Fenner
Inspiring solutions

Half Yearly Financial Report
2013

Financial highlights

Half year ended	28 February 2013	29 February 2012	
Revenue	**£391.3m**	£412.0m	- 5%
Underlying operating profit 1	**£43.3m**	£55.7m	- 22%
Operating profit	**£35.5m**	£50.2m	- 29%
Underlying profit before taxation 2	**£35.8m**	£48.1m	- 26%
Profit before taxation	**£26.9m**	£41.7m	- 35%
Underlying earnings per share 2 3	**11.9p**	17.1p	- 30%
Basic earnings per share	**8.8p**	14.8p	- 41%
Dividend per share	**3.75p**	3.5p	+ 7%
Return on sales 4	**11.1%**	13.5%	- 2.4pts
Return on gross capital employed 5	**19%**	23%	- 4pts

1 Underlying operating profit is before amortisation of intangible assets acquired.

2 Underlying profit before taxation and underlying earnings per share are before amortisation of intangible assets acquired and notional interest.

3 Underlying earnings per share is based on the basic weighted average number of shares in issue.

4 Return on sales is underlying operating profit divided by revenue.

5 Return on gross capital employed is underlying operating profit divided by gross capital employed. Underlying operating profit is calculated on a rolling 12 month basis. Gross capital employed is the average of the opening and closing non-current assets (excluding deferred tax and derivative financial assets), inventories, trade and other receivables and trade and other payables over the 12 month period.

Interim management report

Fenner has delivered robust half year results in a challenging operating environment. While, as anticipated, results are below the comparable record performance last year, the first half saw further progress towards our strategic objectives and encouraging evidence of improvement in most of our markets.

Operations

The trading environment in both the Engineered Conveyor Solutions ("ECS") and Advanced Engineered Products ("AEP") divisions provided challenges given world economic and country specific headwinds faced by our core businesses.

Following the uncharacteristically low demand levels reported in the second half of calendar year 2012, our ECS business in North America has seen improving order levels, which will be converted into growing revenues in our second half and beyond. This recovery reflects, inter alia, strengthening natural gas prices and reducing gas stock levels, as our US market returns to more normal business dynamics.

In Australia, our business experienced strong trading during the first quarter followed by a more challenging environment as a result of lower iron ore and coal prices. Although the former are recovering from their lows of 2012, volume and margin pressures will continue in the second half as a result of the normal lag effect. However, we are encouraged by signs that our ECS strategy is increasingly recognised as bringing value to our customers.

In November 2012, Australian Conveyor Engineering was acquired. This operation specialises in the design, manufacture, installation and maintenance of conveying equipment for mining. The operation has performed well in the short time since completion.

Elsewhere in the ECS division, trading has been strong and excellent progress has been achieved in expanding our product offering and strategic development of our presence in the emerging markets of Latin America and Africa.

Our AEP division experienced a quiet start to the year, following some channel de-stocking. The impact on the division’s results was largely offset by the progress made in new applications and emerging markets and the performance of acquired businesses. Signs of a recovery were evident in the latter months of the second quarter and activity levels are continuing to improve.

In September 2012, the AEP division acquired three businesses. American Industrial Plastics complements our existing capabilities and provides specialist expertise in precision machining of polymers. Norwegian Seals expands our presence in oil and gas to the subsea sector. Mandals, which produces lay-flat hoses, provides high value added solutions to customers' needs in fluid handling markets such as unconventional oil and gas development.

The acquired businesses are performing well and their contribution to the Group’s results in the initial months of ownership has been ahead of our expectations.

Revenue and profits

Revenue for the period was £391.3m (2012: £412.0m). On a constant currency basis and excluding the effect of businesses acquired during the period, revenue reduced by 10%.

Reported revenue in the ECS division was £265.7m (2012: £295.0m) and in the AEP division was £125.6m (2012: £117.0m).

Underlying operating profit amounted to £43.3m (2012: £55.7m). At constant currencies and excluding acquisitions, the reduction was 30%.

Underlying operating profit in the ECS division amounted to £28.6m (2012: £39.8m) and in the AEP division was £19.1m (2012: £20.5m). The adverse effect on the Group's underlying operating profit of exchange rate translation amounted to £1.0m.

Operating profit amounted to £35.5m (2012: £50.2m) after charging amortisation of intangible assets acquired of £7.8m (2012: £5.5m).

Net finance costs were £8.6m (2012: £8.5m) which included a non-cash notional charge of £1.1m (2012: £0.9m). EBITDA interest cover, on a 12 month rolling basis, remained high on a multiple of 8.6 times (2012: 9.8 times).

