Interim 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.

Financial Highlights

Half year ended 28 February 2007	£m	% increase on 2006
Revenue	**185.5**	**+2%**
Operating profit before amortisation of intangible assets acquired and exceptional items	**16.2**	**+12%**
Operating profit	**15.5**	**+8%**
Profit before taxation	**15.9**	**+34%**
Earnings per share before amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture	**6.2p**	**+15%**
Basic earnings per share	**7.0p**	**+32%**
Dividend per share*	**2.075p**	**+4%**

*The 2006 comparative basis is detailed in the Dividends section of the Chairman's Statement on pages 3 and 4.

A period of further advancement

I am delighted to report on a period of further advancement for the Group. Operating profit before amortisation of intangible assets acquired and exceptional items advanced 12% to £16.2m (2006 £14.5m) after absorbing £1.6m of currency translation effects compared to the equivalent period in 2006.

The results have been driven by robust performances across all of our operations, as the strong growth in many of our businesses and markets outweighed the effects of currency, raw material cost increases and pockets of market softness.

The advanced engineered products division has seen further growth and encouraging sales performances throughout the period, particularly from our recently acquired and increasingly successful seals operations. The conveyor belting division has balanced growth in the Southern Hemisphere with somewhat slower sales in the North American mining sector as a consequence of unseasonably warm weather conditions in the winter months, temporarily slowing the demand for coal.

REVENUE AND PROFITS

Revenue for the period increased to £185.5m (2006 £182.0m) after accommodating adverse currency translation effects of £12.3m. Operating profit before amortisation of intangible assets acquired and exceptional items increased 12% to £16.2m (2006 £14.5m). At consistent exchange rates this increase would have been 26%. Operating profit increased to £15.5m (2006 £14.3m).

After recognising a £2.5m profit on the sale of the Group's interest in KSB Pumps in South Africa, profit before taxation increased by 34% to £15.9m (2006 £11.9m).

Earnings per share before amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture was 6.2p per share (2006 5.4p per share). This represented an increase of 15% over the equivalent period in 2006 and a 27% increase at consistent exchange rates. Basic earnings per share amounted to 7.0p per share (2006 5.3p per share).

CASH RESOURCES AND INVESTMENT

As a result of our ongoing investment programmes and the seasonal first half absorption of funds, net borrowings increased by £23.3m (2006 £15.8m). Investments during the period included the continuing expansion of the Group's belting and seals businesses in North America, the Southern Hemisphere and China giving rise to total capital expenditure of £14.1m (2006 £7.7m) compared to depreciation of £3.9m (2006 £4.0m). Additionally, the Group invested £8.8m during the period on the purchase of EGC, a Houston, Texas, USA based manufacturer of fluoroplastic seals and components. This complements the already successful advanced sealing technologies oil and gas sector business based in that location.

DIVIDENDS

In accordance with the Group's stated policy of continuing to improve dividend cover, we are declaring an interim dividend of 2.075p per share (2006 1.975p per share). As indicated in the

Group Finance Director's Review in the 2006 Annual Report, for comparative purposes an interim dividend of 2.0p for the previous period should be used, therefore the underlying increase is 4%.

OPERATIONS

In conveyor belting the underlying performance of the division has been encouraging. Headline revenue for the period amounted to £123.4m (2006 £129.7m), reflecting a £9.0m reduction arising from currency translation principally from the US dollar with contributory weakness in the Australian and South African currencies. The resultant operating profit of £7.8m (2006 £8.0m) incorporates adverse currency translation effects of £1.0m.

The well documented temporary slowdown in demand for energy in the North American marketplace created a pause in order flow from our major customers. The needs of the market for reliable supply supported by a full service have provided the opportunity for us to grow and strengthen the business in the future. Our previously announced capital investment programme for North America has advanced during this period in accordance with our plans. This will include the expansion of our steelcord manufacturing operations during 2008 and the commissioning of a new, state of the art weaving facility in Georgia. Once commissioned, the expansion will increase the product range capability, and provide a more efficient operation.

The first half has seen an outstanding performance from the Australian businesses where the strength of the service support teams has produced an excellent result during the period. The perseverance and diligence of our European management team in the Netherlands has delivered productivity improvements which now represent an extremely firm base from which to achieve further improvements in the future. Our business development programmes in China have continued and the underlying expansion of this market offers significant opportunity for future growth.

The advanced engineered products division has experienced substantial growth during the period, with revenue rising by £9.8m to £62.1m (2006 £52.3m) after adverse currency movements of £3.3m. Operating profit advanced by £1.4m to £7.7m (2006 £6.3m) after incurring £0.6m of currency translation effects.

