Fenner

Annual Report 2006

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.

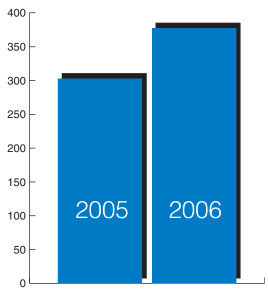
We will continue to concentrate on growing those businesses where we already demonstrate leadership through our skills in applications, design, materials technology and dedication to customer service as well as by carefully planned acquisitions.

Contents

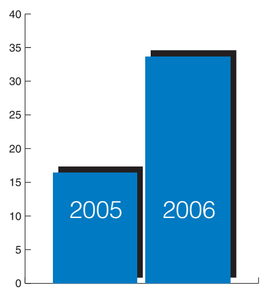
Financial Highlights

	2006 £m	% increase on 2005
Revenue	379.0	+25%
Operating profit	33.7	+107%
Profit before taxation	29.3	+136%
Basic earnings per share	13.0p	+97%
Dividends per share	6.0p	+3%

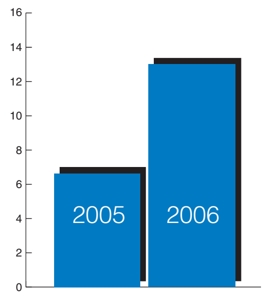
Revenue



Operating profit



Basic earnings per share



A record year with good prospects

The completion of the 2006 trading year marked an important milestone for our Group. Operating profit rose by 107% to £33.7m, an all-time record.

Our major market sectors throughout the world, associated with energy and power generation, have remained consistently strong.

Additionally, major infrastructure and consumables spending by both private and public entities has helped our growth.

The new year has started well and our organic investment programmes continue to progress. These, complemented by acquisition activity in strategically important areas, are expected to continue to fuel advances in our performance.

"Operating profit...an all-time record"

"...FAST exceeded our expectations..."

REVENUE AND PROFITS

Revenue for the year amounted to £379.0m (2005 £303.6m) generating an increased operating profit of £33.7m (2005 £16.3m). Profit before taxation rose 136% to £29.3m (2005 £12.4m) delivering increased basic earnings per share of 13.0p (2005 6.6p).

DIVIDENDS

The strong profit performance and prospects for further growth have enabled the Board to recommend an increase in the final dividend to 4.025p (2005 3.85p) which, together with the interim dividend of 1.975p (2005 1.975p), represents a total for the year of 6.0p (2005 5.825p) and a 3% increase over the prior year. On a full year basis our dividend is covered 2.2 times.

BUSINESS REVIEW AND OPERATIONS

In common with many companies, this year we have incorporated a Business Review into our Annual Report. The Review follows this statement and includes a more detailed account of our operational performance for the year.

In summary, the conveyor belting businesses have performed strongly with margin recovery and growth being major factors in our North American operations. We have seen signs of recovery in Europe and improved performances in the southern hemisphere and the Far East.

The first full year of profit contribution from the former Wellington Holdings plc businesses, now operating under the banner of Fenner Advanced Sealing Technologies ("FAST"), exceeded our expectations and strengthened our advanced engineered products division in furthering our strategic aim of balancing the Group's major divisional activities. A successful year for the precision polymer activities has complemented the acquired FAST operations to generate increased profitability and strong cash flows for the division.

CASH RESOURCES AND INVESTMENT

The higher operating margins in our larger businesses have generated a stronger operating cash flow. This enables us to fund our major organic expansion programme in heavyweight belting manufacture and support our existing customers. The advanced engineered products division has benefited from capacity investment in order to grow our global market share. Despite this expenditure, which represents in excess of twice the rate of depreciation, our gearing level has fallen to 27.3% (2005 32.3%).

The acquisition of EGC after the year end is designed to broaden and strengthen the technical offering of our FAST process business. In the medium term this should offer the opportunity for profitable growth.

PEOPLE

I am indebted to my non-executive directors who have provided invaluable counsel to me during the course of the year. I am particularly grateful to Tom Glucklich, who retired from the Board at our AGM in January after 10 years service, nine of which were as Chairman of our Remuneration Committee.

The record results for the year could not have been achieved without the dedication and support of all of our employees. The geographical diversity of the Group's investments relies on exceptional performances from excellent people and I take this opportunity to thank them all for their contribution to our success.

OUTLOOK

The new year has started well and in accordance with our expectations.

The weaker US dollar, combined with a gradually rising rate of taxation, slows the rate of growth in the short term. However, the strength of our markets and the benefits derived from our investment programme should enable us to make further progress this year.

Over the medium term we expect our capital expenditure plans to broaden our market exposures and accelerate growth.

Colin Cooke
Chairman

"...enable us to make further progress this year."

Building for the future

"The acquisition of EGC represents an opportunity for our advanced seals business to broaden its product offering and materials technology expertise in high value performance-critical applications."
Mark Abrahams - Chief Executive Officer

"...high value performance-critical applications..."

"...reputation is key to the Group's success..."

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 2006 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 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 growth.

With 21 factories on five continents plus 27 dedicated sales and distribution branches, Fenner is a specialist polymer engineering group with global operations offering products focused on distinct markets. Managed through two operating divisions, the Group has a small but experienced head office with a flat management structure and promotes proactive local autonomy with well defined, timely and financially focused reporting. Fenner has close to 3,500 employees based in 18 countries. Where possible we develop and recruit indigenous management. A list of principal subsidiaries can be found in note 34 to the consolidated financial statements.

Through its conveyor belting division ("CB"), Fenner is the 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 division ("AEP") manufactures and distributes precision motion control products for the computer, copier, mechanical equipment markets, silicon and EPDM hose production for non-automotive applications and specialist seals. The recently acquired Fenner Advanced Sealing Technologies ("FAST") businesses manufacture specialist 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.

Whether it is supplying to a coal mine in Spitzbergen with a conveyor belt that operates at temperatures as low as minus 60°C or designing a specialist seal for a peanut butter manufacturer, the Group takes pride in being a manufacturer of world-class products that are known for their quality and reliability which provide value added solutions to our customers. This reputation is key to the Group's success and has been built up over many years of customer-focused trading.

STRATEGIC OBJECTIVES

During the year the Board and the Executive Management team carried out a review of the Group, developing a series of strategic and operational initiatives which provide the framework within which operational budgets and projects are set. The major project approved this year was an investment programme in the North American conveyor belting business over the next 18 months.

Such reviews are held periodically and are embedded into the Group's corporate processes.

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 Group has recently established conveyor belting manufacturing capability in China and India primarily to service the local demand. These businesses also provide the infrastructure to develop our AEP businesses, particularly seals and hose, in these important markets. The possibility of further expansion into other emerging markets is subject to regular review.

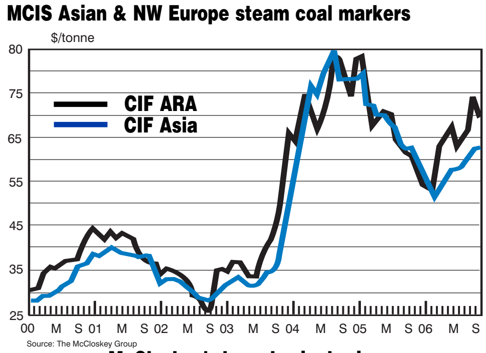
During June this year, in response to South Africa's broad based Black Economic Empowerment ("BEE") programme, Fenner welcomed Peotona Group Holdings (Pty) Limited as a 25% shareholder in the South African conveyor belting business. Peotona was selected as the partner who could best contribute to optimising the long term economic future of that business.

"I am delighted to have a highly respected partner in South Africa who will help the business to grow in the new black empowered environment".
Mark Abrahams - Chief Executive Officer

CONVEYOR BELTING

All of the mining markets in which CB operates remain buoyant, driven by global energy requirements and demand for minerals. Sold principally under the Fenner Dunlop brand with the most complete range of fire retardant rubber and PVC conveyor belts, coal extraction and handling are our most significant markets. Internationally traded coal prices are one of the key indicators of the relative health of the market for conveyor belting. This is demonstrated by the McCloskey graph. 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 both China and North America. As a result of these factors we have a positive outlook on the future prospects for CB.

Key Performance Indicator ("KPI") : Traded Coal Prices



McCloskey's key physical prices

Fenner Dunlop Americas' coal mining customers continued to invest in replacement belting and new projects in order to meet their sales opportunities. This enabled us to develop long term supply agreements with the largest mining companies. In industrial markets, continued high levels of construction activity provided demand for many material handling applications ranging from forestry to steel manufacturing. With a strong distributor service network and new commercial arrangements, we have been successful in achieving full plant utilisation, thereby delivering improved sales and margin.

The European operations suffered a weak first half but a new management team was successful in improving factory output and control of costs which, together with a focus on selling prices in a slightly improved market, resulted in a stronger second half.

Our solid woven PVC businesses in China, India and South Africa enjoyed consistent sales growth and strong operating performances. A new press in South Africa enabled us to satisfy the demand for high performance nitrile covered products in that market. A high level of demand for underground belting in China has resulted in an acceleration of our expansion plans. Continued growth in India is dependent on development of the indigenous government controlled mines. Our UK based operation has seen steady demand from its traditional Western European and North American customers with growth coming from further penetration into Russia and Eastern Europe.

"...continued investment and development in emerging markets..."

"...strong distributor service network.."

"...take full advantage of the increasing order volumes.."

"...improved market coverage.."

In Australia, Fenner Dunlop saw continued growth over the previously reported record sales, fully justifying the manufacturing investment in prior years. Installation and belt maintenance provided through our extensive service branch network placed Fenner Dunlop in a unique position to continue to benefit from the growth in Australian coal and iron ore exports.

Capital investment projects designed to enhance the existing operations enable the division to take full advantage of the increasing order volumes, whilst at the same time protecting the businesses against any future downturn in the markets. These projects will also enable us to service growth areas such as the Canadian oil sands, coal mining in the Powder River Basin (Wyoming, USA), South American copper mining, Russian coal production and modernisation of Indian and Chinese coal production. Work on expanding the service side of the business is underway with the aim of reproducing the successful service model operated in Australia into areas where there is no established distributor. The recent acquisition of rEscan in Australia enables Fenner to broaden its product offering with an innovative belt monitoring technology, the application of which will be introduced to other territories.

ADVANCED ENGINEERED PRODUCTS

As the AEP businesses offer niche products to a broad range of customers, it is difficult to identify overall market trends other than general industrial demand; however energy markets (mainly oil and gas) are a driver for a significant portion of our seals business.

The FAST businesses acquired in May 2005 had a record year due primarily to the continuing strong demand for seals for oil, gas and mining equipment markets. The seamless relocation of the main factory in Hampton, UK into a bespoke modern facility resulted in a 50% improvement in productivity. Other manufacturing sites benefited from smaller capital projects and a Six Sigma continuous improvement programme has been launched across all FAST locations. Sales of seals used in semiconductor production applications reached 5% of FAST's output in the year. FAST's strategy is to use our new facility in Shanghai to develop business in Asia and to continue the growth of customer service subsidiaries in other emerging markets. To develop new business faster, all seals sales and distribution subsidiaries have been equipped with CNC prototyping capability.

The strategy for the hose business, trading as James Dawson, is to become the world's leading supplier of speciality hoses for commercial vehicles. Sales increased year on year, significantly so in China, but new product introductions during the first half had a negative impact on financial results overall. Early in 2007 the Chinese operation will relocate into its purpose built factory in Shanghai which will provide adequate capacity for the continued sales focus in South East Asia.

During the year the Fenner Drives business was restructured to bring improved market focus throughout the organisation. Fenner Precision provides solutions to drive and paper handling applications including precision timing belts. Fenner Drives Industrial designs and manufactures power transmission and motion transfer components. The key geographical markets for Fenner Drives are North America, Europe and Asia, where robust demand enabled both businesses to deliver yet another year of steady growth. Available capacity has been increased by 25% at the Precision plant in Manheim, Pennsylvania, USA with further increases to come on line in late 2006.

AEP continues to look for acquisition opportunities to strengthen its current operating bases and develop its geographical reach. This applies to all of the businesses operating under the AEP aegis. This is demonstrated by the acquisition in early October 2006 of the EGC business in Houston, Texas, USA. This is an expansion of AEP's successful seals business in North America bringing improved market coverage across a range of industries.

KSB, our South African centrifugal pump and water handling business, benefited from healthy market conditions and grew during the year. The strategy to address the risks and opportunities of Black Economic Empowerment ("BEE") is under development.

OUTLOOK

The new year has started well and in accordance with our expectations.

Approximately one half of our business operates in North America and is therefore susceptible to the forces associated with the economic conditions in that territory. The North American markets that we serve continue to exhibit signs of confidence despite the effects of a weakening housing and infrastructure sector. In addition to experiencing slowly improving conditions in Continental Europe, the global nature of our investments confers the benefit of opportunities to participate in the growth of a variety of customer driven expansion projects throughout the southern hemisphere and China. These help to balance our view of trading prospects for the near term.

We have already announced our intention to embark on major organic investment projects in our heavyweight conveyor belting business in North America in support of our customers' intentions to develop new operations. These projects are planned to be commissioned during the next 6 to 24 months and will provide earnings growth in future years.