Underlying profit before taxation was £35.8m (2012: £48.1m) and profit before taxation was £26.9m (2012: £41.7m). The average tax rate for the period was 28% (2012: 28%).

Underlying earnings per share amounted to 11.9p (2012: 17.1p) and basic earnings per share was 8.8p (2012: 14.8p).

Cash resources

Net cash generated from operating activities was £24.0m (2012: £31.3m) after absorbing an increase in working capital of £14.6m due to seasonality. Net capital expenditure of £13.2m (2012: £14.5m), which was 1.2 times the depreciation charge, reflected our strategic investment plan to support future growth. Free cash inflow amounted to £3.7m (2012: £12.7m).

The funding of acquisitions of £61.3m (2012: £27.8m) comprised current year acquisition cash payments of £52.1m and acquired borrowings of £3.6m together with contingent and deferred payments on prior year acquisitions of £5.6m.

After total dividends paid of £8.4m (2012: £6.3m), new finance leases of £0.9m (2012: £nil) and adverse exchange rate movements of £6.9m (2012: £3.6m), closing net debt rose to £171.5m (2012: £126.8m).

The net debt to EBITDA ratio, on a 12 month rolling basis, remained strong, at 1.3 times (2012: 1.0 times), despite the spend in the half year relating to acquisitions.

Dividends

Reflecting our confidence in the Group's earnings prospects, a 7% increase in the interim dividend to 3.75p per share (2012: 3.5p) is declared and will be paid on 6 September 2013 to shareholders on the register on 2 August 2013.

Board

David Buttfield retired from the Board at the Annual General Meeting in January 2013 after serving 10 years. We thank David for his excellent contribution.

Outlook

We remain mindful of the continuing global economic uncertainty and ongoing pressures in our Australian business. We expect that our accelerating trading momentum elsewhere in the business will result in a heavier than normal performance weighting this year towards the second half and we are confident of a return to growth in our 2013/2014 financial year.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group remain those set out in the 2012 Annual Report. Those which are most likely to impact the performance of the Group in the remaining months of the financial year are as set out below.

Due to the global nature of the Group, a large proportion of its revenue is derived from overseas, of which a significant amount is generated in the USA and Australia. As a consequence, the Group could be affected by changes in global and country specific economic or business conditions and movements in exchange rates, particularly in those territories.

Certain statements in this report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. As these statements include risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

In this report, financial performance measures described as “underlying” are before amortisation of intangible assets acquired and, where applicable, notional interest. Underlying earnings per share is based on the basic weighted average number of shares in issue.

Consolidated income statement
for the half year ended 28 February 2013 (unaudited)

	Notes	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Revenue		**391.3**	412.0	830.6
Cost of sales		**(270.4)**	(280.9)	(557.9)
Gross profit		**120.9**	131.1	272.7
Distribution costs		**(29.3)**	(29.8)	(64.7)
Administrative expenses		**(56.1)**	(51.1)	(100.4)
Operating profit before amortisation of intangible assets acquired		**43.3**	55.7	118.8
Amortisation of intangible assets acquired		**(7.8)**	(5.5)	(11.2)
Operating profit		**35.5**	50.2	107.6
Finance income	4	**0.4**	1.8	0.7
Finance costs	5	**(9.0)**	(10.3)	(19.7)
Profit before taxation		**26.9**	41.7	88.6
Taxation	6	**(7.5)**	(11.5)	(26.2)
Profit for the period		**19.4**	30.2	62.4
Attributable to:				
Owners of the parent		**17.0**	28.5	58.6
Non-controlling interests		**2.4**	1.7	3.8
		19.4	30.2	62.4
Earnings per share				
Basic	8	**8.8p**	14.8p	30.3p
Diluted	8	**8.8p**	14.7p	30.2p

Consolidated statement of comprehensive income

for the half year ended 28 February 2013 (unaudited)

	Notes	**Half year ended 28 February 2013 £m**	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Profit for the period		**19.4**	30.2	62.4
Other comprehensive income:				
Currency translation differences		**15.4**	2.8	(3.2)
Hedge of net investments in foreign currencies		**(0.3)**	(0.2)	-
Cash flow hedges		**2.4**	0.4	(0.2)
Net investment hedges		**(2.7)**	1.0	3.2
Actuarial gains/(losses) on defined benefit post-retirement schemes	11	**11.9**	(10.5)	(21.1)
Tax on other comprehensive income		**(2.8)**	1.4	3.9
Total other comprehensive income for the period		**23.9**	(5.1)	(17.4)
Comprehensive income for the period		**43.3**	25.1	45.0
Attributable to:				
Owners of the parent		**40.3**	23.0	41.4
Non-controlling interests		**3.0**	2.1	3.6
		43.3	25.1	45.0

