Group and areas of non-compliance are explained.

Compliance with the Combined Code

The Group has complied with the main provisions of the Combined Code in force during the year ended 31 August 2007 that are appropriate for a Group of this size. The non-compliance resulting from the inclusion of the Chief Executive Officer on the Nomination Committee and the inclusion of the Chairman on the Audit Committee is explained below. The Group will continue to work towards full compliance within the spirit of the Combined Code.

Directors & directors' independence

The Board comprises the non-executive Chairman, two executive directors and two non-executive directors and is responsible to shareholders for the proper management of the Group. Specific matters are reserved for the Board's consideration under a formal schedule including Group strategy, reviewing trading performance, considering senior management appointments, formulating policy on key issues including the approval of significant capital expenditure, acquisitions and disposals and reporting to shareholders.

The Board is headed by a non-executive Chairman who was independent upon appointment and is still considered to be independent by the Board and whose role is distinct and separate from that of the Chief Executive Officer. The non-executive directors are also independent. David Buttfield was appointed as the Senior Independent Director following the conclusion of the Annual General Meeting ("AGM") on 11 January 2006. David Campbell was appointed to the Board on 1 November 2005 and was independent upon appointment. The Chairman and the non-executive directors are independent of management and do not have any business relationships which could interfere with the exercise of their judgement.

Biographical details of the directors are set out on page 15.

Non-executive directors receive appropriate briefings on the Group and its operations when they are appointed to the Board. They are encouraged to visit the Group's offices and factories whenever the opportunity presents itself, where they are briefed on local business operations. All directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Group complies with all applicable rules, regulations and obligations governing its operations. A procedure exists for directors to take independent professional advice, at the Group's expense, if necessary, in the furtherance of their duties. The Board is provided with timely and appropriate information prior to each Board, Committee or General Meeting covering the items on the agenda for such meetings.

A Board evaluation was performed in the previous year, when the Chairman met with each Board member individually and with the Board as a whole to evaluate how effective the Board was, how well individual members of the Board performed, what the Board's collective or individual strengths and weaknesses were and areas that could be improved. The Chairman intends to conduct another Board evaluation in 2008. It is believed that the Board does have the right balance of skills and experience, a good understanding of Group strategy and the resources of the Group are managed effectively.

All directors are subject to election by shareholders at the first AGM following their appointment and to re-election thereafter at intervals of no more than three years.

The Board has a number of committees consisting of directors and senior executives. Details of their composition and purpose are outlined below. In addition, the Chairman and the non-executive directors meet from time to time without the executive directors being present. The Terms of Reference of the Audit, Remuneration and Nomination Committees are published on the Group's website at www.fenner.com.

Executive Committee

The Executive Committee is chaired by Mark Abrahams. It consists of the two executive directors, the Company Secretary and five members of the Group's senior management. The Executive Committee meets at least six times a year and deals with the daily management of the Group through powers delegated to it by the Board.

Audit Committee

The Audit Committee comprises the Chairman and the non-executive directors and is chaired by David Buttfield who has recent and relevant financial experience. Due to the size of the Board and the number of non-executive directors, it is felt appropriate and sensible that the Chairman of the Board should remain a member of the Committee.

The terms of reference of the Audit Committee cover all the main points recommended by the Combined Code. Its principal duties are to monitor the integrity of the financial statements, to review the internal controls and risk management systems, to review the work of internal audit and to consider all aspects of the relationship with the external auditors. The Committee has the authority to obtain external legal or other professional advice on any matter within its terms of reference.

There is a policy on the provision of non-audit services by the external auditors. Certain services such as due diligence in relation to acquisitions and disposals, taxation and actuarial advice are permitted but others, for example, internal audit, information technology and HR consultancy are generally considered inappropriate. Non-audit fees are reported to the Committee.

The Committee has received and reviewed written confirmation from the external auditors on all relationships that, in their judgement, may bear on their independence. The external auditors have also confirmed that they consider themselves independent within the meaning of UK regulatory and professional requirements.

Nomination Committee

The Nomination Committee, which consists of the Chairman, the non-executive directors and the Chief Executive Officer, is chaired by Colin Cooke and meets as necessary. The duty of the Committee is to make recommendations to the Board regarding the appointment of new Board members. Given the size of the Board it is felt both appropriate and prudent to have Mark Abrahams on the Committee to work with the Chairman and non-executive directors on senior recruitment issues. Written terms of reference clearly set out the role and scope of the Committee. The Committee did not meet during the year.

Remuneration Committee

The Remuneration Committee consists of the Chairman and the non-executive directors and is chaired by David Campbell. The Chief Executive Officer also attends the meetings by invitation but does not participate in any decision in relation to his own remuneration.

The Committee is responsible to the Board for determining the remuneration packages of the executive directors and other senior executives and advises on executive remuneration policy issues. The Committee administers the long term Performance Share Plan ("PSP") and the outgoing Long Term Share Incentive Plan ("LTIP"). It also approves the granting to employees of a long term Shadow Performance Share Plan which is a cash incentive scheme with performance criteria which are the same as the PSP.

The Remuneration Committee received advice during the year from MM&K Ltd, who assisted the Committee in consideration of matters relating to directors' incentives in relation to the outgoing LTIP and New Bridge Street Consultants LLP ("NBSC"), who advised the Committee in relation to the PSP.

Meetings of the Board	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	6	2	3	0
Chairman				
C I Cooke	6	2	3	0
Executive directors				
M S Abrahams	6	2*	2*	0
R J Perry	6	2*	0	0
Non-executive directors				
D F Buttfield	5	2	3	0
D A Campbell	6	2	3	0

* By invitation

Directors' remuneration

The Board Remuneration Report is set out on pages 20 to 26.

Relations with shareholders

The Company encourages regular dialogue with its institutional shareholders and also with private investors at the AGM. Update meetings are held with institutional shareholders following the announcement of interim and final results and as requested throughout the year. Similar meetings are held with private client brokers so that the same information can be disseminated to private investors. Recent analyst presentations are made available on the Group's website at www.fenner.com. The website provides comprehensive investor relations information for shareholders to view. The website includes the current share price, regulatory announcements, financial performance information, shareholder information and an investor relations contact address.

Annual General Meeting

In relation to the Company's AGM:

- the proxy count in respect of each resolution is announced after it has been dealt with on a show of hands;
- a separate resolution is proposed for each substantially separate issue, including the receipt of the Annual Report;
- all executive and non-executive Board members normally attend the Meeting; and
- the Notice of the Meeting, the Annual Report and any other related papers are normally sent to shareholders more than one month before the Meeting.

Accountability and audit

Statement of directors' responsibilities in respect of the Annual Report, the Board Remuneration Report and the financial statements

The directors are responsible for preparing the Annual Report, the Board Remuneration Report and the Group and the parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the parent company financial statements and the Board Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The parent company and Group financial statements are required by law to 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 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 that the Group financial statements comply with IFRS as adopted by the European Union and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the Group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the Board Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern

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

Internal control

The Board reviews the effectiveness of the Group's system of internal control and aims to evaluate a report on the internal controls at least twice a year. This review covers all controls, including operational, financial, compliance and risk management.

In accordance with the requirements of the Combined Code and the recommendations of the Turnbull Guidance on internal control, the directors have reviewed the effectiveness of the internal control system. During the period under review, no significant changes to the material risks were identified and no control failings or weaknesses were identified that resulted in unforeseen material losses.

The directors are responsible for the Group's system of internal control which, like any system of internal control, can only provide reasonable and not absolute assurance against material misstatement or loss.

The key procedures within the control structure are:

- the identification of major business and insurance risks faced by the Group's operations, by both the Board and senior management, and the determination of the most appropriate course of action to deal with these risks;
- central review and approval procedures in respect of major areas of risk such as acquisitions and disposals, litigation, treasury management, taxation and environmental issues;
- a clear management structure with well defined lines of responsibility and the appropriate levels of delegation;
- regular review of the Group's business units by operational and executive management;
- a structured process for appraising and authorising capital projects. This process includes clearly defined authorisation levels. Projects are subject to post-investment appraisals;
- well established consolidation and reporting systems for both the statutory and monthly management accounts, with all Board members receiving a monthly statement of the financial results;
- comprehensive budgeting systems with an annual budget approved by the Board. Monthly results are reported against budget and revised forecasts for the year are prepared regularly;
- an internal programme of monitoring visits by the internal audit team, which was agreed with the Audit Committee, reviews the compliance of each business unit with standard internal financial control procedures adopted by the Group;
- competition compliance programmes are in place in several jurisdictions and the Group-wide whistleblowing policy continues to be applied; and
- a programme of business risk reviews with operational management focusing on non-financial controls and risk management was introduced during the year.

Signed on behalf of the Board of Directors

C I Cooke
Chairman
7 November 2007

Board Remuneration Report

The Board submits its report on directors' remuneration. A resolution will be put to shareholders at the Company's AGM inviting them to approve this Report. Details of the Remuneration Committee's responsibilities are given on page 17.

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were David Campbell (Chairman), Colin Cooke and David Buttfield.

During the year, the Remuneration Committee took advice from independent external sources, as noted on page 17.

Remuneration policy

Executive directors

The Company's policy on remuneration is to attract, retain and incentivise executives with the experience and necessary skills to operate and develop the Company's businesses to their maximum potential, thereby delivering the highest level of return for shareholders.

Consistent with this policy, benefit packages awarded to executives are intended to be competitive and comprise a mix of performance related and non-performance related remuneration designed to incentivise them, but not to detract from the goals of corporate governance.

In 2005, Mercer Human Resource Consulting were commissioned to produce a report on comparative pay for executive directors of companies similar to Fenner. The report confirmed that the pay levels of the executive directors were not above those of their peers and this view is still held by the Remuneration Committee. Another review is planned for 2007/08.

The Remuneration Committee also takes account of the pay levels of senior management of the Fenner Group when establishing the executive directors' remuneration.

It is the Committee's current intention to continue to reward the executive directors with an annual performance related bonus plan, linked to operating profit, earnings per share and working capital targets and a PSP, details of which are given on page 22. The shares allocated under the old LTIP will continue to be awarded to an executive after a period of three years and will be dependent on the comparative performance of the Company's total shareholder return ("TSR") against the TSR of companies comprising the FTSE All Share Industrial Engineering Sector ("LTIP Peer Group") over the period from the provisional allocation date to the final award date. The PSP has a bespoke peer group comprising companies from the FTSE All Share Industrial Engineering Sector and some comparative companies from the General Industrials and Electronic & Electrical Equipment Sectors ("PSP Peer Group"). The Committee considers that TSR, which comprises of inter alia dividend yield and share price movement in comparison with both the LTIP Peer Group and the PSP Peer Group, is the best measure of long term performance as it aligns the interests of executives with shareholders and recognises market conditions in the Group's industrial sector.

The targeted composition of each executive director's remuneration is as follows:

	Non-performance related	Performance related
Mark Abrahams	60%	40%
Richard Perry	60%	40%

Chairman and non-executive directors

The Chairman and non-executive directors are usually appointed for a fixed three year term.

The remuneration of the non-executive directors is determined by the Board as a whole, having regard to the packages awarded by other UK listed companies of similar size and complexity.

The non-executive directors do not participate in any of the Group's bonus, share option or incentive schemes, nor do they accrue any pension entitlement.

Directors' service contracts

The executive directors have rolling 12 month contracts. In addition, the Company has agreed to the payment of a prescribed sum equivalent to 12 months salary and contractual benefits if there is a change of control or termination of their contracts by the Company other than for cause.

The service contracts do not contain any provision for compensation on early termination other than the notice period and the provision noted above, however the Committee will seek to mitigate cost to the Company whilst dealing fairly with each individual case.

The details of the service contracts in relation to the executive directors and letters of appointment in relation to the Chairman and non-executive directors who served as directors during the year are as follows:

	Unexpired term at 31 August 2007	Notice period
Executive directors		
Mark Abrahams	-	1 year
Richard Perry	-	1 year
Non-executive directors		
Colin Cooke*	28 months	Fixed Term
David Buttfield	16 months	Fixed Term
David Campbell	14 months	Fixed Term

* Colin Cooke's services are provided by way of an agreement between the Company, Steels Management Limited and Colin Cooke. His service agreement was extended until the AGM 2010 in October 2007.

External appointments

The Company recognises that its executive directors are likely to be invited to become non-executive directors of other companies and that such appointments can broaden experience and knowledge which may benefit the Company. Therefore, executive directors may, subject to approval by the Board and providing there is no conflict of interest, be allowed to accept appointments as a non-executive director of another company and are normally allowed to retain the fees paid from such appointments. In normal circumstances, they may not accept more than one appointment. Currently the Chief Executive Officer, Mark Abrahams, is non-executive Chairman of Инditherm plc and retained fees of £35,000 in relation to Inditherm plc's year ended 31 December 2006. The Group Finance Director, Richard Perry, is a non-executive director of Scapa Group plc and retained fees of £33,667 in relation to Scapa Group plc's year ended 31 March 2007.

Remuneration components for executive directors

The major components of the executive directors' remuneration are as follows:

Basic annual salary and benefits

The basic annual salary is subject to an annual review which takes into account the performance of the Group and the individual and salary trends in comparable companies. In addition, a car allowance, healthcare insurance and other benefits are available in line with normal corporate practice.

Annual performance related bonus

Performance related cash bonuses are reviewed annually. Demanding performance targets are set which must be achieved before the maximum bonus is payable. The confirmed criteria include targets linked to the Group's performance in terms of operating profit, earnings per share and working capital. The target bonus for achievement of the annual budget for these measures is 35% of basic annual salary and the maximum potential payment for the annual bonus is 60% of basic annual salary, excluding benefits in kind and pension contributions.

Performance Share Plan

The PSP, which was approved by shareholders at the AGM on 10 January 2007 and which replaced the old LTIP, is designed to encourage its participants to deliver sustained long term above market returns to shareholders.

Rewards under the PSP are linked to the Company's performance against demanding targets over three year periods (“Performance Periods”). A conditional award of ordinary shares is based on a percentage (maximum 150%) of the participant's annual basic salary and the value of the Company's ordinary shares on grant. In exceptional circumstances, such as recruitment or retention of key participants, the Remuneration Committee can make awards over shares worth up to 300% of annual basic salary.