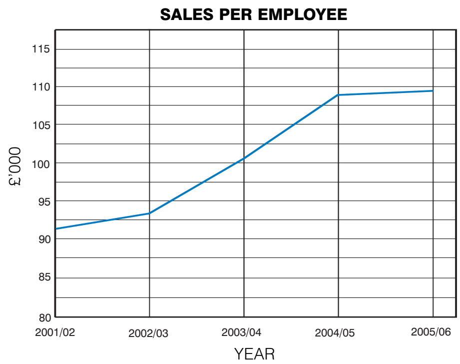
Our intentions are not limited solely to organic investment. In October 2006, we announced the acquisition of a small, but strategically important bolt-on business for our Houston, Texas, USA based speciality seals company. Again, this is an investment for the medium term with many advantages which will both maintain and develop our seals manufacturing operations around the world.

Our businesses are well invested and positioned in geographical locations whose economies offer good growth prospects. We anticipate the combination of these factors will enable us to make progress in the current year.

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. The 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 close to 3,500 employees, employment costs are significant so productivity is 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 graph shows a period of substantial growth in sales per employee over the previous years. 2006 saw the full year effect of the FAST operations and a general reduction in the level of overtime causing an apparent flattening of the trend line.

Fenner produces an in-house magazine 'Fenner Focus' which is distributed to all employees and is an effective route to communicate matters of Group and operational significance. It was used as an appropriate format to publish the Fenner Whistleblowing Policy to ensure it reached all employees. The magazine informs employees of any major Group developments, including acquisitions and disposals. The annual results are also summarised in the publication keeping all employees informed of Group progress.

The health and safety of all employees is a top priority throughout the Group. It is our policy to comply with statutory standards as a minimum with the aim of achieving best practice where possible. Health and safety are an integral part of every employees' duties and an appropriate level of resources and specialist support is maintained to enable employees to discharge this duty

"...skilled and motivated workforce..."

"...sound commercial reasons to minimise waste..."

"We seek to reduce our impact on the environment..."

properly. Workplace accidents are recorded and reviewed operationally and safe systems of work updated if necessary; accidents involving lost employees 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 incidents 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. The following table shows the results over the last three years:

Year	No. of LTIs
2004	120
2005	96
2006	98

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 and one minor incident 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 to independent audit. Currently three locations are involved in projects which, over the next two years, will result in ISO 14000 accreditation.

In addition to our environmental responsibilities, there are sound commercial reasons to minimise waste; our textile operations within CB have, for many years, recycled waste yarns. Other recycled process waste materials include polythene, polyurethane and rubber (cured and uncured); cardboard and polythene packaging plus paper. These are recycled where the local infrastructure makes it a practical option.

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 ("VOC's"). These chemicals are subject to strict regulation; their storage and use is carefully controlled. In addition to minimising any emissions to air of VOC's, 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, and therefore recognise and manage the 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. We identify objectives and standards that will enable a demonstrable continuous improvement in environmental matters.

PRINCIPAL RISKS & UNCERTAINTIES

Fenner considers the following to be the most significant risk factors, 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.

Fluctuations in raw material costs
Fluctuations in raw material costs, in particular, due to movements in oil prices, may increase the Group's costs of production. The Group aims to manage raw material costs, in particular, 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.

Fluctuations in foreign currency
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 mitigate the impact on the net cash flow, adverse movements in foreign currencies relative to sterling could lead to material adverse movements in profitability.

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.

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 Fenner'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 USA. 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

"...actively monitored and considered..."

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 are 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 "OUTLOOK" heading 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 United States, competition and the ability to attract and retain personnel.

Mark Abrahams
Chief Executive Officer

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's financial results for the year ended 31 August 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the prior period information has been stated on a comparable basis. In previous Annual Reports the Group has reported its financial results under UK GAAP. Reconciling schedules from UK GAAP to IFRS for the balance sheets, income statement and cash flow statement, together with explanatory notes, are disclosed in note 36 to the consolidated financial statements.

The Company financial statements presented on pages 70 to 75 have continued to be prepared under UK GAAP.

REVENUE AND OPERATING PROFIT

Group full year revenue increased by 25% to £379.0m (2005 £303.6m) reflecting strong organic growth, particularly in the conveyor belting division, and an excellent first full year performance from the FAST businesses acquired in May 2005.

Revenue in the second half reached £197.0m (2005 £166.5m) with stronger underlying volumes in the majority of the key territories in which the Group operates. In the conveyor belting division, sales volumes into the mining sectors accelerated, notably in North America, whilst improved volumes in previously static European industrial markets were evident.

Operating profit increased by 107% to £33.7m (2005 £16.3m) with a contribution from the conveyor belting division of £20.5m (2005 £9.1m) and the advanced engineered products division of £13.2m (2005 £7.2m).

Operating profit for the second half was £19.4m (2005 £10.4m) with strong progress in both divisions.

INTEREST

The net interest cost in the year was £4.3m (2005 £3.8m). This increase principally reflects increases in short term US dollar interest rates and the translation effect of the average exchange rate for the US dollar being stronger than in 2005. To mitigate the effects of increasing short term interest rates, US$40m of floating rate bank borrowings were converted to a fixed rate by means of an interest rate swap towards the end of the year.

Interest cover increased from 4.6 to 7.9 times.

TAXATION

The tax rate for the year was 30% (2005 32%). The principal reason for this reduction in the tax rate relates to the utilisation of tax losses in the USA and Canada, which were not previously fully recognised in the financial statements. As most of these losses have now been utilised the tax rate will tend to increase going forward.

EARNINGS PER SHARE

Basic earnings per share was 13.0p (2005 6.6p) and adjusted for amortisation of intangible assets acquired the amount was 13.1p (2005 7.1p).

DIVIDENDS

The interim dividend of 1.975p (2005 1.975p) was paid on 4 September 2006. The Board is recommending a final dividend of 4.025p (2005 3.85p) to make a total dividend for the year of 6.0p (2005 5.825p).

The Board intends to revert to a one-third : two-thirds split of the dividend in future years. The recommended total for the year therefore represents a basis of a 2.0p interim and a 4.0p final for the purpose of future comparison.

ACQUISITIONS AND DISPOSALS

On 31 December 2005 the Group sold its interest in associate Rob Harvey Pty Limited. Both the cash consideration received and the loss on disposal were negligible amounts.

On 30 June 2006 the Group disposed of a 25% minority interest in its South African conveyor belting business at fair value to Peotona Group Holdings (Pty) Limited, a black controlled enterprise. This transaction has been undertaken for the purposes of South Africa's broad based BEE programme. The business will continue to be consolidated in the Group financial statements.

On 17 August 2006 the Group acquired for £0.3m, the business and assets of rEscan Pty Ltd, a provider of non-destructive testing and remote non-destructive testing products and services to the materials handling sector.

After the balance sheet date, 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. EGC was acquired from Compagnie Plastic Omnium SA, a company quoted on the French Stock Exchange. EGC was acquired for a cash consideration of US$15m, excluding acquisition costs, with an adjustment dependent upon the level of working capital of the business at completion.

CASH FLOW, NET DEBT AND FINANCING

The stronger operating profit resulted in an increased net cash inflow from operations of £38.2m (2005 £20.3m). Capital expenditure increased to £18.8m (2005 £7.8m) reflecting the ongoing expansion programmes across the Group.

The Group is financed principally by a mix of equity, retained earnings, US dollar private placement loan notes and a committed bank facility. The 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 £74.5m (2005 £86.0m), excluding derivatives. The US dollar private placement of $40.9m carries a fixed interest coupon of 7.29% and matures between 2007 and 2012. The Group has entered into a committed bank facility of £60m with three leading UK banks maturing in June 2010. At 31 August 2006, £45.3m of this was drawn down. Cash and cash equivalents at the year end were £41.4m (2005 £51.5m) resulting in net debt of £33.1m (2005 £34.5m).

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.

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, currency derivatives have been used to hedge future cash flow 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 aggregate effect of the above for the year ended 2006 was a credit to the income statement of £0.2m (2005 credit of £0.1m).

During the year an interest rate swap to hedge interest rate cash flows was entered into. At 31 August 2006 the fair value of this instrument was a liability of £0.6m. This swap has been accounted for as a hedge in accordance with IAS 39 with the charge recognised directly in equity.

PENSIONS

The Group now accounts for pensions in accordance with IAS 19 'Employee Benefits'. At 31 August 2006 the deficits were £26.9m (2005 £37.0m) in the UK defined benefit scheme and £2.2m (2005 £3.6m) in the overseas schemes.

During the year the UK pension obligations taken on as a result of the acquisition of Wellington Holdings plc have been merged into the Group's most significant defined benefit arrangement, the Fenner Pension Scheme.

Contributions paid to the UK scheme increased to £2.8m (2005 £2.1m) with higher payments implemented to further reduce the deficit. The current service cost of the scheme charged to the income statement was £1.1m (2005 £1.0m) whilst the interest amount was neutral (2005 charge of £0.4m).

As a result of a change in pension legislation during the year, some benefit changes are being introduced for members of the defined benefit section of the UK scheme. This includes a members' option to take a higher level of tax-free cash at the point of retirement. The Group has made an allowance for the take-up of this option in the valuation of its pension liabilities. This has resulted in a reduction in liabilities of around £3m, of which £1.4m is recognised as a credit to the income statement in the year.

Key Financial Performance Indicators

	2006	2005
Adjusted earnings per share	**13.1p**	7.1p
Interest cover (times)	**7.9**	4.6
Return on gross capital employed	**19%**	12%

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 McCloskey Group is the premier source of news analysis and data on the international coal industry. These bi-weekly prices reflect the delivered to port price of coal for the two major coal importing markets: CIF ARA (Europe) & CIF Asia. Further definitions can be found on the website http://cr.mccloskeycoal.com

SALES PER EMPLOYEE

Total annual third party sales divided by the average number of employees. The average number of employees is derived from a simple total head count with no distinction between full time, part time employees, temporary or casual employees. Where employees are employed for a 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 counting 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.

RETURN ON GROSS CAPITAL EMPLOYED

This is a measure of performance relative to amounts invested. It is calculated by dividing the operating profit 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* (66) [a r n]
Chairman

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

MARK ABRAHAMS (51) [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 (56)
Group Finance Director

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

DAVID BUTTFIELD (60)* [a r n]

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

DAVID CAMPBELL (56)* [a r n]

Appointed to the Board in November 2005, he was formerly Chief Executive of British Vita plc.

DEBRA BRADBURY (41)
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 is committed to comply with the Principles of Corporate Governance as set out in the 2003 Financial Reporting Council's Combined Code as incorporated into the FSA Listing Rules ("Combined Code") and continues to recognise the importance of high standards of corporate governance. This statement explains how the Principles of Corporate Governance 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 2006 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 with the spirit of the Combined Code in other areas.

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 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 and upon the retirement of Thomas Glucklich at the close of that AGM. 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 carried out during the year. The Chairman met with each Board member individually and with the Board as a whole. During each of the meetings, the Chairman evaluated and collected each Board member's view of how effective the Board was, how well that individual member of the Board performed, what the Board's collective or individual strengths and weaknesses were, and areas that could be improved. The evaluation and performance of the Chairman was considered by the Senior Independent Director. The Nomination Committee had appraised the requirements of the Board during the previous year as part of the recruitment process for a new non-executive director which culminated in the appointment of David Campbell in November 2005.

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 was decided 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 its independence. The external auditor has also confirmed that it considers itself 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 had met during the financial year ended 2005 to recruit David Campbell who joined the Company as a non-executive director on 1 November 2005.

Remuneration Committee

The Remuneration Committee consists of the Chairman and non-executive directors and was chaired by Thomas Glucklich, with David Campbell becoming the Chairman of the Committee when Thomas Glucklich retired following the AGM in January 2006. 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. It also approves the granting to employees of a Long Term Shadow Incentive Plan. This is a cash incentive scheme with performance criteria which is the same as the Long Term Share Incentive Plan (“LTIP”). The Committee also administers the LTIP.

The Remuneration Committee received advice during the year from MM&K Ltd who assisted the Committee in consideration of matters relating to directors’ incentives and New Bridge Street Consultants LLP (“NBSC”) who advised the Committee in relation to future long term incentive practice given that the current LTIP expires in 2007.

Meetings of the Board	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings during the year	7	4	4	0
Chairman				
C I Cooke	6	3	3	0
Executive directors				
M S Abrahams	7	4*	2*	0
R J Perry	7	4*	0	0
Non-executive directors				
T C Glucklich	2	1	1	0
D F Buttfield	7	4	4	0
D A Campbell	7	4	4	0

* By invitation

Directors’ remuneration

The Board Remuneration Report is set out on pages 20 to 25.

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 also 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

Directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

The maintenance and integrity of the Group's website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the UK 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 continues to review the effectiveness of the Group's system of internal control and evaluates the Internal Control report at least twice a year. This review covers all controls, including operational, financial, compliance and risk management.

As required by the UK Listing Authority, the Group has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance contained in the Revised Guidance for Directors on the Combined Code issued in October 2005 by the Financial Reporting Council and by reporting in accordance with that guidance.

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 directors have reviewed the effectiveness of the system of internal control in operation during the year and up to the date of approval of the Annual Report.

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 was agreed with the Audit Committee and reviews the compliance of each business unit with standard internal financial control procedures adopted by the Group; and
- during the year competition compliance policies were adopted in several jurisdictions and a whistleblowing policy was established Group-wide.

Signed on behalf of the Board of Directors

C I Cooke
Chairman
8 November 2006

Board Remuneration Report

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

The parts of this Report covering directors' detailed emoluments, share schemes and pensions are audited.