Consolidated balance sheet
at 28 February 2013 (unaudited)

	Notes	28 February 2013 £m	29 February 2012 £m	31 August 2012 £m
Non-current assets				
Property, plant and equipment	9	**233.4**	215.1	215.4
Intangible assets	10	**292.4**	229.8	221.4
Other investments		**0.1**	0.1	-
Deferred tax assets		**19.2**	19.4	20.9
Derivative financial assets		**6.9**	5.1	4.5
		552.0	469.5	462.2
Current assets				
Inventories		**104.9**	109.2	105.6
Trade and other receivables		**141.9**	131.6	120.6
Current tax assets		**2.1**	0.6	0.5
Derivative financial assets		**0.9**	0.2	0.5
Cash and cash equivalents	13	**68.5**	86.1	108.7
		318.3	327.7	335.9
Total assets		**870.3**	797.2	798.1
Current liabilities				
Borrowings	13	**(46.6)**	(22.6)	(11.0)
Trade and other payables		**(154.2)**	(161.7)	(147.4)
Current tax liabilities		**(11.4)**	(10.4)	(13.6)
Derivative financial liabilities		**(1.0)**	(0.3)	-
Provisions	12	**(10.2)**	(12.2)	(9.4)
		(223.4)	(207.2)	(181.4)
Non-current liabilities				
Borrowings	13	**(193.4)**	(190.3)	(195.4)
Trade and other payables		**(1.6)**	(1.0)	(2.0)
Retirement benefit obligations	11	**(34.5)**	(39.8)	(48.2)
Provisions	12	**(41.3)**	(32.6)	(28.8)
Deferred tax liabilities		**(17.0)**	(9.4)	(8.1)
Derivative financial liabilities		**(8.0)**	(6.6)	(5.2)
		(295.8)	(279.7)	(287.7)
Total liabilities		**(519.2)**	(486.9)	(469.1)
Net assets		**351.1**	310.3	329.0
Equity				
Share capital		**48.5**	48.4	48.4
Share premium		**51.7**	51.7	51.7
Retained earnings		**113.9**	82.7	107.8
Exchange reserve		**53.8**	44.4	39.0
Hedging reserve		**(0.7)**	(1.7)	(0.2)
Merger reserve		**65.9**	65.9	65.9
Shareholders' equity		**333.1**	291.4	312.6
Non-controlling interests		**18.0**	18.9	16.4
Total equity		**351.1**	310.3	329.0

Consolidated cash flow statement
for the half year ended 28 February 2013 (unaudited)

	Notes	**Half year ended 28 February 2013 £m**	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Profit before taxation		**26.9**	41.7	88.6
Adjustments for:				
Depreciation of property, plant and equipment and amortisation of intangible assets		**19.0**	15.4	31.4
Impairment of goodwill		**-**	1.8	1.8
Release of deferred consideration on acquisitions		**-**	(1.7)	(1.7)
Movement in retirement benefit obligations		**(2.7)**	(2.4)	(4.2)
Movement in provisions		**(0.3)**	0.4	(0.3)
Finance income		**(0.4)**	(1.8)	(0.7)
Finance costs		**9.0**	10.3	19.7
Other non-cash movements		**1.2**	0.3	0.8
Operating cash flow before movement in working capital		**52.7**	64.0	135.4
Movement in inventories		**13.5**	(2.6)	(0.5)
Movement in trade and other receivables		**(4.2)**	(9.8)	(0.8)
Movement in trade and other payables		**(23.9)**	(8.2)	(7.0)
Net cash from operations		**38.1**	43.4	127.1
Taxation paid		**(14.1)**	(12.1)	(23.5)
Net cash from operating activities		**24.0**	31.3	103.6
Investing activities:				
Purchase of property, plant and equipment		**(12.4)**	(12.8)	(26.4)
Disposal of property, plant and equipment		**0.1**	0.1	0.4
Purchase of intangible assets		**(0.9)**	(1.8)	(2.5)
Disposal of intangible assets		**-**	-	0.2
Acquisition of businesses	14	**(57.7)**	(27.8)	(34.3)
Interest received		**0.4**	1.8	0.5
Net cash used in investing activities		**(70.5)**	(40.5)	(62.1)
Financing activities:				
Dividends paid to Company's shareholders	7	**(6.8)**	(5.1)	(15.4)
Dividends paid to non-controlling interests		**(1.6)**	(1.2)	(2.6)
Interest paid		**(7.5)**	(5.9)	(12.8)
Repayment of borrowings		**(3.9)**	(4.5)	(17.6)
New borrowings		**23.3**	6.9	11.1
Net cash from/(used in) financing activities		**3.5**	(9.8)	(37.3)
Net (decrease)/increase in cash and cash equivalents		**(43.0)**	(19.0)	4.2
Cash and cash equivalents at 1 September 2012		**108.7**	104.3	104.3
Exchange movements		**2.5**	0.6	0.2
Cash and cash equivalents at 28 February 2013		**68.2**	85.9	108.7
Cash and cash equivalents comprises:				
Cash and cash equivalents		**68.5**	86.1	108.7
Bank overdrafts		**(0.3)**	(0.2)	-
		68.2	85.9	108.7