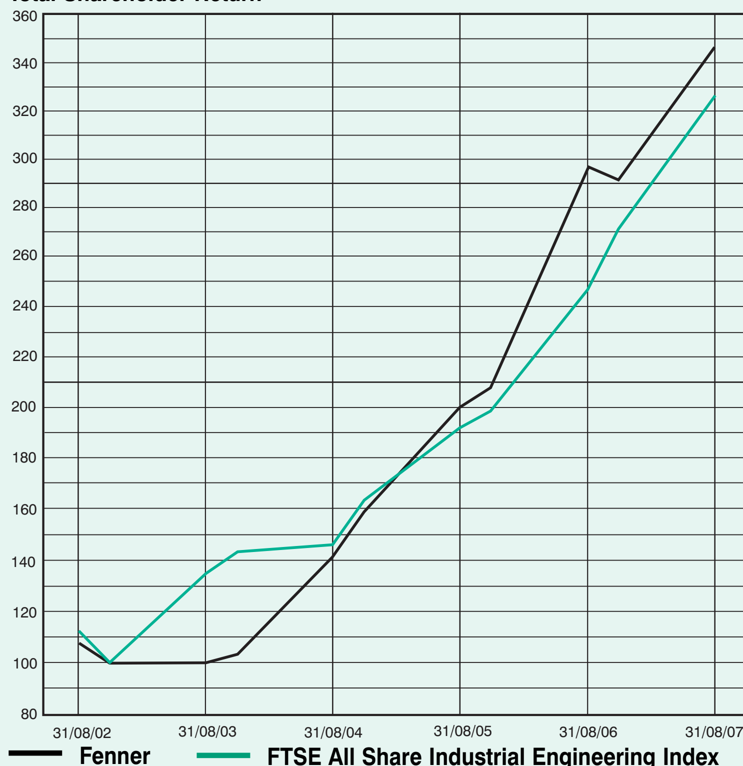
The performance measurement for each of the Performance Periods is the Company's TSR which is compared with the TSR of the PSP Peer Group. The PSP Peer Group is described on page 20. The Remuneration Committee selected the PSP Peer Group as it believed it is the most appropriate group against which the TSR of the Company should be measured because it is a group of businesses similar in nature to the Company and which represent alternative investment options for our shareholders.

100% of the award may vest only if the Company's performance places it within the top 10% of the companies in the PSP Peer Group. 25% of the award vests at the median. No awards vest if the Company's ranking is below the median. Between the median and the top 10%, awards will vest on a straight-line basis (with interpolation between rankings). In addition, no award will vest unless the Committee is satisfied that the Company’s TSR performance reflects its underlying financial performance.

There have been no departures from the Company's policy on awarding benefits under the PSP since it was adopted at the AGM on 10 January 2007.

The performance chart below illustrates the Company’s TSR over the past five years compared to the TSR performance of the FTSE All Share Industrial Engineering Index. In addition to the statutory requirement to plot data over five financial year ends, the graph and table below reflect data for each of the three year periods (“Plan Cycles”) for the LTIP and PSP Performance Periods. The Plan Cycles and Performance Periods are aligned with the Group’s Preliminary Announcement and the Remuneration Committee believes these are the most appropriate points for benchmarking the LTIP and PSP. This is because at these dates there is full disclosure of relevant price sensitive information to the market as a whole.

Total Shareholder Return



Date	Fenner	FTSE All Share Industrial Engineering Index
31 August 2002	108	112
6 November 2002	100	100
31 August 2003	100	135
5 November 2003	103	143
31 August 2004	141	146
10 November 2004	159	163
31 August 2005	200	192
9 November 2005	208	199
31 August 2006	297	247
8 November 2006	291	271
31 August 2007	347	327

The outgoing LTIP expired in 2007 having reached the end of its 10 year life and the PSP was introduced as the sole long term incentive vehicle for participants, subject to the final Plan Cycles of the LTIP reaching their natural ends.

The Committee believes that the PSP provides a real incentive for key executives and will result in appropriate rewards for delivering sustained out-performance against comparator companies and revenue growth. The form of the PSP takes due account of changes in market practice and standards of good governance.

Pensions
The executive directors participate in the defined benefits section of the Fenner Pension Scheme, an Inland Revenue approved mixed benefits scheme, on the same terms as other senior executives. The Scheme provides for a maximum pension of two-thirds of remuneration at or near retirement age of 62. For both executive directors, pensionable salary and benefits from the Fenner Pension Scheme had been restricted by the Inland Revenue earnings cap until the implementation of the Finance Act 2004, effective from 6 April 2006, and consequently payments up to that date had been made to funded unapproved retirement benefit schemes ("FURBS") to provide top-up pension benefits in excess of the Inland Revenue limits. Since 6 April 2006, the FURBS payments to the executive directors have converted to a Pension Allowance under the terms of their Service Agreements. The total amount of the payments post 5 April 2006 do not exceed the amounts that would have been paid as FURBS. The executive directors have full discretion in how they choose to invest these payments post 5 April 2006.

The following sections of the Board Remuneration Report are audited.

Directors' detailed emoluments

	Annual salary, fees or consultancy services £	Benefits in kind* £	Annual performance related bonus £	**Total emoluments 2007 £**	Total emoluments 2006 £
Executive directors					
Mark Abrahams	300,000	22,216	174,390	**496,606**	453,672
Richard Perry	182,000	19,396	105,797	**307,193**	286,011
Non-executive directors					
Colin Cooke**	90,100	-	-	**90,100**	90,100
David Buttfield	36,127	-	-	**36,127**	33,835
David Campbell	32,780	-	-	**32,780**	26,549
Thomas Glucklich	-	-	-	**-**	12,722
	641,007	41,612	280,187	**962,806**	902,889

*Benefits in kind include the provision of a car allowance and healthcare insurance for both executive directors.
**By an agreement between the Company, Steels Management Limited and Colin Cooke dated 24 June 1993, as amended by subsequent supplemental agreements between the same parties, the last one being dated 31 October 2007, Steels Management Limited agreed to provide the services of Colin Cooke as a non-executive director and Chairman of the Company until the 2010 AGM. Steels Management Limited may at any time terminate the agreement by giving 12 months notice in writing to the Company. During the year ended 31 August 2007, £90,100 (2006 £90,100), including a £5,100 car allowance, was payable under this agreement.

Thomas Glucklich retired from the Board following the AGM in January 2006.

No remuneration was paid directly to Colin Cooke, nor were any pension contributions paid on his account. The non-executive directors do not participate in any Company pension scheme, nor do they receive any benefits in kind.

No directors waived emoluments in respect of the year ended 31 August 2007.

Pensions

Directors' pension entitlement
Details of the pension benefits to which each of the executive directors is entitled are as follows.

	Accrued entitlement 31 August 2006 £	Increase in accrued entitlement over the year £	**Accrued entitlement 31 August 2007 £**	Transfer value at 31 August 2006 £	**Transfer value at 31 August 2007 £**	Increase in transfer value less directors' contributions £
Mark Abrahams	43,800	4,500	**48,300**	471,500	**533,800**	62,300
Richard Perry	43,400	5,500	**48,900**	599,200	**677,200**	69,200

Additional information as required by the Listing Rules:

	Additional accrued benefits earned in year £	Transfer value of additional accrued benefits earned in year less directors' contributions £
Mark Abrahams	2,900	28,000
Richard Perry	3,800	39,100

The accrued pension entitlement is the amount that the director would be paid annually on retirement based on service to 31 August 2007. The Listing Rules require the increase in this amount to be disclosed excluding inflation. The benefits do not allow for any retained benefits which the directors may have relating to previous employment. The pension benefits exclude any additional pension purchased by additional voluntary contributions.

The increase in the accrued entitlement is the difference between the accrued entitlement at 31 August 2007 and the accrued entitlement at 31 August 2006.

The pension benefits are based on the directors' pensionable salaries which are limited to the scheme's permitted maximum (currently £112,800 per annum).

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

The transfer value of the increase in accrued benefits, required by the Listing Rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas the change in his transfer value, required by the Companies Act 1985, discloses the absolute increase or decrease in his transfer value and includes the change in value of the accrued benefits that results from market volatility affecting the transfer value at the beginning of the period, as well as the additional value earned in the year.

Until 5 April 2006, the Company made contributions to FURBS in respect of the executive directors. From 6 April 2006, payments to the executive directors have been converted to a Pension Allowance under the terms of their Service Agreements. The total contributions made by the Company were as follows:

	2007 £	2006 £
Mark Abrahams	**202,500**	185,625
Richard Perry	**121,030**	113,050

Interests in shares

The interests of the directors in the 25p ordinary shares of the Company were as follows:

	31 August 2007 Number	1 September 2006 Number
Mark Abrahams	**549,044**	421,754
Richard Perry	**426,446**	344,474
Colin Cooke	**210,408**	210,408
David Buttfield	**-**	-
David Campbell	**3,150**	3,150

All directors' interests are beneficially held. There have been no changes in the interests set out above between 31 August 2007 and 7 November 2007.

Share schemes

None of the directors held any share options during the year.

Awards to executive directors under long term incentive schemes were as follows:

LTIP

Allocation Date	Provisional allocation 1 September 2006 Number	Provisional allocation in the year Number	Shares awarded Number	Shares lapsed Number	**Provisional allocation 31 August 2007 Number**	Value awarded £	End of Plan Cycle & Award Determination Date
Mark Abrahams							
5 November 2003	216,939	-	215,746	1,193	**-**	432,398	8 November 2006
10 November 2004	155,046	-	-	-	**155,046**	-	14 November 2007
9 November 2005	133,236	-	-	-	**133,236**	-	13 November 2008
Richard Perry							
5 November 2003	139,704	-	138,936	768	**-**	278,455	8 November 2006
10 November 2004	97,524	-	-	-	**97,524**	-	14 November 2007
9 November 2005	82,364	-	-	-	**82,364**	-	13 November 2008
Total of awards in year			354,682			710,853	

PSP

Allocation Date	Conditional award 1 September 2006 Number	Conditional award in the year Number	Shares awarded Number	Shares lapsed Number	**Conditional award 31 August 2007 Number**	Value awarded £	End of Performance Period & Award Determination Date
Mark Abrahams							
20 February 2007	-	97,720	-	-	**97,720**	-	19 February 2010
Richard Perry							
20 February 2007	-	59,284	-	-	**59,284**	-	19 February 2010
Total of awards in year			-			-	

The performance criteria attached to the shares that were awarded on 8 November 2006 relate to the Company's TSR which is compared with the TSR of The Peer Group.

There have been no variations in the terms and conditions of scheme interests during the year. All awards under the LTIP were in respect of qualifying services.

The Plan Cycle that ended on 8 November 2006 was independently evaluated and an award of shares made representing 99.45% of the original award of shares was made on 7 December 2006. The market value (as defined in the Rules of the Plan) of an ordinary share of the Company at the beginning of the Plan Cycle was 84.90p (83.21p after adjustment for the Share Placing and Open Offer in May 2005), at the end of the Plan Cycle was 200.42p and at 20 February 2007 for the new PSP Performance Period was 230.25p.

The performance chart on page 22, which shows the relative TSR of the Company and the LTIP Peer Group, gives an indication of whether each LTIP Plan Cycle and PSP Performance Period will achieve the performance criteria, based upon the share price at 31 August 2007.

Given the nature of the performance calculation, it could be misleading to indicate a likely outcome for future share awards.

Movements in share price during the year

The market price of the Company's shares at the end of the financial year was 236.75p and the range of market prices during the year was between 191.0p and 252.0p.

Signed on behalf of the Board of Directors

D A Campbell
Chairman of the Remuneration Committee
7 November 2007

Directors' Report

The directors submit their report and the audited Group financial statements for the financial year ended 31 August 2007.

Principal activities

Fenner PLC is a global manufacturer and distributor of conveyor belting and reinforced precision polymer products.

Business review

The Business Review, incorporating the Chief Executive Officer's Review and the Group Finance Director's Review, can be found on pages 4 to 14.

Results and dividends

	£m
Group profit for the year	23.9
Dividends:	
Interim 2.075p per share – payable	3.3
Final 4.15p per share – proposed	6.6
	9.9

Charitable donations

During the year, the Group contributed £5,000 (2006 £7,000) to United Kingdom charitable organisations.

Substantial shareholdings

As of 7 November 2007, the following interest in shares have been notified to the Company:

Interested party	Number of shares	% of issued share capital
Aegon UK Group of Companies	8,808,009	5.56%
AXA S.A. Limited	11,404,268	7.19%
Brown Shipley & Co Limited	4,476,213	2.82%
Invesco plc	7,547,466	4.76%
Legal & General Investment Management Limited	6,932,629	4.37%
Lloyds TSB Group Plc	9,881,674	6.23%
Rathbone Brothers Plc	8,571,232	5.41%

Directors and their interests

The directors of the Company who served during any part of the year are shown in the Board Remuneration Report on page 21.

Details of the directors' beneficial interests in the ordinary shares of the Company, in share options over the ordinary share capital of the Company and in the LTIP and PSP are given in the Board Remuneration Report on pages 20 to 26.

Save as disclosed in the Board Remuneration Report:

- no director has any interest (beneficial or non-beneficial) in any share or loan capital of the Company or any of its subsidiaries;
- no change in the interests of directors has occurred between the end of the financial year and 7 November 2007; and
- there were no contracts of significance subsisting during or at the end of the financial year in which a director of the Company was materially interested.

Richard Perry will be retiring by rotation at the forthcoming AGM and being eligible, offers himself up for re-election. Richard Perry's performance continues to be effective and he continues to demonstrate commitment to his roles.

Colin Cooke will be recommended for re-election for a new two year term but, given the length of his tenure, will also retire by rotation annually and offer himself up for re-election in accordance with best practice.

Supplier payment policy

Given the international nature of the Group's operations, the Group does not operate a standard code in respect of payments to suppliers. Individual operating businesses are responsible for agreeing the terms and conditions under which transactions with their suppliers are conducted, including the terms of payment. It is the Group's policy that payments to suppliers are made in accordance with these terms. The average creditor days for the Group during the year ended 31 August 2007 was 51 days (2006 51 days). The Company does not have any trade creditors.