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were: Thomas Glucklich (Chairman) for part of the year until his retirement from the Board at the AGM on 11 January 2006, Colin Cooke, David Buttfield and David Campbell, who was appointed as Chairman of the Committee with effect from the close of the AGM on 11 January 2006.

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.

During the previous year, Mercer Human Resource Consulting had been 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.

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 cash targets and a new Long Term Share Incentive Plan ("LTIP") details of which are given on page 22. The shares allocated under the current LTIP will 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 (The Peer Group) over the period from the provisional allocation date to the final award date. The Committee considers that TSR, which comprises of inter alia dividend yield and share price movement in comparison with The 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 2006	Notice period
Executive directors		
Mark Abrahams	-	1 year
Richard Perry	-	1 year
Non-executive directors		
Colin Cooke*	16 months	Fixed Term
Thomas Glucklich	0 months	Fixed Term
David Buttfield	28 months	Fixed Term
David Campbell	26 months	Fixed Term

* Colin Cooke's services are provided by way of an agreement between the Company, Steels Management Limited and Colin Cooke.

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 Inditherm plc and retained fees of £35,000 in relation to Inditherm plc's year ended 31 December 2005. The Group Finance Director, Richard Perry, was appointed as a non-executive director of Scapa Group plc on 1 June 2005 and retained fees of £25,000 in relation to Scapa Group plc's year ended 31 March 2006.

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 cash. 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.

Long Term Share Incentive Plan

The current LTIP is designed to encourage its participants to deliver sustained long term performance.

Rewards under the current LTIP are linked to the Company's performance over three year periods (Plan Cycles). As near as practicable to the start of a Plan Cycle, the Remuneration Committee notifies each participant of the provisional allocation of ordinary shares which could be distributed to him after the end of the Plan Cycle if the performance target is met. The performance target is intended to be demanding. The provisional allocation of ordinary shares is based on a percentage (maximum 100%) of the participant's basic annual salary and the value of the Company's ordinary shares at the start of the Plan Cycle.

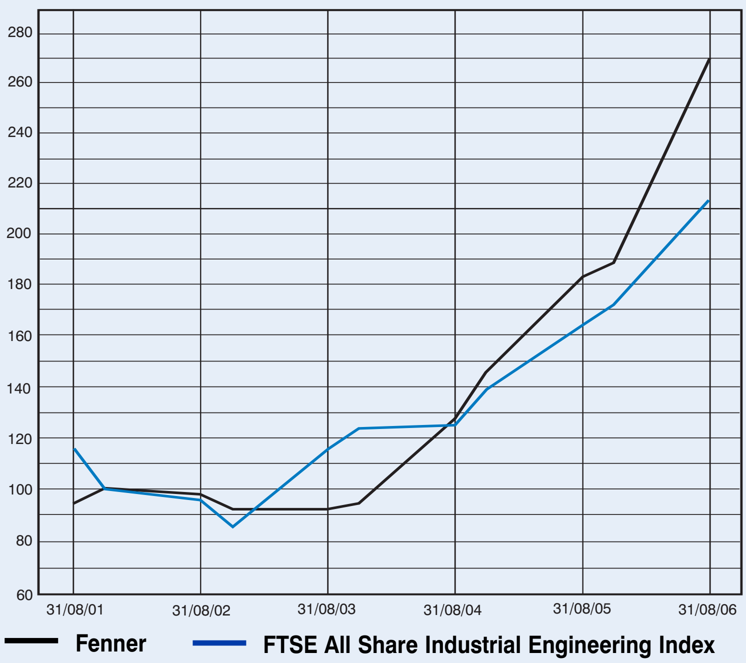
The performance measurement for each of the Plan Cycles is the Company's TSR which is compared with the TSR of The Peer Group. In the opinion of the Remuneration Committee, the FTSE All Share Industrial Engineering Index is the most appropriate index against which the TSR of the Company should be measured because it is an index of businesses similar in nature to the Company and which represent alternative investment options for our shareholders.

100% of the provisional allocation of ordinary shares may be distributed only if the Company's performance places it within the top 16% of the companies in The Peer Group. Participants will not receive any ordinary shares if the Company's ranking is below the median (i.e. the point which divides The Peer Group into two equal halves such that 50% of the companies are above this point and 50% are below it). Between these two points there is a piecewise linear relationship between the number of shares vesting and the percentile ranking of Fenner amongst The Peer Group.

There have been no departures from the Company's policy on awarding benefits under the LTIP during the year. In the event that a director resigns, the awards will lapse.

The performance chart below illustrates the Company's TSR over the past five years compared to the TSR performance of The Peer Group. 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 Plan Cycle dates for the LTIP. The Plan Cycle dates are aligned with the Group's Preliminary Announcement, which the Remuneration Committee believes are the most appropriate points for benchmarking the LTIP. 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 2001	94	116
9 November 2001	100	100
31 August 2002	98	96
8 November 2002	91	86
31 August 2003	91	116
7 November 2003	94	123
31 August 2004	128	125
6 November 2004	145	140
31 August 2005	182	164
10 November 2005	189	171
31 August 2006	270	212

As the current LTIP expires in 2007 having reached the end of its 10 year life, the Committee conducted a review of senior executive long term incentive provision with the help of independent advice from NBSC. The main conclusion of this review was that a Performance Share Plan ("PSP") should be introduced as the sole long term incentive vehicle for participants.

The Committee believes that the current LTIP has served the Company well in that it provides a real incentive for key executives and has resulted in appropriate rewards for delivering sustained out-performance against comparator companies and revenue growth. The form of the proposed new PSP therefore broadly replicates the structure of the current LTIP, whilst optimising incentive value and taking due account of changes in market practice and standards of good governance.

The proposed PSP is being put to the 2007 AGM for shareholder approval and full details will be contained within the AGM materials.

Share options
Since the creation of the LTIP, no options have been granted to the executive directors and they are no longer eligible to participate in the share option scheme for new options.

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.

Directors' detailed emoluments

	Annual salary, fees or consultancy services £	Benefits in kind* £	Annual performance related bonus £	**Total emoluments 2006 £**	Total emoluments 2005 £
Executive directors					
Mark Abrahams	275,169	21,203	157,300	**453,672**	417,239
Richard Perry	170,000	18,771	97,240	**286,011**	270,945
Non-executive directors					
Colin Cooke**	90,100	-	-	**90,100**	90,100
Thomas Glucklich	12,722	-	-	**12,722**	34,000
David Buttfield	33,835	-	-	**33,835**	31,000
David Campbell	26,549	-	-	**26,549**	-
	608,375	39,974	254,540	**902,889**	843,284

*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 21 December 2004, Steels Management Limited agreed to provide the services of Colin Cooke as a non-executive director and Chairman of the Company until the 2008 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 2006, £90,100 (2005 £90,100), including a £5,100 car allowance, was payable under this agreement. 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 2006.

Share schemes

Interests in share options
Neither the executive directors, the Chairman or the non-executive directors held any share options during the year. All options have now lapsed.

The market price of the Company's shares at the end of the financial year was 208.5p and the range of market prices during the year was between 133.0p and 234.0p.

Interests in shares

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

	31 August 2006 Number	1 September 2005 Number
Mark Abrahams	**421,754**	394,840
Richard Perry	**344,474**	327,032
Colin Cooke	**210,408**	210,408
Thomas Glucklich	**1,000**	1,000
David Buttfield	**-**	-
David Campbell	**3,150**	-

All directors' interests are beneficially held. There have been no changes in the interests set out above between 31 August 2006 and 8 November 2006.

Long term incentive schemes

Shares awarded to executive directors under the current LTIP are as follows:

Allocation Date	Provisional allocation 1 September 2005 Number	Provisional allocation in the year Number	Shares awarded Number	Shares lapsed Number	**Provisional allocation 31 August 2006 Number**	Value awarded £	End of Plan Cycle & Award Determination Date
Mark Abrahams							
6 November 2002	200,559	-	45,617	154,942	**-**	71,413	9 November 2005
5 November 2003	216,939	-	-	-	**216,939**	-	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							
6 November 2002	129,976	-	29,563	100,413	**-**	46,280	9 November 2005
5 November 2003	139,704	-	-	-	**139,704**	-	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			75,180			117,693	

The number of shares provisionally allocated was adjusted under the rules of the LTIP following the Share Placing and Open Offer in May 2005.

The performance criteria attached to the shares that were awarded on 9 November 2005 and those provisionally allocated on 9 November 2005 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 9 November 2005 was independently evaluated and an award of shares made representing 23% of the original award of shares was made on 14 December 2005. 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 88.90p (87.13p after adjustment for the Share Placing and Open Offer in May 2005), at the end of the Plan Cycle was 156.55p and the market value used on 9 November 2005 for the new Plan Cycle was 154.80p.

The performance chart on page 22, which shows the relative TSR of the Company and The Peer Group, gives an indication of whether each LTIP Plan Cycle will achieve the performance criteria, based upon the share price at 31 August 2006.

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

Pensions

Directors' pension entitlement

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

	Accrued entitlement 1 September 2005 £	Increase in accrued entitlement over the year £	**Accrued entitlement 31 August 2006 £**	Transfer value at 31 August 2005 £	**Transfer value at 31 August 2006 £**	Increase in transfer value less directors' contributions £
Mark Abrahams	39,900	3,900	**43,800**	397,900	**471,500**	73,600
Richard Perry	38,700	4,700	**43,400**	495,500	**599,200**	95,200

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	2,700	29,900
Richard Perry	3,600	41,600

The accrued pension entitlement is the amount that the director would be paid annually on retirement based on service to 31 August 2006. 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 2006 and the accrued entitlement at 31 August 2005.

The pension benefits are based on the directors' pensionable salaries which are limited to the scheme's permitted maximum (currently £108,600 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 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 converted to a Pension Allowance under the terms of their Service Agreements. The total contributions made by the Company were as follows:

	2006 £	2005 £
Mark Abrahams	**185,625**	174,652
Richard Perry	**113,050**	108,229

Signed on behalf of the Board of Directors

D A Campbell
Chairman of the Remuneration Committee
8 November 2006

Directors' Report

The directors submit their report and the audited Group financial statements for the financial year ended 31 August 2006.

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	20.6
Dividends:	
Interim 1.975p per share – payable	3.1
Final 4.025p per share – proposed	6.3
	9.4

Charitable donations

During the year the Group contributed £7,000 (2005 £4,000) to United Kingdom charitable organisations.

Substantial shareholdings

The register maintained by the Company under Section 211 of the Companies Act 1985 records that, on 8 November 2006, interested parties with substantial individual interests in the ordinary share capital of the Company were as follows:

Interested party	Number of shares	% of issued share capital
Brown, Shipley & Co Limited	9,501,191	6.05%
Legal & General Investment Management Limited	5,666,468	3.61%
M & G Investment Management Limited	7,062,586	4.50%

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 Fenner Long Term Share Incentive Plan are given in the Board Remuneration Report on pages 20 to 25.

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 8 November 2006; 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.

Colin Cooke and Mark Abrahams will be retiring by rotation at the forthcoming Annual General Meeting. The performance of each of them continues to be effective and they continue to demonstrate commitment to their respective roles.

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 2006 was 51 days (2005 52 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 pages 7 and 8.

Environmental policy

The Company recognises and accepts that concern for the environment is an integral and fundamental part of the Company'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 Annual General Meeting.

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 Annual General Meeting, 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
8 November 2006

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 2006 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 2006 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 2006 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
8 November 2006

Consolidated income statement

for the year ended 31 August 2006

	Notes	2006 £m	2005 £m
Revenue	3,4	**379.0**	303.6
Cost of sales		**(269.8)**	(223.9)
Gross profit		**109.2**	79.7
Distribution costs		**(36.2)**	(29.0)
Administrative expenses		**(39.3)**	(34.4)
Operating profit before amortisation of intangible assets acquired		**34.1**	17.3
Amortisation of intangible assets acquired		**(0.4)**	(1.0)
Operating profit	3,5	**33.7**	16.3
Finance income	7	**1.6**	1.2
Finance costs	7	**(5.9)**	(5.0)
Share of result of associate		**(0.1)**	(0.1)
Profit before taxation		**29.3**	12.4
Taxation	8	**(8.7)**	(4.0)
Profit for the year		**20.6**	8.4
Attributable to:			
Equity holders of the parent		**20.4**	8.2
Minority interests		**0.2**	0.2
		20.6	8.4
Earnings per share			
Basic	10	**13.0p**	6.6p
Diluted	10	**12.8p**	6.6p

The result for the year derives from continuing operations.