Consolidated statement of changes in equity

for the half year ended 28 February 2013 (unaudited)

	Attributable to owners of the parent								
	Share capital £m	Share premium £m	Retained earnings £m	Exchange reserve £m	Hedging reserve £m	Merger reserve £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 September 2011	48.2	51.7	78.2	42.0	(2.5)	65.9	283.5	18.0	301.5
Profit for the period	-	-	28.5	-	-	-	28.5	1.7	30.2
Other comprehensive income:									
Currency translation differences	-	-	-	2.4	-	-	2.4	0.4	2.8
Hedge of net investments in foreign currencies	-	-	-	-	(0.2)	-	(0.2)	-	(0.2)
Cash flow hedges	-	-	-	-	0.4	-	0.4	-	0.4
Net investment hedges	-	-	-	-	1.0	-	1.0	-	1.0
Actuarial losses on defined benefit post-retirement schemes	-	-	(10.5)	-	-	-	(10.5)	-	(10.5)
Tax on other comprehensive income	-	-	1.8	-	(0.4)	-	1.4	-	1.4
Total other comprehensive income	-	-	(8.7)	2.4	0.8	-	(5.5)	0.4	(5.1)
Transactions with owners:									
Dividends paid/approved in the period	-	-	(15.4)	-	-	-	(15.4)	(1.2)	(16.6)
Shares issued in the period	0.2	-	(0.2)	-	-	-	-	-	-
Share-based payments	-	-	0.5	-	-	-	0.5	-	0.5
Acquisition of businesses	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Total transactions with owners	0.2	-	(15.3)	-	-	-	(15.1)	(1.2)	(16.3)
At 29 February 2012	48.4	51.7	82.7	44.4	(1.7)	65.9	291.4	18.9	310.3
Profit for the period	-	-	30.1	-	-	-	30.1	2.1	32.2
Other comprehensive income:									
Currency translation differences	-	-	-	(5.4)	-	-	(5.4)	(0.6)	(6.0)
Hedge of net investments in foreign currencies	-	-	-	-	0.2	-	0.2	-	0.2
Cash flow hedges	-	-	-	-	(0.6)	-	(0.6)	-	(0.6)
Net investment hedges	-	-	-	-	2.2	-	2.2	-	2.2
Actuarial losses on defined benefit post-retirement schemes	-	-	(10.6)	-	-	-	(10.6)	-	(10.6)
Tax on other comprehensive income	-	-	2.8	-	(0.3)	-	2.5	-	2.5
Total other comprehensive income	-	-	(7.8)	(5.4)	1.5	-	(11.7)	(0.6)	(12.3)
Transactions with owners:									
Dividends paid in the period	-	-	-	-	-	-	-	(1.4)	(1.4)
Share-based payments	-	-	0.4	-	-	-	0.4	-	0.4
Acquisition of businesses	-	-	1.8	-	-	-	1.8	(1.8)	-
Tax on transactions with owners	-	-	0.6	-	-	-	0.6	-	0.6
Transfer of non-controlling interest to borrowings	-	-	-	-	-	-	-	(0.8)	(0.8)
Total transactions with owners	-	-	2.8	-	-	-	2.8	(4.0)	(1.2)
At 1 September 2012	**48.4**	**51.7**	**107.8**	**39.0**	**(0.2)**	**65.9**	**312.6**	**16.4**	**329.0**
Profit for the period	**-**	**-**	**17.0**	**-**	**-**	**-**	**17.0**	**2.4**	**19.4**
Other comprehensive income:									
Currency translation differences	**-**	**-**	**-**	**14.8**	**-**	**-**	**14.8**	**0.6**	**15.4**
Hedge of net investments in foreign currencies	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**	**-**	**(0.3)**
Cash flow hedges	**-**	**-**	**-**	**-**	**2.4**	**-**	**2.4**	**-**	**2.4**
Net investment hedges	**-**	**-**	**-**	**-**	**(2.7)**	**-**	**(2.7)**	**-**	**(2.7)**
Actuarial gains on defined benefit post-retirement schemes	**-**	**-**	**11.9**	**-**	**-**	**-**	**11.9**	**-**	**11.9**
Tax on other comprehensive income	**-**	**-**	**(2.9)**	**-**	**0.1**	**-**	**(2.8)**	**-**	**(2.8)**
Total other comprehensive income	**-**	**-**	**9.0**	**14.8**	**(0.5)**	**-**	**23.3**	**0.6**	**23.9**
Transactions with owners:									
Dividends paid/approved in the period	**-**	**-**	**(20.3)**	**-**	**-**	**-**	**(20.3)**	**(1.6)**	**(21.9)**
Shares issued in the period	**0.1**	**-**	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**0.5**	**-**	**-**	**-**	**0.5**	**-**	**0.5**
Capitalisation of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Total transactions with owners	**0.1**	**-**	**(19.9)**	**-**	**-**	**-**	**(19.8)**	**(1.4)**	**(21.2)**
At 28 February 2013	**48.5**	**51.7**	**113.9**	**53.8**	**(0.7)**	**65.9**	**333.1**	**18.0**	**351.1**