The precision businesses have seen further growth in industrial and office equipment markets and have delivered a strong trading performance, assisted by the plant extension in North America commissioned during 2006. The drives businesses have delivered sound performances against the backdrop of an unsettled North American industrial market. The specialist hose businesses have benefited from healthy market conditions in the latter part of 2006. The predicted slowdown in early 2007 did not materialise following the transition of its major customers' products to comply with new emissions regulations.

The advanced sealing technologies operations have again outperformed expectations with commendable trading performances arising from the mining, semi-conductor and oil and gas sectors. The acquisition of EGC, whilst diluting operating margins in the short term, presents the opportunity for major growth and sector penetration in the future. This complements our existing well established CDI business in Houston and gives the additional benefit of sector diversification to balance our portfolio in this region.

OUTLOOK

Trading during the initial months of the second half has been good.

In North America, the order flows in our heavyweight conveyor belting operations indicate accelerating demand in addition to strengthening markets for the summer months. Elsewhere, our belting operations are experiencing advantageous trading conditions. This is supported by significant levels of further investment by our major customers. This provides encouragement for the medium to longer term.

Attractive market conditions for the seals business and a combination of efficiency improvements and increased output capability are expected to lead to the usual second half improvement for the advanced engineered products division.

We remain confident of a successful outturn for our 2007 trading year and the prospects for medium to longer term growth are encouraging.

Colin Cooke
Chairman

9 May 2007

Consolidated income statement

for the half year ended 28 February 2007 (unaudited)

	Notes	**Half year ended 28 February 2007 £m**	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Revenue	2	**185.5**	182.0	379.0
Cost of sales		**(130.8)**	(129.7)	(269.8)
Gross profit		**54.7**	52.3	109.2
Distribution costs		**(17.7)**	(17.4)	(36.2)
Administrative expenses		**(21.5)**	(20.6)	(39.3)
Operating profit before amortisation of intangible assets acquired and exceptional items		**16.2**	14.5	34.1
Amortisation of intangible assets acquired		**(0.3)**	(0.2)	(0.4)
Exceptional items	3	**(0.4)**	-	-
Operating profit	2	**15.5**	14.3	33.7
Finance income		**0.5**	0.9	1.6
Finance costs		**(2.6)**	(3.2)	(5.9)
Share of result of associate		**-**	(0.1)	(0.1)
Profit on disposal of joint venture	4	**2.5**	-	-
Profit before taxation		**15.9**	11.9	29.3
Taxation	5	**(4.8)**	(3.5)	(8.7)
Profit for the period		**11.1**	8.4	20.6
Attributable to:				
Equity holders of the parent		**11.1**	8.3	20.4
Minority interests		**-**	0.1	0.2
		11.1	8.4	20.6
Earnings per share				
Basic	7	**7.0p**	5.3p	13.0p
Diluted	7	**7.0p**	5.2p	12.8p

The result for the period derives from continuing operations.

Consolidated balance sheet

at 28 February 2007 (unaudited)

	28 February 2007 £m	28 February 2006 £m	31 August 2006 £m
Non-current assets			
Property, plant and equipment	**77.9**	66.1	68.7
Intangible assets	**68.1**	67.4	65.8
Other investments	**0.6**	0.3	0.6
Deferred tax assets	**15.6**	19.5	15.7
	162.2	153.3	150.8
Current assets			
Inventories	**57.3**	58.1	53.9
Trade and other receivables	**69.2**	71.8	64.0
Current tax assets	**1.0**	0.8	0.6
Cash and cash equivalents	**19.7**	50.2	41.4
Derivative financial instruments	**-**	0.5	0.5
	147.2	181.4	160.4
Total assets	**309.4**	334.7	311.2
Current liabilities			
Borrowings	**(9.0)**	(37.6)	(8.5)
Trade and other payables	**(68.0)**	(67.1)	(67.7)
Current tax liabilities	**(3.6)**	(5.1)	(5.7)
Derivative financial instruments	**(0.7)**	-	(0.6)
	(81.3)	(109.8)	(82.5)
Non-current liabilities			
Borrowings	**(67.1)**	(62.9)	(66.0)
Retirement benefit obligations	**(27.5)**	(40.6)	(29.1)
Provisions	**(5.6)**	(4.8)	(6.5)
Deferred tax liabilities	**(5.1)**	(6.3)	(5.1)
	(105.3)	(114.6)	(106.7)
Total liabilities	**(186.6)**	(224.4)	(189.2)
Net assets	**122.8**	110.3	122.0
Equity			
Share capital	**39.6**	39.2	39.2
Share premium	**51.6**	49.6	49.6
Retained earnings	**33.4**	15.8	33.5
Hedging reserve	**0.3**	-	-
Translation reserve	**(3.9)**	4.0	(2.1)
Other reserve	**1.1**	1.1	1.1
Shareholders' equity	**122.1**	109.7	121.3
Minority interests	**0.7**	0.6	0.7
Total equity	**122.8**	110.3	122.0