Consolidated balance sheet

at 31 August 2006

	Notes	2006 £m	2005 £m
Non-current assets			
Property, plant and equipment	11	**68.7**	61.0
Intangible assets	12	**65.8**	66.9
Investment in associates	13	**-**	0.2
Other investments	14	**0.6**	0.3
Deferred tax assets	15	**15.7**	18.8
		150.8	147.2
Current assets			
Inventories	16	**53.9**	52.8
Trade and other receivables	17	**64.0**	61.4
Current tax assets		**0.6**	0.7
Cash and cash equivalents	18	**41.4**	51.5
Derivative financial instruments	22	**0.5**	-
		160.4	166.4
Total assets		**311.2**	313.6
Current liabilities			
Borrowings	21	**(8.5)**	(36.4)
Trade and other payables	23	**(67.7)**	(63.8)
Current tax liabilities		**(5.7)**	(5.1)
Derivative financial instruments	22	**(0.6)**	-
		(82.5)	(105.3)
Non-current liabilities			
Borrowings	21	**(66.0)**	(49.6)
Retirement benefit obligations	24	**(29.1)**	(40.6)
Provisions	26	**(6.5)**	(4.9)
Deferred tax liabilities	15	**(5.1)**	(5.7)
		(106.7)	(100.8)
Total liabilities		**(189.2)**	(206.1)
Net assets		**122.0**	107.5
Equity			
Share capital	27	**39.2**	39.1
Share premium	28	**49.6**	49.1
Retained earnings	28	**33.5**	15.4
Translation reserve	28	**(2.1)**	2.2
Other reserve	28	**1.1**	1.1
Shareholders' equity		**121.3**	106.9
Minority interests	28	**0.7**	0.6
Total equity		**122.0**	107.5

The financial statements were approved by the Board of Directors on 8 November 2006 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 2006

	Notes	**2006 £m**	2005 £m
Profit before taxation		**29.3**	12.4
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets		**8.8**	9.1
Movement in retirement benefit obligations		**(3.6)**	(0.9)
Increase in provisions		**1.6**	1.5
Finance income		**(1.6)**	(1.2)
Finance costs		**5.9**	5.0
Share of result of associate		**0.1**	0.1
Other non-cash movements		**0.1**	0.3
Operating cash flow before movement in working capital		**40.6**	26.3
Movement in working capital		**(2.4)**	(6.0)
Net cash from operations		**38.2**	20.3
Interest received		**1.5**	1.2
Interest paid		**(5.9)**	(4.6)
Taxation paid		**(7.5)**	(5.2)
Net cash from operating activities		**26.3**	11.7
Investing activities:			
Purchase of property, plant and equipment		**(18.6)**	(7.6)
Disposal of property, plant and equipment		**0.1**	0.1
Purchase of intangible assets		**(0.2)**	(0.2)
Purchase of investments		**(0.3)**	-
Acquisition of businesses	33	**(0.2)**	-
Acquisition of subsidiary undertakings	33	**(0.3)**	(44.2)
Net cash used in investing activities		**(19.5)**	(51.9)
Financing activities:			
Equity dividends paid		**(8.2)**	(6.3)
Dividends paid to minority shareholders		**(0.1)**	(0.1)
Issue of ordinary share capital		**0.3**	56.3
Minority interest capital introduced		**0.1**	-
Loan repayment from associate		**0.1**	0.1
Repayment of finance leases		**(0.2)**	(0.1)
Repayment of borrowings		**(39.8)**	(7.4)
New borrowings		**31.6**	26.3
Net cash (used in)/from financing activities		**(16.2)**	68.8
Net (decrease)/increase in cash and cash equivalents		**(9.4)**	28.6
Cash and cash equivalents at start of year		**51.3**	22.9
Exchange movements		**(0.9)**	(0.2)
Cash and cash equivalents at end of year	18	**41.0**	51.3

Consolidated statement of recognised income and expense

for the year ended 31 August 2006

	2006 £m	2005 £m
Profit for the year	**20.6**	8.4
Items recognised directly in equity:		
Currency translation differences	**(4.3)**	2.2
Hedge of net investments in foreign currencies	**0.6**	-
Hedge of interest rate risk	**(0.6)**	-
Actuarial gains/(losses) on defined benefit pension schemes	**7.8**	(0.1)
Taxation on items taken directly to equity	**(2.0)**	0.1
Net income recognised directly in equity	**1.5**	2.2
Total recognised income and expense for the year	**22.1**	10.6
Adoption of IAS 32 and IAS 39 on 1 September 2005	**0.1**	-
	22.2	10.6
Attributable to:		
Equity holders of the parent	**21.9**	10.4
Minority interests	**0.2**	0.2
Total recognised income and expense for the year	**22.1**	10.6
Adoption of IAS 32 and IAS 39 on 1 September 2005	**0.1**	-
	22.2	10.6

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.

These are the first full year financial statements prepared in accordance with IFRS. An explanation of how the transition from UK GAAP to IFRS has affected the Group's previously reported financial position, financial performance and cash flows is given in note 36. As permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', the Group has taken the following exemptions in preparing these financial statements:

- IFRS 3 'Business Combinations' has not been applied to acquisitions prior to the date of transition to IFRS.
- IAS 21 'The Effects of Changes in Foreign Exchange Rates' has not been applied to goodwill arising on acquisitions prior to the date of transition to IFRS.
- Cumulative foreign exchange differences in equity at the date of transition to IFRS have been reset to zero.
- Cumulative actuarial gains and losses arising on the valuation of defined benefit pension scheme assets and liabilities are recognised in full at the date of transition to IFRS.
- IFRS 2 'Share-based Payment' has not been applied to equity instruments that were granted on or prior to 7 November 2002 that had not vested by 1 January 2005.
- IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' were not adopted until 1 September 2005. Comparative information for 2005 is prepared on a UK GAAP basis.
- Carrying amounts for previously revalued freehold land and buildings have been used as deemed cost at the date of transition to IFRS.

The date of transition to IFRS was 1 September 2004.

The following standards or interpretations to existing standards have been published but are not mandatory for the year ended 31 August 2006 and consequently have not been adopted by the Group in 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' and IFRS 6 'Exploration for and Evaluation of Mineral Resources'.
- IFRS 6 'Exploration for and Evaluation of Mineral Resources'.
- IFRS 7 'Financial Instruments: Disclosures' and the complementary Amendment to IAS 1 'Capital Disclosures'.
- IFRIC 4 'Determining whether an Arrangement contains a Lease'.
- IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.
- IFRIC 6 'Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment'.
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'.
- IFRIC 8 'Scope of IFRS 2'.
- IFRIC 9 'Reassessment of Embedded Derivatives'.
- IFRIC 10 'Interim Financial Reporting and Impairment'.
- IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions'.

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 2006 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

1. Significant accounting policies continued

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 translation 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.

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.

1. Significant accounting policies continued

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. 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
Patents	Unexpired life of patent

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 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, to hedge its exposure to the financial risks of changes in foreign exchange rates and interest rates. The Group does not use derivative financial instruments for speculative purposes.

1. Significant accounting policies continued

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 8 and 15)
- Impairment of goodwill (note 12)
- Inventory provisions (note 16)
- Provisions for doubtful trade receivables (note 17)
- Retirement benefit obligations (note 24)
- Share-based payments (note 25)
- Provisions (note 26)
- Contingencies (note 29)

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 include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities are corporate assets and liabilities that cannot be reasonably allocated. These principally comprise certain cash and cash equivalents and borrowings, together with liabilities in respect of the Fenner Pension Scheme in the UK.

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 - centrifugal pumps for water handling, process engineering applications and agriculture

Segment information for the years ended 31 August 2006 and 31 August 2005 is as follows:

	Conveyor Belting		Advanced Engineered Products		Unallocated		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Segment result								
Revenue	**269.5**	230.8	**109.5**	72.8	**-**	-	**379.0**	303.6
Operating profit before amortisation of intangible assets acquired	**20.5**	9.1	**13.6**	8.2	**-**	-	**34.1**	17.3
Amortisation of intangible assets acquired	**-**	-	**(0.4)**	(1.0)	**-**	-	**(0.4)**	(1.0)
Operating profit	**20.5**	9.1	**13.2**	7.2	**-**	-	**33.7**	16.3
Net finance costs							**(4.3)**	(3.8)
Share of result of associate							**(0.1)**	(0.1)
Taxation							**(8.7)**	(4.0)
Profit for the year							**20.6**	8.4
Segment assets and liabilities								
Total assets	**165.3**	165.0	**111.9**	110.2	**34.0**	38.4	**311.2**	313.6
Total liabilities	**(66.2)**	(64.2)	**(29.2)**	(27.4)	**(93.8)**	(114.5)	**(189.2)**	(206.1)
Net assets	**99.1**	100.8	**82.7**	82.8	**(59.8)**	(76.1)	**122.0**	107.5
Other segment information								
Capital expenditure	**10.2**	5.3	**8.7**	2.8	**-**	-	**18.9**	8.1
Depreciation and amortisation	**6.0**	6.3	**2.8**	2.8	**-**	-	**8.8**	9.1

There was no inter-segment revenue during the year (2005: £nil). Capital expenditure relates to property, plant and equipment and intangible assets.

Geographical segments

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

Segment information for the years ended 31 August 2006 and 31 August 2005 is as follows:

	External Revenue		Total Assets		Capital Expenditure	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Europe	**104.4**	89.5	**124.5**	126.5	**5.3**	3.4
Americas	**186.2**	142.9	**120.0**	123.3	**8.9**	2.2
Asia Pacific	**65.8**	49.9	**55.8**	51.6	**3.4**	2.1
Africa	**22.6**	21.3	**10.9**	12.2	**1.3**	0.4
	379.0	303.6	**311.2**	313.6	**18.9**	8.1

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:

	2006 £m	2005 £m
Sales of goods	**365.7**	293.5
Service contracts	**13.3**	10.1
Revenue	**379.0**	303.6
Finance income	**1.6**	1.2
Other income	**0.4**	0.5
Total revenue	**381.0**	305.3

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

5. Operating profit

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

	2006 £m	2005 £m
Depreciation of property, plant and equipment - owned assets	**8.0**	7.6
Amortisation of intangible assets acquired	**0.4**	1.0
Amortisation of other intangible assets	**0.4**	0.5
Loss on disposal of property, plant and equipment	**0.2**	0.2
Foreign exchange gains	**(0.2)**	(0.1)
Research and development costs	**1.9**	2.1
Government grants	**(0.1)**	(0.2)
Operating lease charges	**3.1**	2.7
Onerous property lease charges	**1.4**	1.3
Litigation costs	**2.4**	0.9
Defined benefit past service credit	**(1.4)**	-
Auditors' remuneration for audit services	**0.5**	0.5
Auditors' remuneration for non-audit services		
- UK	**0.2**	0.4
- Overseas	**0.1**	0.1

Amortisation of intangible assets acquired is classified within administrative expenses in the consolidated income statement. There was no auditors' remuneration in respect of the parent company as their costs have been borne by other group undertakings. Non-audit services comprise litigation services of £0.1m (2005: £nil), taxation services of £0.1m (2005: £0.1m) and other services of £0.1m (2005: £0.4m). In addition, fees for actuarial services of £0.1m (2005: £0.1m) were borne by the Fenner Pension Scheme.

6. Employees

Aggregate employee costs are as follows:

	2006 £m	2005 £m
Wages and salaries	**86.6**	69.5
Social security costs	**6.9**	5.0
Pension costs – defined contribution schemes	**3.5**	2.9
Pension costs – defined benefit schemes	**0.4**	2.0
Share-based payments	**0.3**	0.2
	97.7	79.6

Average monthly number of employees during the year is as follows:

	2006	2005
Production	**2,560**	2,092
Selling and distribution	**459**	326
Administration	**454**	380
	3,473	2,798

Information on directors' remuneration is included in the Board Remuneration Report on pages 20 to 25.

7. Net finance costs

	2006 £m	2005 £m
Interest payable on bank overdrafts and loans	**2.7**	1.2
Interest payable on other loans	**3.2**	3.8
	5.9	5.0
Bank interest receivable	**(1.6)**	(1.2)
	4.3	3.8

8. Taxation

	2006 £m	2005 £m
Current taxation		
UK corporation tax:		
- current year	**5.8**	1.1
- double taxation relief	**(5.9)**	(0.7)
- adjustments in respect of prior years	**-**	(0.1)
	(0.1)	0.3
Overseas tax:		
- current year	**8.5**	4.9
- adjustments in respect of prior years	**(0.2)**	(0.2)
	8.3	4.7
	8.2	5.0
Deferred taxation		
UK deferred tax	**(0.2)**	(0.1)
Overseas tax	**0.7**	(0.9)
	0.5	(1.0)
Total taxation	**8.7**	4.0

UK corporation tax is calculated at 30% (2005: 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:

	2006 £m	2006 %	2005 £m	2005 %
Profit before taxation	**29.3**		12.4	
Taxation at the UK corporation tax rate of 30%	**8.8**	**30**	3.7	30
Expenses not deductible in determining taxable profit	**0.2**	**1**	-	-
Adjustments in respect of prior years	**(0.2)**	**(1)**	(0.3)	(3)
Effect of overseas tax rates	**0.5**	**2**	0.6	5
Other temporary differences not previously provided for	**(0.6)**	**(2)**	-	-
	8.7	**30**	4.0	32

Taxation recognised directly in equity amounts to a current taxation charge of £0.1m (2005: £nil) and a deferred taxation charge of £1.9m (2005: credit of £0.1m).

9. Dividends

	2006 £m	2005 £m
Dividends paid or approved in the year		
Interim dividend for the year ended 31 August 2005 of 1.975p (2004: 1.975p) per share	**2.2**	2.1
Final dividend for the year ended 31 August 2005 of 3.85p (2004: 3.85p) per share	**6.0**	4.2
	8.2	6.3
Dividends not 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	**6.3**	6.0
	9.4	8.2

The interim dividend for the year ended 31 August 2006 was paid on 4 September 2006. The proposed final dividend for the year ended 31 August 2006 is subject to approval by shareholders at the Annual General Meeting. Consequently neither have been recognised as liabilities at 31 August 2006. If approved, the final dividend will be paid on 15 January 2007 to shareholders on the register on 15 December 2006.