Notes to the half yearly financial statements

1. Basis of preparation

These condensed half yearly financial statements for the half year ended 28 February 2013 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules of the Financial Services Authority. They should be read in conjunction with the Group's financial statements for the year ended 31 August 2012.

The directors consider that there is a reasonable expectation that the Group has 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 half yearly financial statements. In forming this view, the directors have reviewed the Group's cash flow projections against availability of financing.

The comparative financial information for the year ended 31 August 2012 does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. It has been extracted from the Group's financial statements for 2012 which have been filed with the Registrar of Companies. They contained an unqualified audit report and did not contain a statement under Section 498 of the Companies Act 2006.

These condensed half yearly financial statements were approved by the Board of Directors on 24 April 2013.

2. Accounting policies

The accounting policies adopted are consistent with those applied in the preparation of the Group's financial statements for the year ended 31 August 2012 except for the following standards which have been adopted for the first time for the year ending 31 August 2013:

- Amendment to IAS 1 'Presentation of Financial Statements'
- Amendment to IAS 12 'Income taxes'

Neither of these standards has had a significant impact on the results or net assets of the Group.

3. Segment information

IFRS 8 'Operating Segments' requires segment information to be presented on the same basis as that used for internal management reporting.

For the purposes of managing the business, the Group is organised into two reportable segments: Engineered Conveyor Solutions and Advanced Engineered Products.

Engineered Conveyor Solutions	Manufacture of rubber ply, solid woven and steel cord conveyor belting for mining, power generation and industrial applications with complementary service operations which design, install, monitor, maintain and operate conveyor systems for mining customers
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 - lay-flat hoses for firefighting, agriculture, water and gas industries - seals and sealing solutions for the fluid power and oil and gas industries - technical textiles for medical and industrial applications and silicone based products for medical applications - rollers for digital image processing and medical diagnostics - fluropolymer components for fluid, oil and gas handling and medical applications

Operating segments within these reportable segments have been aggregated where they have similar economic characteristics with similar products and services, production processes, methods of distribution and customer types.

The Chief Operating Decision Maker ("CODM") for the purpose of IFRS 8 is the Board of Directors. The financial position of the segments is reported to the CODM on a monthly basis and this information is used to assess the performance of the Group and to allocate resources on an appropriate basis.

Segment performance is reviewed down to the operating profit level. Financing costs and taxation are managed on a Group basis so these costs are not allocated to operating segments.

Transfer prices on inter-segment revenues are on an arm's length basis in a manner similar to transactions with third parties.

3. Segment information (continued)

Segment results are analysed as follows:

	Half year ended 28 February 2013			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total segment revenue	**265.7**	**126.3**	**-**	**392.0**
Inter-segment revenue	**-**	**(0.7)**	**-**	**(0.7)**
Revenue from external customers	**265.7**	**125.6**	**-**	**391.3**
Operating profit before amortisation of intangible assets acquired	**28.6**	**19.1**	**(4.4)**	**43.3**
Amortisation of intangible assets acquired	**(4.0)**	**(3.8)**	**-**	**(7.8)**
Operating profit	**24.6**	**15.3**	**(4.4)**	**35.5**
Net finance costs				**(8.6)**
Taxation				**(7.5)**
Profit for the period				**19.4**

	Half year ended 29 February 2012			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total segment revenue	295.0	118.4	-	413.4
Inter-segment revenue	-	(1.4)	-	(1.4)
Revenue from external customers	295.0	117.0	-	412.0
Operating profit before amortisation of intangible assets acquired	39.8	20.5	(4.6)	55.7
Amortisation of intangible assets acquired	(3.4)	(2.1)	-	(5.5)
Operating profit	36.4	18.4	(4.6)	50.2
Net finance costs				(8.5)
Taxation				(11.5)
Profit for the period				30.2