Employment policy

The Group operates worldwide and its employment policies are designed to meet local conditions and requirements but are established on the basis of the best practices in each country. Wherever the Group operates, it encourages the provision of equal employment opportunities regardless of sex, race, religion or age.

The Group's policy is to secure good relations between management and all employees, to promote a better understanding of all the issues, both internal and external, that influence the Group's business performance and to improve performance and productivity. Formal and informal meetings are used to consult employees and to keep them informed about the performance of the Group. The practices of consultation and involvement vary from country to country according to local customs, legal considerations and the size of the operation. The regular worldwide issue of a Group magazine assists the process of communication, as do briefing meetings, information bulletins and meetings with employee representatives.

The Group continues to recognise its social and statutory duty to employ disabled persons and does all that is practicable to meet this responsibility. Full and fair consideration is given to the recruitment, training, career development and promotion of disabled persons bearing in mind the aptitude and ability of the individual concerned.

If an employee becomes disabled while employed by the Group, wherever possible, he or she will continue to be employed in the same job. If this action is not practicable or possible then every effort will be made to find suitable alternative employment. In these circumstances retraining would be made available using Group resources as well as by contact with the local disabilities employment adviser.

Further details of the Company's employment policy are given in the Business Review on page 7.

Environmental policy

The Group recognises and accepts that concern for the environment is an integral and fundamental part of the Group's corporate business strategy.

Details of the Company's environmental policy are given in the Business Review on page 8.

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as independent auditors to the Company will be proposed at the AGM.

As far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

As special business at the forthcoming AGM, resolutions will be proposed to renew the directors' authority to allot relevant securities, to disapply the statutory pre-emption rights to a limited extent and to make market purchases of ordinary shares in the Company subject to defined limits. The proposed resolutions and further details regarding these proposals are set out in the Chairman's explanatory letter accompanying the Notice of the Annual General Meeting.

Signed on behalf of the Board of Directors

C I Cooke
Chairman
7 November 2007

Independent Auditors' Report to the members of Fenner PLC

We have audited the Group financial statements of Fenner PLC for the year ended 31 August 2007 which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Fenner PLC for the year ended 31 August 2007 and on the information in the Board Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the Corporate Governance statement on page 18.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This Report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Group financial statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the Financial Highlights, the Chairman's Statement, the Business Review, the Corporate Governance statement and the unaudited part of the Board Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group'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 Group 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 Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 August 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hull
7 November 2007

Consolidated income statement
for the year ended 31 August 2007

	Notes	2007 £m	2006 £m
Revenue	3,4	**380.8**	379.0
Cost of sales		**(268.4)**	(269.8)
Gross profit		**112.4**	109.2
Distribution costs		**(36.9)**	(36.2)
Administrative expenses		**(37.3)**	(39.3)
Operating profit before amortisation of intangible assets acquired and exceptional items		**39.0**	34.1
Amortisation of intangible assets acquired		**(0.6)**	(0.4)
Exceptional items	6	**(0.2)**	-
Operating profit	3,5	**38.2**	33.7
Finance income	8	**1.4**	1.6
Finance costs	8	**(6.0)**	(5.9)
Share of result of associate		**-**	(0.1)
Profit before taxation		**33.6**	29.3
Taxation	9	**(9.7)**	(8.7)
Profit for the year		**23.9**	20.6
Attributable to:			
Equity holders of the parent		**23.7**	20.4
Minority interests		**0.2**	0.2
		23.9	20.6
Earnings per share			
Basic	11	**15.0p**	13.0p
Diluted	11	**14.9p**	12.8p

The result for the year derives from continuing operations.

Consolidated balance sheet
at 31 August 2007

	Notes	2007 £m	2006 £m
Non-current assets			
Property, plant and equipment	12	**90.2**	68.7
Intangible assets	13	**66.5**	65.8
Other investments	15	**0.6**	0.6
Deferred tax assets	16	**12.5**	15.7
		169.8	150.8
Current assets			
Inventories	17	**54.5**	53.9
Trade and other receivables	18	**61.5**	64.0
Current tax assets		**0.7**	0.6
Cash and cash equivalents	19	**66.1**	41.4
Derivative financial instruments	23	**0.2**	0.5
		183.0	160.4
Total assets		**352.8**	311.2
Current liabilities			
Borrowings	22	**(10.2)**	(8.5)
Trade and other payables	24	**(75.1)**	(67.7)
Current tax liabilities		**(5.4)**	(5.7)
Derivative financial instruments	23	**(0.7)**	(0.6)
		(91.4)	(82.5)
Non-current liabilities			
Borrowings	22	**(92.2)**	(66.0)
Retirement benefit obligations	25	**(14.1)**	(29.1)
Provisions	27	**(6.9)**	(6.5)
Deferred tax liabilities	16	**(5.5)**	(5.1)
		(118.7)	(106.7)
Total liabilities		**(210.1)**	(189.2)
Net assets		**142.7**	122.0
Equity			
Share capital	28	**39.6**	39.2
Share premium	29	**51.7**	49.6
Retained earnings	29	**54.0**	33.5
Exchange reserve	29	**(4.9)**	(2.1)
Hedging reserve	29	**0.4**	-
Other reserve	29	**1.1**	1.1
Shareholders' equity		**141.9**	121.3
Minority interests	29	**0.8**	0.7
Total equity		**142.7**	122.0

The financial statements were approved by the Board of Directors on 7 November 2007 and signed on its behalf by:

C I Cooke
Chairman

R J Perry
Group Finance Director

Consolidated cash flow statement

for the year ended 31 August 2007

	Notes	**2007 £m**	2006 £m
Profit before taxation		**33.6**	29.3
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**8.6**	8.8
Movement in retirement benefit obligations		**(2.7)**	(3.6)
Movement in provisions		**0.2**	1.6
Finance income		**(1.4)**	(1.6)
Finance costs		**6.0**	5.9
Share of result of associate		**-**	0.1
Profit on disposal of joint venture		**(2.5)**	-
Other non-cash movements		**0.7**	0.1
Operating cash flow before movement in working capital		**42.5**	40.6
Movement in working capital		**10.8**	(2.4)
Net cash from operations		**53.3**	38.2
Interest received		**1.6**	1.5
Interest paid		**(5.9)**	(5.9)
Taxation paid		**(10.2)**	(7.5)
Net cash from operating activities		**38.8**	26.3
Investing activities:			
Purchase of property, plant and equipment		**(31.5)**	(18.6)
Disposal of property, plant and equipment		**0.2**	0.1
Purchase of intangible assets		**(0.5)**	(0.2)
Purchase of investments		**-**	(0.3)
Acquisition of businesses	33	**(8.8)**	(0.2)
Acquisition of subsidiary undertakings		**-**	(0.3)
Disposal of joint venture	34	**5.2**	-
Net cash used in investing activities		**(35.4)**	(19.5)
Financing activities:			
Equity dividends paid		**(9.5)**	(8.2)
Dividends paid to minority shareholders		**(0.1)**	(0.1)
Issue of ordinary share capital		**0.7**	0.3
Minority interest capital introduced		**-**	0.1
Loan repayment from associate		**-**	0.1
Repayment of finance leases		**(0.3)**	(0.2)
Repayment of borrowings		**(34.1)**	(39.8)
New borrowings		**66.3**	31.6
Net cash from/(used in) financing activities		**23.0**	(16.2)
Net increase/(decrease) in cash and cash equivalents		**26.4**	(9.4)
Cash and cash equivalents at start of year		**41.0**	51.3
Exchange movements		**(1.4)**	(0.9)
Cash and cash equivalents at end of year	19	**66.0**	41.0

Consolidated statement of recognised income and expense

for the year ended 31 August 2007

	2007 £m	2006 £m
Profit for the year	**23.9**	20.6
Items recognised directly in equity:		
Currency translation differences	**(2.8)**	(4.3)
Hedge of net investments in foreign currencies	**0.5**	0.6
Hedge of interest rate risk	**(0.1)**	(0.6)
Actuarial gains on defined benefit pension schemes	**12.0**	7.8
Taxation on items taken directly to equity	**(4.3)**	(2.0)
Net income recognised directly in equity	**5.3**	1.5
Total recognised income and expense for the year	**29.2**	22.1
Attributable to:		
Equity holders of the parent	**29.0**	21.9
Minority interests	**0.2**	0.2
Total recognised income and expense for the year	**29.2**	22.1

Notes to the consolidated financial statements

1. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and with IFRIC interpretations and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments, share-based payments and assets of post-retirement benefit schemes which are measured at fair value.

The following standards or interpretations to existing standards have been adopted for the first time during the year:

- Amendment to IAS 21 'Net Investment in a Foreign Operation'.
- Amendment to IAS 39 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions'.
- Amendment to IAS 39 'The Fair Value Option'.
- Amendments to IAS 39 and IFRS 4 'Financial Guarantee Contracts'.
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards'
- IFRIC 4 'Determining whether an Arrangement contains a Lease'.
- IFRIC 8 'Scope of IFRS 2'.
- IFRIC 9 'Reassessment of Embedded Derivatives'.

The following standards or interpretations to existing standards have been published but are not mandatory for the year ended 31 August 2007 and consequently have not been adopted by the Group in the year:

- Amendment to IAS 1 'Presentation of Financial Statements - Capital Disclosures'.
- Amendment to IAS 23 'Borrowing Costs'.
- IFRS 7 'Financial Instruments - Disclosures'.
- IFRS 8 'Operating Segments'.
- IFRIC 10 'Interim Financial Reporting and Impairment'.
- IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions'.
- IFRIC 12 'Service Concession Arrangements'.
- IFRIC 13 'Customer Loyalty Programmes'.
- IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

None of the above standards or interpretations are expected to have a significant impact on the consolidated financial statements.

The principal accounting policies adopted for the year ended 31 August 2007 are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Fenner PLC and subsidiaries controlled by the Group as at 31 August each year, together with the Group's share of the results of associates and joint ventures, as detailed below.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(a) Subsidiaries

A subsidiary is an entity over which the Group has the power to control the financial and operating policy decisions of the entity so as to obtain benefits from its activities. The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued by the Group at the date of completion, plus any costs directly attributable to the acquisition. The subsidiary's identifiable assets and liabilities are initially recognised at their fair values at the date of acquisition. Subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary the accounting policies of acquired subsidiaries are adjusted to bring them into line with those used by the Group.

Minority interests in subsidiaries are identified separately from the Group's equity. Minority interests consist of the amount of those interests at the date of acquisition and the minority's share of changes in equity since the date of acquisition.

(b) Investments in associates
An associate is an entity over which the Group has significant influence, but not control, over the financial and operating policy decisions of the entity. The Group's interest in associates is incorporated in the financial statements using the equity method. Investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of investments. Losses of associates in excess of the Group's interest in those associates are not recognised. Where a Group entity transacts with an associate, profits and losses are eliminated to the extent of the Group's interest in that entity.

(c) Interests in joint ventures
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties, where the financial and operating policy decisions relating to the activity requires the unanimous consent of the parties sharing control. The Group's interest in joint ventures is incorporated in the financial statements using the proportionate consolidation method. The Group's share of the assets, liabilities, income and expenses of joint ventures are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where a Group entity transacts with a joint venture, profits and losses are eliminated to the extent of the Group's interest in that entity.

Foreign currencies
(a) Functional and presentation currency
The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which it operates (the functional currency). The consolidated financial statements are presented in pounds sterling, which is the presentation currency of the Group.

(b) Transactions and balances
Transactions in currencies other than an entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities are retranslated at the rates prevailing on the balance sheet date. Non-monetary items measured at historical cost are not retranslated. Exchange differences arising on the settlement and retranslation of monetary items are recognised in the income statement in the period.

(c) Net investment in foreign operations
For the consolidation of operations where the functional currency is different to the Group's presentation currency, the assets and liabilities are translated at exchange rates prevailing on the balance sheet date and income and expenses are translated at the average exchange rates for the period. Exchange differences arising are recognised directly in equity in the exchange reserve. On disposal of such operations, the cumulative exchange differences are included in the profit or loss on disposal.

The Group has adopted the transitional provisions of IFRS 1 to reset to zero the cumulative exchange differences in equity at 1 September 2004, the date of transition to IFRS.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of that operation and are retranslated at the closing rate at each balance sheet date. The Group has adopted the transitional provisions of IFRS 1 to not apply this to goodwill arising on acquisitions prior to 1 September 2004, the date of transition to IFRS.

Revenue recognition
Revenue is measured at the fair value of the consideration receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer. Revenue from short term service contracts is recognised in the period in which the services are completed.

Interest income is recognised on an accruals basis using the effective interest method. Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreement. Dividend income from investments is recognised when the right to receive payment is established.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1. Significant accounting policies continued

Assets held under finance leases are included in property, plant and equipment at the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Rentals payable under operating leases are recognised in the income statement on a straight-line basis over the term of the relevant lease.

Government grants

Government grants in respect of property, plant and equipment are treated as deferred income in the balance sheet and are recognised in the income statement over the expected useful life of the relevant asset. Government grants in respect of revenue expenditure are recognised in the income statement in the period in which the related expenditure is incurred.

Share-based payments

The Group operates equity-settled and cash-settled share schemes for certain employees. The cost of share-based payments is measured at fair value at the date of grant, excluding the effect of non market-based vesting conditions. The cost is recognised in the income statement on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The fair values are measured using the Binomial option-pricing model and the Monte Carlo simulation approach.

The Group has adopted the transitional provisions of IFRS 1 to apply IFRS 2 ‘Share-based Payment’ only to equity-settled awards granted after 7 November 2002 that had not vested at 1 January 2005.

Post-retirement benefits

The Group operates both defined contribution and defined benefit pension schemes.

For defined contribution pension schemes, payments are recognised in the income statement as they are incurred.

For defined benefit pension schemes, the cost is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Service costs are recognised in the income statement to spread the cost over the expected lives of the employees. Net finance costs or income are recognised in the income statement in the period in which they are incurred. Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they are incurred. The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets.

The cost of providing other post-retirement benefits, principally private healthcare, is determined from actuarial valuations carried out at each balance sheet date using the same principles as defined benefit pension schemes.