10. Earnings per share

	2006 £m	2005 £m
Earnings		
Profit for the year attributable to equity holders of the parent	**20.4**	8.2
Amortisation of intangible assets acquired	**0.4**	1.0
Taxation attributable to amortisation of intangible assets acquired	**(0.2)**	(0.4)
Profit for the year before amortisation of intangible assets acquired	**20.6**	8.8
	Number	Number
Average number of shares		
Weighted average number of shares in issue	**156,851,761**	123,908,805
Weighted average number of shares held by the Employee Share Ownership Plan Trust	**(131,859)**	(133,769)
Weighted average number of shares in issue – basic	**156,719,902**	123,775,036
Effect of share options and contingent long term incentive plans	**2,076,873**	735,681
Weighted average number of shares in issue – diluted	**158,796,775**	124,510,717
	Pence	Pence
Earnings per share		
Adjusted – before amortisation of intangible assets acquired	**13.1**	7.1
Basic	**13.0**	6.6
Diluted	**12.8**	6.6

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

11. Property, plant and equipment

	Freehold property £m	Leasehold property £m	Plant, machinery & equipment £m	Total £m
Cost:				
At start of prior year	29.1	0.6	96.3	126.0
Additions	0.1	0.5	7.3	7.9
Acquisition of subsidiary undertakings	0.9	0.2	3.3	4.4
Disposals	-	-	(0.7)	(0.7)
Reclassifications	0.6	-	(0.6)	-
Exchange differences	0.3	-	1.5	1.8
At start of 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 end of year	**31.0**	**4.7**	**112.9**	**148.6**
Accumulated depreciation:				
At start of prior year	6.0	0.1	64.2	70.3
Charge for the year	1.5	-	6.1	7.6
Disposals	-	-	(0.5)	(0.5)
Exchange differences	0.1	-	0.9	1.0
At start of 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 end of year	**7.8**	**0.2**	**71.9**	**79.9**
Net book value:				
At end of year	**23.2**	**4.5**	**41.0**	**68.7**
At start of year	23.4	1.2	36.4	61.0

The net book value of plant, machinery and equipment includes an amount of £0.5m (2005: £0.6m) in respect of assets held under finance leases.

Borrowings are secured on freehold property for the value of £0.9m (2005: £0.9m).

At 31 August 2006, the Group had entered into contractual commitments for the purchase of property, plant and equipment amounting to £9.0m (2005: £4.3m).

12. Intangible assets

	Goodwill £m	Intangibles acquired £m	Computer software £m	Other £m	Total £m
Cost:					
At start of prior year	23.3	-	2.8	0.2	26.3
Additions	-	-	0.2	-	0.2
Acquisition of subsidiary undertakings	36.1	9.6	0.3	-	46.0
Exchange differences	0.4	-	-	-	0.4
At start of 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 end of year	**59.4**	**9.6**	**3.2**	**0.2**	**72.4**
Accumulated amortisation and impairment losses:					
At start of prior year	2.6	-	1.7	0.2	4.5
Amortisation charge for the year	-	1.0	0.5	-	1.5
At start of 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 end of year	**2.6**	**1.4**	**2.4**	**0.2**	**6.6**
Net book value:					
At end of year	**56.8**	**8.2**	**0.8**	**-**	**65.8**
At start of year	57.2	8.6	1.1	-	66.9

The net book value of intangibles acquired comprises brands.

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:

	2006 £m	2005 £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)	**13.0**	13.2
Fenner Advanced Sealing Technologies (Fluid Power)	**23.2**	23.3
James Dawson & Son	**2.2**	2.2
Fenner Drives (Industrial)	**2.3**	2.4
	56.8	57.2

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 11.1%. 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 2.8% to 3.2% for all cash-generating units except for Conveyor Belting (India) where a growth rate of 7.2% has been used.

13. Investment in associates

	£m
Cost:	
At start of prior year and at start of year	-
Share of loss for the year	(0.1)
Disposals	0.1
At end of year	**-**
Goodwill:	
At start of prior year and at start of year	0.1
Disposals	(0.1)
At end of year	**-**
Loans:	
At start of prior year	0.2
Repayment of loan	(0.1)
At start of year	0.1
Repayment of loan	(0.1)
At end of year	**-**
Net book value:	
At end of year	**-**
At start of year	0.2

During the year the Group disposed of its entire 50% interest in associate, Rob Harvey Pty Limited. At 31 August 2006, the Group did not have any interest in associates.

The Group's share of the results and assets and liabilities of associates is as follows:

	2006 £m	2005 £m
Revenue	**0.4**	1.6
Loss for the year	**(0.1)**	(0.1)
Total assets	**-**	0.9
Total liabilities	**-**	(0.9)

14. Other investments

	£m
Cost:	
At start of prior year and at start of year	0.3
Additions	0.3
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.

15. Deferred tax

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

	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Property, plant and equipment	**0.8**	-	**(0.5)**	(0.6)	**0.3**	(0.6)
Intangible assets	**0.8**	1.1	**(2.7)**	(2.9)	**(1.9)**	(1.8)
Retirement benefit obligations	**8.6**	11.6	**-**	-	**8.6**	11.6
Taxation losses	**-**	1.7	**-**	-	**-**	1.7
Fixed asset revaluation	**-**	-	**(1.1)**	(1.1)	**(1.1)**	(1.1)
Other short term temporary differences	**5.5**	4.4	**(0.8)**	(1.1)	**4.7**	3.3
	15.7	18.8	**(5.1)**	(5.7)	**10.6**	13.1

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	(1.1)	1.0	10.2	1.7	(1.1)	2.5	13.2
Credited/(charged) to income statement	0.5	0.1	(0.1)	-	-	0.5	1.0
Credited to equity	-	-	0.1	-	-	-	0.1
Acquisitions	-	(2.9)	1.4	-	-	0.3	(1.2)
At start of 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 end of year	**0.3**	**(1.9)**	**8.6**	**-**	**(1.1)**	**4.7**	**10.6**

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 (2005: £7.2m) 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 (2005: £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 £0.4m (2005: £0.6m).

16. Inventories

	2006 £m	2005 £m
Raw materials	**21.1**	21.1
Work in progress	**8.0**	9.0
Finished goods	**24.8**	22.7
	53.9	52.8

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 £2.5m (2005: £2.3m). The amount credited to the income statement in the year in respect of reversals of write downs of inventories is £1.9m (2005: £0.9m). The cost of inventories recognised as an expense in the year is £262.5m (2005: £214.1m).

17. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**58.9**	57.2
Other receivables	**2.1**	1.2
Prepayments and accrued income	**3.0**	3.0
	64.0	61.4

Trade receivables is presented net of provision for doubtful trade receivables of £0.8m (2005: £1.0m), estimated by management based on past default experience and other factors as considered appropriate. The amount credited to the income statement in the year in respect of doubtful trade receivables is £0.1m (2005: charge of £0.2m).

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

18. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand and short term deposits	**41.4**	51.5

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

	2006 £m	2005 £m
Cash and cash equivalents	**41.4**	51.5
Bank overdrafts	**(0.4)**	(0.2)
	41.0	51.3

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

	2006 £m	2005 £m
Net (decrease)/increase in cash and cash equivalents	**(9.4)**	28.6
Decrease/(increase) in borrowings and finance leases resulting from cash flows	**8.4**	(18.8)
Movement in net debt resulting from cash flows	**(1.0)**	9.8
Loans and finance leases acquired with subsidiaries	**-**	(4.4)
New finance leases	**(0.1)**	(0.1)
Exchange movements	**2.5**	0.2
Movement in net debt in the year	**1.4**	5.5
Net debt at start of year	**(34.5)**	(40.0)
Net debt at end of year	**(33.1)**	(34.5)

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

20. 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 is 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.

21. Borrowings

	2006 £m	2005 £m
Current		
Bank overdrafts	**0.4**	0.2
Bank loans	**4.3**	4.7
Other loans	**3.7**	31.3
Obligations under finance leases	**0.1**	0.2
	8.5	36.4
Non-current		
Bank loans	**47.4**	26.0
Other loans	**18.4**	23.3
Obligations under finance leases	**0.2**	0.3
	66.0	49.6
Total borrowings	**74.5**	86.0

Bank loans include £45.3m drawn down under a committed revolving bank credit facility maturing in June 2010. Other loans principally relates to a US dollar private placement for $40.9m (2005: $47.7m) of Senior Notes which bear interest at 7.29% per annum. An amount of $6.8m is repayable annually on 1 June each year until 2012. A further private placement for $50.0m was repaid during the year using cash resources and utilising committed bank facilities.

The maturity profile of borrowings is as follows:

	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
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**
31 August 2005					
Within one year or on demand	0.2	4.7	31.3	0.2	36.4
Between one and two years	-	0.1	3.9	0.2	4.2
Between two and five years	-	25.8	11.8	0.1	37.7
More than five years	-	0.1	7.6	-	7.7
	0.2	30.7	54.6	0.5	86.0

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

	Floating Rate £m	Fixed rate £m	Total £m
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**
31 August 2005			
US dollar	32.7	40.4	73.1
Other currencies	11.8	1.1	12.9
	44.5	41.5	86.0

The fixed rate borrowings principally relate to the US dollar private placement 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 22. 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:

	2006		2005	
	Carrying amount £m	**Fair Value £m**	Carrying amount £m	Fair Value £m
Current borrowings	**8.5**	**8.5**	36.4	36.6
Non-current borrowings	**66.0**	**67.0**	49.6	51.4
	74.5	**75.5**	86.0	88.0

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 2006, the Group had available £14.7m (2005: £37.0m) of undrawn committed borrowing facilities.

Current borrowings of £0.2m (2005: £0.2m) and non-current borrowings of £0.7m (2005: £0.7m) are secured on specific freehold property.

21. Borrowings continued

Comparative period disclosures

As permitted by the transitional provisions of IFRS 1, the Group has applied IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 September 2005. Consequently the comparative financial information must be prepared in accordance with the UK GAAP requirements of FRS 13 'Derivatives and other Financial Instruments: Disclosures'. The disclosure requirements for 2005, not already reflected above, are given below.

The currency profile of financial assets is as follows:

	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	23.8	0.3	24.1
Euro	1.8	-	1.8
US dollar	14.9	-	14.9
Australian dollar	6.5	-	6.5
Other currencies	4.5	-	4.5
	51.5	0.3	51.8

Financial assets comprise cash at bank and in hand and other investments. As permitted by FRS 13, disclosures are not required in respect of short term trade and other receivables.

Fixed rate borrowings have a weighted average interest rate of 7.2% and a weighted average time for which the rate is fixed of 2.63 years.

The monetary assets and liabilities of the Group that are not denominated in the functional currency of the relevant operating unit are as follows:

	Net foreign currency assets/(liabilities)				
Functional currency of operating unit	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Sterling	-	0.5	(0.1)	0.3	0.7
US dollar	-	-	-	0.2	0.2
Other currencies	0.4	(0.1)	(3.3)	-	(3.0)
	0.4	0.4	(3.4)	0.5	(2.1)

22. Derivative financial instruments

	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Forward foreign currency contracts and options	**0.5**	-	**-**	-	**0.5**	-
Interest rate swaps	**-**	-	**(0.6)**	-	**(0.6)**	-
	0.5	-	**(0.6)**	-	**(0.1)**	-

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

	2006		2005	
	Carrying amount £m	**Fair value £m**	Carrying amount £m	Fair value £m
Forward foreign currency contracts and options	**0.5**	**0.5**	-	(0.1)
Interest rate swaps	**(0.6)**	**(0.6)**	-	0.1
	(0.1)	**(0.1)**	-	-

The fair value of forward foreign currency contracts represents the gain/(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 borrowings denominated in US dollars and Australian dollars amounting to £11.3m (2005: £9.2m) are designated as hedges of the net investment in overseas subsidiaries. The post-tax gain on translation to sterling at the year end of £0.4m (2005: £0.4m) 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 6.57% (including bank margin) and designated as a hedge. At 31 August 2006, the fair value of the interest rate swap is a liability of £0.6m (2005: £nil) and the post-tax loss of £0.4m is recognised in the hedging reserve in shareholders' equity.

23. Trade and other payables

	2006 **£m**	2005 £m
Trade payables	**40.9**	40.7
Other taxes and social security	**1.9**	1.7
Other payables	**6.2**	6.3
Accruals and deferred income	**18.7**	15.1
	67.7	63.8

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.

24. 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 2006 by independent qualified actuaries.

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

	2006		2005	
	UK scheme	**Overseas schemes**	UK scheme	Overseas schemes
Discount rate	**5.0%**	**5.0% - 9.0%**	5.0%	4.5% - 8.5%
Inflation rate	**3.0%**	**2.0% - 5.75%**	2.7%	2.0% - 4.0%
Rate of increase in salaries	**4.0%**	**3.0% - 5.75%**	3.7%	3.0% - 5.0%
Rate of increase in pensions in payment subject to Limited Price Indexation increases:				
- capped at 5.0%	**2.9%**	**-**	2.7%	-
- capped at 2.5%	**2.1%**	**-**	-	-
- other	**-**	**0% - 3.0%**	-	0% - 3.0%
Rate of increase for deferred pensioners subject to statutory revaluation	**3.0%**	**0% - 3.0%**	2.7%	0% - 3.0%
Expected rate of return on assets of the scheme:				
- Equities	**7.9%**	**7.9% - 12.0%**	8.0%	7.4% - 11.5%
- Bonds	**4.4%**	**5.0% - 9.0%**	4.2%	4.5% - 8.5%
- Cash	**4.5%**	**7.0%**	4.5%	6.5%

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 wide range of values is a consequence of the diversity of territories in which the Group operates defined benefit schemes.