	Year ended 31 August 2012			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total segment revenue	593.4	239.6	-	833.0
Inter-segment revenue	-	(2.4)	-	(2.4)
Revenue from external customers	593.4	237.2	-	830.6
Operating profit before amortisation of intangible assets acquired	84.4	43.6	(9.2)	118.8
Amortisation of intangible assets acquired	(7.1)	(4.1)	-	(11.2)
Operating profit	77.3	39.5	(9.2)	107.6
Net finance costs				(19.0)
Taxation				(26.2)
Profit for the period				62.4

3. Segment information (continued)

Segment assets and liabilities are analysed as follows:

	28 February 2013			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total assets	**570.8**	**281.3**	**18.2**	**870.3**
Total liabilities	**(191.1)**	**(64.5)**	**(263.6)**	**(519.2)**
Net assets	**379.7**	**216.8**	**(245.4)**	**351.1**

	29 February 2012			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total assets	540.6	236.8	19.8	797.2
Total liabilities	(191.0)	(51.3)	(244.6)	(486.9)
Net assets	349.6	185.5	(224.8)	310.3

	31 August 2012			
	Engineered Conveyor Solutions £m	Advanced Engineered Products £m	Unallocated Corporate £m	Total £m
Total assets	536.5	240.6	21.0	798.1
Total liabilities	(188.5)	(46.8)	(233.8)	(469.1)
Net assets	348.0	193.8	(212.8)	329.0

4. Finance income

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Bank interest receivable	**0.4**	1.8	0.7

5. Finance costs

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Interest payable on bank overdrafts and loans	**2.7**	3.7	4.6
Interest payable on other loans	**5.2**	5.7	11.0
Interest payable	**7.9**	9.4	15.6
Interest on defined benefit post-retirement schemes	**-**	0.2	0.4
Interest on the unwinding of discount on provisions	**1.0**	0.7	1.5
Finance charge on redemption liability	**0.1**	-	1.7
Finance charge on other loans	**-**	-	0.5
Notional interest	**1.1**	0.9	4.1
Total finance costs	**9.0**	10.3	19.7

6. Taxation

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
UK taxation	**0.6**	0.8	1.7
Overseas taxation	**6.9**	10.7	24.5
	7.5	11.5	26.2

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

7. Dividends

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Dividends paid or approved in the period			
Interim dividend for the year ended 31 August 2012 of 3.5p (2011: 2.65p) per share	**6.8**	5.1	5.1
Final dividend for the year ended 31 August 2012 of 7.0p (2011: 5.35p) per share	**13.5**	10.3	10.3
	20.3	15.4	15.4
Dividends neither paid nor approved in the period			
Interim dividend for the year ended 31 August 2013 of 3.75p (2012: 3.5p) per share	**7.3**	6.8	6.8

The interim dividend for the year ended 31 August 2012 was paid on 5 September 2012. The final dividend for the year ended 31 August 2012 was approved by shareholders at the Annual General Meeting on 16 January 2013 and was paid on 4 March 2013. The interim dividend for the year ending 31 August 2013 is due for payment on 6 September 2013 and so has not been recognised as a liability at 28 February 2013. It will be paid to shareholders on the register on 2 August 2013.

8. Earnings per share

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Earnings			
Profit for the period attributable to owners of the parent	**17.0**	28.5	58.6
Amortisation of intangible assets acquired	**7.8**	5.5	11.2
Notional interest	**1.1**	0.9	4.1
Taxation attributable to amortisation of intangible assets acquired and notional interest	**(2.9)**	(1.8)	(4.2)
Profit for the period before amortisation of intangible assets acquired and notional interest	**23.0**	33.1	69.7

	number	number	number
Average number of shares			
Weighted average number of shares in issue	**193,662,072**	193,142,475	193,281,396
Weighted average number of shares held by the Employee Share Ownership Plan Trust	**(114,177)**	(114,177)	(114,177)
Weighted average number of shares in issue - Basic	**193,547,895**	193,028,298	193,167,219
Effect of share options and contingent long term incentive plans	**675,077**	1,377,612	1,128,734
Weighted average number of shares in issue - Diluted	**194,222,972**	194,405,910	194,295,953

	pence	pence	pence
Earnings per share			
Underlying - Basic (before amortisation of intangible assets acquired and notional interest)	**11.9**	17.1	36.1
Underlying - Diluted (before amortisation of intangible assets acquired and notional interest)	**11.8**	17.0	35.9
Basic	**8.8**	14.8	30.3
Diluted	**8.8**	14.7	30.2

9. Property, plant and equipment

The increase in property, plant and equipment in the period of £18.0m comprises additions of £13.3m, acquisition of businesses of £5.9m and exchange movements of £9.7m less depreciation of £10.7m and disposals of £0.2m.