The Group has adopted the transitional provisions of IFRS 1 to recognise in full the cumulative actuarial gains and losses at 1 September 2004, the date of transition to IFRS. The Group has also adopted the Amendment to IAS 19 ‘Employee Benefits’ permitting the recognition of actuarial gains and losses in the statement of recognised income and expense.

Exceptional items

Exceptional items are items of income and expense that are material and relevant to an understanding of the Group’s financial performance and may be operating or non-operating in nature. In accordance with IAS 1 ‘Presentation of Financial Statements’, such items are presented separately on the face of the income statement and analysed in the notes to the financial statements.

Taxation

Taxation expense represents the sum of the current tax payable and deferred tax.

Current tax is the tax expected to be payable on taxable profit for the period using tax rates that have been enacted or substantively enacted by the balance sheet date, together with any adjustments in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are not taxable or deductible or are taxable or deductible in other years.

Deferred tax is recognised, using the liability method, for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, unless specifically exempt. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated using tax rates that are expected to apply in the period when the liability is settled or the asset realised. The resulting charge or credit is recognised in the income statement except when it relates to items recognised directly in equity, in which case the charge or credit is also recognised directly in equity.

Dividends
Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

Segmental reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group reports separate information on its material operations for each of the Group's segments. The Group's primary segment is the business sector and its secondary segment is the geographical area.

Property, plant and equipment
Property, plant and equipment is stated at historical cost or deemed cost, less accumulated depreciation and any accumulated impairment losses. The Group has adopted the transitional provisions of IFRS 1 to record the previously revalued freehold land and buildings as deemed cost at 1 September 2004, the date of transition to IFRS.

Freehold land is not depreciated. Depreciation on other assets is recognised in the income statement to write down the value of the asset to its residual value on a straight-line basis over the estimated useful life of the asset from the date it is brought into use. Estimated useful lives most widely applied are as follows:

Freehold buildings	40 years
Leasehold buildings	Unexpired term of lease
Plant, machinery and equipment	3-10 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognised in the income statement.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. Any impairment is recognised in the income statement and is not subsequently reversed. Any excess of the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity over cost is recognised immediately in the income statement. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the profit or loss on disposal.

Goodwill arising on acquisitions prior to 1 September 2004, the date of transition to IFRS, has been recorded at the previous UK GAAP carrying amount at that date, subject to any impairment required at that date. Goodwill written off to reserves under UK GAAP prior to 1998 continues to be included in reserves and is not included in any subsequent profit or loss on disposal.

Other intangible assets
Intangible assets acquired in a business combination are initially recognised at their fair value. Other intangible assets are initially recognised at cost. Intangible assets are subsequently stated at fair value or cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the asset. Estimated useful lives most widely applied are as follows:

Computer software	3-5 years
Brands	20 years
Trademarks	20 years
Customer relationships	15 years
Technology based assets	5 years

1. Significant accounting policies continued

Impairment

The carrying amounts of goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. The carrying amount of property plant and equipment and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Any impairment loss is recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss previously been recognised for the asset or cash-generating unit. Any reversal of an impairment loss is recognised in the income statement. Impairment losses on goodwill are not subsequently reversed.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade receivables

Trade receivables are measured at amortised cost less appropriate allowances for estimated irrecoverable amounts.

(b) Available-for-sale investments

Available-for-sale investments are measured at fair value plus directly attributable transaction costs. Gains and losses arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss in equity is recognised in the income statement for the period. Impairment losses are not subsequently reversed.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purposes of the cash flow statement, cash and cash equivalents also includes bank overdrafts as they are an integral part of the Group’s cash management.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(a) Trade payables

Trade payables are measured at amortised cost.

(b) Borrowings

Bank loans and overdrafts and other loans are initially measured at fair value less direct arrangement fees and subsequently measured at amortised cost.

(c) Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments, including forward foreign currency contracts, options and interest rate swaps and non-derivative cash instruments, including foreign currency borrowings, to hedge its exposure to the financial risks of changes in foreign exchange rates or interest rates. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently measured at fair value at each balance sheet date.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting or the ineffective portion of financial instruments that are designated and effective as hedges are recognised in the income statement as they are incurred.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument in equity at that time is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur the cumulative gain or loss in equity is transferred to the income statement in the period.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

2. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make certain assumptions, estimates and judgements that may affect the reported amounts of assets, liabilities, income and expenses. These are based on historical experience and any other factors, including expectations of future events, that are considered appropriate, and these are continually reviewed. Subsequent actual results may however differ from these estimates and judgements. Areas where assumptions, estimates and judgements may give rise to risk of material adjustments to the carrying values of assets and liabilities in the next financial year are as follows:

- Taxation (notes 9 and 16)
- Impairment of goodwill (note 13)
- Inventory provisions (note 17)
- Provisions for doubtful trade receivables (note 18)
- Retirement benefit obligations (note 25)
- Share-based payments (note 26)
- Provisions (note 27)
- Contingencies (note 30)

3. Segment information

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management reporting structure.

Segment results, assets and liabilities comprise items directly attributable to a segment. Unallocated costs, assets and liabilities are corporate items that cannot be reasonably allocated to a segment.

Business segments
The Group is organised into the following main business segments:

Conveyor Belting	Manufacture of rubber, PVC and steel cord conveyor belts. Applications include mining (underground and surface), aggregates and various industrial uses such as package handling and process industries.
Advanced Engineered Products	Manufacture of precision polymer products including: - precision drives for computer peripherals, copiers and ATMs - problem-solving power transmission and motion transfer components - silicone and complex hoses for heavy duty trucks, buses and off-road vehicles - seals and sealing solutions for the fluid power and oil and gas industries

3. Segment information continued

Segment information for the years ended 31 August 2007 and 31 August 2006 is as follows:

	Conveyor Belting		Advanced Engineered Products		Unallocated		Total	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Segment result								
Revenue	**255.8**	269.5	**125.0**	109.5	**-**	-	**380.8**	379.0
Operating profit before amortisation of intangible assets acquired and exceptional items	**24.2**	23.8	**20.0**	15.2	**(5.2)**	(4.9)	**39.0**	34.1
Amortisation of intangible assets acquired	**-**	-	**(0.6)**	(0.4)	**-**	-	**(0.6)**	(0.4)
Exceptional items	**(1.9)**	-	**1.7**	-	**-**	-	**(0.2)**	-
Operating profit	**22.3**	23.8	**21.1**	14.8	**(5.2)**	(4.9)	**38.2**	33.7
Net finance costs							**(4.6)**	(4.3)
Share of result of associate							**-**	(0.1)
Taxation							**(9.7)**	(8.7)
Profit for the year							**23.9**	20.6
Segment assets and liabilities								
Total assets	**181.3**	162.1	**120.5**	110.5	**53.5**	38.6	**355.3**	311.2
Total liabilities	**(65.7)**	(60.7)	**(30.0)**	(26.9)	**(116.9)**	(101.6)	**(212.6)**	(189.2)
Net assets	**115.6**	101.4	**90.5**	83.6	**(63.4)**	(63.0)	**142.7**	122.0
Other segment information								
Capital expenditure	**24.4**	10.2	**7.4**	8.7	**0.2**	-	**32.0**	18.9
Depreciation and amortisation	**5.2**	6.0	**2.8**	2.4	**-**	-	**8.0**	8.4

There was no inter-segment revenue during the year (2006: £nil). Capital expenditure relates to property, plant and equipment and intangible assets. Amortisation excludes amortisation of intangible assets acquired.

Geographical segments

The Group operates in four main geographical areas; Europe, Americas, Asia Pacific and Africa.

Segment information for the years ended 31 August 2007 and 31 August 2006 is as follows:

	External Revenue		Total Assets		Capital Expenditure	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Europe	**89.5**	84.8	**142.8**	124.6	**3.4**	5.3
Americas	**183.0**	188.7	**142.6**	120.1	**20.0**	8.9
Asia Pacific	**88.3**	78.6	**61.9**	55.8	**4.9**	3.4
Africa	**20.0**	26.9	**8.3**	10.9	**3.7**	1.3
Unallocated	**-**	-	**(0.3)**	(0.2)	**-**	-
	380.8	379.0	**355.3**	311.2	**32.0**	18.9

Revenue is based on the region in which the customer is located. Total assets and capital expenditure are based on the region in which the assets are located.

4. Revenue

Revenue is analysed as follows:

	2007 £m	2006 £m
Sales of goods	**363.2**	365.7
Service contracts	**17.6**	13.3
Revenue	**380.8**	379.0
Finance income	**1.4**	1.6
Other income	**0.7**	0.4
Total revenue	**382.9**	381.0

Other income is classified within administrative expenses in the consolidated income statement.

5. Operating profit

Operating profit has been arrived at after charging/(crediting):

	2007 £m	2006 £m
Depreciation of property, plant and equipment - owned assets	**7.6**	8.0
Amortisation of intangible assets acquired	**0.6**	0.4
Amortisation of other intangible assets	**0.4**	0.4
Loss on disposal of property, plant and equipment	**0.2**	0.2
Foreign exchange loss/(gain)	**0.1**	(0.2)
Research and development costs	**1.7**	1.9
Government grants	**(0.1)**	(0.1)
Operating lease charges	**3.1**	3.1
Onerous property lease charges	**-**	1.4
Litigation costs	**0.5**	2.4
Defined benefit past service credit	**-**	(1.4)
Exceptional items (note 6)	**0.2**	-
Auditors' remuneration for audit services	**0.5**	0.5
Auditors' remuneration for non-audit services		
- UK	**0.1**	0.2
- Overseas	**-**	0.1

Amortisation of intangible assets acquired is classified within administrative expenses in the consolidated income statement. Non-audit services comprised litigation services of £nil (2006: £0.1m), taxation services of £nil (2006: £0.1m) and other services of £0.1m (2006: £0.1m). In addition, fees for actuarial services of £0.1m (2006: £0.1m) were borne by the Fenner Pension Scheme.

6. Exceptional items

Exceptional items of £0.2m (2006: £nil) comprised restructuring costs associated with the expansion of the conveyor belting businesses in North America of £1.9m, integration costs following the acquisition of EGC of £0.8m and a profit on disposal of joint venture of £2.5m (note 34).

7. Employees

Aggregate employee costs are as follows:	**2007 £m**	2006 £m
Wages and salaries	**90.5**	86.4
Social security costs	**9.1**	7.2
Pension costs - defined contribution schemes	**3.5**	3.4
Pension costs - defined benefit schemes	**0.8**	0.4
Share-based payments	**0.5**	0.3
	104.4	97.7

Average monthly number of employees during the year is as follows:	**2007**	2006
Production	**2,738**	2,560
Selling and distribution	**480**	459
Administration	**445**	454
	3,663	3,473

Information on directors' remuneration is included in the Board Remuneration Report on pages 20 to 26.

8. Net finance costs

	2007 £m	2006 £m
Interest payable on bank overdrafts and loans	**3.5**	2.7
Interest payable on other loans	**2.3**	3.2
Unwinding of discount	**0.2**	-
	6.0	5.9
Bank interest receivable	**(1.4)**	(1.6)
	4.6	4.3

9. Taxation

	2007 £m	2006 £m
Current taxation		
UK corporation tax:		
- current year	**4.6**	5.8
- double taxation relief	**(4.6)**	(5.9)
	-	(0.1)
Overseas tax:		
- current year	**9.9**	8.5
- adjustments in respect of prior years	**-**	(0.2)
	9.9	8.3
	9.9	8.2
Deferred taxation		
UK deferred tax	**0.6**	(0.2)
Overseas deferred tax	**(0.8)**	0.7
	(0.2)	0.5
Total taxation	**9.7**	8.7

UK corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. Overseas tax is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year and effective tax rate can be reconciled to profit per the income statement as follows:

	2007 £m	2007 %	2006 £m	2006 %
Profit before taxation	**33.6**		29.3	
Taxation at the UK corporation tax rate of 30%	**10.1**	**30**	8.8	30
Expenses/(income) not deductible/(taxable) in determining taxable profit	**(0.1)**	**-**	0.2	1
Adjustments in respect of prior years	**-**	**-**	(0.2)	(1)
Effect of overseas tax rates	**0.6**	**2**	0.5	2
Other temporary differences not previously provided for	**(0.9)**	**(3)**	(0.6)	(2)
	9.7	**29**	8.7	30

Taxation recognised directly in equity amounts to a current taxation charge of £nil (2006: £0.1m) and a deferred taxation charge of £4.3m (2006: £1.9m).

10. Dividends

	2007 £m	2006 £m
Dividends paid or approved in the year		
Interim dividend for the year ended 31 August 2006 of 1.975p (2005: 1.975p) per share	**3.1**	2.2
Final dividend for the year ended 31 August 2006 of 4.025p (2005: 3.85p) per share	**6.4**	6.0
	9.5	8.2
Dividends not paid or approved in the year		
Interim dividend for the year ended 31 August 2007 of 2.075p (2006: 1.975p) per share	**3.3**	3.1
Final dividend for the year ended 31 August 2007 of 4.15p (2006: 4.025p) per share	**6.6**	6.3
	9.9	9.4

The interim dividend for the year ended 31 August 2007 was paid on 5 September 2007. The proposed final dividend for the year ended 31 August 2007 is subject to approval by shareholders at the AGM. Consequently neither have been recognised as liabilities at 31 August 2007. If approved, the final dividend will be paid on 14 January 2008 to shareholders on the register on 14 December 2007.

11. Earnings per share

	2007 £m	2006 £m
Earnings		
Profit for the year attributable to equity holders of the parent	**23.7**	20.4
Amortisation of intangible assets acquired and exceptional items	**0.8**	0.4
Taxation attributable to amortisation of intangible assets acquired and exceptional items	**(0.6)**	(0.2)
Profit for the year before amortisation of intangible assets acquired and exceptional items	**23.9**	20.6
	Number	Number
Average number of shares		
Weighted average number of shares in issue	**158,073,110**	156,851,761
Weighted average number of shares held by the Employee Share Ownership Plan Trust	**(131,859)**	(131,859)
Weighted average number of shares in issue – basic	**157,941,251**	156,719,902
Effect of share options and contingent long term incentive plans	**766,733**	2,076,873
Weighted average number of shares in issue – diluted	**158,707,984**	158,796,775
	Pence	Pence
Earnings per share		
Adjusted – before amortisation of intangible assets acquired and exceptional items	**15.1**	13.1
Basic	**15.0**	13.0
Diluted	**14.9**	12.8

Adjusted earnings per share has been presented to provide a clearer understanding of the underlying performance of the Group.

12. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant, machinery & equipment £m	Total £m
Cost:				
At start of prior year	31.0	1.3	107.1	139.4
Additions	1.4	3.4	13.9	18.7
Acquisition of businesses	-	-	0.1	0.1
Disposals	(0.2)	(0.1)	(3.4)	(3.7)
Reclassifications	-	0.1	(0.1)	-
Exchange differences	(1.2)	-	(4.7)	(5.9)
At start of year	31.0	4.7	112.9	148.6
Additions	2.6	1.0	27.9	31.5
Acquisition of businesses	-	-	0.9	0.9
Disposals	-	-	(3.4)	(3.4)
Disposal of joint venture	(0.5)	-	(1.3)	(1.8)
Reclassifications	-	1.1	(1.1)	-
Exchange differences	(0.6)	(0.1)	(3.5)	(4.2)
At end of year	**32.5**	**6.7**	**132.4**	**171.6**
Accumulated depreciation:				
At start of prior year	7.6	0.1	70.7	78.4
Charge for the year	0.7	0.1	7.2	8.0
Disposals	(0.2)	(0.1)	(3.2)	(3.5)
Reclassifications	-	0.1	(0.1)	-
Exchange differences	(0.3)	-	(2.7)	(3.0)
At start of year	7.8	0.2	71.9	79.9
Charge for the year	0.7	0.3	6.6	7.6
Disposals	-	-	(3.0)	(3.0)
Disposal of joint venture	(0.1)	-	(0.9)	(1.0)
Reclassifications	-	0.8	(0.8)	-
Exchange differences	(0.1)	(0.1)	(1.9)	(2.1)
At end of year	**8.3**	**1.2**	**71.9**	**81.4**
Net book value:				
At end of year	**24.2**	**5.5**	**60.5**	**90.2**
At start of year	23.2	4.5	41.0	68.7
At start of prior year	23.4	1.2	36.4	61.0

The net book value of plant, machinery and equipment includes an amount of £0.5m (2006: £0.5m) in respect of assets held under finance leases and £19.6m (2006: £3.6m) in respect of assets under construction. The assets under construction have not yet been brought into use and therefore no depreciation has been charged on these items during the year.

Borrowings are secured on freehold property for the value of £0.5m (2006: £0.9m).

At 31 August 2007, the Group had entered into contractual commitments for the purchase of property, plant and equipment amounting to £11.1m (2006: £9.0m).

13. Intangible assets

	Goodwill £m	Intangibles acquired £m	Computer software £m	Other £m	Total £m
Cost:					
At start of prior year	59.8	9.6	3.3	0.2	72.9
Additions	-	-	0.2	-	0.2
Acquisition of subsidiary undertakings	0.8	-	-	-	0.8
Acquisition of businesses	-	0.2	-	-	0.2
Exchange differences	(1.2)	(0.2)	(0.3)	-	(1.7)
At start of year	59.4	9.6	3.2	0.2	72.4
Additions	-	-	0.5	-	0.5
Acquisition of businesses	0.5	2.1	-	-	2.6
Disposal of joint venture	-	-	(0.1)	-	(0.1)
Exchange differences	(1.0)	(0.3)	(0.1)	-	(1.4)
At end of year	**58.9**	**11.4**	**3.5**	**0.2**	**74.0**
Accumulated amortisation and impairment losses:					
At start of prior year	2.6	1.0	2.2	0.2	6.0
Amortisation charge for the year	-	0.4	0.4	-	0.8
Exchange differences	-	-	(0.2)	-	(0.2)
At start of year	2.6	1.4	2.4	0.2	6.6
Amortisation charge for the year	-	0.6	0.4	-	1.0
Disposal of joint venture	-	-	(0.1)	-	(0.1)
At end of year	**2.6**	**2.0**	**2.7**	**0.2**	**7.5**
Net book value:					
At end of year	**56.3**	**9.4**	**0.8**	**-**	**66.5**
At start of year	56.8	8.2	0.8	-	65.8
At start of prior year	57.2	8.6	1.1	-	66.9

The net book value of intangibles acquired comprises brands, trademarks, customer relationships and technology based assets.

All intangible assets have finite useful lives except for goodwill.

Impairment testing for goodwill

Goodwill acquired through business combinations is allocated at acquisition to the Group's cash-generating units that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to cash-generating units as follows:

	2007 £m	2006 £m
Conveyor Belting		
Conveyor Belting (Americas, UK, Europe and Australia)	**14.1**	14.1
Conveyor Belting (India)	**2.0**	2.0
Advanced Engineered Products		
Fenner Advanced Sealing Technologies (Process)	**12.8**	13.0
Fenner Advanced Sealing Technologies (Fluid Power)	**23.1**	23.2
James Dawson & Son	**2.2**	2.2
Fenner Drives (Industrial)	**2.1**	2.3
	56.3	56.8

The carrying amount of goodwill is reviewed for impairment annually, or more frequently when events or changes in circumstances indicate that the carrying amount may be impaired. The recoverable amounts of cash-generating units are based on value in use calculations using forecast cash flow projections discounted using the Group's pre-tax weighted average cost of capital of 11.2%. Forecast cash flows use projected cash flows for one year, with subsequent cash flows based on expected growth rates in the respective geographical areas. Annual growth rates range from 2.3% to 2.7% for all cash-generating units except for Conveyor Belting (India) where a growth rate of 7.5% has been used.

14. Investment in associates

	£m
Cost:	
At start of prior year	-
Share of loss for the year	(0.1)
Disposals	0.1
At start of year and **at end of year**	**-**
Goodwill:	
At start of prior year	0.1
Disposals	(0.1)
At start of year and **at end of year**	**-**
Loans:	
At start of prior year	0.1
Repayment of loan	(0.1)
At start of year and **at end of year**	**-**
Net book value:	
At start of prior year, at start of year and **at end of year**	**-**

15. Other investments

	£m
Cost:	
At start of prior year	0.3
Additions	0.3
At start of year and **at end of year**	**0.6**

Investments comprise unlisted equities and long term loan notes of an unlisted equity holding. There is no material difference between the cost and fair value of the investments.

16. Deferred tax

Deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Property, plant and equipment	**1.4**	0.8	**(1.6)**	(0.5)	**(0.2)**	0.3
Intangible assets	**0.4**	0.8	**(2.4)**	(2.7)	**(2.0)**	(1.9)
Retirement benefit obligations	**4.1**	8.6	**-**	-	**4.1**	8.6
Fixed asset revaluation	**-**	-	**(0.9)**	(1.1)	**(0.9)**	(1.1)
Other short term temporary differences	**6.6**	5.5	**(0.6)**	(0.8)	**6.0**	4.7
	12.5	15.7	**(5.5)**	(5.1)	**7.0**	10.6

Movements in net deferred tax assets/(liabilities) are as follows:

	Property, plant and equipment £m	Intangible assets £m	Retirement benefit obligations £m	Taxation losses £m	Fixed asset revaluation £m	Other temporary differences £m	Total £m
At start of prior year	(0.6)	(1.8)	11.6	1.7	(1.1)	3.3	13.1
Credited/(charged) to income statement	0.9	(0.1)	(0.9)	(1.7)	-	1.3	(0.5)
Credited/(charged) to equity	-	-	(2.1)	-	-	0.2	(1.9)
Exchange differences	-	-	-	-	-	(0.1)	(0.1)
At start of year	0.3	(1.9)	8.6	-	(1.1)	4.7	10.6
Credited/(charged) to income statement	(0.5)	(0.1)	0.1	-	-	0.7	0.2
Credited/(charged) to equity	-	-	(4.5)	-	0.2	-	(4.3)
Acquisition of businesses	-	-	-	-	-	0.9	0.9
Disposal of joint venture	-	-	-	-	-	(0.1)	(0.1)
Exchange differences	-	-	(0.1)	-	-	(0.2)	(0.3)
At end of year	**(0.2)**	**(2.0)**	**4.1**	**-**	**(0.9)**	**6.0**	**7.0**

The Finance Act 2007 reduced the UK corporation tax rate from 30% to 28% with effect from 1 April 2008. This reduction in the future rate of corporation tax has resulted in a decrease in the deferred taxation provided.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. Deferred tax assets have not been recognised in respect of certain tax losses amounting to £4.9m (2006: £4.9m) since it is not envisaged that such profits will be available in the foreseeable future. In addition, deferred tax assets have not been recognised in respect of UK capital losses of £0.6m (2006: £0.6m) since it is not envisaged that suitable capital gains will be available in the foreseeable future.

Deferred tax liabilities have not been recognised on the undistributed earnings of subsidiaries because the Group is in a position to control the timing of reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate of temporary differences in respect of this is £0.1m (2006: £0.4m).

17. Inventories

	2007 £m	2006 £m
Raw materials	**19.9**	21.1
Work in progress	**8.5**	8.0
Finished goods	**26.1**	24.8
	54.5	53.9

Inventories is presented net of provision for inventory write downs, based on management's estimate of the net realisable value of inventories. Amounts charged to the income statement in the year in respect of write downs of inventories is £1.7m (2006: £2.5m). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £0.9m (2006: £1.9m). The cost of inventories recognised as an expense in the year is £258.9m (2006: £262.5m).

18. Trade and other receivables

	2007 £m	2006 £m
Trade receivables	**57.3**	58.9
Other receivables	**2.1**	2.1
Prepayments and accrued income	**2.1**	3.0
	61.5	64.0

Trade receivables is presented net of provision for doubtful trade receivables of £1.1m (2006: £0.8m), estimated by management based on past default experience and other factors as considered appropriate. The amount charged to the income statement in the year in respect of doubtful trade receivables is £0.4m (2006: credit of £0.1m).

Trade and other receivables is non-interest bearing. There is no material difference between the carrying amount and fair value of trade and other receivables.

19. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank and in hand and short term deposits	**66.1**	41.4

Cash at bank and short term bank deposits earn interest at floating rates based on bank deposit rates. Short term deposits have an original maturity of three months or less. There is no material difference between the carrying amount and fair value of cash and cash equivalents.

For the purpose of the cash flow statement, cash and cash equivalents comprises:

	2007 £m	2006 £m
Cash and cash equivalents	**66.1**	41.4
Bank overdrafts	**(0.1)**	(0.4)
	66.0	41.0

20. Reconciliation of net cash flow to movement in net debt

	2007 £m	2006 £m
Net increase/(decrease) in cash and cash equivalents	**26.4**	(9.4)
(Increase)/decrease in borrowings and finance leases resulting from cash flows	**(31.9)**	8.4
Movement in net debt resulting from cash flows	**(5.5)**	(1.0)
New finance leases	**(0.2)**	(0.1)
Exchange movements	**2.5**	2.5
Movement in net debt in the year	**(3.2)**	1.4
Net debt at start of year	**(33.1)**	(34.5)
Net debt at end of year	**(36.3)**	(33.1)

Net debt is defined as cash and cash equivalents and current and non-current borrowings.

21. Financial risk management

In the normal course of business the Group is exposed to certain financial risks, principally foreign exchange risk, interest rate risk, liquidity risk and credit risk. These risks are managed by the central treasury function, in conjunction with the operating units, in accordance with risk management policies that are designed to minimise the potential adverse effects of these risks on financial performance. The policies are reviewed and approved by the Board.

Foreign exchange risk

The Group has operations around the world and is therefore exposed to foreign exchange risk arising from net investments in foreign operations. Where cost effective, the exposure arising from the translation of the net assets of the Group's foreign operations is managed through the use of borrowings in the relevant foreign currency.

Some Group operations also enter into commercial transactions in currencies other than their functional currencies. Exposures arising from the translation of foreign currency transactions are continually monitored and material exposures are managed through the use of forward contracts or options once cash flows can be identified with sufficient certainty. Exposures arising from the translation of intra-group lending are managed through the use of borrowings in the relevant foreign currency.

Interest rate risk

The Group's exposure to interest rate risk arises on floating rate borrowings and short term cash deposits. This is reviewed regularly and is managed through the use of an appropriate mix of fixed rate and floating rate instruments, including the use of interest rate swaps, in response to market conditions.

Liquidity risk

The Group's objective is to ensure that sufficient resources are available to fund short term working capital and longer term strategic requirements. This is achieved through an appropriate mix of long term and short term borrowings and the availability of sufficient committed facilities.

Credit risk

Credit risk principally arises on short term cash deposits, derivative financial instruments and trade receivables. The credit risk arising on short term cash deposits and derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The credit risk arising on trade receivables is spread across a large numbers of customers and across many countries. There are no significant concentrations of credit risk.

22. Borrowings

	2007 £m	2006 £m
Current		
Bank overdrafts	**0.1**	0.4
Bank loans	**6.5**	4.3
Other loans	**3.5**	3.7
Obligations under finance leases	**0.1**	0.1
	10.2	8.5
Non-current		
Bank loans	**33.6**	47.4
Other loans	**58.5**	18.4
Obligations under finance leases	**0.1**	0.2
	92.2	66.0
Total borrowings	**102.4**	74.5

Bank loans include £33.5m (2006: £45.3m) drawn down under a committed revolving bank credit facility maturing in June 2012. Other loans principally relates to two US dollar private placements as detailed below:

$34.1m (2006: $40.9m) of Senior Notes bear interest at 7.29% per annum. An amount of $6.8m is repayable annually on 1 June each year until 2012.

During the year, an additional $90.0m private placement was raised. These Senior Notes bear interest at 5.78% per annum and are repayable on 1 June 2017. $27.2m (£13.5m) of this amount has been swapped into Euros. This results in a underlying Euro borrowing of €20.0m at a fixed interest rate of 5.05%. The swap matures on 1 June 2017 when the private placement is repayable. Arrangement fees of £0.3m are being amortised over the life of the loan.