24. Post-retirement benefits continued

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:

	2006		2005	
	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:

	2006			2005		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Equity	**76.0**	**3.2**	**79.2**	66.9	2.5	69.4
Bonds	**18.5**	**11.9**	**30.4**	16.9	10.5	27.4
Cash	**8.0**	**0.1**	**8.1**	7.8	0.6	8.4
Other	**-**	**0.1**	**0.1**	-	0.5	0.5
	102.5	**15.3**	**117.8**	91.6	14.1	105.7

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

	2006			2005		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Current service cost	**1.1**	**0.5**	**1.6**	1.0	0.3	1.3
Interest on obligations	**6.4**	**0.9**	**7.3**	6.0	0.8	6.8
Expected return on assets of the schemes	**(6.4)**	**(0.7)**	**(7.1)**	(5.6)	(0.5)	(6.1)
Past service credit	**(1.4)**	**-**	**(1.4)**	-	-	-
	(0.3)	**0.7**	**0.4**	1.4	0.6	2.0

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

The actual return on assets of the schemes is £13.1m (2005: £17.5m).

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 £7.8m (2005: loss of £0.1m).

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

	2006			2005		
	UK scheme £m	**Overseas schemes £m**	**Total £m**	UK scheme £m	Overseas schemes £m	Total £m
Present value of obligations	**(129.4)**	**(17.5)**	**(146.9)**	(128.6)	(17.7)	(146.3)
Fair value of assets of the schemes	**102.5**	**15.3**	**117.8**	91.6	14.1	105.7
	(26.9)	**(2.2)**	**(29.1)**	(37.0)	(3.6)	(40.6)

The present value of obligations includes £1.3m (2005: £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	105.0	15.0	120.0
Current service cost	1.0	0.3	1.3
Interest on obligations	6.0	0.8	6.8
Actuarial gains and losses	10.0	1.5	11.5
Employee contributions	0.5	0.2	0.7
Benefits paid	(4.7)	(0.5)	(5.2)
Acquisitions	10.8	-	10.8
Exchange differences	-	0.4	0.4
At start of 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 end of year	**129.4**	**17.5**	**146.9**

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	71.6	11.7	83.3
Expected return on assets of the schemes	5.6	0.5	6.1
Actuarial gains and losses	10.4	1.0	11.4
Employer contributions	2.1	0.8	2.9
Employee contributions	0.5	0.2	0.7
Benefits paid	(4.7)	(0.5)	(5.2)
Acquisitions	6.1	-	6.1
Exchange differences	-	0.4	0.4
At start of 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 end of year	**102.5**	**15.3**	**117.8**

24. Post-retirement benefits continued

Experience adjustments are as follows:

	2006 £m	2005 £m
Present value of obligations	**(146.9)**	(146.3)
Fair value of assets of the schemes	**117.8**	105.7
Deficit in the schemes	**(29.1)**	(40.6)
Experience gains/(losses) on liabilities of the schemes	**1.5**	(0.3)
Experience gains on assets of the schemes	**6.0**	11.4

The Group expects to contribute approximately £3.6m to its defined benefit schemes in the year ending 31 August 2007.

25. Share-based payments

The Group operates two equity-settled share-based payment schemes and one cash-settled scheme. 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	1,563,339	123.4
Granted during the year	158,146	123.5
Forfeited during the year	(45,913)	150.2
Lapsed during the year	(443,972)	138.0
At start of year	1,231,600	117.2
Forfeited during the year	(122,436)	108.1
Exercised during the year	(211,708)	143.1
At end of year	**897,456**	**112.3**

At 31 August 2006, 739,310 (2005: 211,708) options were exercisable. During the year, the weighted average share price at the date of exercise was 167.4p.

The following share options were outstanding at 31 August 2006:

Dates exercisable	Options number	Option price pence
2001 to 2008	142,437	190.46
2001 to 2008	306,089	99.80
2002 to 2009	40,811	89.19
2004 to 2011	45,913	100.95
2005 to 2012	204,060	87.23
2006 to 2013	61,218	83.31
2007 to 2014	96,928	123.49
	897,456	

The weighted average contractual life of outstanding share options at 31 August 2006 is 4.2 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 options granted after 7 November 2002:

	Grant Date		
	18 November 2002	10 November 2003	15 November 2004
Share price at date of grant	88.5p	85.0p	130.5p
Fair value of options granted	11p	13p	28p
Exercise price	87.2p	83.3p	123.5p
Expected volatility	25%	27%	27%
Expected life	6 years	6 years	6 years
Risk free rate	4.4%	5.0%	4.6%
Expected dividend yield	7.3%	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

Conditional share awards are made to certain employees within the Group. A provisional allocation of shares is made to each employee at the start of a three year performance period. The provisional allocation of shares is based on a percentage (maximum of 100%) 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 performance period compared to the TSR of the comparator group, the FTSE All Share Industrial Engineering Index, over the same period.

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

	Shares number
At start of prior year	2,453,501
Provisional allocation during the year	626,050
Awarded during the year	(158,612)
Lapsed during the year	(515,945)
At start of year	2,404,994
Provisional allocation during the year	622,380
Awarded during the year	(195,343)
Lapsed during the year	(663,507)
At end of year	**2,168,524**

25. Share-based payments continued

The following provisional allocations of shares have been made at 31 August 2006:

Date of provisional allocation	Shares number
5 November 2003	920,094
10 November 2004	626,050
9 November 2005	622,380
	2,168,524

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 awards made after 7 November 2002:

	Date of provisional allocation		
	5 November 2003	10 November 2004	9 November 2005
Share price at date of provisional allocation	85.0p	123.0p	151.0p
Fair value of shares awarded	26p	39p	52p
Expected volatility	29%	27%	26%
Expected life	3 years	3 years	3 years
Risk free rate	4.8%	4.6%	4.8%
Expected dividend yield	7.6%	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 25.

c) Long Term Shadow Incentive Plan

Conditional notional share awards are 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.

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

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

The following provisional allocations of notional shares have been made at 31 August 2006:

Date of provisional allocation	Notional shares number
9 November 2005	252,000

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 allocation of notional shares on 9 November 2005:

Share price at valuation date	208.5p
Fair value of shares awarded	100p
Expected volatility	27%
Expected life	3 years
Risk free rate	4.9%
Expected dividend yield	2.8%

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 in respect of the Long Term Shadow Incentive Plan of £0.1m (2005: £nil) are included within trade and other payables in the balance sheet. There are no liabilities in the balance sheet in respect of the Fenner PLC 1996 Executive Share Option Scheme or the Long Term Share Incentive Plan.

26. Provisions

Movements in provisions are as follows:

	Restructuring costs £m	Property and environmental £m	Total £m
At start of year	0.8	4.1	4.9
New provisions charged to income statement during the year	0.2	2.3	2.5
Provisions not required credited to income statement during the year	-	(0.2)	(0.2)
Provisions utilised during the year	(0.7)	-	(0.7)
At end of year	**0.3**	**6.2**	**6.5**

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 has been used. All provisions are expected to be utilised within 10 years.

27. Share capital

	Authorised		Allotted, called up and fully paid	
	Number	£m	Number	£m
At start of prior year	136,000,000	34.0	108,600,627	27.1
Shares authorised/issued in the year	84,000,000	21.0	47,962,647	12.0
At start of year	220,000,000	55.0	156,563,274	39.1
Shares authorised/issued in the year	-	-	407,051	0.1
At end of year	**220,000,000**	**55.0**	**156,970,325**	**39.2**

During the year, 195,343 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 £0.3m and 211,708 ordinary shares of 25p were issued under the Fenner PLC 1996 Executive Share Option Scheme for a total consideration of £0.3m.

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

28. Equity

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Other reserve £m	Minority interests £m	Total equity £m
At start of prior year	27.1	4.2	(3.3)	-	16.8	0.5	45.3
Total recognised income and expense for the year	-	-	8.2	2.2	-	0.2	10.6
Equity dividends paid	-	-	(6.3)	-	-	-	(6.3)
Dividends paid to minority shareholders	-	-	-	-	-	(0.1)	(0.1)
Shares issued in the year	12.0	44.9	(0.2)	-	1.1	-	57.8
Share-based payments	-	-	0.2	-	-	-	0.2
Transfers	-	-	16.8	-	(16.8)	-	-
At start of 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 end of year	**39.2**	**49.6**	**33.5**	**(2.1)**	**1.1**	**0.7**	**122.0**

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 (2005: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group’s share incentives schemes. At 31 August 2006 the ESOP held 131,859 (2005: 131,859) of the Company’s shares.

The translation 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. During the year movements in the reserve net to £nil and therefore are not shown in the above table.

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.

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

30. Operating lease commitments

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

	Land and Buildings		Other	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Within one year	**1.6**	1.1	**1.4**	0.9
In the second to fifth years inclusive	**5.4**	4.0	**1.2**	1.3
After five years	**18.6**	17.2	**-**	0.2
	25.6	22.3	**2.6**	2.4

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

31. Events after the balance sheet date

After the balance sheet date, 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. EGC was acquired from Compagnie Plastic Omnium SA, a company quoted on the French Stock Exchange. EGC was acquired for a cash consideration of US$15m, excluding acquisition costs, with an adjustment dependent upon the level of working capital of the business at completion.

32. Related party transactions

Related parties to the Group comprise key management personnel, associates 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 25. There were no other transactions with key management personnel.

Associates

During the year the Group made the following transactions with associate, Rob Harvey Pty Limited:

Sales of £0.1m (2005: £0.2m)
Loan repayment received of £0.1m (2005: £0.1m)

The Group's entire interest in Rob Harvey Pty Limited was sold during the year. There were no amounts due to or from associates at 31 August 2006 (2005: £nil)

Joint ventures

There were no material transactions with joint ventures during the year (2005: £nil) and there were no amounts due to or from joint ventures at 31 August 2006 (2005: £nil).

Notes to the consolidated financial statements continued

33. Acquisitions and disposals

On 31 December 2005 the Group sold its interest in associate Rob Harvey Pty Limited. Both the cash consideration received and the loss on disposal were negligible amounts.

On 30 June 2006 the Group disposed of a 25% minority interest in its South African conveyor belting business at fair value to Peotona Group Holdings (Pty) Limited, a black controlled enterprise. This transaction has been undertaken for the purposes of South Africa's broad based Black Economic Empowerment programme. The business will continue to be consolidated in the Group financial statements.

On 17 August 2006 the Group acquired the business and assets of rEscan Pty Ltd, a provider of non-destructive testing and remote non-destructive testing products and services to the materials handling sector, for a total cost of £0.3m, of which £0.2m was paid during the year. The total cost represents the fair value of intangible assets acquired.

Wellington Holdings plc was acquired in the prior year on 20 May 2005. In accordance with IFRS 3 'Business Combinations', the provisional adjustments to the book values of the assets and liabilities of the operations acquired to their fair value have been reviewed in the current year. This has resulted in additional fair value adjustments that have increased the goodwill by £0.8m, with increases in tax liabilities of £0.2m and other payables of £0.4m and a reduction in inventories of £0.2m. Of these amounts, £0.3m has been paid during the year.

34. Principal subsidiary undertakings

The principal subsidiary undertakings at 31 August 2006 are as follows:

Company	Country of Incorporation	Proportion of issued ordinary shares held
J H Fenner & Co Limited	United Kingdom	*100
Fenner Dunlop 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
DSI Acquisition Company (trading as Dynamic Seals 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
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 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.

35. Interest in joint ventures

The Group holds a 50% interest in the ordinary shares of KSB Pumps (SA) (Pty) Limited, incorporated in South Africa. The interest has been 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:

	2006 £m	2005 £m
Consolidated income statement		
Revenue	**9.6**	9.4
Cost of sales	**(5.5)**	(5.9)
Distribution costs	**(1.6)**	(1.4)
Administrative expenses	**(1.1)**	(0.9)
Taxation	**(0.6)**	(0.4)
Profit for the year	**0.8**	0.8
Consolidated balance sheet		
Property, plant and equipment	**0.7**	0.8
Deferred tax assets	**0.1**	0.1
Inventories	**1.9**	2.1
Trade and other receivables	**1.5**	2.0
Cash and cash equivalents	**1.0**	0.6
Trade and other payables	**(1.6)**	(1.7)
Current tax liabilities	**(0.1)**	(0.1)
Retirement benefit obligations	**(0.2)**	(0.2)
Net assets	**3.3**	3.6

At 31 August 2006, the Group's share of contractual commitments for the purchase of property, plant and equipment was £0.1m (2005: £nil).

There were no material contingencies in respect of joint ventures.

36. Explanation of transition to IFRS

These financial statements are the Group's first financial statements prepared in accordance with IFRS. The accounting policies set out in note 1 have been applied in preparing the consolidated financial statements for the year ended 31 August 2006, including comparative information for the year ended 31 August 2005, and in the preparation of the opening IFRS balance sheet at 1 September 2004, the Group's date of transition to IFRS.

In preparing the opening IFRS balance sheet and comparative information for the year ended 31 August 2005, the Group has adjusted amounts previously reported in financial statements prepared in accordance with its previous basis of accounting, UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below.