10. Intangible assets

The increase in intangible assets in the period of £71.0m comprises acquisition of businesses of £67.3m, additions of £0.9m and exchange movements of £11.1m less amortisation of £8.3m.

11. 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 is 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. This defined benefit plan is closed to new members. The most recent triennial valuation of the Fenner Pension Scheme was on 31 March 2011.

The principal financial assumptions used for the Fenner Pension Scheme compared to the 2012 year end are as follows:

	28 February 2013	31 August 2012
Discount rate	**4.3%**	4.0%
RPI inflation rate	**3.2%**	2.5%
CPI inflation rate	**2.7%**	2.0%
Salary increases	**4.2%**	3.5%
RPI pension increases (capped at 5.0%)	**3.0%**	2.5%
RPI pension increases (capped at 2.5%)	**2.0%**	1.8%
CPI pension increases (capped at 3.0%)	**2.1%**	1.8%

The decrease in retirement benefit obligations in the period of £13.7m comprises actuarial gains of £11.9m and employer contributions of £3.7m less service costs of £1.0m and exchange movements of £0.9m. The actuarial gains comprise £12.7m due to higher than expected investment returns on the Scheme's assets, partially offset by a £0.8m loss on change of assumptions.

12. Provisions

Provisions comprise current provisions of £10.2m (2012 year end: £9.4m) and non-current provisions of £41.3m (2012 year end: £28.8m). The overall increase in the period of £13.3m comprises deferred consideration on acquisitions in the period of £16.1m, notional interest of £1.1m and exchange movements of £2.0m less payments of deferred consideration on prior year acquisitions of £5.6m and utilisation of other provisions of £0.3m.

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

	Half year ended 28 February 2013 £m	Half year ended 29 February 2012 £m	Year ended 31 August 2012 £m
Net (decrease)/increase in cash and cash equivalents	**(43.0)**	(19.0)	4.2
(Increase)/decrease in borrowings resulting from cash flows	**(19.4)**	(2.4)	6.5
Movement in net debt resulting from cash flows	**(62.4)**	(21.4)	10.7
Loans and finance leases on acquisition of businesses	**(3.6)**	-	-
New finance leases	**(0.9)**	-	(0.6)
Transfer of non-controlling interest from equity	**-**	-	(0.8)
Notional finance charge on other loans	**-**	-	(0.5)
Exchange movements	**(6.9)**	(3.6)	(4.7)
Movement in net debt in the period	**(73.8)**	(25.0)	4.1
Net debt at 1 September 2012	**(97.7)**	(101.8)	(101.8)
Net debt at 28 February 2013	**(171.5)**	(126.8)	(97.7)

Net debt is analysed as follows:

	28 February 2013 £m	29 February 2012 £m	31 August 2012 £m
Cash and cash equivalents	**68.5**	86.1	108.7
Current borrowings	**(46.6)**	(22.6)	(11.0)
Non-current borrowings	**(193.4)**	(190.3)	(195.4)
	(171.5)	(126.8)	(97.7)

14. Acquisitions

On 1 September 2012, the Group completed the acquisition of substantially all of the assets and liabilities of American Industrial Plastics, Inc (“AIP”), a privately owned company based in Florida, USA. AIP is a precision machining company with the ability to machine advanced polymers for application in the oil and gas and medical markets as well as manufacturing performance precision components for a range of niche applications including aerospace. It has become part of the FAST operation. The initial cash consideration was £16.6m with contingent deferred amounts estimated at £5.8m.

On 3 September 2012, the Group completed the acquisition of 100% of the share capital of Norwegian Seals, a privately owned group of companies with operations in Norway and the UK. Norwegian Seals manufactures and distributes performance-critical seals into the oil and gas market, with particular emphasis on subsea, well head and down-hole applications. This strategic acquisition will allow the FAST operation to exploit the North Sea market and enhance Norwegian Seals' ability to build its growing industry reputation and presence. The initial cash consideration was £11.5m with deferred amounts estimated at £3.8m.

On 3 September 2012, the Group completed the acquisition of 100% of the share capital of Mandals, a privately owned group of companies based in Norway and Sweden. Mandals is a manufacturer of innovative lay-flat and speciality hoses for use in demanding applications and of circular looms for the manufacture of the woven fabric used in the production of hoses. It is an acknowledged market leader in its industry, with products sold around the world. The acquisition builds on the expertise of the AEP division, providing performance-critical applications to the agricultural, infrastructure, potable water and oil and gas markets. The cash consideration was £14.1m.