Bank balances are stated net where a legal right of offset exists.

The maturity profile of borrowings is as follows:

	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 August 2007					
Within one year or on demand	**0.1**	**6.5**	**3.5**	**0.1**	**10.2**
Between one and two years	**-**	**-**	**3.5**	**0.1**	**3.6**
Between two and five years	**-**	**33.6**	**10.3**	**-**	**43.9**
More than five years	**-**	**-**	**44.7**	**-**	**44.7**
	0.1	**40.1**	**62.0**	**0.2**	**102.4**
31 August 2006					
Within one year or on demand	0.4	4.3	3.7	0.1	8.5
Between one and two years	-	1.9	3.7	0.1	5.7
Between two and five years	-	45.4	11.1	0.1	56.6
More than five years	-	0.1	3.6	-	3.7
	0.4	51.7	22.1	0.3	74.5

The interest rate and currency profile of borrowings is as follows:

	Floating Rate £m	Fixed rate £m	Total £m
31 August 2007			
US dollar	**2.2**	**67.8**	**70.0**
Euro	**6.3**	**13.5**	**19.8**
Other currencies	**12.6**	**-**	**12.6**
	21.1	**81.3**	**102.4**
31 August 2006			
US dollar	9.2	42.6	51.8
Euro	11.7	-	11.7
Other currencies	10.1	0.9	11.0
	31.0	43.5	74.5

The fixed rate borrowings principally relate to the US dollar private placements detailed above and $40.0m of bank borrowings, where the floating rate has been swapped to fixed rate using an interest rate swap. This is detailed in note 23. The interest rates on floating rate borrowings are principally linked to LIBOR or similar local currency rates.

The carrying amount and fair value of borrowings is as follows:

	2007		2006	
	Carrying amount £m	**Fair Value £m**	Carrying amount £m	Fair Value £m
Current borrowings	**10.2**	**10.2**	8.5	8.5
Non-current borrowings	**92.2**	**93.4**	66.0	67.0
	102.4	**103.6**	74.5	75.5

The fair value of fixed rate borrowings represents the value of replacing the existing fixed rate liabilities at the balance sheet date with borrowings with similar terms to the remaining life of the loans. The fair value of all other floating rate borrowings approximates to their carrying amounts where rates are reset to market rates at intervals of less than one year.

At 31 August 2007, the Group had available £41.5m (2006: £14.7m) of undrawn committed borrowing facilities.

Current borrowings of £0.1m (2006: £0.2m) and non-current borrowings of £0.4m (2006: £0.7m) are secured on specific freehold property.

23. Derivative financial instruments

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Forward foreign currency contracts and options	**0.2**	0.5	**-**	-	**0.2**	0.5
Interest rate swaps	**-**	-	**(0.7)**	(0.6)	**(0.7)**	(0.6)
	0.2	0.5	**(0.7)**	(0.6)	**(0.5)**	(0.1)

The carrying amount and fair value of derivative financial assets/(liabilities) is as follows:

	2007		2006	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Forward foreign currency contracts and options	**0.2**	**0.2**	0.5	0.5
Interest rate swaps	**(0.7)**	**(0.7)**	(0.6)	(0.6)
	(0.5)	**(0.5)**	(0.1)	(0.1)

The fair value of forward foreign currency contracts represents the gain or loss resulting from translation of the contracts using forward rates at the balance sheet date compared to actual contract rates. The fair value of interest rate swaps and forward foreign currency options represents the market value of a comparable instrument at the balance sheet date.

Hedge of net investments in foreign currencies

Group financial instruments denominated in US dollars of £nil (2006: £10.9m), Euros of £6.8m (2006: £nil) and Australian dollars of £0.4m (2006: £0.4m) are designated as hedges of the net investment in overseas subsidiaries. The post-tax gain on translation to sterling at the year end of £0.5m is recognised in the hedging reserve in shareholders' equity.

Hedge of interest rate risk

The interest on US bank loans of $40.0m has been fixed by means of a US dollar denominated interest rate swap at an effective rate of 6.27% (including variable bank margin) and designated as a hedge. At 31 August 2007, the fair value of the interest rate swap is a liability of £0.7m (2006: £0.6m) and the post-tax loss of £0.1m is recognised in the hedging reserve in shareholders' equity.

24. Trade and other payables

	2007 £m	2006 £m
Trade payables	**45.4**	40.9
Other taxes and social security	**1.8**	1.9
Other payables	**5.8**	6.2
Accruals and deferred income	**22.1**	18.7
	75.1	67.7

Trade and other payables are non-interest bearing. There is no material difference between the carrying amount and fair value of trade and other payables.

25. Post-retirement benefits

The Group operates a number of defined benefit post-retirement schemes for qualifying employees in operations around the world. The assets of the schemes are held in separate trustee administered funds. The cost of the schemes are assessed in accordance with the advice of independent qualified actuaries using the projected unit method.

The principal scheme is the Fenner Pension Scheme which is based in the UK. The most recent actuarial valuation of the Fenner Pension Scheme was carried out as at 31 March 2005. The actuarial valuations for all schemes were updated as at 31 August 2007 by independent qualified actuaries.

The principal assumptions used to determine the assets and liabilities of the schemes are as follows:

	2007		2006	
	UK scheme	**Overseas schemes**	UK scheme	Overseas schemes
Discount rate	**5.7%**	**5.1% - 6.0%**	5.0%	5.0% - 9.0%
Inflation rate	**3.1%**	**2.0% - 2.5%**	3.0%	2.0% - 5.75%
Rate of increase in salaries	**4.1%**	**3.0% - 4.5%**	4.0%	3.0% - 5.75%
Rate of increase in pensions in payment subject to Limited Price Indexation increases:				
- capped at 5.0%	**3.0%**	**-**	2.9%	-
- capped at 2.5%	**2.2%**	**-**	2.1%	-
- other	**-**	**-**	-	0% - 3.0%
Rate of increase for deferred pensioners subject to statutory revaluation	**3.1%**	**-**	3.0%	0% - 3.0%
Expected rate of return on assets of the scheme:				
- Equities	**7.9%**	**7.0% - 8.0%**	7.9%	7.9% - 12.0%
- Bonds	**4.9%**	**5.4% - 7.0%**	4.4%	5.0% - 9.0%
- Cash	**5.8%**	**-**	4.5%	7.0%

The principal assumptions of the schemes are determined using appropriate expert advice and available market data. The assumptions of the overseas schemes are given as a range of values in respect of the individual schemes. The range of values is a consequence of the diversity of territories in which the Group operates defined benefit schemes.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions used for the remaining life expectancy are as follows:

	2007		2006	
	UK scheme	**Overseas schemes**	UK scheme	Overseas schemes
Current pensioner at age 65:				
- men	**19 years**	**16 - 18 years**	19 years	16 - 18 years
- women	**22 years**	**20 - 21 years**	22 years	20 - 21 years
Future pensioner at age 65:				
- men	**20 years**	**16 - 18 years**	20 years	16 - 18 years
- women	**23 years**	**20 - 21 years**	23 years	20 - 21 years

The fair value of assets of the schemes are as follows:

	2007			2006		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Equity	**82.5**	**3.4**	**85.9**	76.0	3.2	79.2
Bonds	**15.5**	**12.8**	**28.3**	18.5	11.9	30.4
Cash	**10.6**	**-**	**10.6**	8.0	0.1	8.1
Other	**-**	**-**	**-**	-	0.1	0.1
	108.6	**16.2**	**124.8**	102.5	15.3	117.8

25. Post-retirement benefits continued

Amounts charged/(credited) to the income statement are as follows:

	2007			2006		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Current service cost	**1.0**	**0.4**	**1.4**	1.1	0.5	1.6
Interest on obligations	**6.4**	**0.8**	**7.2**	6.4	0.9	7.3
Expected return on assets of the schemes	**(7.1)**	**(0.7)**	**(7.8)**	(6.4)	(0.7)	(7.1)
Past service credit	**-**	**-**	**-**	(1.4)	-	(1.4)
	0.3	**0.5**	**0.8**	(0.3)	0.7	0.4

The charge for the year is classified within administrative expenses in the consolidated income statement.

The actual return on assets of the schemes is £8.9m (2006: £13.1m).

Actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they are incurred. These amounted to a gain of £12.0m (2006: £7.8m).

Amounts recognised as retirement benefit obligations in the balance sheet are as follows:

	2007			2006		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Present value of obligations	**(121.7)**	**(17.2)**	**(138.9)**	(129.4)	(17.5)	(146.9)
Fair value of assets of the schemes	**108.6**	**16.2**	**124.8**	102.5	15.3	117.8
	(13.1)	**(1.0)**	**(14.1)**	(26.9)	(2.2)	(29.1)

The present value of obligations includes £1.5m (2006: £1.3m) in respect of schemes that are wholly unfunded.

Movements in the present value of obligations are as follows:

	UK scheme £m	Overseas schemes £m	Total £m
At start of prior year	128.6	17.7	146.3
Current service cost	1.1	0.5	1.6
Interest on obligations	6.4	0.9	7.3
Past service cost	(1.4)	-	(1.4)
Actuarial gains and losses	(1.2)	(0.6)	(1.8)
Employee contributions	0.4	0.3	0.7
Benefits paid	(4.5)	(0.8)	(5.3)
Exchange differences	-	(0.5)	(0.5)
At start of year	129.4	17.5	146.9
Current service cost	1.0	0.4	1.4
Interest on obligations	6.4	0.8	7.2
Actuarial gains and losses	(11.1)	0.2	(10.9)
Employee contributions	0.4	0.3	0.7
Benefits paid	(4.4)	(0.7)	(5.1)
Disposal of joint venture	-	(1.2)	(1.2)
Exchange differences	-	(0.1)	(0.1)
At end of year	**121.7**	**17.2**	**138.9**

Movements in the fair value of assets of the schemes are as follows:

	UK scheme £m	Overseas schemes £m	Total £m
At start of prior year	91.6	14.1	105.7
Expected return on assets of the schemes	6.4	0.7	7.1
Actuarial gains and losses	5.8	0.2	6.0
Employer contributions	2.8	1.2	4.0
Employee contributions	0.4	0.3	0.7
Benefits paid	(4.5)	(0.8)	(5.3)
Exchange differences	-	(0.4)	(0.4)
At start of year	102.5	15.3	117.8
Expected return on assets of the schemes	7.1	0.7	7.8
Actuarial gains and losses	1.1	-	1.1
Employer contributions	1.9	1.6	3.5
Employee contributions	0.4	0.3	0.7
Benefits paid	(4.4)	(0.7)	(5.1)
Disposal of joint venture	-	(1.0)	(1.0)
At end of year	**108.6**	**16.2**	**124.8**

Experience adjustments are as follows:

	2007 £m	2006 £m
Present value of obligations	**(138.9)**	(146.9)
Fair value of assets of the schemes	**124.8**	117.8
Deficit in the schemes	**(14.1)**	(29.1)
Experience (losses)/gains on liabilities of the schemes	**(0.7)**	1.5
Experience gains on assets of the schemes	**1.1**	6.0

The Group expects to contribute approximately £2.3m to its defined benefit schemes in the year ending 31 August 2008.

26. Share-based payments

The Group operates three equity-settled share-based payment schemes and two cash-settled schemes. The recognition and measurement principles of IFRS 2 'Share-based Payment' have not been applied to equity instruments that were granted on or prior to 7 November 2002 that had not vested by 1 January 2005, in accordance with the transitional provisions of IFRS 1.

a) Fenner PLC 1996 Executive Share Option Scheme

Share options were granted to certain employees within the Group. The exercise price of options granted is set at the market price of the shares on the date of the grant. The vesting period is generally 3 years. If the options remain unexercised after a period of 10 years from the date of the grant the options expire. Options can only be exercised upon satisfaction of performance criteria. This requires that the overall growth of the Group's earnings per share before amortisation of intangible assets acquired and exceptional items over a consecutive three year period exceeds the growth in the UK Retail Price Index over the same period by at least 9%. The last grant of shares under the Executive Share Option Scheme was made in November 2004.

Details of movements in outstanding share options are as follows:

	Options number	Weighted average exercise price pence
At start of prior year	1,231,600	117.2
Forfeited during the year	(122,436)	108.1
Exercised during the year	(211,708)	143.1
At start of year	897,456	112.3
Forfeited during the year	(30,609)	83.3
Exercised during the year	(637,685)	106.8
At end of year	**229,162**	**131.8**

At 31 August 2007, 132,234 (2006: 739,310) options were exercisable. During the year, the weighted average share price at the date of exercise was 216.2p.

The following share options were outstanding at 31 August 2007:

Dates exercisable	Options number	Option price pence
2001 to 2008	60,813	190.46
2001 to 2008	20,406	99.80
2004 to 2011	20,406	100.95
2006 to 2013	30,609	83.31
2007 to 2014	96,928	123.49
	229,162	

The weighted average contractual life of outstanding share options at 31 August 2007 is 4.6 years.

The above information includes share options granted before 7 November 2002.

The fair value of awards made under the Fenner PLC 1996 Executive Share Option Scheme is measured using the Binomial option-pricing model. The following assumptions were used for each set of outstanding options granted after 7 November 2002:

	Grant Date	
	10 November 2003	15 November 2004
Share price at date of grant	85.0p	130.5p
Fair value of options granted	13p	28p
Exercise price	83.3p	123.5p
Expected volatility	27%	27%
Expected life	6 years	6 years
Risk free rate	5.0%	4.6%
Expected dividend yield	7.6%	4.5%

Expected volatility is determined by reference to the historical volatility of the Company's share price for a six year period prior to the grant date.

b) Long Term Share Incentive Plan

Provisional allocations of shares were made to certain employees within the Group. The provisional allocation is made to each employee at the start of a three year plan cycle and is based on a percentage of the basic annual salary of each employee. The awards are subject to the satisfaction of performance criteria. The proportion of the provisional allocation of shares that are awarded is based on the Group's total shareholder return (TSR) over the plan cycle compared to the TSR of the comparator group. The last provisional allocation of shares under the Long Term Share Incentive Plan was made in November 2005.