36. Explanation of transition to IFRS continued

Reconciliation of the consolidated balance sheets at 1 September 2004 and 31 August 2005

		1 September 2004			31 August 2005		
	Notes	UK GAAP in IFRS format *(note j)* £m	Effect of transition to IFRS £m	**IFRS £m**	UK GAAP in IFRS format *(note j)* £m	Effect of transition to IFRS £m	**IFRS £m**
Non-current assets							
Property, plant and equipment	f	56.4	(0.7)	**55.7**	61.8	(0.8)	**61.0**
Intangible assets	a,b,c,d,g	21.8	-	**21.8**	61.6	5.3	**66.9**
Investment in associates		0.3	-	**0.3**	0.2	-	**0.2**
Other investments		0.3	-	**0.3**	0.3	-	**0.3**
Deferred tax assets	a,g	4.1	11.9	**16.0**	6.0	12.8	**18.8**
		82.9	11.2	**94.1**	129.9	17.3	**147.2**
Current assets							
Inventories	f	43.4	(1.8)	**41.6**	54.9	(2.1)	**52.8**
Trade and other receivables	f	50.8	(1.5)	**49.3**	63.4	(2.0)	**61.4**
Current tax assets		0.5	-	**0.5**	0.7	-	**0.7**
Cash and cash equivalents	f	32.2	(0.6)	**31.6**	52.1	(0.6)	**51.5**
		126.9	(3.9)	**123.0**	171.1	(4.7)	**166.4**
Total assets		209.8	7.3	**217.1**	301.0	12.6	**313.6**
Current liabilities							
Borrowings		(16.6)	-	**(16.6)**	(36.4)	-	**(36.4)**
Trade and other payables	f	(54.7)	1.3	**(53.4)**	(65.5)	1.7	**(63.8)**
Current tax liabilities	f	(4.0)	0.1	**(3.9)**	(5.2)	0.1	**(5.1)**
Dividends	e	(6.3)	6.3	**-**	(8.2)	8.2	**-**
		(81.6)	7.7	**(73.9)**	(115.3)	10.0	**(105.3)**
Non-current liabilities							
Borrowings		(55.0)	-	**(55.0)**	(49.6)	-	**(49.6)**
Retirement benefit obligations	a	(3.6)	(33.1)	**(36.7)**	(5.6)	(35.0)	**(40.6)**
Provisions		(3.4)	-	**(3.4)**	(4.9)	-	**(4.9)**
Deferred tax liabilities	c,g	(1.7)	(1.1)	**(2.8)**	(2.4)	(3.3)	**(5.7)**
		(63.7)	(34.2)	**(97.9)**	(62.5)	(38.3)	**(100.8)**
Total liabilities		(145.3)	(26.5)	**(171.8)**	(177.8)	(28.3)	**(206.1)**
Net assets		64.5	(19.2)	**45.3**	123.2	(15.7)	**107.5**
Equity							
Share capital		27.1	-	**27.1**	39.1	-	**39.1**
Share premium		4.2	-	**4.2**	49.1	-	**49.1**
Retained earnings	a,b,c,e,g,h,i	8.7	(12.0)	**(3.3)**	25.6	(10.2)	**15.4**
Translation reserve	c,d,h	-	-	**-**	-	2.2	**2.2**
Revaluation reserve	i	4.0	(4.0)	**-**	4.0	(4.0)	**-**
Other reserve		16.8	-	**16.8**	1.1	-	**1.1**
Shareholders' equity		60.8	(16.0)	**44.8**	118.9	(12.0)	**106.9**
Minority interests	f	3.7	(3.2)	**0.5**	4.3	(3.7)	**0.6**
Total equity		64.5	(19.2)	**45.3**	123.2	(15.7)	**107.5**

Reconciliation of net assets at 1 September 2004 and 31 August 2005

	Notes	1 September 2004 £m	31 August 2005 £m
Net assets under UK GAAP		64.5	123.2
Post-retirement benefits	a	(22.9)	(22.4)
Goodwill amortisation	b	-	1.9
Intangible assets	c	-	(0.6)
Retranslation of goodwill	d	-	0.4
Dividends	e	6.3	8.2
Minority interests	f	(3.2)	(3.7)
Deferred taxation	g	0.6	0.5
Net assets under IFRS		**45.3**	**107.5**

Reconciliation of the consolidated income statement for the year ended 31 August 2005

	Notes	UK GAAP in IFRS format *(note j)* £m	Effect of transition to IFRS £m	**IFRS £m**
Revenue	f	313.0	(9.4)	**303.6**
Cost of sales	f	(229.8)	5.9	**(223.9)**
Gross profit		83.2	(3.5)	**79.7**
Distribution costs	f	(30.4)	1.4	**(29.0)**
Administrative expenses	a,f	(35.0)	1.6	**(33.4)**
Operating profit before amortisation of intangible assets acquired		17.8	(0.5)	**17.3**
Amortisation of intangible assets acquired	b,c	(1.9)	0.9	**(1.0)**
Operating profit		15.9	0.4	**16.3**
Finance income		1.2	-	**1.2**
Finance costs		(5.0)	-	**(5.0)**
Share of result of associate		(0.1)	-	**(0.1)**
Profit before taxation		12.0	0.4	**12.4**
Taxation	a,c,f	(4.5)	0.5	**(4.0)**
Profit for the year		7.5	0.9	**8.4**

Administrative expenses excludes amounts in respect of amortisation of intangible assets acquired.

Reconciliation of profit for the year ended 31 August 2005

	Notes	£m
Profit for the year under UK GAAP		7.5
Post-retirement benefits	a	0.5
Goodwill amortisation	b	1.9
Intangible assets	c	(0.7)
Minority interests	f	(0.8)
Profit for the year under IFRS		**8.4**

36. Explanation of transition to IFRS continued

Reconciliation of the consolidated cash flow statement for the year ended 31 August 2005

	UK GAAP in IFRS format *(note j)* £m	Effect of transition to IFRS £m	**IFRS £m**
Profit before taxation	12.0	0.4	**12.4**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	10.1	(1.0)	**9.1**
Movement in retirement benefit obligations	(0.2)	(0.7)	**(0.9)**
Increase in provisions	1.5	-	**1.5**
Finance income	(1.2)	-	**(1.2)**
Finance costs	5.0	-	**5.0**
Share of result of associate	0.1	-	**0.1**
Other non-cash movements	0.3	-	**0.3**
Operating cash flow before movement in working capital	27.6	(1.3)	**26.3**
Movement in working capital	(6.3)	0.3	**(6.0)**
Net cash from operations	21.3	(1.0)	**20.3**
Interest received	1.2	-	**1.2**
Interest paid	(4.6)	-	**(4.6)**
Taxation paid	(5.6)	0.4	**(5.2)**
Net cash from operating activities	12.3	(0.6)	**11.7**
Investing activities:			
Purchase of property, plant and equipment	(7.8)	0.2	**(7.6)**
Disposal of property, plant and equipment	0.1	-	**0.1**
Purchase of intangible assets	(0.2)	-	**(0.2)**
Acquisition of subsidiary undertakings	(44.2)	-	**(44.2)**
Net cash used in investing activities	(52.1)	0.2	**(51.9)**
Financing activities:			
Equity dividends paid	(6.3)	-	**(6.3)**
Dividends paid to minority shareholders	(0.5)	0.4	**(0.1)**
Issue of ordinary share capital	56.3	-	**56.3**
Loan repayment from associate	0.1	-	**0.1**
Repayment of finance leases	(0.1)	-	**(0.1)**
Repayment of borrowings	(7.4)	-	**(7.4)**
New borrowings	26.3	-	**26.3**
Net cash from financing activities	68.4	0.4	**68.8**
Net increase in cash and cash equivalents	28.6	-	**28.6**
Cash and cash equivalents at start of year	23.5	(0.6)	**22.9**
Exchange movements	(0.2)	-	**(0.2)**
Cash and cash equivalents at end of year	51.9	(0.6)	**51.3**

The only adjustment that has an impact on net cash flows is in respect of minority interests (note f).

Notes to the reconciliations

a) Post-retirement benefits

Under UK GAAP post-retirement benefits were accounted for under SSAP 24 'Accounting for pension costs', whilst disclosures on the impact of compliance with FRS 17 'Retirement Benefits' have been made in the Group's financial statements since 2001. IAS 19 'Employee Benefits' is broadly similar in accounting treatment to FRS 17, notably in the requirement to recognise any surpluses or deficits in the schemes on the balance sheet. The Group has also opted to recognise actuarial gains and losses directly in equity through the statement of recognised income and expense. The only difference between IAS 19 and FRS 17 that has a material impact on the Group is the recognition of future expenses of running the UK defined benefit scheme.

Impact

Income statement - 2005	Decrease in administrative expenses of £0.7m, with an associated deferred tax charge of £0.2m.
Balance sheet - 2004	Recognition of the deficit under IAS 19 of £36.7m, less the reversal of net liabilities under SSAP 24 of £3.6m and the associated deferred tax asset of £10.2m. Decrease in retained earnings reserve of £22.9m.
Balance sheet - 2005	Recognition of the deficit under IAS 19 of £40.6m, less the reversal of net liabilities under SSAP 24 of £5.6m, the associated deferred tax asset of £10.8m and an increase in goodwill, due to a change in fair values of the pension obligation on acquisition, of £1.8m. Decrease in retained earnings reserve of £22.4m.

b) Business combinations – goodwill amortisation

Under UK GAAP goodwill is amortised over its expected useful life. IFRS 3 'Business Combinations' does not permit the amortisation of goodwill. Goodwill is carried at its amortised value at the date of transition to IFRS and 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 immediately in the income statement.

No adjustment is required to amortisation of goodwill prior to the date of transition to IFRS as permitted by the transitional provisions of IFRS 1.

Impact

Income statement - 2005	Decrease in the amortisation charge in respect of amounts previously charged under UK GAAP that are reversed under IFRS of £1.9m.
Balance sheet - 2004	No impact.
Balance sheet - 2005	Increase in goodwill in respect of amortisation previously charged under UK GAAP, including exchange, of £1.9m. Increase in retained earnings reserve of £1.9m.

c) Business combinations - intangible assets

IFRS 3 requires an acquiring company to recognise separately the identifiable assets and liabilities of an entity on the acquisition of that entity. For intangible assets this is required if their fair value can be measured reliably. Intangible assets are initially valued at fair value and are amortised over their estimated useful lives. Under UK GAAP there are less prescriptive requirements for the identification of intangible assets and this often resulted in intangible assets acquired not being separately identified but instead classified within goodwill.

No adjustment is required in respect of business combinations prior to the date of transition to IFRS as permitted by the transitional provisions of IFRS 1.

Impact

Income statement - 2005	Increase in the amortisation charge in respect of the amortisation of assets reclassified from goodwill to intangible assets of £1.0m, with an associated deferred tax credit of £0.3m.
Balance sheet - 2004	No impact.
Balance sheet - 2005	Increase in intangible assets of £8.6m, decrease in goodwill of £6.3m and an associated deferred tax liability of £2.9m. Decrease in retained earnings reserve of £0.7m and increase in translation reserve of £0.1m.

36. Explanation of transition to IFRS continued

d) Retranslation of goodwill

IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires goodwill arising on the acquisition of a foreign operation and any fair value adjustments relating to the acquisition to be treated as assets and liabilities of that operation and expressed in the functional currency of that operation. These amounts must then be retranslated at the closing rate at each balance sheet date, with any exchange differences on retranslation recognised directly in equity. Under UK GAAP goodwill arising on consolidation is translated to sterling at the date of acquisition and carried in sterling, with no retranslation at the balance sheet date.

No adjustment has been made to goodwill arising on acquisitions prior to the date of transition to IFRS as permitted by the transitional provisions of IFRS 1.

Impact

Income statement - 2005	No impact.
Balance sheet - 2004	No impact.
Balance sheet - 2005	Increase in goodwill of £0.4m. Increase in translation reserve of £0.4m.

e) Post balance sheet events - dividends

IAS 10 'Events After the Balance Sheet Date' requires that dividends approved after the balance sheet date should not be recognised as a liability at the balance sheet date since the liability does not represent a present obligation as defined by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. Dividends are only recognised when approved by shareholders at the Annual General Meeting or, for interim dividends, when paid. Under UK GAAP the liability is recognised in the period to which the dividends relate irrespective of when they are approved or paid.

Impact

Income statement - 2005	No impact.
Balance sheet - 2004	Elimination of dividend creditor of £6.3m. Increase in retained earnings reserve of £6.3m.
Balance sheet - 2005	Elimination of dividend creditor of £8.2m. Increase in retained earnings reserve of £8.2m.

f) Joint ventures – minority interests

IAS 27 'Consolidated and Separate Financial Statements' requires that an entity can only be consolidated as a subsidiary if the Group has the power to govern the financial and operating policies of the entity. Under UK GAAP an entity can be consolidated as a subsidiary if the Group can demonstrate dominant influence over the financial and operating policies of the entity. The distinction is therefore that IFRS requires the legal enforceability of control whereas UK GAAP requires the demonstration that actions exert dominant influence.

The Group holds a 50% shareholding in an entity which was previously accounted for as a subsidiary under UK GAAP on the basis that the actions of the Group were demonstrated to exert dominant influence. Under IFRS the Group is unable to legally enforce control and so the entity is consolidated as a joint venture rather than as a subsidiary.