On 30 November 2012, the Group completed the acquisition of 100% of the share capital of Australian Conveyor Engineering Pty Ltd ("ACE"), based in New South Wales, Australia. ACE specialises in supplying engineered conveyor solutions for the design, manufacture and installation of high capacity conveyor systems for both surface and underground mining, with the capability to take projects from the initial concept to the commissioned conveyor system. The acquisition furthers Fenner Dunlop's strategy of being the supplier of choice for engineered conveyor solutions in Australia, offering mining customers integrated solutions for improving the safety and total cost of materials handling. The initial cash consideration was £15.1m, with contingent deferred amounts estimated at £6.5m.

Details of the provisional aggregate assets and liabilities acquired, based on exchange rates at the dates of completion, are given below.

	Current year acquisitions	Prior year acquisitions	Total
	Provisional fair value £m	Deferred consideration £m	Provisional fair value £m
Property, plant and equipment	5.9	-	5.9
Goodwill	24.2	-	24.2
Intangible assets acquired:			
- customer relationships	35.8	-	35.8
- non-compete agreements	5.2	-	5.2
- brands and trademarks	2.1	-	2.1
Inventories	6.9	-	6.9
Trade and other receivables	11.3	-	11.3
Cash and cash equivalents	5.2	-	5.2
Bank loans	(1.5)	-	(1.5)
Finance leases	(2.1)	-	(2.1)
Trade and other payables	(9.4)	-	(9.4)
Current taxation	(2.1)	-	(2.1)
Deferred taxation	(8.1)	-	(8.1)
Total net assets	73.4	-	73.4
Consideration:			
Cash consideration	57.3	5.6	62.9
Contingent and deferred consideration held as provisions	16.1	(5.6)	10.5
	73.4	-	73.4

The effect on the cash flow statement and net debt is as follows:

Cash consideration	57.3	5.6	62.9
Cash and cash equivalents acquired	(5.2)	-	(5.2)
Cash paid per cash flow statement	52.1	5.6	57.7
Loans and finance leases acquired	3.6	-	3.6
Increase in net debt	55.7	5.6	61.3

14. Acquisitions (continued)

Current year acquisitions have been presented in aggregate because, after review against a number of materiality measures, none of the acquisitions are considered to be individually material.

Provisional fair values of assets and liabilities represent the best estimate of the fair values at the dates of acquisition. As permitted by IFRS 3 (Revised) 'Business Combinations', these provisional amounts can be amended for a period of up to 12 months following acquisition if subsequent information becomes available which changes the estimates of fair values at the dates of acquisition.

Goodwill arising on acquisition principally represents the workforce and anticipated synergies gained through the acquisitions. Goodwill in respect of the acquisition of AIP is deductible for tax purposes. Goodwill in respect of the acquisitions of Norwegian Seals, Mandals and ACE are not deductible for tax purposes.

Where material, deferred consideration has been discounted using suitable risk free, pre-tax rates based on borrowings that match the maturity of the consideration being discounted.

From the dates of acquisition, the current year acquisitions contributed £27.5m to Group revenue, £5.2m to Group operating profit before amortisation of intangible assets acquired and £3.1m to Group operating profit.

If all of the acquisitions had occurred on 1 September 2012, it is estimated that Group revenue would have been £398.5m, Group operating profit before amortisation of intangible assets acquired would have been £44.0m and Group operating profit would have been £35.9m. These amounts have been calculated by adjusting the results of the acquired businesses to reflect the effect of the Group's accounting policies as if they had been in effect from 1 September 2012.

15. 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, the majority of which are in North America. The directors believe that the likelihood of a material liability arising from these cases is remote.

16. Related party transactions

Other than the remuneration of executive and non-executive directors and members of the Executive Committee, there were no related party transactions during the period.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed half yearly financial statements contained in this document have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union;

- the Interim management report contained in this document includes a fair review of the information required by the Disclosure and Transparency Rules of the Financial Services Authority: paragraph DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and paragraph DTR 4.2.8R (disclosure of related party transactions and changes therein).

The directors of Fenner PLC and their respective responsibilities are as listed in the Annual Report for 2012 except for David Buttfield, who resigned from the Board on 16 January 2013.

By order of the Board

Mark Abrahams	Richard Perry
Chairman	Group Finance Director
24 April 2013	24 April 2013

FENNER PLC
Hesslewood Country Office Park
Ferriby Road, Hessle
East Yorkshire
HU13 0PW
United Kingdom

CONTACT
Tel: +44 (0)1482 626 500
Fax: +44 (0)1482 626 502

Registered Number: 329377
Website: www.fenner.com