Details of movements in provisional allocations under the Long Term Share Incentive Plan are as follows:

	Shares number
At start of prior year	2,404,994
Provisional allocations during the year	622,380
Awarded during the year	(195,343)
Lapsed during the year	(663,507)
At start of year	2,168,524
Awarded during the year	(915,033)
Lapsed during the year	(5,061)
At end of year	**1,248,430**

The following provisional allocations were outstanding at 31 August 2007:

Date of provisional allocations	Shares number
10 November 2004	626,050
9 November 2005	622,380
	1,248,430

The fair value of awards made under the Long Term Share Incentive Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for each set of outstanding awards made after 7 November 2002:

	Date of provisional allocations	
	10 November 2004	9 November 2005
Share price at date of provisional allocations	123.0p	151.0p
Fair value of shares awarded	39p	52p
Expected volatility	27%	26%
Expected life	3 years	3 years
Risk free rate	4.6%	4.8%
Expected dividend yield	4.5%	3.9%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the award date.

Further details of the Long Term Share Incentive Plan can be found in the Board Remuneration Report on pages 20 to 26.

26. Share-based payments continued

c) Performance Share Plan

The Performance Share Plan was approved by shareholders at the AGM on 10 January 2007 to replace the Long Term Share Incentive Plan.

Conditional awards of shares were made to certain employees within the Group. The conditional award is made to each employee at the start of a three year performance period and is based on a percentage of the basic annual salary of each employee. The awards are subject to the satisfaction of performance criteria. The proportion of the conditional awards of shares that are awarded is based on the Group's TSR over the performance period compared to the TSR of the comparator group.

Details of movements in conditional awards under the Performance Share Plan are as follows:

	Shares number
At start of year	-
Conditional awards during the year	427,864
At end of year	**427,864**

The following conditional awards were outstanding at 31 August 2007:

Date of conditional awards	Shares number
20 February 2007	427,864

The fair value of awards made under the Performance Share Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for the conditional awards on 20 February 2007:

Share price at date of conditional awards	226.75p
Fair value of shares awarded	101p
Expected volatility	25%
Expected life	3 years
Risk free rate	5.3%
Expected dividend yield	2.7%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the award date.

Further details of the Performance Share Plan can be found in the Board Remuneration Report on pages 20 to 26.

d) Long Term Shadow Incentive Plan

Provisional allocations of notional shares were made to certain employees within the Group. The rules and performance criteria are the same as the Long Term Share Incentive Plan above. Awards are settled in the form of cash. The last provisional allocation of notional shares under the Long Term Shadow Incentive Plan was made in November 2005.

Details of movements in provisional allocations under the Long Term Shadow Incentive Plan are as follows:

	Notional shares number
At start of prior year	-
Provisional allocations during the year	272,000
Forfeited during the year	(20,000)
At start of year	252,000
Forfeited during the year	(20,000)
At end of year	**232,000**

The following provisional allocations were outstanding at 31 August 2007:

Date of provisional allocations	Notional shares number
9 November 2005	232,000

The fair value of awards made under the Long Term Shadow Incentive Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for the provisional allocations of notional shares on 9 November 2005:

Share price at valuation date	236.75p
Fair value of shares awarded	94p
Expected volatility	25%
Expected life	3 years
Risk free rate	5.6%
Expected dividend yield	2.6%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the award date.

e) Shadow Performance Share Plan

The Shadow Performance Share Plan was approved by shareholders at the AGM on 10 January 2007 to replace the Long Term Shadow Incentive Plan.

Conditional awards of notional shares were made to certain employees within the Group. The rules and performance criteria are the same as the Performance Share Plan above. Awards are settled in the form of cash.

Details of movements in conditional awards under the Shadow Performance Share Plan are as follows:	Notional shares number
At start of year	-
Conditional awards during the year	319,000
At end of year	**319,000**

The following conditional awards were outstanding at 31 August 2007:

Date of conditional awards	Notional shares number
20 February 2007	319,000

The fair value of awards made under the Shadow Performance Share Plan is measured using the Monte Carlo simulation approach. The following assumptions were used for the conditional awards of notional shares on 20 February 2007:

Share price at valuation date	236.75p
Fair value of shares awarded	106p
Expected volatility	27%
Expected life	3 years
Risk free rate	5.3%
Expected dividend yield	2.6%

Expected volatility is determined by calculating the historical volatility of the Company's share price for a three year period from the award date.

Liabilities included within trade and other payables in the balance sheet amounted to £0.1m (2006: £0.1m) in respect of the Long Term Shadow Incentive Plan and £0.1m (2006: £nil) in respect of the Shadow Performance Share Plan. There are no liabilities in the balance sheet in respect of the Fenner PLC 1996 Executive Share Option Scheme, the Long Term Share Incentive Plan or the Performance Share Plan.

27. Provisions

Movements in provisions are as follows:

	Restructuring costs £m	Property and environmental £m	Total £m
At start of year	0.3	6.2	6.5
New provisions charged to income statement during the year	1.3	0.4	1.7
Provisions not required credited to income statement during the year	-	(0.2)	(0.2)
Provisions utilised during the year	(0.1)	(1.2)	(1.3)
Unwinding of discount	-	0.2	0.2
At end of year	**1.5**	**5.4**	**6.9**

Provisions represent the best estimate of obligations at the balance sheet date. The majority of the property and environmental provision relates to onerous leases. Where the effect of the time value of money is material, a pre-tax discount rate of 11.2% has been used. All provisions are expected to be utilised within 10 years.

28. Share capital

	Authorised		Allotted, called up and fully paid	
	Number	£m	Number	£m
At start of prior year	220,000,000	55.0	156,563,274	39.1
Shares authorised/issued in the year	-	-	407,051	0.1
At start of year	220,000,000	55.0	156,970,325	39.2
Shares authorised/issued in the year	-	-	1,552,718	0.4
At end of year	**220,000,000**	**55.0**	**158,523,043**	**39.6**

During the year, 915,033 ordinary shares of 25p were issued to the trustees of the Fenner PLC 1992 Employee Share Ownership Plan Trust under the Fenner Long Term Share Incentive Plan for a total consideration of £1.8m and 637,685 ordinary shares of 25p were issued under the Fenner PLC 1996 Executive Share Option Scheme for a total consideration of £0.7m.

The Company has one class of ordinary shares which carry no right to fixed income.

29. Equity

	Share capital £m	Share premium £m	Retained earnings £m	Exchange reserve £m	Hedging reserve £m	Other reserve £m	Minority interests £m	Total equity £m
At start of prior year	39.1	49.1	15.4	2.2	-	1.1	0.6	107.5
Adoption of IAS 32 and IAS 39 on 1 September 2005	-	-	0.1	-	-	-	-	0.1
Total recognised income and expense for the year	-	-	26.2	(4.3)	-	-	0.2	22.1
Equity dividends paid	-	-	(8.2)	-	-	-	-	(8.2)
Dividends paid to minority shareholders	-	-	-	-	-	-	(0.1)	(0.1)
Shares issued in the year	0.1	0.5	(0.3)	-	-	-	-	0.3
Share-based payments	-	-	0.3	-	-	-	-	0.3
At start of year	39.2	49.6	33.5	(2.1)	-	1.1	0.7	122.0
Total recognised income and expense for the year	-	-	31.4	(2.8)	0.4	-	0.2	29.2
Equity dividends paid	-	-	(9.5)	-	-	-	-	(9.5)
Dividends paid to minority shareholders	-	-	-	-	-	-	(0.1)	(0.1)
Shares issued in the year	0.4	2.1	(1.8)	-	-	-	-	0.7
Share-based payments	-	-	0.4	-	-	-	-	0.4
At end of year	**39.6**	**51.7**	**54.0**	**(4.9)**	**0.4**	**1.1**	**0.8**	**142.7**

The Group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' on 1 September 2005, as permitted by the transitional arrangements of IFRS 1. This resulted in the recognition of derivative financial instruments on the balance sheet and the retranslation of certain monetary assets and liabilities. The overall effect was the recognition of a net asset of £0.1m.

Included within retained earnings is a reserve for the Company's own shares held by the Employee Share Ownership Plan Trust (ESOP) of £0.1m (2006: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentives schemes. At 31 August 2007, the ESOP held 131,859 (2006: 131,859) of the Company's shares.

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations.

The hedging reserve comprises gains and losses on changes in the valuation of assets and liabilities designated as hedges.

The other reserve relates to merger relief on the issue of shares in connection with the acquisition of Wellington Holdings plc on 20 May 2005.

Distributable reserves relate to amounts in the retained earnings reserve to the extent that profits are realised.

30. Contingent liabilities

In the normal course of business the Group has given guarantees and counter indemnities in respect of commercial transactions.

The Group is involved as defendant in a number of potential and actual litigation cases in connection with its business, primarily in North America. The directors believe that the likelihood of a material liability arising from these cases is remote.

In October 2004 our conveyor belting operations in Charlotte and Atlanta, USA received notification from the Anti Trust Division of the US Department of Justice of their intention to enquire into possible anti trust violations by Fenner. Every co-operation has been given to date and will be given as and when required in order to help expedite the process.

31. Operating lease commitments

Outstanding commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	Land and Buildings		Other	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Within one year	**2.0**	1.6	**1.4**	1.4
In the second to fifth years inclusive	**8.1**	5.4	**1.5**	1.2
After five years	**26.5**	18.6	**-**	-
	36.6	25.6	**2.9**	2.6

Operating lease charges recognised in the income statement are shown in note 5.

32. Related party transactions

Related parties to the Group comprise key management personnel and joint ventures.

Key management personnel

Key management personnel comprise the Group's executive and non-executive directors. Remuneration of executive and non-executive directors is detailed in the Board Remuneration Report on pages 20 to 26. There were no other transactions with key management personnel.

Joint ventures

There were no material transactions with joint ventures during the year (2006: £nil) and there were no amounts due to or from joint ventures at 31 August 2007 (2006: £nil).

33. Acquisitions

On 1 October 2006, the Group acquired substantially all of the operating assets and liabilities of EGC, a Houston, Texas based manufacturer of fluoroplastic seals and other related fluoroplastic precision components, from Compagnie Plastic Omnium SA, a company quoted on the Paris Stock Exchange.

From the date of acquisition, EGC contributed £18.6m to Group revenue and £0.9m to Group operating profit, after deducting amortisation of intangible assets acquired and exceptional items totalling £0.9m.

Details of the assets and liabilities acquired are given below.

	Book value £m	Accounting policy alignment £m	Other items £m	Provisional fair value £m
Property, plant and equipment	1.2	(0.3)	-	**0.9**
Inventories	4.0	(0.5)	-	**3.5**
Trade and other receivables	3.0	(0.1)	-	**2.9**
Trade and other payables	(1.8)	(0.2)	-	**(2.0)**
Deferred taxation	0.5	-	0.4	**0.9**
Total net assets acquired	6.9	(1.1)	0.4	**6.2**
Intangible assets:				
- Trademarks				**1.3**
- Customer relationships				**0.8**
Goodwill on acquisition				**0.5**
Cash paid per cash flow statement				**8.8**

The cash paid includes acquisition expenses of £0.5m.

The fair value adjustments for accounting policy alignment reflect the restatement of assets and liabilities in accordance with the Group's accounting policies.

Goodwill arising on acquisition represents principally the anticipated operating synergies and speed to market gained through the acquisition.

34. Disposals

On 2 January 2007, the Group disposed of its 50% joint venture in KSB Pumps (S.A.) (Pty) Limited. This disposal was achieved via a share buyback in which KSB Pumps acquired and cancelled Fenner held shares for an aggregate value of £6.1m. This resulted in a profit on disposal of £2.5m.

Details of the assets and liabilities disposed of are given below.

	£m
Property, plant and equipment	**0.8**
Inventories	**2.2**
Trade and other receivables	**1.6**
Cash and cash equivalents	**0.9**
Trade and other payables	**(1.8)**
Retirement benefit obligations	**(0.2)**
Deferred taxation	**0.1**
Total net assets disposed	**3.6**
Profit on disposal per income statement	**2.5**
	6.1
Satisfied by:	
Cash received	**6.1**
Cash and cash equivalents disposed	**(0.9)**
Cash received per cash flow statement	**5.2**

35. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 August 2007 were as follows:

Company	Country of Incorporation	Proportion of issued ordinary shares held
J H Fenner & Co Limited	United Kingdom	*100
Fenner International Limited	United Kingdom	*100
James Dawson & Son Limited	United Kingdom	*100
Hallite Seals International Limited	United Kingdom	*100
Hallite (France) Limited	United Kingdom	100
CDI Seals Inc	USA	100
Hallite Seals Americas Inc	USA	100
Fenner Inc	USA	100
Fenner Dunlop (Atlanta) Inc	USA	100
Fenner Dunlop (Charlotte) Inc	USA	100
Fenner Dunlop (Port Clinton) Inc	USA	100
Fenner Dunlop (Toledo) LLC	USA	100
Fenner Dunlop (Bracebridge) Inc	Canada	100
Hallite Seals (Canada) Limited	Canada	100
Enerka Apex Belting Pty Limited	Australia	100
Fenner (Australia) Pty Limited	Australia	100
rEscan International Pty Limited	Australia	100
Hallite Seals Australia Pty Limited	Australia	100
Fenner Conveyor Belting (South Africa) (Pty) Limited	South Africa	75
Shanghai Fenner Conveyor Belting Co. Limited	China	85
Dawson Polymer Products (Shanghai) Co. Limited	China	100
Fenner Sealing Technologies (Shanghai) Co. Limited	China	100
Dunlop Conveyor Belting (Shanghai) Co. Limited	China	100
Fenner Dunlop BV	Netherlands	100
Fenner Conveyor Belting Private Limited	India	100
Dichtelemente Hallite GmbH	Germany	100
Hallite Italia Srl	Italy	100

*Held directly by Fenner PLC

The above undertakings are engaged in manufacturing and distribution with the exception of Fenner International Limited which is an investment company.

All subsidiary undertakings are consolidated within the consolidated financial statements.

A full list of Group companies is filed with the annual return to the Registrar of Companies.

36. Interest in joint ventures

The Group held a 50% interest in the ordinary shares of KSB Pumps (SA) (Pty) Limited, incorporated in South Africa. The interest was sold on 2 January 2007 (note 34). The interest was recognised in the consolidated financial statements using the proportionate consolidation method.