IAS 31 'Interests in Joint Ventures' requires interests in joint ventures to be recognised using the proportionate consolidation method or as an alternative, the equity method. The use of the proportionate consolidation method means the Group's income statement will include its share of the income and expenses of the joint venture and the Group's balance sheet will include its share of the assets and liabilities of the joint venture. Under UK GAAP, as accounted for as a subsidiary, the Group's income statement includes all income and expenses of the joint venture before deduction of the minority interest as a single figure and the Group's balance sheet includes all assets and liabilities of the joint venture with the minority interest deducted in equity.

Impact

Income statement - 2005	Decreases in revenue of £9.4m, cost of sales of £5.9m, distribution costs of £1.4, administrative expenses of £0.9m and tax charge of £0.4m.
Balance sheet - 2004	Decreases in property, plant and equipment of £0.7m, inventories of £1.8m, trade and other receivables of £1.5m, cash and cash equivalents of £0.6m, trade and other payables of £1.3m and current tax liabilities of £0.1m. Decrease in equity attributable to minority interests of £3.2m.
Balance sheet - 2005	Decreases in property, plant and equipment of £0.8m, inventories of £2.1m, trade and other receivables of £2.0, cash and cash equivalents of £0.6m, trade and other payables of £1.7m and current tax liabilities of £0.1m. Decrease in equity attributable to minority interests of £3.7m.

g) Deferred taxation

IAS 12 'Income Taxes' requires deferred tax to be provided on temporary differences between the carrying amounts and tax values of assets and liabilities (a balance sheet approach). Under UK GAAP deferred tax is provided on timing differences between profit in the financial statements and taxable profit (an income statement approach). In addition, IAS 12 requires the recognition of deferred tax assets and liabilities in respect of rolled over capital gains and revalued assets. Under UK GAAP these are generally not required to be recognised.

Under UK GAAP goodwill on acquisitions prior to 1 September 1998 was recognised immediately in equity and would be charged to the income statement upon any subsequent sale or closure of the business. Consequently a deferred tax provision is recognised for tax deductible goodwill on the timing difference through the income statement. Under IFRS such goodwill is not recycled through the income statement and remains in equity, but a deferred tax asset may be recognised on the temporary difference representing the tax base of the asset.

Impact

Income statement - 2005	No impact.
Balance sheet - 2004	Increases in deferred tax assets of £1.7m and deferred tax liabilities of £1.1m. Increase in retained earnings reserve of £0.6m.
Balance sheet - 2005	Increases in deferred tax assets of £2.0m and deferred tax liabilities of £0.4m, and decrease in goodwill, due to a change in fair values of deferred tax assets and liabilities on acquisition, of £1.1m. Increase in retained earnings reserve of £0.5m.

In addition, the deferred taxation impacts of the other IFRS adjustments are detailed in the relevant sections.

h) Translation reserve

IAS 21 requires the cumulative foreign exchange differences recognised in equity to be classified as a separate component of equity. Under UK GAAP this is included within the appropriate component of equity.

Cumulative foreign exchange differences in equity at the date of transition to IFRS have been reset to zero as permitted by the transitional provisions of IFRS 1.

Impact

Income statement - 2005	No impact.
Balance sheet - 2004	No impact.
Balance sheet - 2005	Decrease in retained earnings reserve of £1.7m and increase in translation reserve of £1.7m.

36. Explanation of transition to IFRS continued

i) Revaluation reserve

In accordance with the transitional provisions of IFRS, previously revalued freehold land and buildings is recorded as deemed cost at the date of transition to IFRS. Consequently any remaining revaluation is transferred to the retained earnings reserve.

Impact

Income statement - 2005	No impact.
Balance sheet - 2004	Increase in retained earnings reserve of £4.0m and elimination of revaluation reserve of £4.0m.
Balance sheet - 2005	Increase in retained earnings reserve of £4.0m and elimination of revaluation reserve of £4.0m.

j) UK GAAP in IFRS format

The UK GAAP numbers in the reconciliations have been presented in IFRS format. There are a number of differences in presentation format between UK GAAP and IFRS, principally where items are disclosed in the notes to the financial statements under UK GAAP but are on the face of the income statement, balance sheet or cash flow statement under IFRS. In most instances these are easy to identify and reconcile to the previously reported disclosures under UK GAAP. There are however some items which are reclassified under a different heading under IFRS as compared to UK GAAP and therefore cannot be reconciled. These are detailed as follows:

Balance sheet

- Computer software with a carrying value of £1.1m in 2004 and 2005 in ‘Tangible fixed assets’ under UK GAAP are classified as ‘Intangible assets’ under IFRS.
- SSAP 24 balances of £1.0m in ‘creditors’ in 2004 and £0.9m in ‘creditors’ in 2005 under UK GAAP are classified as ‘Retirement benefit obligations’ under IFRS.

Cash flow statement

- Decreases in SSAP 24 creditors of £0.2m in ‘Movement in working capital’ under UK GAAP are classified as ‘Movement in retirement benefit obligations’ under IFRS.

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 2006 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 2006.

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 2006;
- 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
8 November 2006

Company balance sheet
at 31 August 2006

	Notes	2006 £m	2005 (as restated) £m
Fixed assets			
Tangible fixed assets	4	**4.0**	4.0
Investments	5	**100.3**	114.7
		104.3	118.7
Current assets			
Debtors	6	**66.9**	39.4
Cash at bank and in hand		**19.1**	19.6
		86.0	59.0
Creditors: amounts falling due within one year	7	**(40.9)**	(29.8)
Net current assets		**45.1**	29.2
Total assets less current liabilities		**149.4**	147.9
Provisions for liabilities and charges	8	**(0.4)**	(0.4)
Net assets		**149.0**	147.5
Capital and reserves			
Called up share capital	9	**39.2**	39.1
Share premium	10	**49.6**	49.1
Revaluation reserve	10	**1.4**	1.4
Other reserve	10	**11.5**	11.5
Profit and loss account	10	**47.3**	46.4
Equity shareholders' funds	12	**149.0**	147.5

An explanation of the prior year adjustment can be found in note 11.

The financial statements were approved by the Board of Directors on 8 November 2006 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 following accounting standards have been adopted for the first time during the year:

- FRS 20 'Share-based Payment'
- FRS 21 'Events after the Balance Sheet Date'
- FRS 23 'The effects of Changes in Foreign Exchange Rates'
- FRS 25 'Financial Instruments: Disclosure and Presentation'
- FRS 26 'Financial Instruments: Measurement'

The adoption of FRS 21 has required adjustments to previously reported results. The effect of this is detailed in note 11. Adoption of the other standards has no material effect on the financial statements.

The principal accounting policies adopted for the year ended 31 August 2006 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 (2005: £nil) as their costs have been borne by other group undertakings.

3. Employees

The average number of employees during the year is 3 (2005: 3). This comprises the Chairman and non-executive directors. Details of employee costs are included in the Board Remuneration Report on pages 20 to 25.

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 and **at end of year**	**1.0**
Net book value:	
At start of year and **at end 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 (2005: £4.4m) with accumulated depreciation of £1.8m (2005: £1.8m).

Freehold land and buildings includes land at a cost or valuation of £1.7m (2005: £1.7m) which is not subject to depreciation.

5. Investments

	Subsidiary undertakings £m
Cost:	
At start of year	169.0
Additions	23.7
At end of year	**192.7**
Accumulated impairment losses:	
At start of year	54.3
Charge for the year	38.1
At end of year	**92.4**
Net book value:	
At end of year	**100.3**
At start of year	114.7

During the year the legal structure of the Company's investments in certain subsidiary undertakings was reorganised and this resulted in a total impairment charge of £38.1m. The Company also received additional dividends of £36.5m as a result of the reorganisation.

Details of the principal subsidiary undertakings can be found in note 34 of the Notes to the consolidated financial statements.

6. Debtors

	2006 £m	2005 (as restated) £m
Amounts due from Group undertakings	**66.7**	39.3
Other debtors	**0.2**	0.1
	66.9	39.4

7. Creditors: amounts falling due within one year

	2006 £m	2005 (as restated) £m
Amounts due to Group undertakings	**40.0**	29.3
Current taxation	**0.3**	0.1
Other taxes and social security	**0.5**	0.1
Other creditors	**-**	0.1
Accruals and deferred income	**0.1**	0.2
	40.9	29.8

8. Provisions for liabilities and charges

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

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

9. Share capital

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

During the year, 195,343 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 £0.3m and 211,708 ordinary shares of 25p were issued under the Fenner PLC 1996 Executive Share Option Scheme for a total consideration of £0.3m.

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 – as previously reported	49.1	1.4	11.5	38.5
Prior year adjustment (note 11)	-	-	-	7.9
At start of year – as restated	49.1	1.4	11.5	46.4
Retained profit for the year	-	-	-	1.0
Shares issued in the year	0.5	-	-	(0.3)
Share-based payments	-	-	-	0.2
At end of year	**49.6**	**1.4**	**11.5**	**47.3**

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 (2005: £0.1m). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentives schemes. At 31 August 2006 the ESOP held 131,859 (2005: 131,859) of the Company's shares.

11. Prior year adjustment

During the year the Company adopted FRS 21 'Events after the Balance Sheet Date'. Under this standard, dividends proposed by the Board are recognised in the financial statements when they have been approved by shareholders at the Annual General Meeting or when paid. Dividends receivable from Group undertakings are recognised when received. Previously dividends were recognised in the financial statements in the period to which the dividends related. This change in accounting policy had the following impact on the previously reported results:

	As previously reported £m	Prior year adjustment £m	As restated £m
Loss/(profit) for the year attributable to equity shareholders	(0.8)	4.9	4.1
Dividend payable	(8.2)	1.9	(6.3)
Retained loss for the year	(9.0)	6.8	(2.2)
Debtors	39.7	(0.3)	39.4
Creditors: amounts falling due within one year	(38.0)	8.2	(29.8)
Other assets and liabilities	137.9	-	137.9
Net assets	139.6	7.9	147.5

12. Reconciliation of movement in equity shareholders' funds

	2006 £m	2005 (as restated) £m
Profit for the year attributable to equity shareholders	**9.2**	4.1
Equity dividends paid	**(8.2)**	(6.3)
Shares issued in the year	**0.3**	57.8
Share-based payments	**0.2**	0.2
Movement in equity shareholders' funds in the year	**1.5**	55.8
Equity shareholders' funds at start of year	**147.5**	91.7
Equity Shareholders' funds at end of year	**149.0**	147.5

13. Contingent liabilities

The Company has guaranteed the borrowings of certain subsidiary undertakings. At 31 August 2006 these borrowings amounted to £79.3m (2005: £89.2m).

14. Share-based payments

The Company operates two 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 25 of the Notes to the consolidated financial statements.

Five year summary of the Group

	IFRS		UK GAAP in IFRS format		
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Revenue	**379.0**	303.6	260.6	248.5	232.2
Operating profit before amortisation of intangible assets acquired and exceptional items	**34.1**	17.3	16.1	12.0	16.6
Amortisation of intangible assets acquired	**(0.4)**	(1.0)	(1.2)	(1.0)	(0.6)
Exceptional items	**-**	-	(6.2)	(12.4)	(6.7)
Operating profit/(loss)	**33.7**	16.3	8.7	(1.4)	9.3
Net finance costs	**(4.3)**	(3.8)	(3.4)	(4.1)	(4.3)
Share of result of associate	**(0.1)**	(0.1)	0.4	0.4	0.4
Profit on disposal or termination of operations	**-**	-	0.7	-	-
Profit before taxation	**29.3**	12.4	6.4	(5.1)	5.4
Taxation	**(8.7)**	(4.0)	(3.1)	(1.1)	(1.5)
Profit for the year	**20.6**	8.4	3.3	(6.2)	3.9
Earnings per share:					
Adjusted – before amortisation of intangible assets acquired and exceptional items	**13.1p**	7.1p	7.7p	4.9p	8.4p
Basic	**13.0p**	6.6p	2.2p	(6.5)p	3.4p
Equity dividends	**8.2**	6.3	6.3	6.0	6.0
Dividends per ordinary share*	**6.0p**	5.825p	5.825p	5.825p	5.825p
Capital expenditure	**18.9**	8.1	7.9	6.5	4.8
Shareholders' equity	**121.3**	106.9	60.8	58.4	67.7
Net Debt	**(33.1)**	(34.5)	(39.4)	(44.5)	(40.0)
Gearing	**27.3%**	32.3%	64.8%	76.2%	59.1%
Average number of employees (number)	**3,473**	2,798	2,662	2,667	2,545

*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 2002 – 2004 have been restated following the adoption of FRS 19 'Deferred Tax' and 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 70th Annual General Meeting of the Company will be held at Marlborough Room, Oxford & Cambridge Club, Pall Mall, London SW1Y 5HD, on 10 January 2007 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 2006 together with the Independent Auditors' Report.
2 To approve the Board Remuneration Report contained in the Annual Report for 2006.
3 To declare a dividend.
4 To re-elect director.
5 To re-elect director.
6 To re-appoint the auditors.
7 To authorise the directors to determine the auditors' remuneration.
8 To approve the adoption of a new Performance Share Plan for senior executives.
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 enclosed 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
Collins Stewart Europe Limited, London

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

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

Financial Calendar

Annual General Meeting – 10 January 2007

Half Year End – 28 February 2007

Half Year Announcement – May 2007

Year End – 31 August 2007

Preliminary Announcement – November 2007

Fenner

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