Consolidated cash flow statement

for the half year ended 28 February 2007 (unaudited)

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Profit before taxation	**15.9**	11.9	29.3
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	**4.2**	4.2	8.8
Movement in retirement benefit obligations	**(1.4)**	(0.1)	(3.6)
Movement in provisions	**(0.9)**	(0.1)	1.6
Finance income	**(0.5)**	(0.9)	(1.6)
Finance costs	**2.6**	3.2	5.9
Share of result of associate	**-**	0.1	0.1
Profit on disposal of joint venture	**(2.5)**	-	-
Other non-cash movements	**0.5**	0.6	0.1
Operating cash flow before movement in working capital	**17.9**	18.9	40.6
Movement in working capital	**(6.3)**	(11.3)	(2.4)
Net cash from operations	**11.6**	7.6	38.2
Interest received	**0.7**	0.8	1.5
Interest paid	**(3.4)**	(2.8)	(5.9)
Taxation paid	**(7.0)**	(3.7)	(7.5)
Net cash from operating activities	**1.9**	1.9	26.3
Investing activities:			
Purchase of property, plant and equipment	**(13.8)**	(7.7)	(18.6)
Disposal of property, plant and equipment	**-**	-	0.1
Purchase of intangible assets	**(0.3)**	-	(0.2)
Purchase of investments	**-**	-	(0.3)
Acquisition of subsidiary undertakings	**-**	(0.1)	(0.3)
Acquisition of businesses	**(8.8)**	-	(0.2)
Disposal of joint venture	**5.2**	-	-
Net cash used in investing activities	**(17.7)**	(7.8)	(19.5)
Financing activities:			
Equity dividends paid	**(9.5)**	(8.2)	(8.2)
Dividends paid to minority shareholders	**-**	-	(0.1)
Issue of ordinary share capital	**0.5**	0.3	0.3
Minority interest capital introduced	**-**	-	0.1
Loan repayment from associate	**-**	0.1	0.1
Repayment of finance leases	**(0.1)**	(0.1)	(0.2)
Repayment of borrowings	**(3.6)**	(1.3)	(39.8)
New borrowings	**4.9**	12.4	31.6
Net cash (used in)/from financing activities	**(7.8)**	3.2	(16.2)
Net decrease in cash and cash equivalents	**(23.6)**	(2.7)	(9.4)
Cash and cash equivalents at start of period	**41.0**	51.3	51.3
Exchange movements	**1.4**	0.7	(0.9)
Cash and cash equivalents at end of period	**18.8**	49.3	41.0
Cash and cash equivalents comprises:			
Cash and cash equivalents	**19.7**	50.2	41.4
Bank overdrafts	**(0.9)**	(0.9)	(0.4)
	18.8	49.3	41.0

Consolidated statement of recognised income and expense

for the half year ended 28 February 2007 (unaudited)

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Profit for the period	**11.1**	8.4	20.6
Items recognised directly in equity:			
Currency translation differences	**(1.8)**	1.9	(4.3)
Hedge of net investments in foreign currencies	**0.4**	-	0.6
Hedge of interest rate risk	**(0.1)**	-	(0.6)
Actuarial gains on defined benefit pension schemes	**-**	-	7.8
Taxation on items taken directly to equity	**-**	-	(2.0)
Net (expense)/income recognised directly in equity	**(1.5)**	1.9	1.5
Total recognised income and expense for the period	**9.6**	10.3	22.1
Adoption of IAS 32 and IAS 39 on 1 September 2005	**-**	0.1	0.1
	9.6	10.4	22.2
Attributable to:			
Equity holders of the parent	**9.6**	10.2	21.9
Minority interests	**-**	0.1	0.2
Total recognised income and expense for the period	**9.6**	10.3	22.1
Adoption of IAS 32 and IAS 39 on 1 September 2005	**-**	0.1	0.1
	9.6	10.4	22.2

Notes to the interim financial information

1. Basis of preparation

The interim financial information has been prepared on the basis of the accounting policies set out in the Group's Annual Report for 2006 and was approved by the Board of Directors on 9 May 2007. The interim financial information is not audited. The Group has not adopted IAS 34 'Interim Financial Reporting' which is not yet mandatory for UK groups.

The comparative financial information for the year ended 31 August 2006 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It has been extracted from the Group's Annual Report for 2006 which has been filed with the Registrar of Companies. The Annual Report contained an unqualified audit report and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

2. Segment information

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Revenue			
Conveyor belting	**123.4**	129.7	269.5
Advanced engineered products	**62.1**	52.3	109.5
	185.5	182.0	379.0
Operating profit			
Conveyor belting	**7.8**	8.0	20.5
Advanced engineered products	**7.7**	6.3	13.2
	15.5	14.3	33.7

3. Exceptional items

The exceptional charge for the period of £0.4m (2006: £nil) comprised the initial costs relating to the integration of the acquired EGC business and restructuring of the conveyor belting business in North America.