Amounts included in the Group's consolidated income statement and consolidated balance sheet are as follows:

	2007 £m	2006 £m
Consolidated income statement		
Revenue	**2.9**	9.6
Cost of sales	**(1.7)**	(5.5)
Distribution costs	**(0.5)**	(1.6)
Administrative expenses	**(0.3)**	(1.1)
Taxation	**(0.1)**	(0.6)
Profit for the year	**0.3**	0.8
Consolidated balance sheet		
Property, plant and equipment	**-**	0.7
Deferred tax assets	**-**	0.1
Inventories	**-**	1.9
Trade and other receivables	**-**	1.5
Cash and cash equivalents	**-**	1.0
Trade and other payables	**-**	(1.6)
Current tax liabilities	**-**	(0.1)
Retirement benefit obligations	**-**	(0.2)
Net assets	**-**	3.3

At 31 August 2007, the Group's share of contractual commitments for the purchase of property, plant and equipment was £nil (2006: £0.1m).

There were no material contingencies in respect of joint ventures.

Independent Auditors' Report to the members of Fenner PLC

We have audited the parent company financial statements of Fenner PLC for the year ended 31 August 2007 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Board Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Fenner PLC for the year ended 31 August 2007.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Board Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Corporate Governance statement on page 18.

Our responsibility is to audit the parent company financial statements and the part of the Board Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This Report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Board Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Directors' Report is consistent with the parent company financial statements. We also report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the Financial Highlights, the Chairman's Statement, the Business Review, the Corporate Governance statement and the unaudited part of the Board Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Board Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Board Remuneration Report to be audited 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 parent company financial statements and the part of the Board Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 August 2007;
- the parent company financial statements and the part of the Board Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hull
7 November 2007

Company balance sheet
at 31 August 2007

	Notes	**2007 £m**	2006 £m
Fixed assets			
Tangible fixed assets	4	**3.9**	4.0
Investments	5	**77.1**	100.3
		81.0	104.3
Current assets			
Debtors	6	**77.6**	66.9
Cash at bank and in hand		**12.6**	19.1
		90.2	86.0
Creditors: amounts falling due within one year	7	**(20.5)**	(40.9)
Net current assets		**69.7**	45.1
Total assets less current liabilities		**150.7**	149.4
Provisions for liabilities and charges	8	**(0.4)**	(0.4)
Net assets		**150.3**	149.0
Capital and reserves			
Called up share capital	9	**39.6**	39.2
Share premium	10	**51.7**	49.6
Revaluation reserve	10	**1.4**	1.4
Other reserve	10	**11.5**	11.5
Profit and loss account	10	**46.1**	47.3
Equity shareholders' funds	11	**150.3**	149.0

The financial statements were approved by the Board of Directors on 7 November 2007 and signed on its behalf by:

C I Cooke
Chairman

R J Perry
Group Finance Director

Notes to the Company financial statements

1. Significant accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and under the historical cost convention, as modified by the revaluation of certain fixed assets.

In accordance with the exemptions allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account.

In accordance with the exemptions allowed by FRS 1 'Cash Flow Statements', the Company has not presented a cash flow statement.

The Company has taken advantage of the exemptions in FRS8 'Related Party Transactions' not to disclose related party transactions with other members of the Fenner PLC Group.

The principal accounting policies adopted for the year ended 31 August 2007 are set out below.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities are retranslated at the rates prevailing on the balance sheet date. Non-monetary items measured at historical cost are not retranslated. Exchange differences arising on the settlement and retranslation of monetary items are recognised in the profit and loss account in the period.

Share-based payments

The Company operates equity-settled share schemes for certain employees across the Fenner PLC Group. The cost of share-based payments is measured at fair value at the date of grant, excluding the effect of non market-based vesting conditions. The cost is recognised in the profit and loss account on a straight-line basis over the vesting period with the corresponding amount credited to equity, based on an estimate of the number of shares that will eventually vest. The fair values are measured using the Binomial option-pricing model and the Monte Carlo simulation approach.

Taxation

Taxation expense represents the sum of the current tax payable and deferred tax.

Current tax is the tax expected to be payable on taxable profit for the period using tax rates that have been enacted or substantively enacted by the balance sheet date, together with any adjustments in respect of previous years. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are not taxable or deductible or are taxable or deductible in other years.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. It is determined using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Timing differences are differences between taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax assets are recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset. Deferred tax is measured on a non-discounted basis.

Dividends

Dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when they are paid.

1. Significant accounting policies continued

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation and any accumulated impairment losses. In prior years certain freehold and leasehold properties have been revalued by independent qualified professional valuers on the basis of open market value for their existing use. As permitted by FRS 15 'Tangible Fixed Assets' these valuations have been frozen.

Freehold land is not depreciated. Depreciation on other assets is recognised in the profit and loss account on a straight-line basis over the estimated useful life of the asset. Estimated useful lives most widely applied are as follows:

Freehold buildings	40 years
Leasehold buildings	Unexpired term of lease
Plant, machinery and equipment	3-10 years

Investments

Investments are stated at cost or valuation less accumulated impairment losses.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2. Auditors' remuneration

There was no auditors remuneration in the year (2006: £nil) as their costs have been borne by other Group undertakings.

3. Employees

The average number of employees during the year is 3 (2006: 3). This comprises the Chairman and non-executive directors. Details of employee costs are included in the Board Remuneration Report on pages 20 to 26.

4. Tangible fixed assets

	Freehold property £m
Cost or valuation:	
At start of year and **at end of year**	**5.0**
Accumulated depreciation:	
At start of year	1.0
Charge for the year	0.1
At end of year	**1.1**
Net book value:	
At end of year	**3.9**
At start of year	4.0
Cost or valuation comprises:	
Cost	0.9
Valuation:	
- 1997	0.4
- 1998	1.2
- 1999	2.5
	5.0

The historical cost of tangible fixed assets is £4.4m (2006: £4.4m) with accumulated depreciation of £1.9m (2006: £1.8m).

Freehold land and buildings includes land at a cost or valuation of £1.7m (2006: £1.7m) which is not subject to depreciation.

5. Investments

	Subsidiary undertakings £m
Cost:	
At start of year and **at end of year**	**192.7**
Accumulated impairment losses:	
At start of year	92.4
Impairment in the year	23.2
At end of year	**115.6**
Net book value:	
At end of year	**77.1**
At start of year	100.3

During the year, debtors due from certain dormant subsidiary undertakings were waived, resulting in an impairment charge of £20.2m. These undertakings are in the process of being struck off. In addition, other investments in subsidiary undertakings required an impairment charge of £3.0m.

The carrying value of investments is reviewed annually. Forecast cashflows are discounted using the Group's pre-tax weighted average cost of capital of 11.2%. Cashflows are projected for one year using appropriate annual growth rates.

Details of the principal subsidiary undertakings can be found in note 35 of the Notes to the consolidated financial statements.

6. Debtors

	2007 £m	2006 £m
Amounts due from Group undertakings	**77.3**	66.7
Other debtors	**0.3**	0.2
	77.6	66.9

7. Creditors: amounts falling due within one year

	2007 £m	2006 £m
Amounts due to Group undertakings	**19.0**	40.0
Current taxation	**0.3**	0.3
Other taxes and social security	**1.1**	0.5
Accruals and deferred income	**0.1**	0.1
	20.5	40.9

8. Provisions for liabilities and charges

	Deferred taxation £m
At start of year and **at end of year**	**0.4**

Deferred tax liabilities are all in respect of accelerated tax depreciation.

The Finance Act 2007 reduced the corporation tax rate from 30% to 28% with effect from 1 April 2008. This reduction in the future rate of corporation tax has been reflected in the deferred taxation provided.

Notes to the Company financial statements continued

9. Share capital

	Authorised		Allotted, called up and fully paid	
	Number	£m	Number	£m
At start of year	220,000,000	55.0	156,970,325	39.2
Shares authorised/issued in the year	-	-	1,552,718	0.4
At end of year	**220,000,000**	**55.0**	**158,523,043**	**39.6**

During the year, 915,033 ordinary shares of 25p were issues to the trustees of the Fenner PLC 1992 Employee Share Ownership Plan Trust under the Fenner Long Term Share Incentive Plan for a total consideration of £1.8m and 637,685 ordinary shares of 25p were issued under the Fenner PLC 1996 Executive Share Option Scheme for a total consideration of £0.7m.

The Company has one class of ordinary shares which carry no right to fixed income.

10. Reserves

	Share premium £m	Revaluation reserve £m	Other reserve £m	Profit and loss account £m
At start of year	49.6	1.4	11.5	47.3
Retained loss for the year	-	-	-	(1.4)
Shares issued in the year	2.1	-	-	(0.2)
Share-based payments	-	-	-	0.4
At end of year	**51.7**	**1.4**	**11.5**	**46.1**

Included within retained earnings is a reserve for the Company's own shares held by the Employee Share Ownership Plan Trust (ESOP) of £0.1m (2006: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentives schemes. At 31 August 2007, the ESOP held 131,859 (2006: 131,859) of the Company's shares.

11. Reconciliation of movement in equity shareholders' funds

	2007 £m	2006 £m
Profit for the year attributable to equity shareholders	**8.1**	9.2
Equity dividends paid	**(9.5)**	(8.2)
Shares issued in the year	**2.3**	0.3
Share-based payments	**0.4**	0.2
Movement in equity shareholders' funds in the year	**1.3**	1.5
Equity shareholders' funds at start of year	**149.0**	147.5
Equity Shareholders' funds at end of year	**150.3**	149.0

12. Contingent liabilities

The Company has guaranteed the borrowings of certain subsidiary undertakings. At 31 August 2007, these borrowings amounted to £102.0m (2006: £79.3m).

13. Share-based payments

The Company operates three equity-settled share-based payment schemes across the Fenner PLC Group. The recognition and measurement principles of FRS 20 'Share-based Payment' have not been applied to equity instruments that were granted on or prior to 7 November 2002 that had not vested by 1 January 2005, in accordance with the transitional provisions of that standard.

Details of the Company's share-based payments can be found in note 26 of the Notes to the consolidated financial statements.

Five year summary of the Group

	IFRS			UK GAAP in IFRS format	
	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Revenue	**380.8**	379.0	303.6	260.6	248.5
Operating profit before amortisation of intangible assets acquired and exceptional items	**39.0**	34.1	17.3	16.1	12.0
Amortisation of intangible assets acquired	**(0.6)**	(0.4)	(1.0)	(1.2)	(1.0)
Exceptional items	**(0.2)**	-	-	(6.2)	(12.4)
Operating profit/(loss)	**38.2**	33.7	16.3	8.7	(1.4)
Net finance costs	**(4.6)**	(4.3)	(3.8)	(3.4)	(4.1)
Share of result of associate	**-**	(0.1)	(0.1)	0.4	0.4
Profit on disposal or termination of operations	**-**	-	-	0.7	-
Profit before taxation	**33.6**	29.3	12.4	6.4	(5.1)
Taxation	**(9.7)**	(8.7)	(4.0)	(3.1)	(1.1)
Profit for the year	**23.9**	20.6	8.4	3.3	(6.2)
Earnings per share:					
Adjusted – before amortisation of intangible assets acquired and exceptional items	**15.1p**	13.1p	7.1p	7.7p	4.9p
Basic	**15.0p**	13.0p	6.6p	2.2p	(6.5)p
Equity dividends	**9.5**	8.2	6.3	6.3	6.0
Dividends per ordinary share*	**6.225p**	6.0p	5.825p	5.825p	5.825p
Capital expenditure	**32.0**	18.9	8.1	7.9	6.5
Shareholders' equity	**141.9**	121.3	106.9	60.8	58.4
Net Debt	**(36.3)**	(33.1)	(34.5)	(39.4)	(44.5)
Gearing	**25.6%**	27.3%	32.3%	64.8%	76.2%
Average number of employees (number)	**3,663**	3,473	2,798	2,662	2,667

*Dividends per ordinary share is stated in respect of the period to which the dividends relate. Under IFRS this is not the same as the period in which the dividends are recognised in the financial statements.

Where applicable, the years 2003 and 2004 have been restated following the adoption of UITF Abstract 28 'Accounting for ESOP Trusts' and the discounted share placement in 2004 and the placing and open offer in 2005.

Annual General Meeting

The 71st Annual General Meeting of the Company will be held at Marlborough Room, Oxford & Cambridge Club, Pall Mall, London SW1Y 5HD, on 9 January 2008 at 10.30 am when the following business will be proposed:

Ordinary Business

1 To receive the Directors' Report and financial statements of the Group for the financial year ended 31 August 2007 together with the Independent Auditors' Report.
2 To approve the Board Remuneration Report contained in the Annual Report for 2007.
3 To declare a dividend.
4 To re-elect director.
5 To re-elect director.
6 To adopt electronic communication.
7 To re-appoint the auditors.
8 To authorise the directors to determine the auditors' remuneration.
9 To transact any other ordinary business of an Annual General Meeting.

Special Business

10 To authorise the directors to allot shares.
11 To empower the directors to allot shares for cash.
12 To authorise the Company to buy back its own shares.

Note

This is a summary of the Notice of Meeting and shareholders should refer to the accompanying document which contains the full text of the Notice of Meeting together with an explanatory letter from the Chairman of the Company.

Advisors

Registrars
Capita Registrars, Huddersfield

Principal Solicitors
Nabarro Nathanson, London
Rollits, Hull
Shumaker, Loop & Kendrick, Toledo, USA

Independent Auditors
PricewaterhouseCoopers LLP, Hull

Brokers
Hoare Govett, London

Principal Bankers
Barclays Bank PLC, Leeds
Lloyds TSB Bank plc, Leeds
Bank of Scotland plc, Sheffield
Wachovia Bank NA, Charlotte, USA

Merchant Bankers
N.M. Rothschild & Sons Limited, Leeds

Financial Calendar

Annual General Meeting – 9 January 2008

Half Year End – 28 February 2008

Half Year Announcement – April 2008

Year End – 31 August 2008

Preliminary Announcement – November 2008

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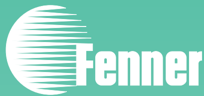

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