4. Acquisitions and disposals

On 1 October 2006, the Group acquired substantially all of the operating assets and liabilities of EGC, a Houston, Texas, USA based manufacturer of fluoroplastic seals and other related fluoroplastic precision components, from Compagnie Plastic Omnium SA, a company quoted on the Paris Stock Exchange. The cash consideration was US $15.7m which, together with $0.9m of acquisition costs, resulted in total cash flows of $16.6m (£8.8m). The value of net assets acquired was $16.0m. Provisional fair value adjustments to align with Group accounting policies reduced this amount by $2.1m, resulting in goodwill on acquisition of $2.7m.

On 2 January 2007, the Group disposed of its 50% joint venture shareholding 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 South African Rand 82.5m. After deducting cash balances of Rand 11.3m, the net cash flow was Rand 71.2m (£5.2m). This resulted in a profit on disposal of Rand 34.1m (£2.5m).

5. Taxation

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
UK taxation	**(0.1)**	(0.4)	(0.3)
Overseas taxation	**4.9**	3.9	9.0
	4.8	3.5	8.7

The tax charge is calculated based on the estimated effective tax rate for the full year.

6. Dividends

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Dividends paid or approved in the period			
Interim dividend for the year ended 31 August 2006 of 1.975p (2005: 1.975p) per share	**3.1**	2.2	2.2
Final dividend for the year ended 31 August 2006 of 4.025p (2005: 3.85p) per share	**6.4**	6.0	6.0
	9.5	8.2	8.2
Dividends neither paid nor approved in the period			
Interim dividend for the year ended 31 August 2007 of 2.075p (2006: 1.975p) per share	**3.3**	3.1	3.1

The interim dividend for the year ending 31 August 2007 is due for payment on 5 September 2007 and so has not been recognised as a liability at 28 February 2007. It will be paid to shareholders on the register on 3 August 2007.

7. Earnings per share

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Earnings			
Profit for the period attributable to equity holders of the parent	**11.1**	8.3	20.4
Amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture	**(1.8)**	0.2	0.4
Taxation attributable to amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture	**0.4**	-	(0.2)
Profit for the period before amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture	**9.7**	8.5	20.6
	Number	Number	Number
Average number of shares			
Weighted average number of shares in issue	**157,655,351**	156,731,895	156,851,761
Weighted average number of shares held by the Employee Share Ownership Plan Trust	**(131,859)**	(131,859)	(131,859)
Weighted average number of shares in issue - basic	**157,523,492**	156,600,036	156,719,902
Effect of share options and contingent long term incentive plans	**812,820**	1,726,231	2,076,873
Weighted average number of shares in issue - diluted	**158,336,312**	158,326,267	158,796,775
	Pence	Pence	Pence
Earnings per share			
Adjusted - before amortisation of intangible assets acquired, exceptional items and profit on disposal of joint venture	**6.2**	5.4	13.1
Basic	**7.0**	5.3	13.0
Diluted	**7.0**	5.2	12.8

Notes to the interim financial information continued

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

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Net decrease in cash and cash equivalents	**(23.6)**	(2.7)	(9.4)
(Increase)/decrease in borrowings and finance leases resulting from cash flows	**(1.2)**	(11.0)	8.4
Movement in net debt resulting from cash flows	**(24.8)**	(13.7)	(1.0)
New finance leases	**-**	-	(0.1)
Exchange movements	**1.5**	(2.1)	2.5
Movement in net debt in the period	**(23.3)**	(15.8)	1.4
Net debt at start of period	**(33.1)**	(34.5)	(34.5)
Net debt at end of period	**(56.4)**	(50.3)	(33.1)

9. Reconciliation of movement in shareholders' equity

	Half year ended 28 February 2007 £m	Half year ended 28 February 2006 £m	Year ended 31 August 2006 £m
Total recognised income and expense for the period	**9.6**	10.2	21.9
Adoption of IAS 32 and IAS 39 on 1 September 2005	**-**	0.1	0.1
Equity dividends paid	**(9.5)**	(8.2)	(8.2)
Shares issued in the period	**0.5**	0.6	0.3
Share-based payments	**0.2**	0.1	0.3
Movement in shareholders' equity in the period	**0.8**	2.8	14.4
Shareholders' equity at start of period	**121.3**	106.9	106.9
Shareholders' equity at end of period	**122.1**	109.7	121.3

10. Contingencies

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, the 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 is being given in order to clarify and expedite the process.

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